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The Perils of Performance Measurement

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Abstract
{Excerpt} Interest in performance measurement grows daily but the state of the art leaves much to be desired. To promote performance leadership, one must examine both its shortcomings and its pernicious effects.

The use of yardsticks to measure performance needs no arguing: one cannot improve what one cannot measure. More emphatically, in the words of Joseph Juran, "Without a standard there is no logical basis for making a decision or taking action."

Performance measurement, a key driver of the Plan–Do–Check–Act iterative cycle that W. Edwards Deming promoted, is the process of gauging achievements against stated goals. A major determinant of sustainable competitive advantage, it hangs on the development of SMART indicators—customarily in a results chain linking activities, inputs, outputs, and outcome to impact—that one should track to reliably verify and promote organizational success. Pre–post comparisons can then be made to assess the relevance, efficiency, effectiveness, sustainability, and impact of endeavors (at least in the case of larger-scale ventures).

Keywords
Asian Development Bank, ADB, poverty, economic growth, sustainability, development

Comments

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The Perils of Performance Measurement

By Olivier Serrat

Interest in performance measurement grows daily but the state of the art leaves much to be desired. To promote performance leadership, one must examine both its shortcomings and its pernicious effects.

The Simple Intent of Performance Measurement

The use of yardsticks to measure performance needs no arguing: one cannot improve what one cannot measure. More emphatically, in the words of Joseph Juran,[1] "Without a standard there is no logical basis for making a decision or taking action."

Performance measurement, a key driver of the Plan–Do–Check–Act iterative cycle that W. Edwards Deming[2] promoted, is the process of gauging achievements against stated goals. A major determinant of sustainable competitive advantage, it hangs on the development of SMART[3] indicators—customarily in a results chain linking activities, inputs, outputs, and outcome to impact—that one should track to reliably verify and promote organizational success. Pre–post comparisons can then be made to assess the relevance, efficiency, effectiveness, sustainability, and impact of endeavors (at least in the case of larger-scale ventures).

A Grain of Salt

> *I conceive that the great part of the miseries of mankind are brought upon them by false estimates they have made of the value of things.*
>
> —Benjamin Franklin

Today, performance is appraised the world over: in academia, the arts, business, entertainment, government, news, politics, schools, science, sports, and war, among others. In the public sector, the need to sell the idea that management is improving means that indicators proliferate, on the whole, without regard for unintended consequences from the

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1 Joseph Juran (1904–2008), an American electrical engineer and management consultant, was an evangelist of quality and its management.

2 William Edwards Deming (1900–1993), an American electrical engineer, statistician, and management consultant, pioneered contemporaneously with Joseph Juran the quality management revolution that took place in postwar Japan.

3 SMART indicators are specific, measurable, achievable, relevant, and time-bound.

practice. Performance indicators are simultaneously misunderstood, overpromoted, and accordingly misused.

- First, conflicting *definitions* of performance indicators abound. In their shortest yet most stringent expression, they are a numerical measure of the degree to which an objective is being achieved. (From this interpretation, indicators are prone to merge with objectives and effectively become targets.) Others[4] consider them an observable change or event that provides evidence that something has happened, be that an output delivered, an immediate effect occurred, or a long-term process observed. To such discerning interpreters, indicators do not offer proof so much as reliable clues that the change or event being claimed has actually happened or is happening: rather, evidence from several indicators will make a convincing case for claims being made.

> *It is hard to go beyond your public. If they are satisfied with cheap performance, you will not easily arrive at better. If they know what is good, and require it, you will aspire and burn until you achieve it. But from time to time, in history, men are born a whole age too soon.*
>
> —Ralph Waldo Emerson

- Second, complex issues of *cause-and-effect* are seldom considered. Obviously, performance indicators can only pertain to matters that an agency controls.[5] But agencies never command much and usually settle for subprime indicators that afford enough control for their purposes. This reality is intrinsic to all human endeavors, especially those that touch political decision making or aim to spark social change.[6] (Never mind that outcomes will in many cases emerge long after the effort—to which other agencies or even units in the same agency may have been unknown parties—has been deployed.) Consequently, interest has grown in approaches to planning, monitoring, and evaluation of outcomes and their metrics that consider actor-centered development and behavioral change, continuous learning and flexibility, participation and accountability, as well as non-linearity and contribution (not attribution and control).[7]

> *There are two possible outcomes: if the result confirms the hypothesis, then you've made a measurement. If the result is contrary to the hypothesis, then you've made a discovery.*
>
> —Enrico Fermi

- Third, the *dimensions of performance* mentioned earlier—namely, relevance, efficiency, effectiveness, sustainability, and impact—intimate that there can be no single assessment of accomplishments overall. Performance is an amalgam of dimensions, some of which may conflict. Measuring it calls for an appropriate basket of benchmarks, developed with full knowledge of their interrelationships.
- Fourth, performance measurement must have a *purpose*—it can never be an end in itself. According to Robert Behn[8] , the separate reasons for engaging in it are to evaluate[9], control, budget, motivate, promote, celebrate, learn, and improve.(The list could be shorter or longer: shorter in that the genuine purpose of measuring accomplishments is the last; longer in that the seven others, to which more could be added, can perhaps be considered as some important means for achieving the first.) Manifestly, no single metric is appropriate for all eight objectives. Therefore, practitioners had better consider the managerial purpose(s) to which performance measurement might

4 See Oliver Bakewell, Jerry Adams, and Brian Pratt. 2004. Sharpening the Development Process: A Practical Guide to Monitoring and Evaluation. *International NGO Training and Research Center Praxis Paper Series*.

5 In the real world, where complexity reigns, a myriad factors impact that do not relate to the activities, inputs, and outputs delivered by an agency. And, it is never easy to account for them—in the odd instances where they are discernable—by listing the assumptions and risks that might affect performance. (The imagination and experience of personnel, in any case, limit the consideration of external factors.)

6 The structure that logical frameworks provide for thinking is helpful. But the failure of linear thinking to cope with unintended consequences makes up one of the most recurrent criticisms of "lock frame" models, especially when they are revisited at evaluation. Logical frameworks patently assume that people have such powers of foresight that neither unforeseen routes nor unanticipated effects are important. In practice, however, their false precision impoverishes the phenomena under scrutiny, going as far as to exclude unanticipated benefits outside the original purview. Sadly, attempts to make logical frameworks flexible have not kept up with changes in the environments in which the tool was planted.

7 Outcome mapping, developed by the International Development Research Center, is one such approach. The Balanced Scorecard conceptualized by Robert Kaplan and Richard Norton is another: it encompasses client, financial, business process, and learning and growth perspectives.

8 See Robert Behn. 2003. Why Measure Performance? Different Purposes Require Different Measures. *Public Administration Review*. September–October. Vol. 63, No. 5, pp. 586–606.

9 That, for example, might cover economic (activity) evaluation, operations evaluation, and/or managerial evaluation.

contribute—these, alas, being ordinarily to control and budget—and how they might best deploy an informative[10] blend of measures anchored in context. Only then will they be able to select valid yardsticks with the characteristics necessary to help meet each purpose, directly and indirectly, concentrating on what matters most.

- Fifth, many *other things* besides performance indicators are needed to ameliorate achievements (after the indicators have been recognized for what they are, namely, individual links in a results chain). The other requisites include Board, Management, and staff who are focused on meeting the explicit and latent needs of client, audiences, and partners; leadership and commitment to developing and extending products and services; and a culture of openness in which personnel are encouraged and willing to question why they do what they do.

Table: Eight Reasons to Measure Performance

Purpose	The Question That the Performance Measure can Help Answer
Evaluate	How well is my organization performing?
Control	How can I ensure that my subordinates are doing the right thing?
Budget	On what programs, people, projects, or programs should my agency spend the public's money?
Motivate	How can I motivate line staff, middle managers, nonprofit and for-profit collaborators, stakeholders, and citizens to do the things necessary to improve performance?
Promote	How can I convince political superiors, legislators, stakeholders, journalists, and citizens that my organization is doing a good job?
Celebrate	What accomplishments are worthy of the important organizational ritual of celebrating success?
Learn	Why is what working or not working?
Improve	What exactly should who do differently to improve performance?

Source: Robert Behn. 2003. Why Measure Performance? Different Purposes Require Different Measures. *Public Administration Review*. September–October. Vol. 63, No. 5, pp. 586–606.

Table: Characteristics of Performance Measures for Different Purposes

Purpose	The Characteristic of a Performance Measure to Achieve the Purpose
Evaluate	Outcomes, combined with input, output, and process measures, that appreciate the effects of exogenous factors
Control	Inputs that can be regulated
Budget	Efficiency measures—specifically, outputs or outcomes divided by inputs
Motivate	Near real-time outputs compared with production targets
Promote	Easily understood aspects of performance about which people care
Celebrate	Periodic and significant performance targets that, when achieved, provide people with a concrete sense of personal and collective accomplishment
Learn	Disaggregated data that reveals deviancies from the expected
Improve	Inside-the-black-box relationships that connect changes in operations to changes in outputs and outcomes

Source: Adapted from Robert Behn. 2003. Why Measure Performance? Different Purposes Require Different Measures. *Public Administration Review*. September–October. Vol. 63, No. 5, pp. 586–606.

[10] Performance indicators will not serve if they are brandished to judge performance.

… and Some Pernicious Effects

Cynics might argue—thankfully, perhaps, given the state of affairs—that performance measures are seldom used to make decisions.[11] Yet, they do have effects from the suspicion that actions, e.g., sanctions or rewards, might be based on such information. True to form—be they people, rats, or monkeys—organisms compete for scarce resources. They will also naturally search what behaviors and related activities are recompensed and then endeavor to perform these, often to the exclusion of things not rewarded.

In the public sector, but likely elsewhere too, sanctions or rewards can therefore pay off for behaviors other than what they seek. Gloria Grizzle[12] identifies numerous unintended consequences of attempts to measure outcomes, gauge client satisfaction, calculate the quantity of work performed, and introduce efficiency measures. She thinks that, as a general remedy, moral codes and professional standards should normally suffice to prescribe right action.[13] Naturally, specific remedies should be applied to specific problems, most of which ought to be built into the measurement process itself.

Since the principal managerial purposes to which performance measurement contributes are control and budget—control more often than not exercised by means of the budget, it pays to examine the counterproductive effects associated with the crude use of budgets in (much of) the private sector (but in other sectors, too). In Michael Jensen's[14] opinion, for instance, traditional budgeting processes in corporations waste time, distort decisions, and turn honest managers into schemers. Quoting,

> Corporate budgeting is a joke, and everyone knows it. It consumes a huge amount of executives' time, forcing them into endless rounds of dull meetings and tense negotiations. It encourages managers to lie and cheat, lowballing targets and inflating results, and it penalizes them for telling the truth. It turns business decisions into elaborate exercises in gaming. It sets colleague against colleague, creating distrust and ill will. And it distorts incentives, motivating people to act in ways that run counter to the best interests of their companies.

To be sure, Michael Jensen agrees that the budget process itself is not the root cause of counterproductive actions; rather, it is the use of budget targets to determine compensation.[15] Comparing traditional,[16] curvilinear,[17] and linear[18] compensation plans, he argues that only by severing the link between budgets and bonuses—in brief, by rewarding people purely for accomplishments, not ability to hit targets—will organizations remove the incentive to cheat. (Since many public sector organizations now have pay-for-performance plans, seeing how the three types might impact behavior there will not stretch imagination.)

> *Earnings can be pliable as putty when a charlatan heads the company reporting them.*
> —Warren Buffett

As though the situation was not complicated enough, moving from individual to divisional performance measurement, Michael Jensen[19] explains elsewhere that performance indicators should reflect the functions of different business units—that is, most large organizations

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11 One explanation might be that performance measurement frameworks for understanding and defining metrics, collecting and analyzing data, and prioritizing and tacking action are never spelled out.

12 Gloria Grizzle. 2002. Performance Measurement and Dysfunction: The Dark Side of Quantifying Work. *Public Performance and Management Review*. June. Vol. 25, No. 4, pp. 363–369.

13 Needless to say, there must be trust in the workplace that fair use will be made of performance information and that the measurement process should be an empowering, not disempowering, experience. This may require more attention to the design of work environments that promote right action.

14 Michael Jensen. 2001. Corporate Budgeting Is Broken—Let's Fix It. *Harvard Business Review*. Vol. 11, pp. 94–101.

15 Individuals who are short of reaching a goal are more likely to engage in unethical behavior than others who do not have a goal or who exceed a goal. Also, individuals who are close to reaching a goal are more likely to engage in unethical behavior than others who are far from reaching a goal. This happens in all types of organizations.

16 In a traditional pay-for-performance plan, a manager earns a bonus when performance reaches a certain level. The bonus increases with performance until it hits a maximum cap. When performance hits the cap, the manager has a strong incentive to push revenue and profit into the following year.

17 Curvilinear pay-for-performance plans encourage managers to increase the variability of year-to-year performance measures.

18 In a linear pay-for-performance plan, a manager enjoys the same bonus for a particular level of performance whether the budget goal happens to be set beneath the level or above it. This eliminates the incentive to game the process.

19 Michael Jensen and William Meckling. 2009. Specific Knowledge and Divisional Performance Measurement. *Journal of Applied Corporate Finance*. Vol. 21, No. 2, pp. 49–57.

adopt divisionalized structures, frequently categorized as cost, revenue, profit, investment, and expense[20] centers. Here, an intuitive issue of performance reporting is whether divisional managers should be held accountable for things they cannot influence. Therefore, the manner in which divisional performance is measured, monitored, controlled, and reported on—typically at the behest of, sometimes directly by, higher levels in the hierarchy and often by means of budgets—is particularly important. Should different performance measures and associated decision rights closely relevant to the functions fulfilled not be used more often, certainly in the public sector,[21] to evaluate the performance of divisions? In matters of budgeting, managerial flexibility, decentralization, and devolution would go a long way to offset the perils of performance measurement. As things now stand, the budget too often stands as the de facto strategy.

Transforming Performance Measurement

What is important cannot always be measured and what can be measured is not necessarily important. These days, what matters most in organizations are intangible sources of value—such as human and customer capital—and their measurement and management challenge traditional, "technical" approaches. Reverting to Robert Behn[22], it is therefore a matter of helping managers manage, not making or letting them manage. Good performance cannot be compelled, commanded, or coerced.

> *Apply yourself. Get all the education you can, but then, by God, do something. Don't just stand there, make something happen.*
> —Lee Iacocca

It is not so difficult: most professionals are self-motivated but intrinsic drive must be channeled skillfully to excite, engage, and energize. (Therefore, performance measurement must restrain demotivators, such as office politics, and build motivators, such as fairness, that make people strive to do the best they can.) In an environment of positive accountability, collaboration, truth-telling, and learning would be rewarded, not just hitting all-too-often senseless targets.

The better practices that Robert Behn recommends relate to creating the performance framework, driving performance improvement, and learning to enhance performance. Dialogue about measurement is what will turn data and information into knowledge. Right? Only then will you use performance indicators wisely.

> *How many cares one loses when one decides not to be something but to be someone.*
> —Coco Chanel

[20] Expense centers are the private sector equivalent of the classic public sector organization. A division organized as an expense center serves the rest of the organization. (Providers of internal administrative services, such as human resources, information systems and technology, and public relations, are commonly deemed to be expense centers.) However, the receiving units are not charged for the services they consume, hence, the tendency of expense centers to overproduce irrespective of demand, sometimes to maximize their sizes if only because compensation schedules tend to increase rewards for jobs with larger budgets and more personnel. Worse still, the receiving units have no incentives to compare the cost of the services they consume with the value of the services they receive.

[21] In the public sector, personnel must also follow so many processes that fidelity to these supplants devotion to results.

[22] See Robert Behn. 2006. *Performance Leadership: 11 Better Practices That Can Ratchet Up Performance*. IBM Center for the Business of Government. Available: www.businessofgovernment.org/pdfs/behnreport2.pdf

Box 1: One Approach to Performance Leadership—11 Better Practices That Can Ratchet Up Performance

Creating the Performance Framework (What would it mean to do a better job?)

Practice 1: Articulate the organization's mission: proclaim—clearly and frequently—what the organization is trying to accomplish.

Practice 2: Identify the organization's most consequential performance deficit: determine what key failure is keeping the organization from achieving its mission.

Practice 3: Establish a specific performance target: specify what new level of success the organization needs to achieve next.

Practice 4: Clarify your theoretical link between target and mission: define (for yourself, at least) the mental model that explains how meeting the target will help accomplish the mission.

Driving Performance Improvement (How can we mobilize our people?)

Practice 5: Monitor and report progress frequently, personally, and publicly: publish the data so that every team knows that you know (and that everyone else knows) how well every team is doing.

Practice 6: Build operational capacity: provide your teams with what they need to achieve their targets.

Practice 7: Take advantage of small wins to reward success: find lots of reasons to dramatize that you recognize and appreciate what teams have accomplished.

Practice 8: Create "esteem opportunities": ensure that people can earn a sense of accomplishment and thus gain both self-esteem and the esteem of their peers.

Learning to Enhance Performance (How must we change to do even better?)

Practice 9: Check for distortions and mission accomplishment: verify that people are achieving their targets in a way that furthers the mission (not in a way that fails to help or actually undermines this effort).

Practice 10: Analyze many and various indicators: examine many forms of data—both quantitative and qualitative—to learn how your organization can improve.

Practice 11: Adjust mission, target, theory, monitoring and reporting, operational capacity, rewards, esteem opportunities, and/or analysis: act on this learning, making the modifications necessary to ratchet up performance again.

Source: Robert Behn. 2006. *Performance Leadership: 11 Better Practices That Can Ratchet Up Performance*. IBM Center for the Business of Government. Available: www.businessofgovernment.org/pdfs/behnreport2.pdf

Box 2: Will Your Organization Use Performance Indicators Wisely?

- Has your Board, Management, and staff discussed and agreed on what a quality product or service is, how the organization is to deliver it, and how it will know it has done so? Yes = 1, No = 0
- Will performance indicators be used as the judge of the organization's success or failure? Yes = 1, No = 0
- Will performance indicators be used as the basis for rewards to staff? Yes = 1, No = 0
- Will performance indicators be used as clues to asking questions about performance and its improvement? Yes = 1, No = 0
- Will the organization use performance indicators for each outcome of each key step in the product or service delivery process? Yes = 1, No = 0
- Will client, staff, Management, and Board perceptions be as important as performance indicators? Yes = 1, No = 0
- Will the funding body reward the organization for improving performance indicators? Yes = 1, No = 0
- Do you know how reliable your performance indicators are? Yes = 1, No = 0
- Do you know how valid your performance indicators are? Yes = 1, No = 0
- Could you convince a reasonable person that what you do causes what you are trying to achieve? Yes = 1, No = 0

Score: 1–3 = Do not use performance indicators: you will make things worse.

4–6 = Do not use performance indicators unless you come to a much better understanding of the issues.

7–9 = Do not use performance indicators yet; but there is a chance that you might leverage them wisely if your understanding of the issues improves.

10 = There is a good chance that you will use performance indicators wisely.

Source: Adapted from Paul Bullen. 1991. Performance Indicators. *Caring*. Association of Children's Welfare Agencies.

Further Reading

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For further information

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Knowledge Solutions

Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Knowledge Solutions are handy, quick reference guides to tools, methods, and approaches that propel development forward and enhance its effects. They are offered as resources to ADB staff. They may also appeal to the development community and people having interest in knowledge and learning.

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