

Transforming Performance Measurement Excerpt from Chapter 7

One of the key concepts in this chapter is the desirability of breaking down the traditional functional silos, and driving more cross-functional integration, and consequently more collaboration. You will notice that in the measurement framework depicted in Figure 7-4, there are measures that relate to a number of different functional areas. There are measures for *sales* (e.g., sales revenue, average sale size, cross-sales volume, close rate, repeat sales, quality of sales in the pipeline), *marketing* (e.g., number of leads generated, quality of leads, intention to purchase, brand image, customer satisfaction, customer loyalty, customer profitability), *production* (e.g., product quality, product availability), *logistics* (e.g., on-time delivery), and *procurement* (e.g., total procurement costs). Typically each function would focus only on its own measures, and would be oblivious to the measures of other functions and what the trade-offs among the measures might be.

One of the great benefits of measurement frameworks is that they can stimulate positive dialogue across functions about some of the crucial integrative issues that will make the difference between success and failure in the new economy. Silo-based organizations are increasingly becoming an anachronism. By discussing the implications and trade-offs of the measurement framework, barriers can be removed and more cross-functional collaboration can be instigated. This can be truly transformational!

One of the keys to doing this is the identification of cross-functional or "integrating measures."

Let me explain briefly. It is increasingly important today to get everyone focused on profit, not just sales revenue. As discussed in Chapter 6, customer profitability is a potentially transformational measure that can change the way people in an organization view customers. Cross-functional discussions about customer profitability, and how to optimize it, can have a significant impact on how different functions like Finance, Marketing, Sales, Purchasing, Manufacturing, and Customer Service can work together.

For example, a measure that can have integrative impact is on-time delivery. After all, there are many functions that need to work together to make sure that products are delivered on-time to the customer. Here again, however, there are trade-offs. If on-time delivery is too important, then logistics or customer service might intervene in a late order and expedite it to a customer at huge expense, which might

seriously affect customer profitability--and even company profitability if this pattern repeats itself too many times.

There are virtually an infinite number of potentially transformational measures that can lead to extremely valuable integrative discussions. What is important is that these measures and key issues be made visible through measurement frameworks, or else new transformational measures will never be adopted and the critical issues related to them will never addressed.