

Book Review: Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success.

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In this book, Dean R. Spitzer, a leading expert and consultant on business research and performance measurement, presents an essential performance measurement approach for organizations to achieve superior “transformational” performance –effective, efficient and sustainable business results.

Measurement system is one of the most fundamental and important system in an organization, on which almost all other organization systems are based. Results of measurement represent ‘key indicators’ of organization, business unit, team, and individual performance.

Organizational and business management today requires correct, accurate, and timely measurement information to propel companies and organizations toward a long-term success in the globally dynamic, intensely competitive, and increasingly knowledge-based economic environment. Nevertheless, many organizations are — unknowingly — still relying on “dysfunctional” performance measurement systems that provide deceptively adequate information for crucial decisions by executives, managers, shareholders, and other stake-holders. Such decisions may indeed lead to disastrous results, unless their measurement systems are ‘transformed’ as suggested by the author.

Transformation does not necessarily mean making major changes to existing measurement systems or infrastructures. Most importantly, transformation begins with “changing the paradigm of organizational measurement” – that is, the way people in the organization view or think about performance measurement.

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Traditionally, measurement is considered by most people to be a specialized, technical area that does not directly concern themselves – except perhaps during their periodical performance evaluation and reviews by their managers and supervisors. To be transformational, organization must “see” performance measurement through a new lens: that the primary concerns of measurement are understanding, knowledge and learning; and not numbers, data, calculation, and analysis. This new perspective of measurement will enable organizations to begin the transformation progress toward realization of the true benefits of performance measurement.

Within this new paradigm, the author suggests the single critical element of success: “positive context.” The “context of measurement,” which – the author insists — is more important than measurement itself, determines the effectiveness of performance measurement system. Unfortunately, most people are more accustomed to “negative context” of measurement: i.e. inspection, control, report, judgment, etc. in many organizations. For this reason, even technically excellent organizational measurement systems are not truly effective for driving organizational success. It is most essential, therefore, to eradicate and/or avoid this “negative” context; and replace with and/or establish “positive context” of measurement (feedback, learning, improvement, etc.). Furthermore, performance measurement must be ultimately “socialized” positively into the social fabric of the organization.

Creating an optimal context (environment) of measurement represents the core purpose of this book. Measurement must be used for the purpose of improvement and learning – and not for making judgments or punishment. Only with this positive foundation can transformational measurement system then be developed as to ensure alignment with business strategy, optimize cross-enterprise integration, and build teamwork and employee collaboration to drive and maximize organizational values.

Transforming Performance Measurement: Rethinking the way we measure and drive organizational success presents novel principles toward understanding and insight of performance measurement, proposes strategic guidelines to establish a high-leverage performance measurement system, recommends suitable course of planning and implementation, and provides practical guidelines on and examples of currently popular and emerging measures in use today. The book comprises 14 chapters:-

Chapter 1 (“Why Measurement is So Powerful”) reviews the importance of measurement and the challenge of effective organizational management. In addition, the author introduces an important thesis of the book: the social context of measurement.

Measurement is the basis for many organizational and individual functions. For example, measurement directs behavior, focuses attention, improves decision-making, increase alignment, and facilitates feedbacks. More importantly, measurement functions to increase objectivity, and to motivate. One of the major points of this book is that people actually like to be objectively measured and intrinsically motivated. Objectivity –to learn and improve — and motivation — initiative, pride, and accomplishments— are considered the highest purposes of measurement. However, measurement is often perceived as subjective judgment and linked too closely with rewards and punishment.

The author reasons that since measurement system is fundamental to all other organizational systems, effective performance measurement promotes effective organizational management. The most important aspect of measurement and an important thesis of the book is that measurement, at its root, is a social phenomenon. Measurement was created to facilitate socialization: human needs for social interaction, trade and commerce, etc. For this reason, development and effectiveness of measurement depend deeply on a socialization process.

Chapter 2 (“When Measurement Goes Bad”) and Chapter 3 (“Why Measurement Goes Bad”) examine measurement dysfunctions, major causes of measurement dysfunctions, and contributing factors of measurement dysfunctions. Notably, it is mainly the “negative context” of measurement that brings about almost all dysfunctions.

Measurement can be a powerful, functional, extremely positive force for organizations and employees. Nevertheless, when used poorly, performance measurement can lead to undesirable behaviors that are in fact detrimental to the organization’s goals and objectives.

Measurement dysfunctions – among individuals, teams, or divisions — are prevalent in many organizations, especially business companies. Most traditional measurement systems actually encourage unhealthy internal competition by using measurement mainly for motivational purpose, that is, by closely linking performance measures with rewards or punishment. What

is rewarded or punished becomes the focal point: managers and employees often revert to self-serving behaviors, even when they know those behaviors are harming the customer or the company. Dysfunctional measurement can also arise from organizations measuring the wrong things. When organizations have difficulties identifying what is really “crucial” to organizational success, management often decides to manage on the “easiest” measures to quantify. Also, many functions – especially in areas of non-financial and intangibles in support functions — use “look good” measures so that they appear to be effective and successful. In these cases, measurement is particularly flawed and often subjective.

Defects in measurement system represents “opportunity,” which is a factor which contributes to measurement dysfunctions, although the defects themselves are not the biggest part of the problem: there are flaws endemic in virtually every measurement system. The second factor is “motive” for people to take advantage of the weaknesses in the measurement system. Whether measurement dysfunction will occur depends less on the number of defects in the system, but more on how people respond to those defects. Reducing the motive is thus the solution to measurement dysfunction.

Chapter 4 (“Beginning the Transformation”) describes the transformational performance measurement vision and characteristics of an organization that is on the course to that ideal. Next, the four keys of achieving transformational performance measurement are presented and explained.

In an organizational that has achieved transformational performance measurement, measurement is “built into the social fabric” of the organization. Everyone in the organization is involved in performance measurement, with clear understanding and insight of how their own goals align with organizational mission. Discussions and dialogues on and around performance measures are routine and widespread among individuals, teams, managers, and management. Everyone is part of an empowered self-managing team – with no need for managers to micro-manage; because the organizational performance measurement system is one fully-integrated system, in which performance is clearly visible and cross-functional measures are keys to collaboration across the organization.

The most crucial characteristic of a “transformed” organization is that all people — employees, managers, and management — view measurement

as enabling learning, high performance and continuous improvement; and not for making judgment and finding faults. Attitude toward measurement is positive: measurement is less tightly connected with judgment and rewards, and performance evaluations are objective and data-based. Planning, forecasting, and decisions are more accurate and are continually reassessed and adjusted based on actual data. Transformational measurement leads to improvement in virtually every aspect of organizational performance.

There are 4 keys for an organization to progress toward transformational performance measurement: (1) Context, (2) Focus, (3) Integration, and (4) Interactivity.

“Context” refers to the environment surrounding measurement, including attitudes, perception, and experiences of people in an organization; and is foundational to the other three keys.

“Focus” refers to the selection of the right measures that are most important to organizational success. “Lack of focus” (too many routine, irrelevant measures) and “wrong focus” (measuring the wrong things) must be avoided.

“Integration” refers to the alignment of measurements across the organization. Transformational performance measures must be aligned with strategy, and then integrated across the entire organization into the organization’s overall “measurement framework” – which shows how all measures are related and combined to create organizational values — to create optimal value for the organization.

“Interactivity” refers to the “social process” aspect of and around measurement. Transformational performance measurement requires a high level of ongoing social interaction to be effective in selecting, creating, and integrating (aligning) key measures based on organization’s business model and strategy; and –utilizing feedback loops—in continuous improvement of measures.

Chapter 5 (“Creating a Positive Context of Measurement”) expands on the “context” key of transformational performance measurement. It gives details on major factors and components of context, provides guidelines on creating a positive context, and shows examples of organizations that have established positive context in their performance measurement.

The context of measurement comprises several factors that most strongly influence performance measurement. “Organizational climate” –

the social-psychological environment as perceived by employees — conducive to transformational performance measurement are: openness, trust, honesty, collaboration, customer-focus, and flexibility. “Measurement expectations” — the organization’s measurement practices, formal and informal rules of conduct — reflect organization’s assumptions and beliefs about performance measurement; most importantly, the purpose of measurement must be separated as much as possible from judgment. “Measurement leadership” — both at the organizational level and in functional areas — is necessary, to establish expectations about performance measurement. “History of measurement” — experiences of organization and its people with performance measurement and consequences of measurement — affects how open the organization is to transformational measurement. Likewise, “measurement communications,” “measurement resources,” and “measurement constraints” facilitate or hinder the development of transformational measurement.

The context of measurement encompasses 2 main components: the measurement system and the people. The author makes it clear that while the formal or technical “measurement system” is important, it is the “people” that ultimately determine the effectiveness of the measurement system. Positive people’s attitudes, emotions, and motivations on measurement are consequently indispensable to create positive context of measurement. Transforming context of measurement is a continuous improvement process that takes time.

Chapter 6 (“The Focus of Measurement”) expands on the “focus” key of transformational performance measurement. The importance of focus is discussed, and direction on developing focus is presented, including guidelines and examples of emergent and intangible measures.

To be transformational, organizations need to select those critical measures that are “differentiators” from their competitors, and focus everybody’s attention on those measures. Successful organizations are reducing the number of variables they measure, and making sure that these are the right ones — those that really drive the performance of their particular organization and create competitive advantage in the industry.

To achieve focus, the organization’s value-creation process, business model, and strategy must be clearly understood and constantly reviewed to find critical strategic and operational performance measures that create value

and drive long-term organizational success. Transformational measures must include these “emergent measures” – measures of difficult-to-measure intangibles. On this, organizations should realize that measurement is a process of discovery and continuous improvement; that it is about seeking truth, not necessarily accuracy: many measures are qualitative and subjective in nature, and estimates are sufficient when direct measurement is not possible.

Chapter 7 (“The Integration of Measurement”) expands on the “Integration” key of transformational performance measurement. The importance of measurement integration is discussed and strategy for developing integrated measurement is presented.

One of the major problems of organizations today is poor integration – i.e. alignment — of the organization’s measurement system. Within an organization, many functional areas are disconnected from others, with functions and processes that operate independently, and with different measurement systems that frequently work at cross-purposes.

Transformational measurement must reflect the performance goals of the organization as a whole and integrated into the overall framework and structure of the organization. Organizational strategy should be major integrating force of any organization from which measures are integrated vertically – from strategy to strategic measures — and horizontally – i.e. between measures across organizational functions and processes.

“Measurement framework” must be developed – as a “strategy map” that links measures within and between all perspectives — to promote understanding of strategy and translate strategic concepts into operational measures. By determining the desired organizational “outcomes,” the “drivers” of these outcomes and the relationship among these drivers, measurement frameworks ensure that managers and employees understand how their local measures fit with the organization’s “global” measures.

“Measurement framework” also ensures “optimization” of organizational goals. With clear understanding of relationship and interdependencies between measures, the right integrated decisions can be made across the organization. “Cross-functional integration” is another benefit of measurement frameworks.

Chapter 8 (“The Interactivity of Measurement”) expands on the “Interactivity” key of transformational performance measurement. The

importance of interactivity and dialogues in continuous improvement & learning process is discussed. The author then illustrates how interaction is required in all phases of the performance measurement cycle.

Dialogue is the key to measurement interactivity. Dialogues should occur at every stage of measurement process, to turn plan into realities, and to transform data and information into knowledge, insight, and wisdom through ongoing, interactive learning (that is, continuous improvement & learning). Dialogue as interactivity should incorporate learning, understanding, defining, listening, modeling, hypothesizing, balancing, linking, integrating, etc.

The major challenge of transformational measurement is to “socialize” performance measurement across the organization, in which regular functional and cross-functional conversations, discussions and debates about performance measurement in organizations break down “functional silos” and synergize diverse resources and capabilities of everyone in the organization. In brief, transformational performance measurement is exemplified by dialogues built on foundation of positive context, focus, and integration.

Chapter 9 (“Measurement Leadership”) explains how measurement leadership is essential to an organization’s advancement toward transformational performance measurement. At the top “C-level” executives, the position of Chief Measurement Officer is suggested: to be responsible for organizational-wide measurement leadership in instituting and managing the four keys to transformational performance measurement.

Chapter 10 (“Learning About and from Measurement”) reiterates the importance of learning as the primary concerns of measurement. Transformational performance measurement involves not only learning from measurement process (“single-loop” learning), but also learning about the measures themselves (“double-loop” learning). Accordingly, people in transformational organization gains understanding, insights, and knowledge from measures on individual, team, and organizational performance; while in the process, they also learn to regularly discuss and question the validity of measurement information and underlying assumptions, leading to continuous adjustment and improvement in measurement system.

Chapter 11 (“The Uses and Abuses of Measurement Technology”) cautions on misuse of technology in measurement, and recommends the

appropriate use of technology to ensure optimal balance of technical and the social aspects of performance measurement. A major problem in organizations today is that rapid advances in information and communication technologies have resulted in organizations procuring and implementing “technology solutions” – including in measurement systems — that perform most of the “interpretation” – and sometimes even make decisions — for people. As a result, many organizations are focused on data and technology, instead of their most important asset – the people. The proper role of technology in the performance measurement cycle is to help people manage the flood of data for establishing and promoting dialogues of people, who are better at making decisions and taking action crucial to organizational success.

Chapter 12 (“Performance Measurement Maturity”) reaffirms that the path toward transformational performance measurement is a continuous improvement, developmental progression that takes time. As they “mature” toward full potentials, transformational organizations should continually assess their efforts at improving context, focus, integration and interactivity of measurement. The author presents several outputs — to be assessed for maturity — of efforts at improving these 4 keys of transformational performance measurement; including positive attitudes & experiences, reduced dysfunction, increased use of high-leverage measures, reduced routine measures, progress toward integrated measurement system, and increased speed and quality of conversion from data to insight to action. In conclusion, the Transformational Measurement Maturity Assessment is provided as a valuable for use to communicate concepts of, and to check progress toward performance measurement maturity.

Chapter 13 (“Transformational Measures”) recaps the necessity and benefits of transformational performance measurement, and deliberates on the challenge of transformational emergent measures; as well as on measures of intangibles – which represent competitive advantage in today’s market. Transformational measurement entails a change in “perspective,” i.e. looking at things from new angles. In fact, transformational measures measure many of the same things, only from a different perspective. Intangibles are the most important “value-drivers” in today’s organizations, and are of true ‘transformational’ potentials.

Chapter 14 (“Transformational Measurement Action Plans”) provides examples of some major transformational and emergent measures in all organizational functions and areas, discusses and offers action plans for each of these measures. Many popular, well-accepted measures (e.g. customer loyalty, customer lifetime value, productivity, service quality, brand equity, intellectual capital) are listed; however, some of these require organizations to view from new perspectives if they are to be transformational. Also included are innovative, untraditional emergent measures with high potentials to be transformational; e.g. customer delight, innovation climate, reputation, organizational agility, and emotional intelligence. Of note, “emotional intelligence” is considered by the author to be the most relevant transformational measure for this book: in that it is a crucial factor in “measurement socialization.”

In *Transforming Performance Measurement: Rethinking the way we measure and drive organizational success*, Spitzer unambiguously identifies “context of measurement” and “interactivity of measurement” as the two core dimensions of transformational performance measurement. While the other two keys – “Focus” and “Integration” – are essential to the organization’s performance measurement effectiveness, “Positive context” is requisite for making possible any progress toward transformational performance measurement. Likewise, “measurement socialization” is necessary to maintain momentum toward transformational performance measurement.

Dysfunctions of performance measurement related to Spitzer’s “focus” and “integration” keys of transformational measurement have for many years been discovered and investigated. These dysfunctions, for example, include: “many measures diluted overall impact,” “strategies not linked to departments, teams, and individual goals,” “difficulties in identifying drivers of Vision and strategy” (Bourn, Neely, Platts, & Mills, 2002) “measuring the wrong things well,” and “pre-established ‘one size fits all’ measures” (Tannenbaum, 2006). Similarly, there have been systematic attempts at establishing right performance measures that reflect organization’s vision and strategy, and are aligned with the overall strategy and integrated throughout all functional units (Burney & Widener, 2007; Chakravarthy, 1995; Eccles, 1991; Lebas, 1995; Tannenbaum, 2006).

Spitzer's approach to measurement as a social process is a breakthrough in performance measurement. The book emphasis is on social aspects of measurement, especially the "social" context of measurement. Previously, other academics give precedence to the context of measurement in term of situational resources:- computer, technology, leadership, financial support and so on, not including the social context. As Garengo et. al (2005) reviewed several PMS's (such as *Performance Measurement Matrix*, *Performance Pyramid System*, *Balanced Scorecard*, *Integrated Performance Measurement System*, *Performance Prism* etc.) in the context of SME's, and concluded that the approaches which are developed in the last 20 years are more horizontal, process-oriented and focus on stakeholder needs, but are not taking precedence over the social context of measurement. An interesting attempt to link the social context with the performance measurement in this book is far more valuable to an organization than a measurement practice that solely focuses on organizational context or on reporting changes in employees. Thus, by empowering and motivating individuals, transformational performance measures are embraced as a learning tool for improvement and pride in accomplishment.

The book is a "roadmap" of success for organizations to develop, improve, and restructure their performance measurement to achieve transformational results that truly and consistently differentiate themselves from competition well into the future. The book imparts key principles that will unlock the full potentials of people in the organization, optimize strategic initiatives, synergize all functional operations, and inspire an organization-wide dynamics of continuous improvement mentality that is the hallmark of a true "learning organization".

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