PART I

Setting the Scene

CHAPTER 1

Background

I am often asked "Are KPIs as relevant for government and non profit agencies as they obviously are for the private sector?" My answer is always an unequivocal yes. I would even go on to say that KPIs could have a more profound impact in government and non profit agencies as resources are scarcer and staff can easily be diverted away from what is important by the politics inherent in such institutions.

Are Agencies Really Non Profit Agencies?

I was asked by a member of my golf club not to refer to government and non profit agencies as not-for-profit or non profit agencies because it sent the wrong message. It certainly does. These agencies delivering services around the world are running their organization utilizing all the best management practices they can muster.

A surplus or profit should never be considered wrong in these entities as surpluses are an essential part of an agency's longevity. These surpluses or profits are required for:

- Funding years when uncertain revenue will be less than necessary.
- Reinvesting in fixed assets because depreciation will never be enough to fund replacement assets.
- Funding of new initiatives that will make a breakthrough in performance management, which will lead to further efficiencies.

Thus, for all those working in government and non profit agencies, no offense is meant by the title of this book. Bear in mind that we had to pick a title that was brief and commonly understood.

Measurement in Government and Non Profit Agencies

For measurement to work in government and non profit agencies, there has to be a radical change in the way performance management and measurement is approached and addressed.

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Without tackling the common flaws in performance measurement, without a sound understanding of the great management thinkers of the last 60 years, and without a sound grip of the performance management foundation stones, key performance indicators (KPIs) will simply flounder. Hence, I have decided to discuss these three issues before I venture into the detail of KPIs and how they can make a difference to the operations of government and non profit agencies.

Government and non profit agencies were among the first to embrace the balanced scorecard. Part of the reason for this, I believe, is that management in these two sectors keep abreast with current trends more than their counterparts in the private sector. They are, thus, more aware of the changes in business thinking.

Measurement is just as important in government and non profit agencies, as the scarcity of both people and financing means any wastage is more acute. In addition, the impact of better alignment to the organization's strategy and critical success factors will benefit many.

Unintended Behavior: The Dark Side of Measures

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. As is mentioned in Chapter 2, it is a myth of performance measurement that most measures lead to better performance.

Every performance measure has a dark side, a negative consequence. The key is to understand it. Well over half the measures in an organization may be encouraging unintended behavior. This book will repeatedly drive home the importance of understanding this dark side and selecting fewer measures, as well as selecting those with a minimal negative consequence.

How performance measures can go wrong can be illustrated by two examples.

Example: City Train Service

A classic example is provided by a city train service that had an on-time measure with some draconian penalties targeted at the train drivers. The train drivers who were behind schedule learned simply to stop at the top end of each station, triggering the green light at the other end of the platform, and then to continue the journey without the delay of letting passengers on or off. After a few stations, a driver was back on time, but the customers, both on the train and on the platform, were not so happy.

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Management needed to realize that late trains are not caused by train drivers, just as late planes are not caused by pilots. The only way these skilled people would cause a problem would be either arriving late for work or taking an extended lunch when they are meant to be on duty. Management should have been focusing on controllable events that led to late trains, such as the timeliness of investigating signal faults reported by drivers, preventative maintenance on critical equipment that is running behind schedule, and so on.

Example: Accident and Emergency Department

Managers at a hospital in the United Kingdom were concerned about the time it was taking to treat patients in the accident and emergency department. They decided to measure the time from patient registration to being seen by a house doctor. Staff realized that they could not stop patients registering with minor sports injuries but they could delay the registration of patients in ambulances as they were receiving good care from the paramedics.

The nursing staff thus began asking the paramedics to leave their patients in the ambulance until a house doctor was ready to see them, thus improving the "average time it took to treat patients." Each day there would be a parking lot full of ambulances and some circling the hospital. This created a major problem for the ambulance service, which was unable to deliver an efficient emergency service.

Management should have been focusing on the timeliness of treatment of critical patients, and, thus, they only needed to measure the time from registration to consultation of these critical patients. Nurses would have thus treated patients in ambulances as a priority, the very thing they were doing before the measure came into being.

To avoid putting in a measure that will not work you need to:

- Set up a trained team who approve all measures. This team should be trained in all aspects of performance management and measurement that is discussed in this book and in others such as Dean Spitzer's *Transforming Performance Measurement*.[1] If you want chaos, allow teams and managers to invent their own measures. In that case, you may as well close this book now as it will make little impact.
- Ensure that you are measuring something that matters. The key here is to understand the critical success factors. In the hospital situation, it was

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the treatment of critical patients, hence we measure the timely treatment of these patients. In the train example, the critical success factor was the timely maintenance and timely rectification of signal failures. The measures that would assist with timely trains would include:
- Signal failures not rectified within xx minutes of being reported. These failures should be reported promptly to the CEO, who will make the phone call to the appropriate manager (receiving these calls on a regular basis would be career-limiting).
- Planned maintenance that has not been implemented should be reported to the senior management team on a weekly basis, keeping the focus on completion.

- Consult with staff so that you have some idea of the possible unintended consequences of the measure. You have to ask staff "If we measure xxxx, what action will you take?"
- Pilot the performance measure to enhance its chance of success. Putting measures in without this piloting is simply being naive.

There needs to be a new approach to measurement—one that is done by staff who have been suitably trained, an approach that is consultative, promotes partnership between staff and management, and finally achieves behavioral alignment to the organization's critical success factors and strategic direction.

Balanced Scorecards within Government and Non Profit Agencies

The groundbreaking work of Kaplan and Norton[2] brought to management's attention the fact that performance needed to be measured in a more holistic way. Kaplan and Norton suggested four perspectives in which to review performance: financial, customer, internal process, and learning and growth.

Right from the start, the government and non profit agencies were quick to see the benefits of a balanced-scorecard approach, and many initiated projects. Unfortunately many of these initiatives have failed for reasons set out in Chapter 2, Myths of Performance Measurement. It is my fervent hope that this book will kick-start the enthusiasm to restart, reinvigorate, or start for the first time reporting performance in a balanced way.

Checklist: Where Are You in Your Journey with Performance Measures?

The checklist in Exhibit 1.1 is designed to assess your progress with performance measures.

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EXHIBIT 1.1 Assessing Your Progress with Performance Measures Checklist

	Is it covered?
Knowledge of the critical success factors	
1. Senior management have a common understanding of the organization's success factors	☐ Yes ☐ No
2. The organization has identified the critical success factors	☐ Yes ☐ No
3. The critical success factors have been communicated to all staff and are used on a daily basis to focus priorities	☐ Yes ☐ No
Balanced scorecard implementation	
4. We have established our balanced-scorecard perspectives	☐ Yes ☐ No
5. The project was largely run by in-house resources with some outside advisory assistance	☐ Yes ☐ No
6. Measures have been ascertained by teams so there is balance between the scorecard perspectives	☐ Yes ☐ No
7. Measures have be derived from brainstorming the identified critical success factors	☐ Yes ☐ No
8. Measures have been segregated into different types so that only measures with specified criteria are called KPIs	☐ Yes ☐ No
9. There is a sound understanding about performance measurement, KPIs, critical success factors within the senior management team	☐ Yes ☐ No
How KPIs are operating	
10. All measures are carefully monitored to ensure they promote appropriate behavior	☐ Yes ☐ No
11. Teams monitor their performance measures	☐ Yes ☐ No
12. Senior management review performance measures more frequently than monthly	☐ Yes ☐ No
13. The CEO is daily focusing on the KPIs and contacting the appropriate people to rectify identified issues	☐ Yes ☐ No
14. There are less than 10 KPIs in the organization and these are monitored frequently 24/7, daily, or weekly	☐ Yes ☐ No
15. KPIs are not linked to pay, they are seen as "tickets to the game"	☐ Yes ☐ No

Your score:

Under 5: Need to read

Between 5 to 10: This book will assist you with improvements

Over 10: You should have written the book

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Major Benefits of Performance Measures

The major benefits of performance measures can be grouped and discussed under these three headings:

- The alignment and linking daily actions to the critical success factors of the organization.
- Improving performance.
- Creating wider ownership, empowerment, and fulfillment.

Alignment and Linking Daily Actions to the Critical Success Factors of the Organization

As Exhibit 1.2 shows, even though an organization has a strategy, teams are often working in directions very different from the intended course.

Performance measures should have been carefully developed from the organization's critical success factors. The critical success factors will help staff align their daily activities with the organization's critical success factors as shown in Exhibit 1.3. This behavioral alignment is often the missing link between good and great organizations.

In his book, *Transforming Performance Measurement,*[3] Spitzer points out that one of the most important roles of management is to communicate expectations to the workforce. He goes on to say *people will do what management inspects (measures), not necessarily what management expects*. Thus, we need to put in place the right measures.

KPIs are the only things that truly link day-to-day performance in the workplace to the organization's strategic objectives. Some people think that because the annual planning process comes from a medium-term view (called the development plan in Exhibit 1.4), which in turn is linked to

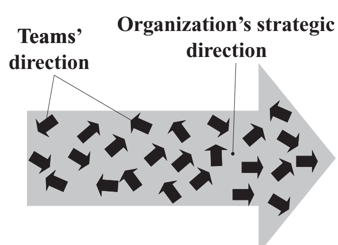

EXHIBIT 1.2 Discord with Strategy

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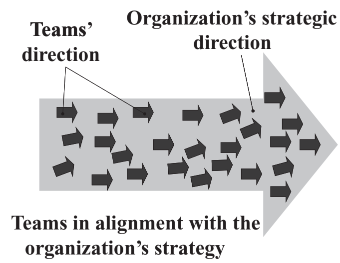

EXHIBIT 1.3 Alignment with Strategy

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the strategic plan, strategy is linked to day-to-day activities. It looks good on paper but never works in practice. Strategy is broad and wide ranging, whereas the annual-planning process is a dysfunctional silo-based process.

Improving Performance

Performance measures can and should have a profound impact on performance. Measurement:

- Tends to make things happen, it helps people see progress and motivates action.
- Increases visibility of a more balanced performance and focuses attention on what matters.

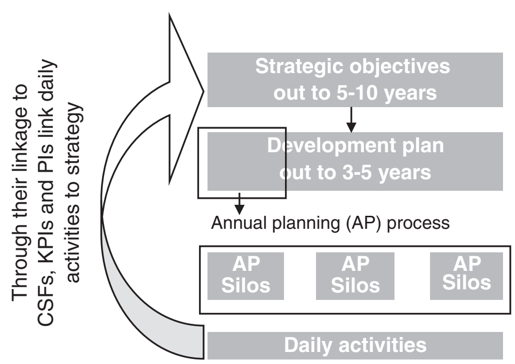

EXHIBIT 1.4 Linkage of KPIs to Strategic Objectives

Source: David Parmenter, *Key Performance Indicators: Developing, Implementing, and Using Winning KPIs*, 2nd ed. Copyright © 2010 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

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- Increases objectivity—Spitzer points out that staff actually like measuring and even like being measured, but they do not like being judged subjectively.
- Improves your understanding, your decision making, and execution—Spitzer points out that you will not be able to consistently execute well without measurement. Measurement can improve your business intuition and significantly increase your "decision-making batting average."
- Improves consistency of performance—Spitzer points out that outstanding success is about consistent success over the long term.
- Facilitates feedback on how things are going, thereby providing early warning signals to management. Spitzer points out that without good measurement your organization is flying blind.
- Enables you to manage the future. By measuring future events, you can ensure they happen (e.g., a CEO should look weekly at the list of celebrations, or recognitions, scheduled for the next two weeks. This would ensure success is celebrated in the organization.).

Creating Wider Ownership, Empowerment, and Fulfillment

Peter Drucker[4] talked about leadership being very much like an orchestra conductor. Giving the general direction and the timing and leaving the execution to the experts (the players). Performance measures communicate what needs to be done and help staff understand what is required. They enable leaders to give the general direction and let the staff make the daily decisions to ensure progress is made appropriately.

This shift to training, and trusting staff to make the right calls is very much the Toyota way. Any incorrect decision is seen as a fault in training rather than with the individual.

The delegation of authority to the front line is one of the main foundation stones of KPIs (see Chapter 8). This issue was discussed at great length in *In Search of Excellence*.[5]

I have yet to meet a human being who desires failure or finds failure rewarding. Where measures are appropriately set, staff will be motivated to succeed. Peters and Waterman refer to studies which have shown that performance will improve when more attention is paid to what staff are doing. In one behaviorist study, staff productivity rose when the lighting was improved; it then rose again when they dimmed the lighting!

Notes

1. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).

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2. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge, MA: Harvard Business Press, 1996).
3. Spitzer, *Transforming Performance Measurement.*
4. Elizabeth Haas Edersheim, *The Definitive Drucker: Challengers for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
5. Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies* (New York: Harper & Row, 1982).