Performance Measures that Drive the Goal Tenets of Strategy

By Mark L. Frigo

The laws of business strategy dictate that the pathway to superior financial performance is through the customer. But which performance measures truly guide your organization to strategize and execute on this path? Companies naturally say they are focused on customers—but on which customers and for what specific customer needs? The research behind the Return Driven Strategy framework shows us that the most successful companies are guided by the Goal Tenets of business strategy: Fulfill Otherwise Unmet Customer Needs and Target and Dominate Increasing Market Segments. History shows us that these tenets must be the centerpiece for improving strategy and its execution. Given the importance, companies must understand how key performance measures can guide and drive a firm's execution toward superior results in this area.

First Focus on Customer Needs, Then Consider Internal Processes

Many mediocre companies focus on performance measures relating to internal processes without a strong connection or linkage to customer need in the targeted market segments. Benchmarking and best practices are often useful but can lead a company in the wrong direction by focusing on the same processes and practices of the industry, unintentionally forgetting about the customer.

The high-performance companies studied in the Return Driven Strategy Initiative don't make this mistake.

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The evidence shows these companies "focus first and foremost on customer need, and adjust internal processes appropriately." This theme has helped many executive teams rethink the way they manage and measure performance and the way they interact and communicate with their customers.

Customer-Focused Companies

GE's focus on one key strategic metric is now famous. "Be number one or number two in the industry or get out." This is a very real metric that drives the rest of the business strategy of an organization. Of course, this is a customer-directed metric. Who but the customer makes the business unit number one? Sure, a company can inno-

The Return Driven Strategy Initiative and Performance Measurement

THE RETURN DRIVEN STRATEGY INITIATIVE HAS SCREENED THOUSANDS OF companies and identified and benchmarked the strategic activities that separate the best performers from the worst and what lies in between. The Return Driven Strategy framework describes the hierarchy of strategic activities of these companies in terms of financial impact. The Center for Strategy, Execution and Valuation at DePaul University's top-ranked MBA program now spearheads this ongoing research project, which began more than five years ago.

The Return Driven Strategy Initiative involved multiple avenues of research and application and a consortium of academic and professional research. Recently, our research teams at DePaul's Kellstadt Graduate School of Business considered how companies measure performance in executing on a superior strategy. We found that the strategic activities of these companies were at the heart of the performance measurement design. These companies showed an underlying adherence to some of the best practices in performance measurement, including the five principles of a "Strategy-Focused Organization" (Kaplan and Norton, *The Strategy-Focused Organization*, Harvard Business School Press). A tacit connection to value-based management also was evident. A recent round of research studied companies such as Wal-Mart, General Electric, Johnson & Johnson, Charles Schwab, and Coca-Cola throughout decade-long periods of financial success.

vate its processes or operate more efficiently, but none of this is of any worth if the customer isn't delighted in the end. The customer's delight is expressed by their purchases—above and beyond those of any competitor's offering. In its own way, this well-known metric drives the business toward a customer focus.

Similarly, "number one" is a metric that Wal-Mart has focused on in category after category. From toys to jewelry to basic consumer goods, Wal-Mart sees the value in being number one in a category and the economies of scale and scope that it generates. Through these Genuine Assets, Wal-Mart delivers on the customer needs: Conserve the customer's scarce resources of time and money. Wal-Mart has delivered lowest-priced goods while providing one-stop convenience in shopping.

Charles Schwab is another company with extraordinary returns and growth in the 1990s. While not right for every business model, Schwab's strategy required the absence of a key metric popular in the brokerage industry: commissions. Schwab closely tracked "assets under management" that symbolized clients' trust in Schwab's services. Putting other metrics, such as trades per salesperson and, thereby, commissions, ahead of this might have dramatically altered Schwab's ability to compete. This metric orientation supported its business model and helped Schwab create a very different strategy than what is seen in other areas of the brokerage industry.

Coca-Cola, amidst concerns that it had saturated the soda beverage market, has been cited as focusing on a metric that helps the company to continue growth beyond that core area. "Share of stomach," or share of total beverages consumed—not simply soda—has helped it drive its bottled water business and other beverage lines. Unit sales and case sales have also been customer oriented, focusing on how consumers have voted for the company's products through their purchasing. Coca-Cola remains one of the most enviable examples of strategy and execution in all of corporate America. Interestingly, people have been caught up in the stock price (KO) of Coca-Cola, which has fallen over recent years. Unfortunately, a hindsight bias has stricken many of these people, who fail to see that the drop of KO's price has more to do with unreasonably high expectations set earlier in the 1990s and not a failure of the firm to deliver extraordinary internal performance and growth for a company of its size.

Strategic Priorities Moving Forward

Many organizations don't effectively communicate strategy to employees. Often, nebulous statements such as "we seek profitable growth" are used to explain strategy. Employees do not implicitly understand the goals

Two Goal Tenets of Return Driven Strategy: Fulfill Otherwise Unmet Customer Needs / Target and Dominate Increasing Market Segments

THE PATH TO VALUE CREATION IS THROUGH THE CUSTOMER—LOTS OF CUSTOMERS. LOOK AT THE RELATIVELY FEW companies with returns on investment that significantly exceed their cost of capital. In every case, these companies demonstrate an uncanny ability to identify, discover, and deliver offerings that target the needs of customers that would otherwise be left unmet. This "otherwise unmet" factor leads to pricing power, as customers pay for offerings they can't get elsewhere for real needs they can't avoid. Even fewer businesses are able to achieve high returns and simultaneously grow at rates well in excess of economic averages over long periods. These extraordinary firms target and dominate more and more market segments while ensuring that they fulfill the otherwise unmet customer needs of those segments. In performance measurement, the Goal Tenets can help to identify which performance measures should be emphasized.

of the organization. While customers should naturally be considered the focus of attention, different business models based on different customer needs may require different activities—both strategically and in day-to-day operations. As strategies change, so must the metrics employed to ensure change in an organization.

As you consider which performance measures matter the most and how they are connected, look at the Goal Tenets of Return Driven Strategy. Along with performance measurement frameworks like the balanced scorecard or value-based management, it can provide a fresh look at the way you measure and manage performance that is linked more clearly to the goals of successful and sustained financial performance. ■

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