Balance of power

Show me a company which thinks it has KPIs that are measured monthly and quarterly, and I will show you measures that do not create change, alignment and growth and have never been KPIs, says David Parmenter. He examines why the HR team should get behind the balanced scorecard.

The concept of the balanced scorecard (BSC) supports many things dear to the HR manager's heart. It is surprising, then, how often this organisational performance measurement tool is either ignored or butchered by HR practitioners.

If handled correctly, the processes required to successfully implement a BSC, and the scorecard's operational impact, will have a profound effect on an organisation. To understand how, let's first understand the four foundation stones (see Figure 1) of a balanced scorecard—partnership; transfer of power to the front line; integration of measurement, reporting and improvement of performance; and linking performance measures to the strategy. The presence or absence of these foundation stones determine the successful development and utilisation of balanced scorecards in the workplace.

Partnership. The successful pursuit of performance improvement requires the establishment of an effective partnership between management, local employee representatives, unions representing

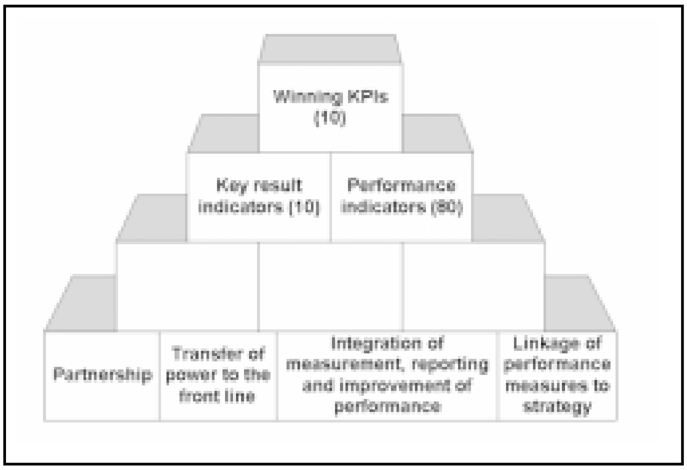

Figure 1. The four foundation stones for KPI development.

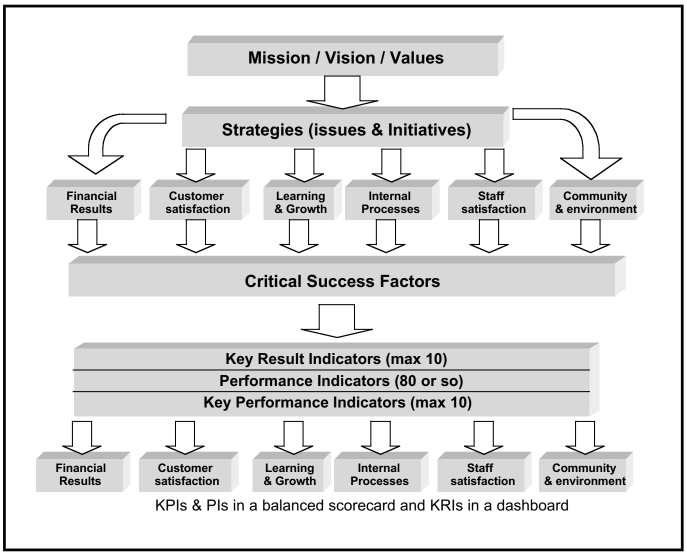

Figure 2. The journey from a mission and vision to performance measures that work.

the organisation's employees, employees, major customers, major suppliers and the local community. The HR team has a critical role ensuring commitment is made to an effective consultative arrangements with unions, employee representatives and employees.

Transfer of power to the front line. Successful performance improvement requires empowerment of the organisation's employees, in particular those in the "front line". This has always been on the HR agenda, and here we have the ideal tool to start to make it happen. The HR team needs to help management recognise that their role is to create an organisational culture where significant authority and decision-making power is shared with employees. In addition, the HR team needs to ensure there is training on organisation and business environment issues, performance improvement methods and techniques, and performance measurement methods for all relevant staff.

Integration of measurement, reporting and improvement of performance. It is critical that management develop an integrated framework so that performance is measured and reported in a way that results in action. Organisations should be reporting events on a daily / weekly / monthly basis, depending on their significance, and these reports should cover performance measures in the critical success factors. The HR team has an important role to ensure that the workforce perceives performance measurement in a new light—a way to increase their long-term job satisfaction rather than the old views of performance measurement so well portrayed in the Peter Sellers film *I'm alright Jack* (a must-see for all of the HR team).

Linking performance measures to the strategy. Performance measures are meaningless unless they are linked to the organisation's current critical success factors, the balanced scorecard perspectives and through to the organisation's strategic objectives (see Figure 2, above). The HR team need to be involved in:

1. Helping the organisation define and convey its vision, mission and values.
2. Ensuring the strategies link back to the six perspectives of the balanced scorecard. You may find when you cross check your strategies to these perspectives that some perspectives may not be covered, in which case revisiting the strategies may be required.
3. Helping the organisation ascertain its *critical success factors* (CSFs). This is a major exercise and one that is often only obliquely tackled. CSFs identify the issues that determine an organisation's health and vitality. When you first investigate CSFs you may come up with 30 or so issues that can be argued are critical for the continued health of the organisation. The HR team are ideally positioned to help with these brainstorming sessions and the subsequent thinning them down to be between five and eight CSFs.

Once you have the right CSFs, finding the measures is much easier. This important step is often ignored and thus performance measurement is doomed to failure.

Modifying the traditional balanced scorecard perspectives

The traditional scorecard needs modifying to encompass two areas particularly important to the HR team—the staff satisfaction and the environment / community perspectives. These were underestimated

The balanced scorecard

Financial Utilisation of assets Optimisation of working capital Focus on top 10 percent customers, etc.	**Customer** Seamless service Increased customer satisfaction, etc.	**Environment / community** Supporting local business Green Globe 21 Community leadership
Internal process Delivery in full on time Effective relationship with key stakeholders Optimising technology	**Employee satisfaction** Positive company culture Retention of key staff Increased recognition	**Learning and growth** Empowerment Increasing expertise Adaptablility, etc

in the original work from the creators of the balanced scorecard, Robert Kaplan and David Norton. The balanced scorecard diagram (above) shows some of the likely CSFs that might be relevant in an organisation.

Having a separate employee satisfaction perspective emphasises the importance of measuring the key drivers such as the amount and regularity of recognitio—for example, how many recognitions have been made this week, this fortnight, this month. It will also support the need for more regular staff satisfaction surveys performed on a rolling sample basis.

The environment/community perspective will help create a major asset to HR—becoming an employer of choice. Long term successful linkages with the community, both local and national, are extremely valuable. Also initiatives in this area feed into positive customer perceptions. The speeches that Dick Hubbard, CEO of Hubbard Food Ltd, does on corporate responsibility most definitely feed back to increased sales from the supermarket self. As the song points out "The hip bone is connected to the thigh bone".

Why so many balanced scorecards are working with the wrong measures

Performance measures have a unique role in the organisation as they link day to day activities to strategy. What else does this? Yet many companies are working with the wrong measures, many of which are incorrectly termed key performance indicators (KPIs). Companies with 20 or more KPIs have a lack of focus and alignment and are likely to under-achieve. From my research, it is evident that very few organisations really monitor their true KPIs.

This research has also led me to the conclusion that KPIs are the most misunderstood of the three types of performance measures explained below:

- The **key result indicators (KRIs)** that tell the board how management have done in a critical success factor or balanced scorecard perspective—seen in monthly and quarterly reports;
- The **performance indicators (PIs)** that tell staff and management what to do—seen in weekly and monthly reports; and
- The **key performance indicators (KPIs)** that tell staff and management what to do to increase performance dramatically—seen in 24/7, daily and weekly reports.

Onion analogy

I use an onion analogy to describe the relationship of these three measures. The outside skin describes the overall condition of the onion—how much sun, water and nutrients it has received, how it has been handled from harvest to supermarket shelf (the KRI). However, as we peel the layers off the onion at home, we find out even more information. The layers represent the PIs and the core or heart of the onion represents the key performance indicators.

Kaplan and Norton recommend no more than 20 KPIs. Jeremy Hope and Robin Fraser (*Beyond Budgeting: How managers can break free from the annual performance trap*) suggest less than 10 KPIs. I believe the 10/80/10 rule is a good guide—about 10 KRIs, up to 80 PIs and 10 KPIs in an organisation. Very seldom do there need to be more measures than these numbers, and in many cases less.

The characteristics of KPIs

The following anecdote illustrates the effective use of a KPI. A CEO of a distribution company realised that a critical success factor for the business was trucks leaving as close to capacity as possible. Large train trucks capable of carrying more than 40 tons were being sent out with small loads as despatch managers focused on "deliver in full on time" to customers, rather than optimising a truck's capacity.

Thereafter, each day by 9am, the CEO received a report of those trailers that had been sent out under weight. The CEO rang the despatch manager and asked whether any action had taken place to see if the customer could have accepted that delivery on a different date that enabled better utilisation of the trucks. In most cases the customer could have received the consignment earlier or later, fitting in with another truck going in that direction. The impact on profitability was significant as staff did their utmost to avoid a career-limiting phone call with their CEO.

This measure was a KPI—focusing, as it did, on an aspect of organisational performance that was critical to the success of the organisation—and, I bet, is very different to the measures called KPIs in your organisation. From my experience, KPIs have certain characteristics, for example:

- They are non financial measures (not expressed in dollars);
- They are measured frequently, eg, daily or 24/7 (how can they be key if measured monthly!);
- KPIs are acted upon by the CEO and the senior management team on a daily or 24/7 basis;
- All staff understand the measure and what corrective action is required;
- Responsibility can be tied down to the individual or team;
- The KPI has a significant impact on the organisation eg, it impacts most of the core critical success factors and balanced scorecard perspectives;
- Positive movement affects all other performance measures in a positive way.

Butchering the balanced scorecard

There are many failed balanced scorecards in Australia and New Zealand. The scorecard was always envisaged as being a swift introduction rather than a long drawn out one. Kaplan and Norton wisely pointed out that you need the project to be producing the goods in 16 weeks.

Despite this, in many organisations 16 weeks becomes 16 months. Based on the original work of Ausindustry and my further research, I believe a 12-step process, if followed, will secure success within a 16-week timeframe. Look out for an article on this in the next issue of *Employment Today*.

David Parmenter is the CEO of performance management company Waymark Solutions. His work on KPIs has received international recognition and his white paper on KPIs was the most downloaded paper in 2005 on www.bettermanagement.com. His book on implementing winning KPIs is due out later this year. David can be contacted on Parmenter@waymark.co.nz