The seven myths of performance management

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Investments in performance measurement and management systems have been steadily increasing over the past two decades, and there is no sign that this trend will change in the future. Leaders and managers in both private and public organizations regard such systems as a key means to implement and communicate strategy, support decision making, align behaviours, and, ultimately, improve performance.

While measurement and management systems can indeed help organizations achieve all these fundamental aims, current practices show that managers are consistently making mistakes that prevent them from reaping the benefits of their investments. While their intentions are usually positive, our research shows that, in fact, they often encourage exactly the behaviors their organizations 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 organizations to gather, analyze and communicate data on both organizational 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 interpretations. 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 organizations invest billions of dollars 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. And this balance can only be ensured by connecting measures 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 organizations. In U.S. 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.

Myth 4: Alignment

Managers and employees should be aligned to achieve the main organizational 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 organizations are making considerable efforts to align behaviors 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, while 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 utilised to focus attention, and engage and motivate staff. On paper. In practice, levels of engagement in many organizations are falling, also because of the incorrect uses of performance management systems. Despite all good intentions, organizations often generate what I call the vicious cycle of performance management. The starting point is usually a difficult situation in which performance has decreased or is deemed unsatisfactory. The usual reaction is to quickly introduce a series of measures to gather 'objective' data, and to attach rewards to specific targets in order to incentivize employees to do their best. Unfortunately, as a result of this, people get 'measure fixated': they are very clear about what they have to do to hit the target, but they often miss the point, ie they forget about the underlying objective. Even worse, over time a culture of performance measurement starts to emerge: employees will blindly follow what they are measured and rewarded on, often at the expense of their organization's success. To avoid this vicious cycle, organizations should involve people as much as possible while introducing a new system, carefully monitor its use, and introduce rewards – if necessary - only once the system has been tested.

Myth 6: Enabling change

The introduction of new performance targets and indicators can kick-start the implementation of new strategic objectives and promote different ways of working. While this has certainly been the case for various organizations, from Continental Airlines in the mid-1990s to Nokia in recent years, when it comes to organizational change, measurement systems have often acted as obstacles rather than enablers. Particularly when a system is pervasive and consists of a large number of indicators, organizational inertia may arise. This may not be a major problem for organizations operating in relatively stable markets, but it could become a serious issue for firms competing in very dynamic environments. These organizations should adopt an empowering and flexible approach to the design and use of measurement systems. While alignment processes are needed to ensure that performance indicators and behaviors are in line with the organization's strategic priorities, empowerment at the individual managers' level is needed to build sufficient dynamism into the system. In other words, empowerment and HR management can promote dynamism and responsiveness, by building flexibility into the system in order to allow for local adaptation of the indicators.

Myth 7: Improvement

The ultimate goal of introducing a performance measurement system is to improve organizational performance. Absolutely. But does this really happen? Our research demonstrates that impacts on performance strongly depend on the roles measurement systems play within organizations. The main role is usually to monitor and report to satisfy requirements, internal or external. While this is important and, to some extent, unavoidable, impact on performance is often non-existent. Take the case of sustainability measures introduced by an ever increasing number of companies. While measuring social and environmental aspects is certainly important, most companies are simply reporting information externally – making no difference to either how the organization operates or on its results. Performance measurement systems can, and do, make a difference when they are used to promote learning, for example by establishing a dialogue between headquarters and subsidiaries; between different functions within an organisation; and between managers and employees.

Conclusions

Organizations spend considerable 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 in communicating to all employees the reasons and benefits of such systems, and connecting strategy, measurement and decision-making. Rather than assuming that a tight set of measures, targets and rewards will lead to alignment, motivation and improvement, managers should empower people at different hierarchical levels, build flexibility in these systems and use them for learning, rather than control purposes.

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