

Business Scorecards Have a Blindspot

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In 2007, Nokia was king of the hill in the mobile phone industry. Its quality was exceptional. Its supply chain was world class. The brand was beloved. Globally, it held a 49.4% market share, with \$51 billion in sales. Impressive numbers by any standard.

Yet, a mere six years later, Nokia was in distress. Microsoft bought it for a bargain-basement price of \$4.5 billion – less than 10% of its annual sales just 72 months earlier.

When Nokia's CEO announced the sale, he famously said, "We didn't do anything wrong. But somehow, we lost."

His words have echoed through boardrooms and leadership retreats ever since. They resonate with any leadership team that has hit its KPIs consistently and followed its playbook faithfully, only to lose the game.

Nokia did not fail because of incompetence. They failed because they measured the wrong things. They optimized for dominance, not relevance. They tracked performance, not adaptability. They put faith in their legacy, not their insight into emerging trends.

How do we forego a similar fate ourselves? That's our topic for today.

For decades now we have heard about the importance of capturing good metrics and establishing key performance indicators (or KPIs). More recently, companies have turned to leadership scorecards to track performance.

In a day when desktop computers can perform sophisticated data analysis, we can generate impressive scorecards with just a few key strokes. But the automation behind these scorecards limits their usefulness.

To create scorecard graphics, computers depend entirely on data already stored in accessible records. They can only quantify what is yet to happen by making projections based on stored data.

And that's a trap. Scorecards reflect yesterday's success. That success, in turn, arose from a host of factors, some of which may change significantly tomorrow.

Advertising for financial advisors typically contains a disclaimer that “past performance is no guarantee of future returns.” We would do well to emblazon that same warning across every performance scorecard.

Here’s the paradox:

- A company can hit every target and still lose relevance to its market.
- A team can execute flawlessly and still miss the pivotal, opportune moment.
- A leader can follow the plan flawlessly and still fail to take the team where it needs to go.

Why? Because traditional metrics don’t measure emotional tone, cultural resonance, or strategic foresight.

They don’t scan the horizon for emerging competition, for potentially disruptive technology, for changing preferences in buying patterns.

Internally, they don’t tell us whether our people feel seen, heard, or valued. They don’t reveal whether trust within the organization is building or eroding. And the same is true of how much customers or vendors trust us.

In a word, traditional means of collecting metrics don’t ask: *Are we still aligned with the world that we are trying to serve?*

Success tends to blind us to the urgency of even asking that question. I repeatedly tell clients that one of our greatest mistakes is learning the wrong lessons from success. All too often we take success as a sign that we’ve figured out how to do things right. Nokia believed that very thing.

Here are some other companies that stumbled – or even collapsed – for making that mistake.

- For years, a key metric for Wells Fargo was the number of new accounts opened. Quotas and bonuses for branch managers and platform sales personnel revolved around this metric. The result was that employees created millions of fake accounts in the name of existing customers, without the customer’s consent and sometimes by forging the customer’s signature. These accounts then dragged down the credit score of unknowing customers as late fees and unpaid service charges mounted. Wells Fargo not only suffered a severe blow to its reputation, it was forced to pay \$6.7 billion in fines, settlements, and penalties.
- Blockbuster, once a neighborhood staple, went out of business because their most cherished KPI was late fees charged to customers who missed the deadline for returning rented videos. Blockbuster was making far more money on late fees than on video rentals themselves. But none of their KPIs captured the change in the public’s video viewing habits. The company was losing customers in droves to streaming video, but failed to note it in time.

- Kodak which had dominated photography film sales for decades, invented digital photography, but continued to use film sales and their margin on photographic prints as their primary KPIs. As a consequence, they sat by idly as the general public moved from cameras using film and relied increasingly on digital cameras.

In summary, most scorecards invite us to drive forward while staring at the rearview mirror. The very name “scorecard” invites us to focus on what has already been accomplished.

After all, a golfer can’t record the score for a hole until he or she has played it. Scorecards by their very nature reflect the past, not what lies ahead.

Perhaps we need another name for a management tool that combines metrics about the past with probabilities about the future. For the moment, however, we are stuck with the name “scorecard.”

But we must never neglect the limitations of a scorecard. Preoccupation with where we have been can blind us to tomorrow’s risks, trends, and potential disruptions. For those forecasts, we can’t turn to machine intelligence. They require what our spy agencies call HUMINT, short for Human Intelligence – intelligence collected from humans.

As a leadership development specialist, I’ve spent years helping executives rethink their scorecards and how they use them. Not that I’m opposed to tracking performance. That’s a necessity for making near-term decisions.

For longer-term decisions, however, it’s just as important to cultivate strategic clarity and an informed sense of the emotional, cultural, and social changes which threaten to reshape our competitive landscape.

For that purpose, we need a framework built around four dimensions. The first is Strategic Foresight.

The purpose of most scorecards is optimization—not anticipation. Yet, in a volatile world, the ability to scan the horizon is more valuable than the ability to perfect the present.

To hone our collective ability to anticipate, we should continually ask questions like these:

- What’s changing in our landscape right now?
- Which are we most prone to do? Defend the past? Or to design for the future?
- What assumptions are we making about the future? How long has it been since we’ve tested these assumptions?

Strategic Foresight isn’t about prediction. It’s about preparedness. It’s about building the muscle to sense, interpret, and respond to emerging signals that change is in the offing.

The second element of our forward-looking framework is Resonance with the Culture. Marketing specialists will tell you that buying is an emotional decision, not a merely rational one. That’s why advertising plays so heavily on our emotions.

It's through the interplay of emotions that people begin to resonate with one another. And if that's true of individuals, it's much the same with companies. Whether as individual buyers or companies, we prefer to purchase from businesses with whom we resonate emotionally.

The phrase "emotional intelligence" has gained great currency in the last 15 years. It has come to mean the capacity to perceive, use, understand, and manage emotions to guide thoughts and behavior in self and others.

But the same phrase can have a different connotation. As a retired naval intelligence officer myself, the word "intelligence" brings to mind my years of work as an intelligence collector and analyst. In that context, intelligence is information that we collect, analyze, and draw conclusions from.

We could therefore look at the process of determining how customers and workers feel about our company as an exercise in gathering intelligence about emotions – hence another form of emotional intelligence.

Nokia and Blackberry – both kingpins in the mobile phone space in 2006 – failed to practice emotional intelligence in this sense. This led them to misjudge the degree to which iPhone-type devices would resonate with the public. Even as iPhone and Android sales took off, Nokia and Blackberry continued to center their R&D on enhancing technology from the past rather than embracing the technology of the future.

We focus on our Resonance with Culture when we ask questions such as

- What are we doing to make today's customers feel seen, heard, and valued?
- What changes in buying habits are we seeing in our targeted customer base? What do those changes portend for the future?
- What are our assumptions about why our preferred customers buy from us? How recently have we tested these assumptions? What indicators might imply that our assumptions are no longer valid?

The third dimension of our forward-looking framework is the Trajectory of Trust. We can think of trust as like capital. We can build it up. We can fritter it away. We can squander it.

Once trust begins a downward trajectory – whether it's trust on the part of customers, among workers, or among vendors – warning signals should go off in every leadership meeting.

I've been writing and keynoting about trust for a quarter-century. My book *Leadership and the Power of Trust* made its way to the top of the Amazon best-seller charts. What I've discovered in decades of research and observation is that most people and most organizations believe that they are trusted much more than they actually are.

Downward trajectories in trust are therefore a foreboding indicator for the future. Leaders should periodically ask:

- What are we doing to enhance trust within our organization? Is it working? How do we know?

- What things are we doing to enhance trust on the part of customers? Is the effort panning out? How do we know?
- What things outside of our control are depleting trust? What can we do to replenish the trust that has been depleted? How will we know that we have been able to effect a reversal?

The fourth factor to consider looking forward is our Adaptive Capacity. In a world of constant change, adaptability equates to survival. But adaptability is more than simply a tactic. It's cultural and strategic.

Adaptive capacity is the ability to learn, unlearn, and relearn. As Peter Senge emphasized nearly 30 years ago in *The Fifth Discipline*, the ability to learn faster than our competition is our greatest competitive advantage. At the unprecedented rate of change today, it may be our only advantage.

Some of my favorite questions to ask when testing for Adaptive Capacity are:

- How quickly can we pivot, not just strategically, but in terms of our mindset?
- Can we change our direction without feeling that we are losing our identity?
- What wrong lessons have we learned from our success?
- If we were starting our business now from fresh, how would we exploit our market opportunities differently?

Let me acknowledge that what I'm suggesting in this podcast takes far more work than the type of business scorecards to which we are accustomed. One thing that makes current scorecards attractive is that they take little time or effort to produce. They simply pull together and recapitulate inputs already made.

That makes them seductive. With rushed schedules, things that are fast and easy to compile always have a strong appeal. But survival has appeal, as well. And in today's hypercompetitive environment, we put survival at risk if we drive ahead looking only in the rearview mirror.

As I'm recording this podcast, the NFL is about halfway through its season. Whatever the game, the play-by-play analysts focus on the scoreboard. But toward the end, they always take a few minutes to review the remaining schedule for both teams, to see what the future portends.

That future has little to do with the scores of games already played. Nor does it have to do with the score of the present game.

Instead, what will shape it are factors and developments only now becoming evident – such things as injuries to key players, confidence within the team, improvements made to overcome earlier underperformance, how well other teams in their conference are playing, vulnerabilities that teams have shown as the season has progressed.

What I'm suggesting is to use a similar approach in corporate scorekeeping. Keep your eye on the scoreboard, but don't make projections for the future based solely on your record to this point. Have a mechanism for regularly scanning the present for indications of emerging opportunities and potential discontinuities on the road ahead.

So let me close by reiterating the four dimensions of a forward-looking framework that serves as a counterbalance to overdependence on scorecards:

- Strategic Foresight – having a set method for anticipating what lies ahead
- Cultural Resonance – staying in sync with emerging customer trends
- Trajectory of Trust – sensing whether trust is in good repair in all key relationships
- Adaptive Capacity – mastering the ability to capitalize on change rather than being swept aside by it

Nothing can insulate any organization from unanticipated developments that test its mettle. But this four-component assessment will keep unfortunate surprises to a minimum.

Dr. Mike Armour is the managing principal of Strategic Leadership Development International, which he founded in Dallas in 2001. Learn more about his leadership development services at www.LeaderPerfect.com.

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