

# If you are not managing your business through your KPIs then maybe you're not managing

By David Parmenter

Management is well aware of the significance of focusing on key performance indicators (KPIs). These measures report “the pulse” of the organisation.

My favourite KPI story is about Lord King who set about turning British Airways (BA) around in the 1980s by reportedly concentrating on one KPI. He was notified, wherever he was in the world if a BA plane was delayed. The senior BA official at the relevant airport knew that they would receive a personal call from the Chairman. It was not long before BA planes had a reputation for leaving on time.

The lack of appropriate KPIs is often acknowledged by participants as a weak area and one in which they wish to focus on in the future.

In an ideal world one would approach this exercise on a company wide basis tying it in with benchmarking, business process re-engineering, etc. However such a project is enough to put many people off. The purpose of this article is to set out some ways in which progress can be made in ascertaining those key performance indicators which will help you manage your business.

## Some of the steps you can take

- Acquire the “Key Performance Indicators Manual”
- Set up a KPI team to find the key result areas
- Develop simple systems to trap the KPI data
- Report KPIs more frequently (daily/ weekly)
- Assist with the development of a hierarchy of performance indicators

### Acquire the “Key Performance Indicators Manual”<sup>1</sup>

While I was writing this article I came across a publication which I recommend to any reader who is looking to make progress in this area. It is a handbook to with a well laid out and easy to follow methodology for the implementation and use of KPIs- it even includes slides to present to staff to explain the purpose of the exercise.

The manual has three sections, general principles, a workbook and a facilitator’s resource kit.

### Set up a KPI team to find the key result areas

First lets agree on the difference between key result areas and KPIs. Before I started to write this article I often would use these two terms in similar ways, they are however different. Key results areas are the issues “that determine the organisational health and vitality” in which good performance is necessary, KPIs are the actual measures by which performance can be tracked within these key result areas.

In the British Airways example the timely departure of an aircraft (a KRA) had major ramifications to customer satisfaction, supplier relationships, avoiding penalty costs including passenger overnight stays, servicing schedules etc. The reporting of the actual delay was the KPI.

Finding the KRAs and the appropriate KPIs is very much like peeling off the layers of an onion to get to the core. Whilst it is easy to come up with a reasonable list of indicators, it is hard to find the KPIs, which may number less than five.

It is not uncommon that measures similar to the eventual KPIs have been known about for a long time by some of the long term employees known as the “oracles”.

I believe that locating the KPIs is an exercise which requires a mix of mental horsepower and knowledge of the business. An in-house project team made out of the “rising stars” and the company “oracles” would appear to be a good combination.

A possible spin-off for the “rising stars” from participating in such a project could be a greater understanding of the fundamentals of the business and some helpful mentoring from the “oracles”.

It will also help to contact organisations who specialise in measurement of performance for they are likely to have a **database of critical success factors** used by other organisations.

### Develop simple systems to trap the data

Most readers will not be surprised that the answer lies with the executive information system (EIS) or the decision support system (DSS) that is still on your “waiting list”. From our studies\* it is surprising how few organisation have these systems up and running. Companies may have huge data warehouses which are gushing with data and creating a cacophony of “number noise”. The data making up the “unfound” KPIs may however be lying undiscovered in the mass of data, or worse not being collected.

One manufacturing participant\* with an EIS reports that the executives team see the KPIs for the last day's trading by 9 am the following morning. Management are now more focused, have quicker sales meetings, and the monthly reporting process is not so important as the KPIs are monitored daily. The board papers are less than 30 pages and the board meetings more strategic.

One quoted company participant\* has weekly reporting. Each business unit prepares a weekly reporting package enabling management to focus on the key areas.

The delays that await many organisations in this area leads one to the conclusion that the search for the perfect EIS or DSS is costing organisations at the bottom line. If your organisation is not focused on its KPIs then performance will waiver with the winds of change.

With the growth of **intranet** sites within organisations data retrieval does not need to wait for an all encompassing EIS. Participants\* report that they have been able to link their intranet to in-house databases relatively easily.

#### **Report KPIs more frequently (daily/ weekly)**

If a measure is a KPI it is very likely that it should be monitored and reported frequently. The monthly cycle is not appropriate.

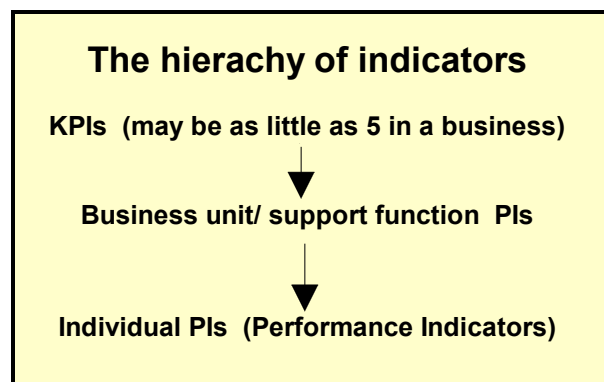
In order to focus on this issue accounting functions need to cut the time spent on month end reporting (see earlier article).

The KPI reporting should show management the trend. Graphics going back at least a rolling 12 months are now considered better practice. Such a daily or at the worst weekly exercise should not take the accounting function very long once the process is embedded.

If these KPIs are reported against frequently, and focused on by management it is likely, as one participant\* commented, that monthly management meetings are much quicker. The financials are a focus of the meeting as management already have a good idea of the company's performance from the regular KPI reporting.

#### **Assist with the development of a hierarchy of performance indicators**

This involves a company wide initiative rather than a think tank approach. A methodology is needed such as that outlined in the "Key Performance Indicators Manual"<sup>1</sup>.



Such a company wide initiatives may be costly, and take a lot of time but in the end will be worth it. The importance of KPIs is well stated in the following statement from the "**Key Performance Indicators Manual**"<sup>1</sup>

"Best practice is concerned with a partnership in change, empowerment of employees, integrated performance improvement and the introduction of team based structures into the workplace. **KPIs are a part of the best practice tool kit for drawing the elements together**"<sup>1</sup>

#### **Last words**

- Obtain a copy of the "**Key Performance Indicators Manual**"
- commence your search for your KPIs now, some "oracles" may well be leaving in the next few months
- A measure cannot be critical if management only need to monitor it monthly. One must "peel more layers off" to get to the core.
- commence reporting your KPIs to management daily or a worse weekly

<sup>1</sup> "Key Performance Indicators Manual", Woodlane Propriety Ltd, Melbourne, 1997.

Contact for purchasing the KPI manual is [www.woodslane.com.au](http://www.woodslane.com.au) ISPN # 072990 3265 . Cost of KPI manual is A\$160 plus P&H.

\*Waymark solutions limited run better practice studies and have a database of performance measures. David Parmenter is the managing director. Waymark solutions specialise helping organisations measure performance.

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