Key Performance Indicators

Developing, Implementing, and Using Winning KPIs

Third Edition

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CHAPTER 1

The Great KPI Misunderstanding

Overview

Many companies are working with the wrong measures, many of which are incorrectly termed key performance indicators (KPIs). It is a myth to consider all performance measures to be KPIs. This chapter explores how the four types of performance measures differ with examples of each type. The seven characteristics of KPIs are defined. The confusion over whether measures are lead or lag indicators is addressed. The questions *How many measures should we have?* and *How many of each measure type?* are answered. The importance of timely measurement is also covered.

M any organizations are working with the wrong measures, many of which are incorrectly termed *key performance indicators* (KPIs). I believe it is a myth to consider all performance measures to be KPIs. From my research over the past 25 years I have come to the conclusion that there are four types of performance measures. These four measures are in two groups: *result indicators* and *performance indicators*.

I use the term *result indicators* to reflect the fact that many measures are a summation of more than one team's input. These measures are useful in looking at the combined teamwork but, unfortunately, do not help management fix a problem as it is difficult to pinpoint which teams were responsible for the performance or nonperformance.

Performance indicators, on the other hand, are measures that can be tied to a team or a cluster of teams working closely together for a common purpose. Good or bad performance is now the responsibility of one team. These measures thus give clarity and ownership.

<div align="right">CHAPTER 2</div>

The Myths of Performance Measurement

Overview

Key Performance Indicators (KPIs) in many organizations are a broken tool. The KPIs are often a random collection prepared with little expertise, signifying nothing. In this chapter I explore the myths surrounding performance measurement which have given rise to this dysfunctional situation.

Since the second edition was published I have become increasingly aware that key performance indicators (KPIs) in many organizations are a broken tool. Measures are often a random collection prepared with little expertise, signifying nothing. KPIs should be measures that link daily activities to the organization's critical success factors (CSFs), thus supporting an alignment of effort within the organization in the intended direction. I call this alignment the El Dorado of management. However, poorly-defined KPIs cost the organization dearly. Some examples are: measures gamed to the benefit of executive pay, which leads to the detriment of the organization; teams encouraged to perform tasks that are contrary to the organization's strategic direction; costly "measurement and reporting" regimes that lock up valuable staff and management time; and a six-figure consultancy assignment resulting in a "door stop" report or balanced scorecard that doesn't function well.

Let us now look at the myths surrounding performance measures.

Unintended Consequence:
The Dark Side of Measures

Overview

Every performance measure has a dark side, a negative consequence, an unintended action that leads to inferior performance. I suspect well over half the measures in an organization may well be encouraging unintended negative behavior. This chapter explores examples of dysfunctional behavior resulting from poorly designed measures. It also explores why KPIs should not be linked to performance-related pay.

Measurement initiatives are often cobbled together without the knowledge of the organization's critical success factors and without an understanding of the behavioral consequences of a measure.

Every performance measure can have a dark side, a negative consequence, an unintended action that leads to inferior performance. I suspect well over half the measures in an organization may well be encouraging unintended negative behavior. The importance of understanding this dark side and the careful selection of measures should never be underestimated. The frequency with which measures are set to fail by at best naïve or at worst corrupt management is breathtaking.

The importance of understanding this dark side and the careful selection of measures should never be underestimated. How performance measures can go wrong can be illustrated by these examples.

CHAPTER 4

Revitalizing Performance

Overview

Performance management has been much misunderstood, misused, and abused, thereby preventing too many organizations from reaching their potential. Before performance measures can work, an organization needs to be conversant with the foundation stones and facets of performance management. This chapter explores the foundation stones that need to be in place to revitalize performance and the various facets of performance management that need to be mastered. It goes on to answer the question *"What is more important, staff aligning themselves to their organization's critical success factors (CSFs) or having the right performance measures?"*

An accredited coach pointed out to me recently that I had not made it clear enough as to why the senior management team should be interested in performance measures.

Winning KPIs are part of the bigger picture to succeeding with performance management. I have developed a model to help organizations see where KPIs fit within the larger picture of revitalizing performance management, see Exhibit 4.1. It is my hope that this model will help identify why organizations are failing to meet their potential and why many performance-management initiatives, like the balanced scorecard, fail.

I believe that performance management has been much misunderstood, misused, and abused, thereby preventing too many organizations from reaching their potential. Before we can get performance measures to work in organizations, we need to understand considerably more about performance management.

CHAPTER 5

Strategy and Its Relevance to Performance Measures

Overview

"What is the purpose of performance measurement? Is it to monitor the implementation of strategic initiatives or as I believe, to help the workforce focus on the critical success factors of the business, day-in and day-out? In this chapter the linkage between strategy, critical success factors and performance measures will be shown. The difference between mission, vision, values, and management principles will be clarified. The need for a concise strategy that is clear and can be easily communicated is emphasized. The difference between "business as usual" and "new business" initiatives is clarified.

Strategy is the way an organization intends to achieve its vision. In a competitive environment, your strategy will distinguish you from your competition. In the public sector, your strategy determines the way you can best marshal your resources to achieve desired outcomes.

An organization's strategy is related to performance measures through a series of linkages as shown in Exhibit 5.1.

I have seen far too many strategic plans go nowhere quickly. I often mention that if you suffer from insomnia, read the first page of your organization's strategic plan and you will be asleep by the second page. Many organizations could inflict damage on their major competitor if they planted an original copy of their organization's strategy into the competitor's possession. Because, as night follows day,

CHAPTER 6

Background to the Winning KPI Methodology and Its Migration

Overview

Organizations often begin to develop a KPI system by immediately trying to select KPIs without the preparation that is indicated in the six-stage implementation plan. This chapter outlines the migration from my earlier twelve-step model to a six-stage model and provides an overview of the six stages.

Many organizations that have operated with key performance indicators (KPIs) have found the KPIs made little or no difference to performance. In many cases this was due to a fundamental misunderstanding of the issues. Organizations often begin to develop a KPI system by immediately trying to select KPIs without the preparation that is indicated in the six-stage implementation plan. Like painting the outside of the house, 50 percent of a good job is in the preparation. Establishing a sound environment in which KPIs can operate and develop is crucial. Once the organization understands the process involved and appreciates the purpose of introducing KPIs, the building phase can begin.

The Original 12-Step Process

In the first two editions of my KPI book I talked about a 12-step process that should be put into an organization with over 500 FTEs within a 16-week timeframe (see Exhibit 6.1). I also gave a shorter version

CHAPTER 7

Foundation Stones for Implementing Key Performance Indicators

> ## Overview
> There are seven foundation stones that need to be laid before we can successfully develop and utilize key performance indicators (KPIs) in the workplace. Success or failure of the KPI project is determined by the presence or absence of these seven foundation stones. In this chapter I explain the seven foundation stones, which are: (1) Partnership with the staff, unions, and third parties; (2) Transfer of power to the front line; (3) Measure and report only what matters; (4) Source KPIs from the critical success factors; (5) Abandon processes that do not deliver; (6) Appointment of a home-grown chief measurement officer; (7) Organization-wide understanding of the winning KPIs definition.

There are seven foundation stones that need to be laid before we can successfully develop and utilize key performance indicators (KPIs) in the workplace. When building a house, you need to ensure that all the building is undertaken on solid foundation stones. Success or failure of the KPI project is determined by the presence or absence of these seven foundation stones (see Exhibit 7.1). They are so important that I can guarantee you will have limited success without them in place. I have witnessed far too many projects where well-meaning and talented individuals have compromised these foundation stones only to later suffer the fate of an underperforming KPI platform.

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CHAPTER **8**

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Getting the CEO and Senior Management Committed to the Change (Stage 1)

Overview

The senior management team must be committed to developing and driving through the organization's KPIs and any balanced scorecard that includes them. Thus, the timing of the project is vital. This project has to find a suitable window where the senior management team will have time to commit to the change process. This chapter outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

The senior management team must be committed to developing and driving through the organization's KPIs and any balanced scorecard that includes them. In order for this to happen the thought leader who is driving this concept forward needs to follow the guidelines set out in Chapter 10, Selling the Change. In addition, timing when to commence this project is everything. This project has to find a suitable window where the senior management team (SMT) will have time to commit to a KPI project.

Up-Skill In-House Resources to Manage the KPI Project (Stage 2)

Overview

The success of a KPI project rests with trained home-grown staff who have been reassigned so that they are full time on the project. The chapter covers the importance of selecting an in-house person to lead the KPI team (chief measurement officer), the reasons why choosing an external recruit to run the KPI team is doomed to fail, the training that will be required as well as the need for a "just do-it culture" in the KPI team. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

If a KPI project fails or lacks momentum, one often can look back to this stage and see where it all went wrong. The success of a KPI project rests with trained home-grown staff who have been reassigned so that they are full time on the project. The developing of home-grown resources who have the time to develop into measurement experts is vital.

Establish a Winning KPI Team Working Full Time on the Project

This activity was step two in the first and second editions of this book. As mentioned in Chapter 7, there needs to be a new approach to

CHAPTER **10**

Leading and Selling the Change (Stage 3)

Overview

All major project implementations are deeply affected by the success or failure in leading and selling the change. This chapter outlines John Kotter's model of leading change, emphasizes the importance of selling by emotional drivers of the intended audience, and sets out the steps required in this stage. This chapter gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

Before we venture further into the process of implementation, we need first to address selling the change within our organization. As we well know from past experiences, this sales process is not easy and prone to failure. I would argue that more than half the initiatives that are declined by the board or senior management were under sold. In other words, given the right approach, the initiative would have gone ahead.

If you are not prepared to learn the skills to cover the common deficiencies in selling change process, you are better off playing golf or burying yourself in a process. Selling change requires a special set of skills and we all can, and should, get better at it. The people with the natural talent in this area are likely to be found in sales or public relations functions.

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CHAPTER **11**
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Finding Your Organization's Operational Critical Success Factors (Stage 4)

> ### Overview
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> Critical success factors (CSFs) are operational issues or aspects that need to be done well day-in, day-out by the staff in the organization. This chapter looks at the alignment between CSFs and external outcomes, highlights the importance of CSFs' identifying that this is a missing link in management theory, that an organization has typically five to eight CSFs, and that CSFs should be the source of all important performance measures—the winning KPIs. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

I was first introduced to critical success factors by the talented people who wrote the KPI manual for AusIndustry (an Australian government department). They defined critical success factors as the "list of issues or aspects of organizational performance that determine ongoing health, vitality, and well-being."[1] I have always seen these as operational issues or aspects that need to be done well day-in, day-out by the staff in the organization. They are about what the staff inside the organization can do, and should do.

Determining Measures That Will Work in Your Organization (Stage 5)

Overview

Many performance measures are created from a flawed process. Frequently the task of finding measures is carried out at the last minute by staff members who do not have a clue about what is involved in finding a measure that will create the appropriate behavioral response. This chapter looks at common reasons why organizations get their measures radically wrong, how to design appropriate measures, the need for a performance measure database, and how you help teams select the appropriate measures. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

In this important stage (Stage 5 in the methodology) we need to first understand how to determine measures, how to record them, understand the importance of sorting the wheat from the chaff, and agree that measures are best found at the workface by teams rather than the traditional top-down approach of the balanced scorecard. Having made this agreement, we need to understand how to sell the KPI methodology to the employees as well as explain how the workshops are run.

CHAPTER **13**

Get the Measures to Drive Performance (Stage 6)

Overview

In order to get measures to drive performance, a reporting framework needs to be developed at all levels within the organization. This chapter describes a reporting framework, discusses the way to help the KPIs get off the ground, and explains how KPIs are refined to maintain their relevance. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

I n this stage, in order to get measures, we need to develop a reporting framework at all levels, facilitate the use of winning KPIs, and periodically refine KPIs to maintain their relevance.

Develop the Reporting Framework at All Levels

This activity was step 10 in the first and second editions of this book. The reporting framework has to accommodate the requirements of different levels in the organization and the reporting frequency that supports timely decision making. A suggested framework for reporting performance indicators is set out in Exhibit 13.1.

Most KPIs should be reported each day (electronically) at 9 A.M. or, as in the case of British Airways, constantly updated 24 hours a day, seven days a week.

CHAPTER **14**

Reporting Performance Measures

Overview

Reports must be designed to accommodate the requirements of the different levels in the organization (board, senior management team, middle management, and the various teams). KPI reporting needs to be performed 24/7, daily or weekly, as appropriate to support timely decision making. This chapter displays some better practice formats that will help speed up this vital step and features the work of Stephen Few.

There is a major problem with reporting. The writers often do not understand enough about the science of reporting. In addition, too many reports have been prepared monthly, which is far too late for prompt action.

The reporting framework used in an organization must accommodate the requirements of the different levels in the organization (board, senior management team, middle management, and the various teams) and the reporting frequency that supports timely decision making. This chapter displays some better practice formats that will help speed up this vital step. This chapter should be read in conjunction with the white papers and books written by Stephen Few[1] (see www.perpetualedge.com). Stephen Few is the expert in this field, having written Amazon's top three bestselling books[2] on data visualization.

Resources for the Chief Measurement Officer

> ### Overview
> This chapter covers the resources I have provided to help the KPI project team and in particular the team leader who hopefully will become the chief measurement officer (CMO) for their organization. This chapter also gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

This chapter is for those talented in-house staff members who have been asked to run the KPI project. One day your project may well be a leading case study. What a legacy to your organization and the other organizations that you inspire.

I am hopeful that you are carrying the title chief measurement officer (CMO). The importance of this has been discussed in Chapter 2 where I point out that it is a myth that a KPI project can be run by a consultant. In Chapter 7 I talk about the foundations stones and in Appendix B I set out a draft job description for the role.

The CMO Needs a Cluster of Mentors

As CMO you will need a mentor, or, as Jack Welch[1] advised, a cluster of mentors. I suggest the following:

- Find a consultant who has credibility within the organization, as they have helped previously in a successful project. Pay for

Case Studies on the Critical Success Factor Workshops

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Overview

This chapter shows how the two-day critical success factor workshop has been run in private, nonprofit, and public sector organizations. These examples will clarify the process set out in Chapter 11: Finding Your Organization's Operational Critical Success Factors.

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To show how the two-day critical success factor workshop is run, I have provided some examples of workshops I have been involved with. I hope these examples will clarify the process set out in Chapter 11, Finding Your Organization's Operational Critical Success Factors.

Private Sector Case Study #1: An Asian Conglomerate

An Asian conglomerate principally in the construction and design sector with around 600 staff wanted to improve its use of KPIs. A member of their team had attended a two-day KPI workshop I had presented earlier that year. The HR manager was responsible for a company-wide KPI program and implementation to align and consolidate further their current performance management system. A two-day workshop was organized, which was attended by a cross section of the company. Attendees from the company ranged from the CEO down to the staff

<div align="right">CHAPTER **17**</div>

Common Critical Success Factors and Their Likely Measures

> **Overview**
> This chapter looks at some common critical success factors and their likely measures that might work in the private, government, and nonprofit sectors.

Although organizations need to go through the processes suggested in this book, I am always asked to give examples of common critical success factors (CSFs) and their likely measures that might work in both private and public organizations. Exhibit 17.1 shows some *key result indicators* (KRIs), *result indicators* (RIs), *performance indicators* (PIs), and some *key performance indicators* (KPIs) that will work.

CHAPTER **18**

Comparison to Other Methodologies

Overview

This chapter compares the winning KPIs methodology to Kaplan and Norton's balanced scorecard, Stacey Barr's PuMP, and Paul Niven's balanced scorecard work.

There are a number of methodologies which I should address. I am a firm believer that the in-house project team, having researched these methodologies, will follow the one that is best for them. At times it will be necessary to cut an exercise from one methodology and use it with an exercise from another methodology. That is both understandable and desirable.

Main Differences Between the Balanced-Scorecard and Winning-KPIs Methodologies

Right from the start, organizations around the world were quick to see the benefits of a balanced-scorecard approach, and many organizations initiated projects. The groundbreaking work of Kaplan and Norton[1] brought to management's attention the fact that strategy had to be balanced, needed to be implemented, and performance should be measured using a more holistic approach.

Unfortunately, many balanced-scorecard initiatives have failed. So how do you adapt and apply a balanced-scorecard approach and

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CHAPTER **19**

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CEO Toolkit

> ### Overview
> This chapter is designed to help the busy CEO keep on top of a KPI project. It includes a letter to the CEO, the leadership that will be required, and recommended reading.

This chapter is for the busy CEO who is looking to embed winning KPIs in his or her organization. I have been asked by a CEO to make it easier for fellow CEOs to keep on top of this project, so I have, in this edition, included this CEO tool kit.

I am hopeful that if you are a CEO and are reading this chapter, you may be sharing with me the opinion that performance management is well and truly broken down. The organizations that have moved from good to great have had to challenge the myths surrounding performance management and break in new ground. This process has been well documented by the paradigm shifters (such as Jack Welch, Jim Collins, Gary Hamel, Jeremy Hope, Tom Peters, Robert Waterman, and Peter Drucker) outlined in Chapter 4.

Letter to You, the Chief Executive Officer

Due to your workload as the chief executive officer (CEO), I doubt whether you will have time to read much of this book. That is not such a problem, as I explain in this letter.

APPENDIX E

Performance Measures Database

The key performance indicator (KPI) team will have gathered and recorded performance measures from information gained from discussions held with senior management, revisiting company archives, reviewing monthly reports, and external research. In addition, teams will, during workshop sessions, ascertained new performance measures they wish to use.

These identified performance measures need to be recorded, collated, and modified in a database that is available to all staff. This database will have a read-only facility for all employees. Amendment is permitted only by team coordinators (restricted to their area) and the KPI team (unlimited restriction).

The following tables are a listing of performance measures to help start this process off. They will be a valuable resource when looking at performance measures during brainstorming sessions. You can acquire this database electronically from www.davidparmenter.com (for a small fee).

In this edition I have been influenced by Stacey Barr's work and agree that it is beneficial to evaluate potential measures by asking two questions for each potential measure:

1. How strong an indicator of performance is this measure (5 = very strong, 1 = very weak)?
2. How feasible will it be to actually measure this (5 = very easy as will already be system generated or will be able to be gathered through minimal effort, 3 = special request will be required to gather data, 1 = very difficult to gather data)?

The strength of measure should be evaluated with regards to the critical success factor you are working with. However with this list

I am giving weightings based on their likelihood as an indicator of performance.

It is advisable not to provide attendees with this list of performance measures until they have reviewed the relevant critical success factors and spent time ascertaining measures themselves. Introducing this list too early will lead to a narrowing of potential performance measures. Some of the performance measures in this list will be performance indicators (PIs), result indicators (RI), key performance indicators (KPIs), and key result indicators (KRIs). It is up to the KPI project team to ascertain in which of the four categories the final set of performance measures should be placed. The recommended category headings for a performance measures database are set out in Chapter 12.

Key for Database

> **Past** All measures measuring past activity (Note: Yesterday's activity is considered a current measure.)
> **Current** Yesterday's or today's activity
> **Future** Measuring an event that is to occur in the future (date of next meeting with key client, date of next promotion, etc.)

Customer/Call Center/Tendering/Brand Recognition Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Date of last **contact** with key customer where we are delivering a major project (list by major projects only)	Weekly	Past	Project teams	3	5	All sectors
Direct communications to **key customers** in month (average number of contacts made with the key customers)	Monthly	Past	Sales & Marketing (S&M)	2	3	All private sector
Number of **initiatives** completed from the recent **key customer** satisfaction survey	Weekly for three months post survey	Past	S&M	5	5	All sectors
Number of **initiatives** implemented to improve **key customer** satisfaction	Monthly	Past	S&M	5	5	All sectors
Date of next **key customer** focus group	Quarterly	Future	Sales	5	4	All sectors
Date of next initiative to attract targeted "non customers"	Quarterly	Future	Sales	5	5	All sectors
Date of next visit to **key customers** (by customer name reported to CEO)	Weekly	Future	S&M	5	5	All private sector
Key customer service requests outstanding for more than 48 hours reported to the general manager	24/7	Current	Service teams	4	5	Service

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