THE SEVEN MYTHS OF PERFORMANCE MANAGEMENT

It takes more than a good measurement system to get the best out of the people in your organisation, says Pietro Micheli

Investment in performance measurement and management systems has steadily increased over the past two decades and this trend is unlikely to change in the future. Leaders and managers in both private and public-sector organisations see these systems as crucial to implementing and communicating strategy, supporting decision making, aligning behaviours and, ultimately, improving staff performance.

While measurement and management systems can indeed help organisations to achieve their aims, managers consistently make mistakes that prevent them from reaping the benefits of their investment. While their intentions are usually positive, our research shows that, in fact, they often encourage exactly the kind of behaviours that their organisations neither need nor want.

These flawed assumptions are what I call the seven myths of performance management.

Myth 1: Numbers are objective

A performance measurement system enables organisations to gather, analyse and communicate data on both organisational and individual performance. And we want such data to be objective, right? Not necessarily. The quest for perfect, objective data is likely to leave us frustrated and disappointed. My research shows that performance data is, in fact, ambiguous and open to interpretation, and that its use and impact on performance depends on commonality of interpretation. Therefore, while it is important to have data that is robust and relevant, managers' efforts should be devoted to fostering similar interpretations through leadership and communication, rather than trying to remove individual views (or worse, assuming that numbers are 'objective' and therefore speak for themselves).

Myth 2: Accuracy and precision

Once a performance measurement system is introduced, we want information to be as accurate and precise as possible. Or not. Research conducted in both private and public sectors shows that organisations invest billions in measuring and managing their performance. Therefore they should treat this as an investment in which benefits outweigh costs, rather than something that should be of the best possible quality. To get this balance, measures need to be connected to objectives. So the question is not: is our data as accurate and precise as possible? But rather: are we getting data that is good enough for our purposes?

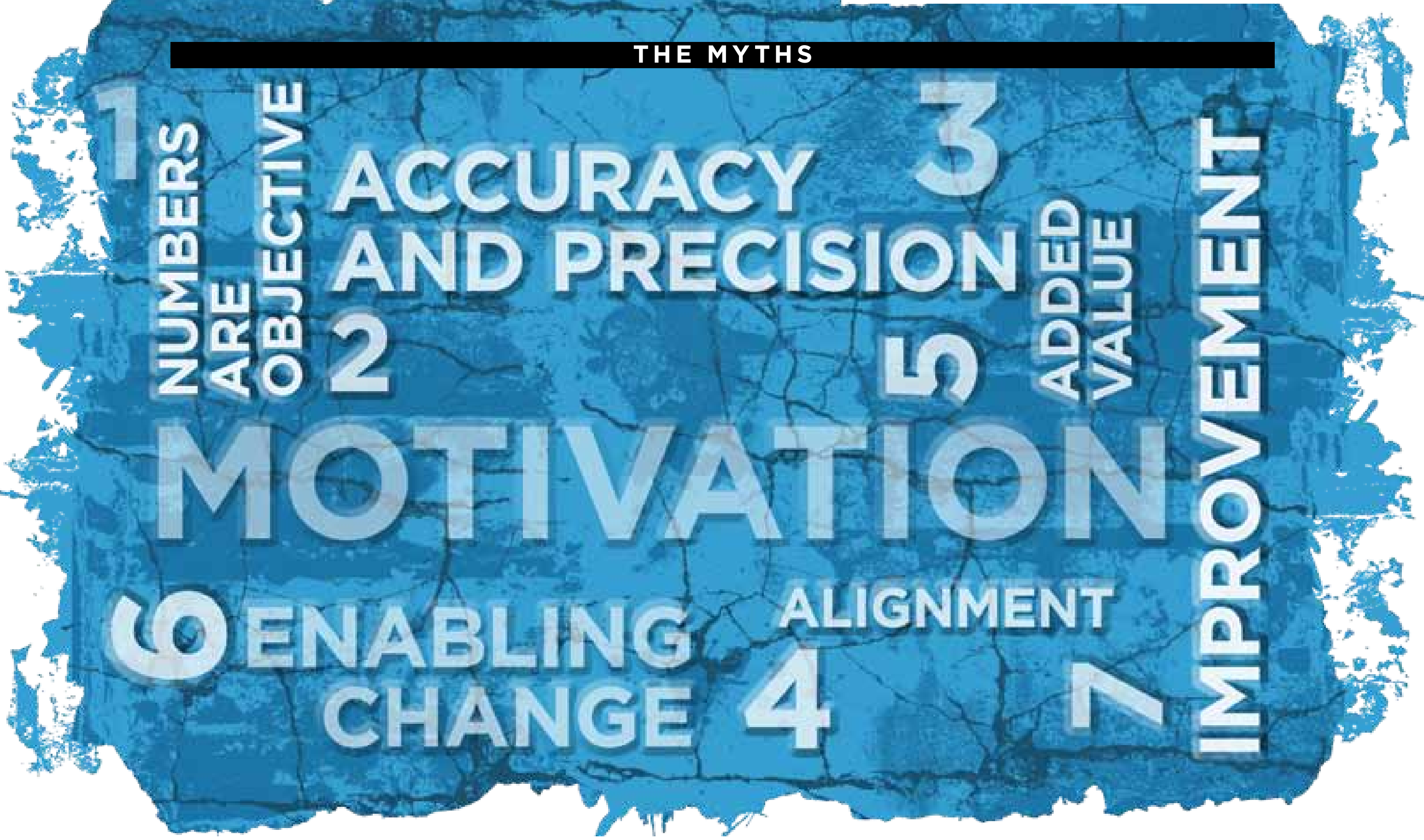
Myth 3: Added value

Few would challenge the assumption that gathering and analysing data is a value-added activity. But actually those few would be right. Value is generated when data is used, but unfortunately we know that performance data is very rarely used within organisations. In US federal departments, for example, while managers recently reported having more performance indicators than they did 10 years ago, their use of performance information to make decisions has stayed virtually the same. Results in the private sector are no different. Too many indicators and reports, and loose connections between strategy and measures, often make measurement systems very expensive pieces of furniture.

The ultimate goal of introducing a performance measurement system is to improve organisational performance. But does this happen?

Myth 4: Alignment

Managers and employees should be aligned to achieve the organisation's main goals. Sure. But the typical way in which managers try to create alignment ends up generating bureaucracy and negatively impacting on staff morale. Recent studies show that while organisations are making considerable efforts to align behaviours and actions, their results are often dismal. Cascading measurement systems in a top-down fashion, and rigidly connecting objectives, targets and indicators end up generating an infinite sequence of unintended consequences. Instead, when designing and implementing performance measurement systems, sufficient discretion should be left at every level to make decisions over which indicators to use and which targets to aim for.



Myth 5:
Motivation

Performance targets, indicators and rewards are often used to engage and motivate staff. On paper. In practice, levels of engagement in many organisations are falling – because performance management systems are used incorrectly. The starting point is usually a difficult situation in which performance is deemed unsatisfactory. The usual reaction is to quickly gather 'objective' data, and to attach rewards to specific targets. As a result, people get 'measure-fixated' – they miss the point and forget about the underlying objective. Over time, a culture of performance measurement starts to emerge – employees blindly follow what they are measured and rewarded on, often at the expense of their organisation's success. To avoid this cycle, organisations should involve their people while introducing a new system, carefully monitor its use, and introduce rewards only once the system has been tested.

Myth 6:
Enabling change

The introduction of new performance targets and indicators can kick-start new strategic objectives and promote different ways of working. But when it comes to organisational change, measurement systems can act as obstacles rather than enablers. Particularly when a system is pervasive and consists of a large number of indicators, organisational inertia may arise. This may not be a major problem for organisations operating in relatively stable markets, but it could become serious for firms competing in very dynamic environments. These organisations should adopt an empowering and flexible approach to the design and use of measurement systems. While alignment processes are necessary to ensure that performance indicators and behaviours are in line with an organisation's strategic priorities, individual managers must be empowered to build sufficient dynamism into the system.

Myth 7:
Improvement

The ultimate goal of introducing a performance measurement system is to improve organisational performance. But does this happen? Our research demonstrates that this depends on the roles measurement systems play within organisations. The systems' main role is usually to monitor and report to satisfy requirements, whether those are internal or external. Often they have little effect on performance. Take the case of sustainability measures introduced by an ever-increasing number of companies. While measuring social and environmental impact is certainly important, most companies are simply reporting information externally – it makes no difference either to how the organisation operates or to its results. Performance measurement systems make a difference when they are used to promote learning, for example, by establishing a dialogue between different functions within an organisation.

The final word

Organisations spend vast amounts of time and money developing and using performance measurement and management systems. They do so to gather good-quality data to make better decisions, provide alignment, foster change and improve performance. While these aims are all laudable, in practice most efforts fall short of expectations, because they rely on a set of flawed assumptions.

Rather than spending months designing the perfect system that can produce objective, accurate and precise data, efforts should be put into communicating to all employees the reasons and benefits of these systems, and connecting strategy, measurement and decision making. Managers should empower people at different hierarchical levels, build flexibility into the systems and use them for learning, rather than control purposes.

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