How to Implement Winning KPIs (for organisations over 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 "bottom of the cliff" monthly measures that are too late to change events. It is better to catch problems early on (at the top of the cliff) rather than measure their impact in the monthly report 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. Consultants are being 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."

These issues are discussed in Appendix 1, The myths around performance measurement.

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 turn around the ailing airline. They returned 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.

They pointed out to him that finding the CSFs and narrowing them down to no more than eight to ten is a vital step in any KPI exercise and one seldom performed.

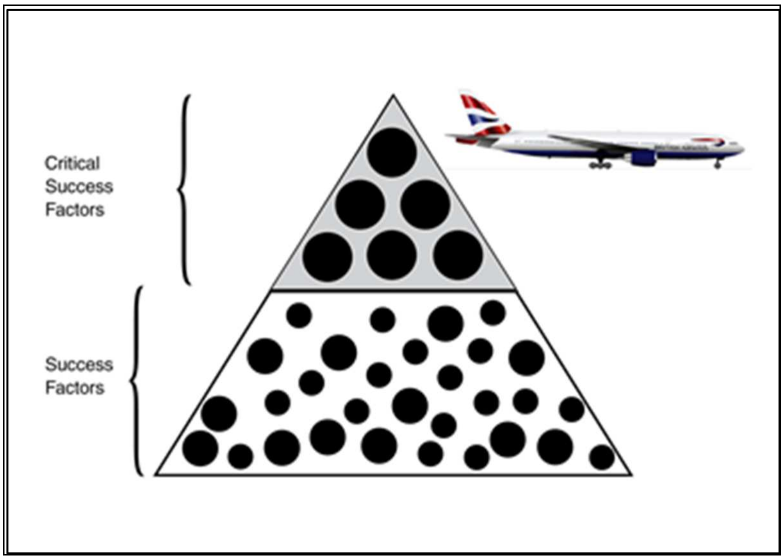


Exhibit 1.1 The importance of knowing your critical success factors

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 <u>A freight company's KPI story</u>

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 a wider ownership and empowerment.
- Gaining behavioural alignment (as the late planes KPI 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 operational issues or aspects 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.

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 organisation's CSFs to the rocks that staff must focus on daily. They should be the driving force behind prioritization throughout the organisation. They are very directional to operational staff focused on production and delivery.

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 difficult and complex, must be tackled first. 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 organizations that do not have clarity and agreement on their CSFs, managers will prioritize 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. Critical success factors could be a 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").

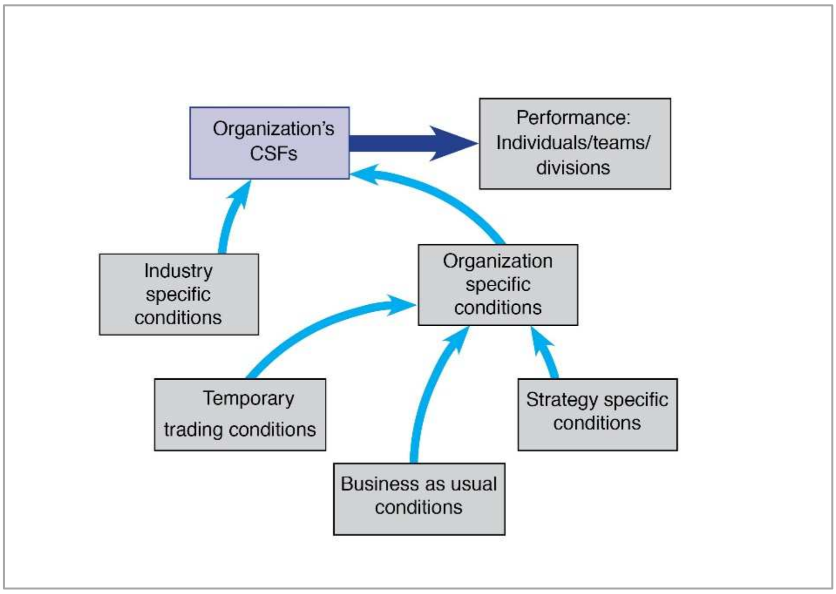


Exhibit 2.1 What influences the critical success factors

2.2 CSFs create meaningful measure and alignment

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.

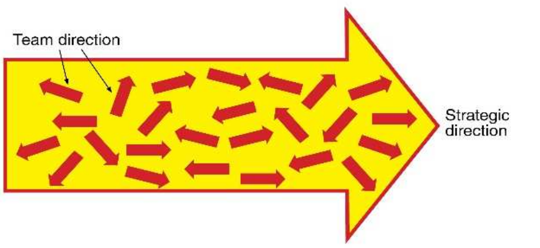
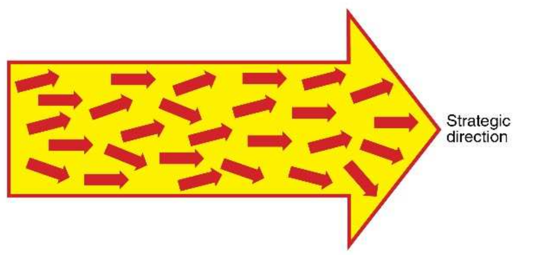
Status quo, a lack of alignment	Alignment through CSFs and KPIs
	

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.

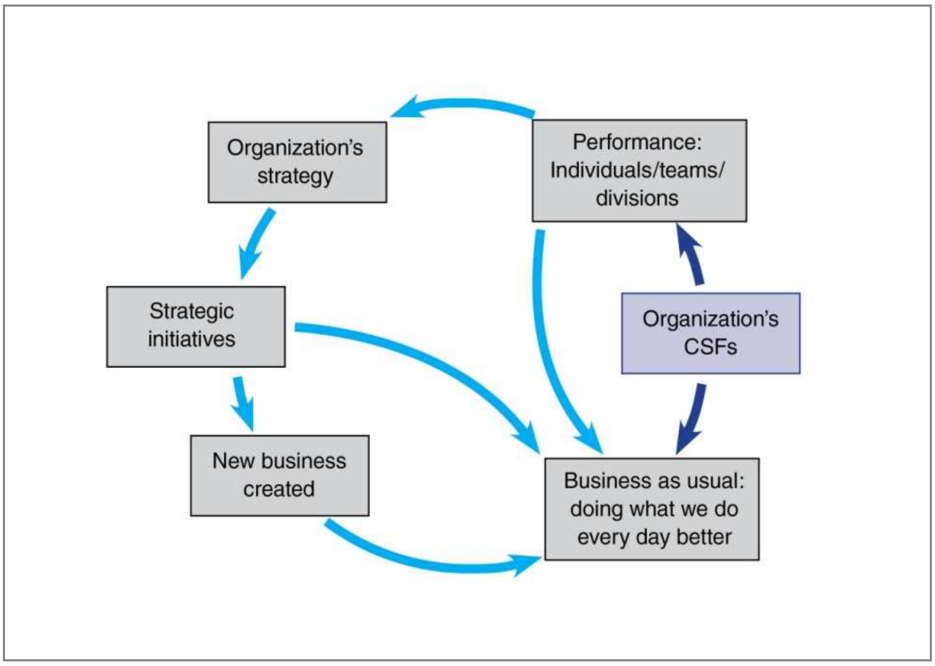


Exhibit 2.3: How strategy and the critical success factors work together

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. 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. They were either not recognised or 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

For government and non-profit agencies, key performance indicators could also include:

- Emergency response time over a given duration -reported immediately to the CEO.
- Number of confirmed volunteers to be street collectors for the annual street appeal - reported daily to the CEO four to six weeks before the appeal day.
- Date of next new service initiative- reported weekly to the CEO

4 Performance measures fit into two groups

From my research, I have concluded 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**.

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 <u>Key result indicators</u>

The common characteristic of key result indicators (KRIs) is that they result from many actions. They clearly show whether you are travelling in the right direction and the progress 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 than 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
- Return on capital employed
- Customer satisfaction (by customer group, showing the trend over 18 months)
- Employee satisfaction (by groups showing the trend over 18 months)

For government and non-profit 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 infrastructure projects
• Membership numbers (for professional organisations)

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 the Board confidence 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 "bridge" and thus getting in the way of the captain 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 are a very useful summary of many teams' efforts. We need to look at the activities that help create those sales to understand what to increase or decrease. 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

For government and non-profit agencies, result indicators would also include:
• Weekly hospital bed utilization
• Percent coverage of [Enterprise Name]'s supported services
• Number of people on treatment/tested for [Disease Name 1], [Disease Name 2], and [Disease Name 3]
• Grants achieving their public health targets as per grant agreements
• Percentage of investments covering low-income, high disease-burdened countries

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

For government and non-profit agencies, Performance Indicators could also include:
• Number of media coverage events planned for next month, months two to three, and months four to six
• Date of next customer focus group
• Date of next research project into customer needs and ideas

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, KPIs, and RIs and PIs. The Exhibits 4.5 and 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 external 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 discuss "lead and lag indicators, " which cloud 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. 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 useful for defining measures.

Instead of '*lead and lag indicators*', I suggest we discuss whether measures are about the past, the current time frame or 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 lag (outcome) and lead (performance driver) indicators.**

Past measures (clearly lag measures) 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 all the measures you call KPIs are either 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 them as current and future 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 that want to create alignment and change behaviour need to monitor what corrective action will be taken 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 to the CEO. Whilst the CEO may let a couple of weeks pass with gaps appearing on these updates they soon start asking questions. Before the next meeting, management would act 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 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 planned for the next two weeks. PIs and RIs will be heavily weighted to the past; however, we need at least 20 per cent of measures to be current- or future-focused.

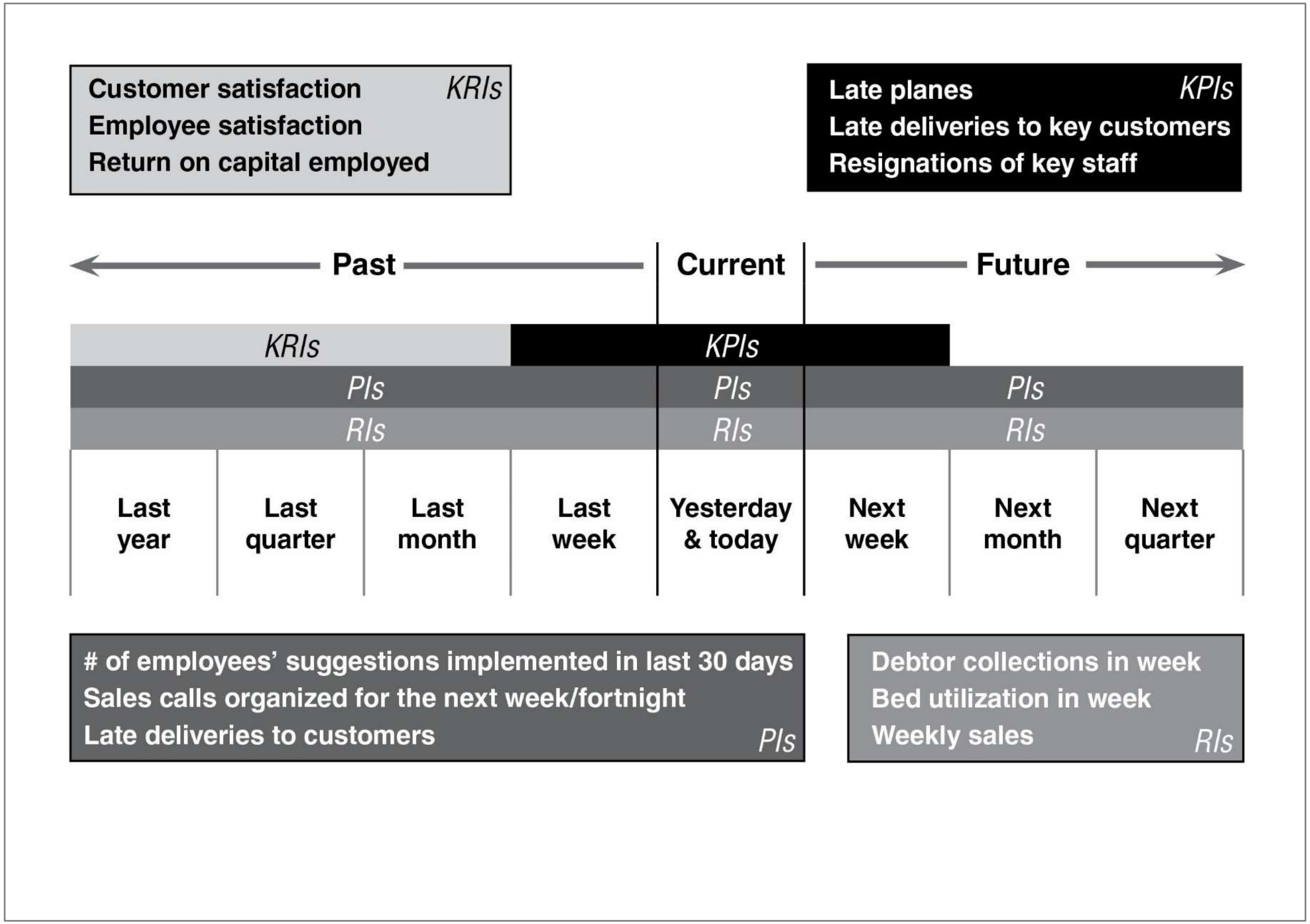


Exhibit 4.9: The time zones of the four performance measures

4.6 Number of measures required – The 10/80/10 rule

How many measures should we have? How many of each type of measure? To answer these questions, I devised, over ten years ago, the 10/80/10 rule. I believe an organisation will have about 10 KRIs, up to 80 RIs and PIs, and 10 KPIs shown in Exhibit 4.10.

Reporting up to 10 KRIs to the board or governing body is logical. We do not want to bury them in too much detail. A Board Dashboard can easily be designed to show these KRIs and a summary of the financials on one fan fold (A3) page, as illustrated further on.

For many organisations, 80 RIs and PIs will at first appear inadequate. Yet, on investigation, you will find that separate teams are working with variations of the same indicator, so it is better to standardize them (e.g., a "number of training days attended in the past month" performance measure should have the same definition and the same graph).

Exhibit 4.10: The 10/80/10 rule

<table>
<tr><th>Types of performance measures</th><th>Characteristics</th><th>Frequency of measurement</th><th>Number of measures</th></tr>
<tr><td>1. Key result indicators (KRIs) give an overview of the organisation's past performance and are ideal for the Board as they communicate how management has performed (e.g., return on capital employed (%), employee satisfaction (%), net profit before tax and interest).</td><td rowspan="2">These measures can be financial or non-financial. Does not tell you what you need to do more or less. A summary of the collective efforts of a wide number of teams.</td><td>Monthly, quarterly</td><td>Up to 10</td></tr>
<tr><td>2. Result indicators (RIs) give a summary of the collective efforts of several teams on a specific area (e.g., yesterday's sales ($), complaints from key customers).</td><td rowspan="2">24/7, daily, weekly, fortnightly, monthly, quarterly</td><td rowspan="2">80 or so. If it gets over 150, you will begin to have serious problems.</td></tr>
<tr><td>3. Performance indicators (PIs) are targeted measures that tell staff and management what to do (e.g., number of sales visits organised with key customers next week/ next two weeks, # of employees' suggestions implemented in last 30 days).</td><td rowspan="2">These measures are only non-financial. The staff know what to do to increase performance. Responsibility can be tied down to a team or a cluster of teams who work closely together.</td></tr>
<tr><td>4. Key performance indicators (KPIs) tell staff and management what to do to increase performance dramatically (e.g., planes that are currently over two hours late, late deliveries to key customers).</td><td>24/7, daily, weekly</td><td>Up to 10
(you may have considerably less)</td></tr>
</table>

When we look at the characteristics of KPIs, one will see that these measures are indeed rare and that many organisations will operate very successfully with no more than ten of them. Kaplan and Norton[vi] recommend no more than 20 KPIs. Hope and Fraser suggest fewer than 10 KPIs. At first, many KPI project teams may feel that having only 10 KPIs is too restrictive and thus increase KPIs to 30 or so. With careful analysis, that number will soon be reduced to the 10 suggested unless the organisation comprises many businesses from very different sectors. If that is the case, the 10/80/10 rule can apply to each diverse business, providing it is large enough to warrant its own KPI rollout.

5 Unintended behaviour – the dark side of measures

Measurement initiatives are often cobbled together without the knowledge of the organisation's critical success factors and without understanding a measure's behavioural consequences.

Every performance measure has a dark side and a negative consequence. The key is to understand it. Well over half the measures in an organisation will be encouraging unintended behaviour. Understanding this dark side and carefully selecting measures should never be underestimated.

How performance measures can go wrong can be illustrated by two examples.

City train service case study

A classic example is provided by a city train service that had an on-time measure with some draconian penalties targeted at the train drivers. The train drivers who were behind schedule learned to stop at the top end of each station, triggering the green light at the other end of the platform, and then continue the journey without the delay of letting passengers on or off. After a few stations, a driver was back on time, albeit the customers, both on the train and on the platform, were not so happy.

Management needed to realize that late trains are not caused by train drivers, just as pilots do not cause late planes. The only way these skilled people would cause a problem would be to arrive late for work or take an extended lunch when they are meant to be on duty. Management should have been focusing on controllable events that led to late trains, such as the timeliness of investigating signal faults reported by drivers and planned preventative maintenance on critical equipment being behind schedule.

Accident and emergency department case study

Managers at a hospital in the United Kingdom were concerned about the time it took to treat patients in the accident and emergency department. They decided to measure the time from patient registration to a house doctor's visit. Staff realized that they could not stop patients registering with minor sports injuries. They could, however, delay the registration of patients in ambulances as they were receiving good care from the paramedics.

The nursing staff thus began asking the paramedics to leave their patients in the ambulance until a house doctor was ready to see them, thus improving the "average time it took to treat patients." Each day there would be a parking lot full of ambulances and some circling the hospital. This created a major problem for the ambulance service, which could not deliver an efficient emergency service.

Management should have only been measuring the timeliness of **critical patients'** treatment. Nurses would have, therefore, treated patients in ambulances as a priority, the very thing they were doing before the measures came into being.

5.1 Understanding dysfunctional behaviour

To succeed with KPIs you need to have a C-Suite conversant with psychology. In other words, they need to be amateur psychologists. The frequency with which measures are set to fail by, at best, naïve or, at worst, corrupt management is breathtaking. Dean Spitzer's book[vii] is littered with stories of failure. Many was obvious from the start that they would encourage action in a contradictory direction.

It is safe to assume that every measure can have a dark side, a negative performance trait. The key is to find it first and then tweak how the measure is used so that the behaviours it will promote are appropriate.

Spitzer says, *"People will do what management inspects, not necessarily what management expects".*

In his book, Spitzer has a vast array of examples of dysfunctional performance. Here are some of my favourite stories:

- A fast food restaurant manager striving to achieve an award for zero wastage of Chicken – the manager won the "chicken efficiency" award by waiting until the chicken was ordered before cooking, the long wait time meant a huge loss of customers.
- A company measuring products that left on time had a 100% record, yet 50% of customers complained about late delivery - nobody cared about what happened next after it left the factory.
- Sales staff are legendary at meeting their targets at the expense of the company, offering discounts, extended payment terms, selling to customers who will never pay, you name it they will do it to get the bonus!
- Purchasing departments awarded for receiving large discounts started to buy-in too large a quantity, creating an inventory overload.
- A factory's stores department maintained a low inventory to get a bonus, which resulted in production shutdowns because of stockouts.

Thus, the greatest danger of performance management is dysfunctional behaviour. I have developed a checklist to help assess the potential damage in your organisation (Exhibit 5.1).

Exhibit 5.1 Dysfunctional performance measures checklist

	Does it happen?
1. Is the reward structure tied to the key performance indicators?	□ Yes □ No
2. Are measures constructed by teams or individuals based on what they think will work?	□ Yes □ No
3. Are annual targets set that will trigger bonuses if met?	□ Yes □ No
4. Are measures typically adopted by whoever dreams them up without needing to trial them to assess their potential negative behavioural impact?	□ Yes □ No
5. Have you got some measures that are leading to dysfunctional behaviour?	□ Yes □ No
6. Do you have measures solely used to make departments look good rather than the benefit they might give to the organisation?	□ Yes □ No
7. Are measures implemented without consideration for the cost of measuring?	□ Yes □ No
8. Is there a high degree of cynicism about the effectiveness of performance measures in your organisation?	□ Yes □ No
9. Is the CEO and C-suite naïve when it comes to performance management?	

Your score: Every "yes" indicates a problem.

With over 4 affirmatives, it may be best to stop all new performance measures and start again.

6 The seven foundation stones for implementing 'Winning KPIs'

There are seven foundation stones that need to be laid before we can successfully develop and utilize key performance indicators (KPIs) in the workplace. When building a house, you must ensure that all of the building's footprint sits on the foundations. Likewise, success or failure is determined by the presence or absence of these seven foundation stones, see Exhibit 6.1. They are so important that I can guarantee you will have limited success without them in place. I have witnessed far too many projects where well-meaning and talented individuals have compromised these foundation stones, only later to suffer the fate of an underperforming KPI platform.

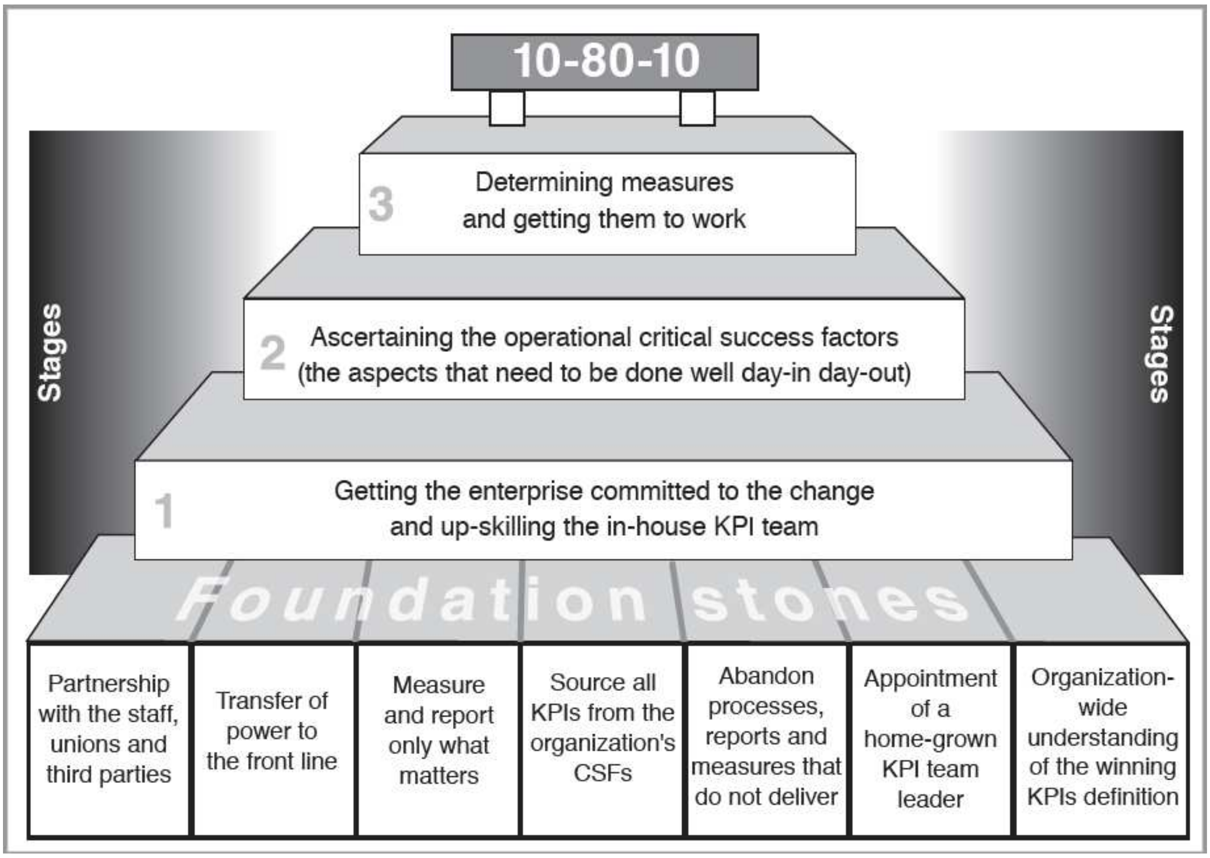


Exhibit 6.1: Seven foundation stones underpinning the three-stage process

6.1 Sell the change effectively

Originally, as in the diagram, this was called 'Partnership with staff, unions and third parties'. All major project implementations are deeply affected by the success or failure of leading and selling the change. I would argue that more than half the declined initiatives were undersold. In other words, the initiative would have gone ahead, given the right approach.

If you are not prepared to learn the skills to cover the common deficiencies in selling change, you are better off playing golf or burying yourself in a routine. Selling change requires a special set of skills, and we all can and should get better at it.

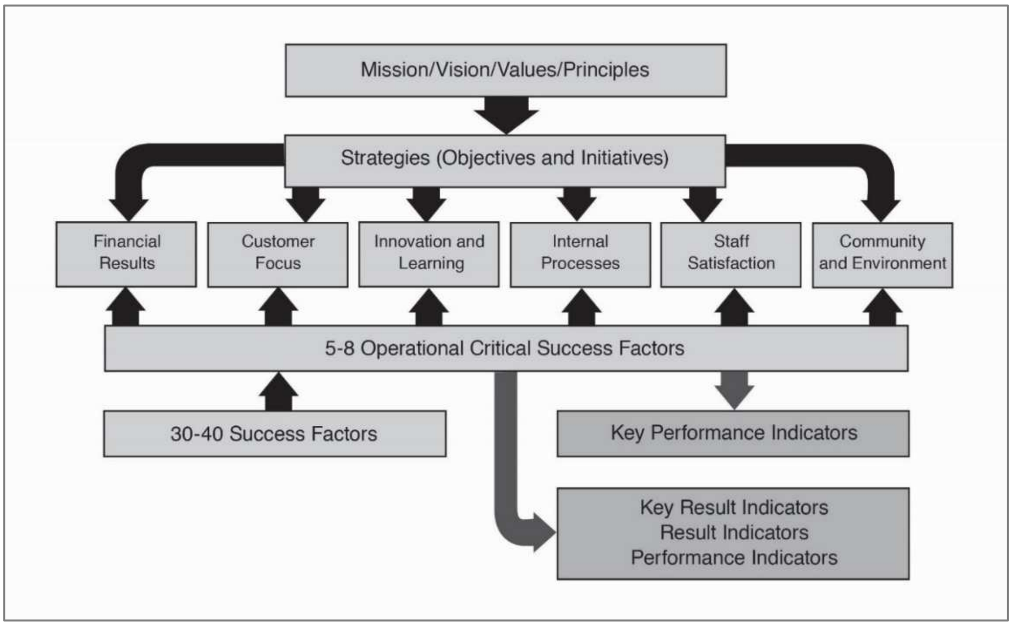


Exhibit 12.2 The broad impact of critical success factors

Task 4. The KPI team can clarify all common misunderstandings

It is concerning that many organisations run their enterprise without shared and communicated CSFs. For this to happen, there has to be a serious misunderstanding.

The KPI team need to be able to clarify all common misunderstandings. I have set out in Exhibit 12.3 some common misunderstandings.

Exhibit 12.3: The common misunderstandings with critical success factors

Common Misunderstandings	**Better practice solution**
Thinking that "We already know our CSFs."	**It is common for the executive team to believe they and everybody else know the CSFs.** I often joke that I could ask a CEO on consecutive days, "What are your CSFs?" and get slightly different answers daily. **Most organisations know their success factors; however, few have:** ▪ Worded their success factors appropriately. ▪ Segregated the success factors from their macro outcome statements. ▪ Prioritised their success factors to find their critical ones—their organisation's CSFs. ▪ Communicated the organisation's CSFs to staff to achieve better alignment.
Mixing critical success factors and macro outcome statements	**CSFs and macro outcome statements are different.** We need both CSFs and macro outcome statements, albeit in two separate lists. The problem is that in most exercises, I have observed that the list of success factors includes, in error, some macro outcome statements. From the previous section, you will be aware of the different characteristics.

Too many CSFs	Better practice suggests that **organisational CSFs should be limited to between five and eight, regardless of the entity's size.** However, for a conglomerate in the private sector, (the CSFs will largely be industry-specific (e.g., the CSFs for an airline are different from the CSFs for a retail store). So, each company would have some specific CSFs and some group-worded CSFs, adding up to a number within the 8-10 recommended limit.
A set of CSFs for each division	You will have chaos if you allow teams, departments, or divisions to create their own CSFs. **To create alignment between teams in your organisation, there must be only one set of between eight and ten critical success factors (CSFs) for the entity.**
Calling them Key Result Areas (KRAs)	**Critical success factors are not key result areas.** In job descriptions, you can often find the words "key result areas" (KRAs), often mistaken for CSFs. I believe that job descriptions should have a new section pointing out the organisation's CSFs and how the incumbent should maximise alignment of their duties with them. This would help to clarify the difference between KRAs and CSFs. The KRAs are those duties and tasks that the incumbent must be able to perform, and the organisational CSFs are the guiding force ensuring that all staff, every day, treat activities that align well with the CSFs as a priority.
Thinking that you can be at peak performance without having a common understanding of your CSFs	**Performance management cannot function optimally without a common understanding of your CSFs.** Without CSFs, performance measurement, monitoring, and reporting will be a series of random processes, creating a small army of measurers producing numerous numbing reports. Very few, if any, of the measures in these reports contain the characteristics of "winning KPIs."

12.2 Gather the existing success factor and macro outcome statements (Stage 2.2)

Much will have already been discussed in the past. It will just need rewording and fine-tuning.

Task 1. Review the organisation's strategic documents covering the past ten years

The KPI team needs to review the organisation's strategic documents covering the past ten years and then extract and develop success factors from these documents. You may find an old strategic document written by an executive, long since moved on, which could prove very helpful because the success factors are still relevant.

Task 2. Interview the organisation's 'oracles', C-Suite, and long-serving Board members

The KPI team should interview as many of the organisation's "oracles," the wise men and women everybody refers to for advice, as possible, along with the entire senior management team.

When these are complete, now interview the C-Suite and long-serving Board members.

The questions to ask are the organisation's "oracles" include:

1. What do we need to do well every day to succeed?
2. What mishaps cause us major headaches in our daily operations?
3. If you had a magic wand, what processes would be error-free?

From the research and the interviews, you will be able to come up with a list of success factors. To assist, I have provided a checklist for you to download.

12.3 Wording the draft success factor and macro outcome statements (Stage 2.3)

From experience, I have found it beneficial to get a good working draft of the success factors and the macro outcome statements prior to the CSF workshop. This has the following benefits:

1. Leaves more time to the selection of the CSFs and developing measures.
2. It is good to have workgroup leaders already understanding the wording techniques.
3. Some attendees are confused by this process and can slow the workshop down unless they have a trained workgroup leader.

Task 1. Hold a success factor and macro outcome statements workshop

Pretrain a selection of experienced managers who will be attending the CSF workshop on how to word success factor statements so they can lead their work groups. The wording is very important and should meet the SMARTA criteria attributed to Peter Drucker.[xxiv] While Drucker addressed goal setting, the same rules apply to the wording of success factor statements. Success factors need to be:

- **Specific—**A statement that avoids using meaningless, empty words, sometimes called "Weasel words." Avoiding empty words, common in management terminology, is not as easy as you might think. As we move up the management ladder, we increasingly use empty words, having heard them used so often. Common weasel words include:

  Accelerate, accessibility, accountability, active, adaptive, advocating, alignment, balanced, barriers, basic, benchmarked, benefits, best practice, brand (image), capability, capacity, centrality, challenges, change, client-driven, collaborative, compelling, competence, competitive, connectedness, considered, consultative, continuing, core, delivery, demonstrated, deployable, dis-established, diversity, drive, dynamic, effective, efficient, embedded, empowered, enablers, end-to-end, end-user, evidence-based, focus, foster, empowered, engaged, enhancements, excellence, fit for purpose, flexibility, flourish, forward-looking, fundamental, going forward, gold-plating, governance, ground-breaking, growth, harness, harvested, high-value, holistic, implications, improvements, inclusive, initiation, innovative, input, integration, integrity, interdependent, interface, issues, *key, lean, leveraged, liveability, mandated, needs, network, opportunities, optimised, outcomes, outputs, oversighting, ownership, pathways, participation, performance, priority-driven, proactive, processes, productivity, products, progression, progressive, quality, reanimate, recognition, reenergise, reform, reliability, renewal, responsibility, responsive, rich, rigourous, roadmap, robust, significant, solution, special, standards, strategically, streamlined, strengthened, strong, successful, supported, sustainable, synergies, targeted, transformation, translational, transparent, underpinning, uniqueness, utilised, value, value-added, vanilla solutions, vibrant, well-being, winning, world-class.*

The term "increased profitability from our product range" is a vague statement as there is no guide to how this is to be achieved. Whereas "timely departure and arrival of planes 24/7" is specific.

- **Measurable—**A statement with words that lend themselves to measurement. If you could not instantly think of a measure or two, then it is odds-on that it does not fit this criterion. "Timely departure and arrival of planes 24/7" is measurable.
- **Achievable**—A statement that talks to the staff clearly and concisely, making the desired activity achievable. For example, "timely departure and arrival of planes 24/7" is achievable.
- **Relevant**—Focused enough that it is relevant to staff in the organisation. "Timely departure and arrival of planes 24/7" is relevant to many operational teams: flight crew, front desk, baggage handlers, cleaners, fuel and food suppliers.
- **Time-sensitive**—Focused on the here and now. "Timely departure and arrival of planes 24/7" is a 24/7 imperative for an airline.
- **Agreed with staff**—This is done in a workshop setting with the oracles in the organisation.

Exhibit 12.4 shows a list of success factor statements that contain empty words. These have been contrasted to SMARTA success factors and macro outcome statements.

Exhibit 12.4: Wording success factors and macro outcome statements

<table>
<tr><th>Success factors which are meaningless (empty words signifying nothing)</th><th>SMARTA Operational success factors</th><th>Macro outcome statements</th></tr>
<tr><td>Increased profitability</td><td rowspan="3">These three statements result from more than one operational success factor at work. SMARTA replacements would be ‘Fix problems to get quality right the first time’, ‘Seeking excellence in every aspect of our interaction with our key customers’, retention of our key employees</td><td>Increased profitability by selling a higher percentage of higher-margin products.</td></tr>
<tr><td>Retention of customers</td><td>Retention of key customers</td></tr>
<tr><td>A say, stay, strive engagement with staff</td><td>Maximizing the use of our most important resource—our people.</td></tr>
<tr><td>Optimising innovation</td><td>Innovation is a daily activity.</td><td>Growth in sales of new products.</td></tr>
<tr><td>Deliver in full, on time, all the time</td><td>Deliver in full, on time, all the time to our key customers.</td><td>Growing business through our major customers.</td></tr>
</table>

Task 2. Redraft the success factor and macro outcome statements

All gathered success factor statements will be reworded to conform to the SMARTA rules. Missing ones will be identified and worded appropriately.

A government department’s success factors

A small group of staff met in a success factor workshop and came up with success factors like:

- Increase availability and accessibility of _____’s data and information
- Work with local government and industry to improve our country’s infrastructure (outcome statement)
- Help people understand what we do and where we’re going
- Actively promoting our products and services to new customers and partners
- Be the trusted source of expertise and advice (outcome statement)
- Adapt quickly to change
- Develop capable and inspiring leaders (outcome statement)
- In-house training should be prioritised above all other commitments
- Provide easy-to-use products
- Recruit the right people every time

To assist, I have provided a list of common success factors for you to download. However, these must be used after you have performed an exhaustive internal hunt.

Task 3. Testing your success factor statements for wording and completeness

The following checks are listed in descending order of importance.

1. Check to ensure your list of success factors does not contain consolidated different activities. Commonly, workshop attendees like to merge different activities because they feel there is an obvious linkage. However, it is best to separate them, as shown in Exhibit 12.5.
2. Check the list of success factor statements against the six balanced scorecard perspectives to ensure balance and completeness, as shown in Exhibit 12.6.
3. Under 25 SFs is too few, and over 35 is too many.

Exhibit 12.5 rewording the success factor statements to make them more targeted

Original success factor	**Refined and more targeted success factors**
Provide a safe and welcoming environment	"Providing a welcoming environment to new staff and new residents"
	And "Maintaining a safe and healthy workplace".
Attract, develop, and retain the right staff for the right roles	"Attract, develop, and retain the right staff for the right roles"
	And "Staff training and induction are a top priority"
Property, buildings and infrastructure that support day-to-day needs	"All asset purchases are carefully appraised to maximise the day-to-day needs at an overall lower cost."
	And "All assets are maintained on a timely basis."
	And "Key asset breakdowns are our utmost priority"

Exhibit 12. 6: Testing the linkage of the draft SFs to the six BSC perspectives

	Perspectives					
Draft success factors	Financial	Customer Satisfaction	Staff Satisfaction	Innovation & Learning	Internal Process	Environment & Community
1. Timely arrival and departure of planes	✓	✓	✓	✓	✓	Possible
2.________		✓			✓	✓
3.________	✓			✓		
________			✓	✓		
________	✓					
31. ________	✓	✓		✓		✓

Implementation tips

From my experience, this first task is rarely performed with enough intellectual rigour. Success factors become too summarised as similar activities are grouped. It is best to leave them as individual success factors.

Be clear that a success factor describes a desired internal specific outcome in a language that a person with a reading age of 14 would understand and know how they could contribute. Where as a macro outcome statement describes a desired macro result. Understanding this difference is fundamental; otherwise, your success factors may morph into macro outcome statements.

At this stage, it is also worth agreeing on your desired macro outcome statements. These will be well documented in the current and past strategy documents. To help you with this, I have included some guidelines on drafting outcomes and a checklist of common outcomes is in the attached E-templates.

12.4 Determining the critical success factors in a workshop environment (Stage 2.4)

From my experience in this area, most organisations will need to run a two-day workshop attended by experienced staff from around the organisation and with as many of the C-suite as possible. This workshop, if carried out correctly, will provide output that will transform performance through the clarity and alignment critical success factors offer. There are three major outputs from this workshop. A better understanding of measurement and what a KPI is, clarity of what the CSFs are, and learning how to build robust measures.

Task 1. Agree on what approach to use

I have noted three ways to ascertain the CSFs from working with clients over the years.

Approach One	Hold a two-day workshop attended by experienced **operational** staff from around the organisation with over two years of hands-on experience. Members of the C-suite as well as the CEO should attend more as observers and approvers of the success factor and macro outcome statements.
Approach Two	Run the two-day workshop as a series of three-hour webinars. This means operational staff can contribute from their locations, and the sessions can be run remotely by a skilled presenter who does not have to travel to the chosen venue.
Approach Three	Run this task in three pilots (different regions and team sizes) delivered by the in-house KPI team who have been trained by someone familiar with this methodology. The attendees are to have over two years of operational experience this will ensure that the "sphere of influence mapping process” is based on experience rather than intellectual surmising.

20.4 Kaizen and agile methodologies

Both these methodologies impact 'business as usual', making it more efficient, more effective and more enjoyable.

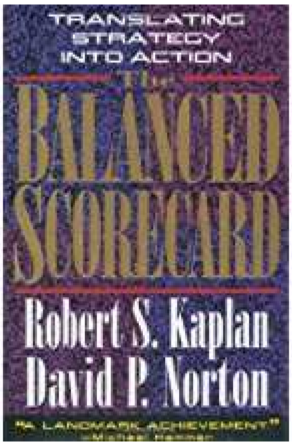
Kaizen, as described by Jeffery Liker[xxxviii] in '*The Toyota Way'* and by Masaaki Imai author in '*Gemba Kaizen',* both show how organisations can move towards reaching Toyota's amazing achievement of 10 innovations per employee per year worldwide.

I have written a working guide (paper plus E-Templates) on 'Innovation: How to unleash its potential'. Visit Davidparmenter.com.

21 Comparison to other methodologies

There are a number of methodologies which I should address. I am a firm believer that the in-house project team, having researched the methodologies, will follow the one that is best for them. At times, it will be necessary to cut an exercise from one methodology and use it with an exercise from another methodology. That is both understandable and desirable.

21.1 <u>Balanced scorecard</u>



Nobody has done more than Kaplan & Norton to ensure that strategy is balanced, well thought through, and its implementation is monitored and managed.

The Harvard Business School paper was a masterpiece, and the follow-on book "Translating Strategy into Action – The Balanced Scorecard" was a classic from inception. As a writer, I can appreciate the herculean effort Kaplan & Norton (K&N) undertook to amass so much case study material in such a short time. However, I have been concerned for some time now as to why so many balanced scorecard implementations fail to deliver when the concept of implementing strategy and having a balanced performance is surely a given with most of us.

I believe the failure stems from the balanced scorecard being a table without any legs. You can use it for a while until it becomes impracticable. The four supporting legs, as shown in Exhibit 21.1, are (1) that KPIs are special and have seven characteristics, (2) ensuring that the measures used have a minimal dark side, (3) The KPI project is lead and managed in-house, and (4) all measures are sourced from the organisation's ascertained CSFs.

Exhibit 21.1: The four supports the Balanced Scorecard methodology needs

The Difference between the Balanced Scorecard and Winning KPIs methodologies

The more I read their book, the more questions I had about the purpose and characteristics of KPIs, how measures were reliably derived, and why was the lead or lag decision so difficult.

The differences between the two approaches are summarised in the table in Exhibit 21.2:

Exhibit 21.2 The difference between the BSC and winning KPIs

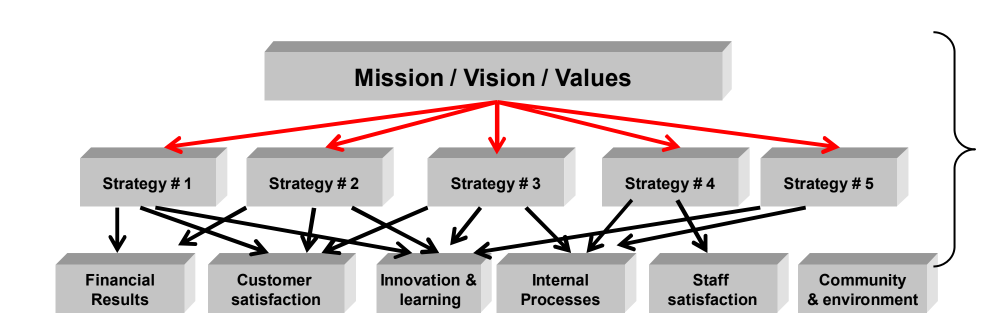
Winning KPIs Methodology	BSC Methodology
The primary role of performance measures is to help the workforce focus on the *critical success factors* of the business, day in and day out.	Kaplan and Norton see the primary purpose of performance measures as the need to monitor the implementation of strategic initiatives.
All KPIs are entirely nonfinancial, measured frequently, and have five other characteristics, and, thus, are rare, with fewer than 10 in a business. Measures that are not KPIs are either result indicators, key result indicators, or performance indicators.	Kaplan and Norton see all measures as KPIs.
You find your critical success factors by mapping the relationships of the organisation's success factors and ignoring any attempt to place these success factors into balanced scorecard perspectives.	Kaplan and Norton focus on a strategic mapping process where strategic objectives and success factors neatly fit into a balanced scorecard perspective. It seems to argue that every action or decision has an effect elsewhere in the organisation and that you can boil down "cause-and-effect" to one or two relationships.
The critical success factors and KPIs are transcending more than one balanced scorecard perspective. In fact, the "timely arrival and departure of planes", a critical success factor featured in this book, impacts all six perspectives.	Kaplan and Norton see the perspectives as firm boundaries into which you can slot strategic objectives neatly. Strategic objectives are seen as a succinct statement describing what an organisation needs to do well (success factors) in each of the four perspectives in order to implement the strategy.
"Sphere of influence" mapping of success factors often has multiple relationships.	Strategy mapping where there are only one or two "cause-and-effect" relationships
You need to know your organisation's critical success factors because these are the crux of finding the KPIs.	Critical success factors are not addressed in Kaplan and Norton's work.
All performance measures are determined from the CSFs.	The strategic initiatives determine the performance measures.
An organisation needs to look at six perspectives, adding "environment and community" and "employee satisfaction" and changing the "Learning and Growth" perspective back to its original name, "Innovation and Learning."	Kaplan and Norton came up with four balanced scorecard perspectives: "Financial", Customer Focus", "Internal Process", and "Learning and Growth."

Measures seen as either looking at the past, the here and now, or the future	Performance measures are either Lead / Lag indicators.
A methodology that says that the KPI project has to be implemented by an in-house team following Peter Drucker's advice of "Never giving a new job to a new person."	The balanced-scorecard approach, due to its complexity, is frequently led by balanced-scorecard consultants.
No software applications are required. At some stage, a reporting tool will be needed to monitor and report on measures.	A myriad of BSC applications that support strategy mapping and cascading performance measures lead to hundreds of performance measures without any linkage to the organisations' CSFs.
The KPI book is a toolkit for implementation, containing checklists, agendas for workshops, a framework for a database, report formats, and guidance notes on all steps.	The BSC book is largely an academic-based approach with limited implementation guidelines provided. There is an implicit suggestion that you will need a consultant to implement.

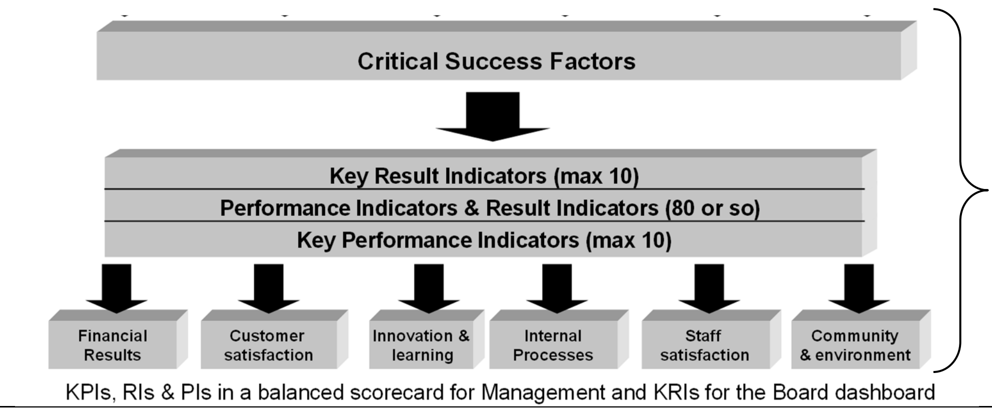
The benefits of a balanced strategy

One of the greatest gifts given by Kaplan & Norton (K&N) has been highlighting the lack of implementation and balance of an organisation's strategy, no matter how sophisticated organisations are. They pointed out that strategy has to be balanced, and the strategic initiatives reflect this balance. It has always been important that an organisation's strategy could be conveyed to those who were to implement it, and the tools and diagrams in their book were an attempt to make this more transparent.

In Exhibit 21.3, I set out the main focus areas of the two different approaches.



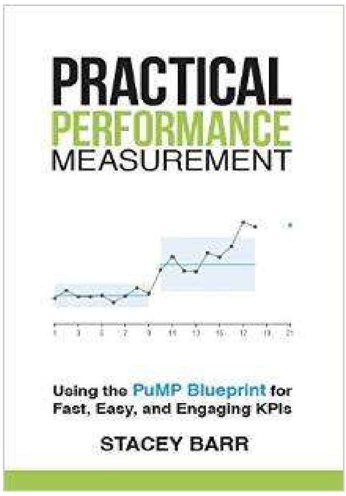
The main focus of K&N's work is making sure strategy is balanced and progress is monitored.



The main focus of "winning" KPIs work is the day-to-day adherence to the organisation's critical success factors

Exhibit 21.3: How KPIs fit in the big picture

21.2 Stacey Barr's PuMP



Stacey Barr is one of the world's experts on performance measures. She has spent the past 15 years or so helping organisations worldwide find measures that drive performance. She has developed a methodology to fill in the gap that the balanced scorecard and other methodologies have left. Barr believes that many organisations have an ad hoc approach to measuring performance and underestimate the effort and rigour needed to produce meaningful measures.

Stacey Barr's *Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, and Engaging KPIs*[xxxix] is also a game changer. The KPI team and the external facilitator should read it.

Barr has developed a successful methodology that is a step-by-step process of simple techniques and templates that create meaningful measures that drive strategic improvement.

The eight steps of this methodology include:

Step 1: understanding measurement's purpose

Step 2: mapping measurable results

Step 3: designing meaningful measures

Step 4: building buy-in to measures

Step 5: implementing measures

Step 6: reporting performance measures

Step 7: interpreting signals from measures

Step 8: reaching performance targets

Stacey Barr has called this methodology PuMP (Performance Measurement Process), and I can safely say we share the same vision, namely, the organisation's finding and using the measures that will make a difference when monitored by staff management and the C-suite. Visit www.staceybarr.com for more information.

Barr's book should be in the KPI team's library of resources: the differences between the two approaches are summarized in the table in Exhibit 21.4.

Exhibit 21.4 Outline of Stacey Barr's work

Winning KPIs Methodology	**PuMP Methodology**
The primary role of performance measures is to help the workforce focus on the *critical success factors* of the business, day in and day out.	Barr implies that their function is more to support the implementation of strategic initiatives.
I believe that nonfinancial measures will be the main drivers of performance, and thus, the important measures, the KPIs, are all nonfinancial.	Barr has a looser definition of KPIs and thus permits the user to have financial KPIs.
Critical success factors (CSFs) as seen as more fundamental to an organisation than its strategy. CSFs are the issues or aspects of organisational performance that determine ongoing health, vitality, and well-being.	Barr sees CSFs as the "overarching themes or headings under which related goals or objectives are clustered."
"Sphere of influence" mapping of success factors often has multiple relationships.	Barr's result mapping process is a welcomed development and will replace, in time, strategy mapping.
When ensuring a balanced strategy, CSFs and measures, an organisation needs to refer back to these six perspectives: 1. financial results 2. innovation and learning (replacing "learning and growth." 3. customer focus 4. internal process 5. staff satisfaction 6. environment/community	Barr sees the balanced scorecard as a powerful strategy tool, not a measurement tool. Barr is rightly critical of the scant regard the BSC has for the science behind performance measure design. PuMP does not use the BSC perspectives as a checking device.
There are two groups of measures. **Result indicators** and **Performance indicators**	Barr calls all measures "performance measures" and thus does not distinguish between results and performance indicators.