PERFORMANCE MANAGEMENT

'WINNING' KPIs IN SMEs

Winning KPIs are acknowledged as important for large organisations' success, but are they equally relevant for smaller businesses? Very much so, says **David Parmenter**. Below he outlines a shortened process for implementing them in SMEs.

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In a previous article in this magazine ('The new thinking on key performance indicators', *F&M* 133), I discussed the importance of identifying, measuring and monitoring a business's winning key performance indicators (KPIs).

Companies with 250 or fewer employees often ask if identifying winning KPIs would work for them and, crucially, whether there is a simpler, truncated process for doing so. The answer is yes to both queries. I have seen a two-person recruiting agency monitor their KPIs on a daily basis to great effect!

Many successful small to medium-sized enterprises (SMEs) rely on the natural ability of a few key people, and when these individuals sell up or move on the organisation often changes dramatically for the worse, because their intuitive 'feel' for the business has not been shared or passed on to others in the business. By embedding winning KPIs better, SMEs would benefit from:

- knowing their critical success factors (CSFs) and conveying them to all staff;

Figure 1 THE LEVEL OF COMMITMENT THE IMPLEMENTATION PROJECT REQUIRES

Size of SMEs (FTEs*)	5-25	25-75	75-150	150-250
Duration	2 weeks	4 weeks	6 weeks	6 weeks
External adviser acts as:	Main driver	Initiator and facilitator	Facilitator	Facilitator
In house staff needed on basis of:	One person full time for two weeks	One person full time for two weeks, part time for two weeks	Two people full time for two weeks, part time for four weeks	Two people full time for three weeks, part time for three weeks

* Full-time employees

- more widespread empowerment, and clarity on what should be recorded and reported;
- strategy clearly conveyed to staff as it is formulated;
- CEOs – current and future – connected to staff who are working with the CSFs, eg with daily follow-up calls on the KPIs; and
- staff's daily activities linked to the strategic direction of the organisation.

Even though an organisation has a strategy, teams are often working in directions very different to the intended course. If the CSFs of the organisation are clarified and communicated, staff will be able to align their daily activities closer to the strategic direction of the organisation.

Six-week process for SMEs

The six-week eight-phase process I recommend for SMEs requires an understanding of four types of performance measure, namely:

- selling the project to the CEO as the most important thing the organisation can be doing at this time;
- key results indicators (KRIs) – six to 10 financial and non-financial monthly or quarterly measures giving an overview of past performance;
- performance indicators (PI) – 30-50 non-financial daily, weekly or monthly measures telling staff and management what to do;
- results indicators (RIs) – 30-50 financial and non-financial daily, weekly, monthly or quarterly summary indicators telling staff what they have done; and
- KPIs – six to 10 non-financial measures telling staff and management what to do to increase performance dramatically, measured 24/7, daily or weekly.

(For more information on these measures, please see the earlier *F&M* article, or listen to the webcasts, listed at the end of this feature).

Other requisites are:

- laying and building upon the project's four foundation stones:
  - partnership between owner, management and staff;
  - empowerment of staff and management to fix problems on the spot without seeking permission;
  - measuring and reporting in a way that invokes action; and
  - linking performance measures to the strategy-linked CSFs;
- selling the project to the CEO as the most important thing the organisation can be doing at this time;
- having a balanced view of performance (ie the six perspectives of the balanced scorecard – financial, internal process, customer focus, employee satisfaction, learning and growth, environment and community);
- locating the five to eight CSFs which have the greatest influence (out of the organisation's 30-plus success factors);
- finding measures that will drive the appropriate behaviour within the CSFs and SFs;
- working with measures relating to activities past (last week, last month), current (yesterday and today) and future (the scheduled dates of key tasks); and
- ensuring the right 'timing' for freeing resources to complete this task.

External advisers and internal resourcing

In implementing winning KPIs, an SME may need to rely on an outside professional adviser – eg a trained business coach, or the business's accountant (if they have trained themselves in this area). However, while this adviser must work closely with the in-house resources chosen to run the project, they must not drive it (since that could lead to a lack of internal ownership).

It is also important that the project does not fail through lack of resourcing or of management attention. Figure 1 provides a guide to the level of commitment needed.

The eight phases

The project's necessary eight phases are shown in Figure 2 (on page 12). What these entail is as follows.

1. Selling the change and agreeing on the appropriate timing

First, the senior management team (SMT) – the CEO and their direct reports – is 'sold' the project in such a way as to ensure its commitment. At this point the SMT itself must ensure that the timing is right (ie that no major projects or events will sidetrack the SMT in the next six weeks).

The key to selling any change is finding the emotional drivers of the buyer, so what – given their personality and management style – would most appeal to the CEO about implementing 'winning' KPIs?

If I were to sell the concept to your CEO I would probably ask a few questions such as:

- Does your organisation know which of its success factors are critical?
- Does the lack of alignment of daily activities to strategy concern your senior management?
- Are you overwhelmed by too many performance measures?
- Are you missing goals by taking your eye off your organisation's critical success factors?

Figure 2 THE EIGHT PHASES INVOLVED IN IMPLEMENTING 'WINNING' KPIs

Phase	Project week pre	1	2	3	4	5	6	post
1. Selling the change and agreeing on the appropriate timing	■	■	■		■			
2. Workshop to find the organisation's CSFs and start team scorecards		■						
3. KPI project team trained and empowered	■	■	■	■	■	■	■	
4. Teams complete their scorecards and record their measures			■	■	■			
5. Selecting organisational 'winning KPIs'					■	■	■	
6. Developing the reporting frameworks at all levels			■	■	■	■	■	
7. Facilitating the use of winning KPIs						■	■	■
8. Refining KPIs in 12 months to maintain their relevance								■

I would then point out to the CEO that:

- the previous performance measures may have not changed anything;
- the focus on the right measures would mean the CEO and SMT would be more effective in less time, saving many long evenings/weekends of work;
- the right KPIs will link daily staff activities to the strategic objectives as they have never been linked before; and
- this KPI project will lead to a culling of reports that are not linked to the CSFs, leaving those reports that are a decision-based tool – critical, concise, and timely.

2. Workshop to find the organisations CSFs and start team scorecards

I recommend that you kick-start the process by having a two-day CSF workshop. The objective of this workshop is to collate the organization's success factors and then ascertain which ones have the greatest impact through a relationship mapping process covered in a webcast and my book, see references below.

These CSFs are then 'mind mapped' by teams to find the relevant performance measures for their team scorecard. To make this task work you need to ensure a representative sample of most teams attends the workshop.

3. KPI project team trained and empowered

As implied earlier, an SME can manage with a two-person project team – if they are committed nearly full time, and report directly to the CEO. The project should not proceed if the CEO does not wish to be involved this way. The KPI project team should be made up of people with excellent presentation and communication skills, flair for innovation, ability to complete, knowledge of both the organisation and sector, and the aptitude to bring others on board. It should also be a mix of relatively experienced 'oracles' plus other younger, fearless 'young guns' who will go 'where angels fear to tread'.

All business units and service teams should appoint someone knowledgeable with their own operation to liaise with the KPI team, to provide information and feedback

This process need not cost a huge amount of money. The key issue is commitment of the SMT, the freeing up of two staff members to work full time on the project, and a will to finish what has begun.

4. Teams complete their scorecards and record their measures

The KPI team will need some training and be granted some empowerment to make decisions on this project. The KPI project team then commences a series of rollout team scorecard workshops. At the workshops, the SMT stresses the importance of active participation, the reasons for the project, and introduces the KPI team which is delivering the workshop. The workshop only needs to last one day. It can be run successfully with up to 80 staff attending.

5. Selecting organisational 'winning KPIs'

KPIs represent a set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation.

The KPI team selects the winning KPIs after it has run the team workshops. It is highly likely that the KPIs will have emerged from that process. At this point, these performance measures must be checked against the seven characteristics of 'winning KPIs', namely that they are:

- non financial measures (not expressed in $s, yen, pounds, euro etc);
- measured frequently eg 24/7, daily or weekly;
- acted upon by the CEO and senior management team;
- understood by all staff, who also know what corrective action may be required;
- the responsibility of a particular team (or capable of being so);
- of significant individual impact eg the measure impacts on more than one of the top CSFs and more than one balanced scorecard perspective; and
- encouraging of appropriate action (eg have been tested to ensure they have a positive impact on performance whereas poorly thought through measures can lead to dysfunctional behaviour).

The first two points are very significant and are the best tests of all your performance measures. When you put a pound or dollar sign to a measure you have not dug deep enough. I classify any sales indicator expressed in monetary terms as a result indicator (RI). Readers can see examples of genuine KPIs in my previous article (*F&M* 133).

In many organisations a KPI may rest with certain activities undertaken with your key customers who often generate most, if not all, of your profit. KPIs should be monitored and reported 24/7, daily and a few perhaps weekly – anything less frequent is 'shutting the barn door' after the horse has well and truly bolted. KPIs are current or 'future' measures as opposed to 'past' ones. That is why a satisfaction percentage (eg 65%) from a customer satisfaction survey performed every six months can never be a KPI.

6. Developing the reporting templates and guidelines

The reporting framework templates have to accommodate the requirements of different levels in the organisation and the reporting frequency that supports timely decision making. A suggested overview for reporting performance measures is set out in Figure 3.

One or two KPIs should be reported each day (electronically) at 9am, or constantly updated 24/7 as in the case of British Airways 'late planes in the sky'. In most organisations there will be another 'top five' KPIs which will need to be reported at least weekly (excluding the daily KPIs identified in Figure 3 below).

One weekly measure that is important in most organisations is the reporting of late projects and late reports to the senior management team. Reporting late projects, on a weekly basis, will embarrass project teams into completing what they started. The remaining PIs can be reported monthly along with team, department, divisional and organisation-wide scorecard reporting.

Where the SME is large enough to have a board of non-executive directors we need to provide a one page governance 'dashboard' on the five to eight key result indicators. These KRIs cover the wellbeing of the organisation which will help the board focus on its governance and strategic issues. Avoid giving the board the RIs, PIs or KPIs as this will divert them into management issues.

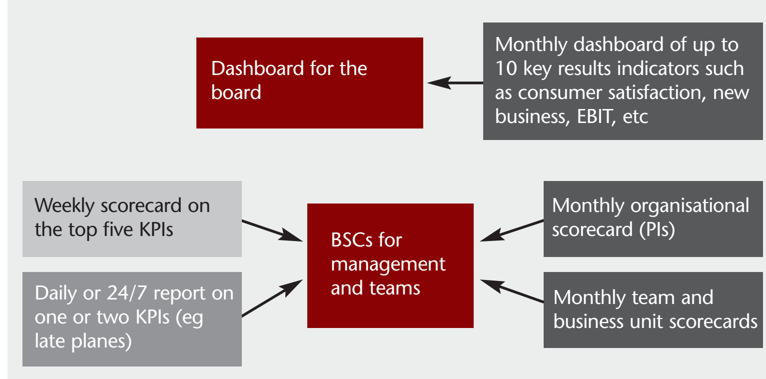
The SMT must leave the design of the balanced scorecard (BSC) template to the KPI team, trusting in its judgment – and the knowledge that it can always make amendments six to 12 months down the road. What is required is a reporting framework that covers the measures reporting progress in the CSFs and also covers a balance of the six balanced scorecard perspectives described earlier. The key is to seek agreement that suggested modifications will be recorded and looked into at the end of the agreed review period.

7. Facilitating the use of winning KPIs

Many organisations have performed good KPI work only to have it fail or become buried when key staff move. It is thus important that the use of KPIs becomes widespread and is incorporated into the organisational culture.

The CEO's role is crucial. It must lead by example, by using the KPIs at its disposal and seeking explanation immediately when any of these are trending in the wrong direction. Ideally you are seeking to create an environment where management and staff expect a call from the CEO if

Figure 3 A SUGGESTED REPORTING FRAMEWORK



a KPI is turning in the wrong direction. Thus they will do anything in their power to avoid that situation.

In turn the CEO needs to empower staff (including training them, if needed) so they take immediate action when required, rather than action being solely the responsibility of the KPI project team.

Remember, the system will have failed if the review process relies on structured, regular meetings at each level where KPIs are in operation. KPIs are indicators that need monitoring, reporting, and action 24/7!

8. Refining KPIs in 12 months to maintain their relevance

It is essential that the use and effectiveness of KPIs be maintained. Teams will modify and change some of their KPIs and PIs as priorities change during their journey of process improvement. It is simply a case of moving on to the next priority area for improvement as the previous ones have been mastered and behaviour alignment has been locked-in. But some KPIs should always be maintained because of their relevance to the organisation-wide CSFs eg for an airline the 'number of late planes' KPI will always be used. In addition it is likely that KPIs relating to customer focus and workplace culture will always remain in place.

Teams will also need to amend and build new measures to respond to the emergence of new CSFs. These new CSFs will be identified during quarterly rolling planning phases. Teams should review and modify their own KPIs and PIs on a periodic basis, but not more frequently than every six months.

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