

# The myths around KPIs

In this first article in a series on key performance indicators, David Parmenter looks at the fictions that have grown up around them and why they present an inaccurate picture

**I** have been writing about performance measures for more than 20 years. In all that time, I have only witnessed minimal advances in the way companies go about using them. All too often, the assessment of measures is treated as an afterthought. They are regarded as a box-filling exercise to demonstrate that we have achieved a goal. But I believe they exist for a higher purpose – to help align the staff's daily actions with the organisation's critical success factors.

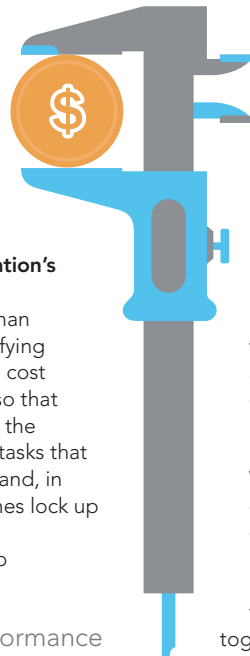
Yet the measures frequently amount to no more than a random collection of metrics, ill prepared and signifying nothing. To make matters worse, these measures can cost the organisation dearly: they are sometimes geared so that executives can increase their pay, to the detriment of the organisation; they may encourage teams to perform tasks that are contrary to the organisation's strategic direction; and, in themselves, costly measurement and reporting regimes lock up valuable staff and management time.

To get performance measures to work, we need to challenge the myths they have been built on.

**Myth 1: Most measures lead to better performance**  
Any performance measure can have a dark side – a negative consequence that leads to inferior performance. Well over half of measures may be encouraging unintended negative behaviour.

**Myth 2: All performance measures are KPIs**  
Organisations across the world use the term key performance indicator (KPI) to refer to all performance measures. There is no common definition of what a KPI actually is. So measures key to the enterprise have been mixed with measures that are badly flawed. In my book, *Key Performance Indicators: Developing, Implementing and Using Winning KPIs*, I identify four types of performance measure, which I will examine next month.

**Myth 3: Tying KPIs to pay improves performance**  
It is a myth that the primary driver for staff is money and that an organisation must provide financial incentives to achieve great performance. Recognition, respect and self-actualisation are more important drivers. In all types of organisation, there is a tendency to believe that the way to make KPIs work is to tie them to an individual's pay. But when KPIs are linked to pay, they can create key political indicators (not key performance indicators), which often leads to a manipulation of the measures



to enhance the probability of a larger bonus. Operational measures that are key to success are too important to be 'gamed'.

**Myth 4: Measuring performance is relatively simple and the appropriate measures are obvious**

Every reader of this article will at some time have been asked to come up with some measures, with little or no guidance. Performance measurement has been an orphan of business theory and practice. But, in every organisation on the journey to great performance, it is worthy of more intellectual rigour. The process needs a specialist – what management theorist Dean Spitzer calls a 'chief measurement officer'.

**Myth 5: KPIs can be financial indicators**

When you put a dollar, yen, pound or euro in front of a measure, you have placed a value on an action or event. It is the action or event that is the driver. I believe there are no financial KPIs on this planet. Financial metrics will always be used to measure the performance of a group of teams working together. However, they will never pinpoint the problem, or what went well, as they are a result indicator. ■

David Parmenter is a writer and presenter on measuring, monitoring and managing performance

## Next steps

- \* Ascertain how many of these fallacies are operating in your organisation.
- \* Gather the war stories about dysfunctional measures.
- \* Look at your current measures and discuss them with the relevant staff: 'If we measure this, what does it encourage you to do?' Abandon measures that create too much adverse performance.
- \* Email me ([parmenter@waymark.co.nz](mailto:parmenter@waymark.co.nz)) and I will send you a full write-up on all the myths surrounding KPIs.

For more information:

[www.davidparmenter.com](http://www.davidparmenter.com)

