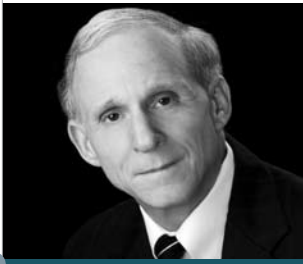


# Transforming Performance Measurement

## HOW TO DRIVE ORGANIZATIONAL SUCCESS WITH RELIABLE VERIFICATION



Dean Spitzer is a leading consultant and researcher in the field of business and performance measurement associated with IBM's Almaden Services Research group. He has over 30 years of experience in helping individuals and organizations achieve superior performance by integrating performance management, motivation, and organizational change methodologies. Spitzer earned his Ph.D. with honors from the University of Southern California, his M.A. from Northwestern University, and completed further studies at the London School of Economics. He has published seven books including the award-winning book *SuperMotivation*, the *1001 Rewards & Recognition Fieldbook* (co-authored with Bob Nelson), and, most recently, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Success*.

**KL@TG:** Before you specifically discuss your new book, here are a few general questions. First, much has been said and written about the importance of measuring “only what matters.” How best to determine that “what”?

**SPITZER:** It isn't what matters; it is what matters *most*. Everyone thinks that what he or she is measuring matters. The key criterion for what matters most is to determine what drives competitive advantage. In particular, I recommend that all measures be closely aligned with and support a company's business model (the basic logic of how the organization creates value for itself and shareholders by delivering value to customers) and strategy (the specific plan for applying the business model to create “competitive advantage” in a particular marketplace at a particular time). But one must determine the most important measures from the vantage point of the organization *as a whole*. Most organizations, and especially the functional silos, don't really understand what drives value creation...and what doesn't, so making that “what matters most” determination is difficult. Also, what matters most in organizations today is intangible and challenges the traditional forms of measurement, but more about that later.

**KL@TG:** Based on your extensive experience with all manner of organizations, what seem to be the most common mistakes made when designing, introducing, and then implementing a performance measurement program?

**SPITZER:** It is really closely related to my answer to the first question. The biggest problem is that most organizations don't really have a single,

integrated measurement system but a plethora of functional measurement systems that promote what is best for the function without reference to what is best for the organization as a whole. Most organizations are a battleground of competing functions trying to optimize their own measures, which almost inevitably sub-optimizes the organization as a whole. This is allowed to happen because there is no one in charge of the organizational measurement system, although the CFO sometimes takes on that role by default, and too often the budget becomes the *de facto* strategy.

**KL@TG:** Given your response to the previous question, presumably change initiatives encounter cultural barriers that include what James O'Toole has aptly characterized as “the ideology of comfort and the tyranny of custom.” In your opinion, how can cultural barriers be avoided or overcome?

**SPITZER:** That is a good quotation. The measurement system is a prime example of that. Almost no one wants to make significant changes in the measurement system, because it is so deeply ingrained in the organization's DNA (or culture), and the incumbents have benefited so much from it; it is the ‘golden goose.’ In addition, very few people understand performance measurement and therefore are unwilling to take on the challenge of changing it. The best way to at least start changing a culture is to demonstrate how dysfunctional the current one is. One of the key principles of change management is that, because of the effort required to change, there must be sufficient pain to justify the effort. Most of the dysfunctions of performance measurement

systems are hidden, so it is important to bring them out into the light. I show key leaders just how much the current measurement system is hindering the organization's progress. I help to make the pain more visible – even if it hurts!

**KL@TG:** Opinions seem to be divided as to whether or not it is possible to *motivate* someone else or *inspire* that person to become self-motivated. Is this merely a matter of semantics or is the distinction valid?

**SPITZER:** Various research studies have consistently shown that all people are self-motivated, but that intrinsic motivation must be tapped. The classic example are workers who go through their daily work activities with little or no enthusiasm, but 'come alive' when they are involved in the leisure activities they love. That is why I wrote *SuperMotivation*, to describe what should be done to make organizations motivating, not just try to change leadership habits, which is very difficult and tends to, at best, affect individuals on a one-off, rather than on a systemic, basis. One of the things I stress is that rewards tend to overwhelm intrinsic motivation. The United States is a reward-driven culture, which explains why there is so much self-interest and greed. We have conditioned people to 'follow the incentive' and 'get what is rewarded.' In my books I talk extensively about the problems of the excessive use of rewards. I see many people who are intrinsically motivated to do *the right things* do *the wrong things* because they are doing what is rewarded. And, because measurement systems are such a mess, it is not easy to determine the right things to reward. By all means inspire people and reward them, but establish an environment that has many of the characteristics of sports and games that excite, engage, and energize people. It is important to reduce the "demotivators" in the work environment (such as "organizational politics") that frustrate people, and build in "motivators" (such as "fairness") that energize them.

**KL@TG:** Based on what you have observed, what are the best strategies for driving effective performance measurement *throughout an entire enterprise*?

**SPITZER:** It can't be done unless the organization is willing to take an honest look at what kind of behaviors its existing performance measurement is promoting. It is very easy to identify major measurement dysfunctions and conflicts, which, as I said earlier, will cause any reasonable executive to realize that there is a serious problem that needs to be addressed. But unless there is someone at or near the top to sponsor the effort, it won't happen and won't be successful. It is possible to determine functional measures that are not aligned with organizational goals, but real measurement transformation can't be done function by function – although there is a lot of room for improvement everywhere.

**KL@TG:** Please share your thoughts about personal accountability. What is it and what can an organization do to encourage,



“The United States is a reward-driven culture, which explains why there is so much self-interest and greed. We have conditioned people to 'follow the incentive' and 'get what is rewarded.’”

recognize, and reward it?

**SPITZER:** In several of my books I advocate creating a climate of "positive accountability." Much motivation and measurement is used to control people through targets, rewards, and punishments. This kind of "negative accountability" causes people to do only what is measured and rewarded, whether it is the right thing to do for the organization and the customer or not, and they create internal competition and undermine collaboration. I see this kind

of adversarial environment all the time, as management tries to set goals as high as possible and employees try to set them as low as possible, and individuals and functions are constantly competing for scarce resources and rewards. The objective is not high performance, but to maximize the reward payout. In contrast, in an environment of "positive accountability," people are striving to do the best they can. In such an environment,



individual rewards are not the goal of performance and performance measurement is used for feedback and to facilitate learning, and improvement. In an environment of positive accountability, learning, truth-telling, collaboration, and continuous improvement should be rewarded – not just hitting targets. When people see that measurement and rewards are being used to help them learn, improve, and grow, dramatic changes will occur in both motivation and performance.

**KL@TG:** Here's a related question. Is it possible to have an "accountable organization" even if many within it are unwilling and/or unable to accept personal accountability?

**SPITZER:** The answer is unequivocally yes. There will always be individuals who will not play the game by the rules or who will deviate from the cultural norms. Eventually they will be rejected by the system. The key is to create a culture of "positive accountability," which will change the behavior of most people, and the laggards will eventually be forced to come along or leave.

**KL@TG:** Many on Fortune magazine's annual list of "the most highly admired companies" also appear on its annual list of those that are most profitable. Presumably you do not view that as a coincidence.

**SPITZER:** Of course not. Very few admired companies got that

way overnight. These are organizations that have a long history of doing the right things and making them profitable. One of the things I stress in *Transforming Performance Measurement* is the importance of measuring and managing the critical intangible sources of value. The most admired companies tend to do that, and they turn sources of value like innovation, reputation, customer relationships, employee relationships, etc. into profits. However, almost all organizations (including the most admired and most profitable ones) have plenty of room for improvement in this area.

**KL@TG:** Now please focus on your latest book, *Transforming Performance Measurement*. Please explain what led you to write it. For example, was there a core question that you were determined to answer?

**SPITZER:** I have devoted my life to helping organizations to improve performance. After years of study, had a 'eureka moment' at which I discovered that measurement triggers *everything else* in an organization, and that performance measurement is the most foundational management system in any organization. There was a time when companies could 'muddle through' with a mediocre and disjointed measurement system. Today, with intense competition and the need for strategic alignment across the organization, this situation is no longer acceptable. But addressing this challenge cannot be done through improving the 'technical' aspects of performance measurement (e.g., better calculations and statistical methods), because measuring the wrong things in the wrong ways more accurately isn't very helpful.

Most organizations not only measure many of the wrong things, but they measure them in functional silos and do little or nothing to connect the siloed measures. It was the importance of measurement and the "measurement mess" I saw that motivated me to write this book. The basic thesis is that performance measurement not only needs to be changed, it needs to be transformed, by placing the proper emphasis on the social and organizational issues that are preventing current measurements and measurement practices to be effective.

**KL@TG:** As you completed your research for the book, were there any significant surprises, head-snapping revelations, etc.?

**SPITZER:** As I said earlier, the most surprising revelation was how important performance measurement is, how broken it is, and how little focused attention it receives across organizations.

**KL@TG:** The book's subtitle, "Rethinking the Way We Measure and Drive Organizational Success," suggests that C-level executives need a much different mindset. Is that a fair assessment?

**SPITZER:** Yes, they need to start thinking about measurement, not just reacting to the numbers. They need to start asking, "Are we measuring the right things?" and "Are we measuring any of the wrong things?" If they really look at what they are measuring, they will be quite shocked at how their organizations work as well as they do. Rethinking measurement is about looking at what is being measured across the organization and how measurement is being used. One of the key points in my book is that performance measurement is being used mostly to monitor, control, and report – not for learning and improvement. No wonder most people hide from measurement or use it for self-serving purposes! This must change. You see it isn't primarily about having

better numbers, it is about measuring the right things, learning from the measurements, improving based on rich feedback, and making sure that people across the organization are aligned to do the right things. Without a well-aligned measurement system this will not happen.

**KL@TG:** For purposes of discussion, let's assume that those who read your book "get it." They understand what to do and how to do it. Let's further assume that many of them have what Jeffrey Pfeffer and Robert Sutton characterize as a "knowing-doing gap." Then what?

**SPITZER:** If they 'get' the content of my book, then they won't have the "knowing-doing gap." Because one of the things I stress in my book is the importance of driving data into wisdom into action and continuous learning based on what I call the "performance measurement cycle." Only two out of ten phases related to data collection and analysis, the other phases are about selecting the right measures, interpreting the analyzed data, taking action based on the measurement, learning from experience, and revising what is measured. The process that makes this work and prevents breakdowns in the cycle is "dialogue" about measurement, which is almost non-existent in most organization. Most organizations don't know what to do with measurement data. An enormous amount of data (98% of customer data at one supermarket chain) just sits unused in databases.

**KL@TG:** Why do "performance measurement traditionalists" (your term) find it so difficult to accept measurement of *intangibles*?

**SPITZER:** Because it's so difficult to reduce intangibles to numbers that can be included on automated scorecards and dashboards. Intangibles are the things that produce competitive advantage today (things like customer service, innovation, knowledge, etc.) but these are constructs that are very difficult to automate. They also often have to be measured qualitatively and even subjectively, something that measurement "purists" have difficulty dealing with. If something is not valid and reliable enough to pass the 'statistical litmus test,' then it is rejected or given lip-service attention. In my book, I explain that "relevance" of measurement data is actually the most important criterion. What good is valid and reliable data that is not relevant? Furthermore, most organizations focus on the 'lagging indicators' and have little patience for the 'leading indicators, which might not have clear line-of-sight to bottom line results.

Understanding the linkages between measures often requires a degree of understanding and insight lacking in most organizations, because they are not willing to spend the time it takes to do so. I spend a lot of time working with organizations to show them how to measure and manage their enormous intangible wealth more effectively. It is really shocking how few of these intangibles ever get used and are wasted. It is like flushing money down the drain!

**KL@TG:** Once a performance measurement program has been fully implemented, how can – and should – the performance of *that program* be most accurately measured?

**SPITZER:** Like a lot of intangible things, the effectiveness of a measurement system in use must be measured indirectly and qualitatively, because the measurement system is not an end-goal,

but an enabler. I recommend to clients that they look at the things that measurement can improve, primary among them decision-making, learning, and improvement. So, the operant question is: How much is our measurement system improving the organization's ability to make decisions, learn, and improve? Of course, there are many other enablers as well, but it is not difficult to collect determine whether better decisions are being made and what contribution to the measurement system is making.

**KL@TG:** One final question. Let's say that you have been asked to meet with the senior managers of a major corporation that is about to design, introduce, and then launch a performance measurement program. What advice would you offer to them at the outset?

Above all, measurement should be about striving to understand, learn, improve, and confront reality, rather than show good numbers.

**SPITZER:** First of all, don't call it a "program"! A program was a beginning and end; performance measurement improvement should be endless. Here are some other important recommendations: Don't fall into the rut of trying to find a 'magic metric'; there isn't any. Don't depend on any individual measures to tell you the whole story. Focus on drivers (leading indicators) as much as outcomes (lagging indicators). Don't focus only on quantitative outcome data; put as much emphasis on the qualitative drivers of the quantitative outcomes. Be vigilant of "measurement dysfunctions" (such as the emphasis on looking good, justifying decisions, and selective measurement) and the context (or conditions) that cause people to

use performance measurement for self-serving purposes. Above all, measurement should be about striving to understand, learn, improve, and confront reality, rather than show good numbers. Most organizations inadvertently encourage cheating by rewarding good numbers and punishing bad ones. Avoid 'shooting the messenger' at all costs! Make sure that measurement is aligned across functions (especially those which must work together most collaboratively).

If this is not done, and done properly, your organization will fall prey to one of the most common measurement dysfunctions of all, sub-optimization, which is improvement of isolated functions to the detriment of overall organizational effectiveness. And, last but certainly not least, give sufficient attention to how the measurement data will be used, not just on collecting and analyzing it. Dialogue about measurement is what turns data into knowledge and wisdom. These are all very complex and rich issues, which cannot be easily condensed into a few sentences. But if an organization was going to do only one thing, I would recommend finding the measures that are currently driving the most seriously wrong behaviors and deal with them. ☺

