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MANAGEMENT SIGNAL **NOVEMBER 2026**

When Good KPIs Produce Bad Results

Every function delivers. The company does not.



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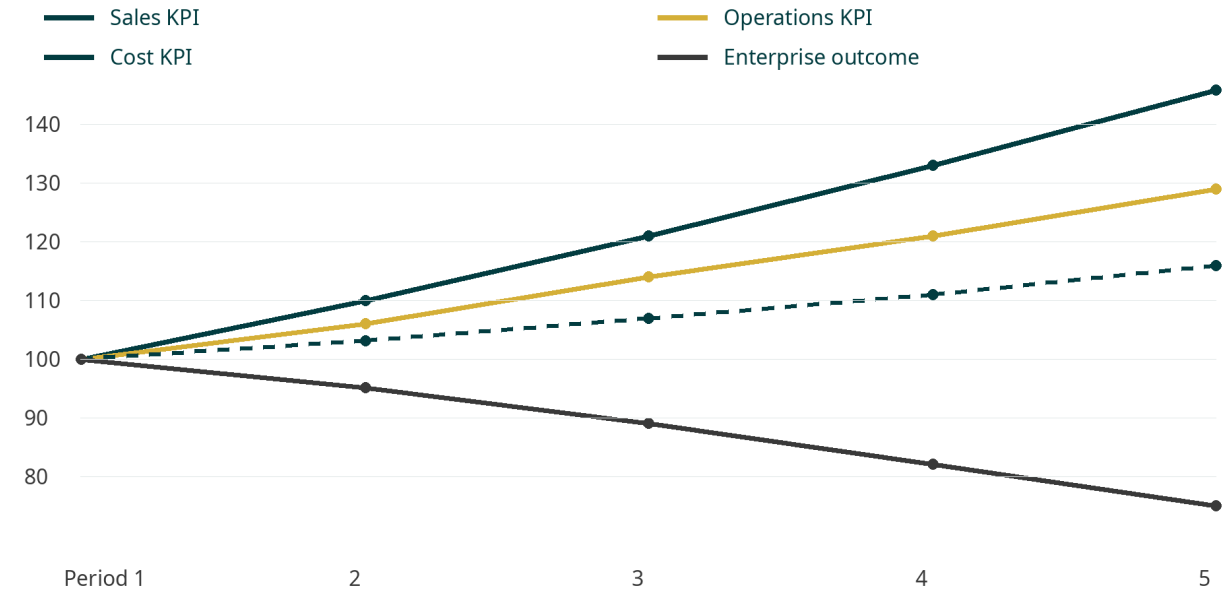
Every function delivers. The company does not.

A management system can reward each function for doing exactly what it has been asked to do and still produce a weaker result for the company. The failure appears between functions: priorities collide, trade-offs remain implicit, decision rights are unclear and KPIs reinforce local optimisation.
The core problem is not weak execution inside functions. It is missing management design between them.

The dangerous equation

Sales maximises volume, Operations protects efficiency, Finance constrains cost, Product protects scope and HR protects capacity. Each choice can be defensible inside its own mandate. The problem emerges when those choices interact and no enterprise rule decides which outcome takes precedence.

Local KPIs can improve while enterprise performance deteriorates



Indexed performance. Illustrative, not measured company data.

AI-generated diagram for explanatory purposes.

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Why now? As growth, customer promises, margin pressure and execution complexity increase, cross-functional trade-offs multiply faster than a CEO can personally arbitrate them. Informal coordination turns into a recurring operating constraint.

MECHANISM, DIAGNOSIS AND DESIGN

The failure sits at the interface

When interfaces are not designed, decisions flow uphill. The CEO becomes the place where incompatible priorities are reconciled. That works for isolated exceptions. It fails when the same type of conflict returns.

- Unclear priority creates a trade-off.
- The trade-off lacks a rule.
- Decision authority is unclear.
- Functions protect their own KPI.

Repeated escalation is a signal to investigate the decision system. A genuinely exceptional decision or a new external constraint may also require the CEO.

The Interface Test

Take one recurring cross-functional conflict and answer five questions. The value is not the score. The value is whether the answers form one coherent management logic.

PRIORITY	What must win?
CONFLICT	Where do functions optimise against each other?
RULE	What governs the trade-off?
RIGHT	Who decides without escalation?
KPI	Do metrics reinforce that decision?

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Rule. Right. Metric.

The repair is not another coordination meeting. A critical interface becomes stable when three elements are explicit and mutually consistent.

• Rule: define what wins when legitimate objectives collide.
• Right: define who can apply the rule without unnecessary escalation.
• Metric: measure the enterprise outcome the rule is intended to protect.

The point is not to eliminate conflict. It is to make conflict resolvable where it occurs.

MANAGEMENT ACTION

Use escalation as evidence

As an illustrative starting exercise over the next 72 hours, select three recent escalations involving more than one function. Do not start by debating who was right. Treat each case as evidence about the operating model and identify the missing management element.

Test	Case 1	Case 2	Case 3
Priority / conflict	_____	_____	_____
Missing rule or right	_____	_____	_____
Metric / owner / date	_____	_____	_____

What management should change

• Select the recurrent interfaces that matter most for the current strategy, not every possible conflict.

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• Define the enterprise priority and trade-off rule before changing KPIs.

• Assign decision rights at the lowest level with enough information and authority to act.

• Align KPIs with the intended enterprise outcome so local success cannot systematically undermine the whole.

• Track proof of change: fewer repeated escalations, faster cross-functional decisions and better enterprise outcomes.

What better looks like

Before	After
Same trade-off repeatedly reaches the CEO	Known rule and decision right resolve it at the interface
Functions defend local KPI performance	Metrics expose the enterprise outcome and reinforce the trade-off rule

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A practical design rule

Do not redesign the whole organisation. Start with the few interfaces where strategy most often turns into a trade-off: growth versus margin, service versus efficiency, speed versus control, standardisation versus customer need, investment versus cash. For each, make priority, rule, right and metric mutually consistent. Then observe whether the same escalation disappears from the executive agenda.

MANAGEMENT BOTTOM LINE

Good KPIs are not enough. The management system must make local optimisation compatible with enterprise priorities.

Strategy often fails not inside functions, but between them. The task is to design the interfaces so legitimate trade-offs are resolved without repeatedly sending them to the CEO.

Dr. David Sven

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Prepared with AI assistance. Editorial responsibility: VIET TA.

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