



Questions directors should ask before ASIC does



By Michele Levine
CEO of Roy Morgan Research

Lies, damned lies, and statistics

We all know that statistics are often way off the mark, yet we still rely on them. There are many false figures that could be affecting your business decisions - here's how to spot them.

"Seven in ten Australians claim they drink less alcohol than the average". In 1983, some 20 years ago, I was confronted with this and other results of the inaugural World Values Study.

I have also noticed that telephone polls on voting intentions will obtain a seven per cent difference in results depending on the prompt sequence used, i.e. Labor or Liberal versus Liberal or Labor?

Are the numbers you are tracking the right ones? Do you really know what you are measuring? Is your organisation tracking employee numbers or costs, sales, marketing or advertising success? Is yours a customer-focused organisation?

Do your employment numbers tell the real story? The corporate downsizing of the last decade and the focus on employee numbers and dollars brought with it a new cost centre - consultants, contractors, and additional service agreements - sometimes including dedicated personnel who are not captured in the head count or the company's employee bill. Recently a major corporation approached us to provide a research/communications manager for their organisation. The cost of this person was to be part of the research budget - as the company had a freeze on hiring!

Employee Satisfaction

Perhaps your people are your most important and valuable asset and you are monitoring employee satisfaction, commitment or involvement. Each month

you watch the employee satisfaction scores inching up. The cost of bonuses for those responsible for improved morale is well and truly paid for, and well worth the cost in enhanced commitment, flexibility, and productivity - or so you think.

Employee surveys, especially those with associated bonuses or penalties, are at the mercy of all kinds of manipulation - from the disenchanted department that doesn't bother to participate, to the manager who stands over the employee to ensure the right answers come through, to the manager who selects the employees for surveying, to a slight change in the questionnaire or even to coaching on the questions that drive the scores.

If the board truly wants to monitor employee satisfaction, a crucial part of the measure is participation. The most demoralised areas of a workforce will generally have the lowest participation rate - they simply will not complete the survey.

Customer Satisfaction

The last decade has seen an ever-increasing focus on clients and customers as the key to business growth and continued existence - and with it a plethora of customer satisfaction measures.

For several years, Roy Morgan Research tracked customer satisfaction for one of Australia's largest corporations. At the direction of the corporation, we interviewed those customers whose complaints or problems had been resolved. Yes, this is not a

misprint! Those customers whose complaints were not yet (or perhaps would never be) resolved were not interviewed. Similarly, those who had not registered a problem or complaint were not part of the metric.

Was the board tracking customer satisfaction as a means of evaluating the stocks of customer value? And if so, were they aware that the metric told only part of the story? Or had the figures become a currency?

In a similar vein, Roy Morgan Research also measured customer satisfaction for a major retailer, and recorded increasing levels of satisfaction over time. The increasing satisfaction would have been a positive indicator if it wasn't for the serious erosion of the customer base over the same period. The conundrum was that as the customer base was eroded, only the very loyal (highly satisfied) customers kept coming back, and the only metric was a satisfaction measure among those customers.

Was the board privy to the conundrum of increasing customer satisfaction, but a shrinking customer base? Or did they think they were measuring stocks of customer value?

Business metrics

Are you tracking threats to your business, monitoring external risks, external factors, social, technological, economic, political (STEP) factors like consumer confidence, the risk of terrorist activity, war, unemployment rates, the political situation, the internet and the changing role of technology in your business?

As well as being subject to all the usual measurement issues, most of these measures are politically sensitive, especially

for the party in power, and are thus subject to enhancement. "Unfortunately, no Government will change the way unemployment is measured if the 'number' is higher. But until the Government is honest with the electorate, the problem of joblessness will not receive the attention that it deserves. The unemployment measurement issue is too important to ignore for the sake of political expediency", wrote Gary Morgan in a letter to the AFR.

"It's easy to fudge a low unemployment rate", agreed Peter Saunders in an article in the same paper in August 2003. He was referring to reclassification of unemployed people as permanently disabled.

But re-classification of people on welfare benefits is only part of the masking problem. Hugh Morgan in the AFR correctly pointed out that "the monthly unemployment statistics... understate the numbers of people who are seeking more work, or would like to get a job but did not fit the official definition of unemployed".

The Australian Council of Social Service (ACOSS) and other commentators have estimated that by taking into account "hidden" and "underemployment" the real level of joblessness is approximately double that given by the official data. Even the ABS's Labour and Statistics Branch acknowledged in 2001 that the official unemployment rate alone may provide a misleading picture.

Do directors, tracking the economic situation, recognise that the official unemployment figures, like many such currency figures, bear little relationship to joblessness? Would they make decisions differently if they believed real unemployment to be around 12 per cent?

The political landscape

And what about politics? The country's response to policies, activities, and events, as measured by public opinion on political party support has been misread with a worrying frequency.

Everyone conveniently forgets that John Hewson and Jeff Kennett were ahead in the telephone polls for months prior to their last (lost) elections. The Morgan "face-to-face" poll gave right the outcome weeks before the election.

The last three Morgan "face-to-face" polls have shown the ALP ahead on a two-party preferred basis (52 per cent to 48 per cent), while Newspoll has shown the L-NP ahead. Which is the one to watch?

In the US, the preferred position in the

polls is ahead. In Australia, both major parties prefer to be a little behind in the polls in the lead up to an election. The belief is if they are too far ahead, the electorate might send them a message.

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The internet and media

A recent Roy Morgan analysis of media (predominantly print media) since the explosion of the internet in Australia, New Zealand, the US and UK, showed that broad measures of media consumption looked fairly flat and that relatively small numbers of consumers (less than ten per cent) reported less use of traditional media since using the internet.

These comforting figures masked the dramatic movement away from traditional newspapers for such things as job hunting, house hunting, travel offers and other critical classified advertising revenue sources.

On the subject of media, the Government recently announced it would no longer use ethnic press because it could not rely on the circulation figures - some titles claimed to sell ten times the number of papers actually printed. The fact was that everyone knew the circulations were wrong. But it was currency - what everyone agreed to use knowing it meant little in terms of reality.

And the recent revision of circulation figures in the traditional print media, predominantly magazines, has demonstrated

again that circulation is open to manipulation. In *The Reader*, Eric Beecher described it as "the tip of a potentially very nasty iceberg."

"Real" circulations of many of Australia's major newspapers and magazines are cooked - dramatically padded out by the distribution of free copies (to hotels, airlines, cafes, schools, universities, offices, waiting rooms) or phoney copies (to non-existent newsagents and subscribers). This is done to inflate the numbers and to hide the extent of their falling circulations, in order to sell advertising at profitable rates," he said.

Share price

If you think the share price of a company is a reasonable measure of the value of the company, think again. Many CEOs' salaries are linked to the share price. Share buy-backs mean a company can keep the share price artificially high. And if you're still not convinced, ask yourself what was different at Enron, Worldcom or HIH before and after the falls.

Beware reclassification and always consider what it would look like if you hadn't reclassified. Beware human nature - whenever there's a bonus tied to a number the number is likely to be enhanced. Whenever there's no independent measure it's even more dangerous. Recall the power of the cross-check and a deeper, broader perspective.

When it comes to statistics and metrics, there's no simple answer, no simple rules or formulae. We must recognise the realities of human nature, and interpret with care, common sense, a degree of suspicion and a healthy dose of paranoia. ■

Possible flaws in measures of STEP factors

Unemployment

Unemployed people are often reclassified as being on a disability pension, youth allowance etc

Figures exclude those who have given up looking for work

Figures exclude those who have undertaken any paid work in the reference period, even a small amount of casual work

Consumer Confidence

Seasonal adjustment - you would not accept and base decisions on seasonally adjusted weather reports, or gold prices, or bank balances, so why accept seasonally adjusted consumer confidence?

It's an unstable measurement that fluctuates wildly when answered "flippantly" over the telephone

Political situation (voting intention)

An unstable measurement which fluctuates wildly due to telephone interviewing
Figures contain bias due to non-response in politically charged times, such as the emergence of One Nation and response to Pauline Hanson's prison term