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How to Implement Winning KPIs (for SMEs with less than 100 FTEs)

By David Parmenter

Table of Contents

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1 The great KPI misunderstanding

There are a number of reasons why there is such a large misunderstanding with; the characteristics of KPIs, how to design and report performance measures and finally how to get them to improve performance. The problem principally stems from these factors:

There is no formal education on performance measurement.	Universities worldwide have largely left performance measurement an orphan of business theory.
The time-honoured mistake that all measures are KPIs.	In practice, KPIs are regarded as 'key' in name only. Surely, there must also be measures where the 'K" is not required. This now gives us two types of measure: a KPI and a PI.
Too many wrong measures.	Organisations frequently end up with 200 to 300 measures, many of which have unintended negative consequences. This occurs because no robust process is undertaken before the birth of a new performance measure.
Measuring far too much at the bottom of the cliff monthly.	Organisations rely too much on monthly measures (bottom of the cliff) that are too late to change events. It is better to catch problems early on (at the top of the cliff) by measuring 24/7, daily, or weekly.
Calling monthly measures KPIs.	How can a measure reviewed monthly after the horse has bolted be key to your performance? I do not believe there is a monthly KPI on this planet. If a performance indicator is key to the well-being of an organisation, surely you would measure it as frequently as possible.
Linking pay to KPIs in the misguided belief that it will increase performance.	You will merely increase the manipulation of these important measures, undermining them so much that they will become "***key political indicators".***
Using consultants to deliver a KPI project.	Peter Drucker observed that important projects are an in-house job. He said, "Never give a new project to a new person". The KPI project should be delivered by a team full of staff with a stack of 'IOUs" they can call on. With consultants used only to train and mentor the in-house KPI team.
A lack of C-Suite commitment to KPIs and the organisation's critical success factors.	Dean Spitzer[i] says, "Only when the CEO is passionate and knowledgeable about measurement will you have the opportunity to get twenty-first-century measurement to work effectively and efficiently."

See Appendix 1 for a list of performance measurement myths.

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1.1 An airline's KPI story

My favourite KPI story is about Lord King who set about turning British Airways (BA) around in the 1980s by reportedly concentrating on one KPI.

Lord King appointed some consultants to investigate and report on the key measures he should concentrate on to turnaround the ailing airline. They came back and told Lord King that he needed to focus on one **critical success factor (CSF)**, the timely arrival and departure of aeroplanes, see Exhibit 1.1. Finding the CSFs and narrowing them down to no more than five to eight is a vital step in any KPI exercise, and one seldom performed.

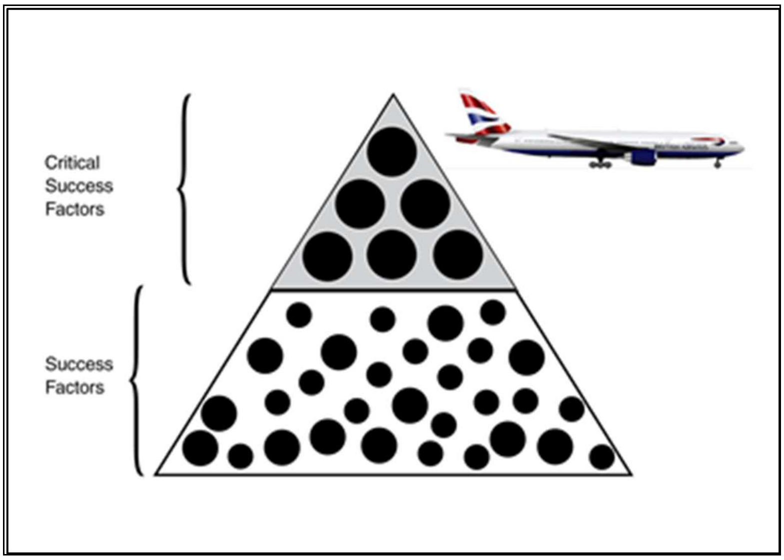

Exhibit 1.1 The importance of knowing your critical success factors

Lord King was however not impressed as everybody in the industry knows the importance of timely planes. However, the consultants then pointed out that this is where the KPIs lay and they proposed that Lord King focus on a late plane KPI.

He was notified, wherever he was in the world, if a BA plane was delayed over a certain time. The BA airport manager at the relevant airport knew that if a plane was delayed beyond a certain 'threshold', they would receive a personal call from Lord King. I imagine the conversation going like this.

"Pat, Its Lord King on the phone, I am ringing up about BA135 that left Kennedy airport over two and a quarter hour late, what happened?"

"Lord King, the system will tell you that the plane was late leaving Hawaii. In fact, it was one and three quarters hours late and everything was in order at our end except we lost an elderly passenger in duty free shopping. We had to offload their bags and as you can see, we did it in record time, only half an hour!"

"Pat, how long have you worked for British Airways?"

Pat, realising this conversation was not going well responded, "About thirty years, Lord King."

"In fact, Pat it is thirty-two. With all that experience with us you are telling me that with six hours of advance notice that the plane was already late you, and your team, could do nothing to bring it forward, instead you added half an hour. Quite frankly Pat, I am disappointed as you and your team are better than this!"

For Pat and many others employed by the airline had the 'not invented by us' syndrome. A late plane created by another team was their problem not ours. With

Pat's new attitude and awareness, the troops were gathered the next day and undertook many proactive steps to ensure they recaptured the lost time, no matter who had created the problem. Actions such as:

- doubling up the cleaning crew, even though there was an additional external cost to this,
- communicating to the refuelling team which planes were a priority
- superior communication to the external caterers so they could improve management re-equipping the late plane
- staff on the check-in counters asked to watch out for at risk customers and chaperone them to the gate.
- not allowing the business class passenger to check-in late, yet again. This time saying, *"Sorry Mr Carruthers we will need to reschedule you as you are too late to risk your bags missing this plane. It is on a tight schedule. I am sure you are aware that the deadline for boarding passed over 30 minutes ago."*

The BA manager at the relevant airport knew that if a plane was delayed beyond a certain threshold, they would receive a personal call from Lord King. It was not long before BA planes had a reputation for leaving on time.

The late planes KPI worked as it was linked to most of the critical success factors for the airline. It linked to the 'delivery in full and on time' critical success factor namely the 'timely arrival and departure of aeroplanes'; it linked to the 'increase repeat business from key customers' critical success factor etc.

The late planes in the air KPI affected many aspects of the business. Late planes:

1. Increased cost in many ways, including additional airport surcharges and the cost of accommodating passengers overnight as a result of planes being prevented from departing due to noise restrictions late at night.
2. Increased customer dissatisfaction leading to passengers trying other airlines and changing over to their loyalty programmes.
3. Alienated potential future customers as those relatives, friends or work colleagues inconvenienced by the late arrival of the passenger avoided future flights with the airline.
4. Had a negative impact on staff development as they learned to replicate the bad habits that created late planes.
5. Adversely affected supplier relationships and servicing schedules, resulting in poor service quality.
6. Increased employee dissatisfaction, as they were constantly firefighting and dealing with frustrated customers.

It is interesting that Ryanair has a sole focus on timeliness of planes. They know that is where they make money often getting an extra European flight each day out of a plane due to their swift turnaround and their uncompromising stand against passengers who are late to check-in. They simply do not allow customers to get in the way of their tight schedules.

Whilst BA is a massive organisation, trust me, the example is very relevant to your organisation. Now, before you say anything, this story is very relevant to an SME under 100 staff. If you do not find your "late planes " equivalent your SME will not get off the ground.

1.2 A freight company's KPI story

A CEO of a distribution company realised that a critical success factor for their business was trucks leaving as close as to capacity as possible. A large train truck, capable of carrying more than 40 tonnes, was being sent out with small loads as despatch managers were focusing on 'deliver in full on time' to customers.

Each day by 9 am, 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 would enable better utilisation of the trucks. In most cases the customer could have received it earlier or later, fitting in with a past or future truck going in that direction. The impact on profitability was significant.

In a scenario, similar to the airline example, staff members did their utmost to avoid a career-limiting phone call from the CEO.

(Both these examples are provided in greater detail in my webcast, "Introduction to Winning KPIs," which can be accessed via www.davidparmenter.com.)

1.3 Some webinar polling results

See Exhibit 1.2, for some webinar polling results from webinars I delivered.

Exhibit 1.2: International Poll (webinar presentations)

How many KPIs are there in your organisation?	What is the most common timeframe KPIs are reported within?
72% less than 20	9% 24/7
16% between 20-50	22% daily
3% between 51-100	14% weekly
2% over 100	55% monthly/quarterly
Population: 467 respondents	Population: 121 respondents

Note that just over 70% participants operate with under 20 KPIs and the reporting period is still very historic with nearly 60% saying monthly/quarterly.

1.4 KPIs are not targets

KPIs will drive performance in the right direction. Targets on the other hand are destructive, promote dysfunctional behaviour and will lock-in carnage into your organisation. Targets appear to be frequently used by management who have little time to really think about the techniques that will improve performance.

A target is something that we set for hourly, daily, weekly, monthly and annual activities. It is often tied to incentives and has many negative behavioural aspects associated with it. Donald Wheeler pointed out that a target is binary – it is either 'a pat on the back' or 'not good enough'.

> *"This 'on-again, off again' approach is completely antithetical (directly opposed) to continual improvement."*

Goals (something that you set which is for a period normally longer than a year and is intended to be transformative) and standards (guidelines that define the level of quality, performance, or behaviour that is considered acceptable or

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desirable) are both useful and appropriate tools. These are distinctly difference to targets.

It had been assumed that targets are motivational but Fredrick Herzberg, proved otherwise.

> *If I kick my dog, he will move. And when I want him to move again, what must I do? I must kick him again. Similarly, I can charge a person's battery, and then recharge it, and recharge it again. But it is only when one has a generator of one's own that we can talk about motivation. One then needs no outside stimulation. One wants to do it.* [ii]

He made a stunning discovery that requires a good coffee to understand. He found that the **motivational** factors involved in producing job **satisfaction** (and motivation) are largely separate and distinct from the **hygiene** factors that lead to job **dissatisfaction**.

If you want an example where targets are misused you need to look no further than the health sector. In Berry, Gardner and Anderson's compelling and often damning report on target setting in the British National Health System (NHS)[iii] they stated:

> *"_many people spoke of organisations (in the health sector) which hadn't managed targets well, with examples given of 'an industry' of gaming and where entrenched bullying had become an acceptable way of getting things done.*

The carnage that targets can cause includes:

- Deaths in the health sector – 400 deaths between 2005-2008 in one health trust in the UKiv have been attributed to staff seeking to meet targets.
- If set too high, creating stress, gaming and de-motivation.
- If set too low, encouraging complacency.
- Leading to a disproportionate focus on areas which are measured at the expense of those which aren't.
- Ignoring inter-connectivity as they tend to look at one driver only e.g., staff at call centres truncating calls.
- Seldom encouraging action to change systems for long term improvement.
- Where imposed without consultation creating a culture of distrust.

1.5 Role of performance measures

It is worth reflecting on what the role of performance measures are intended to be. It is my belief that the role of performance measures includes:

- linking daily actions to the organisation's critical success factors influence 'business as usual' intended strategic direction
- ensuring a more balanced performance.
- creating wider ownership and empowerment.
- gaining behavioural alignment (as the late planes KPI clearly did).
- helping staff implement the organisation's strategic objectives and initiatives.

2 Critical success factors are the origin of performance measures

I was first introduced to critical success factors (CSFs) 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."*[v]

I have always seen these as operational issues or aspects that need to be done well day-in day-out by the staff. Critical success factors are about what the staff inside the organization can do and should do every day.

Stephen Covey talked in "First things first"[vi] about putting "the rocks" in first every day, before we work with the pebbles and the sand. We can liken the operational CSFs as the rocks that staff need to focus on every day. They should be the driving force behind prioritization throughout the organization. They are very directional to operational staff who are focused on current demand, current production and current delivery of products and services.

The term *critical success factor* does not appear to be addressed by some of the leading management performance writers of the past 30 years. Peter Drucker, Jim Collins, Gary Hamel, Tom Peters, Robert Kaplan, and David Norton all appear to ignore the existence of critical success factors.

The critical success factor "Deliver in full on time to key customers" communicates to staff that major orders for our key customers, often the difficult and complex orders, need to be tackled first. Whereas if we measure all deliveries to all customers many staff would tackle the smaller orders, putting the easy "runs on the board" thus jeopardizing service to the most profitable customers.

The great news for SMEs under 100 staff, you will have the easiest time doing this and at the same time it will have a profound impact.

2.1 Why critical success factors are so important

It is a common myth that performance measures are mainly used to help manage the implementation of strategic initiatives. Instead, the main purpose of performance measures is to ensure that staff members spend their working hours focused primarily on the organization's critical success factors. You could be in your tenth year with a balanced scorecard and still not know your organization's critical success factors. It is like going to soccer's World Cup without a goalkeeper or, at best, an incompetent one.

Operational critical success factors—the missing link

In organizations that do not have clarity and agreement on their operational CSFs, managers will prioritize work based on their view as to what is important. Many counterproductive activities will thus occur based on the premise "What is important to me is important to the organization". For a chief executive officer to steer the ship, everybody needs to know the journey, what makes the ship sail well, and what needs to be done in difficult weather. The term critical success factors is a major missing link in balanced scorecard and other methodologies.

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What influences the critical success factors?

It is important to understand the relationship between operational CSFs and strategy. An organization's CSFs are impacted by a number of features. Most organizations will have one or two generic CSFs (e.g., "delivery in full, on time, to our key customers" "Recruit the right people all the time"), but each organization will also have some unique temporary conditions (e.g., a sudden drop in revenue will mean additional CSFs will be introduced until the funding crisis is over). Some CSFs will be determined by strategy, and others will be related to normal business conditions as illustrated in Exhibit 2.1.

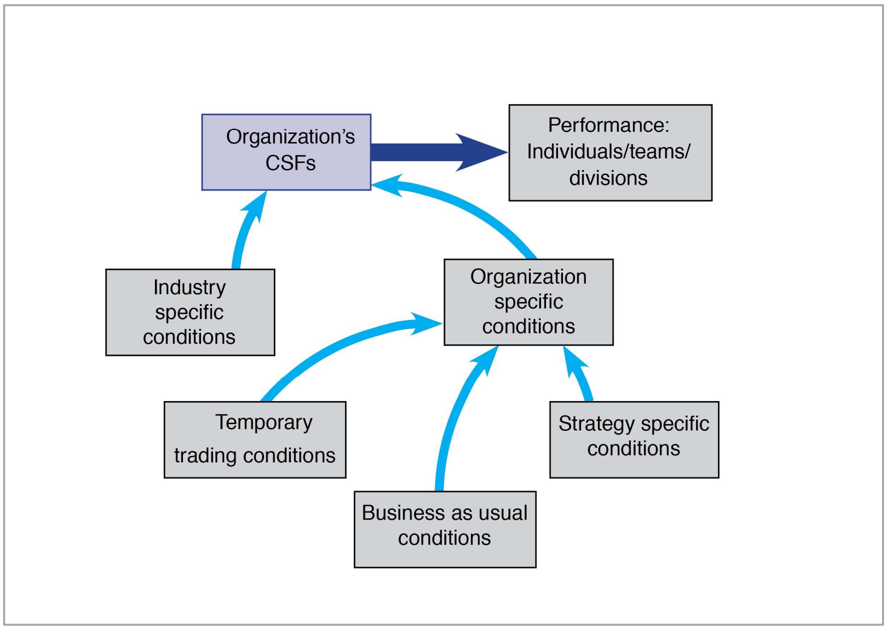


Exhibit 2.1 What influences the critical success factors

2.2 Operational CSFs are the source of all meaningful measures

The traditional balanced scorecard (BSC) approach uses performance measures to monitor the implementation of the strategic initiatives, and measures are typically cascaded down from a top-level organizational measure, such as return on capital employed. This cascading of measures from one another will often lead to chaos, with hundreds of measures being monitored by staff in some form of BSC reporting application.

Getting staff to prioritize their daily activities in alignment with the organization's operational CSFs, is the "El Dorado" of management, the essence of modern management. Thus, instead of using the strategies as the source of your measures, clarify what your organization's operational CSFs are and then determine what measures would generate alignment to these operational CSFs.

This alignment, as shown in Exhibit 2.2, is I believe the El Dorado of management.

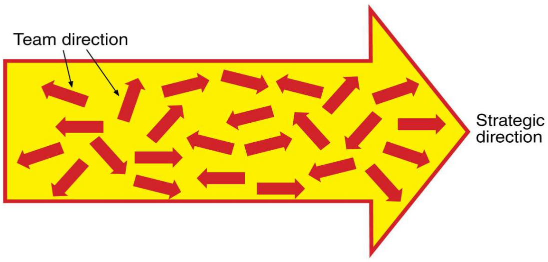
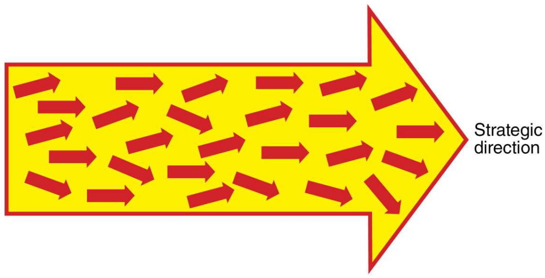
<table>
<tr><th>Status quo, a lack of alignment</th><th>Alignment through CSFs and winning KPIs</th></tr>
<tr><td>
</td><td>
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Exhibit 2.2: Getting alignment through the CSFs and KPIs

2.3 Relationship between critical success factors and strategy

Although I am aware of the significance of a well thought-through and executed strategy, the organization's critical success factors are more fundamental to the business as they focus the staff on what needs to be achieved every day. This aligns their efforts with those "business as usual" strategic initiatives.

Exhibit 2.3 shows that strategic initiatives, although their progress will be monitored, are not as fundamental to the business as monitoring the day-to-day alignment with the organization's CSFs.

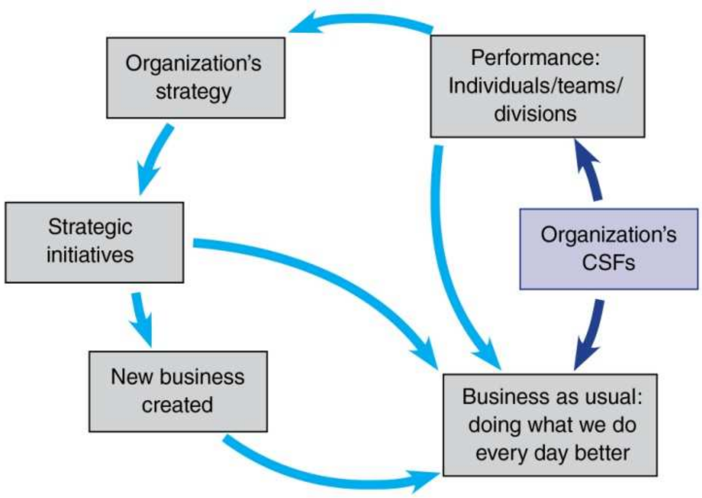

Exhibit 2.3 How strategy and the critical success factors work together

It is the operational CSFs, and the performance measures they inherently carry, that link daily activities to the performance of teams, business units and divisions.

I will discuss in great detail in a later section how you ascertain an organisation's CSFs.

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2.4 The benefits of understanding your organisation’s CSFs

Knowing, communicating and measuring progress in an organisation’s CSFs is the El Dorado of management, the ‘Holy Grail’. There are some profound benefits of knowing your CSFs including:

Leads to the KPIs	It leads to the discovery of an organisations ‘winning KPIs
Helps eliminate measures	Performance measures that **do not** relate to your CSFs, or impact them cannot, by definition be important and thus can often be eliminated
Linked daily actions	Staff know what should be done as a priority and thus their daily actions are now linked to the organisation’s strategies e.g., like they do at Toyota
Challenge unnecessary meetings, reports and task	Staff meetings, reports and tasks will be challenged for their validity. All activities that have no direct link to the critical success factors will be seen as non-critical. Over time meetings and reports that occurred because we did it last week/month will disappear.
Leaner reports	Report layout will be more concise as many extraneous issues will be removed.
More CEO walkabout	The CEO’s linkage to the workface will be a daily activity through the phone calls and walkabouts amongst front line staff.

In SMEs with less than 100 staff, you do not have the luxury to be wasting time in these areas. If rapid growth occurs often the poorly conceived processes get locked in and can prove to be very problematic to remove.

3 The characteristics of KPIs

It was the talented people who wrote the KPI manual for AusIndustry (an Australian government department) who best defined what KPIs are:

> *"Key Performance Indicators 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."*[vii]

KPIs are rarely new to the organisation. Either they have not been recognized or they were gathering dust somewhere unknown to the current C-Suite.

I believe KPIs have seven characteristics, see Exhibit 3.1.

Exhibit 3.1: Characteristics of KPIs

All KPIS are Non-Financial (not expressed in $s, Yen, Pounds, Euro etc)	When you put a dollar, yen, pound, or euro sign on a measure, you have already converted it into a result indicator (e.g., daily sales are a result of activities that have taken place to create the sales). The KPI lies deeper. It may be the number of visits to contacts with the key customers who make up most of the profitable business.
All KPIS are measured frequently (e.g., 24 by 7, daily, or weekly)	KPIs should be monitored 24/7, daily, or perhaps weekly for some. A monthly, quarterly, or annual measure cannot be a KPI, as it cannot be key to your business if you are monitoring it well after the 'horse has bolted'. I have yet to see a monthly performance measure improve performance.
All KPIs have the CEO's attention	All KPIs will have the CEO's constant attention with daily calls being made to the relevant staff enquiring about exceptions or recognizing their outstanding performance. Staff will perceive talking about poor performance with the CEO, on a regular basis, as career-limiting and will take innovative steps to prevent recurrence.
All KPIs are clear and concise (All staff understand the measure and what corrective action is required)	A KPI should tell you about what action needs to take place. The British Airways 'late plane' KPI communicated immediately to everybody that there needed to be a focus on recovering the lost time. Cleaners, caterers, ground crew, flight attendants, and liaison officers with traffic controllers would all work some magic to save a minute here and a minute there whilst maintaining or improving service standards.
All KPIs can be tied to a team (A team will accept responsibility, and can take action to improve the KPI)	A KPI is deep enough in the organization that it can be tied to a team. In other words, the CEO can call someone and ask, "Why did this happen?" and that manager will take on the responsibility to fix the issue. Return on capital employed has never been a KPI, because the CEO would get nowhere saying to a

	GM, "*Pat, I want you to increase the return on capital employed today*."
All KPIs have a significant impact on one or more of the organization's critical success factors	A KPI will affect more than one critical success factor and most of the balanced scorecard perspectives. In other words, when the CEO focuses on the KPI, and the staff follows, the organisation scores goals in all directions.
All KPIs have a limited dark side (the unintended negative)	All measures have a dark side, an unintended consequence where staff will take some remedial actions that will be contrary to the desired intentions. Before becoming a KPI, a performance measure needs to be tested to ensure that it helps teams to align their behaviour in a coherent way to the benefit of the organization. The possible unintended consequence associated with measuring all the selected KPIs being checked to ensure they are not major or of significance.

For the private sector, *key performance indicators*, that fit the characteristics I have proposed, could include:

- Number of CEO recognitions planned for next week or the next two weeks—reported weekly to the CEO
- Staff in vital positions who have handed in their notice in the last hour—reported within one hour to the CEO
- Late deliveries to key customers—reported daily to the CEO
- Key position job offers issued to candidates that are more than three days outstanding—reported daily to the CEO
- List of late projects, by manager, reported weekly to the senior management team—reported weekly to the CEO
- Number of initiatives implemented after the staff-satisfaction survey—reported weekly to the CEO for up to two months after survey
- Number of innovations planned for implementation in the next 30, 60, or 90 days—reported weekly to the CEO
- Number of abandonments to be actioned in the next 30, 60, or 90 days—reported weekly to the CEO
- Complaints from key customers that have not been resolved within two hours—reported 24/7 to CEO and GMs
- Key customer enquiries that have not been responded to by the sales team for over 24 hours—reported daily to the GM
- Date of next visit to major customers by customer name—reported weekly to CEO and GMs

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4 Performance measures fit into two groups

From the research, I have performed which I have accumulated through workshop feedback across diverse industries and, as a by-product of writing my book, "Key Performance Indicators – developing, implementing and using winning KPIs", I have come to the conclusion that there are four types of performance measures in **two groups of two**, see Exhibit 4.1.

Exhibit 4.1 Two groups of two

Result Indicators	Measures that summarize the collective effort of a wide number of teams. Some I call **Key Result Indicators.**
Performance Indicators	Measures where the responsibility can be tied down to a team or a cluster of teams who work closely together. Some I call **Key Performance Indicators**.

There are measures that summarise the collective effort of a wide number of teams. I call these Result indicators. Some of these result indicators summarise the collective efforts of all the teams and I call these **Key Result Indicators**.

There are measures where the responsibility can be tied down to a team or a cluster of teams who work closely together. I call these **Performance indicators**. Some of these performance indicators tell staff and management what to do to increase performance dramatically, and I call these **Key Performance Indicators**.

4.1 Key result indicators

The common characteristic of key result indicators (KRIs) is that they are the result of many actions. They give a clear picture of whether you are travelling in the right direction, and of the progress made towards achieving desired outcomes and strategies. They are ideal for governance reporting as key result indicators show overall performance and help the Board focus on strategic rather that management issues.

KRIs do not tell management and staff what they need to do to achieve desired outcomes. Only performance indicators and KPIs can do this. For a list of KRIs see Exhibit 4.2.

Exhibit 4.2: Examples of key result indicators

For the private sector, key result indicators would include:

- Net profit before tax
- Net profit on key product lines
- Customer satisfaction (by customer group, showing the trend over an 18-month period)
- Return on capital employed
- Employee satisfaction (by groups showing the trend over an 18-month period)

For government and nonprofit agencies these measures would also include:
• Availability of the major services that are offered, e.g., average waiting time for service
• On-time implementation of projects
• Number of enrolled students/ members numbers

Separating out KRIs from other measures has a profound impact on the way performance is reported. There is now a separation of performance measures into those impacting governance (up to ten KRIs in a Board dashboard) and those RIs, PIs and KPIs impacting management.

A one-page dashboard with the KRIs going in the right direction, will give confidence to the Board that the management know what they are doing, and the "ship" is being steered in the right direction. The Board can then concentrate on what they do best, coaching the CEO, as required; focusing on the horizon for icebergs or looking for new ports to call. This is instead of parking themselves on the "bridge" and thus getting in the way of the captain who is trying to perform important day-to-day duties.

4.2 Performance and result indicators

The 40 or so performance measures that lie between the KRIs and the KPIs are the performance and result indicators (RIs & PIs). As an SME with less than 100 staff you maybe be able to work with a smaller number, all the better.

The RIs summarise activity and all financial performance measures are RIs e.g. daily or weekly sales analysis is a very useful summary, but it is a result of many teams' efforts. We need to look at the activities that made the result to fully understand what to increase or decrease, see Exhibit 4.3 for examples of RIs.

Exhibit 4.3: Examples of result indicators

Result indicators that lie beneath KRIs could include
• Sales made yesterday
• Number of initiatives implemented from the recent customer satisfaction survey
• Number of planned initiatives to be implemented next month to improve the timeliness of ________
• Number of initiatives implemented from the staff survey
• Number of employees' suggestions implemented in the past 30 days
• Number of staff trained to use specified systems (key systems only) the staff survey

The performance indicators while important are not 'key' to the business. The PIs help teams to align themselves with their organisation's strategy. Performance indicators are non-financial, and complement the KPIs and are shown with them on the organisation's, divisions', departments' and teams' scorecards. See Exhibit 4.4 for examples of PIs

13 Characteristics of meaningful measures

It is very easy for a team in the workshop to come up with poor measures. There needs to be a structured approach following certain rules and avoiding the common measurement traps.

13.1 Common measurement traps

Numerous performance measures methodologies, including the balanced scorecard, appear to simply say the measures are a by-product of the exercise. Frequently, the task of finding measures is a task 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. As previously mentioned, it is one of the myths of performance measurement that appropriate measures are very obvious. There are several common reasons why organizations get their measures radically wrong as set out in Exhibit 13.1.

Exhibit 13.1 Common reasons why measures are wrong

Measuring too much	With so much data available there is the temptation to allow the data to drive the measurement leading to measuring too much and missing areas where data is not currently available. The cost of measurement often outweighing the benefit of the measurement. Visit any call centre and see the myriad of performance measures they are measuring.
A lack of connectivity with the organization's critical success factors	Measures are too frequently a byproduct of a strategy exercise, project planning, an annual performance pay agreement.
Treating all measures as KPIs	Over the past 25 years I have come to the conclusion that there are four types of performance measures. These four types of measures are in two groups: result indicators and performance indicators.
KPIs being driven by performance related pay	If you tie KPIs to performance-related pay, KPI stands for *key political indicator,* rather than *key performance indicator*. Good performance with KPIs should be regarded as a "Ticket to the game." Hence a given, the reason why you are employed; thus, there is no need to incentivize them.
A tendency to over rely on financial measures	These measures are all Result indicators and have already been discussed.
Relying too much on past measures	It is taking action in the "here and now" that creates the results of the future. Although we still need to measure the past, we also need to measure current and planned future activities.

Confusion over outcome and operational measurement	It is imperative to separate out reporting of progress against outcomes (bi-monthly or quarterly) from reporting operational progress (24/7, daily, weekly). Key Result Indicators will be your outcome measures, and these will principally be reported by the executive team to the Board. Never give the board the operational KPIs.
Random selection from a database of measures	Whether it is using external consultants, relying on industry benchmarks or accessing one of a number of performance measure databases, the results are the same, chaos.
An initiative is not a measure, e.g., performing a satisfaction survey	A better measure would be the number implementations made to improve service post survey.
Mixing measures with targets and milestones	It is very common to see targets, milestones, and measures all mixed up together. "Completing the project by 31 December ____" is a target. "Stage 3 finished by 31 December ____" is a milestone." "List of late projects by manager, reported weekly to the senior management team" is a measure.
Documenting a few vague words does not make a performance measure	Instead of a vague statement such as "maintain a customer loyalty program" we could measure month-to-date sales by major customer.
A "SMART" measure is not always the answer	It is a misconception to believe that if a measure is SMART— *specific, measurable, attainable, realistic,* and *time sensitive*—it will do. This, of course, ignores the fact that the measure may not be linked to the critical success factors of the business and that its dark side may be very damaging.
Designed by untrained staff	Giving teams the task of finding measures, without any training, and placing them in the organization's balanced scorecard application is a recipe for disaster. Just as damaging is getting external performance measurement experts to complete this task in the spare moments they have.

13.2 <u>Wisdom on measures from other writers</u>

There are several writers who have added to our understanding of what are good measures; I have highlighted some of their key contributions in Exhibit 13.2.

Exhibit 13.2 Key contributions from other authors

Paul Niven[xxiv]	"Any measure that takes more than 30 seconds to describe probably doesn't belong." "Beware of averages – instead, look for performance measures that portray the true picture of the process or event you're attempting to capture.
Dean Spitzer[xxv]	The balanced scorecard is often manipulated whether it is tied to an annual performance bonus or not. As Spitzer says, "The ultimate goal is not the customer—it's often the scorecard." "People will do what management inspects, not necessarily what management expects."
Stacey Barr[xxvi]	"Vague words do not make a performance measure." "When designing measures, begin with the end in mind." "Filter your measures by asking two questions: "How strong an indicator is this measure of the result?", "How feasible will it be to measure it?" "Don't give the team their measures; teach them how to fish."
Tom Peters[xxvii]	"Keep it simple: One or Two measures that count." "Our fixation with financial measures leads us to downplay or ignore less tangible nonfinancial measures, such as product quality, customer satisfaction, order lead time, etc. Yet these are increasingly the real drivers of corporate success over the middle to long term."
Jeremy Hope[xxviii]	"Many financial indicators are useful measures that tell how well the organisation has performed over a recent period and if their organisation is heading in the right direction. They do not, however, tell them what they need to do to improve these results. Nor do they inform users of accounts about many intangible assets (such as R&D, brands, supply chains, etc.,.) or contingent liabilities (such as financial risks inherent in the use of derivatives and hedge funds) that, for many organisations, have a huge impact on their market value."
Kaplan & Norton[xxix]	"Our experience has shown that an organisation's first balanced Scorecard can be created over 16 weeks."

13.3 Rules for designing measures

As mentioned earlier, it is one of the myths of performance measurement that appropriate measures are very obvious. There are a number of rules to follow when designing measures and these are set out in Exhibit 13.3.

Exhibit 13.3 The rules for designing measures

Determine the difference between Result and Performance Indicators	If you can phone a manager and they accept the responsibility for a measure, it is a Performance Indicator. Where you have measures that summarize collective action, of several teams working together, then a phone call is of no benefit as no one will accept responsibility. These I call result indicators. Each of these two categories have some exceptional measures and these are called key result indicators, or key performance indicators, as appropriate.
Ensure that a measure is designed from or links to one of the organization's CSF	I see the CSFs as the source of all performance measures. If you get the critical success factors right, it is very easy to find your winning KPIs. In other words, by ascertaining the CSFs, first you have started with the end in mind.
Timely measurement so you are measuring more at the "top of the cliff" rather than at the "bottom of the cliff".	It is clearly better to catch problems early on rather than measure their impact in the monthly report. Monthly measures will never change performance as management are far too proficient in explaining away anomalies to be motivated to change behavior. Where you need change to occur, daily or weekly measurement has a far better chance to prompt corrective action to take place. I do not believe there is a monthly KPI on this planet. If a performance indicator is key to the well-being of an organisation, surely you would measure it as frequently as possible.
Focusing measures on the exceptions	Focusing on an exception is better than having to measure everything. It is surely better to measure late planes in the sky over two hours late than the percentage of "on-time" flights in the month.
Remove measures that will lead to damaging or dysfunctional behavior	All measures will have a dark side. The question is how big is the dark side? Some will lead to damaging dysfunctional behavior e.g., the measuring of calls, made by staff in call centers, will lead staff to make more short calls to the same customers leading to the eventual loss of those customers.
The wording of a measure should leave no doubt what is being measured	Often the initial measure is a statement or even just a clue as to what is to be measured. E.g., "Number of successions plans in place". A better rewording is "Number of key positions with at least two

	potential replacements". A performance indicator that should be measured quarterly. It will promote managers to recruit and train staff who have the potential to be their successor. It also reminds management that one potential successor is not enough as the odds are that the staff member will leave before the promotion can occur.
Ensure the benefit of measurement is much greater than the cost	Many measures may appear useful but on reflection have a negative cost/benefit relationship. E.g. Number of business opportunities in the pipeline. Whilst it would be great to have a central database of business opportunities, in reality such lists will be incomplete. Staff will get weary of updating it. The dreaded timesheet should not be introduced to support measurement. It is a far too onerous, error prone, and costly system. Even in some accounting firms the time sheets have been replaced with an agreed high and low fee range with the customer, leaving the eventual fee subject to agreement of the work undertaken.
Design the measure around the action you want to stimulate	When you have the results of a staff or employee satisfaction survey, the net score is interesting but not that important. The key is whether any of the survey recommendations has been implemented. If you do not implement these recommendations, the survey was a total waste of money and respondents' time. Thus, the measure becomes the number of recommendations that have been implemented to date (and this would need to be reviewed weekly by the executive team).
Use your oracles when designing measures	**When looking at a CSF, get your wise oracles to ask themselves "What has good performance looked like?"** and then ask yourself **"What has bad performance looked like?"** Both views will shed light as to what should be measured. Then ask yourself, "What "Top of the Cliff" measures would give advance warnings of this negative performance?
Have a mix of 60% Past, 20% Current and 20% Future orientated measures	Any measures that relate to activities within the last 24 hours are considered <u>current indicators</u>. <u>Future indicators</u> are measurements you can do now that will encourage an action to take place, e.g., Number of innovations scheduled to be implemented in the next month.

13.4 <u>Suggested exercises to improve measure design</u>

For staff to help the KPI lead to determine measures, they first need to understand the rules for designing measures, as listed in Exhibit 13.3. The best way is through getting the workshop attendees to undertake the following exercises.

Measures need to be reworded to comply with these rules. Here are some examples of how I would have reworded the initial statement.

Original measure: **Number of staff employee suggestions received in month**

The improvement and the reasoning: "Number of employee suggestions implemented by team" a performance indicator measured monthly & "Number of employee suggestions to be implemented, next week/fortnight, by team" a performance indicator measured weekly. Whilst it is great getting the ideas in, we want to target the change the suggestions have created so we focus on implemented ideas.

Original measure: **Attrition rates in the last six months**

The improvement and the reasoning: "Turnover of experienced staff who have been with the organization for over three years". A result indicator measured quarterly to help assess whether the organization is losing experienced staff at an acceptable rate.
"Turnover of new staff who have been with the organization less than one year by department". A result indicator, measured monthly, to highlight managers who are creating a dysfunctional work environment.
"List of managers with high turnover of staff". A performance indicator, measured quarterly, highlighting problem managers.

Original measure: **"Number of weeks each vacancy has been unfilled."**

The improvement and the reasoning: "Number of weeks with an unfilled vacancy by key position." A result indicator which will be measured weekly. We want to focus on the vacancies for key positions.

Original measure: **Number of recognitions made last month**

The improvement and the reasoning: "Number of planned recognitions in the next week/two weeks by each manager." This is a performance indicator measured weekly. This would be measured for the CEO and the next two layers of management. Measuring recognition monthly is too late. Whilst there may be times when no recognition has been organized, this weekly measure reminds management to rectify this omission.

Original measure: **"Percentage of team that have completed induction training"**

The improvement and the reasoning: "New staff who have not attended an induction program within __ weeks of joining". This performance indicator will be reported weekly to the CEO. The importance of induction programs will be supported by this measure.

13.5 Looking for measures with a negative cost vs benefit relationship

There will be measures that appear reasonable on first sight yet, when investigated, the collection of data will involve too much work. Set out in Exhibit 13.4 are examples of measures where measurement would not be cost effective.

Exhibit 13.4 Measures where measurement would not be cost effective

Measure	Reasoning
Number of business opportunities in the pipeline	Whilst it would be great to have a central database of business opportunities, in reality all lists will be incomplete.
Time spent doing a task	I have seldom found it worth recording time spent as it would involve the introduction of time sheets. A dreaded system that staff hate and are seldom right.
Error rate per IT system	Likely that data will be corrupted
Time spent on innovation	Seldom worth having time sheets for measures.
Number of near miss/risk incidents averted	Difficult to measure and likely to have a negative cost vs benefit ratio.

13.6 Exercise to categorize measures

At this point it would be worth categorizing the following measures to assess your level of understanding. This exercise should also be done by all attendees to the performance measures workshops. In Exhibit 13.5 I have selected some measures that would be useful in many sectors. For each measure I need you to decide:

1. Is the measure a **R**esult Indicator or **P**erformance Indicator?
2. Is the measure a "**T**op or **B**ottom" of the cliff indicator?
3. Is the measure a **P**ast, **C**urrent or **F**uture indicator?
4. Is the measure a **T**argeted indicator, measuring the exception rather than the whole population?