



Abandon ship?

In his second article on performance management, **David Parmenter** asks whether it's time to leave key performance indicators behind and adopt more radical measurements

Key Performance Indicators (KPIs) in many organisations are a broken tool. Measures are often a random collection prepared with little expertise, signifying nothing. KPIs should be measures that link daily activities to the organisation's critical success factors (CSFs), thus supporting an alignment of effort within the organisation, in the intended direction. I call this alignment the El Dorado of management.

However, poorly-defined KPIs cost the organisation dearly. Some examples are:

- measures gamed to the benefit of executive pay which leads to the detriment of the organisation;
- teams encouraged to perform tasks that are contrary to the organisation's strategic direction;
- costly "measurement and reporting" regimes that lock up valuable staff and management time; and
- a six-figure consultancy assignment resulting in a "door stop" report or balanced scorecard that doesn't function well.

In the July/August issue of *Finance & Management* I highlighted the myths that influence our thinking on KPIs. In this article I will talk about a radical treatment to fix KPIs that has a good chance of success.

A RADICAL TREATMENT FOR AN ACUTE PROBLEM

Why would an author who has made a living from preaching about implementing winning KPIs now have a change of heart? It is because I have witnessed the failure of too many performance measurement initiatives. I am now convinced that in many cases, a more radical approach is necessary.

For centuries the medical profession has realised that in acute cases radical action is required. Some treatments for critically ill patients involve the eradication of the immune system, and then, step-by-step, slowly reintroducing it. An abandonment of performance measures, albeit on a short-term basis, of all performance measures may well be the radical treatment required before we can cure the patient (the organisation).

Maybe we need to cut the rot out, otherwise it will eventually destroy all new performance measurement initiatives. Starting anew will, after abandoning all measures, enable organisations to rebuild the way performance measures are used from the ground up.

PERFORMANCE MEASUREMENT SYSTEMS ARE BROKEN

Performance measurement systems are broken and the reason for this is very simple. Organisations, in both the private and public sectors, are being run by management who have not yet received any formal education on performance measurement. Unlike accounting and information systems where rigorous

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processes have been formulated, discussed and taught, performance measurement has been left as an orphan of business theory and practice.

While writers such as Edwards Deming, Margaret J Wheatley and Myron Kellner-Rogers, Gary Hamel, Michael Hammer and Dean Spitzer have for sometime illustrated the dysfunctional nature of performance measurement, their valued arguments have not yet been reflected in business practice.

There is a long journey ahead in order to get performance measurement functioning properly. We will be well on our way to this goal when students are attending lectures on measurement and professionals are being examined on their understanding of performance measurement in order to obtain their desired professional qualifications.

YOU CAN OPERATE WITHOUT PERFORMANCE MEASURES

If one has recruited the right staff, there is a clear understanding of what the organisation's critical success factors are. If staff work in a supportive environment with great managers and leaders, the organisation will succeed. Performance measures will support and enforce the positive environment that already exists.

I am now convinced that an organisation with dysfunctional performance measures

would function much better without them, for the following reasons.

Staff management

Managers would spend time discussing goals with staff. Having one-to-one meetings on a regular basis would ensure progress against goals were monitored, feedback given and celebrations held.

Performance-related pay

Bonuses would no longer be based on very dubious formulae matrices. Performance would be rewarded based on a retrospective look at performance including a comparison against peers' performance and that achieved by third parties. It would dispel one of the greatest myths of performance measurement which is that by linking pay to performance measures, you will increase performance.

Balanced scorecard initiatives

All those balance scorecards that are not delivering would be frozen, giving the organisation a chance to evaluate how it is using this important methodology.

Measurement of team progress

Organisations would monitor progress against milestones achieved and output from the team. Comparisons could be drawn from prior periods of outstanding performance and agreements reached relatively painlessly between the manager and staff concerned.

Ascertaining the organisation's critical success factors

With no measures, the CEO could take a step sideways and realise that the organisation does not in fact know what its critical success factors (CSFs) are.

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This is a vital realisation. While most organisations know their success factors, few of them have:

- worded their success factors appropriately;
- segregated out success factors from their strategic objectives;
- sifted through the success factors to find their CSFs; and
- communicated these CSFs to staff.

Monitoring the organisation's performance

The CEO would be analysing actual performance and would be notified of exceptions which warranted their attention. There would be daily and weekly reporting as well as some instantaneous exception reports beamed on their smart phone where a phone call was needed to chase something up. CEOs would be encouraged to "go out and see" (a Toyota principle) rather than hide behind a bank of data.

The CEO would now need to promote leadership and innovation within the organisation and adopt more of the management practices preached by the great paradigm shifters Jim Collins, Gary Hamel, Jack Welch,

Peter Drucker and Tom Peters and Robert Waterman.

Consultancies rethinking their product range

The abandonment of performance measures would have a profound impact on the bottom line of consultancy firms. Large assignments performed on balanced scorecard implementations would cease for the time being, and clients' staff would no doubt breathe a sigh of relief.

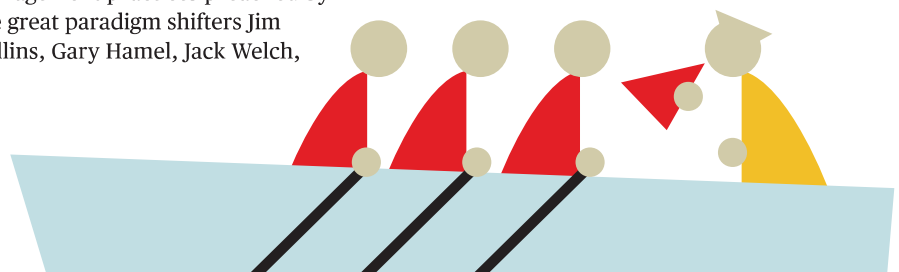
Gaming of the performance management system

The manipulation of performance reporting for the sole benefit of one's pay packet would no longer be a worthwhile activity. Senior management would now spend more time improving the bottom line. The annual target-setting travesty would be replaced by the setting of big, hairy audacious goals that motivate and energise staff.

ACTION POINTS

Based on the issues discussed above, some proposed action steps are:

- Do some background reading on the topic - the references in this article would be a good place to start. Everybody, no matter how busy they might be, could find the time to read a chapter or two, three times a week.



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■ If you are working with dysfunctional measures, negotiate a three-month moratorium on using performance measures within your organisation. In this window of opportunity, perform the tasks set out below.

■ Complete a thorough exercise to ascertain your organisations' CSFs and then ensure that all measures used by the organisation relate back to the CSFs. It is the CSFs, and the performance measures within them, that link daily activities to the organisation's strategies. This, I believe, is the El Dorado of management.

■ Commence the grooming of an in-house expert in performance measurement. Dean Spitzer suggests using the title "Chief Measurement Officer" (CMO). I have outlined some pointers for this below.

A three-month moratorium on using performance measures

With a period of, say, three months with no performance measures being monitored or reported, management would have a good idea of the measures that they have missed and the ones that should be permanently abandoned. The CEO would be invigorated from the closer contact with the operation and be in a better position to lead an initiative to revitalise performance, to link staff better to the critical success factors of the enterprise. As part of the gradual reintroduction of measures I would recommend:

■ Establishing a measurement project team with four to five representatives from the finance, human resources, IT and operations teams. Their role would be to explore more about how to embed winning KPIs in their organisation, approve all measures and start a process

of education among staff. This project team would be disbanded once the organisation established the CMO position and appointed someone to fill it.

■ Consult staff so that you have some idea of the possible unintended consequences of a measure: "If we measure [something], what action will you take?"; and

■ Pilot each performance measure you intend to use. This simple step will enhance its chance of success. Implementing measures without this testing is at best naïve and, at worst, incompetent.

APPOINTMENT OF A CHIEF MEASUREMENT OFFICER

Performance measurement is worthy of more intellectual rigour in every organisation on the journey from

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average to good, and finally to great. The chief measurement officer would be a part-psychologist, part-teacher, part-salesperson and part-project manager.

They would be responsible for:

- testing of measures to ensure the dark side is minimal;
- vetting and approval of all measures in the organisation;
- leading of all balanced scorecard initiatives;
- promoting the abandonment of measures that do not work;

- developing and improving the use of performance measures in the organisation;
- learning about the latest thinking in performance measurement;
- being the resident expert on the behavioural implications of performance measures; and
- replacing annual planning by introducing quarterly rolling planning.

I envisage this position having a status equivalent of the senior IT, accounting and HR official. The position would report directly to the CEO, befitting the knowledge and diverse blend of skills required for this position. Only when we have this level of expertise within the organisation, can we hope to move away from measurement confusion to measurement clarity.

IN CONCLUSION

I hope this article will have triggered some actions in your organisation. Possibly some abandonment of broken measures, a look at the way measures are introduced, a commencement of a KPI project to put some intellectual rigor into the process and lastly, a commitment to ensure that performance measures exist, are the ways to better align staff to the organisation's critical success factors. ■



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