

*Transforming Performance Measurement*  
Excerpt from Chapter 13

The biggest challenges you and your organization face will come from those who say it can't be done, or that you are transgressing an "incontrovertible" rule of measurement. However, if you don't break any rules, there won't be any innovation! So, if you and your organization want to embrace transformational measures, get ready to tolerate some of those measurement concepts and practices that you have been taught are "wrong," as well as the resistance of those who will tell you that "You just can't do that!"

The fact is that while most of business has become extremely advanced, measurement has remained a bastion of traditional thinking. Performance measures in most organizations tend to reinforce the "old rules" and the mental models that gave rise to them. Worse still, our belief systems and conventional wisdom often run so deep that we find it difficult to believe what the actual facts are telling us.

The biggest problem of performance measurement is that the world has changed, but the measurement of performance has pretty much stayed the same. If you were to compare the workplace of today with the workplace of fifty years ago, the difference is dramatic. But if you were to compare how most performance is measured, it looks like a throwback to yesteryear. Just think how little progress has been made in performance appraisal! And those who "mind the gates" are not particularly encouraging of those who want to change the measures--much less the "metric system"--because, after all, these gatekeepers have benefited enormously, and continue to benefit, from the legacy systems.

Many existing measures seriously constrain performance and prevent breakthrough performance improvements (especially in services and knowledge work), but most workplace environments still discourage trying anything new. Take for example the following typical scenario: A company sends out a team with instructions to "improve" a specific project. More often than not, the team comes back with a set of *incremental* improvement recommendations that only end up further entrenching the status quo, while declaring victory because the project came in on time and under budget! Trying to innovate without the freedom, and the mandate, to explore unconventional approaches and take risks ultimately leads to more of the same old measures and, of course, the same old managing.

However, despite the obstacles, change does happen. A contemporary example is "customer profitability." Most organizations, as well as the traditional accounting community, couldn't "conceive" of it, because there was no way to calculate it. Activity-Based Costing changed this, and now it is possible to determine customer profitability by allocating all the "costs to serve" to specific customers. Customer profitability is finally a *measurable* concept, not just a theoretical one. It is revolutionizing marketing by helping people realize that, for years, companies were diluting their profits by selling *unprofitably* to most of their customers.

In fact, a profitability analysis on just a few well-selected customers will almost always shock company executives and motivate a change in the way the company does business. It can even be used as a conceptual discussion tool even before you start actually measuring it. When you take even a cursory look at some qualitative indicators of cost-to-serve, it often becomes clear which customers are costing the most. If you think of your customers as you would your "investment portfolio," would you really hold on to the "dogs" without doing something about the situation?

Isn't that amazing, and *transformational*--an accounting innovation revolutionizing marketing? But that's how it happens! Activity-Based Costing vividly demonstrates what can occur when someone sees the world differently, and has the courage to formulate and communicate a *new* construct. It is indeed possible to change the world!

Deep change is impossible without changing the measures that underlie management. Because measures reflect our "mental models," it is impossible to change the way people think and act unless they measure differently.

Transforming performance measurement is not optional. It is not a matter of *whether* your organization wants to change the way it measures; it is a matter of *when* those changes are going to happen and *how much* change there will be. But changing a long-established infrastructure of "legacy" measures won't be easy. Changes in performance measurement have never come easily, and they will continue to be resisted. The question is whether sufficient measurement innovators, early adopters, and, most importantly, measurement leaders, will emerge quickly enough to save companies from the consequences of obsolete thinking.