

Transforming Performance Measurement
Excerpt from Chapter 2

While most people are aware that “something is wrong” with their organization’s measurement system, few can pinpoint the causes, much less the solution. That is why, despite the importance and promise of performance measurement, dysfunctional measurement continues to persist. Performance measurement is complex, and we still do not understand it very well; you can’t fix something that you don’t understand. As a result of ignorance about performance measurement, many executives try to fix *everything else* in their organizations *except* measurement, and find that the problems are never solved—because the source of so many organizational problems is a defective measurement system.

What is commonly referred to as “measurement dysfunction” occurs when the measurement process itself contributes to behavior contrary to what is in the best interests of the organization as a whole. When measurement dysfunctions occur, specific numbers might improve, but the performance that is really important will worsen.

While some of the most egregious examples of measurement dysfunction in the history of business were at companies like Enron, WorldCom, and Tyco, its more mundane manifestations are being played out virtually every day in almost every organization around the globe. Because of the failure to address the root causes of the problem, most organizations are full of examples of negative, self-serving measurement: measurement used for self-aggrandizement, self-promotion, and self-protection, measurement used to justify pet projects or to maintain the status quo, and measurement used to prove, rather than improve. Although the more routine cases of dysfunctional

measurement might not appear to be very serious individually, the collective consequences of small doses of measurement dysfunction can be profound.

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Probably the biggest problem with measurement is not the flaws in the system, but with the consequences, both positive and negative, that so often follows flawed measurement. There are two major types of measures, based on how they are used: *Informational measurement*, measurement that is used for informational purposes, and *motivational measurement*, measurement that is used for rewards and punishment.

Most of the functionality of measurement, as described in Chapter 1, is related to the enormous value of measurement as a source of information—information for organizational members to use to improve management and the work that is done. However, when measures are tightly linked with rewards or the threat of punishment, the informational value of the measurement becomes subordinated to its use for inducing people to exert more effort. This is where the major problems begin.

Most organizations have very strong contingencies that tell employees, either explicitly or implicitly, “If you do this (behavior) or achieve this (result), you will get this (reward, punishment).” Because, in most organizations, behavior and results can’t be directly observed, these performance expectations are operationalized by how they are measured. The performance measures become the way to achieve rewards and to avoid punishment. No matter how many other things might be measured, what is rewarded or punished becomes the focal point.

Striving for rewards is one of the most important aspects of life and work. But when rewards are at the end of the line, measurement becomes a means to that end.

Furthermore, the greater the rewards that are offered, the less focus there is on the information that measurement can provide. When the focus is on the carrot, it's difficult to see anything else! And human beings are very adept at doing whatever it takes to get a reward. Because measurement is so powerful, especially when coupled with contingent rewards, measurement dysfunctions are quite prevalent and widespread. Furthermore, when people are being rewarded by the existing measurement system, they will resist any changes that will reduce their rewards.

While linking rewards and measurement does not automatically lead to dysfunction, it very significantly increases the probability of it happening.