

Transforming Performance Measurement Excerpt from Chapter 1

Every day I see terrible things happening in organizations because of the way people (and their performance) are rewarded: Sales managers who alienate key customers because they need to close a sale by the end of the month so they can get their quarterly sales bonus; corporate executives who allow sales to be recorded even though the revenue hasn't actually been received in a particular period, while deferring expenses to a subsequent period—because they are rewarded for profits during that period; employees who fail to share knowledge with others because knowledge sharing isn't counted in their performance appraisals, but individual expertise is; and the list of reward-motivated abuses could go on and on *ad infinitum*.

Rewards are indeed extremely powerful, and people will naturally tend to do the things that they are rewarded to do. But despite the plethora of books and articles (including several I authored) promoting rewards and recognition as the solution to every conceivable organizational failing or management woe, simply implementing a system of rewards is only one part of the solution, and it isn't even the most important part. In fact, this book resulted from my realization that *no matter how important and powerful rewards are, they are no better than the measurement system they are based on*.

But, as you will see, rewards aren't the only management system in an organization that can be problematical without good measurement. Measurement underlies every system in an organization—and that's why performance measurement is so important!

While “What gets rewarded gets done” may very well be *one* of the world’s greatest management principles, there is another principle that is even *more* fundamental. In fact, it is what determines the things that people will choose to do (and reward) on the job, and in their lives. This principle is: **“You get what you measure”** and its proper application will not only help you use rewards better, but it will also help you manage *everything else* you do more effectively.

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Organizations are conglomerations of many systems. Measurement is actually the most fundamental system of all. If the “measurement system” works well, management will tend to manage (and reward) the right things—and the desired results will occur. The measurement system—for good or ill—triggers virtually everything that happens in an organization, both strategic and tactical. This is because all the other organizational systems are ultimately based on what the measurement system is telling the other systems to do. Unfortunately, as we will see, most organizations do not have one integrated measurement system. Rather, many measurement systems are located in functional “silos” and are not well interconnected.

It is continually amazing to me how often the leaders in so many organizations pursue the wrong things—and it almost always comes down to what is being measured. The wrong measures will almost inevitably trigger the wrong activities—because they represent what people “see.” Then these wrong activities will generate the wrong results—no matter how well-executed the activities are. *Most individuals and organizations don’t get what they want because they don’t measure what they really want!*

If your measurements are out-of-whack, everything else will be as well. This is a real problem—because no organization can be any better than its measurement system.