measurement madness

recognizing and avoiding the pitfalls of performance measurement

Dina Gray
Pietro Micheli
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This edition first published 2015
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Registered office
John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

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Library of Congress Cataloging-in-Publication Data
Measurement madness : recognizing and avoiding the pitfalls of performance measurement / Dina Gray, Pietro Micheli, Andrey Pavlov
pages cm
Includes bibliographical references and index.
ISBN 978-1-119-97070-5 (hardback) — ISBN 978-1-118-46451-9 (ebk) —
ISBN 978-1-119-96051-5 (ebk) 1. Performance—Management. 2. Performance—Measurement. I. Gray, Dina. II. Micheli, Pietro. III. Pavlov, Andrey.
HF5549.5.P35M427 2014
658.4'013—dc23 2014020919

A catalogue record for this book is available from the British Library.

ISBN 978–1–119–97070–5 (hardback) ISBN 978–1–118–46451–9 (ebk)
ISBN 978–1–119–96051–5 (ebk)

Cover design: Wiley

Set in 11/13pt Times by Laserwords Private Ltd, Chennai, India
Printed in Great Britain by TJ International Ltd, Padstow, Cornwall, UK

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From the Authors

Over the past 20 years, the world has witnessed a booming interest in performance measurement across all walks of life. Today, the vast majority of organizations employ at least some aspects of a performance measurement system, be it the use of key performance indicators to track progress, the setting of targets to motivate and direct attention, or the use of measurable objectives for appraising and rewarding individual behaviour. In short, performance measurement has profoundly changed societies, organizations and the way we live and work. We can now access incredible quantities of data, display, review and report complex information in real time, and monitor employees and processes in detail. But have all these investments in collecting, analyzing and reporting data helped governments, organizations and people perform better?

Measurement is often associated with the objectivity and neatness of numbers, and performance measurement efforts are typically accompanied by hope, great expectations and promises of change; however, these are then often followed by disbelief, frustration and what appears to be sheer madness. Between the three of us, we have spent over four decades working, consulting, researching and teaching across the wide variety of topics associated with measuring and managing performance, and we are of the belief that performance measurement is first and foremost about behaviours. Our involvement with a large variety of organizations has taught us that performance measurement can be rewarding and frustrating, powerful and amusing, simple at times, but usually extremely difficult.

This book is not another manual on how to design a performance measurement system, or a set of steps on how to introduce the "right"

set of performance indicators and the "clearest" dashboard for your organization; the business section of any bookshop is full of such manuals. Instead, this book looks at the consequences and behaviours that plague organizations after they introduce a performance measurement system, and we investigate the reasons why such madness occurs and how these pitfalls could be avoided.

Although performance measurement seemed to promise rational and positive actions, we are today surrounded by dysfunctional and perverse behaviours. Whilst the use of measures seemed to imply that the truth might be found by letting the numbers "speak for themselves", we are now all drowning in a sea of subjective interpretations. Although the introduction of structured reporting systems hoped to encourage openness and transparency in the attainment of social and environmental outcomes, we are currently snowed under by reports compiled mainly for political purposes. And, even though many performance measurement initiatives promised to help managers engage and motivate their people through the use of targets and incentives, our organizations are now rife with cynicism and a lack of commitment.

Of course, the consequences of performance measurement are not all negative, and many organizations have reaped the benefits of introducing and using well-conceived and well-implemented performance measurement systems. However, performance measurement is one of those topics in which the devil is in the detail. It is one thing to design a logical and well-structured system; it is yet another to make it a part of people's everyday lives and ensure that it has a positive impact on performance.

Throughout the chapters of this book we will share with you the various stories and anecdotes that we have accumulated over the years to illustrate the madness that can ensue through the supposedly simple task of measuring performance. Our work and our teaching have taken us across many cultures on all five continents, and we hope that our stories and anecdotes will resonate with you wherever you may be reading this text. In reviewing these stories, what is startling is not just the variety of dysfunctional consequences that performance measurement can generate, but also the scale of the madness – something many of us could never have imagined. However, we do not just describe measurement pitfalls; we also provide practical guidance on how to avoid them. This book is meant to be a light-hearted take on how often and how

quickly performance measurement can become absurdly dysfunctional, but it would be remiss of us not to provide indications on how to navigate a way around the common pitfalls. Therefore, this book aims to give you a fun and interesting read, whilst helping you make the task of measuring performance saner, simpler and easier.

Dr Dina Gray
Dr Pietro Micheli
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PART I

Introduction

1

The Road to Insanity

Performance measurement is everywhere: when we look at companies' financial statements, read reports on average waiting times in hospitals, carry out performance appraisals at work, or look at schools' records when deciding where to educate our children. The practice of collecting, analyzing and reporting information on the performance of individuals, groups, organizations, sectors and nations has been around for a long time – but what difference is it making?

You may be intrigued, enthusiastic or frustrated with measurement, by the behaviours it engenders and the results it leads to. Perhaps you are a proponent of the old adage that "what gets measured gets done" or you may take the alternative view that measurement only leads to dysfunction. Maybe you have used a performance report to make an important decision only to be let down by the result, or perhaps you have been pleasantly surprised when customer performance ratings of restaurants have helped you have an extraordinary dining experience whilst on holiday. Whatever your starting position, this book will not only present real-life stories of madness brought about by measurement, but will also discuss ways to navigate your way around the pitfalls so that you may, once again, use measurement as a means to improve your organization's performance.

In order to set the scene and outline many of the issues covered in this book, we would like to describe a fictional scenario, which is based on the many real events we have observed in practice, about a manager tasked with implementing a strategic performance measurement system and not fully understanding the consequences of such a programme. Let us introduce you to Mike, his hopes, ambitions and challenges.

My name is Mike, and I am a senior manager in a relatively large organization. Today is an important day for me as we are having our annual managers' meeting and I am leading it. The theme for this year's conference is "Performance Excellence". All of the directors and the top managers are here, and we are going to have a series of short presentations on the work undertaken over the past year.

But firstly, let me tell you how all of this has come about. Just over 18 months ago the Board recognized that, as competition was becoming more intense and regulations were becoming ever tighter, we had to improve our performance in all areas of the business. The company therefore commissioned an external firm to carry out a review and they concluded that we were lacking a "comprehensive approach to measuring and managing performance". Essentially, we did not really understand how efficient and productive we were; different units seemed to be run independently from each other; and employees were not clear about the organization's goals.

Shortly after the report was released I was tasked to lead the "Performance Excellence" project, with the aim of introducing a performance measurement and management system throughout the entire organization. It was hoped that the project would completely change the way in which we set and communicate our objectives; how we measure and report performance; and how we appraise and reward people. Today, after a year's work, it is time to check what progress we have made, both in terms of our achievements and in relation to the implementation of the system itself.

At this point in time, before the conference kicks off, I am feeling a little restless, but quietly confident. The lead up to today has been somewhat stressful, and, although I've spoken to most of the people who are attending today, I am not entirely sure what each speaker will say. The organization has always promoted a culture of openness and constructive criticism and I am looking forward to hearing my colleagues' presentations.

I kick off with a short ice-breaker to set the scene, explain what has been done over the past 12 months, and outline future steps. I see a lot of people nodding, which is encouraging as this project has been a priority within the company, and everyone is aware of what is going on. Then I hand over to our CEO. She seems positive about our results, but states that we have to do more as other companies are catching us up and we can't afford to be complacent. Referring to the Performance Excellence project, she says that we have made progress but that she is aware of some "question marks" that we should openly address today. I wonder what those "question marks" could be …?

The CEO concludes and it is now the turn of the Chief Financial Officer. Our financial results appear to be in line with forecast and it seems that we have even had a few unexpected successes. Referring to the Performance Excellence project, he reports that most people tend to regard indicators as relevant or highly relevant, which is music to my ears, but, somewhat unexpectedly, although the number of indicators has increased, the extent to which information is used to make decisions appears unchanged. He continues by saying that despite our immense efforts to provide a balanced view of the company through the introduction of more customer- and process-related indicators, financial indicators are still considered to be the most important ones. This is rather disappointing, even though he concludes by adding that it is just a matter of time before we see more profound changes.

I have to say I feel a bit of relief on hearing his conclusions, but my relief is short lived when, from the floor, one of our regional directors stands up and addresses the executives: "When the Performance Excellence project began we were promised that little effort would be required on our side. Instead, my people have ended up spending a lot of time collecting all sorts of data, yet nobody in headquarters seems to give two hoots about it. I presented our data at the meeting in June which resulted in us spending half an hour arguing over two irrelevant figures, then about the reliability of the data themselves, and we finally took a decision that bore no relation to the data. What was the point of spending so much time collecting and analyzing it?" Before the CFO can utter a response I intervene, pointing out that this should not be happening and that things are changing. From the look on his face I don't seem to have persuaded the regional director, but at least we can now move on to the next presenter.

The Supply Chain Director is up next, and he is renowned in the organization for his obsession with maximizing efficiency. Trained in Six Sigma and brought up on lean thinking, he has been one of the strongest supporters of the Performance Excellence project. His presentation focuses on operational improvements made in warehousing. After a short introduction he goes through a sequence of histograms and graphs reporting the comparative performance of our warehouses. One after the other, in his monotone voice, he presents figures on the number of cases picked per labour hour, inventory accuracy, warehouse order cycle time and finally concludes with a ranking of all of the warehouses.

The league table suddenly wakes everyone up. I was not aware of this ranking, but what harm can it do? If anything, I think to myself, it should spur on a bit of competition among the regional and site directors. However, as he continues on down the list, an ever-increasing hum emanates from the audience. Some people are muttering that it is not clear how the comparisons were made and others question how he calculated the final scores. For me, this is a typical reaction of people who don't want to hear that they are doing worse than others. However, as I consider what he is saying, something starts to bug me: actually not all of the warehouses can be considered to be the same, because we are not using them in the same way. Some of them are inefficient, but that is because they have to handle peak demands; they have to work below capacity for a reason. I make a note that I will have to speak to the Supply Chain Director.

After a short break the conference resumes and the R&D director makes his way to the podium. I should point out that before the Performance Excellence project the organization had unsuccessfully tried to get a grip on this unit, but all attempts to monitor their performance had failed miserably. We had developed a number of measures, such as the number of patents filed, but we had never felt that this was a good indication of the unit's output. What about the R&D workers' productivity? What about forcing them to meet stricter deadlines? Or calculating the unit's financial contribution to the company? I am in no doubt that if we put more effort into more sophisticated measures we will certainly have a more accurate picture and should see an improvement in their performance.

As a bit of background, the R&D director was appointed nine months ago; he was previously in sales, where he achieved great results by introducing individual performance targets and regular, in-depth, performance reviews. Last week when I spoke to him he told me that a few of his R&D people were upset with senior management, although he did not elaborate on why, but he was hoping to resolve the issues very soon. So I am hoping for a critical, but positive presentation. What I get instead is a long list of complaints. He tells everyone that, shortly after he was appointed, he implemented a similar system to the one he had used in the sales department. However, while some of his new team showed their support, the majority of them demonstrated resistance; one could even say sheer defiance. A typical response was "Our performance

cannot be measured, we are not sales people!" While he goes through his slides I can't help thinking that people in R&D have had it too good for far too long, and that this research-oriented culture places too low an importance on business performance. To my dismay the presentation ends on a fairly disappointing note with the R&D director suggesting that perhaps the performance measurement system should be designed and implemented differently depending on a unit's tasks and its culture. I am flabbergasted: that's madness, we would end up with dozens of different systems.

It is now the turn of the Sales Director for Western Europe. She says she will be brief: one slide and only a five-minute talk, because "the numbers are the numbers, and they speak for themselves". After a brief preamble, she puts up one chart: her team's improvement is incredible! Sales in her region appear to have doubled over the past year. Can this be right? I look frantically through the draft report I received from Finance two days ago and I can only make out a 5% increase in total company sales over the past three quarters. I don't have a breakdown for each of the geographical areas, but I can't believe we achieved such a positive result in the saturated market that is Western Europe. While the Sales Director performs an act of self-congratulation and is thanking all her team as if they were in the room, I peer at the graph more carefully. It occurs to me that the y axis doesn't start at zero; so, I squint a bit more and I can now see some of the blurred numbers: the real increase is less than 10%! This is really annoying, as we had said that we would be using this forum to openly discuss failures and successes, and then people turn up with lame graphs just to show off. I will have to talk to her too.

The podium is now being prepared for our Chief Operating Officer. At the beginning of this year we made the news for a major fault in one of our products: after several customers reported having the same problem, we were forced to undertake the largest recall in the company's history. Not a happy time. Since we couldn't really blame the suppliers, this hiccup triggered a series of internal arguments between our design and production units. Eventually, the incumbent COO was replaced by his deputy. Before leaving, the old COO wrote an angry letter in which he accused the board of introducing a perverse system of targets and rewards that he labelled "bribes" in his letter, which had completely corrupted the ethics of his team. According to