HOW TO IMPLEMENT WINNING KPIS IN 16 WEEKS

BY DAVID PARMENTER

Kaplan and Norton, in their groundbreaking book *The Balanced Scorecard: Translating Strategy into Action,* indicated that 16 weeks is sufficient time to establish a working balanced scorecard with KPIs. However, organizations of all sizes and complexity stumble with this process, and 16 weeks easily turns into 16 months. The key to success is to learn some key lessons:

- Find an external project facilitator.
- Begin with SMT commitment and education.
- Start off with a six-perspective balanced scorecard template
- Focus on the CSFs.
- Follow the 10/80/10 rule.
- Select a small KPI team.
- "Just do it."
- Use exiting systems for the first 12 months.
- Trap all performance measures in a database and make them available to all teams.
- KPI reporting formats are an art form, not a science.
- Maybe you need to rename.

Lesson 1: Appoint an External Project Facilitator

A suitably skilled external project facilitator is the key to success. Without this position being filled, dangers lurk everywhere. Throughout this manual you will see the important role the external project facilitator plays. External project facilitators should be free of any proprietary applications, be well versed in performance measures, have well-rounded consultancy skills, have the credentials so that the SMT will listen and follow advice, and be able to motivate those they comes in contact with.

The external project facilitator's role will be full time for the first three weeks and then part time as the project team takes over. It is important that the external project facilitator's role takes a backseat, as a mentor would, as soon as possible as the project team gains confidence. Toward the end of the project there may be only a catch-up meeting once every two weeks, with key documentation being reviewed via e-mail in the intervening period.

Benefit of This Action. Help keep the SMT focuseed and offer a sound platform from which the in-house can excel.

Lesson 2: Begin with the Senior Management Team: Commitment and Education

The SMT attitude is crucial—any lack of understanding, commitment, and prioritizing of this important process will prevent success. It is common for the project team and the SMT to fit a KPI project around other competing, less important firefighting activities.

The SMT must be committed to the KPI project, to driving it down through the organization. Properly implemented, the KPI project will create a dynamic environment. Before it can do this, the SMT must be sold on the concept. This will lead to the KPI project's being treated as the top priority, which may mean the SMT's allowing some of those distracting fires to "burn themselves out."

As a first step, set up a half-day workshop for the entire executive team and for those members of your in-house team who will be required to lead the project. The desired outcome is an

understanding of the issues, the benefits, why current performance measures in use are never going to create the desired change and to short list of the organization's success factors. After this workshop the SMT should be in a position to commit to the KPI project or put it back to simmer.

That commitment will involve the senior management team putting aside time each week to perform exercises, including giving feedback on suggested measures, being available to the KPI team for interviews, perhaps visiting organizations that are successfully using KPIs, and approving the BSC investment proposals – all within a tight time frame so as to keep within that 16-week implementation period.

Quote from a senior consultant

"Senior staff view the development of the BSC as an end in itself and go through the motions "to keep the boss happy." If the SMT is not strategic in its perspective and consequently does not see the BSC as a tool to help it better understand and manage the organization, this will be reflected in a loss of interest when the process of development gets tough, for example, when deciding on which KPIs to use and the trade-offs to be made. While the role of the SMT is important, the role of the CEO is critical. The CEO must be the central driver carrying the embryo BSC with him all the time, talking about it frequently, and so on."

Organizations sometimes find that support for the BSC flounders if a new CEO takes the helm before full implementation. It is important to sell, sell, sell the benefits to all new SMT members through their emotional drivers or their 'points of pain'..

The BSC will help the organization rethink its strategies. Sometimes it may be better to redirect resources from the next strategic planning exercise into the KPI project.

Benefit of This Action. The SMT will get a buzz from being involved in a dynamic project, which will enhance understanding of their business and improve the implementation of their organization's strategies.

Lesson 3: Start off with a six-perspective balanced scorecard template

Too often, time is spent debating the "perspectives," their names, and the design of the scorecard. The SMT loves this time of intellectualizing; however, it does not create much value. It is easy to get carried away with the debate, spending months ascertaining the perspectives while making little progress on defining the CSFs.

So what are the perspectives? Too much time can be spent debating whether there are four, five, or six perspectives and what their names are. Let me save you some trouble. You will need:

- One on the financials—call it *financial*
- One on (staff) learning and growth—call it *learning and growth*
- One on customer focus—call it *customer focus*
- One on internal business processes—call it *internal process*
- One on staff satisfaction—call it *staff satisfaction*
- One on environment/community—call it *environment/community*

To this end, the external facilitator needs to guide the SMT to accepting the perspectives recommended in this book.

Using the suggested six perspective names will mean that you are using a better practice perspective template for the first 6 to 12 months. After 12 months, the SMT and staff will be in a position of experience, knowledge, and understanding to fine-tune the perspective names to better suit the organization's needs.

Benefit of This Action The SMT will invest the scarce time available to this project, scoring goals.

Lesson 4: Focus on the Critical Success Factors

The CSFs determine the organizational health and vitality and where the organization needs to perform well. KRIs, RIs, PIs, and KPIs are the actual performance measures, which naturally

cascade from these CSFs. It is crucial that the SMT focus on providing the project team with CSFs. If this is done well, winning KPIs are much easier to find.

Most organizations know their success factors, however few organizations have:

worded their success factors appropriately

segregated out success factors from their strategic objectives

sifted through the success factors to find their critical ones – their critical success factors

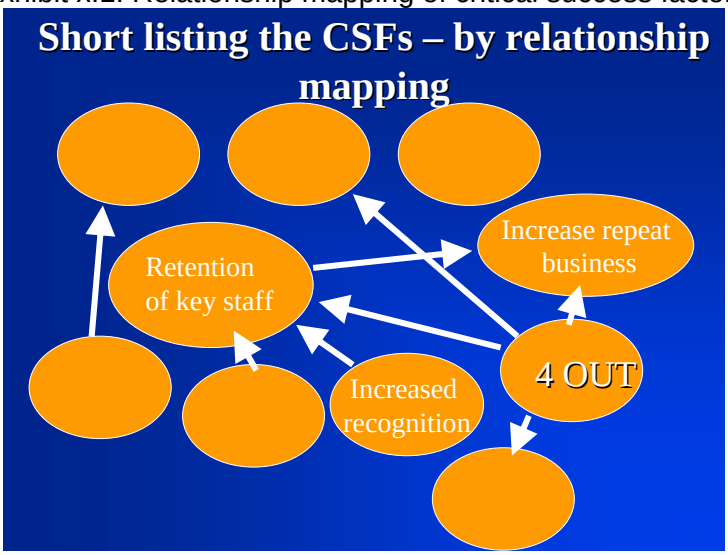
communicated the critical success factors to staff

If your organization has not completed a thorough exercise to know its critical success factors (CSFs) performance measurement will be a random process creating an army of measurers producing numerous numbing reports, and who often "measure" progress in a direction very remote from the strategic direction of the organization.

CSFs identify the issues that determine an organization's health and vitality. When you first investigate critical success factors, you may come up with 30 or so issues that can be argued are critical for the continued health of the organization. The second phase of thinning them down is relatively easy, as the more important CSFs have a broader influence, impacting many success factors. Better practice suggests that there should be only between five and eight critical success factors.

Once you have the right CSFs, finding the KPIs is much easier, as they will reside within these critical success factors. This process is performed by mapping the relationships, see Exhibit x.1, and is explained in detail in the Chapter "Finding your CSFs" in this book . The critical success factors that have the most influence – shown in Exhibit x.1 as the critical success factor with four arrows going out – are the ones to focus on first. All of the organization's key results indicators (KRIs) and KPIs will be measuring performance within these critical success factors.

Exhibit x.1: Relationship mapping of critical success factors



Benefit of This Action Finding an organisation's CSFs is I believe the El dorado of management, it will have a profound impact on communicating to staff what their focus should be on a daily basis. It will also help link daily activities to strategy and improve all forms of performance reporting.

Lesson 5: Follow the 10/80/10 Rule

Many balanced scorecards fail because the wrong measures are used. All their measures are called KPIs! I argue that many organisations are not working with their true KPIs, these measures have special characteristics that were discussed in an earlier chapter.

Kaplan and Norton recommend no more than 20 KPIs. Hope and Fraser[1] suggest fewer than 10

KPIs. The 10/80/10 rule is a good guide: 10 KRIs, up to 80 PIs, and 10 KPIs.

The external project facilitator's role is to ensure that the project team and SMT remain focused and concentrate on identifying those 10 KRIs, 80 RIs & PIs, and 10 KPIs that really matter. The external project facilitator needs to help the team differentiate between *key result indicators, performance indicators,* and *winning KPIs.*

Many organisations call every measure a "KPI" and thus end up with over 200 KPIs which creates confusion rather than clarity. All leading writers are saying the same thing, 'less is more'.

Many people confuse result indicators with KPIs. Sales, net profit, customer satisfaction and return on capital employed are not KPIs, as they are a result of many events occurring. These examples are KRIs, as they are measures that give a clear picture of whether you are travelling in the right direction. If a problem exists, they show it, but will not tell you what you need to do to correct it.

KRIs provide useful information to the board of directors, who should not be involved in day-to-day management. The KPIs lie several layers beneath the KRIs. The KPIs connect the 'work face' to the CEO. During the day, or every morning CEOs working with their KPIs are contacting people directly asking for explanations or giving recognition of their success. Not all teams will have KPIs as they cannot influence them. These teams will have RIs and PIs. It is important to note that the 10/80/10 is for the whole organisation and is repeated if you have a totally separate business unit e.g. different business units selling umbrellas and ice cream.

Example Onion analogy

I use an onion analogy to describe the relationship of these four measures. The outside skin describes the overall condition of the onion, how much sun, water and nutrients it has received, how it has been handled from harvest to supermarket shelf. The outside skin is thus a key result indicator. The layers represent the various performance and result indicators and the core is where you find the key performance indicators.

Benefit of This Action The KPI team will immediately focus on the end product (the 10/80/10), and not try to identify 80 KPIs in 200-odd performance measures.

Lesson 6: Select a Small KPI Team

KPIs can be designed successfully by a small team. Kaplan and Norton have seen BSCs designed successfully by an individual who had an in-depth understanding of the business.

Notwithstanding this possibility, a team approach with between two and four staff members is recommended. The external project facilitator, if involved right at the beginning, should help the SMT pick a team. Research into personnel records is recommended, as many talented staff are found in obscure places, some of which may have already had some KPI experience! The external project facilitator is looking for staff who have excellent presentation skills, knowledge of the organization and its market, a track record of innovation and completion, sound communication skills, and the ability to be cheerful under pressure (a recruiting trick of Sir Edmund Hillary). My suggestion is to find a blend of the oracles in the organization and team them up with "top guns"—young, fearless, and precocious leaders of the future who are not afraid to go where "angels fear to tread."

Once selected, this team must have a direct reporting line to the CEO (Exhibit 2.4). Any layer in between means that the SMT and CEO have not understood "SMT commitment."

The external project facilitator needs to convince management that these staff must be committed *full time* to the KPI project. Management will not complain if the project is completed ahead of schedule. The project team also needs to identify a liaison person (a coordinator) for each business unit and team. This liaison person needs to be knowledgeable about their operation and be available to provide detailed knowledge and feedback to project team members.

Senior managers should exclude themselves from the project team. Including an SMT member in the team will lead to a string of canceled meetings as the senior manager is caught in the firefighting activities that is very much their reality. With the best willpower in the world, SMT members can never be fully focused on just one project.

Benefit of This Action A carefully picked project team who, along with the coordinators, will have a good chance of success.

Lesson 7: "Just Do It"

The exact structure of result indicators, PIs, and KPIs is rarely right the first time. Kaplan and Norton agree with Nike and say "Just do it." The external project facilitator, SMT, and KPI project team need to ensure that the project culture is a "just do it" culture.

The external project facilitator's role is to ensure that the project team does not spend too much time on research. The key references are this KPI book and *The Balanced Scorecard: Translating Strategy into Action*.[2]

A "just do it" culture means that the team will not have to rely on external experts to run the project. CEOs are often wary of large projects that they perceive to be managed by expensive international consulting firms. The past decade is littered with six- or seven-figure consulting assignments, which have not delivered on the value expectations. A "just do it" culture brings the belief that the project team can do it. The external project facilitator's role here is to ensure that the project team remain confident (but not overconfident) and have picked up all the required skills they will need (e.g., delivering persuasive KPI presentations).

Benefit of This Action The project will be protected against procrastination and have a good chance of implementing the KPIs within a 16-week period.

Lesson 8: Use Existing Systems for the First 12 Months

The project team should promote the use of existing in-house applications for the collection and reporting of the performance measures for at least the first 12 months. Much can be done with standard applications such as Excel, PowerPoint, SharePoint Team Services, and Access. There is often no need to purchase specialized software at this stage. Any such purchases can be done more efficiently and effectively 12 months down the track. The appropriate timing for implementing software to aid in the collection and deployment of KPI data will, however, vary from organization to organization. Some organizations may well have a resident application that performs this task well or may already know which application they will use for this task and thus can invest in the appropriate systems earlier.

Sophisticated intranet software is of great assistance and is most likely available in-house. These applications will help the team set up its intranet website so that anyone interested in the development of performance measures can obtain access and contribute. They can provide preformatted lists with expiration dates to keep announcements current; and a place to collaborate on the development of KPI documentation and reports in real time.

The team will need to update the intranet site frequently themselves. It is too important to be left to a systems administrator who is not part of the project!

Benefit of This Action Focusing on an immediate solution using existing in-house software will avoid the project time scale's being compromised by delays in prepurchase assessments, purchasing, and implementing a new system.

Lesson 9: Trap All Performance Measures in a Database and Make Them Available to All Teams

During the 16 weeks a number of performance measures will be found that, while not in the top ten KPIs, will still be highly relevant to business and service teams.

The project team needs to establish a database to record these measures and communicate them through a KPI intranet home page. It is suggested that the database include the following fields:

- Description of the performance measure
- The type of performance measure (KRI, RI, PI, KPI)
- Person responsible for obtaining measurement
- System where data is sourced from or to be gathered
- Time Zone (past, current, future)

- Which balanced scorecard perspective(s) the performance measure impacts
- Suggested target
- Estimated time to gather information
- How often it should be measured (24/7, daily, weekly, monthly)
- Linkage to CSFs
- The teams who have chosen to measure it (this can act like a selection list). You should have a column for each team with a "yes" or "✓" indicating selection.

The database should show not only what all the current teams' measures are but also any discarded measures. The project team can then help the teams, business units, and divisions with consistency and completeness (e.g., one measure devised by one team can and should be used by others, where appropriate).

During the 16 weeks, it is important that the project team purge the database on a regular basis to eliminate duplication and ensure consistency (e.g., the KPI team can suggest to one team "you may like to look at measure Y as teams A, B, and C are choosing to use it").

Benefit of This Action This action will create a comprehensive and user-friendly resource for all.

Lesson 10: KPI Reporting Formats Are an "Art Form, Not a Science"

What is required is a reporting regime that thoroughly addresses those performance measures relevant to the CSFs and the six perspectives.

It is recommended that the SMT leave the design of the reporting formats (24/7, daily, weekly, and monthly reports) 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 track." It may require constant reminding by the external project facilitator to ensure this rule is followed by the SMT.

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.

The KPI project team should make good use of the reporting templates provided in Chapter 5 before attempting to develop any of their own.

Benefit of This Action This action leads to swift adoption of better-practice reporting templates.

Lesson 10: Maybe You Need to Rename

Key result indicators, RIs, PIs, and *winning KPIs* should ideally be structured within a balanced scorecard. However, across the world, there have been many failed BSCs principally due to "garbage in, garbage out."

The word *scorecard* may have negative connotations to management. What about *navigator, compass,* or other directional terms to help sell the concept and galvanize participation? Changing the name is particularly important where existing management have prior negative experiences with balanced scorecards.

Some organisations offer staff a significant prize for the staff person who comes up with the best name!

Benefit of This Action This action creates a KPI project name that helps galvanize the organization behind it.

Endnotes

1. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap.* Boston: Harvard Business School Press, 2003.

2 Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action.* Boston: Harvard Business School Press, 1996.

Writer's biography

David Parmenter is an international presenter who is known for his thought provoking and lively sessions, which have led to substantial change in many organisations. David is a leading expert in: the development of winning KPIs, replacing the annual planning process with quarterly rolling planning, quick month-end processes and converting reporting to a decision based tool.

David's work on KPIs is recognized internationally as a breakthrough in understanding how to make performance measures work. His book, 'Key Performance Indicators: Developing, Implementing, and Using Winning KPIs' is one of the best selling performance management books on Amazon.com. John Wiley & Sons Inc have also published his second book "Pareto's 80/20 rule for Corporate accountants".

David has delivered workshops to thousands of attendees in many cities around the world including Sydney, Melbourne, Kuala Lumpur, Singapore, Johannesburg, Dublin, London, Manchester, Edinburgh and Prague.

David has worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse, and he is a fellow of the Institute of Chartered Accountants in England and Wales.

He has written over 30 articles for the accounting and management Journals including *"quarterly rolling planning - removing the barriers to success", "Throw away the annual budget", "Beware corporate mergers", "Implementing a Balanced Scorecard in 16 weeks not 16 months", "Convert your monthly reporting to a management tool", "Smash through the performance barrier", "Is your board reporting process out of control?" "Implementing winning Key Performance Indicators", "Quick month end reporting"* etc.

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