# Crunchy KPIs

## How measuring performance feeds success

There has been a decline in senior management's interest in measuring performance. Yet performance management is an important management tool. How can the process be made more satisfying so that organisations use it to add value to their enterprise?

Chief executives across every sector have their hands full with many change management priorities. Performance measurement, however, does not seem to be one of them. But measuring performance can, unquestionably, add real value to an organisation. But, for whatever reason, it doesn't seem to be in vogue or sexy enough to attract the kind of interest or commitment from the senior management team (SMT) that it deserves.

Perhaps the problem lies with the many failed measurement processes that CEOs and SMTs have tried. In Europe and the United States measurement is tied closely with behavioural change and alignment to help employees and management to lift performance in a coordinated way.

Performance measurement reporting can be implemented by:

- Providing decision-based reporting to the CEO by the end of working day three.
- Replacing the budget by a quarterly rolling forecast yardstick in month-end reports.
- Developing performance measures that are reported daily or even hourly – your true key performance indicators (KPIs).

### Three-day reporting

I am constantly amazed how SMTs can manage a business without receiving decision-based reports on time. CEOs should demand a complete and radical change if they are to free management and accountants from the shackles of a 'zero sum' process, in other words reporting last month's results halfway through the current month. Here are the facts:

1. US companies now provide commentary and numbers by the first working day.
2. Companies are migrating to closing the month on the same day each month ie, months are either four or five weeks.
3. Decision-based reports comprise a collage of numbers, trend graphs and bullet point commentary.
4. Budget holders provide accruals on the last working day so accountants can close-off ledgers at 5pm on the last working day.
5. SMTs are delegating report writing sending them to boards with support for the writer's findings.

CEOs should, I suggest, carry out the following tasks:

- Set a three-month goal for introducing day three reporting.
- Initiate an empowerment programme giving originators responsibility for their reports.
- Stop reformatting reports – accept better practice and move on.
- Scrap reports you do not act on – you don't need them.

### Forecasts not budgets

Leading organisations across Europe and the US now compare actuals against most recent forecasts rather than against a flawed monthly budget. The reporting focus is increasingly on trend analysis. Commentary is more targeted because there is little scope for "explaining it all away" through timing differences because forecasts are only, at worst, three months old.

Jeremy Hope and Robin Fraser, the UK-based management gurus behind the "Beyond Budgeting" movement call the budget process a "time consuming, costly exercise that generates little value". More importantly, they call it a major limiting factor on how your organisation can perform.

Hope and Fraser wrote in the *Harvard Business Review* in 2003: "So long as the budget dominates business planning a self-motivated workforce is a fantasy however many cutting-edge techniques a company embraces. Modern companies reject centralisation, inflexible planning, and command and control. So why do they cling to a process that reinforces those things? The same companies that vow to respond quickly to market shifts cling to budgeting – a process that slows the response to market developments until it is too late."

They use a case study on UK cider maker H P Bulmer to make their point. Bulmer's breakthrough started, it seems, with the CFO attending a Beyond Budgeting roundtable seminar. The CFO obtained board permission to assess the implications and the way forward. Management held a series of in-depth workshops across the company to evaluate the net worth of the existing budget system. They could not find anyone in the company who supported the budgeting process. The CFO reportedly said: "We were absolutely overwhelmed by what we heard." As in most organisations, the accountants worked every weekend for two months to compile the budget. They worked late nights to re-

fine the budgets only to find that nobody actually used them. Their only use was the variance analysis that commonly states "this variance is due to a timing difference because… " Does this sound familiar?

The company now focuses on a three-month period rather than the traditional year. Managers and employees focus on sales growth targets, comparing sales against last year's actuals. They focus on the brands that have the potential to perform and investment is targeted to deliver this capability. Costs are managed by measuring against a set of key performance measures. The manufacturing function's performance, for example, is measured against the KPI of cost per hectolitre rather than a fixed budget. Manufacturing plans its timetable on a rolling 13-week basis so it can be more responsive to product mix changes. As the CFO stated: "It is pointless having a fixed budget when you do not know exactly how much is going to be manufactured."

Budgeting is being replaced with a bottom-up forecasting regime extending six quarters ahead. The forecasts are revised every quarter. But to adopt this new quarterly rolling forecast regime managers must acquire an appropriate planning tool. Each quarter, before approving the estimates, management sees the bigger picture six quarters out. The diagram above shows how the annual plan falls out of one of these quarterly forecasts. All subsequent forecasts firm up the short-term numbers for the next three months and simultaneously update the annual forecast.

Management, not surprisingly, gets good at forecasting because it is compiled on a bottom-up basis four times a year.

## Performance measures

Measurement becomes interesting if you measure something of interest. An organisation with 10-20 KPIs (see Winning KPIs Revisited, *Management* October 2002) which are creating change is undoubtedly of interest. The following are characteristics of KPIs:

- They often known to the organisation.
- They impact more than one balanced scorecard perspective.
- They should be measured in real-time eg, daily or even hourly.
- Staff should understand the measure and what corrective action is required.
- Responsibility for them can be tied down to teams/individuals.
- They are core to the business.
- Positive movement affects many other indicators and all in a positive direction.

KPIs are thus performance measures that a CEO supports 100 percent by daily chase-up and enquiry when they are tracking in the wrong direction.

If your organisation's KPIs are not creating change, throw them out. They are probably measures that were cobbled together without any in-depth research and investigation. CEOs know intuitively that you have struck gold when six weeks of intense monitoring and a follow-up action creates significant change. Follow-up every – yes every shortfall – with a personal phone call.

A call from the CEO and most managers will move heaven and earth to avoid another "career limiting" conversation. Performance will change quickly. A call should, however, be balanced by publicly congratulating high performance teams. But don't let this observation from an airline stewardess encapsulate you. "Our bosses monitor performance, real time. We are contacted immediately there is a problem but you never hear from them when we deliver timely planes day-in day-out."

CEOs should:

- Set up a team to investigate and report back on KPIs that will revolutionise the business, if they are sold to employees and supported every hour of every day by the company systems. This is a 16-week fulltime project.
- Study successful balance scorecard implementations. These won't work unless you are well informed and 100 percent behind them.
- Upskill on performance measurement better practices. A one-day intensive hothouse session with informed consultants is enough.
- Demand daily and weekly updates on your KPIs, which in many cases, lie buried in your organisation's data warehouse. **M**

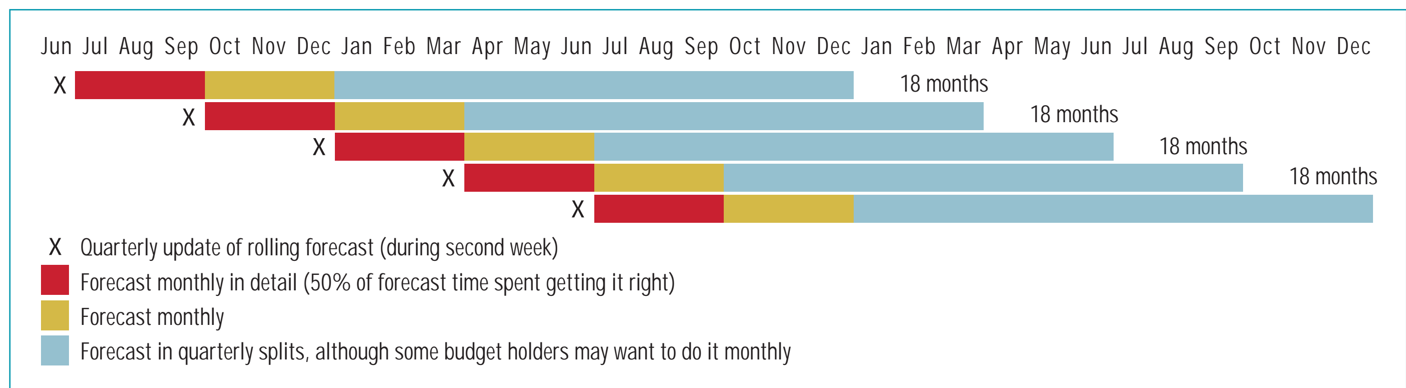


Diagram of how a calendar quarter rolling forecast works.

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