Effective Performance Measurement:
Making Metrics Matter

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Transforming Performance Management

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Measurement is ubiquitous

We spend a lot of time every day measuring things. In fact, we are almost always measuring things: dates, time, size, weight, speed, temperature... and the list goes on and on. In our personal lives, we spend a lot of time every day measuring things. At work, there is even more measurement.

Some form of measurement is involved in almost everything we do in life, even if we aren't explicitly aware of it. Consider some common examples of measurement tools and indicators:

- **Time and date measurement** (e.g., calendars and clocks)
- **Weather measurement** (e.g., forecasts, temperature, wind speed and direction, humidity, barometric pressure)
- **Geographical measurement** (e.g., location, distance, and direction)
- **Medical vital signs** (e.g., body temperature, pulse, blood pressure, etc.)
- **Financial measurement** (e.g., currency, paychecks, checkbooks, budgets, investments)
- **Consumer measurement** (e.g., prices, size and weight, quality measures)
- **Political measurement** (e.g., election results, voter attitudes, campaign financing)
- **Sports measurement** (e.g., scores and individual and team statistics)
- **Academic measurement** (e.g., grades, competencies, credentials)
- **Transportation measurement** (e.g., speedometer, odometer, altimeter, fuel gauge, warning lights)

“We can and do all measure. Measurement is not first and foremost a sophisticated technical skill, it is an intuitive ability.” [Taylor & Soal]
Effective measurement serves many functions important for performance management

- Drives performance
- Clarifies performance expectations
- Increases the visibility of performance
- Enables goal-setting
- Forges increased strategic agreement and alignment
- Increases the holistic perspective at all levels
- Focuses attention on what is most important
- Promotes accountability
- Provides timely early-warning signals and facilitates prompt and appropriate corrective actions
- Increases the frequency and accuracy of feedback
- Motivates improvement
- Increases objectivity and the perception of fairness
Performance measurement is powerful!

- "Measurement always improves performance." [Buckingham & Coffman, First, Break All the Rules, p. 236]
- "...everything that is measured improves." [Scheuring, Handbook of Performance Measurement, p. 2-6.13]
- "Good data, properly distributed, transform organizations." [Whitely, The Customer-Driven Company, p. 175]
- "Measures have great power, almost like genetic code, to shape action and performance...Change the measures, and you change the organism." [Epstein & Birchard, Counting What Counts, p. 145]
- "Most often when we see illogical behavior, the fault is in the measurement system, not in the employees." [Brian Joiner, Fourth Generation Management, p. 242]
- "Changing the way we measure changes everything." [Meador, The Dance of Change, p. 299]
- "An organization's measurement system strongly affects the behavior of people both inside and outside the organization." [Kaplan & Norton, The Balanced Scorecard, p. 21]
- "The essence of a corporate culture is the firm's measurement system." [Strassman, The Business Value of Computers, p. 73]
- "The mere action of defining measures of success will change behavior positively or otherwise." [Thorp, The Information Paradox, p. 164]
- "Metrics are to a business what the five senses are to humans - systems of feedback that improve our capacity to adapt and excel over the long run." [Tachi Kiuchi, "What We Learned in the Rainforest," Barrett-Koehler, 2002, pp. 152-153]
Management is based on measurement, and all other organizational systems are dependent on the measurement system.

No organization can be any better than its measurement system!
One of the biggest problems in organizations is lack of alignment among ‘measurement systems’

Organizations with poor performance measurement will be poorly aligned, with functions pursuing their own self-interest and often working at cross-purposes.

Not only don’t most organizations have a single integrated measurement system, but the disparate measurement systems don’t even communicate!
Organizations are drowning in data
“A company's measurement systems typically deliver a blizzard of nearly meaningless data that quantifies practically everything in sight, no matter how unimportant; that is devoid of any particular rhyme or reason; that is so voluminous as to be unusable; that is delivered so late as to be virtually useless; and that then languishes in printouts and briefing books, without being put to any significant purpose.... In short, measurement is a mess.”

[Michael Hammer, *The Agenda*]
Measurement is the elephant in the room
Performance measurement must be transformed!

Outstanding Organizational Performance
Outstanding Management
Transformational Performance Measurement

Basic Performance Measurement

Context
Focus
Integration
Interactivity
CONTEXT OF MEASUREMENT

Measurement System
- Measures
- Measurement process
- Technical infrastructure

People
- Attitudes
- Motivation
- Capabilities

Measurement Expectations

Measurement Leadership

Organizational Climate

History of Measurement

Measurement Resources

Measurement Constraints

Context
People's experiences with the “context of measurement” determine their attitudes toward measurement

People's attitudes and feelings toward measurement are largely a reflection of the perceived consequences and how much control they think they have over the results. When they feel positive and empowered in what they are doing, people tend to embrace measurement, and use it with great enthusiasm. In fact, when people feel good about their performance potential, they want as much information as possible about how they are performing. They realize that - win or lose - measurement is the key to improvement.

*Measurement at work is often perceived negatively*

“Measurement is one of the most sensitive issues in any organization.” [Eliyahu Goldratt]
So much measurement is being used to report on past successes and for self-serving purposes

- “See how much I’ve accomplished!”
- “Look how great our scores are!”
- “Now give me my bonus and stock options.”
- “Let me show you my business case!”
- “Let me show you how good we are!”
- “Let me show you our ROI!”

It is easy to manipulate measurement (and too often the organization doesn’t really want to know the truth).

“In complex human systems, there are always many ways to make things look better in the short-term.”
- Peter Senge

Measurement done to prove will rarely improve!
Which type of measurement is more common in your organization?

Traditional Measurement
- Monitoring
- Reporting
- Control
- Justifying
- Judging
- Triggering rewards/punishment
- Negative accountability

Positive Measurement
- Visibility
- Communication
- Feedback
- Understanding
- Prediction
- Learning
- Improvement
- Positive accountability

"Many measurement practices and systems signal distrust through their emphasis on monitoring and control." [Jeffrey Pfeffer]
Measurement is **not** the same as evaluation

Too often evaluation and its consequences prevent learning from measurement
Measurement is imperfect

Manipulation = f (Opportunity, Motive)

"All social measurement systems are very fragile and open to manipulation and there is very little we can do about it." [Karl-Erik Sveiby]
The biggest problem with the context of measurement is the lack of Measurement Leadership

- While most managers publicly extol the value of measurement, few actually use it systematically and well.
- Measurement is everybody’s job and therefore nobody’s job!
- Organizational leaders are more than happy to delegate measurement to "measurement specialists." They don't realize how strategic measurement is, and how much management attention it requires to do it right. Measurement is one of the most under-appreciated organizational activities, and measurement leadership is one of the least appreciated leadership roles.

Who is leading measurement in your organization?
Context

TAKE ME TO YOUR LEADER...
OR, AS YOU MAY REFER TO IT,
THE HEAD OF ACCOUNTING.
What can you do immediately to improve the “context of measurement” in your function/organization?

1. Identify potential measurement leaders
2. Clarify expectations about measurement
   • Increase the use measurement for learning and improvement
3. Improve the performance appraisal system
   • Provide more feedback; make performance reviews more transparent
4. Identify egregious ‘measurement dysfunctions’ and address them
5. Provide education and training about performance measurement; improve measurement communications
6. Assess the climate for measurement; use the “Transformation Measurement Maturity Assessment” (quick version, full version); develop a specific action plan for improvement
Measures are a lens through which people “see” the world.
You get what you measure, so make sure you’re measuring the right things!

Measurement selects from a virtually infinite reservoir of potential data. What kind of data is your organization choosing to use?
Most organizations are full of “routine measures” that have been accepted as “standard operating metrics” and rarely, if ever, change.
Some organizations are realizing that the ‘same old metrics’ don’t drive the right kind of behavior

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<tr>
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<td>Projects</td>
<td>Projects Completed</td>
<td>Project Portfolio Return</td>
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“Transformational measures” can help organizations focus on what is most important today and for the future, rather than in the past.

“When we change our ways of measurement, the fundamental ‘lens’ used to view things changes. Organizational transformation is what happens when people begin to see their organization through the new lens.” [Dean Spitzer, Transforming Performance Measurement]
Measurement must reflect the organization’s business model and the strategy.

“Measurement lies at the heart of both vision and strategy. It’s hard to overestimate its importance in determining the future course of the business....It is measurement that allows managers to harness vision to the earthly realities of daily business practice. Measurement turns vision into strategy and strategy into fact.” [Frederick Reichheld]
Southwest Airlines transformed its business by focusing on one transformational measure

While many of the traditional routine airline measures might be valid for Southwest, the key driver of its business model was low "cost-per-passenger" and the primary driver of low cost-per-passenger was high "aircraft utilization," and the primary driver of high aircraft utilization was quick "turnaround time." No company has leveraged the strategic importance of time as well as Southwest Airlines.
Dell transformed its business by focusing on two transformational measures

The success of the "Dell direct" business model, based on building computers "to order" and selling them direct to customers, depended on simplifying its supply chain. Dell began to measure "touches" (how many times a component was touched by a worker), and set out to reduce that number. More touches meant longer cycle time, increased costs, and more opportunities for defects.
To respond to its cash flow crisis, Dell focused on a measure that ran counter to traditional manufacturing thinking. Rather than focus on a traditional measure like "manufacturing cycle time," Dell targeted a new measure: "cash conversion cycle time" (or cash-to-cash cycle time) – the time from the outlay of cash for parts to the receipt of payment for completed computers. This measure helped Dell change its priorities from "growth, growth, and growth" to "liquidity, profitability, and growth." Dell took cash conversion cycle time from 70 days to less than zero -- which means it now collects cash before paying for inventory!
Emergent and Transformational Measures

- Customer Delight
- Customer Loyalty
- Customer Experience
- Customer Engagement
- Voice of the Customer
- Customer Profitability
- Customer Lifetime Value
- Knowledge Stock and Flow
- Learning
- Organizational Agility
- Strategic Readiness of Intangibles
- Project Scheduling
- Collaboration
- Reputation

- Employee Engagement
- Learning Effectiveness
- Information Orientation
- Information Proficiency
- Innovation Climate
- Partner Relationships
- Organizational Trust
- Social Performance
- Corporate Social Responsibility
- Sustainability
- Organizational Health
- Employee vitality
- Executive Intelligence
- People Equity
- Service Quality

Measures need to be operational defined
Developing emergent measures is an iterative process

Construct (e.g., innovation, agility, leadership, climate, engagement)

Potential Indicators (characteristics)

Measures

“Metrics”

One of the keys to emergent measurement is the “socialization process” that occurs as the construct and its measurement are discussed.
Organizations must not be afraid to experiment with measurement.

One of the keys to emergent measurement is the “socialization” that occurs as the construct and its measurement are discussed.
Qualitative Measurement, Estimating, and Subjectivity

“Measurement is assessing the degree to which a variable is present….Notice there is no reference to numbers in that definition.”
[D. Lynn Kelley]

"A high barrier stands between us and the habit of making rough estimates -- the fear of getting the 'wrong' answer. There is nothing wrong with educated guesses as long as the uncertainty is acknowledged and managed. Contrary to what most of us have learned in school…an inexact answer is almost always good enough.“ [Arno Penzias]
Don’t be intimidated by the “measurement police”

Is it valid enough?

Is it reliable enough?

Is it accurate enough?

Is it precise enough?

…and, whatever you do, don’t dare to be creative!”
Focus

What can you do immediately to improve the “focus of measurement” in your function/organization?

1. Put more measurement emphasis on what is really most important to your organization’s strategic priorities
   • Distinguish routine operational measures from real KPIs
   • Continuously review and revalidate KPIs

2. Educate the organization about ‘emergent measurement’
   • What are major strategic assets that are currently not being measured or measured well?

3. Gain leadership support for emergent measurement in at least one area of the organization
   • Ensure that there is someone responsible for leading the effort

4. Begin measuring one or two new constructs that matter most to your organization; start a continuous improvement process

5. ‘Fence-off’ the emergent measures; protect them from management meddling and pressure
Performance measurement is **not** about numbers and calculations; it is **about** understanding outcomes, drivers, trade-offs, etc. and how to use this understanding for continuous improvement of the organization and its component processes.

“There is a strong tendency to state numerically as many as possible of the variables with which management must deal.” [V.F. Ridgway, *Dysfunctional Consequences of Performance Measurements*]
What are your most crucial measures and their interrelationships?

Understanding business drivers and leading indicators is difficult because organizations still don’t have a clear concept of what drives value.”
Integration

**Measurement must reflect how value is created and destroyed in the organization**

- **Value drivers**
  - Revenue
  - Profit
  - Cash flow
  - Mission accomplished

- **Value Creation**
  - Value evaporation/loss
    - (value destruction)

Strategy should be focused on *making best use of the value drivers to create optimal value from resources for stakeholders.*

But we can’t just talk about value, we have to understand its drivers and do something about them.
Measurement frameworks help clarify the relationship among measures

**Inputs**
- Funds
- Skills
- Attitudes
- Climate

**Process**
- Activities
- Behaviors
- Process performance (quantity, quality, timeliness, cost)

**Outputs**
- Products
- Services
- Inventions
- Patents

**Outcomes**
- Internal
- External

**Internal Outcomes**
- Revenue
- Quality
- Cost reduction
- Employee satisfaction
- Learning

**External Outcomes**
- Profit
- Competitive advantage
- Customer perceived quality
- Innovation

**External Outcomes (Customer Value)**
- Timely delivery
- Customer loyalty
- Customer experience
- Customer success

Integration
Example: Measurement framework for innovation

Integration

Inputs → Process → Outputs → Outcomes (internal, external)

- Innovation Leadership Measures
- Innovation Strategy Measures
- Innovation Climate Measures
- Human Capital Measures
- Ideation Measures
- Innovation Pipeline Measures
- Project Management Measures
- Social Measures
- IP Asset Management Measures
- Internal Relationship Measures
- External Relationship Measures
- Innovation Benefit Measures
- Innovation Value Measures

Innovation Efficiency

Innovation Capability → Innovation Capacity → Innovation Effectiveness
The Innovation Pipeline

- Innovation Leadership
- Innovation Strategy
- Climate for Innovation

Integration

IY = IF - IC

Innovation Flow
Innovation Yield
Innovation Constraints

Continuous Assessment of Potential Value
Continuous Feedforward and Feedback

The Customer
What can you do immediately to improve the “integration of measurement” in your organization?

1. Agree on the value creation process in the organization (especially performance drivers of key organizational goals)
2. Gain leadership support for addressing at least one of the functional measurement disconnects that are particularly problematical to organizational effectiveness
3. Increase cross-functional alignment in at least one area by identifying one or two cross-functional measures to use for aligning critical functions (e.g., sales, marketing, operations)
4. Increase visibility and line-of-sight by developing a measurement framework around what you want to measure
5. Estimate how much dis-integrated and poor quality data is costing your organization (e.g., data fragmentation, data hoarding, unused data) and share with management
6. Longer-term: Appoint a Chief Measurement Officer (CMO)
The purpose of measurement is **not** to collect data.
But to create knowledge and wisdom from data requires more than ‘technical’ measurement skills.
Performance Measurement Cycle

- Plan
- Review
- Take Action
- Commit
- Decide
- Interpret
- Analyze
- Collect
- Select
- Decide
- Interpret
- Collect
- Analyze
- Select
Most performance measurement is broken

Interactivity

Select
Collect
Analyze
Interpret
 Decide
 Commit
 Take Action
Review
Plan
Technology is an enabler, but not a panacea

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Interactivity
Dialogue: The missing link in measurement

Plan -> Review
Select -> Take Action
Collect -> Commit
Analyze -> Decide
Interpret -> Dialogue

Interactivity
“There’s no time for thinking. We have to make a management decision.”
**Interactivity**

What can you do **immediately** to improve the “interactivity of measurement” in your organization?

1. Map out the data → information → knowledge → wisdom flow, the ‘performance measurement cycle’, and how decisions are made in one area of the organization; begin to improve them
2. Increase opportunities for dialogue around performance measurement; turn a few one-way ‘cadence calls’ into really interactive ‘knowledge sharing” sessions
3. Upgrade ‘measurement literacy’ to improve data interpretation
4. Get HR people (including those responsible for Learning and KM) and measurement people to collaborate
5. Clarify what is happening to the data in BI systems and the extent to which it is/is not increasing organizational intelligence
6. Improve information design on scorecards and dashboards
7. Identify any ‘dialogue around measurement’ best practices
Performance measurement **must** be transformed!

- Outstanding Organizational Performance
- Outstanding Management
- **Transformational Performance Measurement**
- Context
- Focus
- Integration
- Interactivity

**Basic Performance Measurement**
A journey of a thousand miles begins with a single step
How ‘mature’ is performance measurement in your organization?

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<thead>
<tr>
<th>TPMM Score</th>
<th>Transformational Performance Measurement</th>
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<tr>
<td>Level 3</td>
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<td>Negative/Neutral Context</td>
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<td>Programmatic Specialized</td>
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“Performance measurement maturity determines a company’s ability to continuously improve, and is a key determinant of its future performance.” [Debra Hoffman, AMR Research]
Transformational Measurement Maturity (context)

- Performance measurement is widely used by all levels of employees throughout the organization.
- The importance and value of performance measurement are widely appreciated.
- Employees perceive performance measurement as relevant, timely, and actionable in their jobs.
- Employees actively use performance measurement in their jobs.
- Understanding and acting upon performance measurement data are viewed as key responsibilities of all employees.
- Performance measurement is generally viewed as a positive force in the organization.
- Performance measurement is used to empower and enable self-management.
- Performance measurement is rarely used to blame or punish.
- Fear of measurement is low.
- Performance measurement is trusted.
- Manipulation of measurement for self-serving purposes is very low or nonexistent.
- Performance measurement data is discussed openly and honestly.
- Employees are educated about measurement.
- Employees are given the time and other resources they need to use performance measurement well.
Transformational Measurement Maturity (focus)

- This organization measures the things that matter most and not those that don't matter.
- Performance measures accurately reflect the most critical aspects of the organization's business model and strategy.
- Performance measures are regularly reviewed and revised or eliminated (as appropriate).
- This organization has the right number of measures (not too many nor too few).
- Routine measures are reduced when new high-leverage measures are added.
- Routine measurement is being increasingly automated.
- Progress is being made in measuring intangible assets and other difficult-to-measure aspects of performance.
- Experimentation with emergent measures is encouraged.
- Transformational measures are being widely adopted and used.
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Transformational Measurement Maturity (interactivity)

- There is widespread and frequent interaction throughout the organization about measurement.
- Frequent interactivity occurs regarding the selection of performance measures.
- Developing and revising measurement frameworks are highly interactive.
- Insights from performance measurement information are discussed in many forums.
- The organization places a high priority on learning from measurement.
- Time is made available to learn from measurement.
- There are frequent and high-quality dialogues about performance measurement.
- Executives are deeply engaged in measurement-related dialogues.
- Measurement frameworks are continually and interactively reviewed and revised (as appropriate).
- Interpretation of data is as highly valued in this organization as data collection and analysis.
- Collaborative cross-functional learning from measurement occurs throughout the organization.
- Revealing questions are constantly being asked about measurement.
- Measured experiments and pilot projects are occurring throughout the organization.
- This organization has effective social mechanisms for translating performance measurement data into appropriate action.
- The capability of this organization for converting data into actionable insight is high.
- This organization is effective at sharing insights from performance measurement.
To receive additional materials on *Effective Performance Measurement: Making Metrics Matter*

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