Implementing ‘winning’ KPIs in a Small-to-Medium Enterprise

By David Parmenter

During workshops which I deliver I have been asked by attendees from small-to-medium enterprises (SMEs) about my advice on a simpler truncated process for implementing ‘winning KPIs’ organisations with say less than 250 employees.

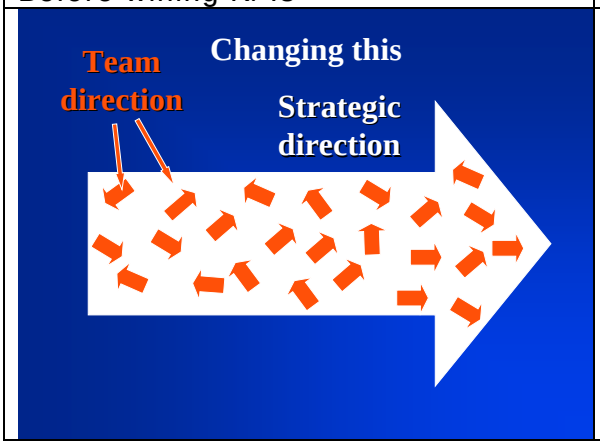
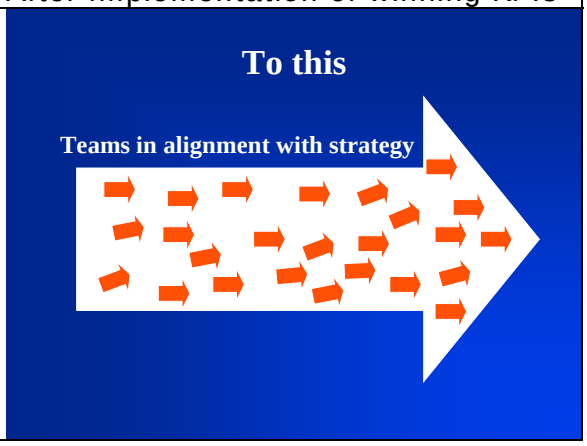
“Will winning KPIs work for us?” they ask. The answer is a profound “yes”. Finding your winning KPIs will create much benefit . In many successful SMEs the success rests with the natural ability of a few key leaders and when they sell up or ‘move on’ the organisation changes dramatically, often for the worse because the intuitive feel for the business that these individuals had has not permutated into the culture and operations of the organisation.

The key benefits of embedding ‘winning KPIs’ into the organisation include:

- The critical success factors (CSFs) of the organisation will be crystallized and conveyed to all staff
- There will be more empowerment and more clarity on what should be recorded and reported
- The SME will convey clearer, the strategy it is currently working on, to staff so they know which direction they should be travelling in
- All CEOs, both current and future, will be linked to staff who are working in the CSFs e.g., there will be daily follow-up calls on the KPIs
- Daily activities of the workforce will be linked to the strategic direction of the organisation, the ‘el dorado of management’.

As the two diagrams in Exhibit 1 show the change that winning KPIs achieve can be very profound.

Exhibit 1:The impact of winning KPIs to the daily routine and tasks performed by staff

Before wining KPIs	After implementation of winning KPIs
	

The process is relatively simple and will take about six weeks of elapsed time. The eight phased process I recommend requires:

- An understanding of the four types of performance measures and what constitutes a winning KPI – not all measures are KPIs!
- The 'laying' of four foundation stones of the project and a commitment to ensure the project remains on these firm foundations
- The selling to the CEO, through their emotional drivers, that this project is the most important thing we can be doing at this point in time
- A balanced view of performance (the six perspectives of the balanced scorecard – financial, internal process, customer focus, employee satisfaction, learning and growth, environment & community)
- Locating the five to eight success factors which have the greatest influence (i.e, the CSFs) out of the 30 or more success factors that the organisation has
- Finding measures that will drive the appropriate behaviour within the CSFs and SFs
- Working with past, current (yesterday and today's activity) and future (future scheduled dates to do key tasks) orientated measures
- The right 'timing' to ensure resources will be freed up to complete this task.

To assist the reader I have delivered a series of webcasts on wwww.bettermanagement.com and these are free to access. I would recommend that you first listen to four of my eleven KPI webcasts:

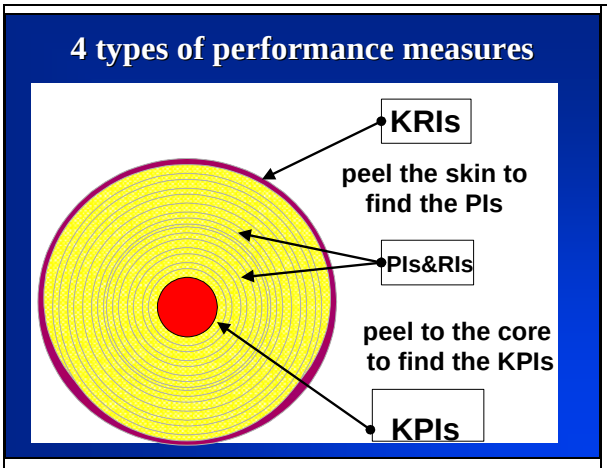
- Introduction to winning KPIs (Aug 09)
- Finding your organization's critical success factors
- Implementing KPIs in Smaller Orgs (<200 Staff)
- Reporting performance measures to improve performance

The separation of performance measures out into four is very important for SMEs and larger organisations. If we call all measures KPIs we are not separating the 'wheat from the chaff'.

- **key result indicators (KRIs)** – both financial and non financial measures that give an overview on past performance and are ideal for the owner/Board as they communicate how management have done in a critical success factor or balanced scorecard perspective. See article on "how to speed up Board reporting" in issue xxxx. Typically these are measured monthly or quarterly.
- **performance indicators (PIs)** – are non financial measures tell staff and management what to do. These are measured daily, weekly, or monthly and are not as important as the KPIs.
- **result indicators (RIs)** – are summary indicators, both financial and non financial that tell staff what they have done, these can be measured daily, weekly, monthly, or quarterly.

- **key performance indicators (KPIs)** –are non financial measures that tell staff and management what to do to increase performance dramatically. These are measured either 24/7, daily, or weekly.

Exhibit 2 The four types of performance measures



For SMEs I recommend:

- 6-10 key result indicators (KRIs) reported monthly or quarterly to the owner/Board
- 30-50 performance indicators (PIs) and result indicators (RIs) daily, weekly or monthly
- 6-10 key performance indicators (KPIs) 24/7, daily or weekly measures

E.g. for the 'delivery in full on time to our key customers' CSF for a manufacturing company

A **KRI** could be the deliveries made on time in full to all customers by month going back 18 months

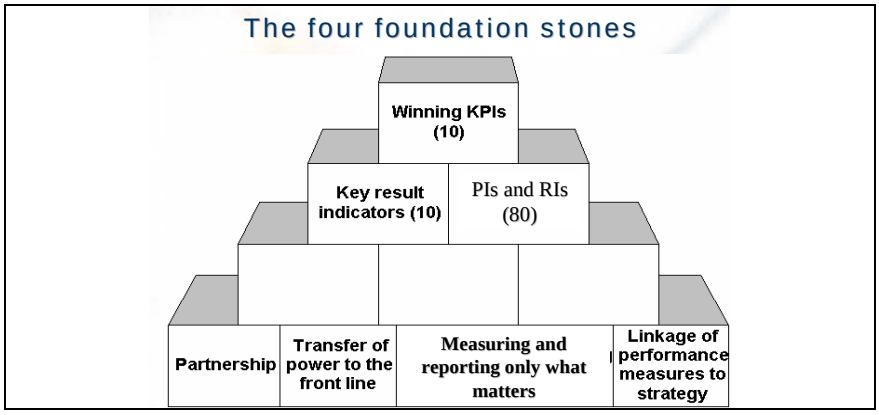
A **PI** could be the 'on-time in-full' deliveries this week

A **RI** could be the number of returns we get from customers each week(the return will be a result of a number of things not happening)

A **KPI** could be the deliveries made yesterday to key clients that were late or incomplete

Like a building, this project is only as good as its foundation stones, see Exhibit 3. The owner needs to realize that there needs to be consultation with management and staff, empowerment to fix important problems on the spot rather than seeking their permission. A radical change to what is measured, and how measures are reported, and lastly these measures should be linked to the CSFs of the organisation and consistent with the strategic direction the organisation is travelling on.

Exhibit 3 The four types of performance measures



Resourcing

In my book[1] I talked much about the importance of in-house ownership. In a SME it is likely that their will be a reliance on some outside professional advisor who knows the company well. This advisor must work closely with the in-house resources chosen to run the project. If the outside advisor drivers and implements this process there is a risk of lack of ownership.

It is important that this project does not fail through lack of resourcing or the 'attention deficit disorder' many organisation's suffer from. In SMEs many projects are simply added on to the existing workload and thus seldom have a chance to succeed. Within weeks management has moved on having lost interest partly due to the lack of 'rubber on the road'. There will need to be some full time commitment, see Exhibit 4, and I would recommend the moving of the 'family photos' to the project room otherwise the staff members will end up firefighting when they should be on the project!

Exhibit 4 a guide to the level of commitment the in-house resources will need to make

Size of SME (FTEs)	5-25	25-75	75-150	150-250
Duration	2 weeks	4 weeks	6 weeks	6 weeks
External advisor	Main driver	Initiator and facilitator	Facilitator	Facilitator
In house staff	One person full time for 2 weeks	One person full time for 2 weeks, part time for 2 weeks	Two persons full time for 2 weeks, part time for 4 weeks	Two persons full time for 3 weeks, part time for 3 weeks

The eight phased approach

The eight phased approach is discussed in detail in my book[2] and the webcast[3]. The phases are set out in Exhibit 5 and discussed briefly in this article.

Exhibit 5 The eight phase process to implement in 'winning KPIs' in SMEs

Phase	Project week	pre	1	2	3	4	5	6	post
1	Selling the change and agreeing on the appropriate timing								
2	Workshop to find the organisations CSFs and start team scorecards								
3	KPI project team trained and empowered								
4	Teams complete their scorecards and record their measures								
5	Selecting organisational "winning KPIs"								
6	Developing the reporting frameworks at all levels								
7	Facilitating the use of winning KPIs								
8	Refining KPIs in 12 months to maintain their relevance								

Phase 1: Selling the change and agreeing on the appropriate timing.

In this phase we ensure the senior management team[4] (SMT) are sold in such a way as to ensure their commitment. At this point the SMT ensures that the timing is right before the project starts (e.g., no major projects or events will sidetrack the SMT in the next six weeks). The key to selling any change is to sell through the emotional drivers of the buyer, the CEO.

Selling by Emotional Drivers: How a Car Sale Is Made

Let us look at how a second-hand car salesperson sells cars using emotional drivers. Three customers over the same day arrive to look at the "car of the week" that has been featured in the local paper.

The first person is a young information technology guru, Y generation, with latest designer gear, baggy trousers part way down exposing a designer label on his shorts. The salesperson slowly walks up, all the time assessing the emotional drivers of this potential buyer, looking for clues, such as clothing, the car he arrived in, and so on. The opening line could be, "I hope you have a clean license, as I will not let you out in this beast if you have not. This car has 180 BHP, a twin turbo, and corners like it is on railway tracks." SOLD.

The second person could be me, with my gray hair visible. The salesperson would say, "This car is five-star rated for safety, eight air bags, enough power to get you out of trouble, unbelievable braking when you have to avoid the idiots on the road, and tires that will never fail you." SOLD.

The third person, with designer clothing and bag, is addressed with "This car has won many awards for its design. Sit in the driver's seat and see the quality of the finish. Everything is in the right place. I assure you that every time you drive this car you will feel like a million dollars!" SOLD.

If I was to sell the concept to your CEO I would probably ask a few questions.

- Does your organisation know which of our success factors are critical?
- Does the lack of alignment of daily activities to strategy concern your senior management?
- Are you overwhelmed by too many performance measures?
- Are you missing goals by taking your eye off your organization's critical success factors?

I would then point out to the SMT that:

- The previous performance measures may have not changed anything.
- The focus on the right measures would mean the CEO and SMT would be more effective in less time, saving many long evenings/weekends of work.
- The right KPIs will link daily staff activities to the strategic objectives as they have never been linked before.
- This KPI project would start to transform the reporting into a decision-based tool with a greater focus on is interesting, concise, and prompt.

Phase 2: Workshop to find the organisation's CSFs and brainstorm the performance measures within the CSFs

I recommend that you kick-start the process by having a two-day critical success factor (CSF) workshop. It is possible to do this in one day albeit you will not have time to brainstorm performance measures from the CSFs.

The objective of this workshop is to find the success factors that are fundamental to the success of the organisation. This workshop is very profound and I have delivered a webcast[5] on what is included, which is free to access. This helps sell the concept to those attending and delivers the CSFs to management and the board. Even if the project is cancelled at this stage, the clarity gained through finding the CSFs will be very profound.

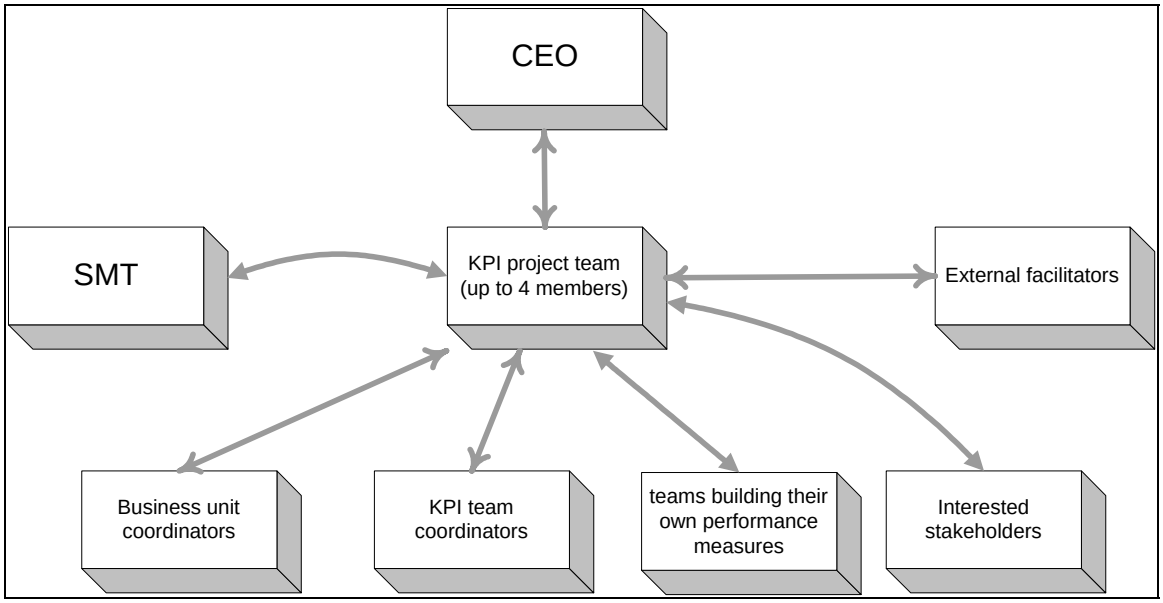
During the second day of the workshop the CSFs would be brainstormed by teams to find the relevant performance measures for their team scorecard. To make this task work you need to ensure that you invite a representative sample of most teams to the workshop.

Phase: 3 KPI project team trained and empowered

As mentioned for an SME a two person project team could work providing that the chosen project team members can be committed nearly full time, and report directly to the CEO, see Exhibit 6. Any layer in between the CEO and the team indicates that step one has not been successfully achieved. This point is so important that the project should not proceed if the CEO does not wish to be involved this way. The KPI project team members should have a proven track record of excellent presentation and communication skills,

flair for innovation, ability to complete, knowledge of both the organisation and sector, and the aptitude to bring others onboard.

Exhibit 6 Where the KPI team sits and its linkages



The KPI project team members should be a balanced mix of “oracles” and “young guns”, the young, fearless, and precocious leaders of the future who are not afraid to go where angels fear to tread.
All business units and service teams should appoint a person to liaise with the KPI team who is sufficiently knowledgeable about their operation to provide information and feedback.
This process need not cost a huge amount of money. The key issue is commitment of the SMT, the freeing up of two staff members to be full time on the project, and a will to finish what has begun.

Phase 4: Teams complete their scorecards and record their measures
After their training and empowerment, they commence a series of rollout team scorecard workshops. At the workshops, the SMT stresses the importance of active participation and the reasons for the project, and introduces the KPI team who are delivering the workshop. The workshop only needs to last one day. It can be run successfully with up to 80 staff.

Phase 5 : Selecting organisational "winning KPIs"
Key Performance Indicators represent a set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation.
The KPI team selects the winning KPIs after they have run the team workshops. It is highly likely that the KPIs will have emerged from that process. At this point we will check against the seven characteristics of ‘winning KPIs’.

I believe KPIs have certain characteristics, and I have developed a seven point checklist, see Exhibit 7

Exhibit 7 Characteristics of KPIs

▪ Non financial measures (not expressed in $s, Yen, Pds Euro etc)
▪ Measured frequently e.g. 24 by 7, daily or weekly
▪ Acted upon by the CEO and senior management team
▪ All staff understand the measure and what corrective action is required
▪ Responsibility can be tied down to a team
▪ Significant impact e.g. it impacts on more than one of top CSFs and more than one balanced scorecard perspective
▪ They encourage appropriate action (e.g., have been tested to ensure they have a positive impact on performance whereas poorly thought through measures can lead to dysfunctional behaviour)

The first two points are very significant and are the best 'sieves' to put all your performance measures through.

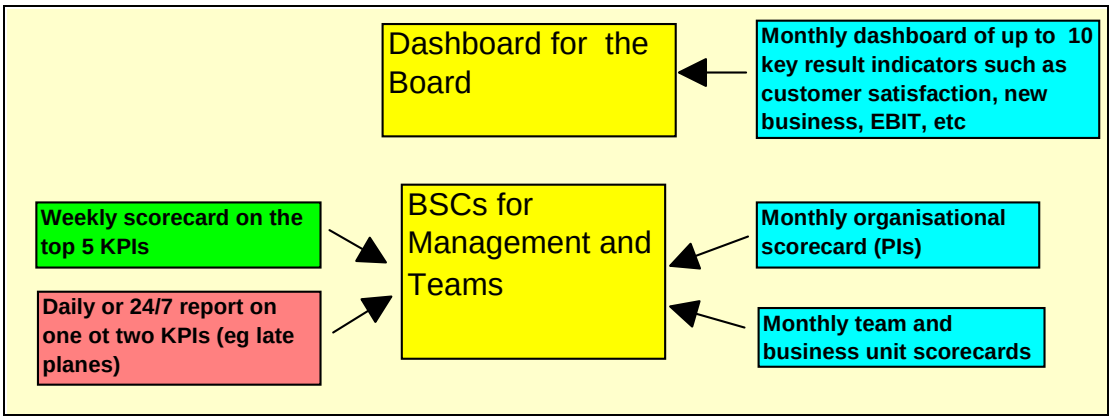
When you put a Pound or Dollar sign to a measure you have not dug deep enough. Sales made yesterday will be a result of sales calls made previously to existing and prospective customers, advertising, amount of contact with the key customers, product reliability etc. I classify any sales indicators expressed in monetary terms as a summary measure which I call a result indicators, which has been explained in this paper. In many organizations a KPI may rest with certain activities undertaken with your key customers who often generate most, if not all, of your profit.

KPIs should be monitored and reported 24/7, daily and a few perhaps weekly. How can a KPI be measured monthly, as this is "shutting the barn door well after the horse has well and truly bolted". KPIs are "current" or "future" measures as opposed to "past" measures. When you look at most organizational measures, they are very much past indicators measuring events of the last month or quarter. These indicators cannot be and never were a KPI. That is why a satisfaction percentage (e.g. 65%) from a customer satisfaction survey performed every six months can never be a KPI.

Phase 6: Developing the reporting frameworks at all levels

The reporting framework has to accommodate the requirements of different levels in the organisation and the reporting frequency that supports timely decision making. A suggested framework for reporting performance indicators is set out in the Exhibit 8.

Exhibit 8 A suggested reporting framework



Most KPIs should be reported each day (electronically) at 9am or as in the case of British Airways 'late planes in the sky' constantly updated 24 hours a day, 7 days a week.

In most organisations there will be another "top five" KPIs which will need to be reported at least weekly (excluding the daily KPIs identified above). One weekly measure that is important in most organisations is the reporting of late projects and late reports to the senior management team. Reporting late projects, on a weekly basis, will embarrass project teams to complete what they start.

The remaining PIs can be reported monthly along with team, department, divisional and organizational-wide scorecard reporting.

The Board should receive a one page governance "dashboard" on the five to eight key result indicators. These KRIs cover the well being of the organisation. It is important to ensure the Board donot get the PIs or KPIs as this will drag then into management issues diverting their focus from Governance and strategy.

It is recommended that the SMT leave the design of the BSC template to the KPI team, trusting in their judgment. The SMT should tell the KPI project team that they will be happy to live with their sculpture knowing that they can always "keep the plinth and recycle the bronze" 6 to 12 months down the road. What you are looking for is a reporting framework that covers the measures reporting progress in the CSFs and also covers a balance of the six balanced scorecard perspectives described earlier.

The key is to seek agreement that suggested modifications will be recorded and looked into at the end of the agreed review period. It will come as no surprise that many suggested modifications will not stand the test of time. Some report formats are shown in a subsequent section.

Phase 7: :Facilitating the use of winning KPIs

Many organisations have performed good KPI work only to have it fail or become buried when key staff moves. It is thus important that the use of KPIs becomes wide spread in an organisation and is incorporated into its culture.

The SMT's role is crucial. It is important that they lead by example by using the KPIs at their disposal and seeking explanation immediately when any of these are trending in the wrong direction. Ideally you are seeking to create an environment where management and staff expect a phone call from the SMT if a KPI was turning in the wrong direction and so they will do anything in their power to avoid that situation.

In turn the SMT needs to be committed to empowering staff to take immediate action e.g. Toyota empowered staff on the shop floor to stop the production line if they find any defect in a car they are working on. Resources need to be allocated so continual education and communication can be maintained. This should not just be the responsibility of the KPI project team.

If the CEO, members of the SMT, and management focus on the KPIs every day, staff will naturally follow suit. The CEO spending 30 minutes a day asking for explanations from managers and staff about a wayward KPI will soon create focus. It certainly will be seen that receiving two phone calls from the CEO is not a good career move! In other words, the CEO should "walk the talk" and always know where the KPIs are heading at any point during a day. Thus, on out-of-office trips, the CEO should be able to link into the intranet and obtain an update of the KPIs.

The system will have failed if the review process relies on structured, regular meetings at each level where KPIs are in operation. Remember, KPIs are indicators that need monitoring, reporting, and action 24/7!

Staff may require training to help them understand the actions they can and need to take to correct wayward KPIs. Empowerment must take place to ensure staff have the resources and freedom to take action.

Phase 8: Refining KPIs in 12 months to maintain their relevance

It is essential that the use and effectiveness of KPIs be maintained. Teams will modify and change some of their KPIs and PIs as priorities change during their journey of process improvement. It is simply a case of moving on to the next priority area for improvement as the previous ones have been mastered and behaviour alignment has been locked-in. But some KPIs should always be maintained because of their relevance to the organisation-wide CSFs e.g. for an airline the late plane KPI will always be used. In addition it is likely that KPIs relating to customer focus and workplace culture will always remain in place.

Teams will also need to amend and build new measures to respond to the emergence of new CSFs. The new CSFs will be identified during quarterly rolling planning phases.

Teams should review and modify their own KPIs and PIs on a periodic basis, certainly not more frequently than every six months.

Where to from here

This article is a very brief introduction into a methodology that will leave a lasting legacy in your organisation. To assist you with the exercise I have delivered a number of webcasts[6] . You can also access the checklists from my book from my website www.davidparmenter.com I wish you well with this project and please do let me know when it is imbedded and working.

[1] Key Performance Indicators –developing, implementing and using winning KPIs Published by Wileys
[2] See above
[3] Implementing KPIs in Smaller Orgs (<200 Staff) on www.bettermanagement.com
[4] Senior management team defined as the CEO and their direct reports
[5] See www.betterrmanagement.com search parmenter Finding your organization's critical success factors
[6]