

WHITE PAPER:

MOVING AWAY FROM A CULTURE BASED ON KPI's

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Introduction:

In the nineteen eighties there was massive upheaval within the developed economies. High energy costs, industrial disputes and the emergent new digital technologies all threatened the survival of many traditional industries.

The response was to reduce costs, eliminate waste and drive quality improvement. The prevailing management theories advocated Business Process Re-engineering, six sigma, quality circles and other pragmatic approaches to business survival.

A common theme to many of these ideas was the use of Key Performance Indicators. This provided short interval control, identified deviation to desired outcomes, enabled management to monitor efficiency and helped to identify aspects of the process that needed to be improved. As a consequence, many organisations were able to demonstrate significant reductions in operating costs helping them to survive whilst less adaptable organisations went to the wall.

It was an era of buy-outs, mergers and aggressive acquisitions. The newly formed organisations, frequently highly leveraged and paying significant costs on their debt, had to continue to drive down costs. Short-term financial performance was the indicator by which executive management was judged.

Whilst aggressive performance management helped deliver short-term financial survival it carried a cost for many organisations. Typically, the knowledge that resided in the workforce had little value in the annual profit and loss statements so whilst wage bills were reduced the intellectual capital of the organisation was diminished. Employees became 'human resources' that had little security and were assessed against specific measures and indicators. Inevitably, employees felt less committed to their employer and long-term loyalty became a rarity.

Building the right behaviours:

It has been widely recognised that KPIs will drive certain types of behaviours and actions. Indeed, there are frequently concerns that people are being driven to achieve the required KPI measure, rather than focus on the desired outcome. In some situations, the use of KPIs can create conflict and divisions within the organisation as one team strives to attain a good 'score' by passing the problem further down the line.

The traditional approach of implementing KPIs to drive cost reduction is increasingly recognised as only part of the picture. Greater focus is now being given to the behaviours that are needed to achieve a sustainable step change in operational effectiveness.

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This raises the question of whether organisations could perform effectively without any KPIs. Imagine an organisation that did not use KPIs at all. Instead, employees worked in a culture that was based on a shared desire to achieve the best possible outcome. Clearly, there would need to be some measure of the final 'outcome' but could the right behaviours replace the need for a multitude of different performance indicators?

For this to work it would be necessary for all teams and departments to be aligned to common goals and a desire for shared success. There would need to be a culture that was continually challenging current ways of working and testing whether there were opportunities for improvement. Innovation would need to be encouraged. Teams would need to have a shared desire to learn from each other and adopt best practice. Attitudes would need to focus on helping others to excel. People would need to be rewarded when they shared their skills. Different functions would need to trust each other and work collaboratively to resolve problems. All of these things are possible but these behaviours are not encouraged in a culture that simply rewards people for meeting a specific performance target.

This White Paper argues that organisations need to develop the attitudes and behaviours that encourage collaboration, innovation, shared best practice and the search for continual improvement. Simply cranking the handle harder to drive results through KPIs will ultimately be counter productive as it will result in short-term behaviours that detract from the long term interests of the organisation.

The more reliance that an organisation can place on behaviours, rather than KPIs, the more effective the organisation will become. Indeed, it could be argued that the only reason KPIs are *ever* effective is because there is some residual desire to achieve a good outcome - not just achieve specific performance measure. Without some desire to achieve a successful outcome people would simply fiddle the figures.

Clearly, there will always need to be some means of monitoring outcomes but the use of these measures needs to be driven by a desire for continual improvement. The process of reviewing this information - and taking corrective action - then becomes an activity that everyone is committed to, rather than an activity that results in recriminations and defensive behaviours.

Summary:

Individuals, teams and functions will always need to have visibility of their performance. However, the starting point should always be: *'What are we trying to achieve?'* rather than *'What can we measure to drive efficiency?'* Management needs to focus on building the attitudes and behaviours that drive the required outcomes and avoid reliance on performance indicators. Organisations should assess themselves against the behaviours that underpin collaboration, knowledge sharing and continual improvement. As organisations become more effective in driving the right behaviours, they will place less reliance on KPIs. Those organisations that *only* use KPIs to drive performance are destined to fail.