SETTING FRESH GROWTH IN MOTION

With the use of key performance indicator projects, it's easy to be unsuccessful. **David Parmenter** discusses how businesses can avoid failure

From my observations, the failure rate for key performance indicators (KPIs) and balance scorecard projects is off the scales. There are a number of contributing factors that have led to this.

Management, who have yet to receive formal education on performance management, are running organisations in both the private and public sectors. Unlike accounting and information systems, where rigorous processes have been formulated, discussed and taught, performance measurement has been left an orphan of business theory and practice. To make matters worse, organisations are being led by poorly trained chief executive officers (CEOs).

The reasons for this lack of CEO training stems back to the informative years. In the 1990s, there was wholesale divestment in human resources (HR) on a grand scale. In the 1980s, it was common to see large HR departments with their own training, recruiting and nurturing activities. Nothing regarding people could take place without the involvement of HR. Their sphere of influence was everywhere.

In order to become a supervisor, you had to attend a week-long course. Further up the tree, more financial investments were taking place. Executive team members were being sent to leading universities around the world to become indoctrinated with modern management thinking. At General Electric (GE) the management was exposed to the greatest thinkers alive, with father of management thinking Peter Drucker being a regular visitor to Crontonville, their management training school. GE CEO Jack Welch's phenomenal performance can be attributed to the training and mentoring he received. As a senior manager, he was required to deliver training to younger managers; a reverse training programme successfully used by modern thinking companies.

Nowadays it is hard to find more than two executives in the same senior management team who have had this level of investment in their training. Being in senior management without mentors behind you is like going tandem skydiving without the instructor strapped to your back.

One of the biggest casualties from this lack of ongoing education of the senior management team has been the failure of large performance management projects, such as KPIs, to succeed.

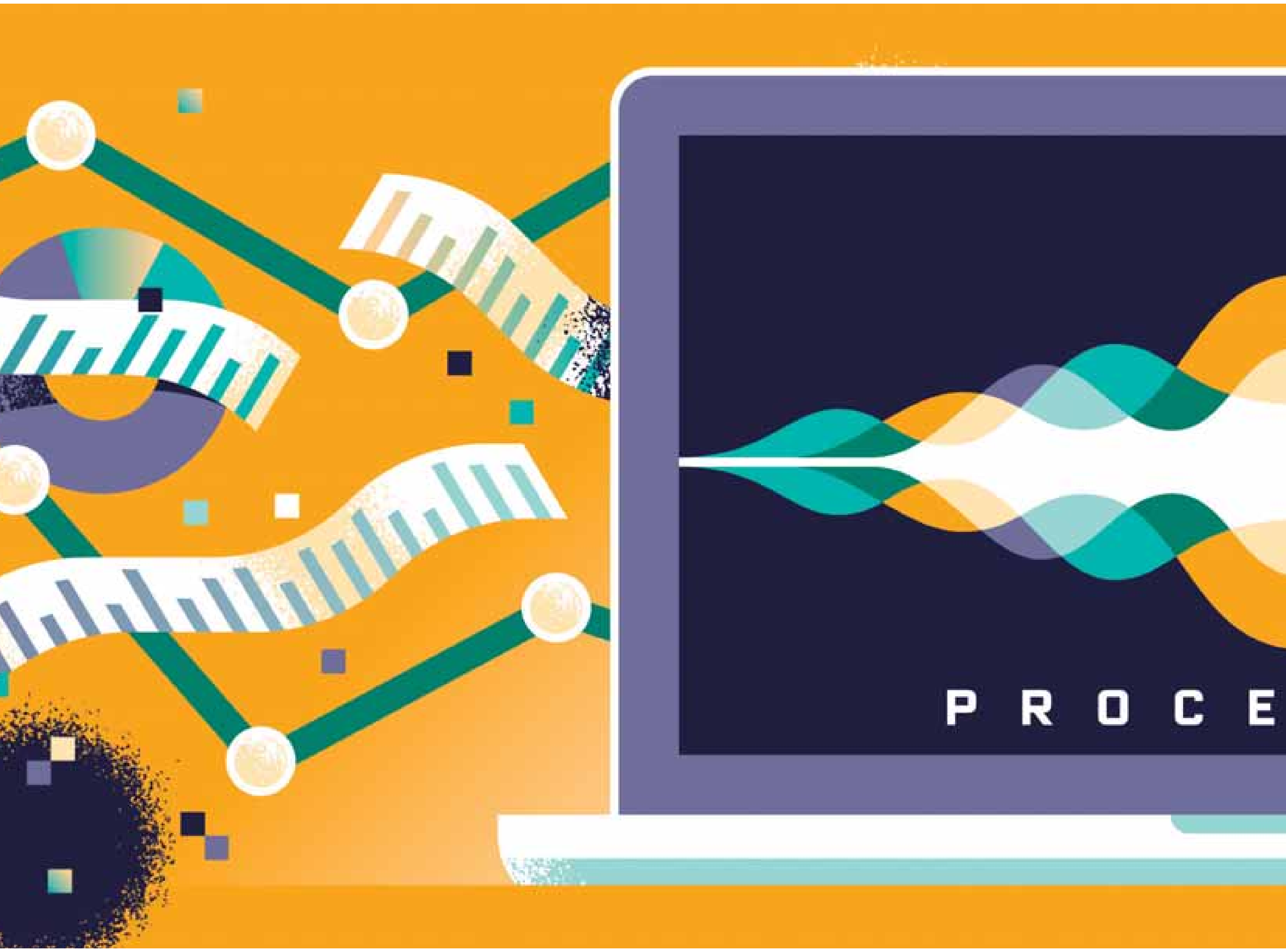
In many organisations, KPIs are dysfunctional and thus, a broken tool. Measures are often a random collection, prepared with little expertise, thus signifying nothing. KPIs should be measures that link daily activities to the organisation's critical success factors, thus supporting an alignment effort within the organisation, in the intended direction. I call this alignment the El Dorado of management.

PAST STRUCTURAL FAILURES

Some of the problems can also be laid at the continued use of broken management tools, which have been used year in, year out without question.

Far too often organisations are too large for integrity to be unchallenged. The number of layers you have in an organisation undermines values, builds silos and enables and supports broken management practices to thrive. Two such broken practices are performance related pay systems – based on defined targets – and the drawn out annual planning and budgeting cycle. In reality, this is no more than an exercise in annual politics, with the Machiavellian managers becoming the overfunded winners.

I now believe that dysfunction will become prevalent when an organisation has more than five



GORAN FACTORY

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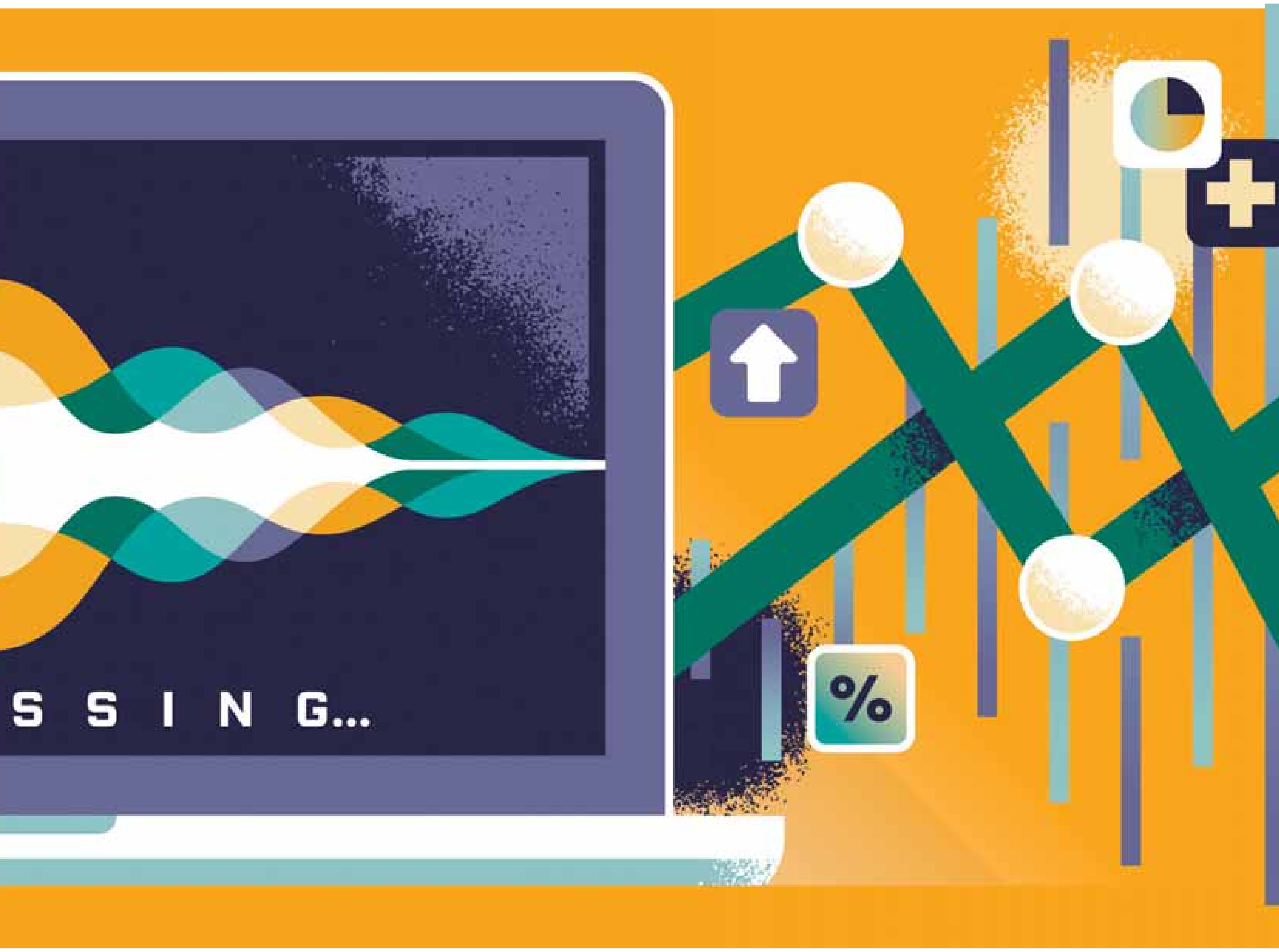
layers of management. If we have each manager having between seven to 10 director reports on average, we come up with a maximum for an organisation of between 2,500 to 7,000 employees, over which I would argue there would be a lack of integrity and performance unless you subscribed to a subsidiary model such as Berkshire Hathaway has done. In Berkshire Hathaway, individual organisations are left alone to manage their own affairs, while supported and funded by a governing body that knows the difference between management and governance.

A common feature of the many failed KPI projects I have heard about is that the cart was put in front of the horse; management was going for a quick fix for the wrong reasons. KPIs were being set up so management could have a hook to hang the bonus structure on. If you believe you can set a predetermined target that is meaningful, you are as daft as the investment sector, which every year pays millions to hedge fund managers, only to find that the risks that were taken to arrive at the year-end result unwind to leave the investors with red ink.

A RADICAL TREATMENT

For centuries the medical profession has realised that in acute cases radical treatment is required. Some treatments for critically ill patients involve the eradication of the immune system, and then slowly, step by step, reintroducing it. An abandonment of performance measures, annual planning and budgeting and the current performance-related pay system, albeit on a short-term basis,



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will give you time for the required radical treatment to work.

Before an organisation tackles its KPIs, it should throw them all out along with other broken management practices. At the same time, throw out your annual budgeting regime. Replace it with a quarterly rolling regime (see *Time to abandon ship?* in September 2016's issue).

In order to put the horse before the cart, you will need to do several things. First, you will need to rebuild the HR function into a powerhouse. By reinvesting in HR and promoting the HR manager to be positioned alongside the CEO as Welch did, you will have a chance to build leaders equipped and shaped for tomorrow.

Have a mandate that no chief executive will ever be parachuted into the organisation. All potential CEOs are to be introduced at a lower level, so they really know the organisation they are being schooled to lead. Over 80% of Jim Collins' *Good to Great* companies had internally grown CEOs. GE and Toyota are yet to have an outside-generated CEO.

Redesign the performance-related pay system. Bonuses would no longer be based on dubious formulae matrixes, and instead would be rewarded on a retrospective look at performance, including a comparison against the performance of peers and that achieved by third parties. This change would dispel one of the greatest myths of performance measurement, which is by linking pay to performance measures you will increase performance.

Real change will not come from simply measuring results. You need to

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change the philosophy within management, and change comes when the staff in the organisation embraces the concept of Gemba Kaizen. The theory behind Gemba Kaizen is that there is a return to focus on the operations as the key to success, not the exulted corridors of head office. Only when you have head office staff regularly visiting the operations to understand what is happening, will you get measures that mean something.

CRITICAL SUCCESS FACTORS

Before measures are developed, you need to know what is important in the organisation to get right day in, day out. Every organisation on the planet seeking outstanding performance needs to know what its critical success factors are and have these communicated to staff.

When visiting an organisation, I always look around the walls. If I am unable to see posters with the critical success factors, I know immediately that the organisation does not have this clarity. Every department will have their own version of what is important supporting their own silo mentality.

Creating a learning culture in an organisation is harder than it may appear. It means management – as they climb up the corporate tree – have a hunger for knowledge that is never satisfied.

Welch was an avid read reader of management books, and it was no surprise that he was one to first introduce total quality management into large American organisations.

In a learning organisation, the concepts of lean, agile, Gemba Kaizen and innovation, as preached by great paradigm shifters such as Jim Collins, Gary Hamel, Welch, Drucker and Peters and Waterman, would be explored and adopted en masse.

A total rethink of how consultants are used is needed. Drucker pointed out that a new job should never be given to a new person. Far too often weak management is happy to pay six-figure sums to consultants to undertake a project on the grounds of "at least we tried". Projects that you want to succeed should be managed by an in-house resource; schooled and coached by an experienced resource.

Is it possible to provide an example of a significant implementation that has been delivered by external consultants on or under budget? These projects are as rare as hen's teeth.

SUCCESSFUL KPI IMPLEMENTATION

For KPI projects that did deliver, I noticed the following characteristics. To begin with, it committed a complete and thorough exercise to ascertain their organisation's critical success factors (CSFs), and then ensured that all measures used by the organisation relate back to the CSFs. It is the CSFs and the performance measures within them that link daily activities to the organisation's strategies.

There was an understanding that meaningful performance measures were found in the operations (Gemba) and not in the head office. There was close linkage between the KPI team and operations as the team members had been sourced from there.

The CEO always talked about the latest management book they had read. If Welch found time to read when he was running his large empire, then we all can find time to read a chapter or two, three times a week.

An in-house expert in performance measurement had been groomed. These people were quiet achievers, finishers of the highest order, who were well respected within the organisation.

KPIs also featured wide commitment and involvement from the oracles in the business – the wise owls that everybody refers to when they need answers. Additionally, there was a longer-term view on the project and the investment to make the KPI project team full time on the project.

An environment where each performance measure was piloted before its wide-scale use, enhancing its chances of success. Implementing measures without this testing is, at best, naïve, and at worst, incompetent.

Finally, there was mass abandonment of existing measures, with the retention of only those that did work. ●

David Parmenter, expert in KPIs, quarterly rolling forecasting and planning. He is an international presenter of workshops and the author of four books