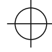


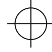
Overview

Since humans first walked the plains in search of food, myths have been central to their beliefs. These myths having no scientific basis just hearsay. Many management practices, still used in the 21st century, are corrupted by ill-informed beliefs. In this chapter, I explore the myths surrounding performance measurement that have given rise to this dysfunctional situation.

This chapter will ensure that there is a better understanding about how currently held beliefs can limit the usefulness of performance measures and in particular, the KPIs.

Key learning points from the chapter include:

1. The myths surrounding performance measures
2. Tying remuneration to KPIs will encourage manipulation of these measures
3. The damaging nature of year-end targets
4. Delegating a KPI project to a consulting firm will lead to failure
5. The myths surrounding The Balanced Scorecard (BSC) Methodology that limit the scorecard's effectiveness
6. The dangers of the BSC strategy mapping
7. Cascading measures down an organization is a damaging process
8. The primary use of performance measures is to support the organization's critical success factors rather than help implement strategies



CHAPTER 2

The Myths of Performance Measurement

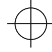
I have become increasingly aware that key performance indicators (KPIs) in many organizations are a broken tool. Measures are often a random collection prepared with little expertise, signifying nothing. KPIs should be measures that link daily activities to the organization's critical success factors (CSFs), thus supporting an alignment of effort within the organization in the intended direction. I call this alignment the El Dorado of management.

The Myths Surrounding Performance Measures

Poorly defined KPIs cost the organization dearly. Some examples are measures gamed by the senior executive's to increase their bonuses to the detriment of the organization; teams encouraged to perform tasks that are contrary to the organization'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 a poorly functioning balanced scorecard.

Myth #1: Most Measures Lead to Better Performance

Every performance measure can have a negative consequence or an unintended action that leads to inferior performance. Over half the measures



in an organization may well be encouraging unintended negative behavior. In order to make measures work, one needs to anticipate the likely human behavior that will result from its adoption, and endeavor to minimize the potential negative impact.

This myth has been covered in the unintended behavior—the dark side of performance measures section of the introduction.

Myth #2: All Measures Can Work Successfully in Any Organization, at Any Time

Contrary to common belief, it is a myth to think that all measures can work successfully in any organization, at any time. The reality is that there needs to be, as Spitzer has so clearly argued, a positive "context of measurement" for measures to deliver their potential. To this end, I have established seven foundation stones that need to be in place in order to have an environment where measurement will thrive. These seven foundation stones are explained at length in Chapter 3. They are:

1. Partnership with the staff, unions, and third parties
2. Transfer of power to the front line
3. Measure and report only what matters
4. Source all KPIs from the organization's critical success factors
5. Abandon processes that do not deliver
6. Appointment of a home-grown KPI team leader
7. Organization-wide understanding of the winning KPIs definition

Myth #3: All Performance Measures Are KPIs

Throughout the world, from Iran to the United States and back to Asia, organizations have been using the term *KPI* for all performance measures. No one seemed to worry that the term KPIs had not been defined by anyone. Thus, measures that were truly key to the enterprise were being mixed with measures that were completely flawed. Let's break the term down. *Key* means key to the organization, and *performance* means that the measure will assist in improving performance. There are in fact four types of performance measure. These are explained in Chapter 1.

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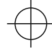


Myth #4: By Tying KPIs to Remuneration You Will Increase Performance

> When KPIs are linked to pay, they create key political indicators (not key performance indicators).

It is a myth that the primary driver for staff is money and that an organization must design financial incentives in order to achieve great performance. Recognition, respect, and self-actualization are more important drivers. In all types of organizations, there is a tendency to believe that the way to make KPIs work is to tie KPIs to an individual's pay. But when KPIs are linked to pay, they create key political indicators (not key performance indicators), which will be manipulated to enhance the probability of a larger bonus.

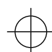
KPIs should be used to align staff to the organization's critical success factors and to show 24/7, daily, or weekly how teams are performing. They are too important to be manipulated by individuals and teams to maximize bonuses. KPIs are so important to an organization that performance in this area is a given or, as Jack Welch says, "a ticket to the game."[1]

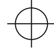
Performance bonus schemes are often flawed on a number of counts. This is addressed in a working guide that can be accessed from www.davidparmenter.com.

Myth #5: We Can Set Relevant Year-End Targets

It is a myth that we know what good performance will look like before the year starts, and thus it is a myth that we can set relevant annual targets. In reality, as former CEO of General Electric Jack Welch says, "it leads to constraining initiative, stifling creative thought processes and promotes mediocrity rather than giant leaps in performance."[2] All forms of annual targets are doomed to failure. Far too often management spends months arguing about what is a realistic target, when the only sure thing is that it will be wrong. It will be either too soft or too hard.

I am a follower of Jeremy Hope's work. He and his co-author Robin Fraser were the first writers to clearly articulate that a fixed annual performance contract was doomed to fail. Far too frequently organizations end up paying incentives to management when in fact they have lost market





share. In other words, rising sales did not keep up with the growth rate in the marketplace. As Hope and Fraser point out, not setting an annual target beforehand is not a problem as long as staff members are given regular updates about how they are progressing against their peers and the rest of the market. Hope argues that if you do not know how hard you have to work to get a maximum bonus, you will work as hard as you can.

Myth #6: Measuring Performance Is Relatively Simple, and the Appropriate Measures Are Obvious

There will not be a reader of this book who has not, at some time in the past, been asked to come up with some measures with little or no guidance. Organizations, in both the private and public sectors, are being run by management who have not yet received any formal education on performance measurement. Many managers have been trained in the basics of finance, human resources, and information systems. They also have been ably supported by qualified professionals in these three disciplines. The "lost soul" is performance measurement, which has only scant mention in the curriculum of business degrees and in professional qualifications obtained by finance, human resources, and information systems professionals.

Performance measurement has been an orphan of business theory and practice. While writers such as Deming, Whetley and Kellner-Rogers, Hamel, Hope, and Spitzer have for some time been pointing out the dysfunctional nature of performance measurement, it has not yet permutated into business practice. Performance measurement is worthy of more intellectual rigor in every organization on the journey from average to good and then to great performance.

The appointment of a chief measurement officer was first mentioned by Dean Spitzer,[3] who is an expert on performance measurement. The person appointed to the role as chief measurement officer would be part psychologist, part trainer, part salesperson, and part KPI project manager. They would be responsible for running the two-day workshop to ascertain the critical success factors, the designing and refining of the performance measures, the designing of the reporting systems, and the ongoing support. This person would report directly to the CEO and have a status befitting the diverse blend of skills required for this position.

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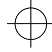
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Myth #7: KPIs Are Financial and Nonfinancial Indicators

I firmly believe that all KPIs in countries as diverse as Canada, the United States, the United Kingdom, and Romania are nonfinancial. In fact, I believe that there is not a financial KPI on this planet.

Financial measures are a quantification of an activity that has taken place; we have simply placed a value on the activity. Thus, behind every financial measure is an activity. Many financial measures will be result indicators, a summary measure. It is the activity that you will want more or less of. It is the activity that drives the dollars, pounds, or yen. Thus, financial measures cannot possibly be KPIs.

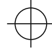
When you put a pound or dollar sign to a measure, you have not dug deep enough. Sales made yesterday will be a result of sales calls made previously to existing and prospective customers, advertising, product reliability, amount of contact with the key customers, and so on. I group all sales indicators expressed in monetary terms as result indicators.

Myth #8: You Can Delegate a KPI Project to a Consulting Firm

For the past 15 years or so, many organizations have commenced performance measure initiatives, and these have frequently been led by consultants. Commonly, a balanced scorecard approach has been adopted based on the work of Kaplan and Norton. The approach, as I will argue, is too complex and leads to a consultant-focused approach full of very clever consultants undertaking this exercise with inadequate involvement of the client's staff. Although this approach has worked well in some cases, there have been many failures.

> KPI projects are in-house projects that need to be run by skilled individuals who know the organization and its success factors.

All projects that impact many of the organization's staff must be led by a skilled in-house team who are trusted, well networked, have IOUs they can call on and know how the the organization works. Thus, having an in-house KPI project team is one of the seven, non negotiable, foundation stones explained in Chapter 3. They have been unburdened from the daily grind to concentrate on this important project. In other words, these staff members have moved their family photographs, the picture of the 17-hand stallion, or their beloved dog and have put them on their desks in the project office,



leaving the daily chore of firefighting in their sphere of operations to their second-in-charge, who has now moved into the boss's office, on a temporary basis of course!

The Myths around the Balanced Scorecard

The groundbreaking work of Kaplan and Norton[4] brought to management's attention the fact that an organization should have a balanced strategy, and its performance needs to be measured in a more holistic way, in a balanced scorecard (BSC). Kaplan and Norton suggested four perspectives from which to review performance: financial, customer, internal process, and learning and growth. There was an immediate acceptance that reporting performance in a balanced way made sense and a whole new consultancy service was born. Unfortunately, many of these balanced scorecard initiatives have failed for reasons set out below.

BSC Myth #1: The Balanced Scorecard Was First Off the Blocks

Hoshin Kanri business methodology, a balanced approach to performance management and measurement, was around well before the balanced scorecard. It has been argued that the BSC originated from a westernized adaptation of the Hoshin Kanri model.

As I understand it, translated, Hoshin Kanri means a business methodology for direction and alignment. This approach was developed in a complex Japanese multinational, where it is necessary to achieve an organization-wide collaborative effort in key areas.

One tenet behind Hoshin Kanri is that all employees should incorporate into their daily routines a contribution to the key corporate objectives. In other words, staff members need to be made aware of the critical success factors and then prioritize their daily activities to maximize their positive contribution in these areas.

In the traditional form of Hoshin Kanri, there is a grouping of four perspectives. It is no surprise that the balanced scorecard perspectives are mirror images, as shown in Exhibit 2.1. An informative paper on the comparison between Hoshin Kanri and the balanced scorecard has been written by Witcher and Chau,[5] and it is well worth reading.

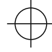


Exhibit 2.1 Similarities between Hoshin Kanri and Balanced Scorecard Perspectives

Hoshin Kanri	Balanced Scorecard
Quality objectives and measures	Customer focus
Cost objectives and measures	Financial
Delivery objectives and measures	Internal process
Education objectives and measures	Learning and growth

BSC Myth #2: There Are Only Four Balanced Scorecard Perspectives

For almost 20 years the four perspectives listed in Kaplan and Norton's original work (Financial, Customer, Internal Process, and Learning and Growth) have been consistently reiterated by Kaplan and Norton and others through to present time. I recommend that these four perspectives be increased by the inclusion of two more perspectives (Staff Satisfaction, and Environment and Community) and that the Learning and Growth perspective be reverted back to its original name, Innovation and Learning, as presented in Exhibit 2.2.

Exhibit 2.2 The Suggested Six Perspectives of a Balanced Scorecard

FINANCIAL Asset utilization, sales growth, risk management, optimization of working capital, cost reduction	**CUSTOMER FOCUS** Increasing customer satisfaction, targeting customers who generate the most profit, getting close to noncustomers	**ENVIRONMENT AND COMMUNITY** Employer of first choice, linking with future employees, community leadership, collaboration
INTERNAL PROCESS Delivery in full on time, optimizing technology, effective relationships with key stakeholders	**STAFF SATISFACTION** Right people on the bus, empowerment, retention of key staff, candor, leadership, recognition	**INNOVATION AND LEARNING** Innovation, abandonment, increasing expertise and adaptability, learning environment

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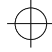
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BSC Myth #3: The Balanced Scorecard Can Report Progress to Both Management and the Board

One certainly needs to show the minister or board the state of progress. However, it is important that governance information be shown rather than management information. The measures that should be reported to the board are key result indicators.

We need to ensure the "management-focused" performance measures (KPIs, result indicators, and performance indicators) are only reported to management and staff.

BSC Myth #4: Measures Fit Neatly into One Balanced Scorecard Perspective

When an organization adopts the balanced scorecard, which is certainly a step in the right direction, staff members are frequently in a dilemma over measures that seem to influence more than one balanced scorecard perspective. Where do I put this measure? Debates go on, and often resolution is unclear.

Measures do not fit neatly into one or another perspective. In fact, when you get a measure that transcends a few perspectives, you should get excited as you are zeroing in on a possible KPI. To illustrate this point, let's look at where late planes in the sky should be reported. Should it be in the customer, financial, or internal process perspective? In fact, this measure affects all six perspectives as shown in Exhibit 2.3.

BSC Myth #5: Indicators Are Either Lead (Performance Driver) or Lag (Outcome) Indicators

I am not sure where the lead/lag labels came from, but I do know that they have caused a lot of problems and are fundamentally flawed. These labels assume that a measure is either about the past or about the future. It ignores the fact that some measures, in particularly KPIs, are both about the past and the future.

I have lost count of the number of times I read Kaplan and Norton's[6] original masterpiece to try and understand the lead/lag indicators argument until I realized my difficulty in understanding lead/lag indicators was a result of flawed logic.

Exhibit 2.3 How Late Planes Impact Most If Not All Six Perspectives

	Perspectives					
Measure	**Financial**	**Customer satisfaction**	**Staff satisfaction**	**Innovation and learning**	**Internal process**	**Environment and community**
Late planes in the sky over two hours late	✓	✓	✓	✓	✓	**Possible**

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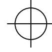

> Strategy mapping, in the wrong hands, can give birth to a monster.

I have presented to thousands of people on KPIs and I always ask, "Is the late-planes-in-the-air KPI a lead or a lag indicator?" The vote count is always evenly split. It has clearly arisen out of past events and will have a major impact on future events—the late arrival will make the plane leave late. I recommend that we dispense with the terms "lag" (outcome) and "lead" (performance driver) indicators. We should see measures as either a *past*, *current* (yesterday's or today's activities—the here and now), or *future* measure (monitoring now the planning and preparation for events/actions that should occur in the future), as discussed in Chapter 1.

BSC Myth #6: "Cause and Effect" Strategy Mapping Is a Valid Process

If strategy maps help management make some sense out of their strategy, then as a working document, they must be useful. However, I am concerned with the "simplified" use of cause-and-effect relationships, a major component of strategy mapping, as illustrated in Exhibit 2.4. I believe it has led to the demise of many performance measurement initiatives. From these oversimplified relationships come the strategic initiatives and the cascading performance measures. Strategy mapping, in the wrong hands, can give birth to a monster.

The "cause-and-effect" diagrams of strategic mapping, where initiatives/success factors neatly fit into a balanced scorecard perspective and create one or possibly two cause-and-effect relationships, is full of intellectual thought signifying nothing in many cases. It seems to argue that every action or decision has an effect elsewhere in the organization, that you can boil down "cause-and-effect" relationships to one or two relationships. Jeremy Hope believed that strategy maps are seductive models of how we like to think organizations work and are dangerous weapons in the wrong hands. He summed it up beautifully in his whitepaper "Hidden Costs":

> *If you think an organization is a machine with levers that you can pull and buttons that you can press to cause a predictable action and counter-action elsewhere (as in a car engine), then cause-and-effect is an idea that works.*
>
> ***Jeremy Hope, "Hidden Costs" whitepaper, 2004***

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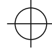

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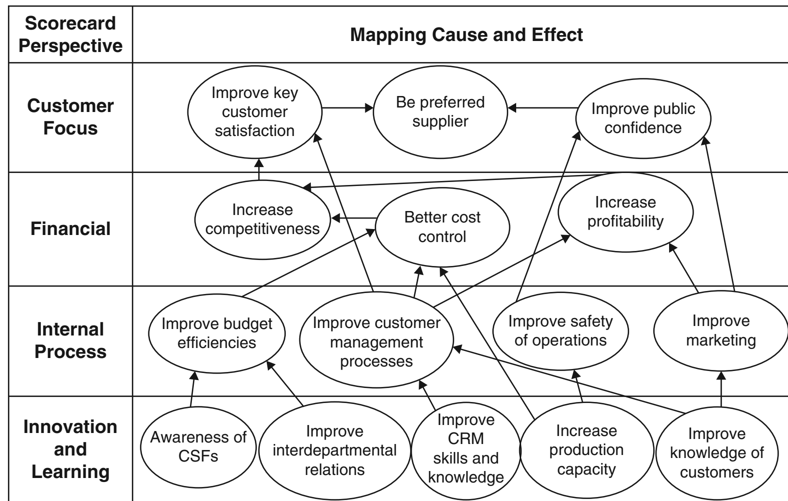

Exhibit 2.4 Strategy Mapping of the Balanced Scorecard

These strategy map diagrams are flawed on a number of accounts:

- Success factors do not fit neatly within a perspective; the more important they are the more perspectives they impact, and hence some success factors would need to be drawn across the whole page of a strategy map. This is clearly too untidy for the "strategy map" designers.
- If you are bright enough, you can argue a totally different causal route for your arrows in your strategic mapping. Every action a company takes has myriad impacts. To restrict oneself to one or two relationships in strategy mapping is at best too simplistic, at worst totally naive.
- When I ask attendees to map the impact of late planes on the success factors of an airline, they come up with at least twenty impacts. Strategy mapping cannot cope with multiple relationships and thus cannot cope with the reality of day-to-day business.

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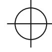

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Cascading measures down an organization was probably the most damaging process used in the balanced scorecard approach.

- Actions that employees take, on a daily basis, are influenced by many factors; they cannot be simplified into one or two causal impacts. The secret is to understand those employee actions. These actions can be noted from observation or from interviews. "If we measure __________ what will it promote you to do." These actions will never be correctly identified by BSC consultants.

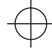
BSC Myth #7: Measures Are Cascaded Down the Organization

Cascading measures down an organization was probably the most damaging process used in the balanced scorecard approach. The approach assumes that by analyzing a measure such as "return on capital employed" you could break it down in myriad measures relevant to each team or division.

It also assumes that each and every team leader with minimal thought processes would arrive at relevant performance measures. Kaplan and Norton ignored the crucial facts that the team leaders and the senior management team need to know about the organization's critical success factors and the potential for the performance measure to have a "dark side," an unintended consequence.

Having first ascertained the organization's CSFs it is thus best to start the balanced scorecard *from the ground up* at the team level within the operations, level 4 in Exhibit 2.5. It is at the operational team level that KPIs will be found. Find me an accounting team with a winning KPI! Like many support functions, their team will work with PIs and RIs. This sends a clear message: finish the monthly and annual accounts quickly and spend more time helping the teams who are working directly on the organization's KPIs.

By cascading up, not down, CEOs are saying that finding the right measures that link to the CSFs is important. It is the El Dorado of management when you have every employee, every day, aligning themselves with the organization's CSFs. Very few organizations have achieved this alignment, this magical alignment between effort and effectiveness, Toyota being a shining light.



BSC Myth #8: Performance Measures Are Mainly Used to Help Manage Implementation of Strategic Initiatives

The balanced scorecard approach sees the purpose of performance measures as helping implement the strategic initiatives. It is argued that in order to implement the strategies you report and manage the performance measures that best reflect progress, or lack of it, within the strategic initiatives.

I do not believe performance measures are on this planet to implement strategies. Performance measures are here to ensure that staff members spend their working hours focused primarily on the organization's critical success factors.

I do not believe performance measures are on this planet to implement strategies. Performance measures are here to ensure that staff members spend their working hours focused primarily on the organization's critical success factors.

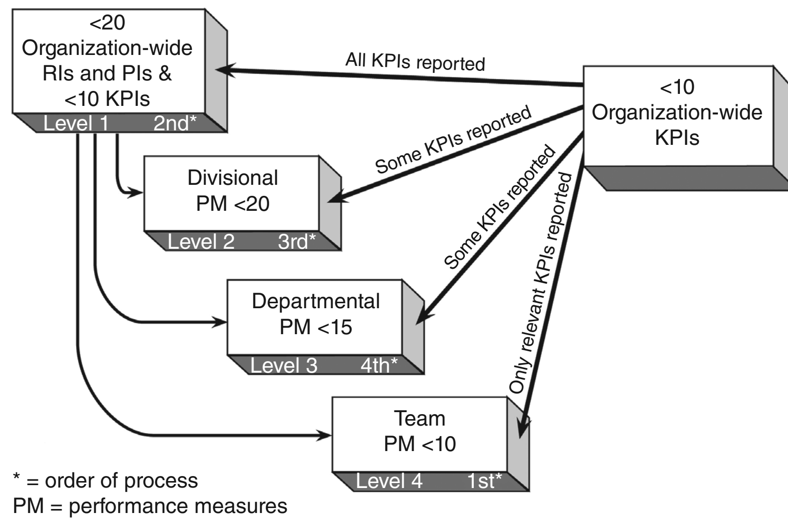
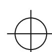
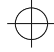


Exhibit 2.5 Interrelated Levels of Performance Measures in an Organization





Notes

1. Jack Welch and Suzy Welch, *Winning* (New York: Harper Business, 2005).
2. Ibid.
3. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
4. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge: Harvard Business Press, 1996).
5. Barry J. Witcher and Vinh Sum Chau, "Balanced Scorecard and Hoshin Kanri: Dynamic Capabilities for Managing Strategic Fit," *Management Decision* 45, no. 3 (2007): 518–538.
6. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge: Harvard Business Press, 1996).