How to Implement Winning KPIs (for SMEs between 100-250 FTEs)

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1 The great KPI misunderstanding

There are several reasons why there is such a large misunderstanding about 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.

1.1 <u>An airline's KPI story</u>

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 **<u>critical success factor (CSF)</u>**, 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.

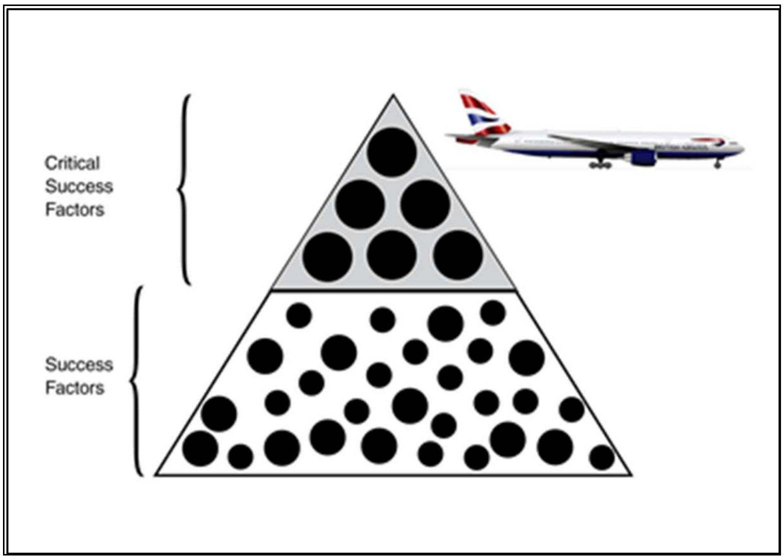


Exhibit 1.1 The importance of knowing your critical success factors

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 immediately notified 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, It's Lord King on the phone; I am ringing up about BA135 that left Kennedy airport over two and a quarter hours late. What happened?"*
>
> *"Lord King, the system will tell you that the plane left Hawaii late. 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?"*
>
> *"About thirty years, Lord King."*
>
> *"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!"

Pat and many other airline employees had the "not caused 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
- communicating to the external caterers so they could reschedule the catering for 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 know that the boarding deadline 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 is linked to the 'delivery in full and on time' critical success factor, namely the 'timely arrival and departure of aeroplanes'; it is also 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 costs, including additional airport surcharges and the cost of accommodating passengers overnight due to planes being prevented from departing due to noise restrictions late at night.

2. Increased customer dissatisfaction led to passengers trying other airlines and changing their loyalty programmes.

3. Alienated potential future customers as those relatives, friends or work colleagues inconvenienced by the passenger's late arrival avoided future flights with the airline.

4. Harmed 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.

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

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 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 focused on 'delivering in full on time' to customers.

Each day, by 9 am, the CEO received a report of those trailers that had been sent out underweight. 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.

1.3 Some webinar polling results

See Exhibit 1.2, for some webinar polling results.

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% of 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 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. Donald Wheeler pointed out that a target is binary –either a 'pat on the back' or 'not good enough'.

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

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]

1.5 Role of performance measures

It is worth reflecting on what the role of performance measures is intended to be. I believe that the role of performance measures includes:

- Linking daily actions to the organisation's critical success factors
- 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 organisational performance that determine ongoing health, vitality, and well-being."*[iii]

I have always seen these as desired internal specific outcomes that need to be done well day-in and day-out by the staff. Critical success factors are about what the staff inside the organisation can do and should do every day. They are

Stephen Covey talked in "First things first"[iv] **about putting "the rocks" in first every day before we work with the pebbles and the sand. We can liken the operational CSFs to the rocks that staff need to focus on every day**. They should be the driving force behind prioritization throughout the organisation. 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 will tackle the smaller orders, putting the easy "runs on the board", thus jeopardizing service to the most profitable customers.

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 organisation's critical success factors. You could be in your tenth year with a balanced scorecard and still not know your organisation's critical success factors. It is like going to soccer's World Cup without a goalkeeper or, at best, an incompetent one.

An organisation's critical success factors—the missing link

In organisations that do not have clarity and agreement on their CSFs, managers will prioritise work based on their view as to what is important. Many counterproductive activities will thus occur based on the premise that "What is important to me is important to the organisation".

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 the Balanced Scorecard and other methodologies.

What influences the critical success factors?

It is important to understand the relationship between the Agree on who should attend organisation's CSFs and strategy. Several features impact an entity's CSFs, as illustrated in Exhibit 2.1. Most organisations will have one or two industry generic CSFs. They 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 and be common across different industries (e.g., "delivery in full, on time, to our key customers" or "Recruit the right people all the time").

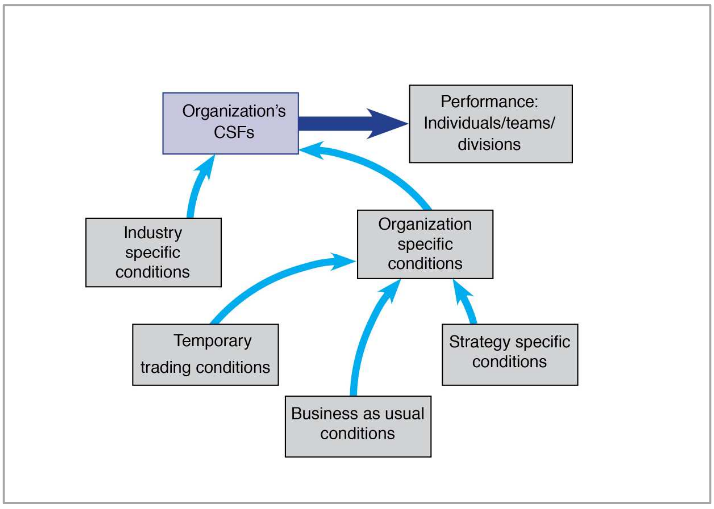


Exhibit 2.1 What influences the critical success factors

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 strategic initiatives, and measures are typically cascaded down from a top-level 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 organisation's 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 your organisation's CSFs and then determine what measures would align with them.

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

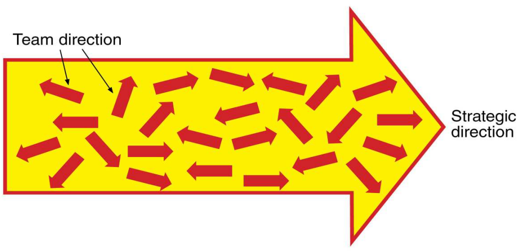
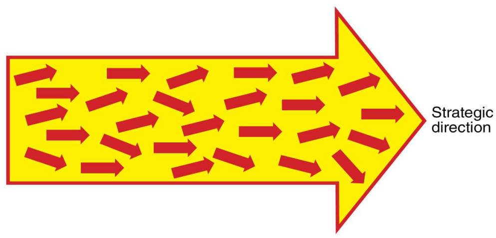
Status quo, a lack of alignment	Alignment through CSFs and KPIs
	

Exhibit 2.2: Getting alignment through the CSFs and KPIs

2.3 Relationship between critical success factors and strategy

Although I know the significance of a well-thought-through and executed strategy, the organisation's critical success factors are more fundamental to the business as they focus the staff daily on what needs to be achieved. 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 organisation's CSFs.

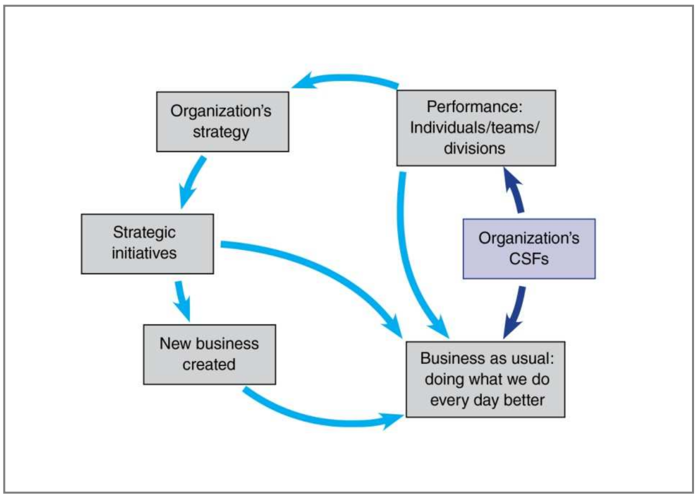


Exhibit 2.3 How strategy and the critical success factors work together

The organisation's CSFs and the performance measures they inherently carry link daily activities to the performance of teams, business units and divisions.

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

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	As mentioned in the foundation stone '6.4, Source all KPIs from the critical success factors'.
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.
Alignment between teams in an organisation.	The staff know what should be done as a priority, and thus, their daily actions are now aligned and better linked to the organisation's strategies.
Challenge unnecessary meetings, reports, and tasks.	Staff meetings, reports, and tasks will be challenged for their validity. All activities without a 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	The report layout will be more concise as many extraneous issues will be removed.
CEO linkage to the workforce	The CEO's linkage to the workforce will be a daily activity through phone calls and walkabouts amongst front-line staff.

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."*[v]

KPIs are rarely new to the organisation. Either they have not been recognised 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 result from 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 the monitoring of a monthly performance measure lead to improved performance.
All KPIs have the CEO's attention.	All KPIs will have the CEO's constant attention with daily calls to the relevant staff enquiring about exceptions or recognizing their outstanding performance. Staff will perceive talking about poor performance with the CEO regularly 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 magic to save a minute here and there while maintaining or improving service standards.
All KPIs can be tied to a team that can take remedial action for immediate effect.	A KPI is deep enough in the organisation to 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 significantly impact one or more of the organisation's critical success factors.	A KPI will affect multiple critical success factors and most 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 remedial actions that will contradict the desired intentions. Before becoming a KPI, a performance measure needs to be tested to ensure that it helps teams align their behaviour coherently to benefit the organisation. While at the same time having only a minor dark side

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 C-suite
- Number of vacant places at an important in-house course—reported daily to the C-suite in the last three weeks before the course is due to run
- Number of initiatives implemented after the staff satisfaction survey—reported weekly to the C-suite 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 C-suite
- Number of abandonments to be actioned in the next 30, 60, or 90 days—reported weekly to the C-suite
- Complaints from key customers that have not been resolved within two hours—reported 24/7 to the C-Suite
- Key customer enquiries that the sales team has not responded to for over 24 hours—reported daily to the C-Suite
- Date of next visit to major customers by customer name—reported weekly to the C-Suite

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 summarise 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**.

Some measures 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 macro outcomes and strategies. They are ideal for governance reporting as key result indicators show overall performance and help the Board focus on strategic rather than management issues.

KRIs do not tell management and staff what they need to do to achieve macro 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 18 months)
• Return on capital employed
• Employee satisfaction (by groups showing the trend over 18 months)

Separating 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 knows 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 "ship's 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 80 or so performance measures that lie between the KRIs and the KPIs are the performance and result indicators (RIs & PIs).

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

Exhibit 4.3: Examples of result indicators

For the private sector, 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
• In-house courses scheduled to be held within three weeks where attendee numbers are below target
• 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.

Exhibit 4.4: Examples of performance indicators

For the private sector, performance indicators could include:
• Abandonment rate at call centre—callers giving up waiting
• Late deliveries to other customers (excluding key customers)
• Planned abandonments of reports, meetings, and processes that are no longer functioning

- Number of innovations implemented by each team/division
- Sales calls that are organized for the next two weeks
- Number of training hours booked for next month, months two and three, and months four to six—in both external and internal courses

4.3 The differences between KRIs vs KPIs and RIs vs PIs

Often, in workshops, one question emerges time and time again. "Please explain again the difference between KRIs and KPIs, and RIs and PIs. The Exhibits 4.5 & 4.6 hopefully will clarify the differences.

Exhibit 4.5: The difference between KRIs and KPIs

KRIs	KPIs
Can be financial and non-financial, e.g., Return on capital employed and customer satisfaction percentage	Non-financial measures (not expressed in dollars, yen, pound, Euros, etc)
Measures are performed mainly monthly and sometimes quarterly	Measured frequently (e.g., 24/7, daily or weekly)
Reported to the Board as a good summary of progress to date on many activities carried out by many teams	Reported to the CEO and C-suite and focused on a specific activity.
It does not tell staff or management what you need to fix	All staff understand the measure and what corrective action is required
Commonly, the only person responsible for a KRI is the CEO	Responsibility can be tied down to a team or a cluster of teams working closely together
A KRI is designed to summarise progress in a particular area. Tends to focus on the macro outcomes as seen through the Board members' eyes.	Significant impact, e.g., it impacts more than one operational critical success factor and more than one BSC perspective.
Normally reported in a trend graph covering the last 15 to 18 months of activity.	Normally reported through an intranet screen indicating activity, the person responsible, and past trends so that a meaningful phone call can be made.

A car's speedometer provides a useful analogy: the car's speed is a result indicator since the car's speed is a combination of what gear the car is in and what revolutions the engine is doing. Performance indicators might be how economically the car is being driven or how hot the engine is running.

Exhibit 4.6: The difference between RIs and PIs

RIs	PIs
It can be financial and non-financial	Non-financial measures (not expressed in dollars, yen, pound, Euros, etc)
Measured daily, weekly, fortnightly, monthly, or sometimes quarterly	Measured daily, weekly, fortnightly, monthly, or sometimes quarterly
Designed to summarise overall performance by a collection of diverse teams	Tied to a discrete activity, and thus to a team, or a cluster of teams who work closely together
A result of more than one activity	Focuses on a specific activity
Does not tell you what you need to do more or less of	All staff understand what action is required to improve performance
Normally reported in a team scorecard	Normally reported in a team scorecard

4.4 Replacing the terms lead and lag indicators

Many management books talk about "lead and lag indicators", which I believe clouds the KPI debate. While researching before I wrote the book "key Performance Indicators", I constantly had trouble with branding certain measures lead or lag until I realised my attendees at my KPI workshops were having the same problem.

I have presented to nearly two thousand people on KPIs, and I always ask, "Is the late planes in the air KPI a lead or lag indicator?" The vote count is always evenly split. For it is about the past (what made the plane late) and the future (the mayhem it is about to cause). Surely, this is enough proof that the 'lead and lag' labels are not a useful way of defining measures.

Instead of '*lead and lag indicators'*, I suggest we talk about whether measures are about the past, the current time frame or indeed about the future that has yet to occur. Yes, I do believe we can measure certain aspects of the future.

Using this new way of looking at KPIs, **we dispense with the terms lag (outcome) and lead (performance driver) indicators.**

Past measures (which are clearly lag measures) are those that look at historic events, activity that took place last week, last month, last quarter etc.

Key result indicators will nearly always be past measures. Result indicators, performance indicators and key performance indicators, however, are now characterised as either past, current or future measures.

Current measures refer to those monitored 24/7 or daily (e.g., late/incomplete deliveries to key customers made yesterday).

Future measures are the record of a future commitment when an action is to take place (e.g., date of next meeting with key customer, date of next product launch, date of next social interaction with key customers).

In your organisation, you will find that your KPIs are past (last week's activity), current or future-oriented measures.

In workshops, I ask participants to write a couple of their major past measures in the worksheet shown in Exhibit 4.7 and then restate the measures as current and future measures. Take time out now and restate three or so measures.

Exhibit 4.7: Examples of past, current, and future measures

Past measures (last week / 2 weeks/month/quarter)	**Current measures** (real-time/ today/ yesterday)	**Future measures** (next week/month/quarter)
Number of late planes last week/ last month	Planes over 2 hours late (updated continuously)	Number of initiatives to be commenced in the next month, 2 months to target areas that are causing late planes
Date of last visit by key customer	Cancellation of order by key customer (today)	Date of next visit to key customer
Sales last month in new products	Quality defects found today in new products	Number of improvements to new products to be implemented in next month, months two and three

The lead-lag division did not focus adequately enough on current or future-oriented measures. Most organisations who want to create alignment and change behaviour need to be monitoring what corrective action is to take place in the future.

Measuring the future will help make it happen. Here, in Exhibit 4.8, are some common future measures that will work in most organisations.

Exhibit 4.8: Examples of more future measures

Future innovations	To be an innovative organisation, we need to measure the number of initiatives that will come online in the next week, fortnight, and month.
Arranged sales calls with key customers	To increase sales, we need to know the number of meetings that have already been organised/scheduled with our key customers in the next week, fortnight, and month.
Future key customer events	To maintain a close relationship with our key customers, a list should be prepared with the next agreed social interaction, e.g., the date agreed to attend a sports event, a meal, the opera, etc.
Future PR events	To maintain the profile of our CEO, we need to monitor the public relations events organised in the next 1-3,4-6,7-9 months.
Future recognitions	To maintain staff recognition, the CEO needs to monitor the formal recognitions planned by the C-suite next week / next fortnight.
Key dates	To keep track of future key events, provide a weekly schedule of the next product launch, date for signing key agreements, etc.

All these future measures would be reported in a weekly update given to the CEO. Whilst the CEO may let a couple of weeks pass with gaps appearing on these updates, they soon start asking questions. Management would take action prior to the next meeting, to start filling in the gaps to ensure they avoided further uncomfortable questioning.

4.5 The difference in the four measures and their respective time zones

The differences in the four measures and the past, current, and future time-periods are further explained in Exhibit 4.9. KRIs are summaries of past performance, principally monthly trend analysis over 18 months. KPIs focus on activity in the past week, yesterday, and today, and than planned for the next week and the next two weeks. PIs and RIs will be heavily weighted to the past; however, we do need at least 20 per cent of measures to be current- or future-focused.

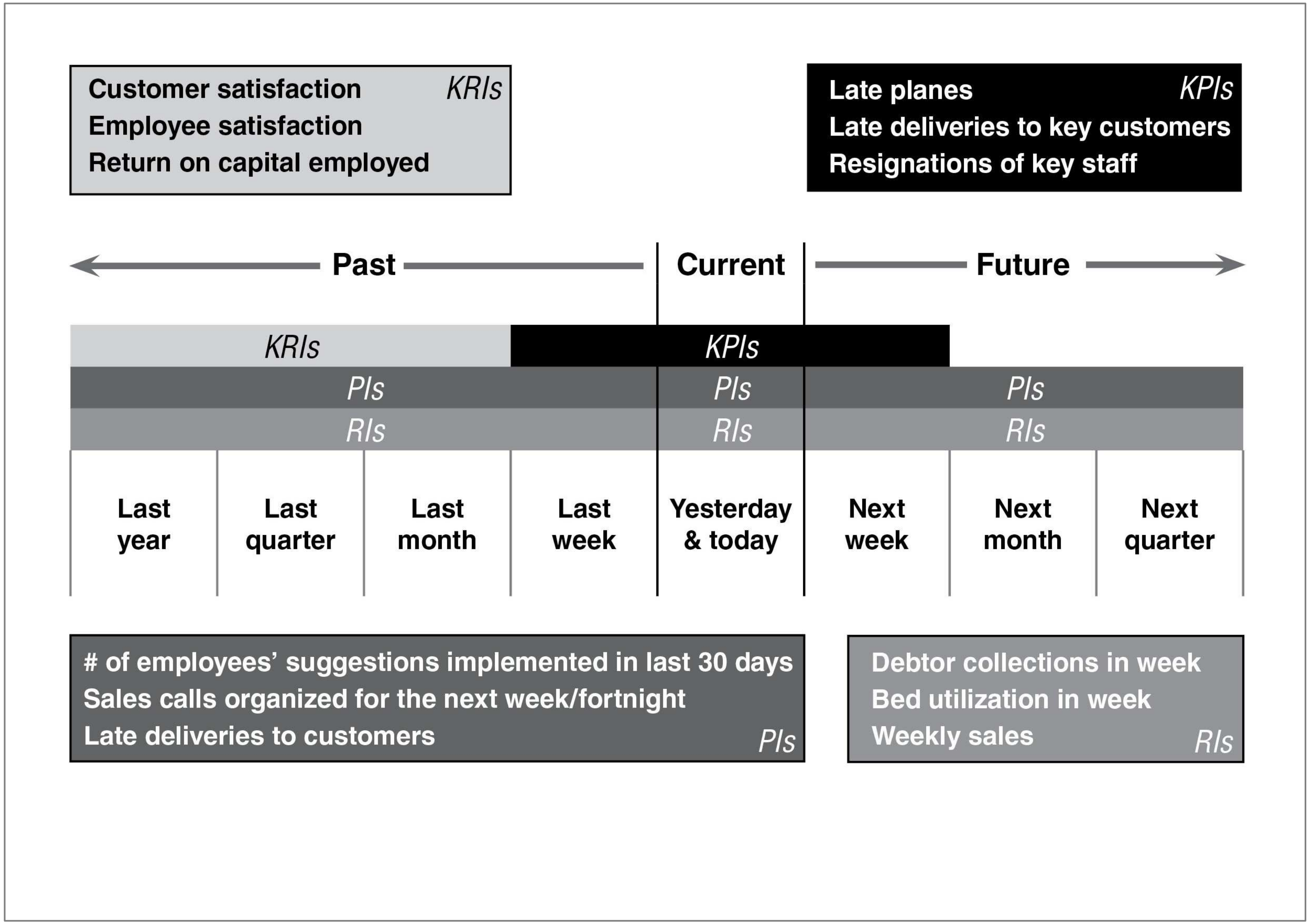


Exhibit 4.9: The time zones of the four performance measures

	Team 1	Team 2	Team 3	Team 4	Team 5	**# of times selected**
1. Be seen in the community as an employer of 'first choice'	=5		=4		=2	**3**
2. Supporting minorities through employment						
3. Environmentally friendly culture and reputation (use of environmentally friendly materials)						
4. Delivery in full on time, all the time, to our key customers	1	=3	1	1	1	**5**
5. Finding better ways to do the things we do every day	=5					**1**
6. Optimizing technology that matters			2		4	**2**
7. Completion of projects on time and to budget						
8. Encouraging innovation that matters		1		4		**2**
9. Enhancing quality		=3				**1**
10. Timely, accurate, decision-based information						
11. We finish what we start	4	2	=4	2		**4**
12. Reducing supply chain costs		=3	=5		=2	**3**
13. Optimise revenue from profitable customers						
14. Increase in employee satisfaction	3					**1**
15. Appropriate reward and recognition structure for all				5		**1**
16. Increasing recognition throughout the organisation						
17. A pleasant physical work environment for all staff						
Etc						
Etc						

Exhibit 12.12: Summarizing the teams' top five success factors from the sphere of influence mapping process

Task 11. Testing the CSFs

When the first cut of the organisation's CSFs has been ascertained, the KPI project team tests the list of the top eight to ten critical success factors against the six perspectives of a balanced scorecard and the organisation's strategic objectives, as illustrated in Exhibits 12.13 and 12.14

Exhibit 12.13: Testing the linkage of CSFs to the six BSC perspectives

	Perspectives					
Critical success factor	Financial	Customer Satisfaction	Staff Satisfaction	Innovation & Learning	Internal Process	Environment & Community
Timely planes	✓	✓	✓	✓	✓	Possible
________		✓			✓	✓
________	✓					
________	✓	✓		✓		✓

In Exhibit 12.14, the CSFs are not impacting strategic objective #4, and thus, we need to ask whether we have all the CSFs. Could one CSF be reworded, or is strategic objective #4 correct in the first place?

Exhibit 12.14: Testing the linkage of CSFs to your organisation's strategic objectives

	Strategic Objectives (SO)					
Critical Success Factor	SO#1__ ________ _	SO#2___ __________	SO#3___ __________	SO#4__ _______	SO#5__ ________	SO#6_____ ____________
e.g., Timely arrival and departure of planes	✓		✓			possible
________		✓			✓	✓
________	✓					
________	✓		✓		✓	

Implementation tips

The CSF workshop attendees should have two or more years of operational experience with the organisation.

The workshop facilitator needs to ensure that all groups are mapping the relationships the same way. The workgroups should be looking from one success factor at its relationship to the others and be adding up only outward arrows.

Do not rank the short-listed success factors by their scores. These should not be ranked as not all relationships are equal. However, you can safely assume success factors, with, say, 20 outward arrows, will be more important than success factors with, say, 8 outward arrows.

If you discover another outcome statement late in the exercise, insert it in the central box and add the extra linkage to any of the shortlisted highly rated success factors.

Task 12. Measures and reporting introduced

During this workshop we will introduce attendees to the rules for designing measures, show them how to derive performance measures from the organisation's CSFs and how to report performance measures. This is all discussed in the following sections.

12.5 <u>Presenting the critical success factors to the staff (Stage 2.5)</u>

The C-suite members, managers and staff who have not attended the CSF workshop must understand how they came about and their significance.

Task 1. The KPI team prepares the CSF presentation

The presentation will cover:

- The history of performance measurement within the organisation.
- How the CSFs were ascertained and by whom
- The top eight to ten CSFs and their impact on the organisation's success factors as illustrated in Exhibit 12.15.
- How the CSFs should be used by staff and their anticipated impact
- How these CSFs will drive the performance measures which will not be linked to pay or individuals but to processes and teams.

There is a draft presentation in the E-templates.

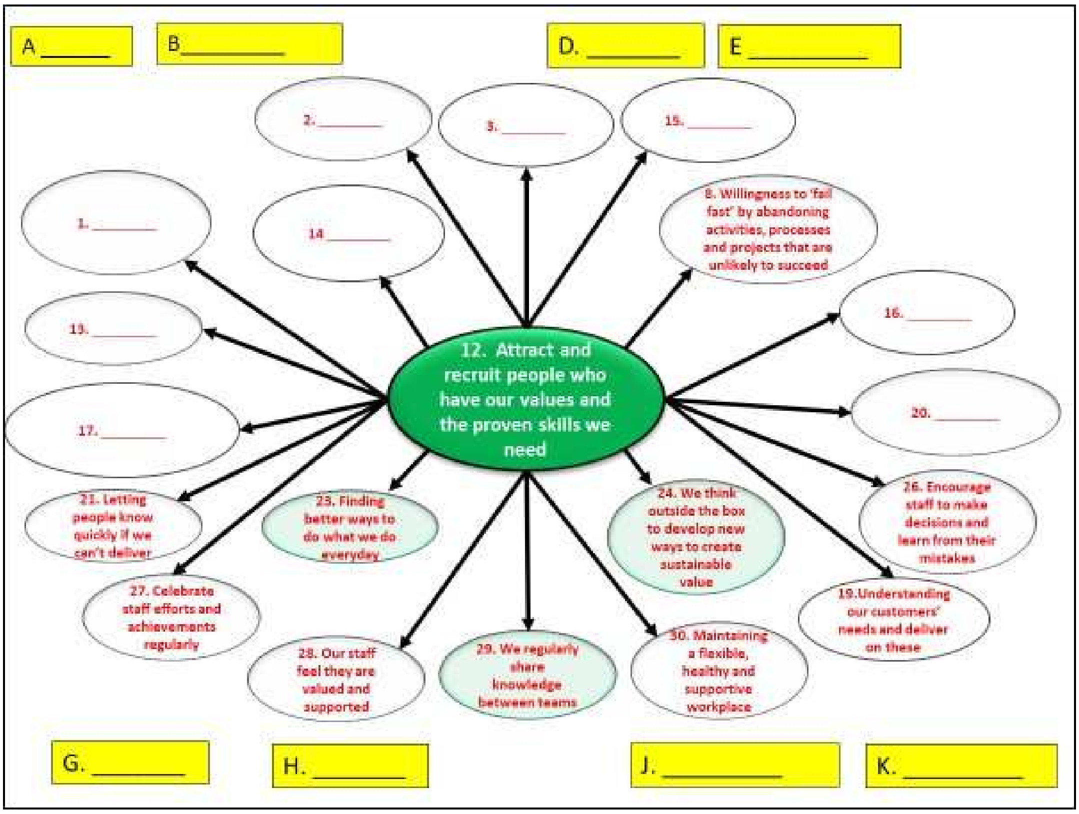


Exhibit 12.15: Showing how the critical success factors affect other success factors (circles) and the organisation's macro outcomes (yellow boxes)

Financial Institution

As this was a global organisation, the CSF workshop was run as part of the Executive Retreat Week, which is held each year.

The CSF workshop was scheduled for the first two days. On Day 3, the workshop output was transferred into a CSF presentation, as shown in Exhibit 12.15. This was delivered on Day 4, discussed and agreed upon by the executive. This new approach sped up the process and ensured all the executives understood how and why the CSFs arrived.

Task 2. Extensive practising and testing of presentation

There will not be a second chance. The content and delivery must get the audience to their Aha! moment. See section 7.1.

Task 3. Draft presentation tested and discussed with employee representatives

The CSFs must be discussed with employee representatives and conveyed to staff to maximise the benefits. If staff are told what is important, they can align their daily activities to maximise their contribution.

Task 4. Presentation to the Board

Now is the time to present to the board.

It will be beneficial to brief the Board on the KPI project and its effect on the Board report. The KPI project presentation to the Board will need to focus on the reasons for the project, the benefits to the Board, the final macro outcomes and some examples of the reporting they will get on the key result indicators. From prior experiences, you do not need to involve the Board in the approval of the organisation's CSFs and their performance.

Implementation tips

1. This is a very important presentation, maybe the most important you have ever done. I would practice it at least ten times. It can be delivered in about 20 minutes, so that means only 200 minutes of practice.

2. Do not recycle any previous KPI project presentations. This presentation has to be tailored, covering the reasons for the project, the benefits to the board, the difference between macro outcome statements and operational success factors, and some examples of the reporting they will get on the key result indicators.

12.6 Getting the CSFs on the wall in every workplace (Stage 2.6)

This is an important step. However, from my observation, it is often overlooked. **The only way the CSFs will change an organisation is when staff live and breathe the organisation's CSFs.** For that to happen, the CSFs must be conveyed meaningfully rather than just written up as a list.

I came across a brilliant example of how to communicate to staff what is important. In Exhibit 12.16, the company prepared a cartoon representation of what it wanted to achieve in the year, and staff pinned it on their office walls. It was printed on U.S. fanfold (A3) paper in full-colour. This A3 sheet is an excellent way to ensure that management and staff share the CEO's vision.

Communication of the critical success factors to the workforce has a profound impact on an organisation. Maybe for the first time, staff and management truly know what is important.

12.7 Selling the KPI project to the performance measures workshop attendees (Stage 2.7)

Employees need to be prepared for change; we need to show them that the default future is no longer viable and get them to choose the proposed new future. The project team and the C-suite need to:

- Convey what the organisation's CSFs are and why employees need to focus their daily activities around them
- Convince employees of the need for change by highlighting the performance gap between the organisation and best practice
- Outline what change is required
- Show how KPIs contribute to the CSFs and the organisation's strategy
- Attract employees' interest so they want to participate by selling the change through their emotional drivers
- Address employees' resistance to change and performance measurement

A formal briefing program should outline the changes associated with introducing KPIs into the organisation. In conclusion, all employees should at least believe that they need to do something differently, and a core group should be clear about implementation issues and how performance measures will be used. Those interested in the new KPI process should be shortlisted for the team coordinator role, who will support and help the KPI team to develop and implement KPIs.

Task 1. Survey a cross-section of staff

A survey may be useful to find out the current perceptions on existing performance information in the organisation, the current concerns about the new project, and what needs to be covered in the employee briefings. This survey should be performed before the performance measures two-day workshops are held in stage three.

With the help of the HR team, select experienced staff covering all regions, levels of staff, and so forth. This cross-section sample should not exceed 20 staff. Too large a sample makes data mining more difficult and seldom raises new issues. I have provided an employee questionnaire in the E-templates.

Task 2. Utilizing the feedback from an employee survey

The feedback from the employee survey must be incorporated into the workshop design. We need to cover all issues in the opening address by the KPI team presenter. To assist with capturing these issues, I have provided a worksheet in the E-templates.

Task 3. Build a compelling case for change

Demonstrate that KPIs are part of an C-suite-agreed package of initiatives to respond to the pressures on the organisation. Spell out these pressures in terms that people can understand. Use comparative information from preliminary benchmarking to highlight the performance gap between your organisation and best practice.

As already stated, nothing was ever sold by logic in selling the project to the C-suite! You sell through emotional drivers. Thus, you must radically alter how you pitch this sale to the staff. You have to focus on the emotional drivers that matter to them:

- The right mix of performance measures will make work more rewarding and enjoyable (e.g., greater staff recognition).

- Using the right measures would mean their work would be more effective (e.g., their day-to-day work would be better linked to the organisation's strategic objectives).
- In the future they would have more empowerment and autonomy (e.g., staff making more decisions).
- Winning KPIs will enhance profitability and thus offer greater job security and possibly increased remuneration (e.g., through profit-sharing arrangements).

Task 4. Use the project's vision statement to attract the staff

Generate interest by showing how the workplace could look in two to three years once KPIs and other initiatives have taken hold. Over time, empowered staff will begin to generate their versions of the vision for the workplace. However, in the beginning, the KPI project team must be passionate about the KPI project vision statement. The PR expert is to ensure that all documentation sells this vision adequately (e.g., memos, presentations, and the KPI team intranet pages).

To assist you with these steps, I have prepared a draft PowerPoint in the E-templates.

Implementation tips
1. One company put the CSFs on the pillars supporting the floors.
2. Another company put them on a drink bottle given to all staff as well as on a poster.

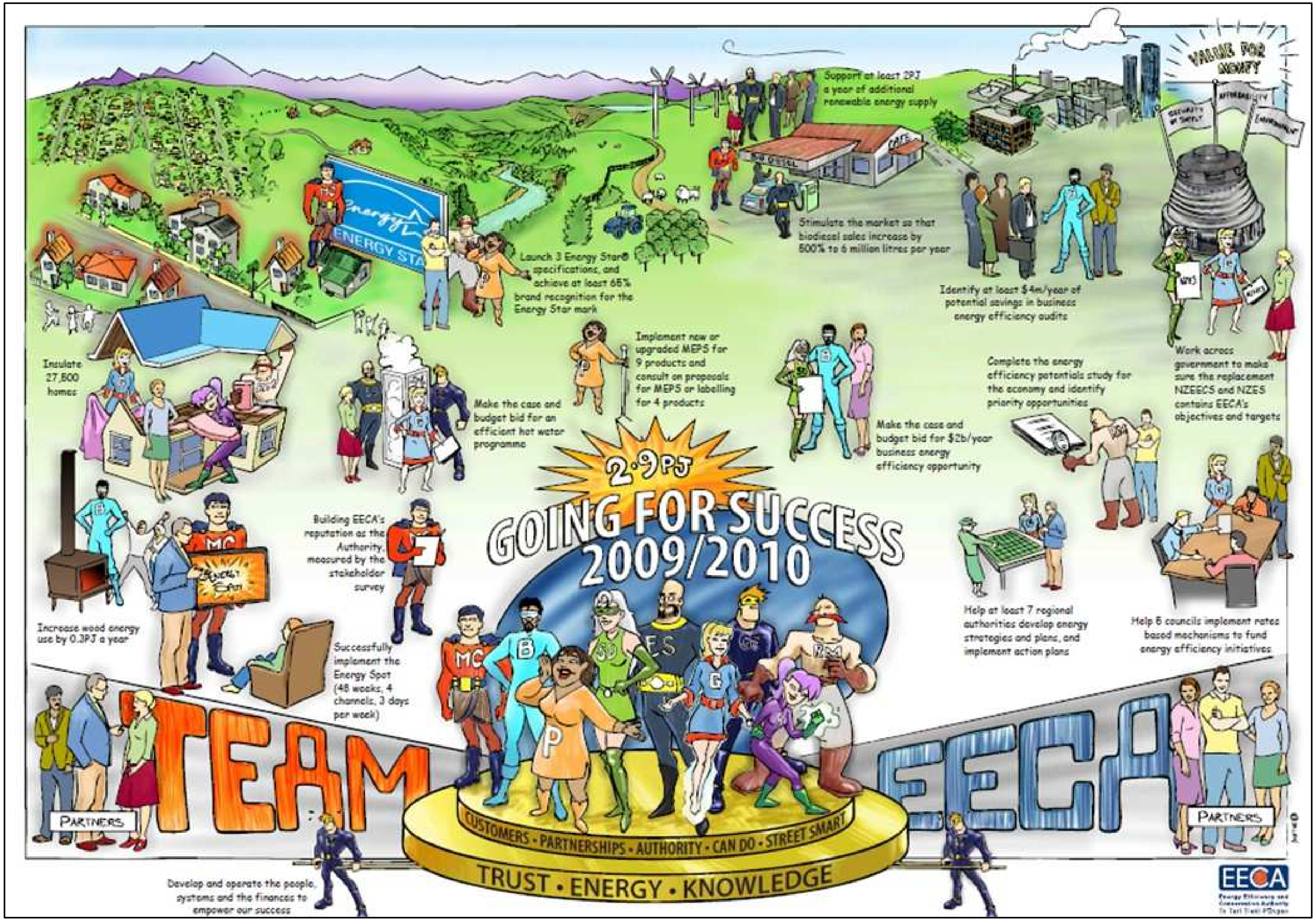


Exhibit 12.16 Communicating critical success factors to staff

(Source: Energy Efficiency Conservation Authority 2009/2010 Plan, www.eeca.govt.nz. Reproduced with permission)