Third Edition

KEY PERFORMANCE INDICATORS

Developing, Implementing, and Using Winning KPIs

DAVID PARMENTER

WILEY

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Cover image: © Boris Lyubner / Getty Images
Cover design: Wiley

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
The Second Edition was published by John Wiley & Sons, Inc. in 2010.
Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data

Parmenter, David.
Key performance indicators : developing, implementing, and using winning KPIs / David Parmenter. – Third edition.
1 online resource.
Includes index.
ISBN 978-1-119-01984-8 (pdf) – ISBN 978-1-119-01983-1 (epub) – ISBN 978-1-118-92510-2 (hardback) 1. Performance technology. 2. Performance standards. 3. Organizational effectiveness. I. Title.
HF5549.5.P37
658.4'013–dc23

2014044306

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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About the Author

DAVID PARMENTER is an international presenter known for his thought-provoking and lively sessions, which have led to substantial change in many organizations. He is a leading expert in the development of winning KPIs, replacing the annual planning process with quarterly rolling planning, and lean finance team practices. His work on KPIs is recognized internationally as a breakthrough in understanding how to make performance measures work. He has delivered workshops to thousands of attendees in 30 countries around the world. Parmenter has worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and PricewaterhouseCoopers, and is a fellow of the Institute of Chartered Accountants in England and Wales. He is a regular writer for professional and business journals.

He is also the author of Winning CFOs: Implementing and Applying Better Practices, Key Performance Indicators for Government and Non Profit Agencies: Implementing Winning KPIs, and The Leading-Edge Manager's Guide to Success (all from Wiley).

He can be contacted via parmenter@waymark.co.nz. His website, www.davidparmenter.com, contains many white papers, articles, and freeware that will be useful to readers

Preface

Why This Book Should Interest You

Performance measurement is failing organizations worldwide, whether they are multinationals, government departments, or non-profit agencies. The measures that have been adopted were dreamed up without any linkage to the critical success factors of the organizations. Often these measures are monthly or quarterly. Management reviews them and says, “That was a good quarter” or “That was a bad month.”

Performance measures should help your organization align daily activities to the organization’s strategic objectives. This book has been written to assist organization’s with developing, implementing, and using winning key performance indicators (KPIs)—those performance measures that will make a profound difference.

Major Benefits of Getting KPIs to Work

The major benefits of performance measures can be grouped and discussed under these three headings:

1. The alignment and linking daily actions to the critical success factors of the organization.
2. Improving performance.
3. Creating wider ownership, empowerment, and fulfillment.

Alignment and Linking Daily Actions to the Critical Success Factors of the Organization. As Exhibit P.1 shows, even though an organization has a strategy, teams are often working in directions very different from the intended course. Performance measures

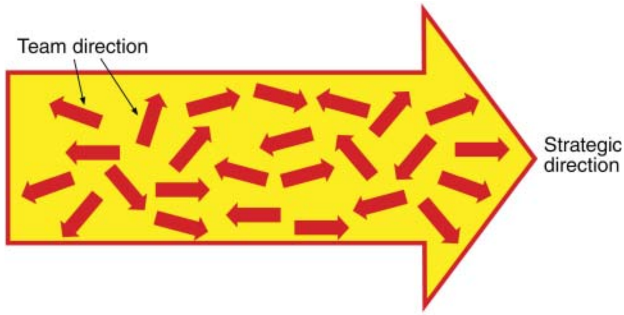

EXHIBIT P.1 Discord with Strategy

should have been carefully developed from the organization's critical success factors. The critical success factors will help staff align their daily activities with the organization's critical success factors as shown in Exhibit P.2. This behavioral alignment is often the missing link between good and great organizations.

In his book, *Transforming Performance Measurement,*[1] Dean Spitzer points out that one of the most important roles of management is to communicate expectations to the workforce. He goes on to say *people will do what management inspects (measures), not necessarily what management expects*. Thus, we need to put in place the right measures. KPIs are the only things that truly link day-to-day performance in the workplace to the organization's critical

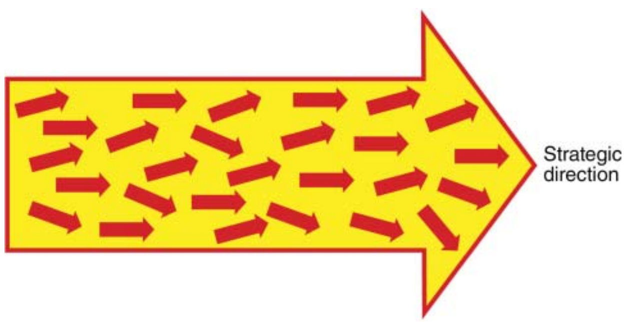

EXHIBIT P.2 Alignment with Strategy

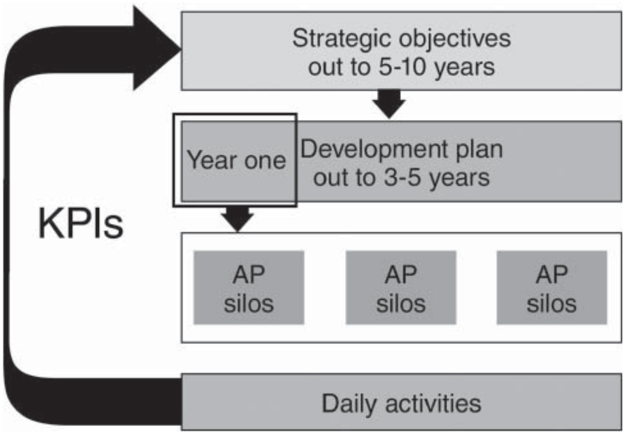

EXHIBIT P.3 Linkage of KPIs to Strategic Objectives

success factors. Some people think that because the annual planning process comes from a medium-term view (called the development plan in Exhibit P.3), which in turn is linked to the strategic plan, strategy is linked to day-to-day activities. It looks good on paper but never works in practice. Strategy is broad and wide ranging, whereas annual-planning is a dysfunctional silo-based process.

Improving Performance. Performance measures can and should have a profound impact on performance.

Measurement:

- Tends to make things happen, it helps people see progress and motivates action.
- Increases visibility of a more balanced performance and focuses attention on what matters.
- Increases objectivity—Dean Spitzer[2] points out that staff actually like measuring and even like being measured, but they do not like being judged subjectively.
- Improves your understanding, your decision making, and execution—Spitzer points out that that you will not be able to execute well, consistently without measurement. Measurement can improve your business intuition and significantly increase your "decision-making batting average."

- Improves consistency of performance—Spitzer has stated that outstanding success is about consistent success over the long term.
- Facilitates feedback on how things are going, thereby providing early warning signals to management.
- Helps the organization become future ready by encouraging timely feedback, looking forward by measuring future events (e.g., a CEO should look weekly at the list of celebrations, or recognitions, scheduled for the next two weeks), encouraging innovation, abandonment of the broken, and supporting winning management habits such as recognition, training, and mentoring.

Creating Wider Ownership, Empowerment, and Fulfilment. Peter Drucker[3] talked about leadership being very much like an orchestra conductor. Giving the general direction and the timing and leaving the execution to the experts (the players). Performance measures communicate what needs to be done and helps staff understand what is required. They enable leaders to give the general direction and let the staff make the daily decisions to ensure progress is made appropriately. This shift to training, and trusting staff to make the right calls is very much the Toyota way. Any incorrect decision is seen as a fault in training rather than with the individual. The delegation of authority to the front line is one of the main foundation stones of KPIs (see Chapter 7). This issue was discussed at great length in Peters and Waterman's *In Search of Excellence.*[4]

I have yet to meet a human being who desires failure or finds failure rewarding. Where measures are appropriately set, staff will be motivated to succeed.

Kaizen and this KPI Book

Kaizen states that innovation is a daily activity. This third edition of my KPI book is my contribution to continuous improvement. It includes the latest evolution of my thinking which, between editions is recorded in my KPI[5] whitepapers.

This book is designed to help those project managers who are about to embark on a KPI project, as well as help senior management understand why they need to revisit their measures. The new content in this third edition is set out in Exhibit P.4.

EXHIBIT P.4 New Content in this Third Edition

The barriers to KPIs	The myths surrounding KPIs
	Unintended behavior: the dark side of performance measures
	The misuse of KPIs in job descriptions, performance related pay, and service level agreements
	The reasons why the traditional balanced-scorecard approach has failed
	Where the winning KPIs methodology fits with the balanced scorecard and strategy
A broader view on becoming a future ready enterprise	Revitalizing performance management including reference to the work of the Paradigm Shifters (Drucker, Collins, Welch, Hamel, Peters and Waterman, and Hope)
	Keeping KPIs out of performance related pay
Changes in the winning KPI methodology	More emphasis on ascertaining the critical success factors
	More examples to aid with finding your critical success factors
	Critical success factors are operationally focused
	A simplified five-stage methodology which incorporates the original twelve steps
	Greater linkage to published thought leaders
	Substantial changes to the foundation stones of a KPI project (including the importance of having an in-house KPI expert; a chief measurement officer)
Toolkit	Case studies in the private and public sector
	Example critical success factors and matching performance measures
	Measures that are commonly mislabeled as KPIs
	Chief measurement officer job description and toolkit
	Relevant performance measures
Selling change	A greater emphasis on the sales process
	PowerPoint templates

Barriers to KPIs Working Properly

Since I wrote the first edition of this book, I have become acutely aware of the reasons why KPIs are failing. This third edition is my latest attempt to circumnavigate around the negative forces that are, not only limiting the effectiveness of KPIs, but, are inhibiting many enterprises from becoming future ready.

Myths Surrounding KPIs

Before we can enter into the discussion of implementing KPIs, we need first to examine why you want performance measures in your organization. There can be many reasons and some will most certainly lead to failure. Thus, I have looked at some of the myths around performance measurement.

One main factor is a lack of understanding of the myths surrounding performance measures.

Just like six centuries ago when the belief that the world was flat held back progress, we are blindly applying old thinking to how we measure, monitor, and improve performance (see Chapter 2 on the Myths of Performance Measurement).

Unintended Behavior: The Dark Side of Performance Measures

Measurement initiatives are often cobbled together without the knowledge of the organization's critical success factors and without an understanding of the behavioral consequences of a measure. Chapter 3 explains that every performance measure has a dark side, a negative consequence. The key is to understand it. Well over half the measures in an organization may be encouraging unintended behavior. This book will repeatedly drive home the importance of understanding this dark side and selecting fewer measures, as well as selecting those with a minimal negative consequence. How performance measures can go wrong can be illustrated by the train service and hospital stories featured in Chapter 3.

The Misuse of KPIs in Performance-Related Pay

KPIs are frequently used in performance-related pay contracts. This turns the measure into a **Key Political Indicator**, one which will be manipulated. In Chapter 2, I will address why KPIs, as defined in this book, should be "tickets to the game" and never part of a reward structure.

In Appendix A, I set out my thoughts on the foundation stones of performance-related pay.

Reasons that the Traditional Balanced Scorecard Approach has Failed

Nobody has done more than Kaplan and 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 following book "*The Balanced Scorecard: Translating Strategy into Action*" a classic from inception. As a writer I can appreciate the herculean effort Kaplan and Norton undertook to amass so much case study material in such a short time.

However, I have been concerned for over ten years 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 address, for the first time, the main differences between the "winning KPIs" and the balanced scorecard methodologies. I will also discuss my reasoning for the balanced scorecard failure rate and argue that the balanced scorecard fraternity needs to update their methodology (see Chapter 18).

Changes in Winning KPI Methodology

There have been some significant advancements in the methodology and these, I hope, will increase the momentum within enterprises to adopt KPIs that will help them flourish.

More Emphasis on Ascertaining the Critical Success Factors

I was first introduced to critical success factors (CSFs) by the talented people who wrote the KPI manual for AusIndustry (an Australian government department). They defined critical success factors as the "list of issues or aspects of organizational performance that determine ongoing health, vitality, and well-being." In Chapter 2, the common myth that performance measures are mainly used to help manage implementation of strategic initiatives was highlighted. Instead, I believe, the main purpose of performance measures is to ensure that staff members spend their working hours focused primarily on the organization's CSFs. Not knowing your organization's CSFs is like going to soccer's World Cup without a goalkeeper, or at best, an incompetent one. You can do it but you will not succeed.

In Chapter 11 I discuss the revised process to ascertain an enterprises' CSFs.

More Examples to Aid with Finding Your Critical Success Factors

Through working on in-house workshops with clients I have been able to observe the issues in the KPI methodology that may have initially been confusing. In client workshops, I have been able to observe where clients have modified the methodology to make it work in-house. I am grateful for this opportunity to learn and share their wisdom, in this new edition.

Critical Success Factors Are Operationally Focused

Recently I have realized the importance of emphasizing that critical success factors are operationally focused. A board of a charity rightly pointed out that the CSFs tabled to them were too internally focused.

They wanted to see, understandably the external picture, the external CSFs. The board was naturally looking from outside-in. The board needed the external CSFs expressed as outcomes and impacts they want to see. "We want the organization to deliver ____________, deliver _________. We will then know that the organization's strategy has been implemented successfully." These statements, while commendable, must be separated from the CSFs. Their success will be a direct result of staff delivering day-in day-out on the operational critical success factors.

This recent clarification has fixed an issue I have noted in a number of in-house workshops I have run where there was a mix of operational CSFs and outcomes/impacts. This distinction is important, and while at first, an added complication, it is worth the effort to understand and execute. See Chapter 11 for more detail.

A Simplified Six-Stage Stage Methodology which Incorporates the Original Twelve Steps

In the first two editions of my KPI book I talked about a 12-step process that should be put into an organization with over 500 full-time employees within a 16 week time frame (see Exhibit P.5). I also gave a shorter version with a six-week timeframe for organizations with less than 200 FTEs where there is a motivated CEO and senior management team.

I was asked by clients to further simplify the process and I used the pretext of the third edition to rethink the approach to make it more user-friendly. The new model incorporates the twelve-steps in a six-stage process (see Exhibit P.6).

Substantial Change to the Foundation Stones of a KPI Project

There are a number of foundation stones that need to be laid before we can commence a KPI project and give it a chance of success. Success is determined by the presence and state of these seven foundation stones underpinning the KPI stages (see Exhibit P.7).

"Abandon Processes That Do Not Deliver." The need for this foundation stone came about as a result of fervently reading Peter Drucker's work. I knew if I really understood his work I would be able to improve my understanding of performance management.

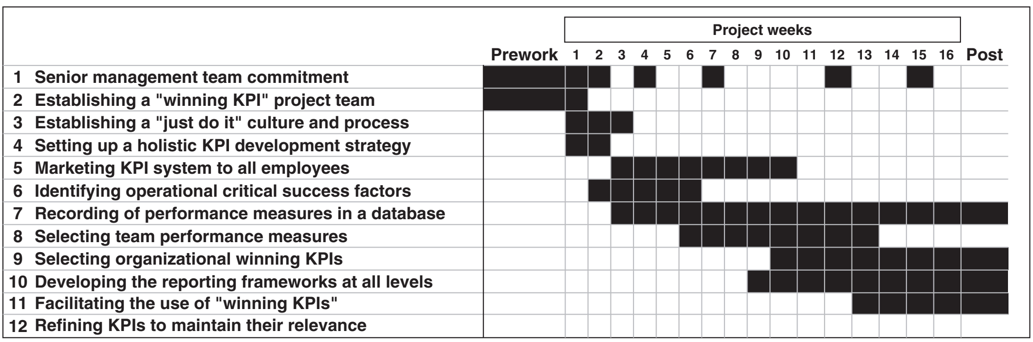

EXHIBIT P.5 Twelve-Step Implementation 16 Week Timeline

				Project weeks								
Stage	Steps		Prework	1	2	3	4	5	6	7 to 11	12 to 16	Post
1	1,4	Getting the CEO and senior management committed to the change	■	■			■		■			
2	2,3	Up-skill in-house resources to manage the KPI project			■	■	■	■	■		■	■
3	5	Leading and selling the change	■	■	■	■	■	■	■	■	■	■
4	6	Finding your organization's operational critical success factors				■	■					
5	7,8,9	Determining measures that will work in your organization					■	■	■	■	■	■
6	10,11,12	Get the measures to drive performance									■	■

EXHIBIT P.6 The 12 Steps Merged into a Six-Stage Process

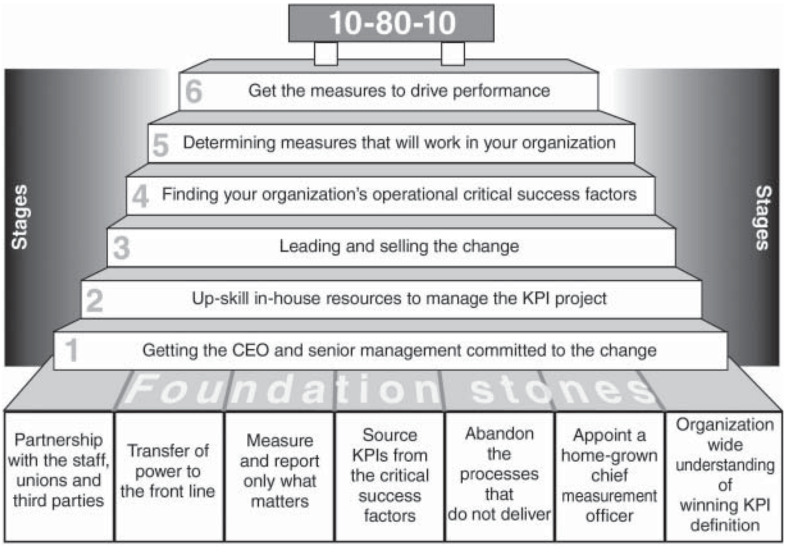

EXHIBIT P.7 The Seven Foundation Stones Underpinning the Six-Stage Process

Of all his legendary insights, "abandonment" stands head and shoulders above them all. Drucker saw abandonment as the vital source, the fountain of innovation. Abandonment is a sign that management is recognizing that some initiatives will never work as intended and it is better to face this reality sooner than later. It is essential that the organization has freed up enough time to give the KPI project team and the attendant balance scorecard the time and commitment they deserve.

Appoint an In-house Chief Measurement Officer. There needs to be a new approach to measurement—one that is done by staff who have been suitably trained, an approach that is consultative, promotes partnership between staff and management, and finally achieves behavioral alignment to the organization's critical success factors and strategic direction.

I have been working with performance measures for many years and have spent untold hours endeavoring to unlock their secrets. Over the years one thing has become abundantly clear that you need a measurement expert in-house. Dean Spitzer[6] called this the chief measurement officer.

I have now emphasized the significance of this position by making it a non-negotiable foundation stone and I have explained why this person needs to be an in-house appointee (see Chapters 7 and 9).

"Organization-wide understanding of winning KPIs definition." After working over 20 years on what makes KPIs work, I have realized that unless the organization embraces the new definition of what a KPI is and what it is not, the progress will be limited very quickly.

I have found repeatedly that, once an organization has held the two-day critical success-factor workshop, staff who have gone back to their offices soon start to call all measures KPIs again.

It is vital that the senior management team, led by the CEO, communicate the new meaning of a KPI and that all breaches of the term *KPI* are quickly picked up and staff and managers corrected.

Chief Measurement Officer's Toolkit

With all my books there is a heavy focus on implementation. My role, as I see it, is to prepare the route forward. To second guess the barriers the KPI team will need to cross and set out the major tasks they will need to undertake.

Naturally each implementation will reflect the organization's culture, future ready status, the level of commitment from the CEO and the senior management team, and the expertise of the in-house staff selected to run this project.

I have provided a PDF of templates to be read and used in conjunction with *Key Performance Indicators, Developing, Implementing, and Using Winning KPIs, Third Edition*. The location of the templates is indicated in the relevant chapter with this icon 

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Case Studies

To assist implementation I have further developed the lessons from KPI implementations I have been privileged to witness as an observer.

Common CSFs and their Relevant Measures

Although organizations need to go through the processes suggested in this book, I am always asked to give examples of common CSFs and their related performance measures.

In Chapter 17 I set out a table of common CSFs and the *key result indicators* (KRIs), *result indicators* (RIs), *performance indicators* (PIs), and some *key performance indicators* (KPIs) that would work.

Comparison to Other Methodologies

I have compared, in Chapter 18, the winning KPIs methodology to Kaplan and Norton's balanced scorecard, Stacey Barr's PuMP, and Paul Niven's balanced scorecard. I have also highlighted important sections of their work that the reader is advised to access.

Chief Measurement Officer Job Description

To aid KPI projects I have, with Dean Spitzer's help, set out a chief measurement officer's job description (see Appendix B). I firmly believe that KPIs will only truly function when an organization commits to establishing and assigning some in-house talent into the chief measurement officer's role.

Table of Performance Measures

As with earlier editions I have provided over 200 performance measures in a table (see Appendix E). This table is a listing of performance measures to help start this process off. It will be a valuable resource when looking at performance measures during workshop sessions.

Some of the performance measures in this list will be performance indicators (PIs), result indicators (RI), key performance indicators (KPIs), and key result indicators (KRIs). It is up to the KPI project team to ascertain in which of the four categories the final set of performance measures should be placed.

Leading and Selling Change

I have put much more effort in explaining this important area and have embraced John Kotter's work.[7]

A Greater Emphasis on the Sales Process

Many initiatives fail, not because they were not needed or meaningful, but because the hearts and minds of the senior management team, managers, and staff had not been engaged adequately. I have provided a full chapter (see Chapter 10) on selling from the preparation of an elevator speech to the compelling presentation to the senior management team. I have also included, in Appendix C, a section from my management book[8] that covers over 25 tips to enhance "selling change" presentations.

PowerPoint Sales Pitches

To aid readers I have provided some free PowerPoint presentations on my website: KPI.davidparmenter.com/thirdedition.

Electronic Media Available

To support you implementing the strategies and better practices in this book, the following electronic media are available (some for a small fee):

- Webcasts and recorded presentations (see www.davidparmenter.com/webcasts). Some of these are free to everyone and some are accessed via a third party for a fee.
- A PDF of the checklists, draft agendas, questionnaires, and worksheets from chapters 8, 9, 10, 11, 12, 13 and 15 is available from (kpi.davidparmenter.com/thirdedition). The web site will refer to a word from a specific page in this book which you need to use as a password.
- The electronic versions of all the templates and most of the report formats, featured in the book, can be purchased from www.davidparmenter.com

Notes

1. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
2. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
3. Elizabeth Haas Edersheim, *The Definitive Drucker: Challengers for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
4. Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies* (New York: Harper & Row, 1982).
5. David Parmenter : *Introduction to Winning KPIs*, www.davidparmenter.com, 2014.
6. Dean Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
7. John Kotter *Leading Change*, (Harvard Business Review Press, 2012).
8. David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices* (Hoboken, NJ: John Wiley & Sons, 2011).

Acknowledgments

I would like to acknowledge the commitment and dedication of Waymark Solutions staff members who helped me complete this and earlier editions, in particular Basil (diagram design) and Jennifer (proof reading). I thank my wife, Jennifer, who has been so understanding during my absences from family life when I was buried in my office finishing off another chapter.

I want to thank and acknowledge Dean Spitzer and Stacey Barr for their thought-provoking contribution to performance measurement. To the paradigm shifters who have influenced me greatly (Peter Drucker, Jim Collins, Jack Welch, Gary Hamel, Tom Peters, Robert Waterman, Jeremy Hope): I will always be deeply indebted.

I must also thank all those readers who, after reading this edition, decide to do something in their organization. I hope this book and accompanying templates help you leave a profound legacy. It is my fervent hope that together we can change the way leading organizations around the world, in all sectors, change the way they measure, manage, and improve performance for the benefit of all concerned.

Key Performance Indicators

PART I

Setting the Scene

CHAPTER 1

The Great KPI Misunderstanding

Overview

Many companies are working with the wrong measures, many of which are incorrectly termed key performance indicators (KPIs). It is a myth to consider all performance measures to be KPIs. This chapter explores how the four types of performance measures differ with examples of each type. The seven characteristics of KPIs are defined. The confusion over whether measures are lead or lag indicators is addressed. The questions *How many measures should we have?* and *How many of each measure type?* are answered. The importance of timely measurement is also covered.

Many organizations are working with the wrong measures, many of which are incorrectly termed *key performance indicators* (KPIs). I believe it is a myth to consider all performance measures to be KPIs. From my research over the past 25 years I have come to the conclusion that there are four types of performance measures. These four measures are in two groups: *result indicators* and *performance indicators*.

I use the term *result indicators* to reflect the fact that many measures are a summation of more than one team's input. These measures are useful in looking at the combined teamwork but, unfortunately, do not help management fix a problem as it is difficult to pinpoint which teams were responsible for the performance or nonperformance.

Performance indicators, on the other hand, are measures that can be tied to a team or a cluster of teams working closely together for a common purpose. Good or bad performance is now the responsibility of one team. These measures thus give clarity and ownership.

With both these measures some are more important so we use the extra word "key." Thus we now have two measures for each measure type:

1. Key result indicators (KRIs) give the board an overall summary of how the organization is performing.
2. Result indicators (RIs) tell management how teams are combining to produce results.
3. Performance indicators (PIs) tell management what teams are delivering.
4. Key performance indicators (KPIs) tell management how the organization is performing in their critical success factors and, by monitoring them, management is able to increase performance dramatically.

Many performance measures used by organizations are, therefore, an inappropriate mix of these four types. First I describe each type of measure.

Key Result Indicators

What are *key result indicators* (KRIs)? KRIs are measures that often have been mistaken for KPIs.

The common characteristic of these measures is that they are the result of many actions carried out by many teams, hence the use of the term "result." And they are good summary measures, hence the term "key." They give a clear picture of whether your organization is traveling in the right direction at the right speed. They provide the board or governing body with a good overview as to progress with regard to the organization's strategy. These measures are easy to ascertain and are frequently reported already to the board or governing body.

The fact that key result indicators are called KPIs creates a problem that many organizations do not appreciate. They cannot understand why performance ebbs and flows and appears outside the control of the senior management team. These key result indicators that are reviewed typically on monthly or quarterly cycles will only tell you whether the horse has bolted or not. Key result indicators are thus of little use to management as they are reported too late to change direction, nor do they tell you what you need to do to improve these results.

You know you have a KRI when the CEO is in reality the person ultimately responsible for the measure.

For the private sector, key result indicators would include:

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

For government and nonprofit agencies these measures would also include:

- Availability of the major services we offered e.g., average waiting time for service
- On-time implementation of infrastructure projects
- Membership numbers (for professional organizations)

Separating KRIs from other measures has a profound impact on reporting, resulting in a separation of performance measures into those impacting governance and those impacting management. Accordingly, an organization should have a governance report (ideally in a dashboard format), consisting of up to 10 KRIs for the board, and a series of management reports reporting progress in various intervals during the month depending on the significance of the measure.

Result Indicators

The *result indicators* (RIs) summarize the activity of more than one team. They are good to review as an overview of how teams are working together. The difference between a *key result indicator* and a *result indicator* is simply that the key result indicator is a more overall and more important summary of activities that have taken place.

When you look at a financial measure you will note that you have put a value to various activities that have taken place. In other words, financial indicators are a result of activities. I thus believe all financial performance measures are RIs. Daily or weekly sales analysis is a very useful summary, but it is a result of the effort of a number of teams: from the sales team to the teams involved in manufacture, quality assurance, and dispatch. Financial indicators are useful but mask the real drivers of the performance. To fully understand what to increase or decrease, we need to look at the activities that created the financial indicator.

Result indicators look at activity over a wider time horizon. They not only measure quarterly and monthly results but also weekly, daily activities and future planned events (e.g., sales made yesterday, number of planned initiatives to be implemented next month to improve the timeliness of planes).

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 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 managers who have not attended leadership training (reported quarterly, by manager level)
- Number of staff trained to use specified systems (key systems only)

For government and nonprofit 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 for [Disease Name 3]
- Grants achieving their public health targets as per grant agreements
- Percentage of investments covering low income, high disease-burdened countries

Performance Indicators

Performance indicators (PIs) are those indicators that are nonfinancial (otherwise they would be result indicators) that can be traced back to a team. The difference between performance indicators and KPIs is that the latter are deemed fundamental to the organization's wellbeing. Performance indicators, although important, are thus not crucial to the business. The performance indicators help teams to align themselves with their organization's strategy. Performance indicators complement the KPIs; they are shown on the organization, division, department, and team scorecards.

For the private sector, performance indicators that lie beneath KRIs could include:

- Abandonment rate at call center—caller gives up waiting
- Late deliveries to customers
- Planned abandonments of reports, meetings, processes that are no longer functioning
- Number of innovations implemented by each team / division
- Sales calls organized for the next week, two weeks, and so forth
- 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 nonprofit agencies, *Performance Indicators* would 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

Key Performance Indicators

Key performance indicators (KPIs) are those indicators that focus on the aspects of organizational performance that are the most critical for the current and future success of the organization. KPIs are rarely new to the organization. Either they have not been recognized or they were gathering dust somewhere unknown to the current management team. KPIs can be illustrated by two examples.

Example: An Airline KPI

My favorite KPI story is about a Senior British Airways Official who set about turning British Airways (BA) around in the 1980s by reportedly concentrating on one KPI.

The senior BA official employed some consultants to investigate and report on the key measures he should concentrate on to turn around the ailing airline. They came back and told the senior BA official that he needed to focus on one critical success factor (CSF), the timely arrival and departure of airplanes. The consultants must have gone through a sifting process sorting out the success factors which were critical from those that were less important. Ascertaining the five to eight CSFs is a vital step in any KPI exercise, and one seldom performed. In Exhibit 1.1 the CSFs are shown as the larger circles in the diagram.

The senior BA official was, however, not impressed as everybody in the industry knows the importance of timely planes. However, the

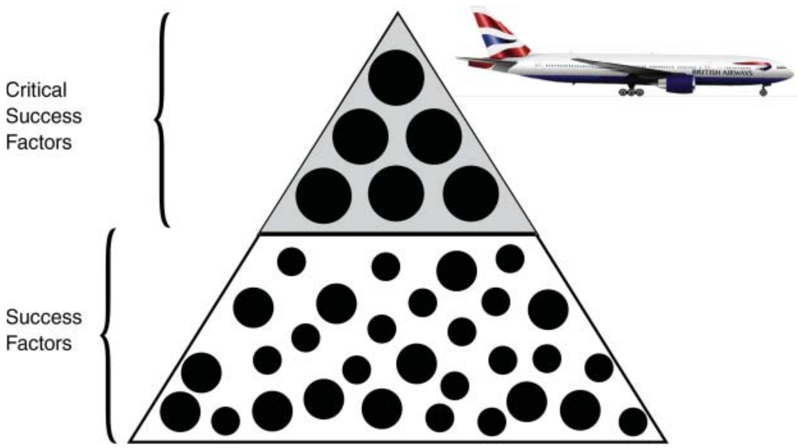

EXHIBIT 1.1 The Importance of Knowing Your Critical Success Factors

consultants then pointed out that this is where the KPIs lay and they proposed that he focus on a late plane KPI.

He was notified, wherever he was in the world, if a BA plane was delayed over a certain time. The BA airport manager at the relevant airport knew that if a plane was delayed beyond a certain "threshold," they would receive a personal call from the senior BA official (let's call him Sam). I imagine the conversation going like this:

> *"Pat, it's Sam on the phone. I am ringing up about BA135 that left Kennedy Airport over two and a quarter hours late, what happened?"*
>
> *Pat replies, "The system will tell you that the plane was late leaving Hawaii. In fact it was one and three quarters hours late and everything was in order at our end except we lost an elderly passenger in duty-free shopping. We had to offload their bags and, as you can see, we did it in record time, only half an hour!"*
>
> *"Pat, how long have you worked for British Airways?"*
>
> *Pat, realizing this conversation was not going well, responded, "About 30 years, Sam."*
>
> *"In fact, Pat, it is 32. In 32 years of 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, and instead you added half an hour. Quite frankly Pat, I am disappointed as you and your team are better than this!"*

Pat and many others employed by the airline had the "not invented by us" syndrome. A late plane created by another BA team was their problem not ours. Pat gathered the troops 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 refueling team which planes were a priority.
- Providing the external caterers with late plane updates so they could better manage re-equipping the late plane.
- Staff on the check-in counters asked to watch out for at-risk customers and chaperone them to the gate.

- Not allowing the business class passenger to check in late, yet again. This time saying, "Sorry Mr. Carruthers, we will need to reschedule you as you are too late to risk your bags missing this plane. It is on a tight schedule. I am sure you are aware that the deadline for boarding passed over 30 minutes ago."

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

The late-planes KPI worked because it was linked to most of the critical success factors for the airline. It linked to the "delivery in full and on time" critical success factor, namely the "timely arrival and departure of airplanes," it linked to the "increase repeat business from key customers" critical success factor, and so on.

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

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

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

Example: A Distribution Company KPI

A distribution company's chief executive officer (CEO) realized that a critical success factor for the business was for trucks to leave as close to capacity as possible. A large truck, capable of carrying more than 40 tons, was being sent out with small loads because dispatch managers were focusing on delivering every item on time to customers.

Each day by 9 A.M. the CEO received a report of those trucks that had been sent out with an inadequate load the previous day. The CEO called the dispatch manager and asked whether any action had taken place to see if the customer could have accepted the delivery on a different date that would have enabled better utilization of the trucks. In most cases, the customer could have received it earlier or later, fitting in with a past or future truck going in that direction. The impact on profitability was significant.

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

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

Seven Characteristics of KPIs

From extensive analysis and from discussions with over 3,000 participants in my KPI workshops, covering most organization types in the public and private sectors, I have been able to define what the seven characteristics of KPIs are as set out in Exhibit 1.2.

Non Financial: When you put a dollar sign on a measure, you have already converted it into a result indicator (e.g., daily sales are a result of activities that have taken place to create the sales). The KPI lies deeper down. It may be the number of visits to contacts with the key customers who make up most of the profitable business. As discussed in Chapter 2, it is a myth of performance measurement that KPIs can be financial and nonfinancial indicators. I am adamant that all KPIs are nonfinancial.

Timely: KPIs should be monitored 24/7, daily, or perhaps weekly for some. As stated in Chapter 2, it is a myth that monitoring monthly

EXHIBIT 1.2 **Characteristics of KPIs**

Nonfinancial	1. Nonfinancial measures (e.g., not expressed in dollars, Yen, Pounds, Euros, etc.)
Timely	2. Measured frequently (e.g., 24/7, daily, or weekly)
CEO focus	3. Acted upon by the CEO and senior management team
Simple	4. All staff understand the measure and what corrective action is required
Team based	5. Responsibility can be tied down to a team or a cluster of teams who work closely together
Significant impact	6. Major impact on the organization (e.g., it impacts on more than one of top CSFs and more than one balanced scorecard perspective)
Limited dark side	7. They encourage appropriate action (e.g., have been tested to ensure that they have a positive impact on performance, whereas poorly thought through measures can lead to dysfunctional behavior)

performance measures will improve performance. 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.

CEO focus: All KPIs make a difference; they have the CEO's constant attention due to daily calls to the relevant staff. Having a career-limiting discussion with the CEO is not something staff members want to repeat, and in the airline example innovative and productive processes were put in place to prevent a recurrence.

Simple: A KPI should tell you what action needs to be taken. The British Airways late-planes KPI communicated immediately to everyone that there needed to be a focus on recovering the lost time. Cleaners, caterers, baggage handlers, flight attendants, and front desk staff would all work some magic to save a minute here and a minute there while maintaining or improving service standards.

Team based: A KPI is deep enough in the organization that it can be tied to a team. In other words, the CEO can call someone and ask, "Why?" Return on capital employed has never been a KPI, because it cannot be tied to a manager—it is a result of many activities under different managers. Can you imagine the reaction if a GM was told one morning by the British Airways official "Pat, I want you to increase the return on capital employed today."

Significant impact: A KPI will affect one or more of the critical success factors and more than one balanced-scorecard perspective. In other words, when the CEO, management, and staff focus on the KPI, the organization scores goals in many directions. In the airline example, the late-planes KPI affected all six balanced-scorecard perspectives. Again, as I refer to Chapter 2, it is a myth to believe that a measure fits neatly into one balanced-scorecard perspective.

Limited dark side: Before becoming a KPI, a performance measure needs to be tested to ensure that it creates the desired behavioral outcome (e.g., helping teams to align their behavior in a coherent way to the benefit of the organization). There are many examples where performance measures have led to dysfunctional behavior, these are discussed in Chapter 3, Unintended Behavior: The Dark Side of Performance Measures.

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
- Staff in vital positions who have handed in their notice in the last hour—the CEO has the opportunity to try to persuade the staff member to stay
- Late deliveries to key customers
- Key position job offers issued to candidates that are more than three days outstanding—the CEO has the opportunity to try to persuade acceptance of offer
- List of late projects, by manager, reported weekly to the senior management team
- Number of vacant places at an important in-house course—reported daily to the CEO in the last three weeks before the course is due to run

- Number of initiatives implemented after the staff-satisfaction survey—monitored weekly for up to three months after survey
- List of level one and two managers who do not have mentors, reported weekly to the CEO—this measure would only need to be operational for a short time on a weekly basis
- Number of innovations planned for implementation in the next 30, 60, or 90 days—reported weekly to the CEO
- Number of abandonments to be actioned in the next 30, 60, or 90 days—reported weekly to the CEO
- Major projects awaiting decisions that are now running behind schedule—reported weekly to CEO
- Complaints from our key customers that have not been resolved within two hours—report 24/7 to CEO and GMs
- Key customer enquiries that have not been responded to by the sales team for over 24 hours—report daily to the GM
- Date of next visit to major customers by customer name—report weekly to CEO and GMs

For government and nonprofit 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—monitored daily in the four to six weeks before the appeal day
- Date of next new service initiative

Difference between KRIs and KPIs and RIs and PIs

During workshops, one question emerges time and time again: "What are the differences between KRIs and KPIs, and RIs and PIs?" Exhibits 1.3 and 1.4 clarify the differences. A car's speedometer provides a useful analogy to show the difference between a result indicator and a performance indicator. The speed the car is traveling is a result indicator, because the car's speed is a combination of what gear the car is in and how many revolutions per minute the engine is doing. Performance indicators might be how economically the car is being driven (e.g., a gauge showing how many miles per gallon), or how hot the engine is running (e.g., a temperature gauge).

EXHIBIT 1.3 **Difference between KRIs and KPIs**

KRIs	**KPIs**
Can be financial and nonfinancial (e.g., return on capital employed and customer satisfaction percentage).	Nonfinancial measures (not expressed in dollars, yen, pound, euros, etc.).
Measures are performed mainly monthly and sometimes in a quarterly time period.	Measured frequently (e.g., 24/7, daily or weekly).
Reported to the board as a good summary of progress to date.	Reported to the CEO and senior management team.
It does not help staff or management because nowhere does it tell 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 summarize progress in a particular area. Tends to focus on the external critical success factors as seen through the board member's eyes.	Significant impact (e.g., it impacts on more than one internal critical success factor and more than one balanced scorecard perspective).
A KRI is a result of many activities managed through a variety of performance measures.	Focuses on a specific activity.
Normally reported by way of a trend graph covering at least the last fifteen months of activity.	Normally reported by way of an intranet screen indicating activity, person responsible, past history, so that a meaningful phone call can be made.

Lead and Lag Confusion

Many management books that cover KPIs talk about lead and lag indicators; this merely clouds the KPI debate. Using the new way of looking at performance measures, we dispense with the terms lag (outcome) and lead (performance driver) indicators. At my seminars, when the audience is asked "Is the late-planes-in-the-air KPI a lead indicator or a lag indicator?" the vote count is always evenly split. The late plane

EXHIBIT 1.4 **Difference between RIs and PIs**

RIs	**PIs**
Can be financial and nonfinancial.	Nonfinancial measures (not expressed in dollars, yen, pound, euros, etc.).
Measured daily, weekly, biweekly, monthly, or sometimes quarterly.	Measured daily, weekly, biweekly, monthly, or sometimes quarterly.
Designed to summarize 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.

in the sky is certainly both a lead and a lag indicator. It talks about the past and it is about to create a future problem when it lands. Surely this is enough proof that lead and lag labels are not a useful way of defining KPIs and should be counted among the myths of performance measurement.

Key result indicators replace outcome measures, which typically look at past activity over months or quarters. PIs and KPIs are now characterized as past, current, or future measures, see Exhibit 1.7.

Past measures are those that look at historic events—activity that took place last week, last month, last quarter, and so on. PIs and KPIs are now characterized as past-, current-, or future-focused 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 an agreed 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 organization, you will find that your KPIs are either current- or future-oriented measures, see Exhibit 1.7.

KPIs are current- or future-oriented measures as opposed to past measures (e.g., number of key customer visits planned in the next month or a list by key customer of the dates of the next planned visits).

EXHIBIT 1.5 Past/Current/Future Performance Measures Analysis Worksheet Causing Late Planes

Past Measures (past week/two weeks/ month/quarter)	**Current Measures (real-time/ today/yesterday)**	**Future Measures (next week/ month/quarter)**
Number of late planes last week/last month.	Planes more than two hours late (updated continuously).	Number of initiatives to be commenced in the next month, two 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.

Most organizational measures are very much past indicators measuring events of the last month or quarter. These indicators cannot be and never were KPIs.

In workshops, I ask participants to write a couple of their major past measures in the worksheet shown in Exhibit 1.5 and then restate the measures as current and future measures. Try this on your organization, please take five minutes to restate three measures used in your organization.

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

Monitoring the activity taken now about the organizing of future actions to occur will help focus staff on what is expected of them. Future measures are often the fence at the top of the cliff. They are in place so we do not have to report inferior performance (the body at the bottom of the cliff). In other words future measures help make

EXHIBIT 1.6 Examples of More Future Measures

Future innovations	To be an innovative organization we need to measure the number of initiatives which are about to come online in the next week, two weeks, and month.
Future sales meetings	To increase sales we need to know the number of sales meetings which have already been organized/scheduled with our key customers in the next week, two weeks, 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., 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 that have been organized in the next one to three, four to six, seven to nine months.
Future recognitions	To maintain staff recognition the CEO needs to monitor the formal recognitions planned next week/next two weeks by the CEO and SMT.
Key dates	Date of next product launch, date for signing key agreements.

the right future happen. Here, in Exhibit 1.6, are some common future measures that will work in most organizations.

All these future measures would be reported in a weekly update given to the CEO. Although CEOs may let a couple of weeks pass with gaps appearing on these updates, they will 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.

The differences in the four measures and the past, current, and future time periods are further explained in Exhibit 1.7. KRIs are summaries of past performance, principally monthly trend analysis over 18 months. KPIs focus on activity in the past week, yesterday, and

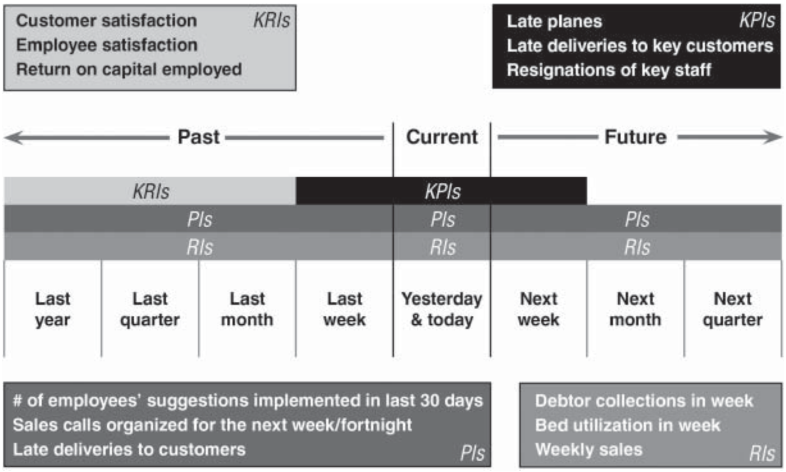

EXHIBIT 1.7 The Differences in the Four Measures and the Time Zones

today, and that 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 percent of measures to be current- or future-focused.

Number of Measures Required—The 10/80/10 Rule

How many measures should we have? How many of each measure type? What time frames are they measured in? To answer these questions I devised, more than 10 years ago, the 10/80/10 rule, as illustrated in Exhibit 1.7.

I believe an organization, with over 500 FTEs, will have about 10 KRIs, up to 80 RIs and PIs, and 10 KPIs, and these are reported in different time intervals as shown in Exhibit 1.8. These are the upper limits and in many cases, fewer measures will suffice. For smaller organizations the major change would be a reduction in the number of RIs and PIs.

Reporting up to 10 KRIs to the board or governing body is entirely logical. We do not want to bury them in too much detail. A Board Dashboard can easily be designed to show these KRIs along with a summary financials all on one fan fold (A3) page, as shown in Chapter 14.

EXHIBIT 1.8 The 10/80/10 Rule

Types of Performance Measures (PMs)	**Characteristics**	**Frequency of Measurement**	**Number of Measures**
1. Key result indicators (KRIs) give an overview on the organization's past performance and are ideal for the board as they communicate how management have performed (e.g., return on capital employed (%), employee satisfaction (%), net profit before tax and interest).	These measures can be financial or nonfinancial. Does not tell you what you need to do more or less. A summary of the collective efforts of a wide number of teams.	Monthly, quarterly	Up to 10
2. Result indicators (RIs) give a summary of the collective efforts of a number of teams on a specific area (e.g., yesterday sales ($), complaints from key customers)		24/7, daily, weekly, biweekly, monthly, quarterly	80 or so. If it gets over 150 you will begin to have serious problems
3. Performance indicators (PIs) are targeted measures that tell staff and management what to do (e.g., number of sales visits organized with key customers next week/next fortnight, number of employees' suggestions implemented in last 30 days).	These measures are only nonfinancial. 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.		
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).		24/7, daily, weekly	Up to 10 (you may have considerably less)

For many organizations, 80 RIs and PIs will at first appear totally inadequate. Yet, on investigation, you will find that separate teams are actually 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).

When we look at the characteristics of KPIs one will see that these measures are indeed rare and that many organizations will operate very successfully with no more than ten of them. Kaplan and Norton[1] recommend no more than 20 KPIs. Hope and Fraser[2] suggest fewer than 10 KPIs, while many KPI project teams may, at first, 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 organization is composed of 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.

As explained in Chapter 2, it is a myth that the more measures there are, the better performance measurement will be. In fact, as has no doubt been witnessed by many readers, the reverse is true. I believe the 10/80/10 rule is a good guide, as it appears to have withstood the test of time.

Importance of Timely Measurement

Before proceeding further, we will look at the importance of timely measurement. It is essential that measurement is timely. Today, a KPI provided to management that is more than a few days old is useless. KPIs are prepared in real time, with even weekly ones available by the next working day. The suggested reporting framework of performance indicators is set out in Exhibit 1.9. Frequently, staff working for government and nonprofit agencies tell me that we do not have any measures that we need to monitor frequently. I beg to differ. Review Appendix E for examples of common measures that will be useful for all sectors.

Some of the KPIs will be updated daily or even 24/7 (as in the British Airways case), whereas the rest of the KPIs will be reported weekly. Performance measures that focus on completion should be included. In organizations where finishing is a problem, a common weekly KPI is the reporting of projects and reports that are running

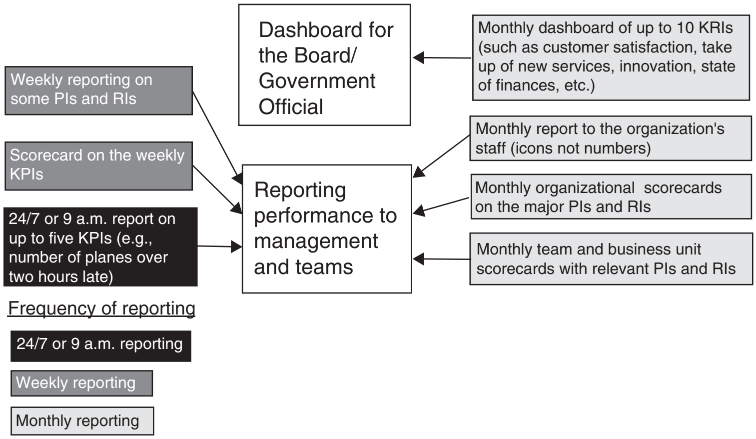

EXHIBIT 1.9 Suggested Reporting Framework

late to the senior management team. Such reporting will revolutionize project and task completion in your organization. The RIs and PIs will be reported in various time frames from daily, weekly, and fortnightly to monthly. The KRIs, which are best used to report performance to the board, will, therefore, be based around the timing of the board meeting.

Where Are You in Your Journey with Performance Measures?

The checklist in Exhibit 1.10 is designed to assess your progress with performance measures.

EXHIBIT 1.10 **Assessing Your Progress with Performance Measures Checklist**

	Is it covered?
Knowledge of the critical success factors	
1. Senior management have a common understanding of the organization's success factors	☐ Yes ☐ No
2. The organization has identified the critical success factors	☐ Yes ☐ No
3. The critical success factors have been communicated to all staff and are used on a daily basis to focus priorities	☐ Yes ☐ No

EXHIBIT 1.10 (*Continued*)

	Is it covered?
Balanced scorecard implementation	
4. We have established our balanced scorecard perspectives	☐ Yes ☐ No
5. The project was largely run by in-house resources with some outside advisory assistance	☐ Yes ☐ No
6. Measures have been ascertained by teams so there is balance between the scorecard perspectives	☐ Yes ☐ No
7. Measures have be derived from brainstorming the identified critical success factors	☐ Yes ☐ No
8. Measures have been segregated into different types so that only measures with specified criteria are called KPIs	☐ Yes ☐ No
9. There is a sound understanding about performance measurement, KPIs, critical success factors within the senior management team	☐ Yes ☐ No
How KPIs are operating	
10. All measures are carefully monitored to ensure they promote appropriate behavior	☐ Yes ☐ No
11. Teams monitor their performance measures	☐ Yes ☐ No
12. Senior management review performance measures more frequently than monthly	☐ Yes ☐ No
13. The CEO is daily focusing on the KPIs and contacting the appropriate people to rectify identified issues	☐ Yes ☐ No
14. There are less than 10 KPIs in the organization and these are monitored frequently 24/7, daily, or weekly	☐ Yes ☐ No
15. KPIs are not linked to pay; they are seen as "tickets to the game"	☐ Yes ☐ No

Your score:
Under 5: Need to read the reference books listed in Chapter 15
Between 5 to 10: This book will assist you with improvements
Over 10: You should write a case study and I will feature it

Notes

1. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge, MA: Harvard Business Press, 1996).
2. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Cambridge, MA: Harvard Business Press, 2003).

CHAPTER 2

The Myths of Performance Measurement

Overview

Key Performance Indicators (KPIs) in many organizations are a broken tool. The KPIs are often a random collection prepared with little expertise, signifying nothing. In this chapter I explore the myths surrounding performance measurement which have given rise to this dysfunctional situation.

Since the second edition was published I have become increasingly aware that key performance indicators (KPIs) in many organizations are a broken tool. Measures are often a random collection prepared with little expertise, signifying nothing. KPIs should be measures that link daily activities to the organization's critical success factors (CSFs), thus supporting an alignment of effort within the organization in the intended direction. I call this alignment the El Dorado of management. However, poorly-defined KPIs cost the organization dearly. Some examples are: measures gamed to the benefit of executive pay, which leads to the detriment of the organization; teams encouraged to perform tasks that are contrary to the organization's strategic direction; costly "measurement and reporting" regimes that lock up valuable staff and management time; and a six-figure consultancy assignment resulting in a "door stop" report or balanced scorecard that doesn't function well.

Let us now look at the myths surrounding performance measures.

Myth #1: Most Measures Lead to Better Performance

Every performance measure can have a negative consequence or an unintended action that leads to inferior performance. Well over half the measures in an organization may well be encouraging unintended negative behavior. In order to make measures work, one needs to anticipate the likely human behavior that will result from its adoption, and endeavor to minimize the potential negative impact.

KPIs are like the moon, they have a dark side. It is imperative that before a measure is used the measure is:

- Discussed with the relevant staff: "If we measure this, what will you do?"
- Piloted before it is rolled out.
- Abandoned if its dark side creates too much adverse performance.

To emphasize the significance of this myth I have set aside Chapter 3 to cover unintended consequence—the dark side of measures.

Myth #2: All Measures Can Work Successfully in Any Organization, At Any Time

Contrary to common belief, it is a myth to think that all measures can work successfully in any organization, at any time. The reality is that there needs to be, as Spitzer has so clearly argued, a positive "context of measurement" for measures to deliver their potential. To this end I have established seven foundation stones that need to be in place in order to have an environment where measurement will thrive. These seven foundation stones are explained in length in Chapter 7 and are:

1. Partnership with the staff, unions, and third parties
2. Transfer of power to the front line
3. Measure and report only what matters
4. Source KPIs from the critical success factors
5. Abandon processes that do not deliver
6. Appointment of a home-grown chief measurement officer
7. Organization-wide understanding of winning KPI definition

Myth #3: All Performance Measures Are KPIs

Throughout the world, from Iran to the United States and back to Asia, organizations have been using the term KPI for all performance measures. No one seemed to worry that the KPI had not been defined by anyone. Thus measures that were truly key to the enterprise were being mixed with measures that were completely flawed.

Let's break the term down. Key means key to the organization, performance means that the measure will assist in improving performance.

From the research I have performed, from workshop feedback across diverse industries and as a by-product of writing this book, I have come to the conclusion that there are four types of performance measures, and these four measures are in two groups as shown in Exhibit 2.1.

The differences between these measures are explained in Chapter 1.

EXHIBIT 2.1 The Difference Between Result And Performance Indicators

The Two Groups of Measure	The Two Types of Measures in Each Group
Result indicators reflect the fact that many measures are a summation of more than one team's input. These measures are useful in looking at the combined teamwork but, unfortunately, do not help management fix a problem as it is difficult to pin-point which teams were responsible for the performance or nonperformance.	Result Indicators (RIs) and Key Result Indicators (KRIs)
Performance indicators are measures that can be tied to a team or a cluster of teams working closely together for a common purpose. Good or bad performance is now the responsibility of one team. These measures thus give clarity and ownership.	Performance Indicators (PIs) and Key Performance Indicators (KPIs)

Myth #4: By Tying KPIs to Remuneration You Will Increase Performance

It is a myth that the primary driver for staff is money and that an organization must design financial incentives in order to achieve great performance. Recognition, respect, and self-actualization are more important drivers. In all types of organizations, there is a tendency to believe that the way to make KPIs work is to tie KPIs to an individual's pay. But when KPIs are linked to pay, they create key political indicators (not key performance indicators), which will be manipulated to enhance the probability of a larger bonus. KPIs should be used to align staff to the organization's critical success factors and will show 24/7, daily or weekly how teams are performing. They are too important to be manipulated by individuals and teams to maximize bonuses. KPIs are so important to an organization that performance in this area is a given, or as Jack Welch says, "a ticket to the game."[1]

Performance bonus schemes are often flawed on a number of counts. The balanced scorecard is often based on only four perspectives, ignoring the important environment and community and staff satisfaction perspectives. The measures chosen are open to debate and manipulation. There is seldom a link to progress within the organization's CSFs. Weighting of measures leads to crazy performance agreements, such as Exhibit 2.2.

The message is: find a way to manipulate these numbers and you will get your "bonus." The damage done by such schemes is only found out in subsequent years.

Myth #5: We Can Set Relevant Year-End Targets

It is a myth that we know what good performance will look like before the year starts and, thus, it is a myth that we can set relevant annual targets. In reality, as former CEO of General Electric Jack Welch[2] says, "it leads to constraining initiative, stifling creative thought processes and promotes mediocrity rather than giant leaps in performance." All forms of annual targets are doomed to failure. Far too often management

EXHIBIT 2.2 Performance-Related Pay Systems That Will Never Work

Scorecard Perspective	Perspective Weighting	Performance Measure	Measure Weighting
Financial Results	60%	Economic value added	25%
		Unit's profitability	20%
		Market share growth	15%
Customer Focus	20%	Customer satisfaction survey	10%
		Dealer satisfaction survey	10%
Internal Process	10%	Ranking in external quality survey	5%
		Decrease in dealer delivery cycle time	5%
Innovation and Learning	10%	Employee suggestions implemented	5%
		Employee satisfaction survey	5%

spends months arguing about what is a realistic target, when the only sure thing is that it will be wrong. It will be either too soft or too hard. I am a follower of Jeremy Hope's work. He and his co-author Robin Fraser were the first writers to clearly articulate that a fixed annual performance contract was doomed to fail. Far too frequently organizations end up paying incentives to management when, in fact, they have lost market share. In other words, rising sales did not keep up with the growth rate in the marketplace. As Hope and Fraser point out, not setting an annual target beforehand is not a problem as long as staff members are given regular updates about how they are progressing against their peers and the rest of the market. Hope argues that if you do not know how hard you have to work to get a maximum bonus, you will work as hard as you can.

Hope and Fraser's work pointed out that the annual budgeting process was doomed to fail. If you set an annual target during the planning process, typically 15 or so months before the last month of that year, you will never know if it was appropriate, given that the particular conditions of that year will never be guessed correctly. You often end up paying incentives to management when, in fact, you have lost market share. In other words, your rising sales did not keep up with the growth rate in the marketplace.

Myth #6: Measuring Performance Is Relatively Simple and the Appropriate Measures Are Obvious

There will not be a reader of this book who has not, at some time in the past, been asked to come up with some measures with little or no guidance. Organizations, in both the private and public sectors, are being run by management who have not yet received any formal education on performance measurement. Many managers have been trained in the basics of finance, human resources, and information systems. They also have been ably supported by qualified professionals in these three disciplines. The lost soul is performance measurement which has only scant mention in the curriculum of business degrees and in professional qualifications obtained by finance, human resources, and information systems professionals.

Performance measurement has been an orphan of business theory and practice. While writers such as Deming, Whetley and Kellner-Rogers, Hamel, Hope, and Spitzer have for some time been pointing out the dysfunctional nature of performance measurement, it has not yet permutated into business practice.

Performance measurement is worthy of more intellectual rigour in every organization on the journey from average to good and then great performance. The appointment of a chief measurement officer was first mentioned by Dean Spitzer[3] who is an expert on performance measurement. The chief measurement officer would be part psychologist, part teacher, part salesman, and part project manager. They would be responsible for the setting of all performance measures, the assessment of the potential "dark side" of the measure, the abandonment of broken measures, and the leader of all balanced scorecard initiatives. Naturally this person would report directly to the CEO and have a status equivalent of the CFO, the CIO, or the GM HR befitting the diverse blend of skills required for this position.

Myth #7: KPIs Are Financial and Nonfinancial Indicators

I firmly believe that all KPIs in countries as diverse as Canada, the United States, the United Kingdom, and Romania are all nonfinancial. In fact I believe that there is not a financial KPI on this planet.

Financial measures are a quantification of an activity that has taken place; we have simply placed a value on the activity. Thus, behind every financial measure is an activity. I call financial measures result indicators, a summary measure. It is the activity that you will want more or less of. It is the activity that drives the dollars, pounds, or yen. Thus financial measures cannot possibly be KPIs.

When you put a pound or dollar sign to a measure you have not dug deep enough. Sales made yesterday will be a result of sales calls made previously to existing and prospective customers, advertising, product reliability, amount of contact with the key customers, and so on. I group all sales indicators expressed in monetary terms as result indicators.

Myth #8: You Can Delegate a Performance Management Project to a Consulting Firm

For the past 15 years or so many organizations have commenced performance measure initiatives, and these have frequently been led by consultants. Commonly, a balanced-scorecard approach has been adopted based on the work of Kaplan and Norton. The approach, as I will argue, is too complex and leads to a consultant-focused approach full of very clever consultants undertaking this exercise with inadequate involvement of the client's staff. Although this approach has worked well in some cases, there have been many failures.

The winning KPIs methodology clearly states, "You can do this in-house." If you cannot, no one else can. KPI projects are in-house projects run by skilled individuals who know the organization and its success factors. They have been unburdened from the daily grind to concentrate on this important project. In other words, these staff members have moved their family photographs, the picture of the 17-hand stallion or their beloved dog, and put them on their desks in the project office. Leaving the daily chore of firefighting in their sphere of operations to their second-in-charge who has now moved into the boss's office, on a temporary basis of course!

The Myths Around the Balanced Scorecard

The groundbreaking work of Kaplan and Norton[4] brought to management's attention the fact that an organization should have a balanced strategy and its performance needed to be measured in a more holistic way, in a balanced scorecard (BSC). Kaplan and Norton suggested four perspectives in which to review performance: financial, customer, internal process, and learning and growth. There was an immediate acceptance that reporting performance in a balanced way made sense and a whole new consultancy service was born. Unfortunately many of these initiatives have failed for reasons set out below.

BSC Myth #1: The Balanced Scorecard Was First Off the Blocks

Hoshin Kanri business methodology, a balanced approach to performance management and measurement, was around well before the balanced scorecard (BSC). It has been argued that the BSC originated from the adaptation based on Hoshin Kanri.

As I understand it, translated, Hoshin Kanri means a business methodology for direction and alignment. This approach was developed in a complex Japanese multinational where it is necessary to achieve an organization-wide collaborative effort in key areas.

One tenet behind Hoshin Kanri is that all employees should incorporate into their daily routines a contribution to the key corporate objectives. In other words, staff members need to be made aware of the critical success factors and then prioritize their daily activities to maximize their positive contribution in these areas.

In the traditional form of Hoshin Kanri, there is a grouping of four perspectives. It is no surprise that the balanced scorecard perspectives are mirror images (see Exhibit 2.3). An informative paper on the comparison between Hoshin Kanri and the balanced scorecard has been written by Witcher and Chau[5], and it is well worth reading.

EXHIBIT 2.3 **Similarities between Hoshin Kanri and Balanced Scorecard Perspectives**

Hoshin Kanri	**Balanced Scorecard**
Quality objectives and measures	Customer focus
Cost objectives and measures	Financial
Delivery objectives and measures	Internal process
Education objectives and measures	Learning and growth

BSC Myth #2: There Are Only Four Balanced Scorecard Perspectives

For almost 20 years the four perspectives listed in Kaplan and Norton's original work (Financial, Customer, Internal Process, and Learning and Growth) have been consistently reiterated by Kaplan and Norton through to present time.

I recommend that these four perspectives be increased by the inclusion of two more perspectives (Staff Satisfaction, and Environment and Community) and that the Learning and Growth perspective be reverted back to its original name, Innovation and Learning (see Exhibit 2.4).

EXHIBIT 2.4 **The Suggested Six Perspectives of a Balanced Scorecard**

FINANCIAL RESULTS Asset utilization, sales growth, risk management, optimization of working capital, cost reduction	**CUSTOMER FOCUS** Increase customer satisfaction, targeting customers who generate the most profit, getting close to noncustomers	**ENVIRONMENT AND COMMUNITY** Employer of first choice, linking with future employees, community leadership, collaboration
INTERNAL PROCESS Delivery in full on time, optimizing technology, effective relationships with key stakeholders	**STAFF SATISFACTION** Right people on the bus, empowerment, retention of key staff, candor, leadership, recognition	**INNOVATION AND LEARNING** Innovation, abandonment, increasing expertise and adaptability, learning environment

BSC Myth #3: The Balanced Scorecard Can Report Progress to Both Management and the Board

One certainly needs to show the minister or board the state of progress. However it is important that governance information is shown rather than management information. The measures that should be reported to the board are key result indicators.

We need to ensure the "management-focused" performance measures (KPIs, result indicators, and performance indicators) are only reported to management and staff.

BSC Myth #4: Measures Fit Neatly into One Balanced Scorecard Perspective

When an organization adopts the balanced scorecard, which is certainly a step in the right direction, staff members are frequently in a dilemma over measures that seem to influence more than one balanced scorecard perspective. Where do I put this measure? Debates go on and often resolution is unclear.

Measures do not fit neatly into one or another perspective. In fact when you get a measure that transcends a few perspectives you should get excited as you are zeroing in on a possible KPI. To illustrate this point, let's look at where late planes in the sky should be reported. Should it be a customer, financial, or internal process? In fact this measure affects all six perspectives as shown in Exhibit 2.5.

BSC Myth #5: Indicators Are Either Lead (Performance Driver) or Lag (Outcome) Indicators

I am not sure where the lead/lag labels came from but I do know that they have caused a lot of problems and are fundamentally flawed. It assumes that a measure is either about the past or about the future. It ignores the fact that some measures, in particularly KPIs, are both about the past and the future.

I have lost count of the number of times I read Kaplan and Norton's[6] original masterpiece to try and understand the lead lag indicators argument until I realized my difficulty in understanding lead lag indicators was a result of flawed logic.

EXHIBIT 2.5 How Late Planes Impacts Most If Not All Six Perspectives

	Perspectives					
	Financial	**Customer satisfaction**	**Staff satisfaction**	**Innovation & learning**	**Internal process**	**Environment & community**
late planes in the sky more than two late	✓	✓	✓	✓	✓	possible

I have presented to thousands of people on KPIs and I always ask "Is the late-planes-in-the-air KPI a lead or a lag indicator?" The vote count is always evenly split. It has clearly arisen out of past events and will have a major impact on future events—the late arrival will make the plane leave late.

I recommend that we dispense with the terms lag (outcome) and lead (performance driver) indicators. We should see measures as either a past, current (yesterday's or today's activities—the here and now), or future measure (monitoring now the planning and preparation for events/actions that should occur in the future), as shown in Exhibit 2.6.

Current measures refers to those monitored 24/7 or daily. I include yesterday's activities as the data may not be available any earlier (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 organization, you will find that your KPIs are either current- or future-oriented measures.

EXHIBIT 2.6 **Alternative to the Lead/Lag Debate**

Past Measures	**Current Measures**	**Future Measures**
(past week/two weeks/month/ quarter)	(24/7 and daily)	(next day/week/two weeks/month/quarter)
Number of late planes last week/last month	Planes more than two hours late (updated continuously)	Number of initiatives, to be commenced in months one, two, three to target areas which are causing late planes.
Date of last sales visit to key customers	Key customer order cancellation (today)	Date of next visit to key customers and date of next social interaction with key customers
New product sales in last month	Quality defects found today in new products	Number of improvements to new products to be implemented in next month, months two and three

BSC Myth #6: Strategy Mapping Is a Vital Requirement

If strategy maps help management make some sense out of their strategy, then as a working document, they must be useful. However, I am concerned with the "simplified" use of cause and effect relationships, a major component of strategy mapping (see Exhibit 2.7). I believe it has led to the demise of many performance measurement initiatives. From these oversimplified relationships come the strategic initiatives and the cascading performance measures. Strategy mapping, in the wrong hands, can give birth to a monster.

The "cause and effect" diagrams of strategic mapping, where initiatives/success factors neatly fit into a balanced scorecard perspective and create one or possibly two cause and effect relationships, is full of intellectual thought signifying nothing in many cases. It seems to argue that every action or decision has an effect elsewhere in the organization. That you can boil down "cause-and-effect" relationships, to one or two relationships. Jeremy Hope believed that strategy maps are seductive models of how we like to think organizations work and are dangerous weapons in the wrong hands. He summed it up beautifully in his whitepaper paper "Hidden Costs":

> *"If you think an organization is a machine with levers that you can pull and buttons that you can press to cause a predictable action and counter-action elsewhere (as in a car engine), then cause-and-effect is an idea that works.*
>
> ***Jeremy Hope, Whitepaper "Hidden Costs" 2004***

These strategy map diagrams are flawed on a number of accounts:

- Success factors do not fit neatly within a perspective, the more important they are the more perspectives they impact and hence some success factors would need to be drawn across the whole page of a strategy map. This is clearly too untidy for the "strategy map" designers.
- If you are bright enough, you can argue a totally different clausal route for your arrows in your strategic mapping. Every action a company takes has a myriad of impacts. To restrict oneself to one or two relationships in strategy mapping is at best too simplistic, at worst totally naive.

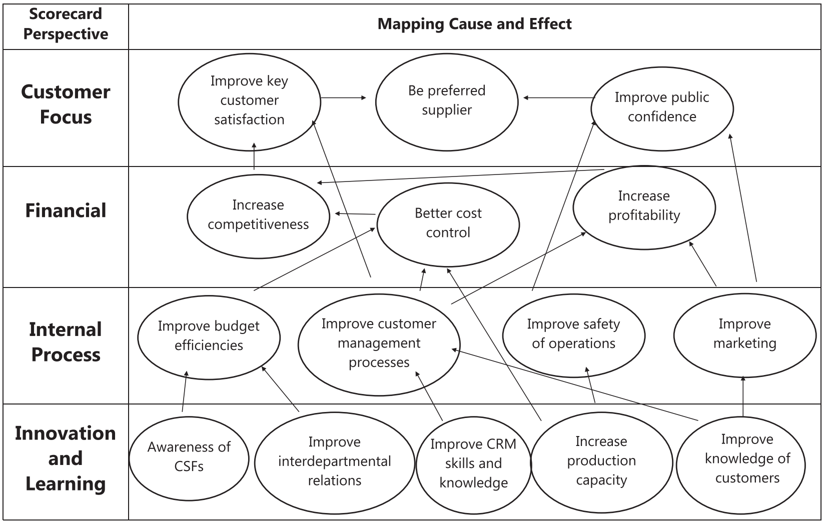

EXHIBIT 2.7 Strategy Mapping

- When I ask attendees to map the impact of late planes on the success factors of an airline they come up with at least twenty impacts. Strategy mapping cannot cope with multiple relationships and thus cannot cope with the reality of day-to-day business.
- Actions that employees take, on a daily basis, are influenced by many factors, they cannot be simplified into one or two causal impacts. The secret is to understand those employee actions that lead either to success or failure and therefore direct the staff to move in the right direction, for example one consistent with interests of the organization's long-term strategy.

BSC Myth #7: Measures Are Cascaded Down the Organization

This was probably the most damaging process used in the balanced scorecard approach. It assumes that by analyzing a measure such as "return on capital employed" you could break it down in a myriad of measures relevant to each team or division.

It also assumes that each and every team leader with minimal thought processes would arrive at relevant performance measures. Kaplan and Norton ignored the crucial facts that the team leaders and the senior management team need to know about the organization's critical success factors and the potential for the performance measure to have a "dark side," an unintended consequence.

Having first ascertained the organization's CSFs it is thus best to start the balanced scorecard *from the ground up* at the team level within the operations, level 4 in Exhibit 2.8. It is at the operational team level that KPIs will be found. Find me an accounting team with a winning KPI! Like many support functions, their team will work with PIs and RIs. This sends a clear message; finish the monthly and annual accounts quickly and spend more time helping the teams who are working directly on the organization's KPIs.

By cascading up, not down, CEOs are saying that finding the right measures that link to the CSFs is important. It is the El Dorado of management when you have every employee, every day, aligning themselves with the organization's CSFs. Very few organizations have achieved this alignment, this magical alignment between effort and effectiveness, Toyota being a shining light.

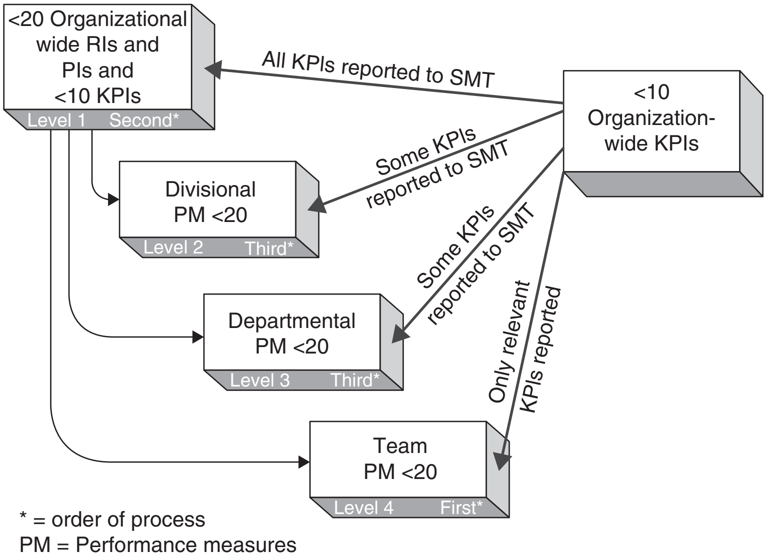

EXHIBIT 2.8 Interrelated Levels of Performance Measures in an Organization

BSC Myth #8: Performance Measures Are Mainly Used to Help Manage Implementation of Strategic Initiatives

The balanced scorecard approach sees the purpose of performance measures as helping implement the strategic initiatives. It is argued that in order to implement the strategies you report and manage the performance measures that best reflect progress, or lack of it, within the strategic initiatives. With the BSC approach each team beneath the Senior Management Team (SMT), in turn, then looks for measures they should use to be consistent with the summary measure the SMT are looking at. In other words measures cascade down from each other.

While this looks logical it leads to mayhem. The cascading of measures has led to a myriad of balanced scorecard applications with hundreds of measures in some form of matrix helping the organization go nowhere quickly.

I do not believe performance measures are on this planet to implement strategies. Performance measures are here to ensure that staff members spend their working hours focused primarily on the organization's critical success factors.

The winning KPI process states:

- Measures are derived from the critical success factors first and then the success factors
- There is no cascading down of measures
- Monthly measures will never be important to management as they report progress too late
- It is the critical success factors that influence the day-to-day running of the business not the strategic initiatives

Exhibit 2.9 shows that strategic initiatives, while their progress will be monitored, are not as fundamental to the business as monitoring the day-to-day alignment to the organization's CSFs.

Winning KPI methodology states that you derive the measures from the CSFs. Deriving your measures from your strategic initiatives will create a large number of unimportant measures, largely ignoring the important daily "business as usual" issues.

Many strategic initiatives are controlled by special project teams undertaking secretive work, such as acquiring new operations or technologies. They will monitor their progress through project reporting. These new initiatives will become "business as usual" only when the new business or product is part of daily activities.

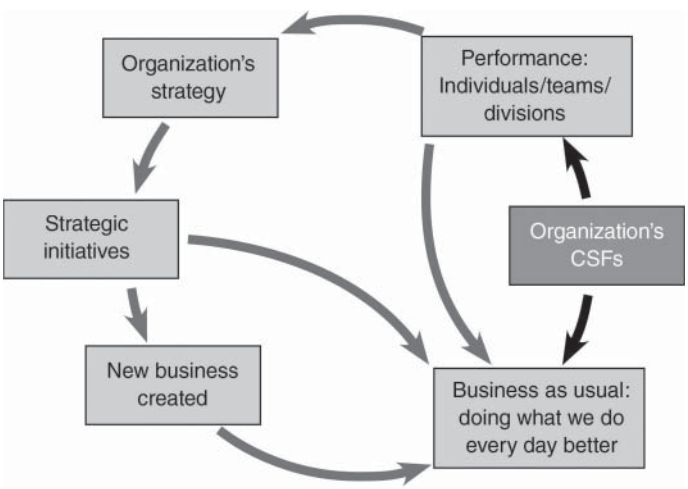

EXHIBIT 2.9 How Strategy and the CSFs Work Together

While some strategic initiatives will impact directly on "business as usual," the impact of these initiatives can be managed better through monitoring measures in the CSFs.

Notes

1. Jack Welch and Suzy Welch, *Winning* (New York: Harper Business, 2005).
2. Ibid.
3. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
4. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge, MA: Harvard Business Press, 1996).
5. Barry J. Witcher and Vinh Sum Chau, "Balanced Scorecard and Hoshin Kanri: Dynamic Capabilities for Managing Strategic Fit," University of East Anglia UK, *Management Decision* 45, no. 3 (2007): 518–538.
6. Kaplan and Norton, *The Balanced Scorecard*.

CHAPTER 3

Unintended Consequence: The Dark Side of Measures

Overview

Every performance measure has a dark side, a negative consequence, an unintended action that leads to inferior performance. I suspect well over half the measures in an organization may well be encouraging unintended negative behavior. This chapter explores examples of dysfunctional behavior resulting from poorly designed measures. It also explores why KPIs should not be linked to performance-related pay.

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

Every performance measure can have a dark side, a negative consequence, an unintended action that leads to inferior performance. I suspect well over half the measures in an organization may well be encouraging unintended negative behavior. The importance of understanding this dark side and the careful selection of measures should never be underestimated. The frequency with which measures are set to fail by at best naïve or at worst corrupt management is breathtaking.

The importance of understanding this dark side and the careful selection of measures should never be underestimated. How performance measures can go wrong can be illustrated by these examples.

Example: City Train Service

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 simply to stop at the top end of each station, triggering the green light at the other end of the platform, and then to continue the journey without the delay of letting passengers on or off. After a few stations, a driver was back on time, but 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 late planes are not caused by pilots. The only way these skilled people would cause a problem would be either arriving late for work or taking an extended lunch when they are meant to be on duty.

Lesson: Management should have been focusing on controllable events that led to late trains. The measures that would assist with timely trains would include:

- Signal failures not rectified within xx minutes of being reported. These failures should be reported promptly to the CEO, who will make the phone call to the appropriate manager (receiving these calls on a regular basis would be career-limiting).
- Planned maintenance that has not been implemented should be reported to the senior management team on a weekly basis, keeping the focus on completion.

Example: Accident and Emergency Department

Managers at a hospital in the United Kingdom were concerned about the time it was taking to treat patients in the accident and emergency department. They decided to measure the time from patient registration to being seen by a house doctor. Staff realized that they could not stop patients registering with minor sports injuries but they could 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 was unable to deliver an efficient emergency service.

Lesson: Management should have been focusing on the timeliness of treatment of critical patients and, thus, they only needed to measure the time from registration to consultation of these critical patients. Nurses would have treated patients in ambulances as a priority, the very thing they were doing before the measure came into being. Far too often we do not sort out the wheat from the chaff.

Examples from Dean Spitzer's Book

Dean Spitzer's *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success*[1] has many examples of measures that have failed. Here are some of my favorite stories:

- A fast food restaurant manager was striving to achieve an award for zero wastage of chicken. The manager won the chicken efficiency award by instructing staff to wait until the chicken was ordered before cooking; the long waiting time that resulted meant a huge loss of customers in the following weeks
- A company had a 100 percent record for the timeliness of product leaving its factory, yet 50 percent of customers complained about late delivery. The reason? Nobody cared about what happened once the product left the factory gates
- 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
- Stores maintaining low inventory to get a bonus and having production shut down because of stock outs
- Experienced case workers, in a government agency, will work on the easiest cases and leave the difficult ones to the inexperienced staff because they are measured on cases closed

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

Performance-Related Pay

The biggest culprit in unintended behavior has to be around performance-related pay. Never in the history of management has so little rigor been applied in such an important area. Performance bonuses give away billions of dollars each year based on methodologies to which little thought has been applied.

Performance-related pay is broken both within the private sector and government and nonprofit agencies. Jeremy Hope puts it beautifully in this quote:

> *…But despite hundreds of research studies over 50 years that tell us that extrinsic motivation (carrot and stick financial targets and incentives) doesn't work, most leaders remain convinced that financial incentives are the key to better performance."* [2]

Jeremy Hope went on to say that performance-related pay remains one of the greatest barriers to transforming organizations.

Bonus Schemes Should Not Be Linked to KPIs

Performance-related pay schemes should not be linked to KPIs. KPIs are a special performance tool, and it is imperative that these are not included in any performance-related pay discussions. KPIs, as defined in Chapter 1, are too important to be gamed by individuals and teams to maximize bonuses. Performance with KPIs should be, as mentioned in Chapter 2, considered a "ticket to the game" and not worthy of additional reward.

Although KPIs will show how teams are performing 24/7, daily, or weekly, it is essential to leave the KPIs uncorrupted by performance-related pay. As mentioned in Chapter 2, it is a myth that by tying KPIs to pay you will increase performance. You will merely increase the manipulation of these important measures, undermining them so much that they will become Key Political Indicators.

Bonus Schemes Should Not Be Linked to the Balanced Scorecard

The balanced scorecard has been manipulated whether it is tied to annual performance bonus or not. As Spitzer says, "The ultimate goal is not the customer—it's often the scorecard." Spitzer has heard executives, when being candid, saying, "We don't worry about strategy; we just move our numbers and get rewarded."

There are a number of foundation stones that need to be laid down and never undermined when building a performance bonus scheme. These foundation stones are addressed in Appendix A: Foundation Stones of Performance-Related Pay Schemes.

Dysfunctional Performance Measures Checklist

To help assess the potential damage in your organization, I have developed a checklist (see Exhibit 3.1).

EXHIBIT 3.1 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. Does the organization believe that performance can only be achieved if there is a financial reward attached to that performance?	☐ Yes ☐ No
5. Are measures typically adopted by whoever dreams them up, without the necessity to trial them to assess their potential negative behavioral impact?	☐ Yes ☐ No
6. Are there instances where staff are asked "to force" compliance to a measure just to achieve a target even though the action may damage the organization's reputation?	☐ Yes ☐ No
7. Have you got some measures that are leading to dysfunctional behavior?	☐ Yes ☐ No

EXHIBIT 3.1 (*Continued*)

	Does it happen?
8. Have you had to remove measures due to the damage they have created?	☐ Yes ☐ No
9. Do you have measures that are solely used to make departments look good rather than the benefit they might give to the organization?	☐ Yes ☐ No
10. Do you have instances in your organization where the messenger has been shot when they report the "bad news"?	☐ Yes ☐ No
11. Do you have a history of "gaming" performance measures in the organization?	☐ Yes ☐ No
12. Do you have over 100 measures in your organization?	☐ Yes ☐ No
13. Are measures implemented without a full cost-benefit analysis performed?	☐ Yes ☐ No
14. Is there a high degree of cynicism about the effectiveness of performance measures in your organization?	☐ Yes ☐ No
15. Are the CEO and senior management team naïve when it comes to performance management?	☐ Yes ☐ No

Your score: Every yes indicates a problem.
With over five affirmatives, it may be best to put a temporary halt on using all performance measures in the organization until they have been reviewed for their damaging dark side.

Notes

1. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
2. Jeremy Hope, "How KPIs Can Help Motivate and Reward the Right Behavior," IBM white paper, 2010.

CHAPTER 4

Revitalizing Performance

Overview

Performance management has been much misunderstood, misused, and abused, thereby preventing too many organizations from reaching their potential. Before performance measures can work, an organization needs to be conversant with the foundation stones and facets of performance management. This chapter explores the foundation stones that need to be in place to revitalize performance and the various facets of performance management that need to be mastered. It goes on to answer the question "*What is more important, staff aligning themselves to their organization's critical success factors (CSFs) or having the right performance measures?*"

An accredited coach pointed out to me recently that I had not made it clear enough as to why the senior management team should be interested in performance measures.

Winning KPIs are part of the bigger picture to succeeding with performance management. I have developed a model to help organizations see where KPIs fit within the larger picture of revitalizing performance management, see Exhibit 4.1. It is my hope that this model will help identify why organizations are failing to meet their potential and why many performance-management initiatives, like the balanced scorecard, fail.

I believe that performance management has been much misunderstood, misused, and abused, thereby preventing too many organizations from reaching their potential. Before we can get performance measures to work in organizations, we need to understand considerably more about performance management.

EXHIBIT 4.1 Revitalizing Our Performance Management Model

This model is based on my current knowledge in this space and I thus apologize now to all the paradigm shifters who have been omitted through my ignorance. Your contribution will be acknowledged in future editions as my knowledge expands.

For the past 20 years I have believed that every model needs to separate out the fundamentals, the givens, the nonnegotiables from the features or facets. I currently believe there are five performance management foundation stones and over 10 facets or features (see Exhibit 4.1).

You will note that I do not consider KPIs to be a foundation stone. Rather I see the ascertaining of critical success factors and ensuring that they are conveyed to the staff and used by them to plan and execute their daily activities. Previously I have argued in "Should We Abandon Performance Measures?"[1] that it is better to remove all KPIs than it is to work with dysfunctional measures.

Five Foundation Stones

In order to succeed with any rejuvenation of performance, I recommend that you have five foundation stones in place. These foundation stones provide a sound platform from which you can juggle all the many facets of better performance (see Exhibit 4.1).

The foundation stones are so important that I can guarantee you will have limited success without them in place.

Foundation Stone 1: Applying the Traits of Winning Leadership

Any revitalization program will hinge on the effectiveness of the leadership. It is thus important to understand what makes a good leader and apply these skills and attributes.

How do you obtain the qualities and character that make people want to follow you over the top of the trenches? The answer lies in understanding and applying serving leadership which was first pioneered by Robert Greenleaf and Larry Spears in their groundbreaking book, *Servant Leadership: A Journey into the Nature of Legitimate Power and Greatness*.[2]

There are many books on leadership and you can spend your entire life reading them. But they will make you more confused than enlightened. So in my book, *The Leading-Edge Manager's Guide to Success,*[3] I created a simple model for serving leadership that can be easily understood and hopefully is straightforward to implement. It was based on my understanding of the leadership exploits of Sir Ernest Shackleton, Sir Winston Churchill, and some modern-day leaders such as Jack Welch, former CEO of General Electric.

You can access my analysis of these leaders from my website www.davidparmenter.com and you will understand why winning leadership is being "a Viking with a mother's heart."

Foundation Stone 2: Applying the Knowledge of the Paradigm Shifters (Peter Drucker, Jim Collins, Jack Welch, Gary Hamel, Tom Peters, Robert Waterman, Jeremy Hope)

Many performance management initiatives will fail simply because the organization is still wedded to antiquated and broken management systems. There have been many paradigm shifters who have for years laid out a new pathway for management. Unfortunately, for many reasons, much of middle and senior management are either unaware of the new approaches, unable to gather enough momentum to change, or simply too busy to make a change process work.

Peter Drucker is considered the father of management. His work contains many gems that have been overlooked. Alongside Drucker there are some brilliant writers like Jim Collins, Jack Welch, Gary Hamel, Jeremy Hope, Thomas Peters, and Robert Waterman who have now taken the baton. The only problem is that many of us are too busy to read and absorb their work.

The impact these great thinkers and writers can have, if one spends enough time understanding their wisdom, should never be underestimated. To assist you on your journey of discovery I have summarized some of their major lessons that relate to performance measurement and your KPIs.

Peter Drucker's Performance Management Lessons. The more I read Peter Drucker's work, the more I realize that his wisdom will transcend time. We will look at his writing the way we look at Shakespeare's work and we will say, shaking our heads, "How did he do it?"

Exhibit 4.2 provides a quick overview of some of Drucker's statements that have an impact on performance management.[4]

For management to undertake their role without an in-depth understanding of Drucker is like deciding to sail around the world with your family without having completed a harbormaster's course. Yes you can do it, yes you may arrive safely, but you have put everybody at risk.

EXHIBIT 4.2 Peter Drucker's Lessons for Performance Management

Peter Drucker's Wisdom	**Impact on Performance Management**
Know your customers. Explicitly defining customer groups is the foundation stone of an outside-in perspective. One charity Drucker noted had 46 customer segments.	This will impact measurement because we can now measure the key segments more frequently for revenue, satisfaction, growth, and so on.
Have an outside-in focus to your business. See the operation from your customers' perspective, especially the perspectives of your important customers.	Outside-in initiatives will be measured, particularly as a future-orientated measure. For example, date of next customer feedback survey. Implementation of survey recommendations being monitored weekly after the survey report is issued.
Focus on your noncustomers. Which of your noncustomers should you be doing business with?	We will need to measure the success we have in doing business with new targeted customers.
Look for opportunities as if your life depended on it. Drucker emphasized the importance of innovation.	Measurement of innovation will be very important.
Management versus Leadership. Management is ensuring that staff are doing *things right* and leadership is ensuring that staff are *doing the right thing*.	Measurement of the progress with leadership training and development will be very important.

(*continued*)

EXHIBIT 4.2 (*Continued*)

Peter Drucker's Wisdom	**Impact on Performance Management**
Recruitment is a life-and-death decision. Drucker was adamant about the significance of recruiting the right staff.	The recruiting of the KPI team should be done very carefully, ensuring they have the right mix of knowledge, experience, and credibility within the organization to be successful. Many organizations focus on "recruiting the right people all the time" as a critical success factor, and they will need to develop specific measures to track recruitment processes.
Do not give new staff new assignments. He referred to these jobs as widow makers, jobs where the incumbent did not have a chance to succeed.	In this KPI project, it is important to ensure that the project team is made up of experienced staff who know the critical success factors and the members of the senior management team. Bringing in consultants to manage the KPI project will, more than likely, lead to failure. Drucker told you so.
The scarce resource in an organization is performing people. Drucker highlighted that these scarce resources need to be specifically monitored and not taken for granted. Their goals should be challenging enough to stretch them and keep them interested.	Performance measures will be designed to monitor high performing staff.
Outstanding performance is inconsistent with a fear for failure. Without the will to take risks, to venture into the unknown and let go of the familiar past, an organization cannot thrive in the twenty-first century.	Measuring the go-forward nature of the organization and the measurement of the mistakes will flag whether we are moving quickly enough. Mistakes are seen as necessary learning experiences.

EXHIBIT 4.2 (*Continued*)

Peter Drucker's Wisdom	Impact on Performance Management
Today's advanced knowledge is tomorrow's ignorance. Drucker saw it as very important to harness knowledge in every aspect of the organization.	It is necessary to measure the extent the organization is gathering, sharing, and using knowledge.
Abandonment. Drucker said: "The first step in a growth policy is not to decide where and how to grow. It is to decide what to abandon. In order to grow, a business must have a systematic policy to get rid of the outgrown, the obsolete, and the unproductive."	Promote Peter Drucker's concept of abandonment. Many existing measures should be abandoned along with processes and reports. The KPI project needs space to work. Other systems need to be abandoned to allow enough time for the KPIs to function properly.
He also said: "Don't tell me what you're doing, tell me what you've stopped doing."	The amount of abandonment will need to be measured.
Measuring the extent of innovation and abandonment will help focus management's attention on these two important areas. Abandonment is a sign that management is recognizing that some initiatives will never work as intended and it is better to face this reality sooner than later.	
Collaborate with other organizations, even your competitors. Jack Welch turned GE into a powerhouse by striving to focus on what GE was good at. This led Welch to follow Drucker's advice on collaboration, and he pointed out that "Your back room is someone's front room." In other words, if others can do a job better than you can, subcontract to them rather than diverting energy to be good at everything, a task that is impossible to achieve.	We will need to measure the extent to which collaboration is happening. The date of the next collaboration meeting, the date of the next shared collaboration, the date of the next agreement to contract out a service can all be measured.

(*continued*)

EXHIBIT 4.2 (*Continued*)

Peter Drucker's Wisdom	**Impact on Performance Management**
Know what information you need to do your job and from whom you need it. When and how? By answering these basic questions, we can streamline much of the reporting formats, dispensing with those reports that add no value.	We can measure the reports that have been removed from circulation.
Understand the importance of self-renewal. Drucker emphasized the importance for leaders to have balance, to have interests outside the work environment that help them maintain a balanced perspective.	The chief executive officer (CEO) should monitor the extent to which the senior management team and their direct reports are investing in self-renewal.
Have three test sites. Drucker pointed out that to do one pilot was never enough.	On a KPI project, we should follow the sage's advice and pilot the KPI project in three entities.
Place people according to their strengths. Drucker was adamant that you focus on what people can do rather than focus on what they cannot do well.	The selection of the KPI team should focus on the candidates' strengths. Organizations can highlight those staff members who are not in the right place (e.g., not performing) and take action to reposition them or assist them to find the right job elsewhere.
Generate three protégés for each senior position.	Status of succession planning for all key positions should be monitored on a quarterly basis. Following Drucker, any shortage from the three protégés for each senior position should be reported as an exception once a month.

Jim Collins's Performance Management Lessons. I am a fan of Jim Collins's work. His analysis, understanding, and communication of his concepts are outstanding. His books are must-haves on the thoughtful person's bookshelf (see Exhibit 4.3).

EXHIBIT 4.3 Jim Collins's Lessons for Performance Management

Jim Collins' Wisdom	**Impact on Performance Management**
	By measuring the next occurrence of balanced feedback on key managers (360-degree feedback) we will ensure managers get appropriate feedback on their leadership.
Getting the right people on the bus. Collins emphasized the need for organizations to place more emphasis on recruiting.	The recruiting for the KPI team should be conducted carefully. Organizations can measure a manager's rate of success at recruiting. Managers who have a record of failure should be retrained or relieved of recruiting duties.
Getting the wrong people off the bus. Collins is very consistent with Drucker. Move staff on if they are a poor fit with the organization's values.	Organizations can highlight those staff members who are not in the right place (e.g., not performing) and take action to reposition them or assist them in finding the right job elsewhere.
The "hedgehog" concept. Collins points out that organizations need to know what they can be the best in the world at, what they are deeply passionate about, and what drives their economic engine. Organizations need to translate that understanding into a simple, crystal clear concept that guides all their efforts.	By understanding an organization's critical success factors and deriving performance measures from them, you will create an alignment that is consistent with Collins' thinking.

(*continued*)

EXHIBIT 4.3 (*Continued*)

Jim Collins' Wisdom	**Impact on Performance Management**
The flywheel effect. This refers to forward steps consistent with the hedgehog concept. The resultant accumulation of visible results will lead to a lineup of people energized by the results.	By measuring within the critical success factors, we will be consistent with Collins' thinking.
Big Hairy Audacious Goals (BHAGs). [a]Jim Collins and Jack Welch are at one here. They say incremental improvement will never stretch your thinking. We are asking what would we need to do to achieve this BHAG. It is not implying that falling short of the BHAG is a failure or that bonuses will not be paid.	The KPI team needs to set some BHAGs for the project that will stretch the KPI team's thinking.
The silent creep of impending doom. Collins warns us about the first stage of decline, "hubris born of success," excessive pride leading the management team down the slippery slope. An organization always needs to focus on its economic engine, make sure its flywheel is turning, and maintain a profound understanding of the fundamental reasons for success.	The highlighting of the critical success factors coupled with the KPIs will ensure the senior management team focuses on what matters to their flywheel.
Try a lot of stuff and keep what works. Collins points out that visionary companies often made their best moves not by detailed strategic planning, but rather by experimentation, trial and error, opportunism, and, in some cases, by accident. Collins compared innovation to branching and pruning. Clever gardeners let a tree add enough branches (variation) and then prune the dead wood (selection).	The CEO and senior management team need to encourage innovation. The number of innovations by teams should be measured. The benchmark is Toyota, which has an average of ten implemented innovations per employee per year.

EXHIBIT 4.3 (*Continued*)

Jim Collins' Wisdom	**Impact on Performance Management**
Risks above or below the waterline. Collins specifies that, when making decisions, you need to know if they will affect you above or below the waterline if they go wrong. Those below the waterline will obviously sink the organization. Government and nonprofit agencies are protected by their surety of annual income from the public purse and, hence, are so easily blind to these risks.	The focus on the right measures will give clarity and purpose.
Grasping for salvation. Collins points out the propensity for organizations in this stage to bring in an outside CEO to be the savior. These initiatives fail more often than they succeed. As Welch observes, to bring in a CEO from outside is a sure sign that your organization failed to nurture protégés. In the public sector, it is even worse where excellent protégés are deliberately overlooked to bring in an external person. In the private sector this stage of decline is categorized, as Collins points out, by the silver bullet, a massive merger that will turn the organization around. Naturally enough, less than one in six of these mergers ever breaks even.	It is important for all organizations to revisit their values and to include a bold statement that indicates they should develop their own leaders. The progress in this development of in-house leaders should be measured. We can also measure the number of protégés for all senior positions.

[a]Jim Collins and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies* (New York: HarperBusiness, 1994).

Jack Welch's Performance Management Lessons. Straight-talking Jack Welch and his book *Winning*,[5] co-written with Suzy Welch, is a must-read. Welch was profoundly influenced by Peter Drucker, therefore you are getting another slice of Drucker's wisdom. Welch has not held back any punches, and gets to the point effectively (see Exhibit 4.4).

EXHIBIT 4.4 Jack Welch's Lessons for Performance Management

Jack Welch's Wisdom	**Impact on Performance Management**
Candor. Welch has reinvigorated this word and placed it in front of management. He said, "It is a leader's obligation to tell their staff how they are doing and how they can improve performance in a candid way." As Welch points out, candor allows more people to participate in the conversation, generates speed, cuts costs, and encourages underperformers to reflect on their achievements and move forward or move on.	The KPI team needs to ensure that it is open and honest about performance measurement in the organization.
Jack Welch's 20/70/10 differentiation rule. Tied to candor is Welch's 20/70/10 differentiation rule. The top 20 percent of performers should be promoted into jobs that are a good fit for their strengths, assist the next 70 percent to better meet their potential, and make it clear to the bottom 10 percent that their future lies elsewhere. Good communication will see these staff members moving on to better pastures for themselves; failing that, these staff members need to be assisted in moving on.	It is important for organizations to measure the handling of poor performers. Staff in the wrong positions may be a significant issue for the organization. Organizations can measure managers' success rates at recruiting.

EXHIBIT 4.4 (*Continued*)

Jack Welch's Wisdom	Impact on Performance Management
A cluster of mentors. As Welch says, "There is no right mentor for you; there are many right mentors." He sees mentoring more holistically. A mentor can come from a staff member many levels below who passes their knowledge on to you. In *Winning*, Welch was forever grateful for the young human resources (HR) advisor who patiently helped him master e-mail.	Ensure that all KPI team members have appropriate mentor support. Measures need to be developed to monitor take-up of mentors by management and staff. First, target senior managers who do not have a mentor.
Read, read, read. Great leaders have a thirst for knowledge and are constantly looking at ways to move their learning on; they are continuously reinventing themselves. Welch was an avid reader of the financial and management press and journals. He makes it very clear that it is a leader's role to be up to date.	The KPI team will need to read the books indicated in the epilogue. Organizations can measure the extent to which the senior executives are maintaining their learning, especially the CEO.
Raise the profile of human resources in your organization. Great leaders like Jack Welch have always recognized that the human resources team are vital to the organization. At GE, the head of HR was a member of the senior management team and the team was involved in all recruiting, promoting, training, and disciplining processes.	The KPI team should work closely with the HR team. The HR team will be able to help sell the required change and get more senior managers on board. In some organizations, the balanced scorecard has been implemented by the HR team. Performance measurement initiatives will work much better with skilled HR input. Leaving human resources to a young graduate to write meaningless policy inserts for a never-read manual is a surefire way to run down an organization.

(*continued*)

EXHIBIT 4.4 (*Continued*)

Jack Welch's Wisdom	**Impact on Performance Management**
Make innovation work. Welch was a champion of innovation. He wanted innovation to be part of the culture. Workshops were held called "work-out process" where groups discussed better practices and at least 75 percent of all recommendations from the brainstorming sessions had to be given a yes or no by the manager at the close of the workshop and the remaining recommendations had a maximum 30-day gestation period before a decision had to be made. This technique forced the decision makers to apply innovation practices, which allowed for some failure but ensured much success at the same time.	Innovation needs to be measured both in the past ("How many innovations did each team do last month?") and in the future ("How many innovations will be up and running in the next two weeks, four weeks?").
Recognition and celebration. Welch says great leaders celebrate more. As he points out, "Work is too much a part of life not to recognize moments of achievement." You can sense from listening to his webcasts that his celebrations would have been fun to attend. Welch was all about making business fun. You need to realize that it is not life or death, but a game you want to win.	The KPI project team will need to be active with recognition and celebration to assist with buy-in and maintain interest and momentum. Recognition and celebration needs to be measured both in the past ("the number of recognitions and celebrations that occurred last month") and in the future ("recognitions and celebrations planned for next week, next fortnight").

EXHIBIT 4.4 (*Continued*)

Jack Welch's Wisdom	Impact on Performance Management
	Government or nonprofit agencies also need to measure the number of positive press releases printed in the papers for, as sure as night follows day, the press will have a field day on the negative events that are press worthy and happen because of the very nature of the work a government or nonprofit agency performs.
Crisis management. All exceptional leaders are great in a crisis and Welch is no exception. He had a large realism streak in his body. He would take the necessary action, face the necessary music, and move on. Welch handled each crisis on the following assumptions: ■ The crisis will be worse than it first appears. ■ The bad news will come out sometime, so may as well face the music now. ■ The situation will be portrayed in the worst possible light by the press. ■ There will be carnage. ■ His organization will survive.	It would be worth measuring the integrity gap within the organization, that is, the time between when an event is known about and when it is conveyed to the senior management team.
Setting goals that stretch (Big hairy audacious goals, as Jim Collins would say). Welch liked to see goals that were a mix of possible and the impossible. He went on to say, "Effective leaders are not	In performance measurement, it is a sure way to limit performance by linking KPIs to bonuses. The key driver here will be politics and questionable measurement practices. (See Appendix A.)

(*continued*)

EXHIBIT 4.4 (*Continued*)

Jack Welch's Wisdom	Impact on Performance Management
afraid to envision big results." By raising the bar so high that staff and management were forced to totally rethink the route plan, new ways had to be found to succeed and so often this was achieved.	
Be number one or two in the game. Welch was aware that many of GE's investments did not make sense. The answer would have been no to the Drucker question, "If you were not in the business would you enter it now?" Consequently Welch was known as ruthless for his directive of "fix it, sell it, or close it" when a business did not meet the strict criterion of being either number one or two in that particular sector.	We need to measure our success at service delivery and the amount of abandonment we are doing in those services that can be better done by other organizations.

Thomas Peters and Robert Waterman's Performance Management Lessons. Every now and again there arises a masterpiece in thought, word, and deed. *In Search of Excellence*[6] is one such masterpiece that is a must-read because it is so timeless and encompassing (see Exhibit 4.5).

Gary Hamel's Performance Management Lessons. Gary Hamel for some time has been making management think about the future. His book, *The Future of Management*,[7] has many lessons to consider (see Exhibit 4.6).

Jeremy Hope's Performance Management Lessons. Jeremy Hope for some time has been making finance teams and management think about what you need to have in place to be future ready. His book, *Reinventing the CFO*,[8] has many lessons to consider (see Exhibit 4.7).

EXHIBIT 4.5 Thomas Peters and Robert Waterman's Lessons for Performance Management

Peters and Waterman's Wisdom	**Impact on Performance Management**
Understand human motivations. In *In Search of Excellence,* Peters and Waterman go into much detail about behaviorist studies.	This book has as its foundation an emphasis on understanding human nature in order to minimize the carnage associated with performance measurement.
Importance of chaos rather than unnecessary order. Throughout the first three chapters of *In Search of Excellence* the importance of allowing overlap, internal competition, impromptu contact, while minimizing head office command and control was highlighted through the case studies quoted.	The project team needs to be wary of adopting the easier command and control approach. The KPI team must allow a fair degree of autonomy in the pilots and rollout stages so long as the foundation stones are intact.
A bias for action. The emphasis is on action, getting something into prototype, test, test, test rather than trying to second guess. The disbanding of committees that meet and do not convert anything to action is a very strong message.	The CEO should have a weekly record of the last meaningful action from every standing committee. If the last action was over six weeks ago, maybe it is time to abandon it.
Close to the customer. Being close to the customer does not only help with customer retention, it is the major source of innovation. Peters and Waterman found compelling evidence that customers are the main source of innovative ideas.	We need to measure the frequency of our interaction with customers: ■ Date of next contact with key customers. ■ Date of next customers' focus group. ■ Date of next research project into customer needs and ideas. ■ Follow-up on ideas from customers.

(*continued*)

EXHIBIT 4.5 (*Continued*)

Peters and Waterman's Wisdom	**Impact on Performance Management**
Autonomy and entrepreneurship. Peters and Waterman observed that radical decentralization and autonomy, with their attendant overlap, messiness, lack of coordination, and internal competition, were necessary in order to breed the entrepreneurial spirit and champions who were required to take risks in developing new ideas. ■ Intense communication ■ Tolerating failure ■ Internal competition ■ Promote legends ■ Absence of excessive planning and paperwork	We need to measure the speed of decentralization and empowerment until it is well and truly embedded.
Productivity through people. Peters and Waterman noted that the following were evident in the best-run organizations: ■ Unabashed hoopla ■ Internal competition ■ Family atmosphere ■ Available information ■ Trust ■ Keeping units small and fast and flexible	The KPI team will need to apply these techniques to be successful.
Stick to the knitting. Peters and Waterman coined this famous phrase, and it is consistent with Jim Collins', "hedgehog" concept.	We can measure the degree to which resources and time are directed away from the core activities, indicating a loss of focus.
Simple form, lean staff. Peters and Waterman offered the following advice: Avoid the trap of economies of scale—they seldom eventuate. ■ Avoid constantly hiving off into new divisions ■ Maintain a small corporate office ■ Keep a flatter organizational structure	We can report the levels of command, the head count of head office, and the numbers of staff reporting to managers.

EXHIBIT 4.6 Gary Hamel's Lessons for Performance Management

Gary Hamel's Wisdom	**Impact on Performance Management**
Continuous management innovation. You need to have a process for continuous management innovation to be an organization that is capable of trauma-free renewal rather than one that is moved to change through a crisis.	The KPI team needs to be very open to new management thinking and processes. It is very important that new management concepts are embraced by the project team.
Creative apartheid. Hamel points out that most human beings are creative in some sphere of their lives. The point he makes is that this creativity needs to be embraced at the workplace. He believes that creativity can be strengthened through instruction and practice, (e.g., Whirlpool has trained more than 35,000 employees in the principles of business innovation).	The KPI team must be open to new ideas during the project. Be flexible with how workshops are run, ensuring that creativity is given time to flourish.
Too much hierarchy, too little community. Hamel points out hierarchies are good at aggregating effort (coordinating activities) but not good at mobilizing effort (inspiring people to go above and beyond). The more you consolidate power in the hands of a few leaders, the less resilient the system will be.	The KPI team must promote a community feel to the project, selling the benefits through the emotional drivers and gaining credibility by abandoning process, measures, and reporting that is not delivering.

(*continued*)

EXHIBIT 4.6 (*Continued*)

Gary Hamel's Wisdom	Impact on Performance Management
Aggregate collective wisdom. Hamel points out the compelling evidence that "large groups of people are often smarter than the smartest people in them."	The KPI team should consult widely and hold sessions during each workshop to ensure an adequate chance for all to have their say. This is best done by limiting each workgroup in the workshop to no more than seven. The Internet and intranet should be used widely by the KPI team to tap into the collective wisdom within the organization.
Embrace differences. Hamel is very consistent about the need to: ■ Embrace irregular people; their irregular ideas can be very valuable ■ Look for positive deviants	The KPI team should be selected from all experienced employees. It is important to consider those employees who have always shaken the cart. They may have the X factor to make this project work.
Mission matters. The mission must be compelling enough to overcome the gravitational pull of the past and spur individual renewal.	The KPI team should ensure its mission statement is worded carefully so it will energize and assist with the selling of the winning KPI methodology.
Opt-in commitment. Hamel believes organizations should have an opt-in and self-chosen commitment.	The KPI team should have an open selection process so that a wide net is cast for the best team members. Passion for performance management will be a very important attribute to look for.

EXHIBIT 4.6 (*Continued*)

Gary Hamel's Wisdom	**Impact on Performance Management**
New management order. Hamel wants to see a new management order and the signs are there in how the Internet works. He points out that the reason the Internet is so successful is: ■ Everyone has a voice. ■ The tools of creativity are widely distributed. ■ It is easy and cheap to experiment with. ■ Capability counts more than credentials and titles. ■ Commitment is voluntary. ■ Authority is fluid and contingent on value added. ■ The only hierarchies are "natural" hierarchies. ■ Just about everyone is decentralized. ■ Ideas compete on an equal footing. ■ It's easy for buyers and sellers to find each other. ■ Resources are free to follow opportunities. ■ Decisions are peer-based.	The KPI team members should become familiar with Gary Hamel's book *The Future of Management*.

EXHIBIT 4.7 Jeremy Hope's Lessons for Performance Management

Jeremy Hope's Wisdom	Impact on Performance Management
Most systems incorrectly aim to improve top down control—rather than bottom-up.	The KPI project needs to focus on a bottom-up process.
Always use tried and tested technologies.	The KPI team should utilize only tried and tested balanced scorecard software.
Be skeptical about investing in new, untried systems	
Cut back on measurement to the point where only six or seven measures are used at every level.	Follow the 10/80/10 principle and ensure that teams do not have more than six to seven measures.
Recognize and reward shared success on relative performance with hindsight, not on meeting fixed targets.	If there is an incentives scheme, ensure that it is consistent with the foundation stones in Appendix A.
Best to have team rather than individual incentives.	
Be wary of aggressive targets and incentives. They lead to high-risk strategies and the wrong behavior.	Re-read Chapter 3 on the Unintended behavior—the dark-side of performance measures.
Avoid turning measures into targets and performance contracts otherwise they will lead to the wrong behavior.	Important to understand the issue about why a fixed performance contract is always broken. It is either too hard or too soft.
When using the balanced scorecard be careful that measures do not become an annual contract.	
Select operating measures on the basis of whether they help managers to improve the system. Measures that don't pass this test should be questioned and probably abandoned.	We need to avoid all measures that do not help improve or support a system.
Whatever you do don't make management life more complex! Avoid complex systems. Aim to simplify everything at every level.	The winning KPIs methodology follows this advice.

Foundation Stone 3: Using an Appropriate Strategy

As the Mad Hatter said in *Alice in Wonderland*, "If you don't know where you are going, any road will take you there." Peter Drucker reinforced the importance of having the right strategy for the organization—a strategy that was relevant for this Lego world we live in, a world in which independent service providers can be put together in a seamless way to the customer. He stated that there was not competition, just better solutions. Drucker saw collaboration as the key, collaboration even with an organization that was previously seen as a competitor. Jack Welch pointed out, "Your back room is somebody else's front room."

In government and nonprofit agencies, collaboration has the same barriers as in the private sector: egos and past institutional memories that seem to prohibit staff from striking effective alliances with other organizations that can perform the service better and cheaper. Drucker went on to say that an organization could achieve almost all functions from collaboration. Drucker saw only marketing and innovation as being sacrosanct in-house activities.

Setting out one's strategy is covered in Chapter 5, Strategy and Its Relevance to Performance Measures.

Foundation Stone 4: Critical Success Factors Used By Staff to Execute Their Daily Tasks

What is more important, staff aligning themselves to their organization's critical success factors (CSFs) or having the right performance measures? To me it is the CSFs as it is paramount that all staff in the organization should know what is important and thus be able to prioritize their daily activities. With British Airways it was the clarity that all operational staff had over timeliness that turned the organization around. The late plane KPI supported this clarity by targeting operational teams who had not gotten the message.

Unless this foundation stone is in place, each manager, in their own empire, will have what is important to them embedded in the way things are done. Many counterproductive activities will occur based on this false premise, that is, what is important to me is important to the organization.

For a CEO to steer the ship, everybody needs to know the journey (mission, vision, values, management principles), what makes the ship sail well (critical success factors), and what needs to be done in difficult weather (contingency planning).

(For a more detailed explanation of how an organization can find its critical success factors, see Chapter 11, Finding Your Organization's Critical Success Factors.)

Foundation Stone 5: Abandon Processes That Do Not Work

In the next few centuries, Peter Drucker will be revered in the way Leonardo da Vinci is today. He created many management and leadership principles that we forget at our peril. His concept of abandonment is the most profound of those principles. He saw abandonment as the source—the fountain of innovation. His argument was so simple: We undertake tasks, we embed processes, we attend meetings, we monitor measures, we write reports that are broken and that exist only because they were done last week, last month, last quarter.

In many organizations, we could well abandon:

- All measures and restart the exercise, basing them on the critical success factors. Some measures will no doubt be reinstated but many will remain discarded.
- Performance reports that have no relevance to the critical success factors and strategy. They are completed the same way they were done last month, and the month before with nobody reading them. Every report should have a small box on the front page explaining how it is relevant to the critical success factors and strategy of the organization.
- The balanced-scorecard application, if it is based on the cascading of measures down from an organizational measure resulting in hundreds of meaningless measures.
- A scorecard that has been proved to be dysfunctional, with many measures encouraging staff to act in a direction that is not beneficial to the organization. The scorecard can be rebuilt.
- Meetings that have become a ritual, held because they were held last week, last month, and yet the action points are never cleared. They just fall off the to-do list over time. Every meeting should have a clear statement of its purpose, a record of what it has

actioned, and the cost per hour to the organization. In one organization, the CEO would randomly interrupt meetings and ask each attendee why they were present, and what they could add. Attendees who were there to fill out the numbers were requested to get back to work. Although an extreme management practice, it had the desired impact.

- Performance-related pay where it is linked to annual targets, which will either be too easy or too hard. We should reward staff based on relative performance, a comparison to others in the organization, and to what competitors achieved. (See Appendix A for a further discourse on this important area.)
- The annual planning process is really only an annual political event serving no purpose. Visit my website to download some articles and papers to help you understand why your organization needs quarterly rolling planning.
- A dysfunctional balanced scorecard where there are hundreds of measures. The scorecard needs to be rebuilt and renamed.
- Annual performance reviews. Nobody likes receiving them, managers hate preparing them, they do not help with remuneration, and in any case, managers should be giving feedback on a regular basis—at least monthly—to their staff.

The Many Facets of Performance Management

As mentioned this is based on my current knowledge in this space and I acknowledge that readers' views will be different. I discuss the facets that need to be handled to revitalize performance management in no particular order. They have been largely influenced by the paradigm shifters already featured in this chapter.

Rejuvenating Human Resources

One of the most disconcerting departures from better practice has been the demise of the human resources (HR) team's influence in organizations. When recruitment is left to managers, chaos ensues. Jack Welch's view is that the senior HR manager should sit alongside the chief information officer and the chief financial officer, with equal standing and remuneration.

Most readers can look back to a recruitment process, which, on reflection, did not work out as well as intended. In most cases, this would have been based on interviews and references. HR practitioners have found that there is a far more effective way to recruit, starting with an in-depth focus on the job requirements and followed by behavioral event interviews, simulated exercises, and assessment centers. All this takes experienced in-house resources to manage and consequently deliver. As we all know, the cost of appointing the wrong person can be much greater than just the salary costs.

Without an active and informed HR department, an organization cannot possibly function. This situation can be no more clearly illustrated than with the process of performance management. Read Jack Welch's book, *Winning*,[9] to understand the issues.

At the center of all organizations are people practices; these are integral to all the elements of best practice. Examples of people practices that leading organization's adopt include:

- Effective, integrated top-down and bottom-up communications
- Focus on and measurement of employee satisfaction
- Training and development processes that promote career paths (including mentorship programs, empowerment programs, leadership training, running in-house development centers, etc.)
- Excellent occupational health and safety practices
- Focus on internal (and external) customers
- Innovative staff recognition systems (including CEO success express weekly newsletters, CEO awards)
- Focus on daily innovation at the workplace (e.g., doing what we do better every day)
- Performance-based remuneration that relies on relative measures rather than performance against an annual fixed target
- Migration away from the classic annual or half-yearly staff performance review cycle, which is cumbersome, expensive, and too late to be of any use
- Trusting your employees to do the right thing and therefore remove unnecessary controls such as expense claim approvals, having a holiday policy. (Netflix, in an *HBR* article, points out that their employees should take the holidays they need to be

refreshed so they can exceed expectations. In Netflix average performance leads to an amicable exit.) Read Jeremy Hope's *Reinventing the CFO*[10] to better understand why command and control does not work.

Performance-Related Pay: Correcting the Errors

Never in the history of management has so little rigor been applied in such an important area. Performance bonuses give away billions of dollars each year based on methodologies to which little thought has been applied. Who are the performance bonus experts? What qualifications do they possess to work in this important area other than prior experience in creating the mayhem we currently have?

When one looks at the skill base of compensation experts, one wonders why they get listened to in the first place. Which bright spark advised the hedge funds to pay a $1 billion bonus to one fund manager who created a paper gain that never eventuated into cash? These schemes were flawed from the start; "super" profits were being paid out, there was no allowance made for the cost of capital, and the bonus scheme was only "high side" focused.

There are a number of foundation stones that need to be laid down and never undermined when building a performance bonus scheme. These foundation stones are addressed in Appendix A.

Reviewing an Individual's Performance

This is a more informal weekly or monthly activity, and not an overly structured and time consuming once-a-year or half-yearly process. Many writers have pointed out that the performance review monster needs to be put down humanely. In its place, we need to put a better or more robust system. I have looked at managing staff in my book entitled *The Leading-Edge Manager's Guide to Success*.

Getting the Right People on the Bus

Why do we accept jobs we never should have or appoint staff who started to fail from week one?

Drucker saw recruiting as a life and death decision, which should be taken with great care. When discussing recruiting issues with managers, I like to reinforce the importance of recruitment and promotion. Get it right, and you have laid a "clutch of golden eggs," get it wrong, and you have a disaster affecting the whole team for months.

You simply either spend 40 hours at the top of the cliff or 400 hours at the bottom with the casualty and its impact on the rest of the team.

In Jim Collins's *Good to Great,*[11] an important factor was that great organizations "get the right people on the bus."

Jack Welch embedded a culture of careful selection, and GE became expert at selecting quality candidates from the army and less well-known colleges and universities. Welch did not subscribe to the theory that the best candidates were in the Ivy League business schools. He looked at the attributes the individual would bring to the organization rather than the circumstances attributed to giving the applicant the Ivy League business school opportunity.

Welch saw recruiting or promotion activity as among the most important things you ever do. He said that it was important to get "into the candidate's skin" to find out what they were really made of, to find out if they had a passion for the business, and what their values really are. It was deemed imperative that the applicant's values be consistent with the GE values.

This is so fundamental to performance measurement that I would argue if you have the wrong staff on board, you will never get your measures to work.

To assist you with recruiting, I have set out in Appendix B the necessary questions you need to ask to ascertain whether there is an appropriate fit.

Jack Welch's 20/70/10 Rule

Jack Welch's 20/70/10 differentiation rule caused a huge furor when he first talked about it. It was thought to be very politically incorrect. As mentioned earlier, he believes that in every team you have 20 percent of high performers, 70 percent of good solid people, and 10 percent who never should have been employed. The 10 percent employees do not have the skills or the passion to succeed in the organization.

To reiterate Welch's point: Promote your top 20 percent of performers into jobs that are a good fit for their strengths, assist the next 70 percent to better meet their potential, and make it clear to the bottom 10 percent that their futures lie elsewhere. Welch points out, why make these staff members redundant, as this act costs the organization and rewards poor performance. Instead tell the person, "We made a mistake recruiting you, and you made a mistake joining us. You deserve to work in an environment where you are passionate about what you do and where you can succeed." With this candor and open communication, it is likely that these staff members will want to move on to better pastures for themselves.

I place this 20/70/10 differentiation rule so highly because, in every organization, mistakes are made in recruitment. The issue now is how you deal with it. Performance management can never work if you have staff members who are not passionate about their work, are not respected by their managers, and who would leave if a better position was available. Applying this rule will help focus staff recruitment within the organization.

I recommend that you listen to Jack Welch describe his differentiation rule on YouTube.

Practices from High-Performing Teams

We can all learn so much from replicating the practices of those gifted managers who have transformed performance. Many better practices are discussed in the books by Welch, Collins, Peters, Waterman, and Hamel. These books have been analyzed in this chapter.

Many of the leadership traits featured in these books can be implemented in a short timeframe, as long as you are consistent with the implementation and lock in the changes, once a week over a 13-week period.[12]

Leading Change Successfully

In 1996, John Kotter published *Leading Change,*[13] which quickly became the seminal work in the change management space. He pointed out, as we already know, that effecting change—real change—transformative change—is hard. In his work he had an eight-stage process of creating major change, a clear map to follow when faced with influencing an organization to move.

The eight-step process is discussed in Chapter 10.

Modified Balanced Scorecard approach

Right from the start, organizations around the world were quick to see the benefits of Kaplan and Norton's[14] groundbreaking methodology, the balanced scorecard. The balanced scorecard methodology brought to management's attention the fact that strategy had to be balanced, needed to be implemented, and performance should be measured using a more holistic approach.

The balanced scorecard will be with us for centuries to come. We just need to make it work better. I see my methodology underpinning the work of Kaplan and Norton rather than undermining it.

Toyota's 14 Management Principles

Where does one start? We start with what I believe to be the greatest company in the world. Toyota has understood the basics of running a multinational business and it is able to embed its culture in all countries it operates within. Its Kentucky plant exceeded all Toyota expectations with its acceptance of the Toyota way.

Toyota's 14 management principles should be adopted by all organizations who want to be future ready. They would make a profound impact on the organizations benefiting the staff, management, board/government agencies and, of course, the public they serve. These 14 management principles have been well-analyzed in Jeffrey Liker's book *The Toyota Way*[15] and are set out in Exhibit 4.8.

Implementing Winning KPIs

By not placing KPIs in the foundation stones I am saying that the critical success factors are a more fundamental driver of performance than KPIs. In chapter 7 and 11 I point out that it is the critical success factors that are the source of performance measures. The use of KPIs

EXHIBIT 4.8 Toyota's 14 Management Principles

Philosophy	Principle 1: Base your management decisions on a long-term philosophy, even at the expense of short-term financial goals.
Process (Eliminate Waste)	Principle 2: Create continuous process flow to bring problems to the surface.
	Principle 3: Use "pull" systems to avoid overproduction.
	Principle 4: Level out the workload (*Heijunka*).
	Principle 5: Build a culture of stopping to fix problems, to get quality right the first time.
	Principle 6: Standardized tasks are the foundation for continuous improvement and employee empowerment.
	Principle 7: Use visual control so no problems are hidden.
	Principle 8: Use only reliable, thoroughly tested technology that serves your people and processes.
People and Partners (Respect, Challenge, and Grow Them)	Principle 9: Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others.
	Principle 10: Develop exceptional people and teams who follow your company's philosophy.
	Principle 11: Respect your extended network of partners and suppliers by challenging them and helping them improve.
Problem solving (Continuous Improvement and Learning)	Principle 12: Go and see for yourself to thoroughly understand the situation (*Genchi Genbutsu*).
	Principle 13: Make decisions slowly by consensus, thoroughly considering all options and then implement the decisions rapidly.
	Principle 14: Become a learning organization through relentless reflection (*Hansei*) and continuous improvement (*Kaizen*).

should be to support staff to focus on the organizational CSFs and to highlight outstanding and inferior performance.

The great power of performance measures can only be successfully unleashed if you understand what they are, where they come from, and ensure the senior management team lives and breathes them. The rest of the chapters of this book address why and how you implement winning KPIs.

Quarterly Rolling Planning

As mentioned in Chapter 3 on the myths of performance measurement, setting an annual performance agreement is doomed to failure. One of the most significant breakthroughs in performance management has been the realization that planning should be done on a quarterly rolling basis rather than on the traditional annual cycle as set out in Exhibit 4.9. In this process, each quarter in the second week of the third month (June, September, December, and March in this example) management is asked:

- What are your goals for the next quarter?
- What resources do you really need to achieve these goals?
- What resources might you need for quarters two, three, four, five, six?

Each quarter, before approving the next quarter's targets and funding, the senior management team and board forecast the bigger picture six quarters out. While firming up the short-term numbers for the next three months, each forecast will also update the annual forecast. Budget holders are encouraged to spend half the time on getting the details of the next three months right, because these will become targets, on agreement, and the rest of the time on the next five quarters. Each quarter forecast is never a cold start because budget holders have reviewed the forthcoming quarter a number of times. Provided appropriate forecasting software is available, management can do its quarterly forecasts very quickly; it takes one airline three days! The overall time spent in the four quarterly forecast updates should be no more than five weeks.

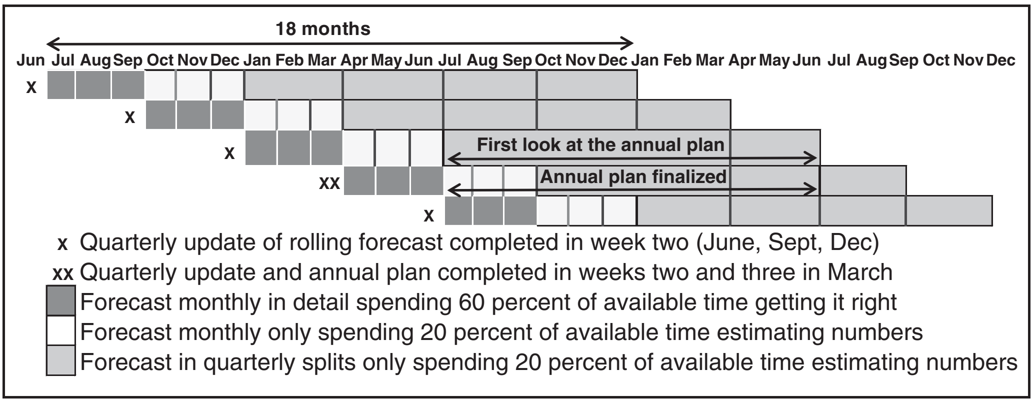

EXHIBIT 4.9 The Quarterly Rolling Planning Process

Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices*, copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

Most organizations can use the cycle set out in Exhibit 4.9 if their year-end falls on a calendar quarter-end. Some organizations may wish to stagger the cycle, say May, August, November, and February.

This quarterly rolling planning is so important I recommend that you visit www.qrf.david.parmeter.com to read some of my articles and papers on the topic.

Reporting Performance

Many management reports are not management tools; they are merely memorandums of information. As a management tool, management reports should encourage timely action in the right direction. Organizations need to measure and report on those activities on which the board, management, and staff need to focus. The old adage, "What gets measured gets done," is still true.

For management reporting to become a management tool, monthly reporting must be combined with daily and weekly reporting. It is of little help to tell the senior management team that the horse has bolted halfway through the next month. If management is told immediately that the stable door has been left open, most management will take action to close it.

Decision-based reporting has a profound impact on the KPI reporting, which needs to be timely, brief, and informative.

Reporting performance requires that we have an understanding of the rules surrounding data visualization—the method by which we make information useable for the reader.

Data visualization is an area that is growing in importance. No longer is it appropriate for well-meaning accountants and managers to dream up report formats based on what looks good to them. There is a science behind what makes data displays work. The world expert on this is Stephen Few who has written the top three bestselling books on Amazon in this field.[16]

A must visit for all people involved in report design is Stephen Few's company website where he has lodged many high quality white papers on the topic of graphical displays (www.perceptualedge.com/articles). Good books to access are Edward R Tufte's *The Visual Display of Quantitative Information*[17] and Stephen Few's *Information Dashboard Design: Displaying Data for At-a-Glance Monitoring*.[18]

Outside-In View

We cannot hope to get performance right if we do not have the Peter Drucker outside-in view of your business.

Drucker made it clear that leaders need to look at their organization from outside-in. His work in this area is beautifully summarized in a book called *The Definitive Drucker*.[19] He said that chief executive officers needed to define their business from the customer perspective. They have to be aware of all the noncustomers out there, asking "How could we tap that potential?"

Drucker commented that great organizations would ensure that the senior management team spent some time each year directly interfacing with the customer (e.g., having a week where they serve customers as frontline workers). One great CEO I have met, George Hickton, has used this technique in every organization he has led. After the hands-on week, the senior management is refreshed, more aware of the silly bureaucracy that is getting in the way, and is a much tighter-knit team. Drucker singled out Jack Welch as an example of a great outside-in leader.

Drucker was adamant that leaders must constantly look into the future from the customers' perspective, thus ensuring that CEOs would be quicker to realize when cash-cow businesses were in decline.

Organizations all face times when change is catastrophic; change suddenly comes with a factor-10 force. During these times, great leaders have seen the warning signs, made the painful decisions to ditch once successful businesses, and refocused into new business areas where they can once again be a market leader. One great book on the topic is Jim Collins's *How the Mighty Fall*.[20]

Adopting *Kaizen*

Although *Kaizen* was covered in the 14 Toyota principles, discussed earlier, it is so important to organizations that it is separated out in this model. *Kaizen* should be a way of life for staff in every organization. It is the acceptance that everything we do each day can be improved if you put your mind to it.

In many organizations, far too often innovation is stifled. Young bright graduates are trained to stop challenging the system and follow what we have done for the last decade.

The cost of this lost opportunity to change is immense. The lack of *Kaizen* is costing the public purse billions. Management would be mortified if they knew their reluctance to embrace innovation means fewer roads, fewer hospitals, fewer operations, and so on.

Working Smarter Not Harder

There is no point in having all the foundation stones in place and then having an office environment in which bad practices absorb too much time. These bad practices were featured in my management book[21] and include:

- Not adopting action meetings—a new revolution in how to handle meetings.
- Scheduling meetings in the mornings, the most productive time in the day, when many could be held in the afternoon.
- Trying to sell change by logic instead of the emotional drivers of the audience.
- Not putting enough weight behind a mentorship program—frequently where they are present they are failing through lack of nourishment.
- Limiting performance feedback for the staff to the formal process that occurs once or twice a year. Management is a process that is 24/7, so staff recognitions should be given when good performance is noted and reprimands handled swiftly, ending on a positive note as prescribed by the *One Minute Manager*.[22]
- Making work a burden instead of fun. Typically, the main culprit is not celebrating achievements enough. As Jack Welch says, "Work is too important a part of life not to celebrate achievements when you have them."
- Lack of collaboration both internally and externally. This has been covered in Drucker's wisdom earlier in this chapter.

Getting Technology to Deliver

There is a major issue with technology and applications. The issue is that applications are being delivered by very clever young staff who have never operated in business. I call them freshly-minted MBAs.

Jeremy Hope, coauthor of *Beyond Budgeting*,[23] points out that of the millions spent on systems, where is the paperless office?

Toyota, the cautious and thinking company, interestingly enough has avoided the major technology mistakes of other large organizations. They have a principle:

> *Toyota Principle 8: Use only reliable, thoroughly tested technology that serves your people and processes.*

This has meant they are naturally skeptical about new systems and their claims until they have seen them working elsewhere and then they improve the system to fit the Toyota way. This principle based on caution has enabled Toyota to ensure that technology, when implemented, will deliver.

Moving from Management to Leadership

As Peter Drucker said, "Management is about doing things right and leadership is about doing the right things." To revitalize performance management in an organization, there has to be a massive switch in thinking. We need the organization to invest in their leaders, ensuring that they have the training and opportunity to grow, that they work in an environment in which mistakes are seen as a learning experience rather than as a reason for a reprimand, and that they have created a place where they breed the chief executive officers of the business.

Organizations that consistently recruit their CEOs externally are saying we have failed. In my view any board that presides over this catastrophe should step down. They have failed the very basic 101 test: How to grow leaders.

Notes

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CHAPTER 5

Strategy and Its Relevance to Performance Measures

Overview

"What is the purpose of performance measurement? Is it to monitor the implementation of strategic initiatives or as I believe, to help the workforce focus on the critical success factors of the business, day-in and day-out? In this chapter the linkage between strategy, critical success factors and performance measures will be shown. The difference between mission, vision, values, and management principles will be clarified. The need for a concise strategy that is clear and can be easily communicated is emphasized. The difference between "business as usual" and "new business" initiatives is clarified.

Strategy is the way an organization intends to achieve its vision. In a competitive environment, your strategy will distinguish you from your competition. In the public sector, your strategy determines the way you can best marshal your resources to achieve desired outcomes.

An organization's strategy is related to performance measures through a series of linkages as shown in Exhibit 5.1.

I have seen far too many strategic plans go nowhere quickly. I often mention that if you suffer from insomnia, read the first page of your organization's strategic plan and you will be asleep by the second page. Many organizations could inflict damage on their major competitor if they planted an original copy of their organization's strategy into the competitor's possession. Because, as night follows day,

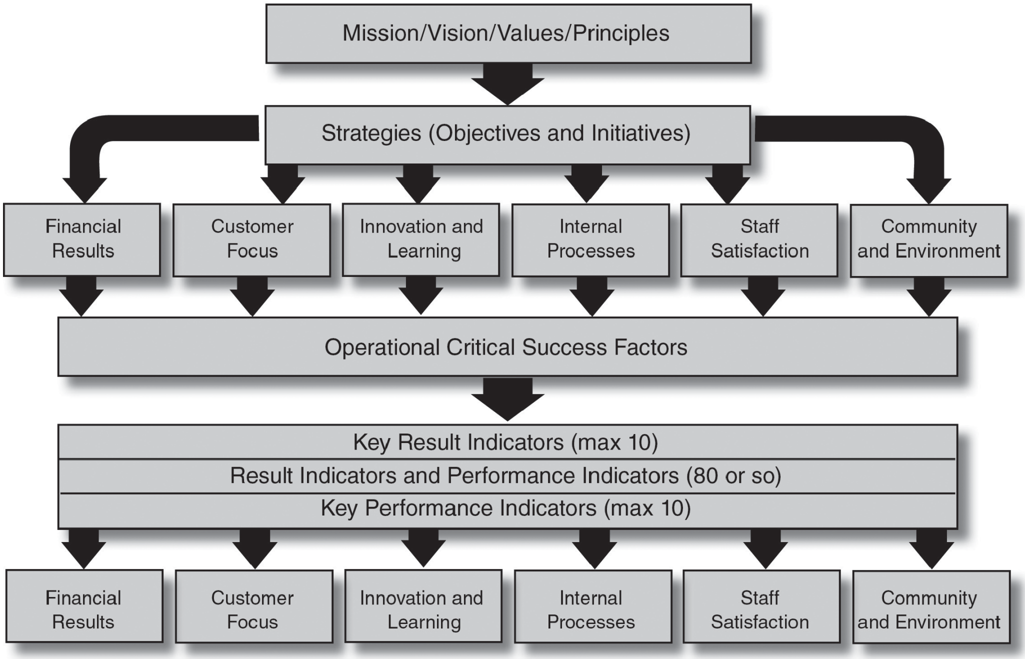

EXHIBIT 5.1 Linkages between Strategy, Critical Success Factors, and Performance Measures

the organization will be miles away from the intended route set out in the strategy, and thus the competitor's reactive initiations will be in the wrong direction.

Articulate Your Organization's Mission, Vision, Values, and Lean Management Principles

Few organizations have spent enough time communicating their mission, vision, values, and management principles to their staff. Understanding the differences among a mission, vision, values, and strategy is vital. To aid clarity in this area, I offer you the simple definition that I first saw in Paul Niven's book on the balanced scorecard.[1]

The *mission statement* defines the core purpose of the organization, its reason for being. The mission is like a timeless beacon that may never be reached (e.g., a multinational in the entertainment business has a mission "to make people happy," and 3M's mission is "to solve unsolved problems innovatively"). A mission statement can remain the same for decades if crafted well. However, I do understand that many consider the vision as a driver of the mission rather than a subset of the mission. As long as there is an agreed definition and one is a subset of the other, it is of little consequence. It is important to make the mission statement a customer-centric statement. As Drucker[2] said, "An organization exists for its customers. Far too many organizations have grand mission statements that are so internally focused that one wonders as to whether they intend to have any customers. Many organizations with this internal focus eventually do not exist."

The *vision* outlines what the organization wants to be by a certain time frame. A vision statement is more specific in terms of both the future state and the time frame. A vision describes what will be achieved if the organization is successful. The vision can galvanize your organization if it is stated with enough clarity, is time bound, and is supported continually by the senior management team. There are some very famous visions, most notably John F. Kennedy's when he said, "I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth." This simple statement galvanized the U.S. scientific community and the management and staff of organizations in a herculean effort to achieve this vision. From the moment it was spoken, NASA experts began to plan how the millions of essential building blocks required to achieve this vision needed to combine together.

The *values* are what your organization stands for: "We believe … ". Barclays Bank after a series of incidents has launched a Transform Program with values at its center. In a leading edge "Purpose and Values" section of their website[3] they have stated that "Only a business driven by strong values can deliver strong, sustainable returns." The chief executive, Antony Jenkins, has stated that "For values to have true meaning, employees need to live and breathe them." Their values are *Respect, Integrity, Service, Excellence* and *Stewardship*. With the passing years, I have realized that the organization's values are paramount. You can train a recruit to do many things; however, it is very difficult to change their embedded values. Eminent organizations are very effective at recruiting staff who have the same values as the organization. They get the right people "on the bus" and assist the wrong people to get "off the bus." The *lean management principles* are used by visionary organizations to create a learning culture in their adoption of lean management. Lean management principles are sadly lacking in most organizations. They are most evident in lean organizations, in particular Toyota. Jeffrey Liker, in his book *The Toyota Way,* analyzes the 14 management principles of Toyota, and they have almost a values context to them. However, so as to not cloud the issue, I now believe they are different from values as defined earlier, albeit they do impact the culture of the organization. The 14 principles are set out in Exhibit 4.8 in Chapter 4.

Toyota's 14 lean management principles should be embedded in all private, government, and nonprofit agencies as best they can. They would make a profound impact on the organizations, benefitting the staff, management, board, and customers.

Create a Strategy That Is Understood by Staff

Organizations are waking up to the fact that strategic planning processes must be much more inclusive if your organization is to reap benefits. Staff members need to understand the organization's mission, vision, values, and strategy if they are to be "fast, focused, and flexible," says Bruce Holland,[4] a respected New Zealand strategic planner and communicator.

Holland strongly advocates that, "If you have done your job properly, you should be able to rip up the final document, as staff and management have the linkage imprinted in their memory." Achieving this level of understanding is much quicker and easier than most managers and CEOs believe. Getting people throughout the organization involved can generate high levels of understanding, energy, goodwill, and commitment.

The great management writers, such as Jim Collins, Tom Peters, Robert Waterman, Gary Hamel, and Jack Welch, have pointed out that prominent organizations are not great because they have the largest strategic plan. In fact, it is quite the reverse; the poorly performing organizations are the ones that spend the most time in strategy and the dreaded annual-planning process.

The people commonly involved in strategic planning, from my observation, would make any task complicated. The organizational strategy and strategic initiatives are left to die in a bulky strategic plan that has been beautifully written by the senior managers who have come fresh out of their MBA program.

Jack Welch in his must-read book *Winning*[5] points out that the yearlong studies with scenario planning and massive reports are a thing of the past. He advises, "When it comes to strategy, ponder less and do more." To come up with the big "Aha" for your organization you need to answer these questions:

1. What does the playing field look like now?
2. What has the competition been up to?
3. What have we been up to?
4. What's around the corner?
5. What's our winning move?

Welch made General Electric subsidiaries fit their strategy on five slides. Their resulting strategy was understandable by all. I call it passing the "14-year-old" test. See Exhibit 5.2 for an extract of two of the slides. I have created a template strategy presentation based on Jack Welch's five slides and two important concepts from Jim Collins (the hedgehog and flywheel concepts). This template is part of the electronic media that can be acquired with this book (see www.davidparmenter.com).

EXHIBIT 5.2 Extract from the Strategy Slides Available in the Electronic Media

What the playing field looks like now (competitor analysis/market share)

Competitors	**Global Share**	**Market #1**	**Market #2**
Us			
Competitor #1			
Competitor #2			
Competitor #3			
New Entrants	**Global Share**	**Market #1**	**Market #2**
New entrant #1			
New entrant #2			
New entrant #3			

What the playing field looks like now #2 (What are the characteristics of this business?)

Main Products	**Commodity/ High Value**	**Long/Short Cycle**	**Position on Growth Curve**	**Main Drivers of Profitability**

Ensure That Your Strategy Is Balanced

In their groundbreaking book *The Balanced Scorecard,*[6] Kaplan and Norton pointed out that strategy has to be balanced and the strategic initiatives reflect this balance. They observed that many strategies were not "balanced" because they do not map to all the balanced-scorecard perspectives. As mentioned in Chapter 2, it is a myth to believe that there are only four balanced-scorecard perspectives, as six balanced-scorecard perspectives provides a much better balance.

In Exhibit 5.3, the organization's strategies only map to five of these six perspectives; therefore, staff do not need to link to the environment

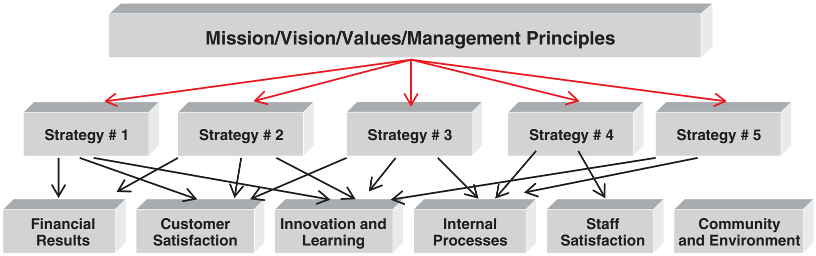

EXHIBIT 5.3 Mapping Strategies to the Six Balanced-Scorecard Perspectives

and community perspective in order to be compliant with the organization's strategy. This is clearly an unsatisfactory result.

Monitor Implementation of Your Strategy

As an observer of strategy implementation, I make the following observations: There are two types of strategic initiatives—those initiatives that improve *business as usual* and those initiatives that will create *new business*. We monitor and report them separately because they are implemented differently.

The *business-as-usual* strategic initiatives need to be communicated to staff so they understand and implement them. The *business-as-usual* strategic initiatives are in total alignment with the organization's critical success factors and thus can be monitored through measures that track the adherence to the CSFs.

New business strategic initiatives are frequently run by small teams reporting directly to the CEO, and there is limited knowledge of the activities because some are highly confidential. These *new business* strategic initiatives do not require performance measures as they can be monitored and managed using project management methods.

Here lies an important point: What is the purpose of performance measurement? Kaplan and Norton see the primary purpose of performance measures as the need to monitor the implementation of strategic initiatives. I, however, believe that 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.

I see the critical success factors as more fundamental to a business than its strategy. An organization can still succeed without a well formulated strategy, and many do. Many strategies are often a set of words, as Shakespeare once said, "full of sound and fury signifying nothing."

If an organization does not regularly report its progress against strategy, you may as well have played golf at the strategic-planning retreat.

In Exhibit 5.4, I set out a report format to help you report progress on a monthly basis against the strategic objectives/themes and the initiatives within them. The report would be tabled to the senior

● Warning: little progress made
◐ Some progress but behind schedule
○ On track or finished

Progress Against Strategy
Status as of May 31, xxxx

		Status	Comments (state action that is planned to happen if status is "amber or red")
	Strategy A xxxxxxxxxxxxxxxxxxxxxxx		
A1	Initiative xxxx xxxx xxxxxxx xxx xxx	○	Completed in third week of May
A2	Initiative xxxx xxxx xxxxxxx xxx xxx	●	xxxxxxxxxx xxxxxxx xxxx xxx xxxx xxxxx xxxx xxxxxx xxxxxxxx xxxx xxxx x xxxxxx x xxxxxx xxxxxxxx xxxx xxxx
A3	Initiative xxxx xxxx xxxxxxx xxx xxx	◐	xxxxxxxxxx xxxxxxx xxxx xxx xxxx xxxxx xxxx xxxxxx xxxxxxxx xxxx xxxx x xxxxxx x xxxxxx xxxxxxxx xxxx xxxx
	Strategy B xxxxxxxxxxxxxxxxxxxx		
B1	Initiative xxxx xxxx xxxxxxx xxx xxx	◐	xxxxxxxxxx xxxxxxx xxxx xxx xxxx xxxxx xxxx xxxxxx xxxxxxxx xxxx xxxx x xxxxxx x xxxxxx xxxxxxxx xxxx xxxx
B2	Initiative xxxx xxxx xxxxxxx xxx xxx	○	Completed in March
B3	Initiative xxxx xxxx xxxxxxx xxx xxx	○	On track, completion date mid Sept
	Strategy C xxxxxxxxxxxxxxxxxxxx		
C1	Initiative xxxx xxxx xxxxxxx xxx xxx	○	Completed in third week of May
C2	Initiative xxxx xxxx xxxxxxx xxx xxx	◐	Completed in third week of May
C3	Initiative xxxx xxxx xxxxxxx xxx xxx	○	On track, completion date end Dec
	Strategy D xxxxxxxxxxxxxxxxxxxxxxx		
D1	Initiative xxxx xxxx xxxxxxx xxx xxx	●	xxxxxxxxxx xxxxxxx xxxx xxx xxxx xxxxx xxxx xxxxxx xxxxxxxx xxxx xxxx x xxxxxx x xxxxxx xxxxxxxx xxxx xxxx
D2	Initiative xxxx xxxx xxxxxxx xxx xxx	◐	xxxxxxxxxx xxxxxxx xxxx xxx xxxx xxxxx xxxx xxxxxx xxxxxxxx xxxx xxxx x xxxxxx x xxxxxx xxxxxxxx xxxx xxxx
D3	Initiative xxxx xxxx xxxxxxx xxx xxx	○	Completed in third week of May

EXHIBIT 5.4 Report Format to Help You Report Progress, on a Monthly Basis, against the Strategic Objectives
Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices*, copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

management team and use a simple icon to signal current status such as a simple traffic light display.

Creating the Future

Executives need to be fully conversant with the thoughts of Peter Drucker, Jim Collins, Gary Hamel, and Jack Welch about how they should go about creating their organization's future. (Some of their relevant thinking has been addressed in Chapter 4.)

Exhibit 5.5 will help you spend more time creating your organization's future.

EXHIBIT 5.5 Steps to Help Implement Strategy

	Actioned
1. Find your organization's critical success factors in a two-day in-house workshop.	☐ Yes ☐ No
2. Hold a strategic think tank facilitated by a strategy expert.	☐ Yes ☐ No
3. Hold a training session to cover the thinking of Drucker, Collins, Welch, Peters and Waterman, and Hamel.	☐ Yes ☐ No
4. Jeremy Hope, Read Chapter 11 on strategy in Jack Welch's book *Winning*.	☐ Yes ☐ No
5. Read Chapters 4 and 5 in Jim Collin's *Good to Great*.	☐ Yes ☐ No
6. Have a road show to explain the critical success factors and the "business as usual" strategy to staff.	☐ Yes ☐ No
7. Create a weekly and monthly monitoring regime to ensure that strategic initiatives are implemented.	☐ Yes ☐ No
8. Find your KPIs to lock in a 24/7 daily adherence to the critical success factors.	☐ Yes ☐ No
9. Schedule a "blue sky" morning, once a week, once every two weeks, of four to five hours in a quiet space free from phones, emails, and meetings where all you dwell on is the future.	☐ Yes ☐ No
10. Meet with your mentor once a month to look into the future.	☐ Yes ☐ No

Notes

1. Paul R. Niven, *Balanced Scorecard: Step-by-Step for Government and Nonprofit Agencies* (Hoboken, NJ: John Wiley & Sons, 2008).
2. Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
3. http://www.barclays.com/about-barclays/barclays-values.html
4. Bruce Holland has a very insightful newsletter accessible from www.virtual.co.nz/index.php/StrategicSnippets/StrategicSnippets
5. Jack Welch with Suzy Welch, *Winning* (New York: HarperBusiness, 2005).
6. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business Press, 1996).

PART II

Winning KPI Methodology

CHAPTER 6

Background to the Winning KPI Methodology and Its Migration

Overview

Organizations often begin to develop a KPI system by immediately trying to select KPIs without the preparation that is indicated in the six-stage implementation plan. This chapter outlines the migration from my earlier twelve-step model to a six-stage model and provides an overview of the six stages.

Many organizations that have operated with key performance indicators (KPIs) have found the KPIs made little or no difference to performance. In many cases this was due to a fundamental misunderstanding of the issues. Organizations often begin to develop a KPI system by immediately trying to select KPIs without the preparation that is indicated in the six-stage implementation plan. Like painting the outside of the house, 50 percent of a good job is in the preparation. Establishing a sound environment in which KPIs can operate and develop is crucial. Once the organization understands the process involved and appreciates the purpose of introducing KPIs, the building phase can begin.

The Original 12-Step Process

In the first two editions of my KPI book I talked about a 12-step process that should be put into an organization with over 500 FTEs within a 16-week timeframe (see Exhibit 6.1). I also gave a shorter version

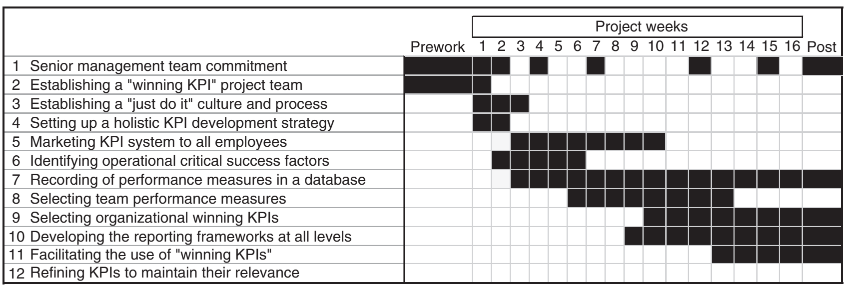

EXHIBIT 6.1 Twelve-Step Implementation of 16-Week Timeline

with a six-week time frame for organizations with fewer than 200 FTEs where there is a motivated CEO and senior management team.

The New Six-Stage Process

I was asked by clients to further simplify the process, and I used the pretext of the third edition to rethink the approach to make it more user-friendly. The new model incorporates the twelve steps in a six-stage process (see Exhibit 6.2).

Winning KPI Methodology and Its Migration

The implementation difficulties were first grasped by a key performance indicator (KPI) manual developed by the Australian Government Department "AusIndustries" as part of a portfolio of resources for organizations pursuing international best practices. This book has adopted many of the approaches of the KPI manual, which was first published in 1996. The KPI manual was the first book to recognize that:

- A project needs foundation stones. There were originally four and these have now increased to seven.
- There are 12 important steps. These were adopted in the first two editions of my book. However, under pressure from readers to further simplify them, I have thus compacted them into six stages, albeit the steps still exist in their entirety.
- You need to sell the change through the hearts and minds. I have further developed the sales process, as many readers have found their knowledge gap too large in this area.
- The critical success factors are the key driving force behind performance measures. This has been further refined with the branding of operational critical success factors.
- KPIs are at the workface, operational with a large focus on the customer.
- Readers need templates to move forward swiftly. This edition continues the tradition of endeavoring to second-guess all the main templates a project team would need.

Stage	Steps		Prework	1	2	3	4	5	6	7 to 11	12 to 16	Post
				Project weeks								
1	1,4	Getting the CEO and senior management committed to the change	■	■			■		■			
2	2,3	Up-skill in-house resources to manage the KPI project			■	■	■	■	■		■	■
3	5	Leading and selling the change	■	■	■	■	■	■	■	■	■	■
4	6					■	■					
5	7,8,9						■	■	■	■	■	■
6	10,11,12	Get the measures to drive performance									■	■

Note: The blocks indicate the elapsed time not actual time taken.

EXHIBIT 6.2 Twelve Steps Merged into a Six-Stage Process

An Overview of the Six Stages

Before readers venture into the detail, I wish to overview the six stages that are described in the following six chapters:

The Six Stages	Outline
1. Getting the CEO and senior management committed to the change	The senior management team must be committed to developing and driving through the organization KPIs and any balanced scorecard that includes them. In addition, timing is everything. This project has to find a suitable window where the senior management team will have time to commit to the change process. This chapter outlines the steps required in this stage and provides suggested templates to assist the KPI project team on the journey.
2. Up-skill in-house resources to manage the KPI project	The success of a KPI project rests with trained home-grown staff who have been reassigned so that they are full time on the project. The chapter covers the importance of selecting an in-house person to lead the KPI team (chief measurement officer), the reasons why an external recruitment to run the KPI team is doomed to fail, the training that will be required, and the need for a "just do-it culture" in the KPI team. There are numerous templates to assist the KPI team on their journey.
3. Leading and selling the change	All major project implementations are deeply affected by the success or failure in leading and selling the change. This chapter outlines John Kotter's model of leading change, emphasizes the importance of selling by emotional drivers of the intended audience, and sets out the steps required in this stage, and provides suggested templates to assist the KPI project team on the journey.

(*continued*)

The Six Stages	Outline
4. Finding your organization's operational critical success factors	Critical success factors (CSFs) are operational issues or aspects that need to be done well day-in and day-out by the staff in the organization. This chapter looks at the differences between CSFs and external outcomes, highlights the importance of the CSF by indicating that it is a missing link in management theory, explains that an organization has typically five to eight CSFs, and shows how CSFs are the origin of all performance measures. This chapter goes on to outline the four tasks involved in identifying the operational CSFs and provides a toolkit with all the necessary exercises to help the in-house team get started.
5. Determining measures that will work in your organization	Many performance measures are created from a flawed process. Numerous methodologies, including the balanced scorecard, appear to simply say the measures are a by-product of the exercise. Frequently the task of finding measures is carried out at the last minute by staff who do not have a clue about what is involved in finding a measure that will create the appropriate behavioral response. This chapter looks at common reasons why organizations get their measures radically wrong, how to design appropriate measures, the need for a performance measure database, and how you help teams select the appropriate measures. Templates are provided to assist with this process.
6. Get the measures to drive performance	In order to get measures to drive performance, a reporting framework needs to be developed at all levels within the organization. This chapter describes a reporting framework, discusses the way to help the KPIs get off the ground, and shows how KPIs are refined to maintain their relevance. Checklists and exhibits are included to help get the project started.

CHAPTER 7

Foundation Stones for Implementing Key Performance Indicators

Overview

There are seven foundation stones that need to be laid before we can successfully develop and utilize key performance indicators (KPIs) in the workplace. Success or failure of the KPI project is determined by the presence or absence of these seven foundation stones. In this chapter I explain the seven foundation stones, which are: (1) Partnership with the staff, unions, and third parties; (2) Transfer of power to the front line; (3) Measure and report only what matters; (4) Source KPIs from the critical success factors; (5) Abandon processes that do not deliver; (6) Appointment of a home-grown chief measurement officer; (7) Organization-wide understanding of the winning KPIs definition.

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 need to ensure that all the building is undertaken on solid foundation stones. Success or failure of the KPI project is determined by the presence or absence of these seven foundation stones (see Exhibit 7.1). 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 to later suffer the fate of an underperforming KPI platform.

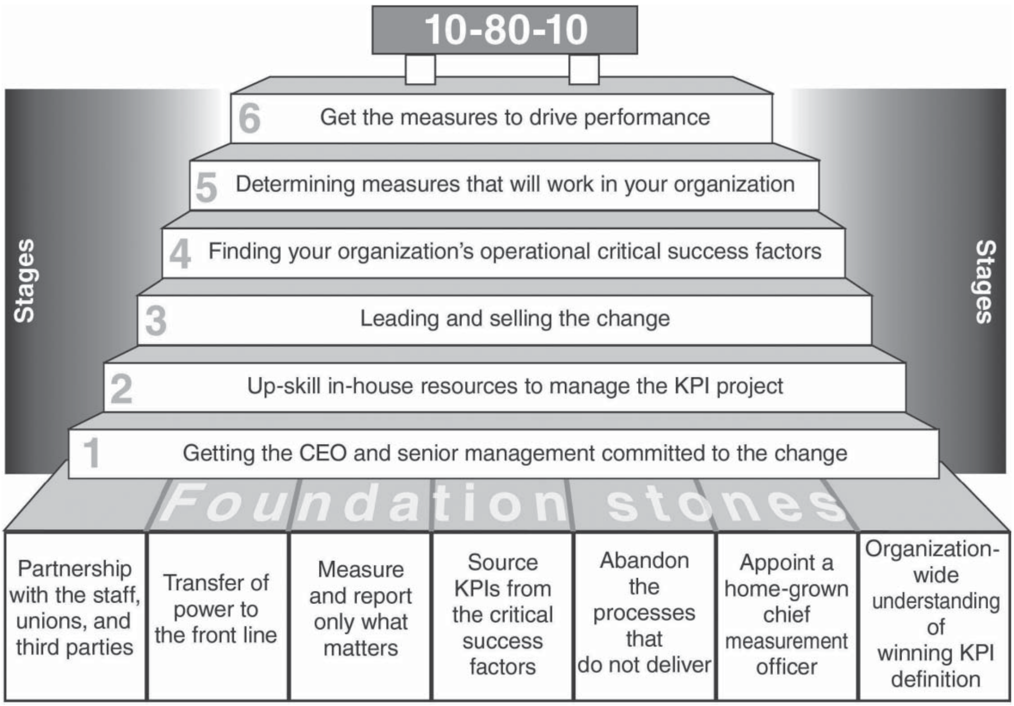

EXHIBIT 7.1 The Seven Foundation Stones in the Winning KPI Methodology

In the first two editions of this book, I came to the conclusion that there were four foundation stones; these have been extended by foundations stones numbered five to seven. The seven foundation stones are:

1. Partnership with the staff, unions, and third parties
2. Transfer of power to the front line
3. Measure and report only what matters
4. Source KPIs from the critical success factors
5. Abandon processes that do not deliver
6. Appointment of a home-grown chief measurement officer
7. Organization-wide understanding of the winning KPIs definition

"Partnership with the Staff, Unions, and Third Parties" Foundation Stone

The successful pursuit of performance improvement requires the establishment of an effective partnership among management, local employee representatives, unions representing the organization's employees, employees, major customers, and major suppliers. Implications of the "partnership" foundation stone include:

- Recognition by all stakeholders that significant organizational and cultural change requires a mutual understanding and acceptance of the need for change and how it is to be implemented
- Commitment to the establishment and maintenance of effective consultative arrangements with unions, employee representatives, and employees
- Joint development of a strategy for the introduction of best practice and KPIs
- Extension of the notion of partnership to include and involve the organization's key customers and key suppliers

If you want to improve satisfaction with your major customers, would it not make sense to sit down with them and ask, "What should we measure to better manage the delivery of our products and services to you?" If you want your key suppliers' performance to improve, would you not visit them and discuss your expectations? What is important to you? What do you want to measure?

Example: An Airline Working with Its Suppliers

When team members were discussing how to improve performance with late planes that were about to land, they soon realized how important their key suppliers were. Instead of calling their cleaners and aviation fuel supplier numerous times each day, saying, "Please treat these planes as a priority," they simply gave their key suppliers read-only access to their late-planes screen. They said, "Whenever a plane is over, say, one hour late, you have our preapproved authority to speed the process up." The cleaners doubled the cleaning crew and thus halved the cleaning time, and the aviation fuel supplier had its staff awaiting the plane's arrival so refueling could commence as soon as it was safe to do so.

"Transfer of Power to the Front Line" Foundation Stone

Successful performance improvement requires empowerment of the organization's employees, particularly those in the operational "front line." Although this has been discussed in many management books, the guiding lights in this area are Drucker, Peters and Waterman, and Hamel, and I recommend that the reader become familiar with their work.

Implications of the "transfer of power" foundation stone include:

Effective two-way communication	The operation of effective top-down and bottom-up communication, including a welcoming of candor with staff being able to challenge and pass up observations that may well be bad news (e.g., no longer is the messenger of bad news shot; now they are rewarded)
Empowerment	The empowerment of employees to take immediate action to rectify situations that are negatively impacting KPIs (e.g., able to authorize the doubling of cleaning staff to speed turnaround time for an anticipated late plane)
Devolving responsibility	Devolving responsibility to the teams to develop and select their own performance measures and to make more decisions

Training	Provision of training on empowerment, decision making, KPIs, the organization's critical success factors
Lean and Agile methodologies	Exposure to Lean and Agile methodologies
Awareness of learning difficulties	Additional support for those employees with literacy, numeracy, or other learning-related difficulties

Example: Empowerment at a Car Manufacturer

Leading car manufacturers have long realized the importance of empowerment. When staff members on the production line see a quality defect, they place a tag on it. If they have time, they will start to fix it. The next person on the line spots the tag and, after completing designated tasks, also carries on the rectification work. When the next operator realizes that the fault cannot be fixed before it will be covered over by the installment of the next panel, he or she simply pulls the "cord" to stop production in that section. Management then organizes the fixing of the fault and restarts the line. They investigate whether the decision to stop the line was correct. If not, they see it as a failure of the training, not the fault of the individual, and simply discuss the matter with the staff concerned. The ability of staff to stop a production line without consultation is a high-level form of empowerment. The key to the success of this method is that staff members are not only empowered, but feel confident to make the decision to stop the production line.

"Measure and Report Only What Matters" Foundation Stone

It is critical that management develop an integrated framework so that performance is measured and reported in a way that results in action. Organizations should be reporting events on a daily/weekly/monthly basis, depending on their significance, and these reports should cover the critical success factors.

Implications of the “measure and report” foundation stone include:

Abandon ineffective reports	Every report should link to a success factor or critical success factor; no report should exist because it was done last month and the month before. We should adopt Peter Drucker’s abandonment mantra.
Measures to have a reason to exist	We should measure only what we need to. Each measure should have a reason for existing, a linkage to a success factor or critical success factor.
Leads to action	What gets reported should be followed by action. The chief executive officer has to commit to making phone calls: “Pat, why did BA235 leave 2.5 hours late?”
Lean reporting	There needs to be a major revamp of reporting embracing the lean movement. It needs to be more concise, timely, efficient to produce, and focused on decision making.
Data visualization	Reporting should be prepared in accordance with the work of Stephen Few, the leading light in data visualization.
Bottom-up	Organizational performance measures will be modified in response to the performance measures developed at team level, e.g., a bottom up process.

A great exercise to perform in an organization is to ask the chief executive officer to write a memo, requesting all staff and management to provide one copy of every report they work on in a given month. A person is designated to gather the reports, to ensure all management and staff have sent in their reports, and to weed out the duplications. In some organizations, the pile will be over four feet high. Put all the papers in a see-through container, and then make a container a quarter of the size and announce that this is the total amount of reporting allowed.

Example: Unnecessary Reporting in a Government Department

I once saw a pile of reports on a finance manager’s desk. When I asked what they were, he said they were the budget holder’s month-end reports. “What do you use them for?” I asked.

There was a silence and then he replied in a low tone, "I do not use them. I call the relevant budget holder if I need an explanation of a major variance." Hundreds of hours of budget holder time were wasted each month when they could have been better spent getting home at a reasonable hour.

"Source KPIs from the Critical Success Factors" Foundation Stone

Critical success factors should be the source of all performance measures that really matter: the KPIs. It is the critical success factors and the performance measures within them that link daily activities to the organization's strategies. The critical success factors impact 24/7 on the business; therefore, it is important to measure how the staff in the organization are aligning their daily activities to these critical success factors. I believe the main purpose of performance measures is to ensure that staff members spend their working hours focused primarily on the organization's critical success factors. The traditional balanced scorecard approach, however, sees the purpose of performance measures as helping to monitor the implementation of the strategic initiatives. There is, thus, a significant difference in how measures are produced in "winning KPIs" methodology and that of the traditional balanced scorecard approach. This will be explained in subsequent chapters.

Implications of the "source of KPIs" foundation stone include:

CSFs more important than strategic initiatives	An organization's critical success factors are more fundamental to an organization than its strategic initiatives. An organization can still succeed without a well-formulated strategy, and many do.
Primary role of measures	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. Other methodologies see the primary purpose of performance measures as monitoring the implementation of strategic initiatives.

CSFs come first	Before KPIs can be found, the critical success factors have to be determined in the process outlined in Chapter 11. If a measure is not linked to a critical success factor, it will not be a KPI and is unlikely to be very important to the organization and, therefore, should be screened for potential abandonment.
Linkage to CSFs	The KPIs, performance indicators, result indicators, and key result indicators that an organization is using should all be linked to either a critical success factor or a success factor. The database of measures that an organization utilizes should record this linkage.

"Abandon Processes That Do Not Deliver" Foundation Stone

This is a new addition to the four foundation stones mentioned in the first two editions of this book. The need for this foundation stone came about as a result of ferociously reading Peter Drucker's work, especially Elizabeth Haas Edersheim's interpretation.[1] I knew that if I absorbed his work, I would be able to improve my understanding of performance management.

Of all of his legendary insights, "abandonment" stands head and shoulders above them all. Drucker saw abandonment as the vital source, the fountain of innovation. Abandonment is a sign that management is recognizing that some initiatives will never work as intended, and it is better to face this reality sooner than later. It is essential that the organization has freed up enough time to give the KPI project and the attendant balanced scorecard the time and commitment they deserve.

Implications of the abandonment foundation stone include:

Abandonment day each month	Create an abandonment day each month during which teams report back to the organization on what they have agreed to abandon.
Measure the abandonment rate	Measure the abandonment rate, which will be significant for the CEO.

Abandoning all dysfunctional performance measures	In some circumstances, it would be worth abandoning all performance measures in an organization and restarting the exercise basing performance measures on the critical success factors. Some measures will no doubt be reinstated, but many will remain discarded.
Abandon reports	Abandon reports that are completed the same way they were last month and the month before, with nobody reading them. Every report should have a small box, on the front page, explaining how it is relevant to the organization's critical success factors and strategy.
Abandon meetings	Abandon meetings that have become a ritual, held because they were held last week and last month, and yet the action points are never cleared. They just fall off the "to-do" list over time. Every meeting should have a clear statement explaining why it is in existence, a record of what action it has taken, and the cost per hour to the organization.
Abandon broken-down balanced scorecards	Abandon the existing balanced scorecard and any balanced scorecard software if the scorecard is not working. The scorecard application may be able to be recycled by the KPI project team.
Abandon projects	Review the current projects schedule for projects that are no longer appropriate or needed.
Abandon performance-related pay linkage to annual targets	Performance-related pay, when it is linked to annual targets, will either be too easy or too hard—see Appendix A for some guidelines about how it should be restructured.
Abandon the annual planning process	The annual planning process, as it is currently set up, is only an annual political event serving no purpose. Visit www.davidparmenter.com for an explanation of quarterly rolling planning.
Abandon performance reviews	Annual or twice-yearly performance reviews—nobody likes receiving them, the managers hate preparing them, and they do not help with remuneration. Managers should be giving regular feedback to their staff, and this should occur at least once a month.

"Appointment of a Home-Grown Chief Measurement Officer" Foundation Stone

This is a new addition to the four foundation stones mentioned in the first two editions of this book.

There needs to be a new approach to measurement that is done by staff who have been suitably trained: an approach that is consultative, promotes partnership between staff and management, and finally achieves behavioral alignment to the organization's critical success factors and strategic direction.

I have been working with performance measures for many years and have spent untold hours endeavoring to unlock their secrets. Over the years one thing has become abundantly clear: you need a measurement expert in-house. Dean Spitzer[2] called this the chief measurement officer.

I have now come to the conclusion that I have not emphasized enough the importance of this in-house resource in my earlier work.

Implications of the chief measurement officer foundation stone include:

Full-Time Responsibility	In most of the implementations I have observed, my advice to appoint a KPI team leader and make him or her, where possible, full time, has been compromised due to workload commitments. In every case this has delayed and put the project on the back foot. For organizations with over 250 full time staff this position should and must be full time. In small organizations this duty must be at least half the workload with much daily operational activity reassigned so that the incumbent has a chance to focus and create some momentum in the project.
In-House Appointment	Peter Drucker said, "Never give a new job to a new person."[3] He called it a widow maker. When an organization wants a new system implemented, it is very tempting to hire someone who has the requisite expertise: a consultant or a permanent appointee. Drucker pointed out that they do not stand a chance as staff who are concerned about the change will do their utmost to destabilize the project.

	Instead you need to appoint an in-house person best suited for the role: someone who is well respected in the organization, who has a pile of "I owe you" favors that they can use when support for the new initiative is required.
Reporting Line	The position would report directly to the CEO, as befits the knowledge and diverse blend of skills required.

Performance measurement is worthy of more intellectual rigor in every organization that is on the journey from average to good and finally to great. The chief measurement officer would be part psychologist, part teacher, part salesperson, and part project manager. Only when we have this level of expertise within the organization can we hope to move away from measurement confusion to measurement clarity. The chief measurement officer would be responsible for:

Testing measures for value	Testing each new measure to ensure the dark side is minimal.
	Vetting and approving all measures in the organization and eliminating those that are duplicated, worthless, have a negative cost benefit, and so on.
	Consulting with staff so that there is some idea of the possible unintended consequences of the measure. The officer has to ask staff, "If we measure XXX, what action will you take?"
	Piloting the performance measure to enhance its chance of success.
Overseeing measurement	Leading the KPI team and any balanced scorecard initiative.
	Developing and improving the use of performance measures in the organization.
	Promoting the abandonment of measures that do not work.
Resident expert	Learning about the latest thinking in performance measurement including work by Stacey Barr, Dean Spitzer, Paul Niven, Kaplan and Norton.
	Being the resident expert on the behavioral implications of performance measures.
	Replacing annual planning with quarterly rolling planning.
	Revitalizing performance-based pay by basing it on solid, well-thought-out foundation stones.

See Appendix B for a draft job description for this position.

"Organization-Wide Understanding of the Winning KPIs Definition" Foundation Stone

This is a new addition to the four foundation stones mentioned in the first two editions of this book.

After working over 20 years analyzing what makes KPIs work, I have realized that unless the organization embraces the new definition of what a KPI is and what it is not, the progress will be limited very quickly. I have repeatedly found that, once the organization has held the two-day critical-success-factor workshop, staff who have gone back to their offices soon start to call all measures KPIs again.

It is vital that the senior management team, led by the CEO, communicate the new meaning of a KPI and that all breaches of the term "KPI" are quickly picked up and corrected by staff and managers.

Implications of the "organization-wide KPIs definition" foundation stone include:

KPI definition	*Key performance indicators* (KPIs) focus on the aspects of organizational perfor- mance that are the most critical for the current and future success of the organization.
KPIs are organizational based	Teams will **only** have KPIs in their area if a KPI is significant to the organization.
KPIs are operationally focused	Most measures used by teams will be PIs and RIs. Head office teams such as Finance and IT are unlikely to have a KPI as these are largely in operations.
Two groups of measures	The understanding of the two groups of measures, *result indicators* and *performance indicators*, will need to be conveyed to all managers in training sessions. Staff will need to be able, with the help of the KPI team, to segregate measures into KRIs, RIs, PIs, and KPIs.

Notes

1. Elizabeth Haas Edersheim, *The Definitive Drucker: Challengers for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
2. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
3. Peter Drucker, *Managing the Non-Profit Organization* (New York: HarperCollins, 1992).

CHAPTER 8

Getting the CEO and Senior Management Committed to the Change (Stage 1)

Overview

The senior management team must be committed to developing and driving through the organization's KPIs and any balanced scorecard that includes them. Thus, the timing of the project is vital. This project has to find a suitable window where the senior management team will have time to commit to the change process. This chapter outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

The senior management team must be committed to developing and driving through the organization's KPIs and any balanced scorecard that includes them. In order for this to happen the thought leader who is driving this concept forward needs to follow the guidelines set out in Chapter 10, Selling the Change. In addition, timing when to commence this project is everything. This project has to find a suitable window where the senior management team (SMT) will have time to commit to a KPI project.

Obtaining Senior Management Team Commitment

This activity was step one in the first and second editions of this book. The senior management team's commitment creates a dynamic environment in which projects can thrive. Before the senior management team can do this, they need to be sold on the concept and fully understand why they should treat monitoring and follow up on the KPIs as a daily task.

By senior management team commitment, I mean that the senior management will need to set aside time each week to perform exercises that include giving feedback on suggested measures, being available to the winning KPI team for interviews, visiting other government and nonprofit agencies, and approving investment proposals into new executive information systems that will be the main vehicle for reporting KPIs.

An attendee at one of my workshops made a profound observation regarding a weak commitment by senior staff. Some senior staff can simply view development of KPIs as an end in itself and go through with it "to keep the boss happy." They are not strategic in their perspective, so they don't see the KPIs and the associated balanced scorecard (BSC) as tools to help them better understand and manage their organization. This can be reflected in a loss of interest when the process of development gets tough, such as deciding on what KPIs to use and the trade-offs to be made. Although the senior management team is important, the CEO is critical. The CEO must be the central driver, carrying around the embryonic KPIs all the time, talking about their importance frequently, and so on.

Select an External Facilitator

The CEO needs to locate an external facilitator who will work with the senior management team to scope the project, facilitate senior management's commitment, help select the in-house KPI team, and support the KPI team in their journey of learning, discovery, and achievement. The facilitator needs to be experienced with performance measurement issues as well as how to develop and implement KPIs.

With web-based meetings being a common tool it is possible to have the facilitators perform their duties from afar. I have achieved this on a number of projects myself.

Key Tasks for Obtaining Senior Management Team Commitment

The change agent who is leading the transition will need to incorporate the following tasks in Stage 1:

Task 1. Prepare and practice your elevator speech to get the SMT's attention. As mentioned in Chapter 10, Leading and Selling the Change, we need to have an elevator speech so the next time we meet the CEO or an influential member of the SMT we can gain their interest in a KPI project and get a 20-minute slot to sell the project.

Task 2. Selling the need for a one-day focus group workshop. We want to prepare and deliver a compelling 20-minute presentation to get the green light to hold a focus group workshop where all the concepts can be aired in front of the organization's oracles: the individuals everyone refers you to when you need something answered (e.g., "You need to talk to Pat"). This will be one of the most important presentations in your working life, so follow the advice in Chapter 10, Leading and Selling the Change, and deliver a compelling 20-minute pitch.

Task 3. Appointment of a facilitator. In many cases this will be an external consultant. Recruiting staff and a consultant is a life and death decision, as Peter Drucker[1] reminded us. It is better to spend 40 hours in a comprehensive selection process (putting up fences at the top of a cliff) than spend 400 hours sorting out the mess (at the bottom of the cliff).

Therefore it is imperative that you invest as much time as possible in the pre-selection process, before you are in dialogue with short-listed consulting firms. Your first point of call is to short-list three to five consultants based on reputation. This is easier than you think. A great starting point is to ask consultants who have had starring roles previously with this or previous organizations you have worked with. Ask them for referrals. You may even find they put themselves forward for part of the assignment and will work alongside a recommended consultant they have known for years. Great staff and great consultants know other great staff/consultants. That is how the business world works best.

Having made a shortlist, it is worth contacting a couple of their previous clients to ask, "Would you take Pat Carruthers on for another consulting assignment?" As Jack Welch[2], in his book *Winning*, pointed out, you will be surprised how frank they might be. Assuming a thumbs up, go on to ask how the consultant works best (the consultant may not realize it themselves).

Task 4. Hold the one-day focus group workshop. A cross-section of 15 to 30 experienced staff members, encompassing the departments, teams, area offices, and head office, and covering the different positions, from administrators to senior management team members, come to a central location to help the formation of a KPI project that will work. The entire executive team should attend the morning session and attend the final session. The workshop agenda is set out in Chapter 15, Resources for the Chief Measurement Officer.

At this focus group meeting you discuss the existing issues with performance measures, expose them to the new thinking, outline the intended approach, and seek their advice to decide if the project is viable and, if so, what lessons should we learn from past projects.

An outside facilitator, who delivers presentations and facilitates the workshops, runs the session. It is essential that all potential candidates for the KPI project team be present.

The aim of this workshop is to get the green light and their full support, which will be important. The next step is to sell the senior management team the project to revitalize performance measurement.

As a result of this workshop, the project implementation program will be tailored to cover the main institutional barriers, and the senior management team should be in a position to select the KPI team and commit to the project.

Task 5. Facilitator delivers a half-day workshop to the senior management team to kick-start the project. This workshop will, among other things:

- Explain the new thinking on performance measures
- Explain the differences among key result indicators (KRIs), result indicators (RIs), performance indicators (PIs), and KPIs
- Emphasize the importance of knowing the organization's critical success factors (CSFs)
- Show that daily activities can be linked to the strategic objectives

- Convey the importance of monitoring and following up on the KPIs as a daily task
- Explain the draft project implementation program featuring the feedback from the oracles' workshop

In the workshop, the facilitator needs to ensure that the senior management team understands the commitment they need to make each week. They will need to give feedback on suggested measures, be available to the project team for interviews, and possibly visit other organizations. Before running the workshop, the facilitator will send out the questionnaire in Chapter 15, Resources for the Chief Measurement Officer.

Example: Shortcut—Merge This Workshop with the Critical Success Factors Workshop in Stage 4

By extending this focus-group session to two days and extending the audience, you can merge the focus-group outcomes with finding the CSFs. This is the approach I now adopt with most in-house workshops I perform. Benefits include the following:

- Because most attendees will be the same for both workshops, it saves a day and the extra costs associated with accommodation and travel.
- Finding the CSFs at an earlier stage gives a tangible benefit earlier on in the project.
- This method builds momentum for the project sooner because, after the workshop, advocates for the process will be preaching the gospel.

Task 6. Report the weekly wins the project has made to the SMT. The project needs to report its wins to the SMT each week. This report may not necessarily need to be in a formal setting. Having a weekly elevator speech ready each week is the KPI team leader's priority on the Friday. They then need to manufacture situations where they will bump into SMT members and thus be able to share some wins. As mentioned by John Kotter[3] (see Chapter 10: Leading and

Selling the Change), project teams have a tendency to under-communicate by a factor of 10 or more.

Task 7. Project team delivers two short workshops to the senior management team during the project. These workshops (about two to three hours long) help maintain the senior management team's interest, provide an opportunity for the senior management to give valuable input into the project, launch newly designed reports, and convey progress.

Agree on Timing, Resources, and Approach

This activity was step four in the first and second editions of this book.

This involves ensuring that this is the right time for the project to be run in conjunction with concurrent projects within the organization. In addition, it is necessary to consider how best to run the implementation.

The most appropriate implementation is influenced by the size of the organization, the diversity of the departments, the organization's locations, and the in-house staff resources available for the project. Each implementation is like a fingerprint that is unique to the organization, and it should be designed in consultation with the stakeholders, the external facilitator, and with consideration of prior experiences that have worked and not worked in past implementation rollouts.

There are a number of questions to answer:

- What needs to be abandoned to make room for this project?
- Is this the right time to embark on this project?
- Do we have a window of opportunity to commit to this project?
- How should we best implement winning KPIs across our organization?
- Have we maximized the fit with the other changes our organization is pursuing to achieve world-class performance?

When you can answer these questions clearly, you will be able to locate winning KPIs in the total performance improvement game plan.

In Chapter 4, Revitalizing Performance, the second foundation stone was the knowledge of the paradigm shifters (Drucker, Collins, Welch, Hamel, Peters, Waterman, and others). We need to apply this knowledge in this step as set out in Exhibit 8.1.

EXHIBIT 8.1 **Lessons from the Paradigm Shifters (featured in Chapter 4)**

Lesson	Implication
Continuous management innovation. Gary Hamel[a] illustrates that you need to have a process for continuous management innovation to be an organization that is capable of trauma-free renewal rather than one that is moved to change through a crisis.	The KPI team needs to be very open to new management thinking and processes. It is very important that the project team embraces new management concepts.
Creative apartheid. Hamel points out that most of us are creative in some areas of our lives. This creativity needs to be embraced at the workplace. He believes that creativity can be strengthened through instruction and practice.	The KPI team must be open to new ideas during the project. Be flexible with how workshops are run and ensure that creativity is given time to flourish.
Embrace differences. Hamel is very consistent about the need to: ▪ Embrace irregular people, because their irregular ideas can be very valuable. ▪ Look for positive deviants.	The KPI team should be selected from all experienced employees. It is important to consider those employees who have always shaken the cart. They may have the X factor to make this project work.
Mission matters. Hamel says that the mission matters—it must be compelling enough to overcome the gravitational pull of the past and spur individual renewal.	The KPI team should ensure that its mission statement is worded carefully so it will energize and assist with the selling of the winning KPI methodology.
Opt-in commitment. Hamel says organizations should have an opt-in and self-chosen commitment.	The KPI team should have an open selection process so that a wide net is cast for the best team members. A passion for performance management will be a very important attribute to look for.

[a]Gary Hamel, *The Future of Management* (Cambridge, MA: Harvard Business School Press, 2007).

Key Tasks for Agreement on Timing, Resources, and Approach

The KPI team will need to incorporate these tasks within the work it performs in Stage 1:

Task 1. Ascertain what projects, performance measures, processes, and reports need to be abandoned to make room for the KPI project. Peter Drucker said, "Don't tell me what you're doing, tell me what you've stopped doing."[4] The KPI project needs space to work. Many projects fail because staff and management have to carry out all their existing workload as well as the new responsibilities of the new project. It does not take long before enthusiasm wanes and the project starts to come off its rails.

Task 2. Ascertain the existing measurement culture. Be aware of the current understanding of performance measurement and how it has been used in the organization. It takes time to adapt new approaches to performance measurement. It is, therefore, important to plan the introduction to KPIs with an appreciation of the organization's existing comfort (or discomfort) levels with performance measurement.

Task 3. Big bang or a phased approach. For organizations with fewer than 500 staff, a total rollout in 16 weeks is achievable. Organizations with more than 500 full-time employees will require a phased approach. The larger the organization, the more focused the first phase must be. For an agency with 20,000 or more full-time employees, the first phase would be limited to three of the departments (piloting the process in threes as recommended by Drucker) where the benefits are the greatest, and it would be desirable to include one head office unit, because the head office units must be able to support this process early on. Exhibit 8.2 shows the indicative rollout duration for organizations of different sizes.

Task 4 Ascertain the size and number of KPI teams required. For organizations with more than 3,000 employees, there will be KPI teams in each main department. These teams will be supported by a central KPI team. This central KPI team, whose members will be trained by the facilitator, will effectively be in-house KPI consultants who travel in pairs to support the KPI teams in each main department.

EXHIBIT 8.2 Indicating Rollout Duration (use as a guide only)

Size of KPI Project Team	**Size of Organization (FTEs)**				
	Less than 200	**200 to 500**	**500 to 3,000**	**3,000 to 10,000**	**10,000+**
First phase (two-person KPI project team)	6 weeks	18 weeks	16 to 20 weeks for first phase	Team is too small	
First phase (four-person KPI project team)	6 weeks (no time saving but better product)	16 weeks	16 to 20 weeks for first phase	20 to 26 weeks for first phase	20 to 30 weeks for first phase
Roll-out phases (four-person KPI team)	Not required, project finished		10 weeks for each rollout phase	10 weeks for each rollout phase	10 weeks for each rollout phase

The size of the central KPI team varies according to the speed of rollout required (see Exhibit 8.2).

The number of in-house consultants can be supplemented by external consultants, provided they have been trained in the methodology. The number of trained in-house KPI consultants required will vary depending on the complexity of the rollout and prior experience from other project rollouts in the organization.

Each rollout can be performed by trained department-based project teams, which will be supported by a designated KPI project team member. It is unlikely that more than three departments can be rolled out simultaneously because there will be inadequate support from the central KPI team.

For those in the private sector who have operations in other countries, the rollout will meet different types of resistance and hurdles. Staff based in Asia may require more workshops than those in Europe, or vice versa. The rollout will also need to take into account the current significance of subsidiaries' operations and their long-term future (e.g., there may be no point embarking on a rollout to a foreign subsidiary if it is to be sold).

Task 5. Once started, ensure that every rollout phase is completed within a 16-week timeframe. The rollout success will be dependent on maintaining momentum and energy. Once a department has been selected, there should be an intensive push to complete. Each rollout phase should not be allowed to take more than 16 weeks, because the groundwork already has been prepared. A department rollout could take as few as 10 weeks. It is unlikely to be shorter due to the level of consultation and the team performance measures workshop rollout.

Task 6. Be flexible about the rate of progress required. KPIs do not have to be applied uniformly within the organization. Typically, the drive to introduce KPIs originates from senior or corporate levels of management, but it can also be pushed up from within the organization. Where flexibility is allowed, different parts of the organization can proceed with the introduction of KPIs at varying paces, according to their own requirements and readiness.

A flexible approach to the development of KPIs avoids at least two potential problems associated with a centralized uniform implementation:

- Too much top-down influence on KPI selection, resulting in a lack of ownership in the measures and resistance to their use
- Difficulties associated with coordinating and resourcing KPI development in several departments and work groups at the same time

Example: Shortcut—Perform Part of This Step While You Are Performing Stage One

It is important that KPI projects are not undertaken in an environment in which they are doomed to fail. The external facilitator should recommend deferral of the project if there are any doubts about conflicting priorities or adequacy of resources, because:

- It is far better to delay this project to a period in which management will assign adequate resources and have time to commit to it.
- Staff will not see performance measurement as a passing fad, or as yet another failed project initiated by management.

Benefits of This Stage

The selling of this project to the senior management team, using emotional drivers, will ensure senior management's continued involvement. This KPI project will enhance their understanding of their operation, further develop their organization's strategies, and link day-to-day activities to the organization's strategic objectives.

A coherent approach will be established that should encourage employee, senior management team, board, and union buy-in and commitment.

Templates and Checklists

To assist the KPI project team on the journey templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition

The templates include:

- SMT Commitment Checklist
- Senior Management Team Commitment Questionnaire
- Checklist for Selecting a Facilitator
- Setting Up a Holistic KPI Development Strategy Checklist
- Holistic KPI Development Strategy Worksheet

Notes

1. Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
2. Jack Welch and Suzy Welch, *Winning* (New York: HarperBusiness, 2005).
3. John Kotter, *Leading Change* (Boston: Harvard Business Review Press, 2012).
4. Peter Drucker, *Management Challenges for the 21st Century* (New York: HarperCollins, 1999).

CHAPTER 9

Up-Skill In-House Resources to Manage the KPI Project (Stage 2)

Overview

The success of a KPI project rests with trained home-grown staff who have been reassigned so that they are full time on the project. The chapter covers the importance of selecting an in-house person to lead the KPI team (chief measurement officer), the reasons why choosing an external recruit to run the KPI team is doomed to fail, the training that will be required as well as the need for a "just do-it culture" in the KPI team. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

If a KPI project fails or lacks momentum, one often can look back to this stage and see where it all went wrong. The success of a KPI project rests with trained home-grown staff who have been reassigned so that they are full time on the project. The developing of home-grown resources who have the time to develop into measurement experts is vital.

Establish a Winning KPI Team Working Full Time on the Project

This activity was step two in the first and second editions of this book. As mentioned in Chapter 7, there needs to be a new approach to measurement that is done by staff who have been suitably trained: an approach that is consultative, promotes partnership between staff and management, and, finally, achieves behavioral alignment to the organization's critical success factors and strategic direction.

I have been working with performance measures for many years and one thing has become abundantly clear: you need a measurement expert in-house. Dean Spitzer[1] called this the chief measurement officer.

I have now come to the conclusion that I have not emphasized enough the importance of this in-house resource or the importance of giving these employees a chance by making them full time on the project.

Home-Grown KPI Team Leader

As mentioned in Chapter 7, we need to follow Peter Drucker's advice, which has been well summarized in Elizabeth Haas Edersheim's book on Drucker,[2] and appoint an in-house person best suited for the role: someone who is well respected in the organization, has had success implementing projects and has a pile of "I owe you" favors which they can call upon when help is required. Staff, who are concerned about the change, are more likely to support the KPI initiative when it is led by a trusted in-house appointee.

Drucker observed that many new initiatives failed as the wrong people were leading them. When we recruit a new employee or consultant to undertake a new job or project, such as the introduction of the balanced scorecard into the organization, there will be much uncertainty among staff and management.

Staff will be wondering what is going to happen with their jobs, whether their favorite tasks are about to disappear, and what effect the change is going to have on their pay.

These doubts, along with the added insult of the Porsche Carrera in the visitors' car park, often leads to stonewalling any potential project progress. There may be some staff and management who will do their utmost to make the consultant fail. The consultant, in such circumstances, is given as much chance of success as a mountaineer solo-climbing Mount Everest. It can be done, but only by a freak of nature.

Instead, Drucker advised that you find a project manager in your organization. Train them, support them with a mentoring-based consultant, and watch the project fly. The staff and peers will go over the trenches for them.

A Small Well-Trained Team Linked Directly to the CEO

A small well-trained team will have the best chance of success. Kaplan and Norton,[3] developers of the balanced scorecard concept, have commented that KPIs have been successfully designed by an individual, without large consultations, but that this was an exception rather than the rule.

A project team of two to four people is recommended, depending on the size of the organization. The chosen project team members need to be committed full time, and they need to report directly to the CEO (see Exhibit 9.1). Any layer in between the CEO and the team indicates that Stage One has not been successfully achieved.

This point is so important that the project should not proceed if the CEO does not wish to be involved in this way. The KPI project team members should have a proven track record of excellent presentation and communication skills, flair for innovation, ability to complete, knowledge of both the organization and sector, and the ability to bring others on board.

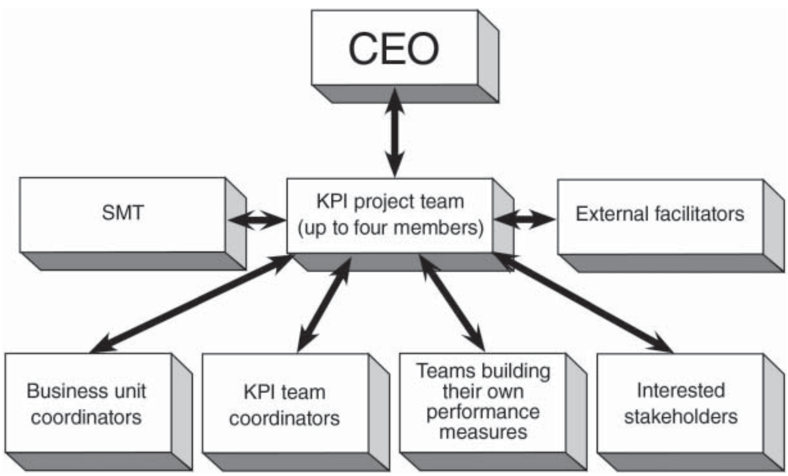

EXHIBIT 9.1 The KPI Team's Reporting Lines

The KPI project team members should be a balanced mix of oracles and young guns. Oracles are those gray-haired individuals whom you visit if you want to find out about what has happened in the organization in the past. Young guns are your young, fearless, and precocious leaders of the future, who are not afraid to venture into the unknown.

All departments and service teams should appoint a person who is sufficiently knowledgeable about their operation to provide information and feedback to liaise with the KPI team.

The interested stakeholders consist of those who can add a useful perspective to the project team, such as some members of the board, union representatives, representatives from some key suppliers, and key customers.

Do not include members of the senior management team on the KPI team, as they will be unable to meet the commitment required of being full time on this project.

In Chapter 4, Revitalizing Performance, the second foundation stone was knowledge of the paradigm shifters (Drucker, Collins, Welch, Hamel, Peters, Waterman, and Hope). We need to apply this knowledge in this stage, as set out in Exhibit 9.2.

EXHIBIT 9.2 Lessons from the Paradigm Shifters (featured in Chapter 4)

Lesson	Implication
Do not give new staff new assignments. Peter Drucker[a] referred to these jobs as widow makers—jobs where the incumbent did not have a chance to succeed.	In this KPI project, it is important to ensure that the project team is made up of experienced staff who know the CSFs and the members of the senior management team. Bringing in consultants to lead the KPI project will doom it to failure.
Recruitment is a life and death decision. Peter Drucker was adamant about the significance of recruiting the right staff.	The recruiting of the KPI team should be done very carefully ensuring they have the right mix of knowledge, experience, and credibility within the organization to be successful.

(*continued*)

EXHIBIT 9.2 (*Continued*)

Lesson	**Implication**
Embrace differences. Gary Hamel[b] is very consistent with the need to: ■ Embrace irregular people; their irregular ideas can be very valuable. ■ Look for positive deviants.	The KPI team should be selected from all experienced employees. It is important to consider those employees who have always shaken the cart. They may have the X factor to make this project work.
A cluster of mentors. As Jack Welch,[c] says, "There is no right mentor for you; there are many right mentors." He sees mentoring more holistically. A mentor can come from a staff person many levels below who passes on their knowledge to you. In Winning, Welch was forever grateful for the young human resources advisor who patiently helped him master e-mail.	Ensure all the KPI team members have appropriate mentor support. The KPI project team leader should ideally have three mentors, each providing support and knowledge in a different area. ■ How to get things done in the organization ■ How to work with a KPI project ■ How to create and maintain a winning project team
Opt-in commitment. Hamel believes organizations should have an "opt-in" and "self-chosen" commitment.	The KPI team should have an open selection process so that a wide net is cast for the best team members. Passion for performance management will be a very important attribute to look for.

[a]Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
[b]Hamel Gary Hamel, *The Future of Management* (Cambridge, MA: Harvard Business School Press, 2007).
[c]Jack Welch and Suzy Welch, *Winning* (New York: HarperBusiness, 2005).

Key Tasks for Establishing a Winning KPI Project Team

The KPI team will need to incorporate these tasks among the work it **performs in Stage 2:**

Task 1. External facilitator helps select the in-house KPI team. The external facilitator should help the senior management team pick a team. Research into personnel records is recommended, as many talented staff are found in obscure places, and some may already have some KPI experience. The facilitator is looking for staff members who have a proven track record of excellent presentation and communication skills, a flair for innovation, the ability to complete what they start, knowledge of both the organization and sector, the aptitude to bring others on board, and the ability to be cheerful under pressure.

The checklists and questionnaire in Appendix 9A online version will help with the selection process. It is advisable to run some tests to assess the potential compatibility of prospective team members, such as personality and thinking preference, as it is likely they have never worked together on a large project before. The findings from these tests will help the KPI team members understand how to work better with each other. The human resources manager will know about these tests.

Task 2. Facilitator negotiates for full-time commitment of KPI project team. The facilitator needs to convince management that the KPI team staff members are required to be committed *full time*. A project office needs to be set up, and the KPI team moved in to it. They move their desk photos as well, because their second-in-command will now move into the vacated office and cover their duties. Succession planning will be an additional benefit from this project. As stated in Chapter 2, it is a myth that this project can be handled while continuing on with other duties. If project staff members are still intending to start and finish the day at their desk, this project should be terminated.

Task 3. KPI Team identifies coordinators. The KPI team, with the help of the facilitator, needs to identify a coordinator for each department or service team. This person needs to be knowledgeable about the operation, because his or her role is to provide the KPI team with detailed knowledge about their area of operation, to provide feedback, and so forth.

Task 4. Facilitator develops a training schedule and holds training exercises for the KPI project team. The facilitator will need to establish the knowledge gaps and set up training and some team-building exercises for the KPI team. The exercises might include:

- Preparing a presentation to sell an idea through the audiences' emotional drivers
- Research exercises both through the company's files and the intranet; for example:
  - Find me the last five reports done internally on performance measurement issues
  - Find me the articles and white papers written on the topic in major journals and respected websites
- Going away for a weekend on a team-building excursion

The KPI team will need training and assistance. The type of training will include the following:

- A comprehensive understanding of this KPI book
- How to pass on knowledge using better-practice teaching techniques
- How to facilitate workshops, which they will be running
- How to deliver informative presentations
- How to design databases
- Better-practice communication techniques
- Maintaining a vibrant project team home page on the intranet

For organizations with a staff of 3,000 or more, the facilitator will also be involved in training KPI teams in each department. A central team of trained in-house KPI consultants will support these teams. The facilitator will train the in-house consultants who then will train the KPI teams as the rollout occurs.

Establish a Just-Do-It Culture and Process

This activity was step three in the first and second editions of this book. "Getting it right the first time" is a rare achievement, and ascertaining the organization's winning KPIs and associated reports is no exception. The performance measure framework and associated reporting is just like a piece of sculpture: you can be criticized on taste and content, but you can't be wrong. The senior management team and KPI project team need to ensure that the project has a just-do-it culture, not one in which every step and measure is debated as part of an intellectual exercise.

With this just-do-it culture comes a belief that we can do it; we do not have to rely on experts to run the project. As mentioned in Chapter 2, it is a myth that you can delegate a performance management project to a consulting firm. In any case, many CEOs are extremely cautious of those large projects that they perceive to be primarily run by external consultants. It is worth noting that experts, like artists, may not necessarily produce the sculpture that you want or need.

To give the team the confidence and knowledge they will need, the KPI team should set up a small reference library and all team members should read the following books:

- John Kotter, *Leading Change* (Boston: Harvard Business Review Press, 2012)
- Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business Review Press, 1996)
- Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007)
- Paul R. Niven, *Balanced Scorecard Step-By-Step: Maximizing Performance and Maintaining Results,* 2nd ed. (Hoboken, NJ: John Wiley & Sons, 2006)
- Stacey Barr, *Practical Performance Measurement Using the PuMP Blueprint for Fast, Easy and Engaging Performance Measures*, 2014
- Stephen Few, *Information Dashboard Design: The Effective Visual Communication of Data,* 2nd ed. (Burlingame, CA: Analytics Press, 2013)

Establishing your winning KPIs is not complex, and the process should be carried out in-house, provided the team has the assistance of an experienced facilitator. The facilitator's role is principally that of a mentor to the project team and, thus, the facilitator should keep a low profile at balanced scorecard presentations.

There is no need to heavily invest in balanced scorecard applications during the first 12 months because the team should be utilizing existing spreadsheet, presentation, and database applications. This eliminates the delay caused by having to tender, select, and populate specialized software at this stage. This can be done more efficiently and effectively in the second year of the project when the organization has a better understanding of KPIs.

Applications such as SharePoint Team Services enable the KPI team to set up intranet pages that everyone with an interest in winning KPIs can access:

- Relevant memos and articles (programmed with expiration dates so only current and important pronouncements are available)
- Forums to discuss issues
- KPI documentation that requires collaborative input
- The master performance-measure database

In Chapter 4: Revitalizing Performance, the second foundation stone was the knowledge of the paradigm shifters (Drucker, Collins, Welch, Hamel, Peters, Waterman, and others). We need to apply this knowledge in this stage as set out in Exhibit 9.3.

Key Tasks to Establish a Just-Do-It Culture and Process

The KPI team will need to incorporate these tasks within the work it performs in Stage 2:

Task 1. Provide training and support to teams so they can develop their performance measures. Major breakthroughs in performance improvement will result from the application of KPIs in local teams or work groups. Recognize that significant educational resources and time are required to implement performance measures in teams.

Task 2. Introduce a moratorium on all existing KPIs. Every organization is likely to have a number of performance measures in place, even if they are not called KPIs. These existing measures need to be reviewed to fit them within the new four-tiered structure of performance measures (KRIs, RIs, PIs, KPIs). All new measures should be allowed to be developed only from the project; there must be a moratorium on measures developed elsewhere.

The organizational emphasis on the existing KPIs will be reduced as soon as senior management team members have

EXHIBIT 9.3 Lessons from the Paradigm Shifters (featured in Chapter 4)

Lesson	Implication
Abandonment. Peter Drucker[a] said, "The first step in a growth policy is not to decide where and how to grow. It is to decide what to abandon. In order to grow, an organization must have a systematic policy to get rid of the outgrown, the obsolete, and the unproductive."	Promote Drucker's concept of abandonment. Many existing measures should be abandoned along with processes and reports. The KPI project needs space to work. Other systems need to be abandoned to allow enough time for the KPIs to function properly.
Have three test sites. Peter Drucker pointed out that one pilot was never enough.	On a KPI project, we should follow the sage's advice and pilot the KPI project in three entities.
Recognition and celebration. Jack Welch[b] says that great leaders celebrate more. As he points out, "Work is too much a part of life not to recognize moments of achievement." You can sense from listening to his webcasts that his celebrations would have been fun to attend.	The KPI project team will need to be active with recognition and celebration to assist with buy-in and maintain interest and momentum.
Welch was all about making work fun. Realizing that it is not life or death but a game you want to win.	

[a]Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
[b]Jack Welch and Suzy Welch, *Winning* (New York: HarperBusiness, 2005).

been educated in what KPIs really are. All the existing measures will be included in the evaluation process with many being superseded.

Task 3. Check back to the seven foundation stones. When a consensus has been reached on the agreed process for developing and using KPIs, a review must take place to ensure that all the steps are consistent with the seven foundation stones:

- Partner with staff, unions, and third parties
- Transfer power to the front line

- Measure and report only what matters
- Source KPIs from the critical success factors
- Abandon processes that do not deliver
- Appoint a home-grown chief measurement officer
- Understanding organization-wide the winning KPIs definition

Task 4. Develop a blueprint with the help of the oracles. As covered in Chapter 10: Leading and Selling the Change, it is important to hold a series of lock-up workshops involving senior management and a cross section of the oracles to draft the blueprint, a vision and strategy for the new process, just the thing Kotter suggested in his book *Leading Change*.

In a successful project implementation, a company held three two-week workshops for their planning tool implementation. Yes, that is six weeks of workshops. For a KPI project, which is less involved with IT systems, I would suggest this could be completed within a couple of weeks. It would have been started from the first oracles focus group and be continued with a small group of five to eight people.

An agreed process and plan for introducing KPIs should be developed in consultation with management, local employee representatives, unions representing the organization's employees, employees, major customers, major suppliers, and the board. Many of the concerns held about introducing measurement can be overcome at this stage if these stakeholders validate the process for developing KPIs.

Task 5. Determining the perspectives of the balanced scorecard. Take a practical approach and avoid getting involved with debates on perspectives and their names. For the first year, stick to the names already suggested and focus your energies elsewhere. You will need a name for each of these perspectives:

- Financial Results
- Customer Focus
- Internal Process
- Innovation and Learning
- Staff Satisfaction
- Environment and Community

Benefits of This Stage

The project will have a team with the capability to deliver, provided it is supported by a forward thinking senior management team. This team will have a good support network and a vibrant and informative intranet home page.

Establishing a just-do-it culture and process will enable the project team to cut through red tape and deliver a timely suite of performance measures, recognizing that it will require further tailoring and improvement at a review period six to eight months down the road.

Templates and Checklists

To assist the KPI project team on the journey templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition.

The templates include:

- Establishing a Winning KPI Team Checklist
- KPI Team Establishment Questionnaire
- KPI Team 360-Degree Questionnaire
- Establish a "Just- Do- It" Culture and Process Checklist
- Establish a "Just- Do- It" Culture and Process Worksheet KPI Team

Notes

1. Dean R. Spitzer, *Transforming Performance Measurement: Rethinking the Way We Measure and Drive Organizational Success* (New York: AMACOM, 2007).
2. Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).
3. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business Press, 1996).

CHAPTER 10

Leading and Selling the Change (Stage 3)

Overview

All major project implementations are deeply affected by the success or failure in leading and selling the change. This chapter outlines John Kotter's model of leading change, emphasizes the importance of selling by emotional drivers of the intended audience, and sets out the steps required in this stage. This chapter gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

Before we venture further into the process of implementation, we need first to address selling the change within our organization. As we well know from past experiences, this sales process is not easy and prone to failure. I would argue that more than half the initiatives that are declined by the board or senior management were under sold. In other words, given the right approach, the initiative would have gone ahead.

If you are not prepared to learn the skills to cover the common deficiencies in selling change process, you are better off playing golf or burying yourself in a process. Selling change requires a special set of skills and we all can, and should, get better at it. The people with the natural talent in this area are likely to be found in sales or public relations functions.

Leading Change by John Kotter

In 1996, John Kotter published *Leading Change,*[1] which quickly became the seminal work in the change management space. He pointed out, as we already know, that effecting change—real change—transformative change—is hard: really hard.

In his work he had an eight-stage process of creating major change, a clear map to follow when faced with influencing, at a deep level, an organization to migrate.

The eight-step process is:

1. **Establish a Sense of Urgency.** We need to create a burning platform in the minds of the CEO and senior management team. In other words there is no staying put; we have to change. In this step we need to be careful to address both the intellectual *and* the emotional sides of the reasons why change is necessary. Build an urgent sense of capturing an opportunity.
2. **Create a Guiding Coalition.** Find and include the oracles in the organization, the staff whose opinion or advice is frequently sought. Ensure you have a representative cross section of people from all levels of the organization. If you can get these on board you will find that they are invaluable sales agents for the change.
3. **Develop a Vision and Strategy.** In order to sell change you need to paint a picture so the journey can be seen by all. Link back to folklore from the past to reference the changes the KPI project is seeking. The documenting of a blueprint, by the oracles, is a very worthwhile exercise and makes for a compelling case.
4. **Communicate the Change Vision.** Kotter emphasized that it's not likely that you will under-communicate a little bit; you will probably under-communicate by a factor of 10 to 100 times. The KPI team will need to plan for more communication than has been done in the past, e.g., getting permission from the CEO to get ten minutes at every gathering, so they can push the message and give feedback on progress.
5. **Empower Broad-Based Action.** Early on the need for change and the right to change must be handed over to teams within the organization. The "just do it" mantra has to be installed in this project, as discussed in Chapter 9. Once the project has been started, let teams who are motivated tend to the fire of change.

6. **Generate Quick Wins.** These are obvious to us all but frequently missed. Always remember that senior management is often inflicted with an attention deficit disorder. Progress in a methodical, introverted way at your peril. We need easy wins that the CEO can celebrated publicly to maintain interest and energy.
7. **Consolidate Gains and Produce More Change.** This is the fly-wheel effect so well put by Jim Collins in his books *Built to Last* and *Good to Great*. The change, like a giant flywheel, is hard to turn at first, but as it gains momentum it becomes easier and easier to make it go faster. See Chapter 4 for more details.
8. **Anchor New Approaches in the Culture.** Make heroes of the change agents; make sure their values are embedded in the corporate values.

Learn to Sell by Appreciating the Emotional Drivers of the Buyer

To sell a product, a service, or a project you need to remember that little was ever sold by logic! You sell through emotional drivers (e.g., remember how the dealer sold you a car). Thus, we need to radically alter the way we pitch this sale to the senior management team (SMT), to the CEO, and to the board. We have to focus on the emotional drivers that matter to these groups and understand the links between them. Start by asking these questions:

Points of pain/emotional drivers for the senior management team	**Points of pain/emotional drivers for the board**
Do we know which of our success factors are critical?	Are the measures we report to you giving you a clear view of organization's overall performance?
Does the lack of alignment of daily activities to strategy concern you?	Is the organization making enough progress on the good-to-great journey?
Are you overwhelmed by too many performance measures?	Would you benefit from a one-page overview of performance?

(*continued*)

Points of pain/emotional drivers for the senior management team	Points of pain/emotional drivers for the board
Do you enjoy sifting through information overload in your precious family time?	Are you receiving too much information and thus there is a danger of not seeing the woods for the trees?
Would it be beneficial if all the staff knew the organization's critical success factors?	Would it be beneficial if all the staff knew the organization's critical success factors?

Many initiatives fail at this hurdle because we attempt to change the culture through selling logic, writing reports, and issuing commands via e-mail. It does not work. It is important to recognize that maybe the KPI team does not have enough public relations (PR) skills, so PR support will be needed. No presentation, e-mail, memo, or paper should go out unless it has been vetted by your PR expert. All your presentations should be road-tested in front of the PR expert. Your PR strategy should include selling to staff, budget holders, SMT, and the board.

If managed correctly, you will need only four to seven days of PR consultancy time. Once the chosen PR expert has visited the organization and received an adequate brief, keep the PR expert behind the scenes and avoid getting them caught up in lengthy meetings or writing original copy. This expert's role is to rework the output from the KPI team, often advising and amending e-mailed documents. This step should not be underestimated.

Selling by Emotional Drivers: How a Car Sale Is Made

Three customers, during the same day, arrive to look at the car of the week that has been featured in the local newspaper. The first person is a young information technology guru, from generation Y, with the latest designer gear, baggy trousers part way down exposing a designer label on his shorts. The salesperson slowly walks up, assessing the emotional drivers of this potential buyer, looking for clues, such as clothing, the car he arrived in, and so on. Having ascertained that the young man is an IT guru working for a major search engine organization, the salesperson starts with an opening line that could be, "I hope you have some track-racing experience. You need to be a Lewis Hamilton to handle this beast. This car has 320 BHP, a twin turbo, and corners like it is on railway tracks. Only a gun driver can handle this beast, it is a real driver's car." SOLD.

The second person could be me, with my gray hair visible. The salesperson might say, "This car is five-star rated for safety, eight air bags, enough power to get you out of trouble, unbelievable braking when you have to avoid the idiots on the road, and tires that will never fail you." SOLD.

The third person, wearing designer clothing, is impeccably well groomed. The opening sales line might be, "This car has won many awards for its design. Sit in the driver's seat and see the quality of the finish. Everything is in the right place. Pat, you look a million dollars in that outfit you are wearing and I can assure you that every time you drive this car you will feel like a million dollars!" SOLD.

In each case the salesperson is tailoring the pitch to the buyer. Far too often the sales pitch for a new process is left to a poorly prepared PowerPoint pitch and detailed accompanying report, full of features but signifying nothing.

Sales Pitches You Will Need to Make to Get the Go-Ahead

The KPI team will need to incorporate the following tasks within the work it performs in order to succeed in selling the KPI project as outlined in this book.

Task 1. Obtain PR Support for the Project. As mentioned, this project needs a PR machine behind it. Where possible, select a PR expert who already knows the organization. Failing that, seek someone who has helped market a project to an organization's staff. Do check references, and ring a couple of their old assignments asking the Jack Welch question, "Would you have them again?"

EXHIBIT 10.1 Never Underestimate the Power of a Good, Well-Practiced Elevator Speech

Please view my webcasts accessed through www.davidparmenter.com, where I have discussed this in more detail and provided you with material to help the sales process.

Task 2. Prepare Your Elevator Speech. Having now understood why prior initiatives have failed through poor selling, let us now look at how we get the SMT motivated. The key is to have a 20-second elevator speech that is designed to capture their attention. It must be ready so that when we next bump into the decision makers we are practiced and poised (see Exhibit 10.1).

The "elevator speech" term came about in management books describing how you need to be able to get a point across in an elevator ride, around 30 seconds to two minutes, as sometimes these are the only chances you may have to get through to a decision maker. The aim is, as they walk away, that they ask you to come to their office in the next few days to discuss this further.

In answer to the question "What have you been up to?" or any other inroad to a conversation, try something like this:

> *I have been looking at a new measurement methodology that could accelerate our progress on the good-to-great journey. It raises many issues. "Do we have a clear and common understanding of our critical success factors?" "Do we have far too many measures, some of which are creating dysfunctional behavior?" I would like 20 minutes of your time to outline the methodology and the easy next steps we could take. Do you have a window, I know it will be of interest."*

or like this:

> *I have been preparing an overview for the SMT on a new measurement methodology that could accelerate our progress on the good-to-great journey. It will address some of the concerns such as ________________ and _____________ which I know are of concern to you. The output of the methodology will be a clear and common ownership of our critical success factors throughout the organization, and a reduction in the number of performance measures as dysfunctional measures will be abandoned. I would welcome the opportunity to have 20 minutes with you. I have 10 slides that I am sure will be of interest to you.*

The key is to fine-tune the elevator speech so that it is compelling. I recommend you practice your elevator speech at least 20 times so that it is focused and no longer than 30 seconds. If time permits, you could talk about how late planes in the sky turned around British Airways. As Kotter said, we need to create a sense of urgency and connect both intellectually and emotionally.

Task 3: Selling the Need for a One-Day Focus Group Workshop. Assuming there is a certain level of interest, we now have to prepare a presentation to try to get the SMT to agree to a "tipping point" workshop where all the concepts can be aired and the experts are asked whether the initiative should proceed to the next stage.

This presentation is a game changer and is important to get right. You will not get a second chance. Thus, one needs to embrace the better practices around "winning" presentations. The following are some practices extracted from Appendix C, Delivering Bulletproof PowerPoint Presentations:

- Focus on the emotional drivers of the audience
- Presell to a thought leader in the intended audience so they speak first with their support
- Follow Guy Kawasaki's 10/20/30 rule: 10 slides, 20 minutes, and no font used less than 30 pitch
- Use Post-its to plan the structure of the presentation. Map the subject area out in a mind map and then do a mind dump on Post-it stickers covering all the points, diagrams, and pictures you want to cover. Have one sticker for each point. Then you place your stickers where they fit best. Using stickers makes it easy to reorganize them. This will lead to a better presentation. See Exhibit 10.2.
- The shorter the presentation, the more you need to practice—a minimum of 10 live tests with a test audience who take notes and who only provide feedback after your uninterrupted practice. Some practices will be with the thought leader who will be in the meeting. Remember: mumbling to yourself in front of the TV is not a practice session.

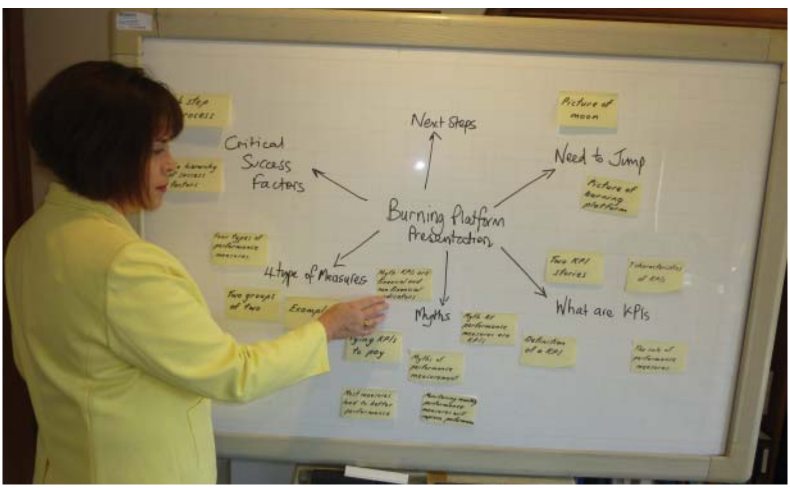

EXHIBIT 10.2 Using Post-it Stickers to Plan the Content of the Presentation

- Prime the thought leader to speak first, after you deliver your presentation covering the points you want emphasized. Read the following books: *Slide:ology: The Art and Science of Creating Great Presentations* by Nancy Duarte[2] and *Presentation Zen: Simple Ideas on Presentation Design and Delivery* by Garr Reynolds.[3]

Then, as part of the sale process, go over these points with the SMT:

Broken measures	The existing performance measures have not changed anything.
Reducing long days and weekends	The focus on the right measures would mean the CEO and SMT would be more effective in less time, saving many long evenings/weekends of work.
Improve alignment	The right KPIs will link daily staff activities to the strategic objectives as they have never been linked before.
Reporting focused on the here and now	This KPI project would start to transform the reporting into a decision-based tool with a greater focus on daily, weekly, and monthly reporting that is interesting, concise, and prompt.
Cost of current measures	The investment of time and money in the current performance measurement system is not generating enough value (estimate on the high side—costs motivate the SMT).
Need the oracles	The project team needs to focus on the marketing of this new concept and the organization's oracles are the place to start.

This stage is important as we want to create a guiding coalition in Kotter's words.

Task 4: Hold a Focus Group Workshop. The one-day focus group workshop should be attended by a cross section of 15 to 30 experienced staff covering the business units, teams, area offices, and head office, and covering the different roles from administrators to senior management team members.

At this workshop you discuss the existing issues with performance measures, expose them to the new thinking, outline the intended approach, and seek their advice to decide if the project is viable and, if so, what lessons we should learn from past projects.

As a result of this workshop, the project implementation program will be tailored to cover the main institutional barriers and hot spots, and the SMT should be in a position to select the KPI team and commit to the project.

The aim of this workshop is to be a "tipping point" get the oracles' green light and their full support, which will be important. The next step is to sell the senior management team the project to revitalize performance measurement.

Task 5: Prepare a Comprehensive KPI Project Blueprint. From a recent case study I have learned how imperative it is to invest time in developing a robust blueprint, one that sets out the direction and the requirements. One accredited coach, in the winning KPIs methodology, has recommended it could be called "a measures treasure map."

In order to achieve this you will need a series of lock-up workshops involving senior management and a cross section of the oracles. The output from these workshops is the final blueprint document.

Ballance Nutrients' Blueprint

In a major project to radically change the way Ballance Nutrients forecasted and planned for the future, Ballance Nutrients wanted to develop a blueprint, a vision, and strategy for the new process: just the thing Kotter suggested in his book *Leading Change*.

As an organization with a "thinking approach" to management, they hired an expert to facilitate the blueprint design. They based the blueprint design process around the Toyota principle: "Make decisions slowly by consensus, thoroughly considering all options, and then implement the decisions rapidly."

They held three two-week workshops. Yes, that is six weeks of workshops. This incredible front-up investment ensured that they had a clear understanding of their needs from the model, how the model should work, that every process in the model was using well thought-out logic, and that wherever possible a “helicopter” big picture view was retained. An important feature of the blueprint process was that it transferred ownership from finance to the organization: once again, being consistent with Kotter’s suggested approach in his book *Leading Change*.

The Ballance Nutrients approach is ideal for winning KPIs, albeit we can be much quicker as we are not concerned, at this stage, with implementing an expensive software application.

Task 6: Deliver Presentation to the SMT or Board to Seek Project Approval. With a comprehensive blueprint, and with the oracles support, you are now in a position to seek permission to roll out the KPI project. In many organizations this may require board approval because of its significance. Use the checklist in Appendix C, Delivering Bulletproof PowerPoint Presentations, to ensure that nothing is forgotten. Ensure that you remember Kotter’s advice: project teams have a tendency to undercommunicate.

You will be able to secure more time with this presentation: 30 to 40 minutes is ideal. It needs to cover a summary of the material in this book. I have included some PowerPoint slides in the attached electronic media.

Preselling to an Influential Member of the Decision Team. You need to ascertain who in the meeting is a wise oracle that the CEO will turn to and who is accessible to you. Visit them and ask for their assistance. Sell the project to them: that this could be a great “tipping point” in the development of the organization. You need them to be committed. Once you have a level of commitment, ask them for their input into the presentation. On a regular basis show them the slides and, at the right moment, ask them whether you could practice in front of them. Their feedback will be most valuable. Use all of their suggestions and lock in their wording. They will begin to fall in love with the presentation by recognizing their contribution.

Before the presentation ask them for their guidance to getting the meeting over the line. You will most likely be told that they will be happy to speak first, offering their support.

Now this is where you subtly suggest some points you would like them to emphasize. Nobody can now say you did not give this your full attention.

Practice, Practice, Practice. As previously mentioned, you will need some proper practices with this presentation. To have the required impact in such presentations, I would recommend attending a "train the trainer session." You will learn useful tricks to engage the senior management team.

Selling the Winning KPIs to the Organization's Staff

This activity was step five in the first and second editions of this book. I have now realized that I have, in the two earlier editions, undersold this important part of any major project. Employees need to be prepared for change. The project team and the senior management team need to:

- Convey what the organization'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 organization and best practice
- Outline what change is required
- Show how KPIs contribute to the CSFs and the organization'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 be held to outline the changes associated with introducing KPIs into the organization. By its 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 who have shown an aptitude for the new KPI model should become the team coordinators, who will support and help the KPI team to develop and implement KPIs. In Chapter 4: Revitalizing Performance, the second foundation stone was the knowledge of the paradigm shifters (Drucker, Collins, Welch, Hamel, Peters, Waterman, and others). We need to apply this knowledge, as set out in Exhibit 10.3.

EXHIBIT 10.3 Lessons from the Paradigm Shifters (featured in Chapter 4)

Lesson	Implication
Aggregate collective wisdom. Hamel provides compelling evidence that "large groups of people are often smarter than the experts in them."	The KPI team should consult widely and hold sessions during each workshop to ensure adequate chance for all to have their say. This is best done by limiting each workgroup in the workshop to no more than seven members.
Too much hierarchy, too little community. Gary Hamel points out that hierarchies are good at aggregating effort (coordinating activities), but not good at mobilizing effort (inspiring people to go above and beyond). The more you consolidate power in the hands of a few leaders, the less resilient the system will be.	The KPI team must promote a community feel to the project, selling the benefits through the emotional drivers and gaining credibility by abandoning process, measures, and reports that are not working.

"Selling the Concept" Road Show

In large organizations you may need to have a separate "selling the concept" road show before the series of KPI workshops which are held in stages four and five. You will need to structure the road show briefings so that all employees hear the message, taking into account language skills, literacy, and shift work patterns.

It is important to demonstrate the existence of a partnership in change. To this end, employee/union representatives should also address staff attending the road show, outlining their support for winning KPIs. The best workshops seem to be held in informal workplace settings, involving local management known to the audience, which are managed to maximize feedback. In larger groups, the use of written questions submitted by the audience will encourage staff to raise issues.

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The KPI team will need to incorporate the following tasks within the work it performs in this stage.

Task 1. Survey a Cross-Section of Staff. A survey is required to find out the current perceptions on existing performance information in the organization, the current concerns about the new project, and what needs to be covered in the employee briefings. This survey should be performed before the staff KPI workshops held in stages four and five.

With the help of the HR team, make a selection of experienced staff covering all regions, levels of staff, and so forth. This cross-section sample should not be greater than 200, or 10 percent of total staff, and not less than 30 staff. With these numbers, you can close off the survey with a 60 percent return rate and still have a valid survey. Too large a sample will make data mining more difficult and seldom raises any new issues. To assist, I have provided an employee questionnaire in PDF format for you to download.

Task 2. Utilizing the Feedback from Employee Survey. The feedback from employee survey must be incorporated in 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 PDF format for you to download.

Task 3. Build a Compelling Case for Change. Demonstrate that KPIs are part of an SMT-agreed package of initiatives to respond to the pressures on the organization. Spell out these pressures in terms that people can understand. Use comparative information from preliminary benchmarking to highlight the performance gap between your organization and best practice.

As already stated, in selling the project to the SMT in step one, nothing was ever sold by logic! You sell through emotional drivers. Thus, you need to radically alter the way 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).
- The focus on the right measures would mean their work would be more effective (e.g., their day-to-day work would be better linked to the organization'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 painting a picture of 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 own versions of the vision for the workplace. However, in the beginning, it is critical that the KPI project team is 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 suggested roadshow program in PDF format for you to download.

Task 5: Maintain Ongoing Communication. Whatever you have done in the past, it will not have been enough. Follow Kotter's advice and attempt to over-communicate rather than under-communicate.

Use the mediums that work for your audience. Do not sit behind a vast array of tweets, e-mails, and Facebook entries. You must merge this with "walking the talk."

Most projects make inroads and have quick wins, albeit few have a project leader that recognizes them, celebrates them, or, worse, communicates them. Make sure you have an elevator speech, updated each week, so you can spread the good news and sow the seeds of success to whomever you meet in your daily travels.

Task 6: Empower Broad-Based Action. If the blueprint was successful, you will already have traction in various parts of the organization. At Ballance Nutrients the project was racing ahead on many fronts simultaneously.

Benefits of This Stage

The KPI team will maximize the likelihood of an approval for the KPI project, as outlined in this book, to go ahead.

Marketing the KPI system to all staff maximizes the commitment from a broad cross-section of employees.

Templates and Checklists

To assist the KPI project team on the journey, templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition.

The templates include:

- Draft Employee Questionnaire
- Addressing Staff Concerns and Learning Issues Worksheet
- Draft Agenda for Road Show
- Checklist for Marketing the KPI System to All Employees

Notes

1. John Kotter, *Leading Change* (Boston: Harvard Business Review Press, 2012).
2. Nancy Duarte, *Slide:ology: The Art and Science of Creating Great Presentations* (Sebastopol, CA: O'Reilly Media, 2008).
3. Garr Reynolds, *Presentation Zen: Simple Ideas on Presentation Design and Delivery* (Gresham, OR: New Riders, 2008).

CHAPTER 11

Finding Your Organization's Operational Critical Success Factors (Stage 4)

Overview

Critical success factors (CSFs) are operational issues or aspects that need to be done well day-in, day-out by the staff in the organization. This chapter looks at the alignment between CSFs and external outcomes, highlights the importance of CSFs' identifying that this is a missing link in management theory, that an organization has typically five to eight CSFs, and that CSFs should be the source of all important performance measures—the winning KPIs. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

I was first introduced to critical success factors by the talented people who wrote the KPI manual for AusIndustry (an Australian government department). They defined critical success factors as the "list of issues or aspects of organizational performance that determine ongoing health, vitality, and well-being."[1] I have always seen these as operational issues or aspects that need to be done well day-in, day-out by the staff in the organization. They are about what the staff inside the organization can do, and should do.

I see the critical success factors as more fundamental to a business than its strategy. An organization can still succeed without a well-formulated strategy, and many do. Whilst I am aware of the significance of a well thought through and executed strategy, you will find that this is the responsibility of a select group of senior executives in the organization. Whereas, the critical success factors should be the daily focus of all staff in the organization and will impact positively on the "business as usual" strategic initiatives discussed in Chapter 4.

Operational Critical Success Factors versus External Outcomes

Recently I have realized the importance of distinguishing between operational critical success factors and external outcomes. A member of the board of a charity rightly pointed out that the CSFs tabled (the operational CSFs) were too internally focused. They wanted to see, understandably, the external picture: the external outcomes. The board was naturally looking from the "outside-in" perspective. The board wanted to see the CSFs expressed as the outcomes and impacts they want to see. We want the organization to "deliver this," "deliver that," which will provide the evidence that there has been a successful implementation of the organization's strategy.

This recent clarification has fixed an issue I have noted in a number of in-house workshops I have run where there was a mix of operational CSFs and external focused outcomes. This distinction is important and, while at first an added complication, it is worth the effort to understand and execute.

Stephen Covey pointed out in *First Things First*[2] the importance of understanding the order of things in achieving results. He talked about putting "rocks" in first every day. We can liken the operational CSFs to the rocks that the staff needs to attend to every day. They should be the driving force behind prioritization throughout the organization. Their role is to set direction to operational staff who meet current demand, current production, and, critically, deliver products and services on time. The critical success factor "delivery in full on time to key customers" is a mantra for staff meaning that major orders for our key customers, and often the difficult and complex orders, need to be tackled first. Whereas if left to handling deliveries as they saw fit, many staff would tackle the easy orders, putting the easy runs on the board, and thus jeopardizing service to our most profitable customers.

> A philosophy professor is lecturing to his students. He brings out an empty jar and golf balls. Filling the jar with the golf balls, he asks if it is full. "Yes," they reply. Then he lifts a container of dried peas and pours them in. "Is it full?" "Yes," they reply. Then he lifts a container of sand and pours it in around the golf balls and peas. "Is it full?" "Yes, definitely," they reply. Then he pours in a cup of coffee. He explained, "Golf balls are the important things in your life—you must put them into your life first; otherwise, you can't fit them in. Dried peas are the next most important things. Next is sand—e-mails, meetings, daily chores. ""So why the coffee?" a student asks. "To remind you to always have the time for a coffee with your friends, colleagues, clients," the professor replied.

External outcomes are driven from the organization's strategy and are the priority of a select few in senior management, such as the external outcome "developing and growing the new product x (or market y)." This outcome is a result of many different activities happening from secret alliance agreements being successfully signed to new operational capacity being organized in a new country. A new plant in a new country will, once operational, be guided by the operational CSFs already in existence elsewhere in the organization.

To help further clarify I have separated out the characteristics of external and operational critical success in Exhibit 11.1.

I suggest that you will know when you have got it right when you have some sort of pictorial representation on office walls illustrating to staff what is important. If you cannot meaningfully explain what the staff needs to do well day-in, day-out, you do not have a complete list of your organization's operational CSFs.

Operational Critical Success Factors—The Missing Link

In Chapter 2, the common myth that performance measures are mainly used to help manage implementation of strategic initiatives was highlighted. Instead, the main purpose of performance measures is to

EXHIBIT 11.1 Characteristics of Operational Critical Success Factors and External Outcomes

	Source for These Success Factors	Key Characteristics
Operational critical success factors—five to eight	Discussions with senior leadership team and the oracles residing in operations. Strategic documentation	24/7 daily focus Involving most staff in operations Also of concern to support staff Need to be described as "what staff should do" Describing an action or specific activities staff can focus on
External outcomes—fewer than ten	Strategy documentation, discussions with directors	Success can be as a result of the quarterly, half yearly focus operational CSFs (e.g., retention of key customers) Sometimes project-based focus Involves senior staff often in negotiations Need to be described as "what success looks like" Describing an external result such as growth in a new market, an increased service level, etc.

ensure that staff members spend their working hours focused primarily on the organization's critical success factors. You could be in your tenth year with a balanced scorecard and still not know your organization's critical success factors. It is like going to soccer's World Cup without a goalkeeper or, at best, an incompetent one. The term *critical success factors* does not appear to be addressed by some of the leading 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.

I argue that unless the operational CSFs are ascertained, each manager, in their own empire, will have what is important to them embedded in the way things are done. Many counterproductive activities will occur based on this false premise. That is, what is important to me is important to the organization. For a chief executive officer to steer the ship, everybody needs to know the journey, what makes the ship sail well, and what needs to be done in difficult weather. It can come as no surprise when I say that the term critical success factors could be a major missing link in balanced-scorecard and other methodologies.

Rules For Ascertaining the Operational Critical Success Factors

The relationship between critical success factors and KPIs is vital, as illustrated in Exhibit 11.2. If you get the critical success factors right, it is very easy to find your organization's winning KPIs (e.g., once the "timely arrival and departure of planes" was identified as being the top critical success factor, it was relatively easy to find the KPI: planes late

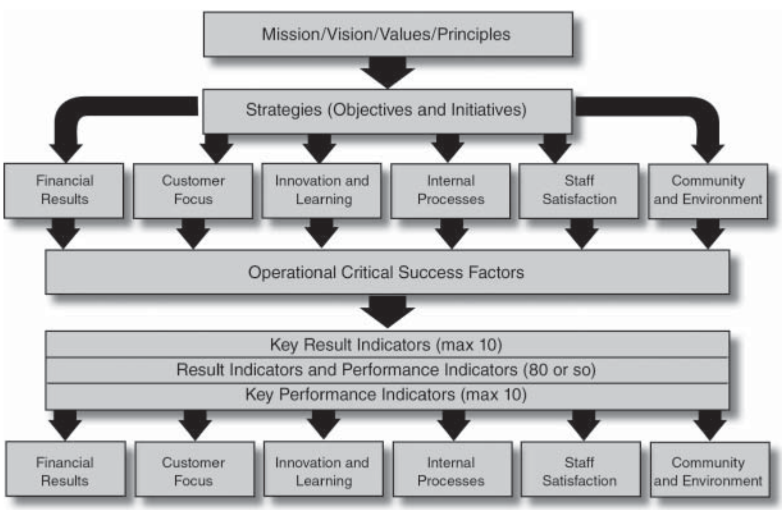


EXHIBIT 11.2 How Operational Critical Success Factors Drive the Performance Measures

over a certain time). As Exhibit 11.2 indicates, critical success factors cut across a number of balanced-scorecard perspectives (e.g., the KPI "timely arrival and departure of planes," featured in Chapter 1, impacts nearly all the balanced-scorecard perspectives of the airline).

Limit to Five to Eight Operational Critical Success Factors

Better practice suggests that organizational CSFs should be limited to between five and eight, regardless of the organization'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 those for a retail store). Accordingly, there would be a collection of CSFs in the conglomerate greater than the suggested five to eight.

Only One Set of Operational Critical Success Factors

In order to create alignment between teams in an organization, it is important that there be only one set of between five and eight critical success factors (CSFs) for the organization. If you allow teams, departments, or divisions to create their own operational CSFs, you will have chaos. Teams will follow their own agendas.

Many head office teams will note that quite a few of their daily activities are not very aligned with operational CSFs. Their alignment comes from focusing more on assisting the departments and teams who are working directly on the operational CSFs. In other words, support teams' alignment with the operational CSFs is achieved through other teams' efforts.

Operational Critical Success Factors Are Not Key Result Areas

Since the beginning of my employment, I have seen the words "key result areas" (KRAs) plastered all over my job descriptions, and it was very helpful. However, KRAs are not critical success factors. In fact, I would argue that everyone's job description should have a new section pointing out the organization's CSFs and how the incumbent should maximize alignment of his or her 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 organizational CSFs are the guiding force ensuring that all staff, every day, treat activities that align well with the CSFs as a priority.

Relationship between Critical Success Factors and Strategy

It is important to understand the relationship between operational CSFs and strategy. An organization's CSFs are impacted by a number of features. Most organizations will have one or two generic CSFs (e.g., "Stay, say, strive for engagement with staff," "Recruit the right people all the time"), but each organization will also have some unique temporary conditions (e.g., a sudden drop in revenue will mean additional CSFs will be introduced until the funding crisis is over). Some CSFs will be determined by strategy, and others will be related to normal business conditions (see Exhibit 11.3).

Operational Critical Success Factors Are the Source of All Meaningful Performance Measures

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

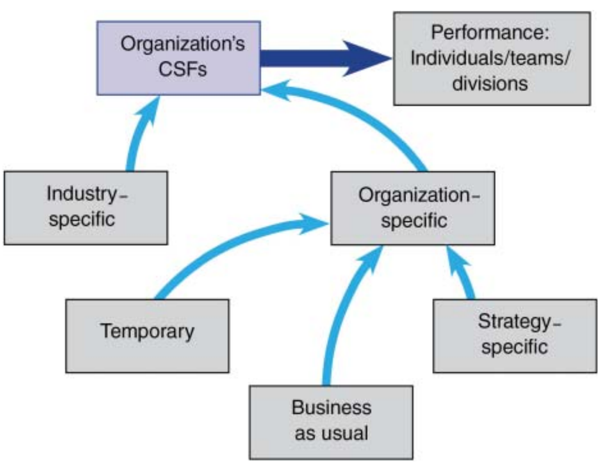


EXHIBIT 11.3 What Impacts the Critical Success Factors

The organization's five to eight operational CSFs should be the source of all performance measures that really matter: the key performance indicators. Getting staff to take up their role, which aligns to the organization's operational CSFs, is the "El Dorado" of management, the essence of modern management. Thus, instead of using the strategies as the source of your measures, clarify what your organization's operational CSFs are and then determine what measures would generate alignment to these operational CSFs. You will find that your operational CSFs will create the vital linkage between daily activities and the organization's strategies that is the sweet spot for achieving organizational alignment with the planned strategic results.

Operational CSFs are the source of all meaningful performance measures that really matter, the KPIs. It is the operational CSFs, and the performance measures they inherently carry, that link daily activities and consequently organizational meaning to the organization's strategies. The operational CSFs influence the business all the time, 24/7, and it is therefore vital to measure how the staff members in the organization are aligning their daily activities to these operational CSFs. Exhibit 11.4 shows that strategic initiatives, although their progress will be monitored, are not as fundamental to the business as monitoring the day-to-day alignment with the organization's CSFs. Most organizations know their success factors; however, few organizations have:

- Worded their success factors appropriately
- Segregated the success factors from their strategic objectives statements
- Prioritized their success factors to find their critical ones—their operational CSFs
- Communicated the operational CSFs to staff to achieve full understanding and engagement

If your organization has not completed a thorough exercise to know its operational CSFs, performance management cannot possibly function well. Performance measurement, monitoring, and reporting will be a series of random processes, creating a small army of measurers producing numerous numbing reports. The measures monitor progress in a direction often very remote from the strategic direction of the organization. Very few, if any, of the measures in these reports contain the characteristics of "winning KPIs."

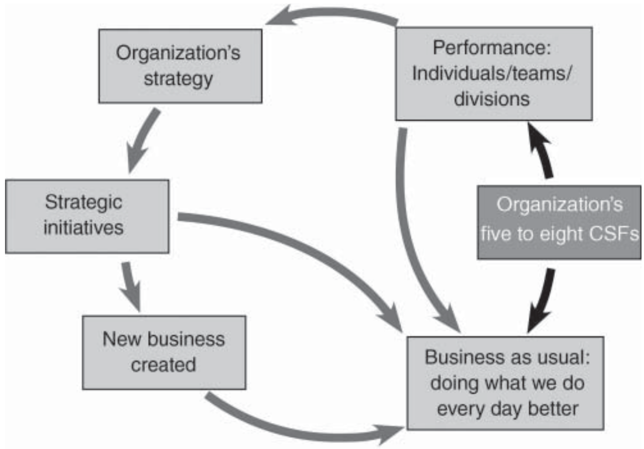


EXHIBIT 11.4 How Strategy and the Critical Success Factors Work Together

Linkage to the Paradigm Shifters

In Chapter 4, Revitalizing Performance Management, the second foundation stone was the knowledge of the paradigm shifters (Drucker, Collins, Welch, Hamel, Peters, Waterman, and others). We need to apply this knowledge, as set out in Exhibit 11.5.

EXHIBIT 11.5 **Lessons from the Paradigm Shifters (featured in Chapter 4)**

Lesson	Implication
The "hedgehog" concept. Collins points out that organizations need to know what they can be the best in the world at, what they are deeply passionate about, and what drives their economic engine. Organizations need to translate that understanding into a simple, crystal clear concept that guides all their efforts.	By understanding an organization's critical success factors and deriving performance measures from them, you will create an alignment that is consistent with Collins' thinking.
The flywheel effect. This refers to forward steps consistent with the hedgehog concept. The resultant accumulation of visible results will lead to a lineup of people energized by the results.	By measuring within the critical success factors, we will be consistent with Collins' thinking.

Characteristics of Critical Success Factors

There are a number of characteristics of CSFs that are worth dwelling on. Critical success factors:

- Are worded so everyone will understand them and buy into what is important to the organization.
- Will be no surprise to management and the board/government official, as they will have talked about them as success factors.
- Apply to more than one balanced-scorecard perspective (e.g., "Innovation is a daily activity" impacts nearly all of the balanced-scorecard perspectives).
- Are highly relevant to the organization and should not be broken down into department CSFs.
- Are few in number—five to eight is sufficient—based around SMART.
- Have a great influence on other success factors and easily demonstrate their relevance.
- Emphasize a precise operational activity, rather than being the abstract statements that strategic objectives often are.

Four Tasks for Identifying Operational Critical Success Factors

To help organizations around the world find their five to eight operational critical success factors, I have developed a four-task process.

Task 1: Documenting the Already Identified Success Factors

The KPI team, set up as part of stage two, needs to review the strategic documents in your organization covering the past 10 years, 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.

The KPI team should interview as many of the organization's "oracles," the wise men and women who everybody refers to for advice, as possible, along with the entire senior management team. From this information you will be able to come up with a list of success factors. To assist I have provided a checklist in PDF format for you to download.

Success factors wording is very important and should meet the SMART criteria attributed to Peter Drucker.[3] While Drucker was addressing goal setting, the same rules apply to success factors. Success factors need to be:

- **Specific**—Avoiding empty words that are so common in management terminology. As we move up the management ladder, we increasingly use empty words having heard them used so often. The term "increased profitability from our product range" is an empty statement. There is no guide to how this is to be achieved. Whereas "timely departure and arrival of planes 24/7" is clearly specific. It is worded so that staff could understand them and realize their importance. Widely circulated newspapers have long since known that if you want to get the message across, write for a 14-year-old reading age. Thus we need to draft our messages in a similar way.
- **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 criteria. "Timely departure and arrival of planes 24/7" is clearly measureable.
- **Achievable**—A statement that talks to the staff in a clear and concise way, making the activity achievable. For example, "timely departure and arrival of planes 24/7" is clearly achievable.
- **Relevant**—Focused enough that it is relevant to staff in the organization. "Timely departure and arrival of planes 24/7" is clearly relevant to many operational teams: flight crew, front desk, baggage handlers, cleaners, fuel and food suppliers. Operational CSFs are focused on the organization and are not to be broken down into department operational CSFs, otherwise you will have staff going in their own direction. Remember the diagram of the arrows going in many different directions in Chapter 1.
- **Time sensitive**—Focused on the here and now. "Timely departure and arrival of planes 24/7" is clearly a 24/7 imperative for an airline.

EXHIBIT 11.6 Contrasting Empty Statements to SMART success factors

Success factors that are meaningless (empty words signifying nothing)	**SMART operational success factor**	**External outcomes**
Increased profitability	Delivery in full, all the time, to our key customers	Increased profitability by selling a higher percentage of higher margin products
Growing customer base	Delivery in full, all the time, to our key customers	Retention of key customers
Maximizing the use of our most important resource—our people	Stopping to fix problems, to get quality right the first time	Supporting a positive and vibrant culture
Maximize innovation	Innovation is a daily activity	Product leadership in sector

Exhibit 11.6 shows a list of statements that contain empty words. These have been contrasted to SMART success factors and external outcomes.

From my experience this first task is rarely performed with enough intellectual rigor. We are all too busy juggling our priorities. To this end I recommend that a small group meets in a workshop to get started on this process. I have been able to hold these sessions via a webinar to help successfully kick-start this process.

To assist I have provided a list of common success factors in PDF format for you to download. However it is important that these are used after you have performed an exhaustive internal hunt. Exhibit 11.7 provides an example of such a list.

Once you have ascertained what you consider to be a good first cut, ask one or two members of the senior management team to review the list of success factors, provided they understand the rules on the wording. You have now created a list of success factors mapped against

EXHIBIT 11.7 **Sample Success Factors**

Stay, say, strive engagement with staff who contribute to our success both now … and in the future
Recruit the right people all the time
Develop exceptional people and teams who follow our organization's philosophy
Innovation is a daily activity
Willingness to abandon activities, processes, and initiatives that are not working or are unlikely to succeed
Delivery in full, on time, all the time to our key customers
Maintaining a healthy and safe workplace
We finish what we start

the six balanced-scorecard perspectives ready for the workshop attendees to review in task two.

Task 2: Determining the Operational Critical Success Factors in a Two-Day Workshop

From my experience in this area, most organizations will need to run a two-day workshop attended by experienced staff from around the organization, as much of the senior management team as possible, and the chief executive officer (CEO). The CEO needs, at the very least, to attend the first half-day and the last session after the afternoon break on the second day. However, in operational CSF workshops I have delivered for organizations, many CEOs have said they regretted not being available for the whole two days. The staff members who are likely to be on the KPI team should also attend.

It is important to have experienced staff (the oracles) attend this workshop, as you are trying to ascertain the organization's success factors and then determine which ones are critical. It is not a workshop for staff new to the organization. The organization's oracles are the individuals everyone refers you to when you need something answered (e.g., "You need to talk to Pat").

To assist organizations in finding their operational CSFs, I have provided the templates I personally use when facilitating the workshop in PDF format for you to download. For an example of one of these templates, see Exhibit 11.8.

EXHIBIT 11.8 **Extract of the Agenda for the Two-Day CSF Workshop in the Accompanying Electronic Media**

Day 1	
From 8:30 a.m.	Registration
9:00	Opening remarks by CEO—Setting the context of the workshop
9:10	The new thinking on Key Performance Indicators. The difference between the four types of performance measures The characteristics of a winning KPI—two stories The 10/80/10 rule for performance measures The importance of knowing your organization's critical success factors A case study on success factors
10:00	Presentation on success factors
10:20	Commence Workshop #1: Revisiting your organization's success factors (SFs). All work that has been already done in this area will be tabled to attendees (e.g., from a review of the past few years' strategic plans)
10:40	Morning break

Note: template continues for the remaining two days at this level of detail

The two-day workshop needs to cover the following:

- The great KPI misunderstanding, as outlined in Chapter 1
- The myths of performance measurement, as outlined in Chapter 2
- The agreement of the organization's success factors, which have been gathered in Task 1: Documenting the Already Identified Success Factors
- How to perform "sphere of influence" mapping to ascertain operational CSFs from the success factors
- The identification of the organization's operational CSFs through the application of the relationship-mapping process on the organization's success factors, as outlined later in this chapter
- The six-stage winning KPI process, set out in Chapters 8 to 13
- How to report performance measures to staff, management, and the board. The designing of report formats that begins during this workshop is to be finished afterward

- How to ascertain organizational and team performance measures from the operational CSFs
- Presentations by each work group covering their next steps to complete their scorecard, new measures they wish to use, and existing measures they wish to abandon
- How to ascertain performance measures from the organization's CSFs

Finding the Operational CSFs Through a "Sphere of Influence" Mapping Process. To find your five to eight operational CSFs, a good technique is to type all your success factors into numbered boxes on a large sheet of paper (A3/U.S. fanfold). Each team of five to seven people is then asked to map the sphere of influence of each success factor. By achieving in success factor A we will have a positive impact on success factor B. Or conversely, a negative impact in success factor A, will have a negative impact on success factor B. We insert an arrow to reflect the direction of influence.

The mapping process is performed by the team members, starting with one success factor, and then looking at each other success factor and asking, "Does it impact this success factor?" It is understandable that some relationships are two-way. In these cases we draw two arrows.

In most organizations, you will be handling over 40 success factors. As such, each arrow is shown leaving one box, with the number of the box it is going to, and then another arrow entering that box with the number of the box it has come from (see Exhibit 11.9). This exercise is slow to start with and then becomes quicker as teams remember where the success factors are positioned.

As mentioned, this process is very subjective, and it is now necessary to put attendees' knowledge of the organization to full use. I always give the following instructions:

- If one member of the team sees a linkage, other members of the team should draw the relationship without debate. This speeds up the process.
- Although the magnitude of the relationships will clearly be different, teams should pretend they are all equal for the time being.

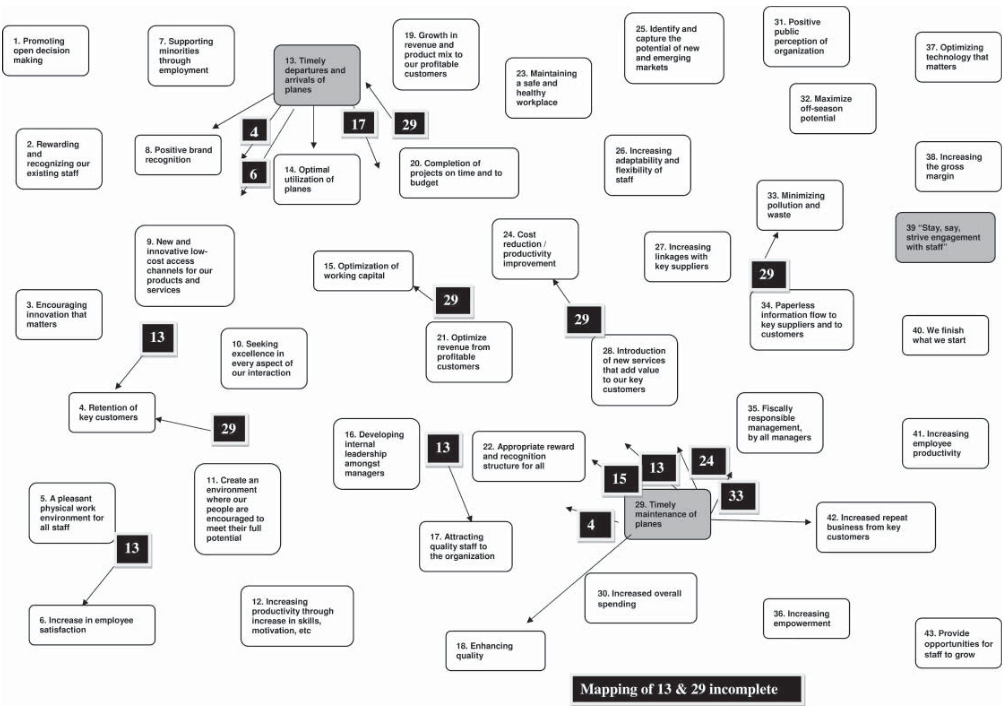


EXHIBIT 11.9 Example of Critical Success Factor Relationship-Mapping Exercise

- Each team should mentally jump into one success factor box at a time and look out at the other success factors, drawing the relationships they find.
- After a couple of success boxes have been mapped and there is a common understanding of the exercise, each group should split into smaller teams of two or three people, each looking into a designated number of success factors.

There is an alternative method of mapping relationships, shown to me by a clever attendee at an in-house workshop I was running, which involved mapping the relationships on a spreadsheet matrix (see Exhibit 11.10). This method is preferred by some and also creates documentation of the process that is easy to review.

Handling the Diversity of the Mapping by the Teams. The beauty of this exercise is that it does not matter if one team has 10 arrows out of a success factor and another team has 16 arrows out of the same success factor. Each team will have a different materiality level when establishing the arrows; that is, one team may find 20 relationships from "timely arrivals and departures of planes," while other groups may find 10, 12, or 15. I ask each team to give me their top five success factors, the ones with the most arrows out. Some of the top five success factors may have the same score, in which case I give them a position of joint second or joint third place. Thus, the scores from one team may be (1st, 2nd, =3rd, =3rd, 4th) and another team may have (=1st, =1st, =2nd, =2nd, 3rd) for their top five success factors. I list their rankings on a summary chart; see Exhibit 11.11 to see which success factors selected are the most significant.

I avoid the temptation to use a weighting, as we are trying to add certainty to a subjective process. It is my belief that success factors that are rated in the top five by most or all of the teams are the most likely to be the organization's critical success factors.

Fine-Tuning the First Cut of the Critical Success Factors. During this exercise, you will note that some attendees have a gift for this mapping process. Identify four to six of these attendees and invite them for a special exercise: remapping the 12 or so success factors that have been identified as possible operational CSFs.

As before, the mapping process is performed by starting with one success factor and then looking at whether it is impacted by each other success factor.

			Success Factor #																							
#	**Success Factor**	**Count**	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	etc	etc	40
1	**Positive public perception of ____________________________**	5		X									X					X		X	X					
2	**Be seen in the community as an employer of 'first choice'**	1	X																							
3	**Minimizing pollution and waste**	3	X																							
4	**Encouraging voluntary assistance by staff to the local community**	2	X				X																			
5	**Supporting local businesses**	3	X												X	X										
6	**Delivery in full on time, all the time to our key customers**	5	X												X			X		X			X			
7	**Finding better ways to do the things we do everyday**	4									X					X	X				X					
8	**Maintaining a safe and healthy workplace**	3	X	X													X									
9	____________________________________	2								X		X														
10	____________________________________	10	X										X			X	X	X		X	X		X	X	X	
11	____	3	X	X																X						
12	____	8																					X			
etc	____________________________________	3																							X	
etc	____________________________________	1																								
etc	___________________________________	0																								
40	_________________________________	4									X	X		X		X										
	Count (# of relationships between success factors)		8	3	0	0	1	1	1	3	3	3	2	1	3	7	5	3	0	4	3	0	3	1	2	0

This 'x' represents an arrow from success factor #1 "Positive pubic perception of XXX" to "Be seen in the community as an employer of 'first choice'".

This shows the total amount of relationships formed between success factors. The higher number, the greater the likelihood of being a **Critical** Success Factor

This 'x' represents an arrow from success factor #9 "Enhancing operational/ communication efficiency, e.g. reducing cost per transaction" to "Increasing linkages with key suppliers".

EXHIBIT 11.10 A Spreadsheet Matrix of Success Factor Relationships

EXHIBIT 11.11 Summarizing the Teams' Top Five Success Factors from the Mapping Process

	Team 1	Team 2	Team 3	Team 4	Team 5	Team 6	Number of Times Selected
Be seen in the community as an employer of "first choice"	=5		=4			1	3
Delivery in full on time, all the time to our key customers	1	=3	1	1	1	=2	6
Finding better ways to do the things we do everyday	=5						1
Recruit the right people all the time			2		4		2
Willingness to abandon activities, processes, and initiatives that are not working or are unlikely to succeed		5	=4				2
We finish what we start	4	2	=4	2	3	=2	6
Use only reliable, thoroughly tested technology that serves our people and processes		=3			2		2
"Stay, say, strive engagement with staff"	2		3	3	5		4
Increased repeat business from key customers	3					4	2
Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others				5			1

The purpose of this exercise is to test the robustness of the shortcut list and then to shortlist the five to eight success factors with the highest scoring relationships. Again we do not use the exact count of outward arrows to prioritize, as not all of the arrows are equal. We simply assume, for example, that success factors with 20 outward arrows will be more important than success factors with 8 outward arrows.

The main difference between success factors and operational CSFs is that operational CSFs have the additional characteristics of:

- Having a greater positive influence on other success factors—they are more influential to the success of the organization
- Applying to more than one balanced-scorecard perspective (e.g., "Innovation is a daily activity" impacts nearly all the balanced-scorecard perspectives)
- Being few in number, five to eight is sufficient, whereas there may be forty or so success factors

Testing the Operational CSFs. When the first cut of the operational CSFs has been ascertained, the KPI project team tests the list of the top five to eight critical success factors against the six balanced-scorecard (BSC) perspectives and the organization's strategic objectives (see Exhibits 11.12 and 11.13).

Running the Workshop. This workshop needs to be facilitated by a skilled workshop presenter familiar with the content in this book. Ideally it would be a member of the KPI team who has been selected because of their ability to deliver workshops. If an in-house resource is not available, you can access accredited coaches who can deliver in person or remotely via web-based training. For accredited coaches visit www.davidparmenter.com.

While every facilitator has a unique style, one universal teaching technique is to always demonstrate to the whole group what actions are intended before commencing an exercise. Hand out the written instructions and then read the instructions twice.

I ensure that each workshop group is between five and seven people and consists of employees from different functions within the organization.

I always ask for a volunteer chairperson, telling the workshop group, "If you do not want to give feedback to the whole group, volunteer to be the chairperson, and then you can delegate the feedback task to someone else."

EXHIBIT 11.12 How Do Your Top Five to Eight Operational CSFs Cover the Six Balanced-Scorecard Perspectives?

	Perspectives					
Critical success factor	**Financial**	**Customer satisfaction**	**Staff satisfaction**	**Innovation & learning**	**Internal process**	**Environment & community**
e.g., timely arrival and departure of planes	✓	✓	✓	✓	✓	possible
_______		✓			✓	✓
_______	✓					
_______	✓			✓		
_______			✓		✓	
_______	✓	✓		✓		

EXHIBIT 11.13 Testing That Your Top Five to Eight Operational CSFs Link to Your 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
1. ————————		✓			✓	✓
2. ————————	✓					
3. —————————			✓			
4. —————————	✓	✓			✓	
5. —————————			✓			✓
6. —————————			✓			
7. —————————	✓		✓		✓	

If you have set up the workshop properly, you will find that the work groups start this exercise quickly. A sign of success is that you can leave the room for a period of 15 minutes or so, allowing the work groups to make their own way.

To ensure that each work group documents all progress, it is necessary that one attendee in each group brings a laptop and that the electronic templates they are to use are loaded on the laptop. Work groups will then be able to update the success factor template, record their measures, and start drafting new report formats during the workshop.

As mentioned, to help organizations find their operational CSFs, I have provided free to all readers of this book, via my website www.davidparmenter.com, the templates I personally use when facilitating the CSF workshop.

Selection of the Critical Success Factors Is a Very Subjective Exercise. The selection of the operational CSFs is a very subjective exercise, and the effectiveness and usefulness of those CSFs chosen is highly dependent on the degree of analytical skill of those involved. Active leadership by senior management in this step is, therefore, mandatory.

Task 3: Presenting the Critical Success Factors

Once the CSFs have been ascertained, there is a need to communicate them to those who have not been part of the process.

The senior management team members, managers, and staff who have not attended the CSF workshop will need to understand how they came about and their significance. The KPI team prepares and delivers a presentation on the organization's CSFs to facilitate discussion and agreement with the senior management team and then to the staff. See accompanying electronic media for the suggested content for this presentation.

The presentation will cover:

- The history of performance measurement within the organization
- How these CSFs were ascertained and by whom
- The top five to eight CSFs and their impact on the organization's success factors. One organization showed each CSF on a slide with all the success factors they affected (see Exhibit 11.14)

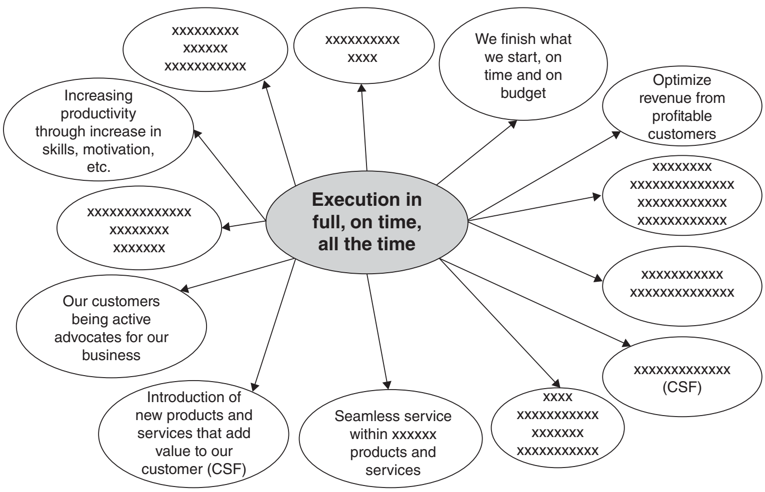


EXHIBIT 11.14 Showing How the Critical Success Factors Affect Other Success Factors

- 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

The CSFs need to be discussed with employee representatives and conveyed to staff to maximize the benefits once the CSFs have been ascertained. If staff members are told what is important, they can align their daily activities to maximize their contribution.

It will be beneficial to brief the board on the KPI project and its effect on the board report. The presentation to the board will need to be different. There will be more of an emphasis on discussing the reasons for the project, the benefits to the board, the difference between external outcomes and operational success factors, 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 operational CSFs and the forthcoming KPIs as these are a management tool.

Task 4: On the Wall in Every Workplace

This is an important step; however, from my observation it is often overlooked. The only way the operational CSFs will make a change in an organization is when staff live, breathe, and own the operational CSFs. For that to happen, the operational CSFs need to be communicated and agreed in a meaningful way 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 11.15, the company in question 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 color. I believe this concept is an ideal way to present the CSFs to staff.

Alternative Methodologies

There are a number of competing methodologies in this area, and it is important for the KPI project team to understand them and contrast them before a decision is made. Also visit Chapter 18 for a more detailed comparison of these two approaches.

EXHIBIT 11.15 Communicating Critical Success Factors to Staff Example
Source: Energy Efficiency and Conservation Authority 2009/2010 Plan.

Strategy Mapping

The reader who is conversant with Kaplan and Norton's[4] work will note that I have not supported the concept of strategy mapping. In Chapter 2, I point out that it is a myth that strategy mapping is a vital requirement for ascertaining performance measures. I explained:

> *If strategy maps help management make some sense out of their strategy, then, as a working document, they must be useful. However, I am concerned with the "simplified" use of cause-and-effect relationships, a major component of strategy mapping. It has led to the demise of many performance-measurement initiatives. From these oversimplified relationships come the strategic initiatives and the cascading performance measures. Strategy mapping, in the wrong hands, can give birth to a monster.*

Should you wish to use strategy mapping, please ensure that you have read and understood my critique in Chapter 2.

Result Mapping

Stacey Barr[5] has developed a methodology called result maps. It is a sophisticated way to map relationships. I recommend that the KPI team leader appraises this methodology before committing to one method or another. Barr has some rules that need to be followed in order for the wording to be appropriate in the result maps. Barr also looks at the relationships in a more comprehensive way than just cause-effect mapping.

Barr's result mapping process will certainly improve the clarity of how strategy is thought about. I am, however, uncertain as to whether it will lead to the ascertaining of the important measures, the KPIs, as there is no focus on the critical success factors, the origin of all meaningful measures.

Benefits of This Stage

Employees and management understand what CSFs are and can therefore focus their attention on finding performance measures in these areas. That is, performance measures that will make a real difference.

Templates and Checklists

To assist the KPI project team on the journey, templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition.

The templates include:

- Preparing a List of Draft Operational Success Factors Checklist
- Common Operational Success Factors
- A Suggested Draft of the CEO Invitation
- Critical Success Factor Workshop Timetable
- A Checklist For Planning a Workshop
- Instructions for Break-out Exercises

Notes

1. *Key Performance Indicators Manual: A Practical Guide for the Best Practice Development, Implementation and Use of KPIs* (Aus-Industries, 1996). Now out of print.
2. Stephen Covey, A. Roger Merrill, and Rebecca R. Merrill, *First Things First: To Live, to Love, to Learn, to Leave a Legacy* (New York: Simon & Schuster, 1994).
3. Peter F. Drucker, *The Practice of Management* (New York: HarperCollins, 1954).
4. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge, MA: Harvard Business Press, 1996).
5. Stacey Barr "*Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, And Engaging KPIs*" StaceyBarr 2014.

CHAPTER 12

Determining Measures That Will Work in Your Organization (Stage 5)

Overview

Many performance measures are created from a flawed process. Frequently the task of finding measures is carried out at the last minute by staff members who do not have a clue about what is involved in finding a measure that will create the appropriate behavioral response. This chapter looks at common reasons why organizations get their measures radically wrong, how to design appropriate measures, the need for a performance measure database, and how you help teams select the appropriate measures. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

In this important stage (Stage 5 in the methodology) we need to first understand how to determine measures, how to record them, understand the importance of sorting the wheat from the chaff, and agree that measures are best found at the workface by teams rather than the traditional top-down approach of the balanced scorecard. Having made this agreement, we need to understand how to sell the KPI methodology to the employees as well as explain how the workshops are run.

How to Derive Measures: An Overview

Many performance measures are created from a flawed process. Numerous methodologies, including the balanced scorecard, appear to simply say the measures are a by-product of the exercise. Frequently the task of finding measures is a task carried out at the last minute by staff members who do not have a clue about what is involved in finding a measure that will receive the appropriate behavioral response. As mentioned in Chapter 2, it is one of the myths of performance measurement that appropriate measures are very obvious. There are a number of common reasons why organizations get their measures radically wrong as set out in Exhibit 12.1.

EXHIBIT 12.1 Common Reasons Why Organizations Get Their Measures Radically Wrong

"SMART" is not the answer	To be under the misconception that as long as a measure is SMART—*specific, measureable, attainable, realistic,* and *time sensitive*—it will do. This, of course, ignores the fact that the measure may not be linked to the critical success factors of the business and that its dark side may be very damaging.
Cascading does not work	The cascading down of performance measures, where one measure is broken down into its component parts as it goes down different teams (e.g., you start with return on capital employed and then say what measures made this up, and so on down).
Training is essential	Giving teams the task of finding measures without any training and placing them in the organization's balanced scorecard application.
Top down does not work	Giving the task to a few accountants or performance-management specialists who complete this task in the spare moments they have.
Tying KPIs to pay will fail	Tying KPIs to performance-related pay. If you do this, KPI stands for *key political indicator,* rather than *key performance indicator*. As mentioned earlier, good performance with KPIs should be seen as a "ticket to the game," a given, the reason why you are employed; thus, there is no need to incentivize them.

An overview of the important work that needs to be done in order to arrive at measures that will work in your organization is set out in Exhibit 12.2.

Ascertain the Team Performance Measures

This is a vital step in performance improvement and was step 8 in the first and second editions. The appropriate team performance measures will help teams to align their behavior in a coherent way to the benefit of the entire organization. This is achieved because teams are focusing on those performance measures that are linked to the organization's CSFs. Team performance measures will be comprised mainly of relevant RIs, PIs, and some of the organization's KPIs (e.g., a late plane's measure would have been monitored by the front desk, engineering, catering, cleaning, etc., but not the accounting team).

Although management often tends to become focused on achieving KPI introduction at the global, organization-wide level, in reality the critical issue is getting these KPIs embedded in the teams that need to take corrective action 24/7. Thus, it is at the team level—level 4 in Exhibit 12.3—that significant and sustainable performance improvement can be achieved through the use of performance measures.

Why Team Performance Measures Are Critical

Every CEO wishes that employees' day-to-day work would align itself with the organization's strategic objectives. Yet this is seldom the case. Why does your marketing team measure *all* customer satisfaction infrequently when the CSF in that area might be "increased repeat business from key customers"? Surely you should be measuring the satisfaction of key customers regularly and ignoring those customers you could do without. Why does dispatch do the same quality control and timely dispatch procedures for all customers, when it is your key customers that should get extra checks at the expense of those customers that you would be better off losing? The answer lies with the fact that we have not communicated the critical success factors to staff, nor have we worked with them to select the measures that stem

EXHIBIT 12.2 Summary of What Needs to Be Done in Order to Arrive at Measures That Will Work

Task	Description
Locate success factors	Determine what your success factors are. This has been covered in Chapter 11 (Stage 4).
Ascertain CSFs	Map the relationships to find which success factors have the most significant impact—the critical success factors. This has been covered in Chapter 11 (Stage 4).
Train a small KPI team	Train a small team in how to derive measures led by the chief measurement officer. This has been covered in Chapter 9 (Stage 2).
Selling the KPI system to all employees	This important step is covered in Chapter 10 Stage 3.
Teams design appropriate measures	Teams review the critical success factors and design appropriate measures for their team.
Teams record performance measures in a database	Record all measures collected from the workshop sessions in a database, indicating the key features, such as description of measure, suggested measure name, the critical success factor the measure influences, and measurement frequency.
Sort the measures	Sort the wheat from the chaff by having an experienced KPI team member review every measure.
Determine measure name and how it is measured	Finalize the appropriate names for all the measures that will be used and clearly think through how the measures will be utilized.
Find the KRIs	Ascertain the KRIs that we will need to report to the Board.
Ascertain the team performance measures	Teams ascertain measures from relevant CSFs.
Find the KPIs	Ascertain the winning KPIs and commence testing of them.
Measures Gallery	Hold a "Measures Gallery" as suggested by Stacey Barr,[a] which is an open session where staff are invited to share their views on the measures which have been displayed on the walls of the room.

[a]Stacey Barr's *Practical Performance Measurement Using the PuMP Blueprint for Fast, Easy and Engaging Performance Measures*, 2014.

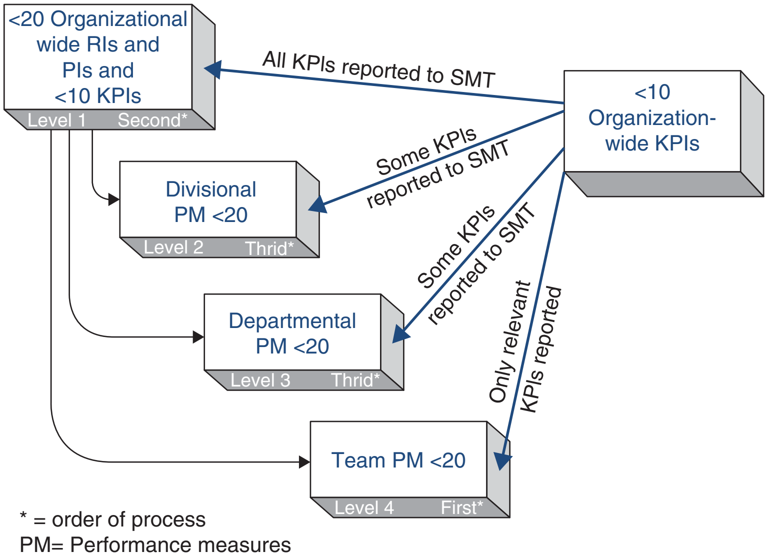


EXHIBIT 12.3 Interrelated Levels of Performance Measures in an Organization

from these CSFs. Once we have performed this, a magical alignment can occur between effort and effectiveness.

Key Tasks for the Roll Out of the Team KPI Workshops

The KPI team will need to incorporate these tasks within the work it performs in stage 5.

Task 1. Holding the Team KPI Workshops. The KPI project team must provide training and assistance to all teams so that they are equipped to select their own performance measures that are consistent with the organization's CSFs. It is a good idea to bring a number of teams together at the same time, as they will learn from each other's different views. Some workshop groups have up to 80 attendees doing the team performance measures exercise. Each team is broken up into a discussion group of four to seven staff members. To assist I have provided the proposed agenda for the KPI workshop and the breakout work group sessions in PDF format for you to download.

Encourage balance in the teams' performance measures. If the CSFs are clearly defined and related to the six BSC perspectives (customer focus, financial performance, learning and growth, internal process, employee satisfaction, and environment/community), then team performance measures developed in this context generally will reflect the required balance.

In the opening presentation, address the issues and perceptions raised in the employee survey that are important to your audience through small-group briefings, spelling out the workplace vision. The briefings are used to explain the purpose and use of KPIs, address any concerns and ground rules, and discuss the way forward. Employees often are concerned that performance information will be:

- Collected on individuals and held against them (e.g., for disciplinary purposes)
- Filtered both in content and distribution (e.g., "They only show us information when it suits their purposes")
- Used to allocate blame for performance problems

Task 2. Promote an Appropriate Mix of Past, Current, and Future-Looking Measures. Current measures are measured 24/7 or daily, and future measures are the record of a future date 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). (See Exhibit 12.4.) *Key result indicators and result indicators* will all be past measures, whereas *performance indicators and key performance indicators* are now categorized as either past, current, or future measures. You will find that most of the KPIs in your organization will fit into the *current or future categories*. The previous debate about lag (outcome) and lead (performance driver) indicators is now dispensed with. As pointed out in Chapter 1, lag and lead indicators do not work and serve to confuse.

Task 3. Permit Team Performance Measures to Evolve. Virtually no team will achieve a perfect set of performance measures at its first or even its second attempt. Further, once a set of performance measures exists, individual indicators may need to vary as the team improves performance and then moves on to focus on other problem areas.

EXHIBIT 12.4 Taking a Past Measure and Restating as a Current and Future Measure

Past measures	**Current measures**	**Future measures**
(last week / fortnight / month / quarter)	(24/7 and daily)	(next day / 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, months two and three to target areas which 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

Task 4. Assess the Level of Understanding That Attendees Have of the Organization's CSFs. During the workshop we need to assess the level of understanding of attendees regarding the organization's CSFs. This should occur toward the end of the day. To assist I have provided a worksheet in PDF format for you to download.

Task 5. Never Lose Sight of Team Ownership. Remember that the primary purpose of team performance measures is to assist and help the team to improve their performance. It follows that their performance measures represent what they want to collect in order to contribute to improvement in the identified CSFs. The KPI team needs to steer them gently if they are off course.

Task 6. A Maximum of 25 Performance Measures for a Team. As a guide, 25 is probably the upper limit of performance measures that a team should select for regular use. Any more than this number may lead to resource problems and a lack of focus. These performance measures will include some of the organization's KPIs. Some teams may have up to three organizational KPIs in their team scorecard.

Many head-office teams will not have KPIs in their scorecard, as they are not relevant to them (e.g., the British Airway's accounting team would not have a late planes measure). Remember that the KPIs affect the entire organization. Thus, there are no KPIs specific to one team.

To assist you in delivering a successful workshop I have provided a checklist in PDF format for you to download. The KPI team, with the facilitator, should amend this checklist before use to suit the organization and desired approach.

Designing Appropriate Measures

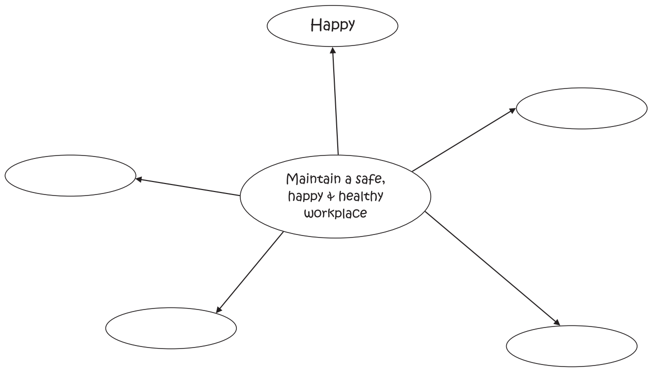
When designing measures there needs to be a very structured process. To assist with the designing of measures, here are some useful rules:

- Make sure you have conducted a training session delivered by the now experienced KPI team on how to word the performance measures and how to make them measurable.
- Use a mix of oracles and young guns in the designing measures session.
- Everybody is considered an equal during the session; thus, ensure that the most senior member does not act as the facilitator as this sets up the ritual of a meeting.
- You need to design measures from the critical success factors, which are fine-tuned statements and easy to understand by all those involved so they will share the common goal. When you design a measure from a well-worded critical success factor, you are already focused; in other words, you are looking through the sights of a rifle.
- Many measures in the workshops will be of little use. The sorting out of wheat from the chaff is carried out by the KPI team, and the process is covered in a later section of this chapter.

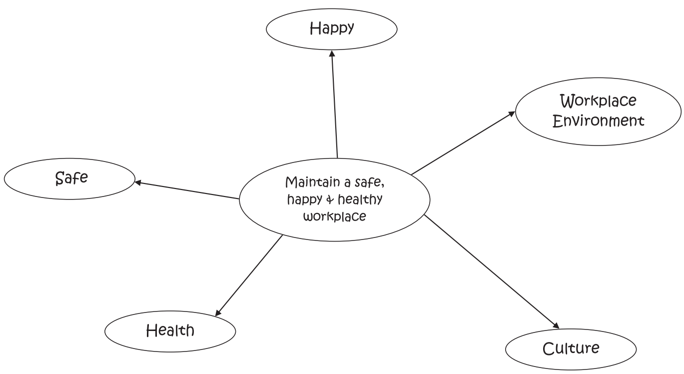
You start off with a chosen CSF and then you ascertain the results you would expect to see if the critical success factor is working correctly. Often the results come from the words used in the critical success factor. I tend to aim for four to five results. For example, if we were to ascertain measures for the critical success factor "maintaining a safe, happy and healthy workplace" (see Exhibit 12.5), the results could be: staff happy with their work, workplace is safe at all

EXHIBIT 12.5 Process to ascertain Measures from a Critical Success Factor

I ask what aspects or areas should be measured in this critical success factor. The aspects are only trigger points and often include duplication. All suggestions for aspects should be treated as good ideas. There is no editing or disputing an idea. Often, the most unusual idea can give birth to a major discovery.



I always aim for at least five aspects. Look for key words in the CSF wording.

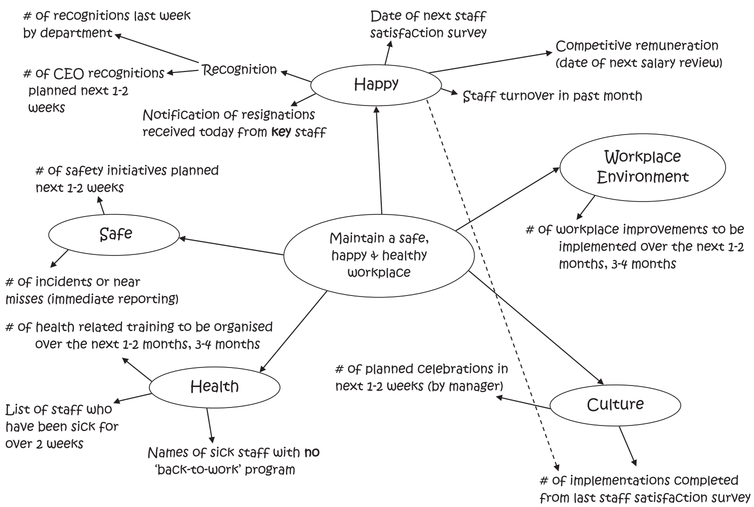


We start ascertaining the likely measures. Which include:

- # of recognitions given last week by department
- # of CEO recognitions planned for next week/next fortnight
- # of incidents or near misses (immediate reporting)

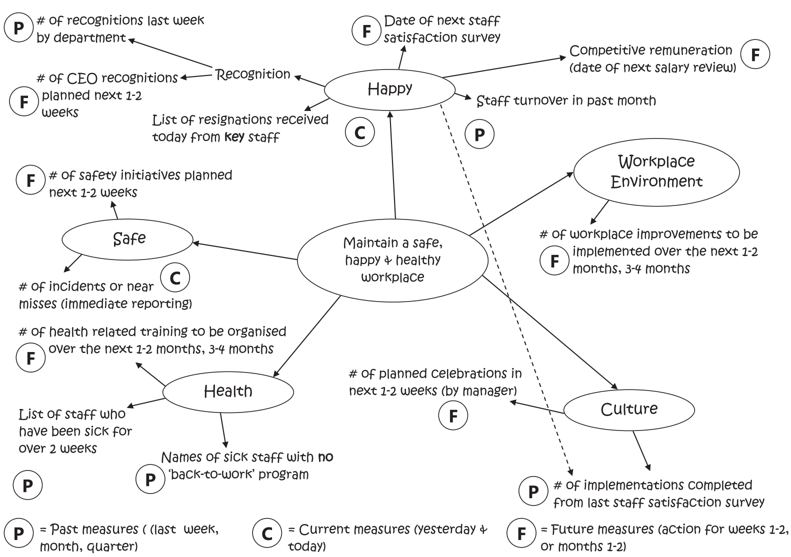
(continued)

EXHIBIT 12.5 (*Continued*)



The next stage is to mark the measures that are:

- Past measures (# of recognitions given last week by department)
- Current measures (# of incidents or near misses)
- Future measures (# of planned celebrations in next week / next fortnight)



times, healthy working conditions at all times, there is a positive "go for it" culture.

With each aspect, you then commence thinking of likely measures. Ask the attendees in the session, "What would good performance look like?" Using their answers, ask them, "What measures would show this good performance best?" Then ask, "What would poor performance look like?" In response to their answers, ask them, "What measures would give advance warnings of this negative performance?"

Before you move on, you need to ensure that you have a mix of past (P), current (C), and future (F) measures (See Exhibit 12.5).

Recording Performance Measures in a Database

The database of performance measures is fed from a number of sources. The KPI team will have gathered and recorded performance measures from:

- Information gained during discussions held with senior management, revisiting company archives, reviewing monthly reports
- External research from the beginning of the project (the books recommended in Chapter 9)
- The CSF workshop, which would have been held already

Now it is time to use these measures to help the staff ascertain their team measures and, in addition, to trap all the new performance measures generated from each team workshop.

Performance measures identified need to be collated in a database. This database needs to be up-to-date, complete, and made available to all employees to help support their understanding of performance measures and to assist with their selection of their team measures. The suggested fields are set out in Exhibit 12.6.

During all workshops ensure the database is updated before they go to any break. I normally use a simple word table as the input form, which is updated on an employee's laptop and passed over to the KPI team via a USB stick. At this point we only need to record name and time zone. The rest can be added once the measure has passed through some tests.

Name of Performance measure	Type of measure (KRI,RI, PI, KPI)	Person responsible	BSC perspectives	Time Zone (Past, Current, Future)	Frequency of measurement (24 by 7, daily, weekly, monthly)	Suggested target	Origin of measure (Name of critical success factor / success factor)	Team xx	Team xx	Team xx	Team xx	Team xx
Number of initiatives **implemented from** the quarterly rolling key customer survey	PI	John Doe	CF	Past	Weekly after survey (stop after 10 weeks)	All initiatives implemented within 3 months of survey	Retain key customers, Increase repeat business from key customers	✓	✓		✓	
Late planes, more than two hours late	KPI	Susan John	F, CF,E&C IP, SS, I&L	Current	24 by 7	<3 per week	Timely arrival and departure of planes	✓	✓	✓	✓	✓
Number of initiatives **to be implemented** to get planes on time	RI	Basil John	CF,IP,F,E&C	Future	Weekly	>3 per month per team	Timely arrival and departure of planes	✓	✓		✓	
xxxxxxxxxxxxxxx xxxxxxxxx	PI	xxxxxxx	xxxx	xxxx	xx	xx	xxx	✓		✓		

F = Financial Results CF = Customer Focus, E&C = Environment & Community, IP = Internal Process, SS = Staff Satisfaction, I&L = Innovation & Learning

EXHIBIT 12.6 Performance Measure Database Layout Example

Key Tasks for Recording Measures in a Database

The KPI team will need to incorporate these tasks within the work it performs in stage 5:

Task 1. Select a Database That Has Wide Access within the Organization and Is User-Friendly. Most organizations operate database applications, which are underutilized. The KPI team must learn to use the in-house database application and design and build a performance measure database that is easy to use. An access performance measure database is available from www.davidparmenter.com for a small fee. Open the templates icon and search for the "Database of Measures and Associated Success Factors."

Task 2. Build the Database. The database should be built for ease of use and include sections where teams:

- Select the critical success factors (CSFs)/success factors (SFs) that are relevant to them.
- Can interrogate the database using keywords to see if their measure is already included.
- Can add new performance measures (only the KPI team should have power to delete measures).
- Record their selection of all the measures they are proposing to use.

Task 3. Populate the Database. On a daily basis, the measures that have been identified need to be input into the database to ensure that they are not lost in a mountain of paperwork. In order to maintain consistency of input, one person or a small team should be responsible for this action. An easy-to-use input form should be set up in the database to facilitate entering the measures in a timely manner.

Task 4. Train All Teams to Use the Database and to Refine the Performance Measures Constantly. The KPI team needs to train all the other teams on not only how to use the database but also the significance of each database field. This is best achieved through the rolling workshops they will be giving teams. Teams will be trained to review the database to see if any new measure has emerged that is very relevant for their team. This will be performed as part of a later step.

The team will need to refine the performance measures constantly by "peeling more layers off the onion." In time, a clearer hierarchy of measures will develop, some will be discarded, and new measures will start emerging that will have a profound impact on the organization's future.

Task 5. Ensure That All Database Fields Are Complete for Every Performance Measure. The project team needs to review the database constantly, cleanse it of duplication, and encourage teams to look at measures that have been selected by their peers. The checklist in the next section can be used as an aid to the KPI project team, ensuring that important tasks are not overlooked. The KPI team, with the facilitator, should amend this checklist before use to suit the organization and desired approach.

To assist I have provided suggestions on how to build and maintain a database in PDF format for you to download.

Sorting the Wheat from the Chaff

Mankind has for thousands of years been able to sort the wheat from the chaff. It is thus in our DNA. We now need to use this ancient practice with all measures we have located. Leave the sorting of measures until after the KPI staff workshop and let this exercise be done by the KPI team—the in-house experts on performance measures.

I recommend the following sorting techniques:

- Sort the measures so all duplicate measures and unnecessary measures are removed.
- Tidy up the wording of the measure so that the measures are easy to understand. The final naming of the measure is done later.
- Measure the strength and feasibility of the measure, as recommended by Stacey Barr.[1]
- Sort the measures into the four types of performance measures (KRIs, RIs, PIs or KPIs).
- The easiest way to find the possible KPIs is to look for nonfinancial measures, which are reported frequently. These are the first two characteristics of KPIs. KRIs will be identified as they summarize progress against the strategic initiatives. This is discussed later on in this chapter.
- Look for the unintended consequence; as mentioned in Chapter 3, all measures will have a dark side.

- Understand what you need to do to minimize the possible dark side to these measures.
- The further cleansing of the remaining PIs and RIs should rest with the chief performance officer, as it is a skilled task. I personally would advise against any collaborative weighting exercise as it gets too arbitrary.

Stacey Barr, in her book,[2] has devoted a large chapter called "Designing Meaningful Measures" and I would recommend that the KPI team read and understand her views.

Determine Measure Name and How It Is Measured

Creating an appropriate name for the measure and ascertaining how they are to be measured is an important task. These two features should also be recorded in the performance measure database. This task is best done later on by the KPI team as many measures will by then have been abandoned, thus making the task easier. Barr's work in this area will be of use to a KPI project team.[3]

Use Pareto's 80/20 Rule When Assessing How to Calculate a Measure

Encourage teams to be practical when assessing how to calculate their chosen performance measures. It is essential that the cost of gathering the measure is not greater than the benefit derived from the measure. For many measures, staff should be encouraged to either use sample techniques (e.g., measure late invoices one week every month) or assessment techniques (e.g., estimate the number of coaching hours received last month). Pareto's 80/20 rule encourages us to measure in detail only the KPIs—for example, the late planes' tracking system would have warranted a multimillion-dollar investment.

Find the KRIs That Need to Be Reported to the Board

I have already alluded to the fact that the internal CSFs ascertained in the CSF workshop are the source for all performance measures. I now wish to clarify this. I once thought that the CSFs would also be the source of the KRIs. However, on a recent project it was made clear to me that the board tends to look at the organization from the outside in and thus, to them, the CSFs must reflect the progress with regard to strategy.

To ascertain the KRIs one needs to look at the external issues that concern the board and the strategy objectives, and from these objectives the KRIs will emerge. In many cases the KRIs have already been described in graphs to the board and incorrectly been called KPIs. We need to take these board measures and rebrand them as KRIs.

The importance of separating the KRIs from the KPIs should not be underestimated. KRIs will paint the picture of how the organization is performing and help keep the board focused on strategic issues.

An Ocean Liner Analogy

An organization can be likened to an ocean liner. The captain (CEO), officers (senior management team), and crew should be concerned with important daily activities that make the ship function and the board should be focused on strategic issues. However, far too often, the board members are parked in the bridge wrestling with the captain over control of the helm. We thus need a way to describe to the board that the "liner" is being steered in the right direction at the right speed, giving them confidence that the captain and crew know what they are doing. The board will then be happy to be escorted to the first class lounge so they can concentrate on what they do best, focusing on the horizon for icebergs and new ports of call.

Key Tasks for Finding the KRIs That Need to Be Reported to the Board

The key tasks for ascertaining the possible KRIs include these tasks:

Task 1. Review the strategic objectives and see what measures best describe progress. Commonly these measures will have already been graphed in strategic documents or previous board papers. Gather these graphs and, now using Stephen Few's guidelines, improve the presentation of the data.

Task 2. Review the operational critical success factors. As mentioned earlier, the internal critical success factors will not be the sole driver for the KRIs as the focus on inputs and activities; also to be considered are the outcomes and impacts which interest the board. However, the CSFs will help give some direction as to what are some good KRIs (e.g., the CSF timely departure and arrival of planes would stimulate a graph to show the timeliness of planes across the main regions of the world).

Task 3. Limit the KRIs to no more than 10. At first you may have up to 25 KRIs. Although there is no magic number, few organizations will need more than 10 KRIs. So start a process to weed out unnecessary KRIs. This can be done in discussion with the SMT and the board members.

Task 4. Ensure that the KRIs impact all of the six BSC perspectives. We need to ensure the board dashboard is balanced. Thus, the KRIs should be mapped against the six balanced scorecard perspectives discussed earlier in this book.

Task 5. Discuss the KRIs with a board member before presenting the KRIs to the board. It is important to presell the KRIs, so select one member of the board who is influential and seek their input before the board meeting. The aim is to get their buy-in and ensure that they are vocal in the board meeting. Ideally they should speak immediately after your presentation stating their support.

Find the Winning KPIs

It is recommended that the selection of organizational KPIs be started after the staff KPI workshops have been held and teams have made some progress with their own measures at the team level (level 4 in Exhibit 3.12).

No matter how complex your organization—whether a public body, a hospital, or a diverse manufacturer—*team, department, and division performance measures should not be consolidated* to become the organizational measures. Doing this creates chaos (e.g., some hospitals have over 200 measures at the organizational level). It is crucial that all staff members fully understand KPIs (see Chapter 1). Remember, finding appropriate KPIs is very much like peeling the layers off an onion to get to the core. Although it is relatively easy to produce a reasonable list of performance indicators, it is difficult to identify the *key* performance indicators, particularly when it is remembered that there will be fewer than 10 in the entire organization.

Key Tasks for Finding the Winning KPIs

The key tasks for ascertaining the possible winning KPIs include these tasks:

Task 1. Ensure That All KPIs Have All of the KPI Characteristics. Ensure that all KPIs selected pass this checklist. See Chapter 4 for the layout for the form. The characteristics of a KPI are:

- Nonfinancial measures (that is, not expressed in dollars, yen, euros, etc.)
- Measured frequently (e.g., 24/7, daily, or weekly)
- Acted on by CEO and senior management team
- Clear indications of what action is required by staff (e.g., staff can understand the measures and know what to fix)
- Measures that tie responsibility down to a team or a group of teams that work closely together
- Significant impact (e.g., it impacts most of the core CSFs and more than one BSC perspective)
- Encouragement for appropriate action (e.g., have been tested to ensure they have a positive impact on performance, a minimal dark side)

Task 2. Limit the Organization-Wide KPIs to No More Than 10. There is no magic number, but few organizations will need more than 10 KPIs, and in fact many can operate successfully on fewer than five KPIs.

Task 3. Test All the KPIs in Three Pilots. It is important to test the KPIs to ensure they are working as expected and are having the desired behavioral outcomes.

To assist I have provided a checklist in PDF format for you to download.

Measures Gallery

Hold a "Measures Gallery" session as suggested by Stacey Barr, which is an open session where staff members are invited to share their views on the measures that have been displayed on the walls of the room. Visitors are encouraged to give feedback by writing their thoughts on Post-it stickers, which then are placed on the wall by the appropriate measure. This technique has been used successfully by a number of Stacey Barr's clients.

I like the concept as it is a way of accessing the "wisdom of the crowd." James Surowiecki[4] wrote that "a large group of people are often smarter than the smartest people in them." Hence the term "wisdom of the crowd" was born. In other words, a group's aggregated answers to questions that involve quantity estimation have generally been found to be as good as, and often better than, the answer given by any of the individuals in the group.

It also gives another form of testing of the dark side. Staff can put on a sticker, "The last time we used this measure in 200x the following dysfunctional behavior resulted __________________".

I imagine a measures gallery would look something like Exhibit 12.7.

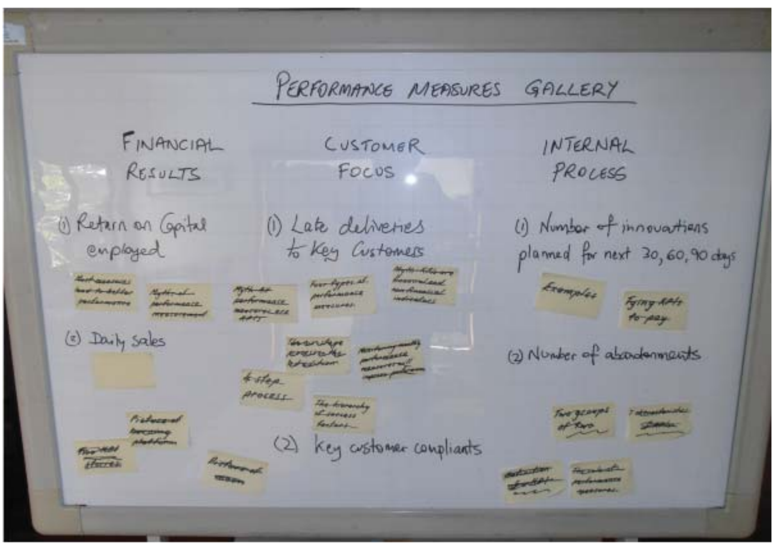


EXHIBIT 12.7 A Measures Gallery Used to Gather Feedback on Measures

Benefits of This Stage

Determining the measures that will work for the organization will have a profound impact on the organization, stimulating timely action and linking day-to-day activities to the strategic objectives of the organization.

In addition, this stage will improve job satisfaction (e.g., measures that increase the level of staff recognition), increase job security in the longer term as teams contribute more to the bottom line, and provide a basis for recognizing and celebrating team achievements.

Templates and Checklists

To assist the KPI project team on the journey, templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition.

The templates include:

- Proposed Agenda for the KPI Workshop for All Staff
- Team Balanced Scorecards Workshop Exercises
- Assess the Level of Understanding of the Organization's CSFs Worksheet
- Checklist to Ensure That You Have a Successful Staff Workshop
- Key Tasks for Recording Performance Measures in a Database
- Selecting Organization-Wide Winning KPIs Worksheet

Notes

1. Stacey Barr *Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, And Engaging KPIs* StaceyBarr 2014.
2. Ibid.
3. Ibid.
4. Surowiecki, James. *The Wisdom of the Crowds*. Anchor, 2005.

CHAPTER 13

Get the Measures to Drive Performance (Stage 6)

Overview

In order to get measures to drive performance, a reporting framework needs to be developed at all levels within the organization. This chapter describes a reporting framework, discusses the way to help the KPIs get off the ground, and explains how KPIs are refined to maintain their relevance. This chapter also outlines the tasks required in this stage and gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

In this stage, in order to get measures, we need to develop a reporting framework at all levels, facilitate the use of winning KPIs, and periodically refine KPIs to maintain their relevance.

Develop the Reporting Framework at All Levels

This activity was step 10 in the first and second editions of this book. The reporting framework has to accommodate the requirements of different levels in the organization and the reporting frequency that supports timely decision making. A suggested framework for reporting performance indicators is set out in Exhibit 13.1.

Most KPIs should be reported each day (electronically) at 9 A.M. or, as in the case of British Airways, constantly updated 24 hours a day, seven days a week.

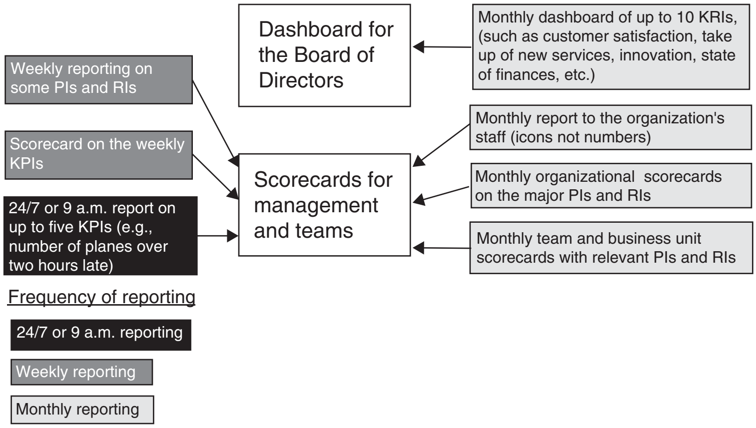


EXHIBIT 13.1 A Suggested Reporting Framework

In most organizations there will be another "top five" KPIs that will need to be reported at least weekly (excluding the daily KPIs identified earlier). One weekly measure that is important in most organizations is the reporting of late projects and late reports to the senior management team. Such reports will revolutionize completion in your organization.

The remaining RIs and PIs can be reported monthly along with team, department, divisional, and organization-wide balanced-scorecard reporting. The introduction of balanced scorecards will promote more concise and prompt reporting.

The board should only receive a one-page governance dashboard on the five to eight KRIs. These KRIs cover the well-being of the organization and are not PIs or KPIs. They should cover the six balanced scorecard perspectives and, to do this, you may need to track up to 10 KRIs. In any one month, you will only need to report those KRIs that are telling the more important stories. It is desirable not to give the board the management balanced scorecards because their role is one of governance; giving them management information diverts them from their true role.

The reporting stage is open to procrastination and, therefore, it is important to ensure that the just-do-it attitude is operational. It is not uncommon to find teams spending considerable time debating which colors are the most appropriate in presentations to senior management. It is important that this is not allowed to occur on the KPI project.

It is recommended that the senior management team leave the design of the balanced-scorecard template to the KPI team, trusting their judgment. The senior management team should tell the KPI project team that they will be happy to live with their sculpture knowing that they can always "keep the plinth and recycle the bronze" 6 to 12 months down the road. What you are looking for is a reporting framework that covers the measures in the six balanced-scorecard perspectives. The key is to seek agreement that suggested modifications will be recorded and looked into at the end of the agreed review period. It will come as no surprise that many suggested modifications will not stand the test of time.

Some report formats are shown in Chapter 14, Reporting Performance Measures.

Key Tasks for Developing the Reporting Frameworks at All Levels

The KPI team will need to incorporate the following tasks within the work it performs in stage six.

Task 1. Provide Appropriate Training on Reporting. The project team should train the teams on how best to report their measures using a combination of the intranet, notice boards, and hard copy. There are report formats in Chapter 14.

They should also give training on how to complete these reports efficiently. KPI reporting should be almost instantaneous and, once appropriate systems are in place, weekly and monthly reporting should also be quick routines.

A team balanced scorecard should, as a guide, be no more than half a day's preparation and be delivered to the team by the close of the first working day of the new month. Late reporting has no place in performance measurement.

Staff members will need much help with maintaining a Pareto 80/20 view. There is no point spending a lot of time playing around with spreadsheets; that information will be too late to be of any use.

Task 2. Establish a Suite of Meaningful Graphs That Are Easy to Understand. Although there is a vast array of graphical techniques for displaying KPI data, it is recommended that you follow the thinking of Stephen Few,[1] the world expert on data visualization. Here are some rules to follow:

- *Be consistent*. It is recommended that graph standards are maintained for at least six months before amendment.
- *Show trend analysis*. Show movement over at least the past 15 to 18 months if you have a seasonal operation. Only year-to-date graphs should start off at the beginning of the year.
- *Show the range*. Show the acceptable range, which may be cascading over time, to indicate expected improvements.
- *Keep graphs simple*. Each graph should be clear even to an untrained eye (e.g., whereas waterfall, radar, and three-dimensional graphs might look nice, they can be misunderstood by staff and thus are rarely necessary).
- *Make them quick to update*. All graphs should be in a system that enables swift updating, and in some cases they should be automated to enable 24/7 analysis via the intranet. Graphs should not slow down the monthly management balanced scorecard, and the board dashboard reporting process, which should be completed by no later than day-three post-month-end.
- *Make them accessible*. Key graphs should be accessible to all staff via the intranet.
- *Do not show a budget line*. A monthly or year-to-date budget line is an arbitrary apportionment of the annual plan number so just show the annual budget number.
- *Show key turning points*. Essential turning points on graphs should be explained by a note on the graph, and comments need to highlight major issues.
- *Insert a title that is meaningful to the reader*. For example, a title like "Return on capital employed (ROCE) is moving up well" instead of just saying "ROCE."
- *Use color wisely*. It is a good idea to use a light-yellow background and to use color to highlight what is important.
- *Use gridlines*. Four or five light-gray gridlines will enable the reader to estimate the numbers, thus eliminating the clutter of numbers within the graph columns or rows.

Task 3. Develop a hierarchy of reports to staff, management, and the board. If KPI reporting is not available 24/7 and it is not the focus of action and discussed at performance improvement meetings, attention will wane and the graphs will become symbols of frustration rather than the focus for continuous improvement.

Make sure you never give KPI reports to the board. They should receive more summarized information, as shown in the board dashboard in Chapter 14.

Facilitate the Use of Winning KPIs

This activity was step eleven in the first and second editions of this book.

Many organizations have performed good KPI groundwork, only to have it fail or become buried when the originator leaves the organization. It is, therefore, important that the use of KPIs becomes widespread in an organization and that it is incorporated into its culture.

If the CEO, members of the senior management team, and management focus on the KPIs every day, staff will naturally follow suit. When a CEO spends about 30 minutes a day asking for explanations from managers and staff about a wayward KPI, this will soon create focus. It certainly will be seen that receiving two phone calls from the CEO is not a good career move! In other words, the CEO should walk the talk and always know where the KPIs are heading at any point during a day. Thus, on out-of-office trips, the CEO should be able to link into the intranet and obtain an update of the KPIs.

In turn, the senior management team needs to be committed to empowering staff to take immediate action; for example, Toyota empowers staff on the shop floor to stop the production line if they find any defect in a car they are working on. Resources need to be allocated so continual education and communication can be maintained. This should not just be the responsibility of the KPI project team.

The system will have failed if the review process relies on structured, regular meetings at each level where KPIs are in operation.

Remember, KPIs are indicators that need monitoring, reporting, and action 24/7!

Key Tasks for Facilitating Use of KPIs

The KPI team will need to incorporate the following tasks within the work they perform in stage six.

Task 1. Constantly Reassure the Senior Management Team So That They Are Confident to Empower the Frontline Staff. It is essential that the members of the senior management team learn to relax their control and empower their staff. Without staff empowerment, the effectiveness of KPIs is limited, as staff members respond to management direction rather than learning to become proactive themselves.

Task 2. Roll Out a Road Show for All Staff. The road show should be delivered in person by a skilled presenter from the project team accompanied by someone from the senior management team. The workshop should start with an introduction from the CEO (a recorded webcast is sufficient when the CEO is not present) and a presentation on the new thinking on key performance indicators by a skilled presenter from the project team. It is essential to explain to staff:

- How the chosen KPIs are to operate
- Who is to collect data and by when
- The systems to be used
- The monitoring and action to be taken by the senior management team
- The delegated empowerment that allows employees to correct situations as they arise on a 24/7 basis

Task 3. Have Relative Performance Measures That Are Compared Against Other Organizations. Jeremy Hope and Robin Fraser,[2] pioneers of the beyond budgeting methodology, have pointed out how KPIs can easily end up in the trap of an annual fixed performance contract. In other words, if you set a target in the future, you will never know if it was appropriate, given the particular conditions of that time. You often end up paying incentives to management when, in fact, you have lost market share. In other words, your rising sales did not keep up with the growth rate in the marketplace.

Relative performance measures are an important addition to KPIs; for example, you may focus on all planes in the air that are flying more than two hours late 24/7, but, in addition, compare total late flights, average turnaround times, number of missing passengers, and so forth, to other airlines. This could perhaps be carried out quarterly using a benchmarking company.

Another benefit of relative measures is that they do not need alteration (e.g., if being in the top quartile or 2 percent above the norm is the relative measure, then this benchmark does not need changing).

Task 4. Ensure That There Are a Mix of *Past*, *Current*, and *Future* Performance Measures. Most measures across the world are past measures. In a bid to rectify this, the terms *lead indicators* and *lag indicators* were introduced. As mentioned in the section "Lead and Lag Confusion" in Chapter 2, these terms do not work for KPIs; for example, the late-plane KPI could be called a lag indicator because it reports past events; however, while the plane is in the air and running late, it is about to create chaos for passengers, suppliers, and airline staff at the destination airport and, therefore, it is also a lead indicator.

Task 5. Set KPIs as Ranges, Not a Single Target. An acceptable range is more beneficial than a fixed target, as a range takes into account the vagaries of the future and so is more tolerant of environmental change (e.g., a set of goalposts rather than a single thin post at the end of the playing field).

It is a good idea to show the acceptable range cascading up or down over time to indicate expected improvements; see Exhibit 13.2.

Task 6. Apply the 10/80/10 Rule. Ensure that the final performance measures in use comply with the 10/80/10 rule:

- Maintain up to 10 key result indicators, with only 6 to 9 shown to the board at any one time.
- Up to 80 performance indicators and result indicators are sufficient for most organizations, especially when standard measures are used across all teams (e.g., a training-day's measure should be applied consistently with the same definition and graphical illustration across all teams).
- Set a maximum of 10 KPIs. It is unlikely that an organization will have more than 10 KPIs that fit the seven characteristics outlined in Chapter 1.

EXHIBIT 13.2 **Developing the Reporting Frameworks at All Levels Checklist**

1.	Has the KPI team been given the delegated authority to finalize the reporting framework?	☐ Yes ☐ No
2.	Have you based reporting around a decision-based process (e.g., avoiding the trap of large, late information memorandums that do not help the decision-making process)?	☐ Yes ☐ No
3.	Have you accessed some better-practice reporting templates?	☐ Yes ☐ No
4.	Have you developed separate reporting for the board (based around key result indicators)?	☐ Yes ☐ No
5.	Have you developed a team BSC template that teams can complete easily using existing company systems?	☐ Yes ☐ No
6.	Have you developed an organizational scorecard for the SMT?	☐ Yes ☐ No
7.	Have you developed an organizational scorecard for staff?	☐ Yes ☐ No
8.	Have you developed 24/7 and daily reporting of KPIs on the intranet?	☐ Yes ☐ No
9.	Have you developed weekly reporting of KPIs on the intranet?	☐ Yes ☐ No
10.	Is there a moratorium on changing reports and graphs for at least six months?	☐ Yes ☐ No
11.	Have you established company graph standards that comply with better practice?	☐ Yes ☐ No
12.	Have you marketed and supplied electronic templates of these graphical standards to all teams?	☐ Yes ☐ No
13.	Are there notice boards where staff can see these measures in hard copy?	☐ Yes ☐ No
14.	Can the relevant stakeholders access the KPIs that are relevant to them (e.g., the union should be advised if “delivery in full, on time” is becoming an issue)? (FS)	☐ Yes ☐ No

FS = step that links to a foundation stone.

Refine KPIs to Maintain Their Relevance

This activity was step 12 in the first and second editions of this book. It is essential that the use and effectiveness of KPIs be maintained. Teams will modify and change some of their KPIs and PIs as priorities change during their journey of process improvement. It is simply a case of moving on to the next priority area for improvement as the previous ones have been mastered and behavior alignment has been locked in.

Some KPIs should always be maintained because of their relevance to the organization-wide CSFs; for example, the late-plane KPI will always be used by an airline. In addition, it is likely that KPIs relating to customer focus and workplace culture will always remain in place.

Teams will also need to amend and build new measures to respond to the emergence of new CSFs. The new CSFs will be identified during quarterly rolling planning phases.

Teams should review and modify their own KPIs and PIs on a periodic basis, certainly not more frequently than every six months.

Key Tasks for Refining KPIs to Maintain Their Relevance

The KPI team will need to incorporate the following tasks within the work it performs in stage six.

Task 1. Review Organization-Wide CSFs at Least Annually. The environment in which firms operate is changing so rapidly that the requirements for survival and then prosperity can change markedly within a year. CSFs must be reviewed on a continuing planning cycle. As a better practice, it can be part of the quarterly rolling planning regime. Many of the CSFs will stay consistent for years; timely arrival and departure of planes will be a CSF as long as planes fly.

Task 2. Hold a One-Day Focus Group Revisiting the Performance Measures. The objectives of the workshop are to revisit the performance measures with a key group of staff and management and to learn from experience and enhance the value gained from using performance measures. A focus group needs to be selected consisting of 15 to 30 experienced staff members from the departments, teams, area offices, and head office. The staff members should include the different roles, from administrators to senior management team members.

On the day that the CSFs are revisited, any new CSFs will be brainstormed for new measures, and the organizational measures will be reviewed for appropriateness and completeness.

Task 3. Maintain the Stakeholder Consultation. Ensure that consultations with stakeholders continue to be included in the performance review process. The stakeholders will provide feedback as to whether there needs to be improvement to strategies and CSFs.

Key suppliers should be consulted, as large operational efficiency can be achieved by vertical integration of systems. For example, one wood processor has online access to a major wood merchant's stock records. The wood processor is responsible for managing stock levels and delivering the timber. They send electronic invoices, trigger electronic payment, and update the wood merchant's stock system.

Task 4. Allow Team Performance Measures to Adapt. Maintaining the team's sense of ownership of performance measures is critical and will be achieved only if employees view performance-measure information as valuable, useful, and worthwhile. As teams complete the process-improvement cycle, KPI usefulness will be tested against new challenges to the team. Team performance measures must be adapted, as required, to maintain their relevance and use.

Benefits of This Stage

A consistent reporting regime will be developed utilizing decision-based reporting techniques, which will not take up too much of management's time. The reports will encourage empowered staff to undertake corrective action immediately on issues that are adversely affecting KPIs (e.g., in an airline, staff being empowered to increase the cleaning contractor's staff immediately to ensure a quicker turnaround of a late plane).

The performance measures in your organization—the KRIs, RIs, PIs, and KPIs—are being applied properly and are given the opportunity to create the desired change.

The cycle of continuous improvement in the use of KRIs, RIs, PIs, and KPIs will be locked in place.

Templates and Checklists

To assist the KPI project team on the journey, templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition.

The templates include:

- Developing the Reporting Frameworks at All Levels Checklist
- Facilitating the Use of KPIs Checklist
- Refining KPIs to Maintain their Relevance Checklist
- A Team Scorecard
- Developing Display, Reporting, and Review Frameworks at All Levels—Worksheet for Completion
- Draft Agenda for a Staff Workshop Incorporating a Video from the CEO
- Refining KPIs to Maintain Their Relevance—Worksheet for Completion
- Draft Agenda for a One-Day Focus Group Meeting to Revisit Performance Measures
- Draft Agenda for a Two-Hour Team Workshop to Revisit a Team's Scorecard
- A Proposed Workshop Exercise to Ascertain Performance Measures for All New Critical Success Factors

Notes

1. Stephen Few, *Information Dashboard Design*: *Displaying Data for At-a-Glance Monitoring* (Burlingame, CA: Analytics Press, 2013); *Show Me the Numbers: Designing Tables and Graphs to Enlighten* (Burlingame, CA: Analytics Press, 2004); *Now You See It: Simple Visualization Techniques for Quantitative Analysis* (Burlingame, CA: Analytics Press, 2009).
2. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Boston: Harvard Business School Press, 2003).

CHAPTER 14

Reporting Performance Measures

Overview

Reports must be designed to accommodate the requirements of the different levels in the organization (board, senior management team, middle management, and the various teams). KPI reporting needs to be performed 24/7, daily or weekly, as appropriate to support timely decision making. This chapter displays some better practice formats that will help speed up this vital step and features the work of Stephen Few.

There is a major problem with reporting. The writers often do not understand enough about the science of reporting. In addition, too many reports have been prepared monthly, which is far too late for prompt action.

The reporting framework used in an organization must accommodate the requirements of the different levels in the organization (board, senior management team, middle management, and the various teams) and the reporting frequency that supports timely decision making. This chapter displays some better practice formats that will help speed up this vital step. This chapter should be read in conjunction with the white papers and books written by Stephen Few[1] (see www.perpetualedge.com). Stephen Few is the expert in this field, having written Amazon's top three bestselling books[2] on data visualization.

The Work of Stephen Few in Data Visualization

Data visualization is an area that is growing in importance. No longer is it appropriate for well-meaning accountants and managers to dream up report formats based on what looks good to them. There is a science behind what makes data displays work.

All reporting of winning KPIs and other performance measures is vastly improved if one adopts Few's design techniques in all forms of balanced-scorecard reporting.

Stephen Few has come up with a very useful list of common pitfalls in dashboard design which include:

Exceeding the boundaries of a single screen	Here Few is warning us to think about the design carefully and avoid giving the reader the option to access different options. We need to define what should be seen instead of leaving the manager to click on an icon to get the important data.
Supplying inadequate context for the data	Far too often we show dials which do not give enough information as to what is good or bad performance.
Displaying excessive detail or precision	Graphs should summarize the information and be a big picture view. The graph should have no more than a five point scale and this should avoid unnecessary precision, e.g., $5m instead of 5,000,000.00.
Starting scale midway	Often to emphasize a point the press will show an exchange rate between a very narrow band, say US$ to Euro between a five cents range magnifying the movement. Few is adamant that this may mislead and give rise to poor decisions. Better to express the graph starting the scale from zero.
Choosing inappropriate media in displays	Choosing the wrong graph, especially a pie chart! Few points out that it is far better to use a horizontal bar graph instead of a pie chart.
Introducing meaningless variety	Introducing a myriad of different graphs just because we can do them.

Arranging the data poorly	Not linking issues together and not positioning graphs about the same issue together on the dashboard.
Using a lot of color to highlight everything	Few points out that many readers cannot distinguish between certain colors and it is better to be a minimalist with color, only using red to highlight areas of concern.
Cluttering the screen with useless decoration	Managing the white space is important. Only things that matter to the reader should be included.

Each one of these is explained in detail in Few's white paper on the topic, "Common Pitfalls in Dashboard Design," available on www.perceptualedge.com/articles.

Reporting the KPIs to Management and Staff

Reporting measures to management needs to be timely. As mentioned previously, KPIs need to be reported 24/7, daily, or, at the outside, weekly; other performance measures can be reported less frequently (monthly and quarterly).

Intraday/Daily Reporting on KPIs

The main KPIs are reported 24/7 or daily. Exhibit 14.1 shows how KPIs should be reported on the intranet. Some form of table giving the contact details, the problem, and some history of performance is required.

Another benefit of providing senior management with daily/weekly information on the key performance areas is that the month end becomes less important. One government department had a 9 o'clock news report every morning covering the processing of benefit payments by each office around the country. Regional management teams were able to compare their service levels and achievements on a daily basis.

In other words, if organizations report their KPIs on a 24/7 or daily basis, management knows intuitively whether the organization is having a good or bad month.

EXHIBIT 14.1 Example of a Daily KPI Report

Planes more than two hours late

Time: 4.30pm 12 Sept 201X

	Statistics of last stop					Contact details			Number of planes over one hour late		
Flight number	**Arrival late by**	**Departure late by**	**Time added**	**Region manager's name**	**Current time at location**	**Work**	**Mobile**	**Home**	**Past 30 days**	**30-day average of past three months**	**30-day average of past six months**
BA123	01:40	02:33	00:53	Pat Carruthers	18:45	xxxxx	xxxxx	xxxx	4	4	2
BA158	01:45	02:30	00:45	Basil John	10:48	xxxxx	xxxxx	xxxx	2	3	1
BA120	01:15	02:27	01:12	xxxxxxx	20:45	xxxxx	xxxxx	xxxx	4	4	7
BA146	01:25	02:24	00:59	xxxxxxx	21:45	xxxxx	xxxxx	xxxx	5	4	4
BA177	01:15	02:21	01:06	xxxxxxx	22:45	xxxxx	xxxxx	xxxx	1	4	2
BA 256	01:35	02:18	00:43	xxxxxxx	23:45	xxxxx	xxxxx	xxxx	5	4	5
BA124	01:45	02:15	00:30	xxxxxxx	00:45	xxxxx	xxxxx	xxxx	2	4	6
Total	7 planes										

Intraday Exception Reporting to the Chief Executive Officer on Human Resources Issues

It is vital that key exceptions are reported to the chief executive officer (CEO) immediately when they occur. The following issues need to be addressed in private and public organizations:

- All job offers that are more than three days outstanding should be personally followed up by the CEO. The lack of acceptance means, in most cases, that the candidate is still looking around. A personal call from the CEO saying, "I understand, Pat, that we have offered you the position of ____________. I believe you will succeed well in this role and I will take a personal interest in your career. What do we need to do to get your acceptance today?" could help convince the candidate to accept. This 10-minute call could well save over $20,000 of recruiting costs, a return of $120,000 per hour!
- In-house courses that are poorly attended because staff think that daily firefighting is more important.
- They remain caught in the "catch-22" cycle—the CEO should phone the managers who have not registered staff in the workshop and make it clear that this is not good enough.
- Staff members who have been ill for over two weeks who do not have an activated back-to-work program—the CEO should phone the HR advisers responsible for setting up the back-to-work program, visits to the company doctor, and partial return planning (e.g., a couple of half days in the office each week).
- Most CEOs treat accidents or safety breaches seriously and, therefore, these are reported—an acceptable report-back time would be within an hour of the incident.
- The CEO should follow up on all crucial staff members who have handed in their notice. This would be reported within an hour of resignation. A personal phone call may be enough to turn around the situation or, at the very least, open the door for a return in the future.

The aforementioned issues are set out in a suggested intranet-based report, see Exhibit 14.2. This report should be accessible by HR staff, the senior management team, and the CEO.

EXHIBIT 14.2 Example of a Daily HR Exception Report

Position offers still outstanding	Candidate	Contact details		Details	
		Home	Mobile	Manager	Days outstanding
Financial Controller	Pat Curruthers	xxxxx	xxxx	Jim Curruthers	3
Stores manager, Brisbane	Basil John	xxxxx	xxxx	Sally Smith	3
Teams not represented in the in-house courses due in next two weeks	**Manager**	**Work**	**Mobile**	**Expected numbers from team**	**Average training days of team in past six months**
Team xx	Jim Curruthers	xxxxx	xxxx	3	1
Team yy	Sally Smith	xxxxx	xxxx	4	1.25
Team zz	Jim Curruthers	xxxxx	xxxx	2	1.5
Team ss	Ted Smith	xxxxx	xxxx	1	0
Staff who have been ill for over two weeks	**Manager**	**Work**	**Mobile**	**Length of illness**	**Back to work program started**
xxxx xxx	Jim Curruthers	xxxxx	xxxx	10	Yes
xxx xxxxxxxxxxx	Sally Smith	xxxxx	xxxx	15	Yes
xxxxx xxxxx	Ted Smith	xxxxx	xxxx	25	No

Accidents and breaches of safety	Manager	Work	Mobile	Remedial action	
Pat Gow was in a car crash, unhurt but needs two weeks' recovery time	Jim Curruthers	xxxxx	xxxx	Increase participation in advanced driving courses paid by company	
Staff who have handed in their notice today	**Staff member**	**Work**	**Mobile**	**Length of service**	**Manager**
Susan George	Tom Bent	xxxxx	xxxx	<1	John Bull
John Doe	Sally Shell	xxxxx	xxxx	<1	John Bull
Jenny Gilchrist	Ted Snell	xxxxx	xxxx	15	Sarah Marshall

Weekly KPI Reporting to the CEO

Some KPIs need only be reported weekly. Set out in Exhibit 14.3 is an example of how they could be presented. Note that while all the KPIs will be graphed over time, at least 15 months, only the three KPIs showing a decline would be graphed. The other two KPI graphs would be maintained and used when necessary.

Reporting Performance Measures to Management

Management will need some weekly reports covering *result indicators* and *performance indicators*. There thus will be a mix of financial and nonfinancial measures.

Weekly Human Resources Update to CEO

There are some HR issues that the CEO needs to focus on weekly. They are not as critical as the intraday or daily HR exceptions, and thus are not considered KPIs.

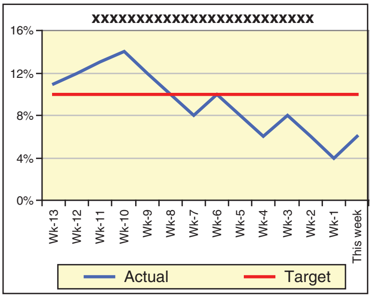
The following HR issues need to be addressed in most organizations:

- It is not uncommon for new staff to miss out on the planned induction program. This can have a negative impact on their performance over the short- to medium-term. The CEO should make it known that there is an expectation that staff will attend induction programs and that phone calls will be made to follow-up on exceptions.
- In-house courses to be held within the next two months should be highlighted weekly.
- Higher-than-average sick leave in a team may indicate a problem with leadership. The CEO should follow up when next in the area.
- The CEO needs to keep a weekly focus on the recognitions planned for the next week or two weeks. Peters and Waterman[3] and Collins[4] have emphasized the importance of celebration as a communication tool and a way of inspiring staff to exceed normal performance benchmarks.

The suggested intranet-based report that should be accessible to the HR staff, senior management team, and CEO is shown in Exhibit 14.4.

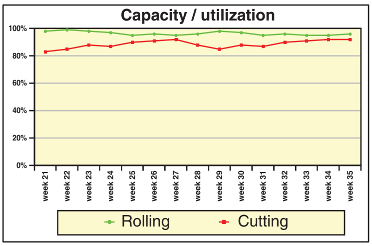
Top Five KPIs
Weekly Report xx xxxx 20xx

Top Five Weekly KPIs	Target	Result	Rating
Xxxxxxx xxxxx xxxxx (see graph below)			☹
Xxxxxxx xxxxx xxxxx (see graph below)			☹
Xxxxxxx xxxxxxx xxxxxxx.			☺
Xxxxxxx xxxxx xxxxx (see graph below)			☹
Xxxxxxx xxxxxxx xxxxxxx..			☺



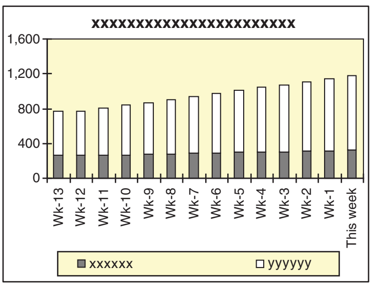
Issues:

Actions to be taken:



Issues:

Actions to be taken:



Issues:

Actions to be taken:

Note: This report would be superseded when a reporting application is available.

EXHIBIT 14.3 Weekly KPI Report

Source: David Parmenter, *Key Performance Indicators: Developing, Implementing, and Using Winning KPIs,* 2nd ed. Copyright © 2010 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

EXHIBIT 14.4 Example of the Weekly Human Resources Report

New staff who have not attended an induction program	Start Date	Manager details: Name	Office	Mobile	Staff turnover in past two years
Alan Bevin	12/12/xx	Pat Curruthers	xxxxx	xxxx	30%
Carl Dodds	11/11/xx	Sam Smith	xxxxx	xxxx	40%

In house training courses due in next two months	Enrollments	Expected numbers	Date of course	Days left
First Aid	5	20	xxxxx	25
Supervisors Part 1	3	45	xxxxx	18
Leadership part 2	40	60	xxxxx	14
Presenting	6	20	xxxxx	15

Teams with above average sick leave	Days lost: This month	Days per employee	Average per month for past three months
Team xx	5	1.5	4
Team yy	8	2	7

CEO recognitions planned for next week	Manager	Date
Project ______________	Jim Curruthers	xxxxx
Finance team	Sally Smith	xxxxx
________________________	Ted Smith	xxxxx

Weekly/Monthly Updates to Management and CEO

There are endless ways these can be shown (see Exhibit 14.5) through icons, gauges, traffic lights, and so on. There are many reporting tools available that are more robust than a basic spreadsheet. It is highly likely that your organization has the license to use at least one such reporting tool.

Stephen Few has introduced a new concept called "bullet" graphs. These are particularly powerful when combined with Edward Tufte's[5] "sparkline" graphs, see Exhibit 14.6.

A sparkline graph looks like a line graph without the axes. Even with this truncated diagram you can still see the trend. The bullet graph shows different details about current performance. The shades used range from dark gray (to indicate poor performance) through to lightest gray (to indicate good performance). The dark vertical line indicates a comparative measure such as a target or last year's result.

Stephen Few is very cautious about the use of color. He points out that many readers will have some form of color blindness. In Exhibit 14.5b, the only use of color would be red bullet points indicating the exceptions that need investigation and follow up.

Reporting Performance Measures to Staff

It is a good idea to have some form of monthly icon report for staff. If this report happens to be left on a bus, it would not be damaging to the organization if it found its way to a competitor. Icon reports are ideal because they tell you what is good, what is adequate, and what needs to be improved without giving away core data. Exhibit 14.7 is an example of an icon staff report that covers the critical success factors and reminds staff about the strategies.

Reporting Performance Measures to the Board

Entities in the private and public sectors need to report to a board, a council, or an elected government official. To simplify, let's call the reporting body a board.

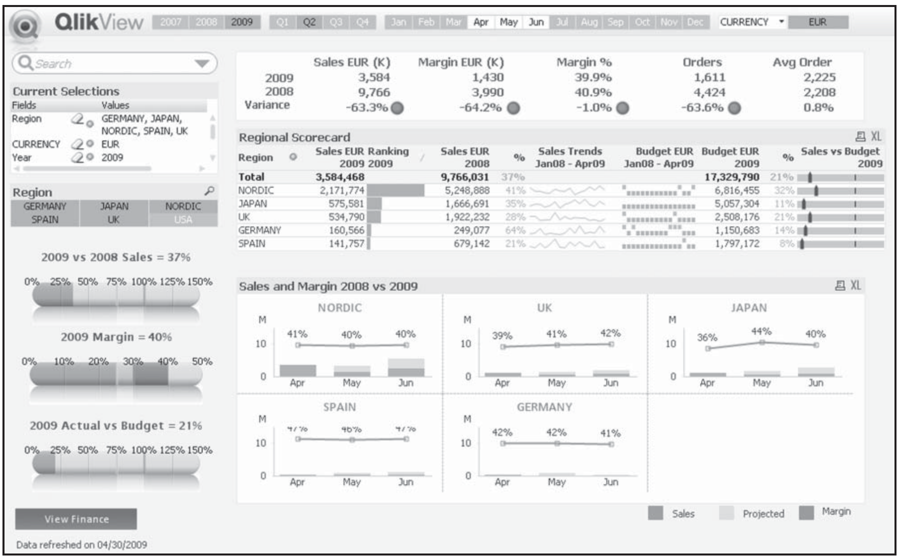


EXHIBIT 14.5(a) Examples of a Monthly Report to Management

Source: Used with the permission of Inside Info, www.insideinfo.com.au.

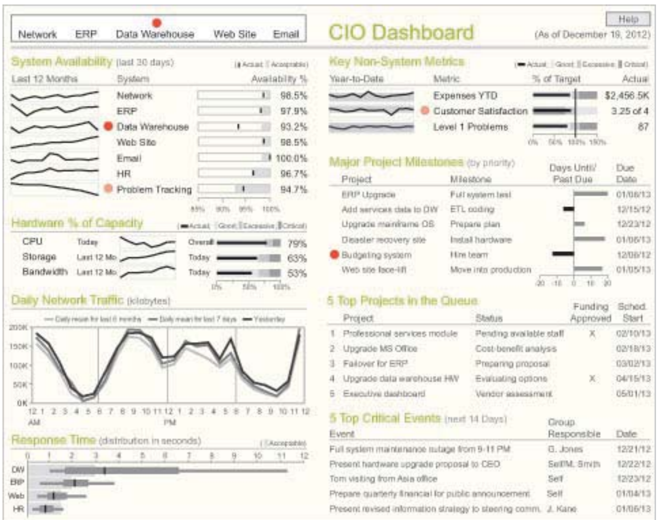


EXHIBIT 14.5(b) Examples of a Monthly Report to Management
Source: Used with the permission of Stephen Few, www.perceptualedge.com.

EXHIBIT 14.6 Combination of "Sparklines" and "Bullet" Graphs
Source: Used with the permission of Stephen Few, www.perceptualedge.com.

In most organizations that have boards, there is a major conflict of interest over what information is appropriate for the board to receive. Because the board's role is clearly one of governance and not of management, it is totally inappropriate to be providing the board with KPIs. As mentioned in Chapter 2, it is a myth that a balanced scorecard can report progress to both management and the board.

To me, KPIs are the very heart of management. Used properly, many of them are monitored 24/7 or at least weekly; they are certainly not measures to be reported monthly or bimonthly to the board.

We need indicators of overall performance that need only be reviewed on a monthly or bimonthly basis. These measures need to tell the story about whether the organization is being steered in the right direction at the right speed, whether the customers and staff are happy, and whether we are acting in a responsible way by being environmentally friendly.

These measures are called key result indicators (KRIs). Typically a board would need to see between 6 and 12 graphs covering the critical success factors and all six balanced scorecard perspectives. These measures work particularly well in helping the board focus on strategic, rather than management, issues, and they will support management in their thrust to move board meetings away from the monthly cycle. These KRIs are best reported in a dashboard.

A dashboard should be a one-page display (see Exhibit 14.8) with the graphs, summary financials, and commentary all appearing on the page.

Progress Report for July xxxx

Our Mission	**To provide our customers energy at the right price at the right time**
Our Vision for next five years	**To be the preferred energy provider in the xxx**
Our Strategies	**1. Acquiring profitable customers** **2. Increase cost efficiencies** **3. Innovation through our people** **4. Using best business practices**

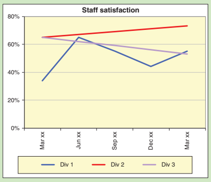
Our progress against our critical success factors

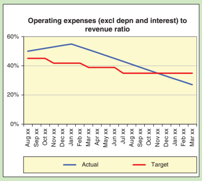
Delivery in full on time to key customers	**We are a learning organization**	**Innovation is a daily activity**
On time deliveries to key clients ☺ Goods rejected due to quality defects 😐	Staff training this month ☹ Staff with mentors ☺	Ideas adopted last month 😐 Paperless transactions with key suppliers/customers ☺
We are warriors against waste	**We grow leaders**	**We are respected in the communities we work in**
Wastage reduction programs started in month ☹ Waste reduced from existing programs ☺	Leaders appointed from within last month ☺ Managers in leadership programs ☺	Community participation by employees in month 😐 New initiatives planned for community, next three months ☺
We finish what we start	**Attracting new profitable customers**	**Increase in repeat business from key customers**
Number of late projects 😐 Number of project finishes in month ☹	New customer orders ☺ Feedback from new customers 😐	Order book from key customers ☺ Number of product developments in progress 😐
Points to note: xxxxxxxxxxxx xxxx xxxx xxxxx xxxxxxx xxxxxx xxxxxx xxxxx xx x x xxxxx xxxxx xxxxx xxxxx xxxxx xxxxx xxxx xxxx xxxxx xxxx xxxx xxxx xxxxx xxxxxxx xxxxxx xxxxxx xxxxx xx x x xxxxx xxxxx xxxxx xxxxx xxxxx xxxxx xxxx xxxx		

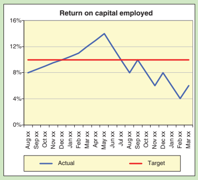
EXHIBIT 14.7 Example of a Monthly Report to Staff

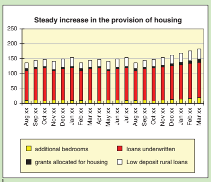
Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices.* Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

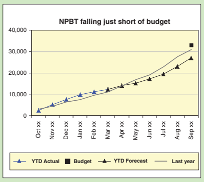
Board Dashboard March 20xx

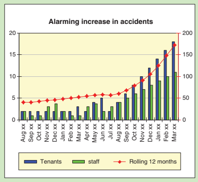


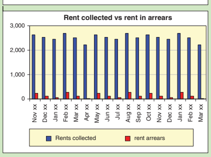


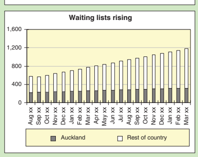












Financial Performance for the __ months ended ____________

All figures are $'000	Actual	Budget	Variance[1]	Variance %	Actual to annual budget %[2]
Revenue					
Crown	55,000	60,000	(5,000)	–8%	35%
Other	42,000	41,000	1,000	2%	39%
Total Revenue	**97,000**	**101,000**	**(4,000)**	**–4%**	**37%**
Expenses					
Personnel	50,000	53,000	3,000	6%	40%
Operating	41,000	42,000	1,000	2%	32%
Restructuring	-	-	-	0%	0%
Depreciation	5,000	5,300	300	6%	40%
Total	**96,000**	**100,300**	**4,300**	**4%**	**36%**
Surplus / (Deficit)	**1,000**	**700**	**300**	**43%**	**7%**

1. Positive numbers represent under expenditure
2. xx.xx% of the year has been completed.

Statement of Financial Position

	As at XXX 20XX $000	As at last month $000	Movement $000	Movement %
Shareholders' Funds	**25,500**	**25,000**	**500**	**2.0%**
Represented by:				
Bank and Cash	6,000	9,500	(3,500)	(36.8%)
Debtors and Receivables	5,000	5,500	(500)	(9.1%)
Total Current Assets	**11,000**	**15,000**	**(4,000)**	**(26.7%)**
Plant, property and equipment	16,000	18,000	(2,000)	(11.1%)
Intangible assets	23,000	18,000	5,000	27.8%
Total Long Term Assets	**39,000**	**36,000**	**3,000**	**8.3%**
Total Assets	**50,000**	**51,000**	**(1,000)**	**(2.0%)**
Creditors and payables	9,000	9,000	-	-
Unearned income	5,000	6,500	(1,500)	(23.1%)
Employee entitlements	6,500	6,500	-	-
Total Current Liabilities	**20,500**	**22,000**	**(1,500)**	**(6.8%)**
Non Current Liabilities	4,000	4,000		
Total Liabilities	**24,500**	**26,000**	**(1,500)**	**(5.8%)**
Net Assets	**25,500**	**25,000**	**500**	**2.0%**

1. Working capital ratio: _________

Areas of Concern

- The expected shortfall at year-end is largely a result of the electrical consumer division and the yyyyyy division.
- *Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx*
Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
- *Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx*
Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Areas to Note

- The electrical consumer division decline is of concern. A special strategy meeting is being held on xx June to investigate new revenue avenues to help weather this storm.
Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
- *Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx*
Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

Areas to Note

Debtors have benefited from the work done to reduce outstanding debt.

The amount which is overdue more than 30 days is now $5.0m down from $5.5m

- Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
- Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx
Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

An extract from David Parmenter's white paper "Decision Based Reporting – producing reports that make a difference" visit www.davidparmenter.com
This template is available to you from my website. The password is on the slides deck.

EXHIBIT 14.8 Board Dashboard on a Large (A3/U.S. Fanfold) Page

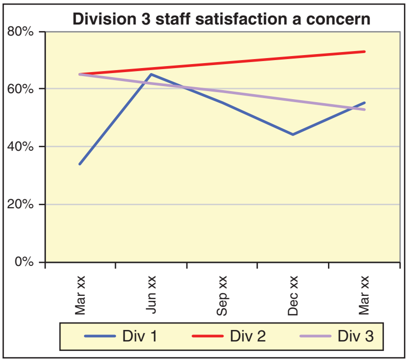
A board dashboard completed overnight

One accountant, after attending a KPI workshop went home and prepared a Board dashboard for the board meeting the following day. It was not hard as most of the graphs required had been prepared for previous papers. He simply updated and repositioned them. He arrived early to meet the Chairman and said, “I know you do not like surprises but I have just prepared a one page summary of the organization, I think you will find it useful”. The Chairman agreed and opened the Board meeting explaining the origins of this new one pager. It was such a success that accountant was instructed to make it the first page of all future the Board papers.

To help teams, there are ten good KRIs graphs in Exhibit 14.9 that you might want to use.

EXHIBIT 14.9 **Key Result Indicators for a Board**

Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices*. Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

Staff satisfaction: No different or less important than customers' satisfaction. As one person said, “Happy staff make happy customers, which makes happy shareholders.” If you believe in this connection, run a survey now! A staff satisfaction survey need not cost the earth and should never be done covering all staff; instead it should be replaced by a rolling survey. See my article on “How to seek staff opinion and not blow your budget” www.davidparmenter.com.	

(*continued*)

EXHIBIT 14.9 (*Continued*)

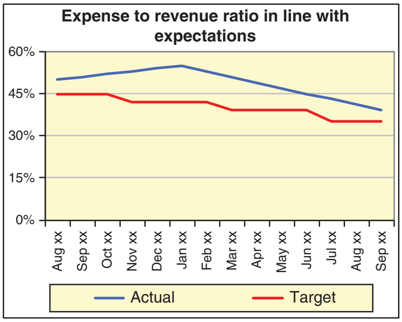
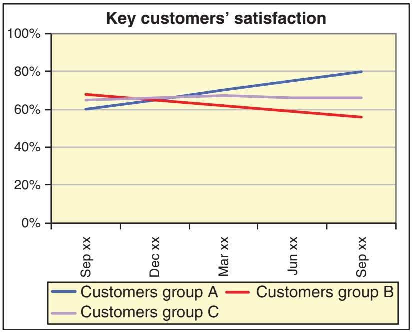
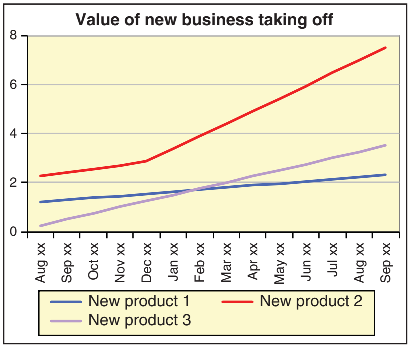
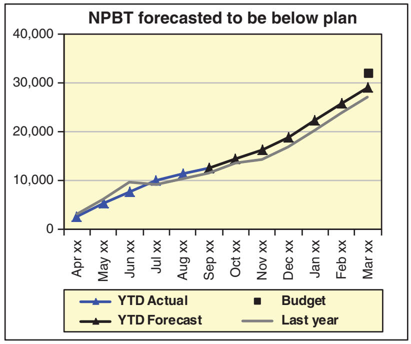
Expenses to revenue as a ratio: The Board should be interested in how effective the organization has been in utilizing technology and continuous improvement to ensure cost of operations is tracking well against revenue.	
Customer satisfaction: This needs to be measured at worst every three months by using statistical samples and focusing on your top 10 to 20 percent of customers (the ones that are generating most if not all of your bottom line). This process does not need to be overly expensive. If you think once a year is adequate for customer satisfaction, stick to running a sports club as you are not safe in the public or private sectors.	
Value of new business: All businesses in the private sector need to focus on the growth of their rising stars. It is important to monitor the pickup of this new business, especially among the top 10 to 20 percent of customers.	

EXHIBIT 14.9 (*Continued*)

<table>
<tr>
<td>Net profit before tax (NPBT):
Since the board will always have a focus on the year-end, it is worthwhile showing the cumulative NPBT. This graph will include the most recent forecast which should be updated on a quarterly basis. Access my article “Throw away your budget” www .davidparmenter.com.</td>
<td>
</td>
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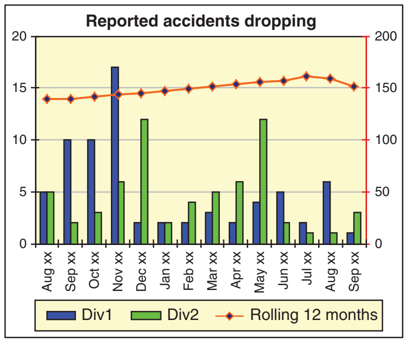
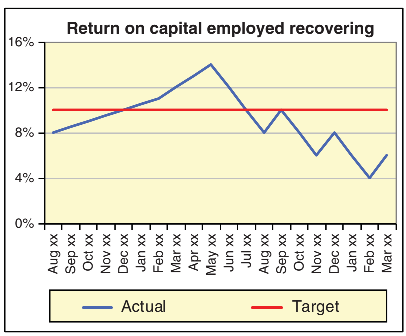
<tr>
<td>Health and safety:
All boards are interested in this area as the well-being of staff is a much higher priority these days.</td>
<td>
</td>
</tr>
<tr>
<td>Return on capital employed:
The old stalwart of reporting. The difference now that it is no longer a KPI, but a KRI.</td>
<td>
</td>
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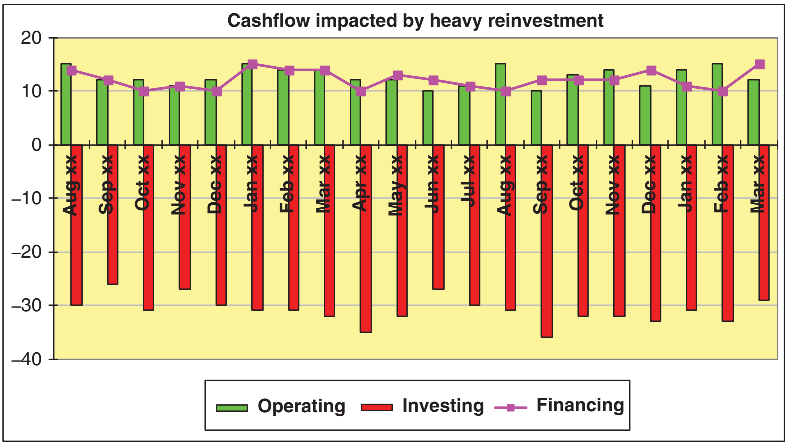
</table>

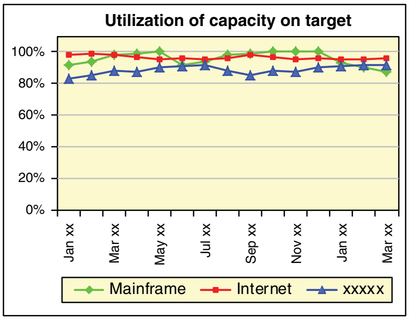
(*continued*)

EXHIBIT 14.9 (*Continued*)

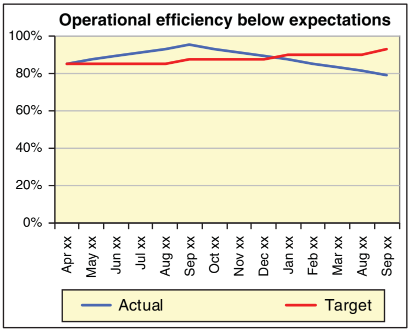
Cashflow:
This would be projected out at least six months forward.



Capacity:
This monitors the capacity of key equipment and facilities. It would go forward at least 6 to 12 months. The board needs to be aware of capacity limitations, and such a graph will help focus the board on new capital expenditure requirements.



Operational efficiency:
This measure looks at the operational efficiency of key units (e.g., key plant and equipment).



There are some key points that need to be understood about the graphs in Exhibit 14.9, including:

- The rules of Stephen Few covered in this chapter need to be understood and applied.
- The guidelines in Task 2, Establish a Suite of Meaningful Graphs That Are Easy to Understand, in Chapter 13 should also be applied.
- From experience, you will only need to report the six to nine measures most relevant to the board.
- Trend analysis is required, going back at least 15 months to ensure any seasonality in the operations is captured. Remember business has no respect or interest in your year-end; it is merely an arbitrary point in time.
- There is no room to show a flawed monthly or year-to-date budget line, an arbitrary apportionment of the annual planning number that was done at the last minute and was wrong from the very start. It is like setting your race plan for the Americas Cup regardless of the wind conditions on the day of racing. See my current articles on this at www.qrf.davidparmenter.com/articles/.
- Key turning points on graphs should be explained by a note on the graph and comments need to highlight major issues.

Reporting Team Performance Measures

Set out in Exhibits 14.10 and 14.11 are examples of the weekly and monthly reporting a team would do to monitor its own performance.

EXHIBIT 14.10 Example of a Weekly Team-Progress Update

Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices*. Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

Weekly Progress Update During May

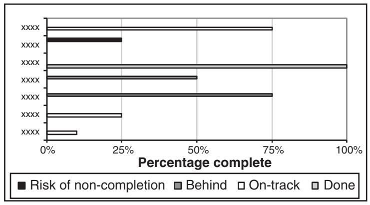
	Week 1	**Week 2**	**Target (month)**
Proactive visits to in-house clients	0	1	6
Number of staff recognitions made	0	0	6
Projects in progress	7	7	<8
Reports/documents still in draft mode	12	15	<5
Initiatives underway based on satisfaction survey	0	0	5 by 30 June

Information System's Scorecard

Customer Focus

Help desk	This month	Target
Program visits to managers	4	6
Service requests outstanding (faults, works requests) at month end	24	15
Service requests closed in month	45	55
% calls fixed by Help Desk from 1st call	55%	65%
Initiatives underway based on satisfaction survey	0	5 by 30 June
Services outages Vs SLA's	**This month**	**Target**
Average Mainframe Response Time	1 sec	
Outage time per month / # of times	None	<1hr/mth
ISSP	**This cycle**	**Target**
Program visits to managers	4	12
Presentations of ISSP to managers	2	6

Projects status



Internal Process

Disaster recovery	This month	Target
Backup every night	100%	100%
Months since last back-up tested at remote	3	<4
Rolling checks on C drives	25	40
Our ability to deliver	**This month**	**Target**
% of jobs completed on time on budget	44%	60%
% of time of developers spent on high priority / high value work	55%	65%
Staff trained to use ______________ system	45	150
Completions	**This month**	**Target**
Projects in progress	7	<8
Reports/documents still in draft mode	15	<5

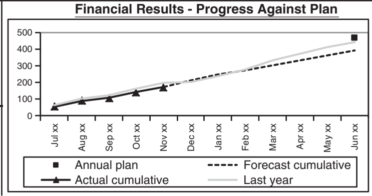
Innovation & Learning

Training needs outstanding	Next 3 months	Last 12 months
Chief information officer	0	2
Team xxxx	0	5
Team xxxx	0	2
Team xxxx	0	1
Team xxxx	0	1
Average for all IT staff	**<0.1**	**2.5**
Coaching sessions	**This month**	**Last quarter**
Number of staff who have had one-on-one coaching sessions	0	4
Innovations implemented	**This month**	**Target**
Number of staff innovations implemented	10	23

Environment and Community

	This month	Target
Presentations given to third party organizations	1 in last 12 months	>3 in year
Number of Finance staff involved in community activities	10	>15

Financial Results - Progress Against Plan



IS Team Satisfaction

	This month	target
No. of formal staff recognitions made in the month	1	>2
Staff functions planned to occur in next three months	0	>2

Findings:

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Action to be taken:

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EXHIBIT 14.11 Example of an IS Monthly Team Balanced Scorecard
Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices*. Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

The examples shown are in Excel, a useful template tool until a more robust and integrated solution is found.

The weekly report tracks those measures too important to leave until the end of the month.

Team reports should be communicated only to the team members until they are proud enough to report their performance to the rest of the organization on the intranet.

How the Reporting of Performance Measures Fits Together

Exhibit 14.12 shows how the reporting of performance measures should work in a private, public, or not-for-profit organization.

The important reports are the daily and weekly reports shown in the left-hand column. These are seen by the senior management team and the relevant operational staff. Some of these would be intranet-based, being updated 24/7 (e.g., late planes in the sky).

At month's end, summary information would be given to:

- The board, to help them understand the operations and general progress within the critical success factors
- The staff, to give feedback on their efforts in progress with the critical success factors
- The management, summarizing progress in the critical success factors, which will have been monitored in the daily and weekly reports, and other success factors that are monitored only monthly

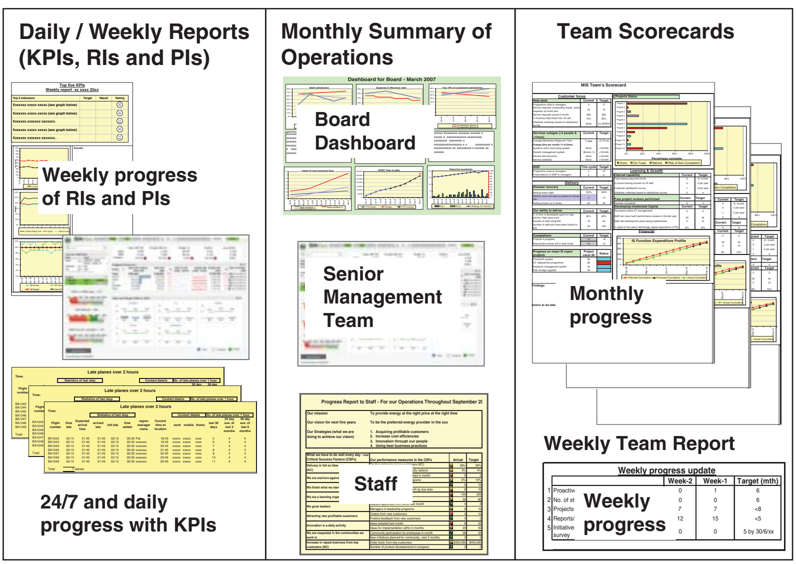

EXHIBIT 14.12 Performance Reporting Portfolio

Source: David Parmenter, *Winning CFOs: Implementing and Applying Better Practices,* copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

In the right-hand column of Exhibit 14.12, we show that teams will be monitoring performance through their scorecards. If a team is involved with a KPI, they would also be monitoring the KPI reporting shown in the left-hand column of Exhibit 14.12.

Designing Reports Around Current Technology

It is important to design your reports based on the user's technology. Many 24/7, daily, or weekly reports will now be read via the user's phones and tablets. See Exhibit 14.13 for an example from

EXHIBIT 14.13 An IPhone Dashboard
Source: Used with the permission of Stephen Few, www.perceptualedge.com

Stephen Few.[6] There is a whole raft of suppliers who can revolutionize your reporting. Some of the current solutions on offer, at the time of writing, are:

- Tableau software
- Targit
- Dundas Dashboards
- qlikview
- Board
- Cognos BI
- Crystal reports
- Proclarity

There are many more. Start by asking your GL provider who are the best users of our GL who are within a day's travel from you. Contact them and organize a benchmarking visit. During the discussions about better use of the GL ask them, "What reporting tool do you use?" These companies will have done the homework for you, and you will be able to see their clever use of this technology.

Notes

1. Stephen Few, *Information Dashboard Design: Displaying Data for At-a-Glance Monitoring* (Burlingame, CA: Analytics Press, 2013); *Show Me the Numbers: Designing Tables and Graphs to Enlighten* (Burlingame, CA: Analytics Press, 2004); *Now You See It: Simple Visualization Techniques for Quantitative Analysis* (Burlingame, CA: Analytics Press, 2009).
2. Few, *Information Dashboard Design*; *Show Me the Numbers*; *Now You See It*.
3. Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies* (New York: Harper & Row, 1982).
4. Jim Collins, *Good to Great: Why Some Companies Make the Leap and Others Don't* (New York: HarperBusiness, 2001).
5. Edward Tufte, *Beautiful Evidence* (Graphics Press, 2006).
6. Stephen Few, *Information Dashboard Design: Displaying Data for At-a-Glance Monitoring* (Burlingame, CA: Analytics Press, 2013).

PART III

Chief Measurement Officer's Toolkit

CHAPTER 15

Resources for the Chief Measurement Officer

Overview

This chapter covers the resources I have provided to help the KPI project team and in particular the team leader who hopefully will become the chief measurement officer (CMO) for their organization. This chapter also gives instructions on how to access, free of charge, a PDF of the suggested worksheets and checklists to be used by the KPI project team.

This chapter is for those talented in-house staff members who have been asked to run the KPI project. One day your project may well be a leading case study. What a legacy to your organization and the other organizations that you inspire.

I am hopeful that you are carrying the title chief measurement officer (CMO). The importance of this has been discussed in Chapter 2 where I point out that it is a myth that a KPI project can be run by a consultant. In Chapter 7 I talk about the foundations stones and in Appendix B I set out a draft job description for the role.

The CMO Needs a Cluster of Mentors

As CMO you will need a mentor, or, as Jack Welch[1] advised, a cluster of mentors. I suggest the following:

- Find a consultant who has credibility within the organization, as they have helped previously in a successful project. Pay for

their wisdom and have a series of two- to four-hour sessions with them.
- Find an external facilitator who is experienced in performance measurement and hopefully is aware of this "winning KPIs" methodology. Many of your sessions can be held over Skype-based tools.
- Find a mentor in-house, a wise owl who knows all the key players and how they operate. This mentor may have retired recently and will welcome the odd long lunch as you examine the issues. They may help you solve them yourself or suggest alternative approaches.
- Build a peer group among like-minded CMOs who are pushing the envelope. It is also comforting to know that someone else is going over the trenches and is still around to share the tales of adventure.

Guidelines for the External KPI Facilitator

If you have been selected as a facilitator to assist in the development of performance measures, you will need to be completely familiar with Chapters 1 through 14 of this book. This resource kit provides you with three additional components to assist you in executing your role, namely:

1. The Introductory Key Performance Indicator (KPI) presentations on www.kpi.davidparmenter.com. Put "webinars" into the search bar to access a list of webinars I have recorded and made available to readers. All you will need is a fast connection, sound card, and speakers.
2. Some checklists in PDF format for you to download.
3. A list of typical questions (and answers) you may expect to confront in your role in PDF format for you to download.

External Facilitator's Involvement in the Six Stages

It is important that the facilitator's role is one of facilitation and mentoring, not project leadership. The facilitator should have little hands-on involvement after the setup steps have been completed. The message in this KPI book is that project team members, coordinators, and teams should take on significant roles themselves. The facilitator's particular role is to guide the overall process, providing assistance and resources as required.

While I have merged the original 12 steps into six stages, it is important that the facilitator ensures that each of the 12 steps is understood. Each of the 12 steps contains questions and/or worksheets to be completed as the project team progresses through the implementation. The facilitator should ensure that these questions and worksheets are tailored to the organization and then followed.

A rushed and noncollaborative approach to the development and implementation of performance measures combined with a profound misunderstanding of the differences among key result indicators (KRIs), result indicator (RIs), performance indicators (PIs), and KPIs will result in failure.

To remind you of what the 12 steps are and how they have been merged into the six stages I have repeated the diagrams from Chapter 6 (see Exhibits 15.1 and 15.2).

Checklist of the External Facilitator's Role

To assist I have provided a draft checklist of the main tasks the facilitator will need to consider in PDF format for you to download. It is important that the facilitator's role is just that; it should never become the project manager's role.

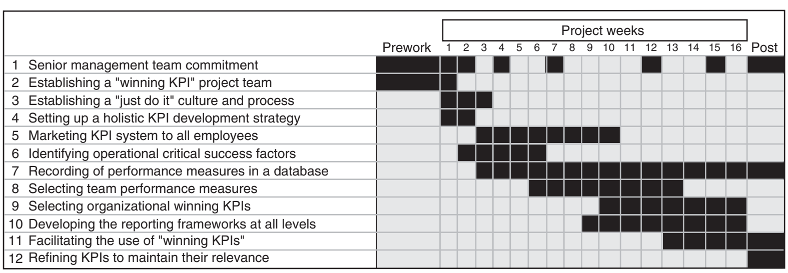

EXHIBIT 15.1 Twelve-Step Implementation 16-Week Timeline (From First Two Editions of This Book)

Stage	Steps		Prework	1	2	3	4	5	6	7 to 11	12 to 16	Post
			Project weeks									
1	1,4	Getting the CEO and senior management committed to the change	■	■			■		■			
2	2,3	Up-skill in-house resources to manage the KPI project			■	■	■	■	■		■	■
3	5	Leading and selling the change	■	■	■	■	■	■	■	■	■	■
4	6	Finding your organization's operational critical success factors				■	■					
5	7,8,9	Determining measures that will work in your organization					■	■	■	■	■	■
6	10,11,12	Get the measures to drive performance									■	■

EXHIBIT 15.2 Twelve Steps Merged into a Six-Stage Process

Remember the Fundamentals

Sports coaches often talk about doing the fundamental or basic things well to ensure success. This is good advice for the CMO and the external facilitator because at times the KPI implementation process will appear to be quite involved and complex.

As you carry out your role, always review the seven foundation stones to check that your efforts and the project do not stray away from these key building blocks (see Exhibit 15.3).

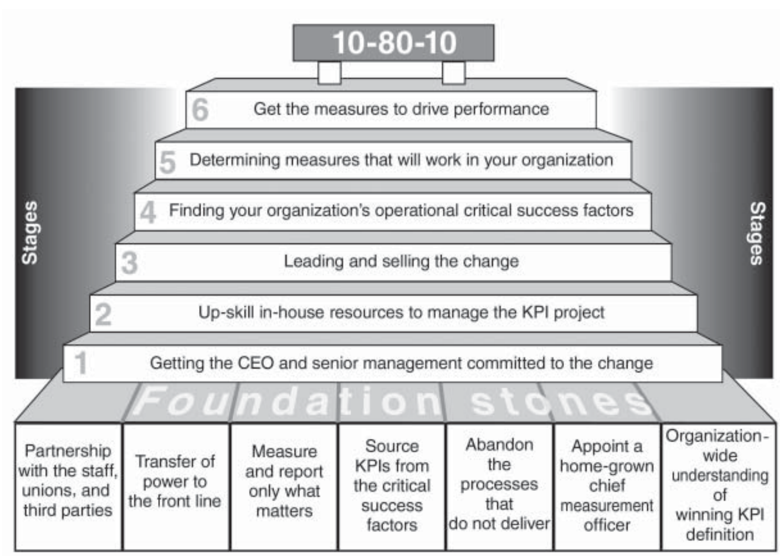

EXHIBIT 15.3 The Seven Foundation Stones in the Winning KPI Methodology

Resources

Although it would be very gratifying to think that this book could provide you with everything you need to implement winning KPIs successfully, I can safely say, with years of experience behind me and a few gray hairs to add to the mix, this is not possible.

The following references, covering books, webcasts, and third parties, will also assist you in creating winning KPIs.

I would recommend that you:

- Listen to my webcasts on KPIs, which have been recorded by various providers (see my webcast section on www.davidparmenter.com).
- Engage an in-house or external public relations expert to help sell the concept of working with your organization's critical success factors and winning KPIs.
- Follow the advice in Chapter 10, Leading and Selling the Change, as it is based around John Kotter's work on leading change. In the chapter I talk about the need to have an elevator speech, the follow up 20-minute pitch to get the approval of a one-day focus group, and then, with a following wind, deliver a PowerPoint presentation to the senior management team to get them to buy into a KPI/balanced-scorecard project.
- Subscribe to my latest thoughts in my newsletter (www.davidparmenter.com) to receive free access to templates.
- Link with an external expert who will act as a facilitator and mentor.
- Build up your cluster of mentors.

Key Reference Books

To enable you to improve access to KPIs, I have listed some books that will help you with this project. Read them and leave them in an accessible area as a reference guide and a required read for all new team members.

- Paul R. Niven, *Balanced Scorecard: Step-by-Step for Government and Nonprofit Agencies* (Hoboken, NJ: John Wiley & Sons, 2008).[2] My personal copy has earmarked pages, which is a sure sign of how useful I think it is

- Stephen Few, *Information Dashboard Design: Displaying Data for At-a-Glance Monitoring* (Burlingame, CA: Analytics Press, 2013).[3] This book will help you make a major step forward in data visualization—the way you report information to management and staff. Everyone involved in the KPI project should have to read the book as prerequisite to joining the team. It should then be on the project team's bookshelf.
- Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business Press, 1996).[4] This book is a masterpiece. It is the original book that catapulted the balanced-scorecard journey in the first place. Although I do not agree with all of the content in the book, it should be read by the KPI team so that they can draw their own conclusions. Chapter 12 and the accompanying PDF should be reread many times. There are also some very useful illustrations throughout the book.
- Stacey Barr, *Practical Performance Measurement Using the PuMP Blueprint for Fast, Easy and Engaging Performance Measures* (2014).[5] Stacey has been an active practitioner in the performance measurement field and has, through her many assignments, developed a methodology that all readers of this book should understand. As CMO you will need to make a decision:
  - Whether to use the approach in this book or the one in Stacey Barr's book. Both methodologies will improve your performance measures, or
  - Decide which techniques do you want to take from the methodologies covered in the two books and create your own approach
- Elizabeth Haas Edersheim, *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* (New York: McGraw-Hill, 2006).[6] This book should be on the read list for any project leader. The CMO will better understand the significance of abandonment after reading this book.
- John Kotter, *Leading Change*, (Boston: Harvard Business Review Press, November, 2012).[7] A very highly rated book and a major influence in stage 3 of this methodology.

Key Reference Websites

- Stephen Few's Perceptual Edge website, www.perceptualedge .com.[8] Few writers can really dominate a space, and Few stands head and shoulders above everyone in the data-visualization genre. His three books are masterpieces. His website is full of excellent white papers and articles. I would recommend subscribing to his blog and accessing some of his white papers, such as:
  - "Common Pitfalls of Dashboard Design"
  - "Dashboard Design for Real-Time Situation Awareness"
  - "With Dashboards, Formatting and Layout Definitely Matter"

  Stephen Few conducts workshops around the world. Make sure you view his website to find the workshop nearest to you. You will not regret attending one of his workshops.
- Dean Spitzer has a website that contains useful articles, presentations, extracts of Spitzer's book *Transforming Performance Measurement,*[9] and transcripts of interviews with Spitzer. Visit www .deanspitzer.com/resources/performance-assessment-resources .html
- On my website, www.davidparmenter.com., I have placed some complementary electronic resources that will be helpful to readers of this book and my *Key Performance Indicators* book. In addition to these free resources, there are other electronic materials available for a fee:
  - All the templates from this book
  - White papers on a variety of relevant topics

Who Should Read What

This book is a resource for anyone in the organization involved with the development and use of KPIs. It is desirable that all KPI project team members, the external project facilitator, team coordinators, and local facilitators (if required) have their own book to ensure all follow the same plan. Team members are expected to take the book with them when meeting staff and management, as they will be able to clarify issues by using examples from the book. (Note that this book is copyrighted, so it is a breach of the copyright to photocopy sections for distribution.)

Running Workshops

Running good workshops is an acquired skill, and the KPI team should receive specific training in this area. When I am running a workshop, I follow some basic rules. I set these out more as a guide rather than an instruction. Experienced facilitators will no doubt have their own successful methods.

- Try to limit any presentations to 40 to 60 minutes; after that time, commence a workshop.
- After complex issues have been raised, ask the audience to discuss in groups of twos and threes what they agree with, what they disagree with, and what they do not understand. This two- to three-minute breakout gives attendees the chance to learn from each other, as some will understand the points that have confused other attendees.
- Always have detailed workshop instructions on a handout and read them out twice, and give attendees an example. You will be amazed how instructions can be misunderstood.
- Avoid speaking three days in a row, particularly if you are the sole presenter. You will be speaking for most of the day, so you will need a break. You may think you can do it without affecting quality but, I assure you, your enthusiasm cannot be sustained.
- Get the invitation to attend sent out by the CEO, and ensure acceptances are either monitored by the CEO's personal assistant or reported directly to the CEO. You need a full workshop.
- It is best to have a venue away from the office. If the workshop is held on-site, you run the risk of people disappearing to their desks during the break and never returning.
- If you send out pre-reading material, do not expect it to be absorbed. Many will have read the material quickly, on the way to the workshop.
- Place cryptic notes on the slide to trigger a story, and place a (Q) when you want to trigger a question to the audience.

- Best to show the slide rather than bringing in material point by point—attendees can read three times faster than you can talk, so utilize this benefit.
- Never read the points on a slide; the attendees have already done that. Your role is to amplify each point. Thus, you never need to have long sentences on the slide; cryptic phrases are best. Keep the sentences to the handouts.
- I always have a discussion paper that contains all the complex slides in a larger version. If I am showing a financial statement, I will show it on the slide and then direct the audience to the appropriate page in the paper.
- Follow the basic PowerPoint slide rules set out in Appendix C, Delivering Bulletproof PowerPoint Presentations.
- Print out the slide handout, three slides to a page, as the detailed slides are shown in the attached paper.
- While the groups are in workshop, leave the room and reflect how it is going, what has been omitted, what needs to be changed, and so on.
- Over coffee breaks, chat briefly with attendees to ask how the workshop is going for them, the pace of the workshop—is it too fast, just right, or too slow?—and their findings from their workshop.
- Set up the workshop in classroom style (e.g., with a table in front). This is better than conference style (e.g., using a round table) as some attendees are sitting at an awkward angle through the presentations.
- For larger groups, have small notepads available and ask the audience to write their questions on them. I then have a question-and-answer session after each break. The benefits of the notepads are that the more introverted members, who often have pertinent questions, get a chance to raise them.

Implementation Lessons

Kaplan and Norton, in their groundbreaking book *The Balanced Scorecard: Translating Strategy into Action,*[10] indicated that 16 weeks is sufficient time to establish a working balanced scorecard with key performance indicators (KPIs). However, organizations of all sizes and complexity stumble with this process, and 16 weeks easily turns into 16 months. The key to success is to learn 11 key lessons:

1. Appoint a chief measurement officer.
2. Sell change the Kotter way.
3. Start off with a six-perspective balanced-scorecard template.
4. Focus on the critical success factors.
5. Follow the 10/80/10 rule.
6. Select a small KPI team to be full time on the KPI project.
7. "Just do it."
8. Use existing systems for the first 12 months.
9. Trap all performance measures in a database and make them available to all teams.
10. KPI reporting formats should follow the guidelines of the data visualization experts.
11. You may need to rename the scorecard.

Lesson 1: Appoint a Chief Measurement Officer

I have been working with performance measures for many years and have spent untold hours endeavoring to unlock their secrets. Over the years one thing has become abundantly clear: you need a measurement expert in-house. Dean Spitzer called this the chief measurement officer.

I have now come to the conclusion that I have not emphasized enough the importance of this in-house resource in my earlier work.

Performance measurement is worthy of more intellectual rigor in every organization that is on the journey from average to good and finally to great. The chief measurement officer would be part psychologist, part teacher, part salesperson, and part project manager. I have discussed this position throughout this book and have included a draft job description in Appendix B.

It Is a Full-time Role. In most of the implementations I have observed, my advice to appoint a KPI team leader, and making them where possible full time, has been compromised due to workload commitments. In every case this has delayed and put the project on the back foot. From around 250 people this position should and must be full time. In small organizations this duty must be at least half the workload and much daily operational activity reassigned so that the incumbent has a chance to focus and create some momentum in the project.

In-House or External Appointment. Peter Drucker said, "Never give a new job to a new person"—he called it a widow maker. When an organization wants a new system implemented, it is very tempting to hire someone who has expertise, a consultant, or a permanent appointment. Drucker pointed out that they do not stand a chance as staff members who are concerned about the change will do their utmost to destabilize the project.

Instead you need to appoint an in-house person best suited for the role, someone who is well respected in the organization, who can call on favors when required. Staff will support the new initiative when it is led by such an appointee.

Reporting Line. The CMO position should report directly to the CEO, as befits the knowledge and diverse blend of skills required for this position. Only when we have this level of expertise within the organization can we hope to move away from measurement confusion to measurement clarity.

Benefit of This Action. Appointing a CMO will give the project the best chance of success.

Lesson 2: Sell Change the Kotter Way

I would argue that more than half the new initiatives that are declined were undersold. In other words, given the right approach the initiative would have gone ahead.

If you are not prepared to learn the skills to cover the common deficiencies in a selling change process, you are better off playing golf or burying yourself in a process. Selling change requires a special set of skills, and we all can and should get better at it. In Chapter 13 on selling change I point out:

- Nothing was ever sold by logic! You sell through emotional drivers. Thus, we need to radically alter the way we pitch this sale to the senior management team (SMT), to the CEO, and to the board. We have to focus on the emotional drivers that matter to these groups
- In 1996, John Kotter published *Leading Change*, which quickly became the seminal work in the change management space.

He pointed out, as we already know, that effecting change—real change—transformative change—is hard. In his work he had an eight-stage process of creating major change, a clear map to follow when faced with influencing an organization to move.

- The importance of having an elevator speech for the KPI project and, when it is in progress, a weekly update elevator speech.
- When you are presenting, it is best to be well prepared. I would advocate using the 21st century better practices set out in Appendix C, Delivering Bulletproof PowerPoint Presentations.
- The importance of getting the oracles on board by using a one-day focus group. Their approval and support should be sought before you propose the project to the SMT. As John Kotter advises, you need to create a guiding coalition.
- Why you need to establish a comprehensive blueprint, mimicking Toyota's management principle "slow with consensus fast with implementation."
- The importance of generating quick wins—obvious to us all but frequently missed. Remember that senior management is, on occasion, inflicted with attention deficit disorder. Progress in a methodical and introverted way at your peril. We need easy wins, celebrated extrovertly, and we need to ensure that we set up the CEO to score the easy goals.

The SMT attitude is crucial—any lack of understanding, commitment, and prioritizing of this important process will prevent success. It is common for the project team and the SMT to fit a KPI project around other competing, less important firefighting activities.

The SMT must be committed to the KPI project and to driving it down through the organization. Properly implemented, the KPI project will create a dynamic environment. Before it can do this, the SMT must be sold on the concept. This will lead to the KPI project's being treated as the top priority, which may mean that the SMT allows some of those distracting fires to burn themselves out.

Consider this quote from a senior consultant:

> *Senior staff view the development of the BSC as an end in itself and go through the motions to keep the boss happy. If the SMT is not strategic in its perspective and consequently does not see the BSC as a tool to help it better understand and manage the organization, this will be reflected in a loss of interest when the process of*

development gets tough, for example, when deciding on which KPIs to use and the trade-offs to be made. While the role of the SMT is important, the role of the CEO is critical. The CEO must be the central driver carrying the embryo BSC with him all the time, talking about it frequently, and so on.

Organizations sometimes find that support for the BSC flounders if a new chief executive takes the helm before full implementation. It is important to sell, sell, sell the benefits to all new SMT members through their emotional drivers or their points of pain.

Benefit of This Action. The SMT will get a buzz from being involved in a dynamic project, and there will be wider ownership as the oracles put their full weight behind the cause.

Lesson 3: Start Off with a Six-Perspective Balanced Scorecard Template

Too often, time is spent debating the perspectives, their names, and the design of the scorecard. The SMT loves this time of intellectualizing; however, it does not create much value. It is easy to get carried away with the debate, spending months determining the perspectives while making little progress on defining the CSFs.

Too much time can be spent debating whether there are four, five, or six perspectives and what their names are. Let me save you some trouble. You will need:

- One on the financials performance—call it *financial results*
- One on innovation and the development of the staff—call it *innovation and learning growth*
- One on customer satisfaction—call it *customer focus*
- One on internal business processes—call it *internal process*
- One on staff satisfaction—call it *staff satisfaction*
- One on relationship with the environment and the community—call it *environment/community*

Using the suggested six perspective names will mean that you are using a better practice perspective template for the first 6 to 12 months. After 12 months, the SMT and staff will have enough experience, knowledge, and understanding to fine-tune the perspective names to better suit the organization's needs.

Benefit of This Action. The SMT members will invest the scarce time they have available for this project in more important areas.

Lesson 4: Focus on the Critical Success Factors

The critical success factors (CSFs) determine organizational health and vitality and where the organization needs to perform well. Key result indicators (KRIs), result indicators (RIs), performance indicators (PIs), and KPIs are the actual performance measures, which naturally cascade from these CSFs. It is crucial that the SMT focus on providing the project team with CSFs. If this is done well, winning KPIs are much easier to find.

Most organizations know their success factors (SFs). However, few organizations have:

- Worded their SFs appropriately
- Segregated out SFs from their strategic objectives
- Sifted through the SFs to find their critical ones—their *critical* success factors
- Communicated the CSFs to staff

If your organization has not completed a thorough exercise to know its CSFs, performance measurement will be a random process. It will create an army of measurers producing numerous numbing reports, measurers who often "measure" progress in a direction very remote from the strategic direction of the organization.

CSFs identify the issues that determine an organization's health and vitality. When you first investigate CSFs, you may come up with 30 or so issues that can be argued are critical for the continued health of the organization. The second phase of thinning them down is relatively easy, as the more important CSFs have a broader influence, impacting many success factors. Better practice suggests that there should be only between five and eight critical success factors.

Once you have the right CSFs, finding the KPIs is much easier, as they will reside within these CSF factors. This process is performed by mapping the relationships (see Exhibit 15.4) and is explained in detail in Chapter 11. The CSFs that have the most influence—shown in Exhibit 15.4 as the critical success factor with four arrows going

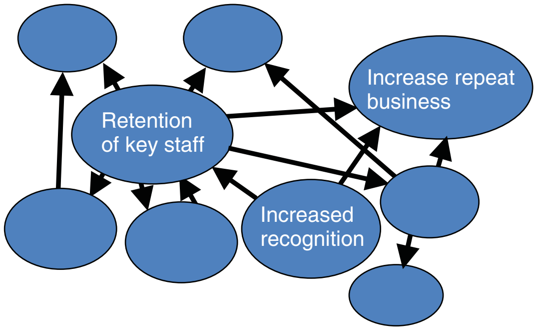

EXHIBIT 15.4 Relationship Mapping to Find the CSFs

out—are the ones to focus on first. All of the organization's KRIs and KPIs will be measuring performance within these critical success factors.

Benefit of This Action. Finding an organization's CSFs is, I believe, the goal of management. It will have a profound impact on staff members, as for the first time they will know what their focus should be on a daily basis. It will also help link daily activities to strategy and improve all forms of performance reporting.

Lesson 5: Follow the 10/80/10 Rule

Many balanced scorecards fail because the wrong measures are used. In such exercises, all their measures are called KPIs. I argue that many organizations are not working with their true KPIs, measures with special characteristics that were discussed in Chapter 1.

Kaplan and Norton recommend no more than 20 KPIs. Hope and Fraser[11] suggest fewer than 10 KPIs. The 10/80/10 rule is a good guide: 10 KRIs, up to 80 RIs and PIs, and 10 KPIs.

The KPI project team and SMT need to concentrate on identifying those 10 KRIs, 80 RIs and PIs, and 10 KPIs that really matter. They must have a good understanding of the characteristics of KRIs, RIs, PIs, and KPIs and be able to distinguish between them before they deliver any workshops.

Many organizations call every measure a KPI and end up with over 200, which will create confusion rather than clarity. All leading writers are saying the same thing: "Less is better."

Many people confuse result indicators with KPIs. Sales, net profit, customer satisfaction, and return on capital employed are not KPIs, as they are a result of many events occurring. These examples are *KRIs*, as they are measures that give a clear picture of whether you are traveling in the right direction. If a problem exists, they show it, but they will not tell you what you need to do to correct it.

KRIs provide useful information to the board of directors, which should not be involved in day-to-day management. The KPIs lie several layers beneath the KRIs. The KPIs connect the "workface" to the chief executive officer (CEO). During the day or every morning, CEOs working with KPIs are contacting people directly, asking for explanations or giving recognition of their success. Not all teams will have KPIs, as they cannot influence them. These teams will have RIs and PIs. It is important to note that the 10/80/10 is for the whole organization and is repeated if you have a totally separate business unit (e.g., different business units selling umbrellas and ice cream).

Benefit of This Action. The KPI team will immediately focus on the end product (the 10/80/10) and not try to identify 80 KPIs in 200-odd performance measures.

Lesson 6: Select a Small KPI Team to Be Full Time on the KPI Project

KPIs can be designed successfully by a small team. Kaplan and Norton have seen BSCs designed successfully by an individual who had an in-depth understanding of the business.

Notwithstanding this possibility, a team approach of between two and four full-time staff members is recommended, as set out in Chapter 9. The external project facilitator, if involved right at the beginning, should help the SMT pick a team. Research into personnel records is recommended, as many talented staff members who may already have some KPI experience are found in obscure places. You need to look for staff who have excellent presentation skills, knowledge of the organization and its market, a track record of innovation and completion, sound communication skills, and the ability to be cheerful under pressure (a recruiting trick of Sir Edmund Hillary). See Chapter 9 for recruitment suggestions.

The SMT needs to have the selected staff committed *full time* to the KPI project. By that I mean the family photos are removed from their desk and taken to the project team location. Their second in

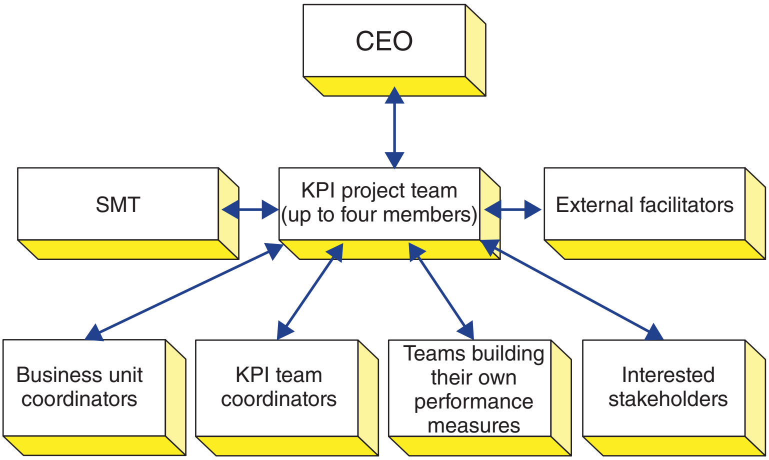

EXHIBIT 15.5 KPI Team Reporting Directly to the CEO

command will move into their office and undertake their duties, a succession-planning bonus.

Once selected, this team must have a direct reporting line to the CEO (see Exhibit 15.5). Any layer in between means that the SMT and CEO have not understood just what SMT commitment means.

Besides the KPI project team, the organization also needs to identify a liaison person (a coordinator) for each business unit and team. This liaison person needs to be knowledgeable about the operation and be available to provide detailed knowledge and feedback to project team members.

Senior managers should exclude themselves from the project team. A SMT member in the team will lead to a string of canceled meetings as the senior manager is caught in the firefighting activities that make up much of their working days. Even SMT members with the best willpower in the world can never be fully focused on just one project.

Benefit of This Action. This action will lead to a carefully picked project team who, along with the coordinators, will have a good chance of success.

Lesson 7: "Just Do It"

The exact structure of the KRIs, RIs, PIs, and KPIs is rarely right the first time. Kaplan and Norton agree with Nike and say "Just do it."

The SMT and KPI project team need to ensure that the project culture is a "just do it" culture. It is important to ensure that the project team does not spend too much time on research. The key references are this KPI book and *The Balanced Scorecard: Translating Strategy into Action.*[12]

A "just do it" culture means that the team will not have to rely on external experts to run the project. CEOs are often wary of large projects that they perceive to be managed by expensive international consulting firms. The past decade is littered with six- or seven-figure consulting assignments that have not delivered on the value expectations. A "just do it" culture brings the belief that the project team can do it. The external project facilitator's role here is to ensure that the project team members remain confident (but not overconfident) and have picked up all the required skills they will need (e.g., delivering persuasive KPI presentations). Read Chapter 2 for more guidance.

Benefit of This Action. The project will be protected against procrastination and have a good chance of implementing the KPIs within a 16-week period.

Lesson 8: Use Existing Systems for the First 12 Months

The project team should promote the use of existing in-house applications for the collection and reporting of the performance measures for at least the first 12 months. Much can be done with standard applications, such as Excel, PowerPoint, SharePoint Team Services, and Access. Often there is no need to purchase specialized software at this stage. Any such purchases can be done more efficiently and effectively 12 months down the track. The appropriate timing for implementing software to aid in the collection and deployment of KPI data will, however, vary from organization to organization. Some organizations may have a resident application that performs this task well or may already know which application they will use for this task and thus can invest in the appropriate systems earlier.

Sophisticated intranet software is of great assistance and is most likely available in-house. These applications will help the team set up its intranet website so that anyone interested in the development of performance measures can obtain access and contribute. Such applications can provide preformatted lists with expiration dates to keep announcements current and a place to collaborate on the development of KPI documentation and reports in real time.

The team will need to update the intranet site frequently themselves. Updating is too important to be left to a systems administrator who is not part of the project.

Benefit of This Action. Focusing on an immediate solution using existing in-house software will avoid compromising the project time scales by delays in pre-purchase assessments, purchasing, and implementing a new system.

Lesson 9: Trap All Performance Measures in a Database and Make Them Available to All Teams

During the 16 weeks, a number of performance measures will be found that, while not in the top 10 KPIs, still are highly relevant to business and service teams.

The project team needs to establish a database to record these measures and communicate them through a KPI intranet home page. The fields for the database are discussed in Chapter 11.

The database should show not only all the current teams' measures but also any discarded measures. The project team can then help the teams, business units, and divisions with consistency and completeness (e.g., one measure devised by one team can and should be used by others, where appropriate).

During the 16 weeks, it is important that the project team purge the database on a regular basis to eliminate duplication and ensure consistency (e.g., the KPI team can suggest to one team, "You might like to look at measure Y as teams A, B, and C are choosing to use it").

Benefit of This Action. This action will create a comprehensive and user-friendly resource for all.

Lesson 10: KPI Reporting Formats Should Follow the Guideline of the Data Visualization Experts

Data visualization is an area that is growing in importance. No longer is it appropriate for us to dream up report formats based on what looks good in our eyes. There is a science behind what makes data displays work. The expert in this field is Stephen Few. Stephen Few has written the top three "best-selling" books on Amazon in this field.

I recommend that the SMT leave the design of the reporting formats (24/7, daily, weekly, and monthly reports) to the KPI team, trusting in their judgment. The SMT should tell the KPI project team that they will be happy to live with their formats.

The key is to seek agreement that suggested modifications will be recorded and looked into at the end of the agreed review period. It will come as no surprise that many suggested modifications will not stand the test of time.

The KPI project team should make good use of the reporting templates provided in Chapter 14 before attempting to develop any of their own.

Benefit of This Action. Understand these two writers' views and you will improve your reporting of information, its attractiveness, and its ability to stimulate action.

Lesson 11: You May Need to Rename the Scorecard

Key result indicators, RIs, PIs, and *winning KPIs* should ideally be structured within a balanced scorecard. However, across the world, there have been many failed BSCs principally due to garbage in, garbage out.

The word *scorecard* may have negative connotations to management. If so, what about *navigator, compass,* or other directional terms to help sell the concept and galvanize participation? Changing the name is particularly important where existing management has prior negative experiences with balanced scorecards.

Some organizations offer a prize for the staff person who comes up with the best name.

Benefit of This Action. This action creates a KPI project name that helps galvanize the organization behind it.

Templates and Checklists

To assist the KPI project team on the journey, templates and checklists have been provided. The reader can access, free of charge, a PDF of the suggested worksheets, checklists, and templates from kpi.davidparmenter.com/thirdedition.

The templates include:

- Facilitator's Role Checklist
- Workshop Preparation Checklist
- KPI Typical Questions and Answers

Notes

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5. Stacey Barr, *Practical Performance Measurement Using the PuMP Blueprint for Fast, Easy and Engaging Performance Measures* (2014).
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10. Kaplan and Norton, *The Balanced Scorecard*.
11. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Boston: Harvard Business School Press, 2003).
12. Kaplan and Norton, *The Balanced Scorecard*.

CHAPTER 16

Case Studies on the Critical Success Factor Workshops

Overview

This chapter shows how the two-day critical success factor workshop has been run in private, nonprofit, and public sector organizations. These examples will clarify the process set out in Chapter 11: Finding Your Organization's Operational Critical Success Factors.

To show how the two-day critical success factor workshop is run, I have provided some examples of workshops I have been involved with. I hope these examples will clarify the process set out in Chapter 11, Finding Your Organization's Operational Critical Success Factors.

Private Sector Case Study #1: An Asian Conglomerate

An Asian conglomerate principally in the construction and design sector with around 600 staff wanted to improve its use of KPIs. A member of their team had attended a two-day KPI workshop I had presented earlier that year. The HR manager was responsible for a company-wide KPI program and implementation to align and consolidate further their current performance management system. A two-day workshop was organized, which was attended by a cross section of the company. Attendees from the company ranged from the CEO down to the staff

EXHIBIT 16.1 The Success Factor Broken into Headings

Category Heading	Success Factor
On Time	Delivery in full on time, all the time of our projects to our customers (internal and external)
Products	__________ as a brand with new and innovative product/services of a global standard that add value to our customers
	Delivering design, innovation, and quality that matters
Projects	Get the right project team for the job
	Get the right contractor for the job
	Reducing supply chain costs
	Being a preferred supplier for key customers and business associates
Development	Explore opportunities to increase the size and quality of our land bank
	Obtaining timely approvals from relevant authorities for development of new projects
Marketing	Increased business from new and repeat customers
	Identify and capture the potential of new and emerging markets
	Getting the right product in the right place at the right time

Other headings included: Customer Satisfaction, External Communications, Employee Work Environment, Leadership/Growth, Internal Communications, Employee Retention, Environment, Community, Revenue, Management and Finance

in the operational areas. The vast bulk of the attendees were the company oracles, and there was over 700 years of corporate knowledge in the room.

The two-day CSF workshop, as set out in this book, was followed. From the first day workshop they came up with the following success factors broken down into the headings shown in Exhibit 16.1.

The conglomerate had at least three distinct business entities that warranted their own critical success factors. The teams within these distinct groups ascertained measures from the agreed CSFs and those success factors that were important in their part of the organization.

The progress varied across the teams. This has been illustrated in Exhibit 16.2, which displays some of the output from the design team.

EXHIBIT 16.2 **Some of the Measures Ascertained by the Design Team During the Workshop**

Name of Measure	**Frequency of Measure**	**Critical Success Factor**	**Target**
Selection process—# of potential recruits with recommendations from staff	Monthly	Delivering Design, Innovation and Quality that Matters	>4 per quarter
Number of staff who have more than three projects allocated to them	Weekly	Delivering Design, Innovation and Quality that Matters	Less than 2
Interference from Client—# of changes/ amendments to Client's brief	Monthly	Delivering Design, Innovation and Quality that Matters	<4 per project
Contracting the right team/ staff—# of man hours required in the next month from key consultants	Monthly, before the month starts	Delivering Design, Innovation and Quality that Matters	<150 hours per month (show by key consultant)
Quality—# of breaches not yet rectified	Weekly	Delivering Design, Innovation and Quality that Matters	2 or less at any time

(*continued*)

EXHIBIT 16.2 (*Continued*)

Name of Measure	**Frequency of Measure**	**Critical Success Factor**	**Target**
Research—# of visits to other developments/ trade shows	Quarterly	Delivering Design, Innovation and Quality that Matters	Date of next trade show visit
Research—# of sales people consulted on project	Weekly where necessary	Delivering Design, Innovation and Quality that Matters	<2 per project
Focus group recommendation —# of recommendations still outstanding	Weekly	Delivering Design, Innovation and Quality that Matters	2 or less at any time
Post Contract Defects—# of defects complaints unfixed on major projects	Daily	Delivering Design, Innovation and Quality that Matters	2 or less at any time

Private Sector Case Study #2: Medical Company

The financial planning and analysis managers of a medical company were charged with updating the KPIs. They contacted me to run a series of web-based workshops using the GoToMeeting technology. It required laptops and fast Internet connections at both ends. These workshops were run by having a laptop between two people and a laptop connected to a data show to project the slides on the screen in the workshop room. I could see all attendees and they could see me.

We ran three workshops (of 2.5 hours long) to kick-start the process of ascertaining the success factors and then short-listing those success factors that could be deemed critical.

The success factors were developed from my list and from their understanding of the business. The wording from my success factor list in Chapter 11 is very evident, indicating insufficient research of company documentation as I would have expected more in-house wording to come through. The list of success factors included:

- Develop exceptional people and teams who follow our organization's philosophy
- Innovation is a daily activity (finding better ways to do the things we do every day)
- Be seen in the community as an employer of "first choice"
- Encouraging voluntary assistance by staff to the local community
- Maintaining a healthy and safe workplace (safety always comes first)
- Improved risk management (better forecasting, contingency planning, etc.)
- Increased repeat business from key customers (leading to increasing market share)
- Create an environment where our people are encouraged to meet their full potential

The critical success factors that emerged included:

- Expand sales force with high-performing staff who are profitable within six months of start
- Timely logging of, reporting of, and responding to customer feedback

During this process external outcomes were also identified and these needed to be separated out as they were too broad for success factors:

- Convert and market accounts to adopt our technology
- Eliminate patient deaths during operations
- Acquisition of profitable customers
- Retention of key customers
- Execute successful marketing campaigns

Private Sector Case Study #3: Forestry Company

I flew in to deliver a two-day workshop for a company involved in forestry. They had booked a venue in the local hotel and had asked all the oracles to attend the two-day course, including foreman, forklift drivers, foresters, all the way through to the senior management team and the CEO.

There were close to 50 who attended the two-day session with some staff flying in from an Australian subsidiary to get exposure to the methodology.

The two days followed the outline of the two critical success factor workshops featured in Chapter 11 in this book. Throughout the two days we broke the workshops up into groups no larger than seven and ensured that they were across teams. The project manager had prepared two lists for cross-functional workshops and one for team workshops.

They came up with 65 success factors, which created more work in the relationship mapping process. Forestry Company attendees were able to narrow down the 65 success factors to eight critical success factors that included:

1. Every day we innovate and continuously improve.
2. We select and work closely with the right customers and suppliers.
3. We attract, develop, and retain the right people.

As with other case studies the project team had difficulties in separating external outcomes from success factors.

Following the workshop, staff members who had excelled in the workshop were involved in subsequent workshops. The finalization of the CSFs took a number of months and all were nonfinancial. To ensure that staff live and breathe them, a poster (see Exhibit 16.3) of the CSFs was issued and is widely seen around the workshop places. One month they issued a water bottle with a critical success factor printed on it (see Exhibit 16.3).

The project is now 18 months old and has made a substantial change to the organization.

EXHIBIT 16.3 Poster and Water Bottle Used to Promote the CSFs

Private Sector Case Study #4: Car Manufacturer

A major car manufacturer, through their agents, contacted me to run the two-day workshop. The two-day workshop was simultaneously translated to the 120 attendees by an experienced translator. I spent time with the translator to ensure they understood the slide deck and that they were familiar with the meanings of all the key words.

As before, we broke the 120 attendees into cross function teams of no more than 7 people. This breakout had already been organized before the workshop started, so a sitting plan was organized.

Randomly selected work groups were asked to share their progress. This ensured that teams who were progressing well raised the bar. The workgroups who were less committed always had a risk that their lack of progress could be seen by all. In each case they gave feedback in their own language, and I received the translation.

Private Sector Case Study #5: Timber Merchant

An Australian timber merchant company approached me to deliver a two-day workshop. They had booked a venue in the local hotel and had asked 60 of their oracles to attend the two-day course, which included foreman, forklift drivers, all the way through to the senior management team and CEO. There was over 1000 years of company knowledge in the room.

We used the two-day format and the teams preferred to use the Excel matrix (see Exhibit 16.4) template to record the relationships rather than use a fanfold sheet.

			Success Factor #											
#	Success Factor	Count	1	2	3	4	5	6	7	8	9	10	11	12
1	Positive public perception of ______________	2		X									X	
2	Be seen in the community as an employer of first choice	1	X											
3	Minimizing pollution and waste	2	X							X				
4	Encouraging voluntary assistance by staff to the local community	2	X				X							
5	Supporting local businesses (% of purchases to have local content)	1	X											
6	Delivery in full on time, all the time to our key customers	2	X	X										
7	Finding better ways to do the things we do every day	4	X	X				X			X			
8	Maintaining a safe and healthy workplace	2	X	X										
9	__________________________________	2								X		X		
10	__________________________________	2	X										X	
11	__________________________________	2	X	X										
12	__________________________________	4							X	X	X	X		

EXHIBIT 16.4 Mapping of Relationships Using the Excel Matrix

Private Sector Case Study #6: Investment Bank

A Middle East–owned investment bank wanted to revisit their KPIs. They had commenced a balanced-scorecard project, which had failed to deliver. I was asked to run my two-day CSF workshop. Instead of booking an external venue, a room was set aside in the organization's premises. There was a conspicuous lack of senior management involvement, and the staff members attending were frequently wandering out of the workshop to carry on with their daily duties. The investment bank case study highlights the risk of having the course in-house. In the two days we achieved about one day of activity.

Fortunately the staff member assigned to the project was very committed and completed an outstanding summary of the critical success factors, which were presented to the board.

Nonprofit Membership Organization Case Study #1: Golf Club

A small golf club, located in a seaside hamlet, has a membership of no more than 350 playing members. Despite the relatively small membership, this club has produced two successful professional golfers. The chairman of the golf club asked me to help the club management committee look at their operations.

A two-hour workshop was scheduled for the committee members. Because less time was available, the preparation of the success factors was performed before the workshop, a step I now recommend.

Strategic documents over the past 10 years were reviewed and a draft success factors list was typed on to a fanfold piece of paper.

The workshop was held in the boardroom where one of the committee members worked as the CEO. His personal assistant was on hand to process the workshop output during the workshop.

The workshop process was as follows:

1. Quick agreement on the wording of the balanced scorecard perspectives:
   - Satisfaction of members and visitors
   - Satisfaction of paid and voluntary staff
   - Finance
   - Internal processes
   - Learning and growth of paid and voluntary staff
   - Environment and community
2. The attendees reviewed the wording of the success factors and some changes were made to the fanfold page. A secretary updated this success factor sheet while the committee members practiced

the mapping of success factors of an airline, an exhibit shown in Chapter 11.

3. The committee members were then broken up into three teams and given one-third of the success factors to map the success factor relationships. (See Exhibit 16.5.)
4. The number of arrows out from each success factor was counted, and the higher scoring success factors were identified.

At a subsequent meeting, three committee members, with a good aptitude for this exercise, were selected to reconsider the influence the top success factors had on the entire list of success factors on the sheet. The relationship mapping exercise resulted in eight critical success factors including:

- Capture the potential of the __________ connection
- Family-friendly club
- Timely maintenance of course equipment
- Finish activities we start
- Increase in members' satisfaction through programs and activities

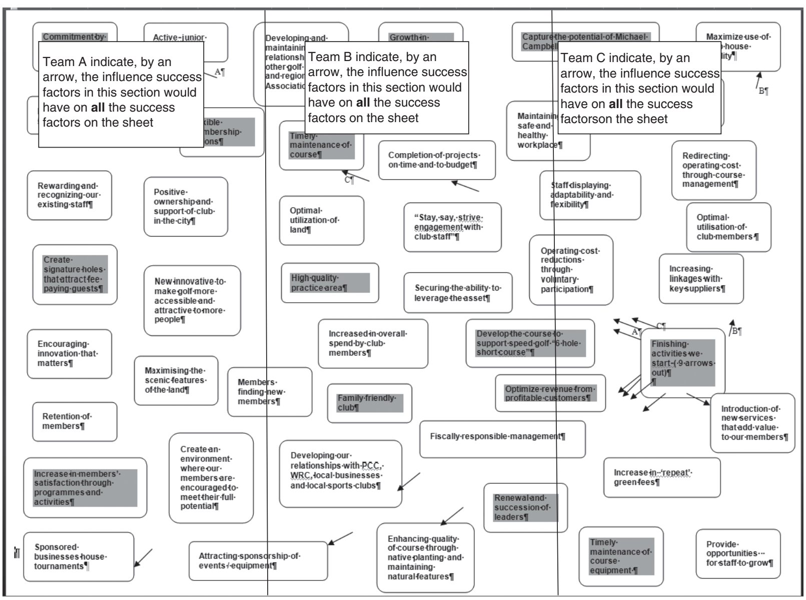

EXHIBIT 16.5 Mapping the Relationships

As with other workshops some external outcomes were included in the list such as:

- Growth in revenue from alternative sources
- Optimize revenue from profitable members

To ensure the critical success factors were balanced, they were mapped against the organization's balanced scorecard perspectives.

The performance measures were brainstormed in each of these critical success factors. These were recorded in an Excel spreadsheet (see Exhibit 16.6).

The exercise gave a better understanding of what should be the main focus. However, in a club that is run by volunteer leaders who are often active in other institutions, momentum is quickly lost. The most beneficial gain was derived from the knowledge of the critical success factors rather than from the resultant measures, which were never embedded. This process would be more beneficial with clubs who employ more than 15 paid staff.

Nonprofit Membership Organization Case Study #2: Surf Life Saving

The beaches around the world are often manned by nonprofit organizations that undertake rescues, train children about water safety, offer sporting activities for their members, and patrol dangerous surf breaks in the summer months.

A two-day workshop was sponsored by a national sports body that wanted to pilot the winning KPI methodology. The two-day workshop was arranged based on the workshop set out in this book. Staff members were requested to attend the workshop from around the country, including many experienced staff members who were knowledgeable about the organization's success factors. Over half of those attending were volunteers.

Although representatives from the national sports body attended the full two-day session, the CEO from Surf Life Saving did not attend any sessions, despite the fact that a strong recommendation was made to the CEO to attend the first session of day one and the last session of day two.

Balance Scorecard Perspectives
MS Satisfaction of members and visitors
SS Satisfaction of paid and voluntary staff
FR Finance Results
IP Internal Process
IL Innovation and learning
EC Environment and community

Performance Measure
KRI = financial or nonfinancial, measured monthly
PI = nonfinancial, measured weekly, biweekly, monthly, quarterly
RI = financial or nonfinancial, measured weekly, monthly, quarterly
KPI = nonfinancial—measured daily, weekly, significant impact

Details about performance measure							Person who will monitor measure					
Name of performance measure	Type of PM (KRI, PI, RI, KPI)	Person	BSC perspectives	Time zone (Past, Current, Future)	Frequency of measurement (24 by 7, daily, weekly, monthly)	Linkage to CSFs (CSFs used in brainstorming exercise)	KD	TC	___	___	___	___
Number of press releases in pipeline to promote _______________ connection	PI	KD	EC	FR	Monthly	Capture the potential of the _____________ connection						
Number of initiatives planned to capitalize on _______________ connection in next one to three months and four to six months	PI	TC	EC	FR	Monthly	Capture the potential of the ___________ connection						
Date of opening of the first six-hole competition at ____________	RI	TC	MS, EC	IP	Monthly	Develop the course to support speed golf "six-hole short courses"						
Number of initiatives planned to capitalize on six-hole speed golf in next one to three months and four to six months	RI	__	MS, EC , IL	FR		Develop the course to support speed golf "six-hole short courses"						
Number of family friendly initiatives planned in next three months	PI	__	MS, EC , IL, SS	FR	Monthly	Family friendly Club						
Number of family friendly events held in past three months	RI	__	MS, EC,	IP	Monthly	Family friendly Club						
___________________________	_____	__	__, __	__	______							

EXHIBIT 16.6 Recording the Performance Measures Using a Spreadsheet

Note: It is important to record the measures showing which critical success factors they relate to, the frequency of measurement (daily, weekly, monthly), and the relevant balanced scorecard perspective(s) the measure impacts.

The key stages of the process included:

1. The names of the balanced-scorecard perspectives were quickly agreed to with the knowledge that they, at some later date, could be amended to better suit the organization's needs:
   - Financial results
   - Satisfaction of district offices and clubs
   - Learning and growing full-time staff members
   - Internal processes
   - Staff and member satisfaction
   - Community and environment
2. In this workshop, we used whiteboards to do the relationship mapping. Time was saved by three team members writing on the whiteboard at the same time.
3. The mapping was carried out by four teams of between four to five attendees.
4. To ensure that the critical success factors were balanced, they were mapped against the organization's balanced scorecard perspectives.
5. The performance measures were ascertained for each of these critical success factors. These were recorded in an Excel spreadsheet as illustrated in Exhibit 16.6.
6. The critical success factors were ratified at a board meeting, thus permanently locking them into the organization.

Head-office teams after the workshop commenced the drafting of their team scorecards; however, as weeks passed, a number of things happened:

- The CEO, who had never bought into the process, was still very distant from the process.
- The key sponsor was headhunted to another organization.
- Daily firefighting diverted the energy elsewhere, and the project lost momentum.

The exercise gave a better understanding of what should be focused on. However, the lack of adherence to the foundation stones outlined in Chapter 7 was the main reason for the project's lack of progress. (See Exhibit 16.7.)

EXHIBIT 16.7 **Surf Life Saving Project's Lack of Adherence to the Foundation Stones**

Recommended Foundation Stones		Action
1.	Partnership with the staff, unions, third parties	The lack of buying in by the CEO meant this foundation stone was never in place.
2.	Transfer of power to the front line	Never occurred.
3.	Measure and report only what matters	Never occurred.
4.	Source KPIs from the critical success factors	Only attendees to the workshop were made aware of this, so this foundation stone was not embedded.
5.	Abandon processes that do not deliver	There were many activities that could have been culled that would have freed up time for this project.
6.	Appointment of a home-grown chief measurement officer	Never occurred.
7.	Organization-wide understanding of the winning KPIs definition	Never occurred.

Government Department Case Study #1

A government department in an Asian country, involved in community projects to integrate the feeling of togetherness in the country's population, had for some time realized the importance of performance management and had embarked on a balanced-scorecard approach.

After the balanced scorecard was found to be floundering, they wanted to hold a two-day CSF workshop to restart the balanced scorecard project.

Right from the start the CEO was totally behind the project. The project leader had excellent communication skills and was well connected to the CEO.

A two-day workshop was arranged around the workshop discussed in Chapter 11 with the aim not only to find the critical success factors, but also to show the team leaders how to ascertain appropriate performance measures from the critical success factors.

All departmental staff members were requested to attend, with all the senior management team present. The venue was a local hotel, which ensured far greater commitment from the attendees.

The CEO attended the first and the last sessions and later admitted to regretting that he had not attended the whole two days.

Attendees agreed on the wording of the balanced-scorecard perspectives, which were the same as in the KPI book. The project later went back to using only four perspectives, which may turn out to be a regrettable step (see Exhibit 16.8.).

The attendees in the workshop carried out the relationship mapping process as set out in Chapter 11. The result was seven critical success factors including:

- Effective community outreach and engagement
- Effective grass roots leaders/volunteers/staff
- Enhanced partnerships with groups and organizations with common interests
- An environment that encourages innovation and creativity

The performance measures were brainstormed in each of these critical success factors. These were recorded in an Excel spreadsheet. For an example refer to Exhibit 16.6.

Teams now have their own scorecards and performance measures, and the accompanying critical success factors are driving performance.

EXHIBIT 16.8 **How the Four Balanced-Scorecard Perspectives Evolved**

Original Agreed-To Perspectives	**Perspectives Used Later On**
Customer	Stakeholders/customers
Financial	Resource management
Internal process	Operational excellence
Employee satisfaction	
Innovation and learning	Learning and development
Environment/community	

EXHIBIT 16.9 Recording the Adherence to the Foundation Stones

Recommended Foundation Stones	Action
1. Partnership with the staff, unions, third parties	While the organization has very good communication channels, it had not invited any community leaders it worked with to the workshop.
2. Transfer of power to the front line	This delegated authority had already been established.
3. Measure and report only what matters	There was a tendency to report everything. The lesson that less is better than more was not practiced.
4. Source KPIs from the critical success factors	Never occurred.
5. Abandon processes that do not deliver	There were many activities that could have been culled that would have freed up time for this project.
6. Appointment of a home-grown chief measurement officer	Never occurred.
7. Organization-wide understanding of the winning KPIs definition	Never occurred.

The lack of adherence to the foundation stones outlined in Chapter 7 was the main reason for the project's lack of progress (see Exhibit 16.9).

Government Department Case Study #2

A key government department in a small Pacific country wanted to utilize the KPI methodology. To finance the workshop they asked other organizations from the public and private sectors whether they wished to attend.

Thirty staff members from the department attended with another 70 from over 10 other organizations. Organizations with over seven attending were broken into smaller workgroups.

It was interesting to see that the feedback from the workshop exercises created an environment where teams wished to excel. Once a couple of teams had impressed the group with their accomplishments, the impact this had in lifting the work rate in other workgroups was clearly visible.

Professional Accounting Body Case Study

A professional accounting body, in Asia, with a CEO who had been exposed to the winning KPI methodology. A two-day workshop was held in its head office, attended by all members of the senior management team. The agenda and processes were the same as the workshop in Chapter 11.

At that stage the professional body was awaiting a team leader to fully implement the project. The recruitment process has been delayed because of workload and the CEO moving on.

The timing of the workshop was not right. The manager for the project should have been identified and should have attended the two-day workshop. The attendees understood the seven foundation stones and responded particularly well to Peter Drucker's abandonment foundation stone. The attendees did not take the vital step of removing the procedures and processes they had identified to abandon and, therefore, they were too tied up in the existing workflow to implement the project swiftly.

Charity Case Study

A charity based in Europe, whose main mission was to fight key diseases, wanted to revisit the use of its KPIs. It used both external KRIs (Key Result Indicators), which were in a published document, and operational KPIs.

The project manager, who was very experienced with both the organization and with performance management issues, arranged for me to deliver the two-day workshop.

It was decided to commence with a series of web-based workshops prior to the visit to fine-tune the likely success factors. Progress was made with success factors, and the two-day workshop did succeed in achieving this result: to ascertain the critical success factors.

The report back to the board identified the problem that board members rightly pointed out: the CSFs tabled (the operational CSFs) were internally focused. They wanted to see, understandably, the external picture: the external outcomes. The board was naturally looking from the outside in. The board wanted to see the CSFs expressed as naturally as outcomes and impacts they wanted to see. The board wanted the organization to "deliver this," "deliver that," which will demonstrate that there has been a successful implementation of the organization's strategy.

Although the board attended a brief presentation using videoconferencing, the concept of the critical success factors being operational and thus internal was not fully understood.

This clash over terminology (CSFs versus external outcomes) created a hurdle for the project and further emphasized the clarity that is required between operational CSFs and external focused outcomes. I hope that Chapter 11 will aid with this issue.

Due to the small size of the charity, they were unable to assign a staff member full time in this project, nor were they able to establish a chief measurement officer as described in this book. This difficulty will be a reality for many other SMEs, and it is one that will slow progress.

CHAPTER 17

Common Critical Success Factors and Their Likely Measures

Overview

This chapter looks at some common critical success factors and their likely measures that might work in the private, government, and nonprofit sectors.

Although organizations need to go through the processes suggested in this book, I am always asked to give examples of common critical success factors (CSFs) and their likely measures that might work in both private and public organizations. Exhibit 17.1 shows some *key result indicators* (KRIs), *result indicators* (RIs), *performance indicators* (PIs), and some *key performance indicators* (KPIs) that will work.

EXHIBIT 17.1 Some Common CSFs and Their KRIs, RIs, PIs, and KPIs

Common CSF	KRI	RI	PI	Possible KPI
Stay, say, strive engagement with staff.	Staff satisfaction (if monitored at least three to four times a year).	Turnover of experienced staff who have been with the organization for more than three years (reported monthly).	Number of staff innovations implemented, by team (reported weekly). Staff who have been ill for over two weeks who do not have a back-to-work program (reported weekly to manager and general manager).	1. Staff who have handed in their notice today. Staff in key positions would be notified directly to the chief executive officer (CEO), other staff would be reported to the relevant general manager or senior manager. (The CEO has the opportunity to try to persuade the staff member to stay.) 2. Number of initiatives implemented after the staff-satisfaction survey (monitored weekly after survey for up to three months).

3. Teams not represented in the in-house courses to be held in the next two weeks (reported daily to CEO).
4. Accidents and breaches of safety (reported to CEO immediately).
5. New staff who have not attended an induction program within two weeks of joining (reported weekly to CEO).
6. Number of CEO recognitions in past week/past two weeks.
7. Number of CEO recognitions planned for next week/next two weeks.

(*continued*)

EXHIBIT 17.1 (*Continued*)

Common CSF	KRI	RI	PI	Possible KPI
Recruiting the right people all the time.	Number of staff who have left within 3 months, 6 months, and 12 months of joining organization, by division (reported quarterly).	Number of managers trained in recruiting practices (reported monthly).	1. Recruitments in progress when last interview was over two weeks ago. 2. Date of confirmed testing of candidates' capabilities (reported weekly).	1. Key position job offers that are over 48 hours old and have not yet been accepted by the chosen candidate (reported daily to CEO/general manager). 2. List of short-listed candidates when next round of interviews has yet to be organized (reported daily).
Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others.	Number of key positions with at least two protégés, by division (reported quarterly).	Number of high-performing staff, by division (reported monthly). Number of promotions for high-performing staff planned in the next three months (reported monthly).	1. Number of planned recognitions in next week/next two weeks (maintained weekly by each manager). 2. Number of planned celebrations in next week/next two weeks (maintained weekly by each manager).	1. Number of CEO recognitions in past week/past two weeks. 2. Number of CEO recognitions planned for next week/next two weeks.

			3. List of high-performing staff who have been in same position for over two years (quarterly list). 4. Date of next executive course to be attended by senior management team members (monthly update).	
Grow leaders who thoroughly understand the work, live the philosophy, and teach it to others.	Number of managers who have attended leadership training (quarterly by manager level).	Number of managers who are scoring over _______ on their leadership from the 360 feedback surveys (by manager level).	1. Date of next leadership program and the list of suggested attendees by division (reported weekly to CEO). 2. Date of next 360 feedbacks for level-1 and level-2 managers (reported monthly).	Number of vacant leadership places on in-house course (reported daily to CEO in the last three weeks before the course's scheduled date).

(continued)

EXHIBIT 17.1 (*Continued*)

Common CSF	KRI	RI	PI	Possible KPI
	Staff satisfaction with empowerment and fulfillment (assumes a survey is three to four times a year).		Date of next survey (reported monthly).	Number of initiatives implemented after the staff-satisfaction survey (monitored weekly after survey for up to three months).
	1. Percentage of level-1 and level-2 managers who have mentors (reported quarterly). 2. Percentage of high-performing staff who have a mentor (reported quarterly).		1. Number of high-performing staff who do not have a mentor (reported weekly to general managers). 2. List of level-3 managers who do not have mentors (reported weekly to general managers). Note: These measures would only need to be operational for a short time on a weekly basis.	List of level-1 and level-2 managers who do not have mentors, reported weekly to the CEO. This measure would only need to be operational for a short time on a weekly basis.

Innovation is a daily activity (finding better ways to do the things we do every day).	Innovations implemented over past 18 months by division.	1. Innovations that are running behind (weekly update). 2. Number of patents. 3. Date of prototype completion. 4. Date of next pilot test.	1. Number of innovations implemented last month by team (reported monthly to the CEO). 2. Date of next innovation training sessions (monthly). 3. Number of managers who have been through the innovation course (monthly). 4. Date of next innovation to our key services (monthly).	Number of innovations planned for implementation in the next 30 days, 60 days, and 90 days (reported weekly to CEO).
Abandonment: Willingness to abandon initiatives, opportunities that are not working or unlikely to succeed.	Number of abandonments over past 18 months by division (reported monthly).	Time saved each month through abandonments by team (reported monthly featuring the top-quartile performing teams in this area).	1. List of abandonments in last month by team (reported monthly). 2. Number of committees/task forces disbanded this month. 3. Number of monthly reports terminated. 4. Date of planned replacement of service that has now become outdated (monthly).	Number of abandonments to be actioned in the next 30 days, 60 days, and 90 days (reported weekly to CEO).

(continued)

EXHIBIT 17.1 (*Continued*)

Common CSF	**KRI**	**RI**	**PI**	**Possible KPI**
Making the right decisions by consensus with ready contingency plans.	Major implementations in past 18 months showing degree of success (exceeded expectations, met expectations, did not meet expectations, abandoned).	Major projects awaiting consensus sign-off (reported weekly to CEO).	1. Managers with the most success with implementations over past three years (reported quarterly to CEO).	1. Major projects awaiting decisions that are now running behind schedule (reported weekly to CEO). 2. Major projects in progress without contingency plans (reported weekly to CEO).
Delivery in full on time, all the time, to our key customers.	Percentage of on-time in-full delivery to key customers, and to other customers. (Show past 18 months.)	Percentage of on-time in-full delivery to other customers (reported weekly to general managers).	1. Teams with the best on-time delivery record (reported weekly to general managers and all staff). 2. Calls on hold longer than _______ seconds (reported immediately).	1. Emergency response time over a given duration (reported immediately to CEO). 2. Late deliveries/incomplete deliveries to key customers (reported 24/7 to CEO, general manager, and all staff). 3. Complaints from our key customers that have not been resolved within two hours (reported 24/7 to CEO and general managers).

Getting closer to our customers.	18-month trend showing take-up of new services.	Date of next outside-in activity to enhance senior-management-team understanding of customer needs (e.g., CEO working undercover in customer interface frontline positions).	1. Number of initiatives implemented to improve key customer satisfaction (reported monthly). 2. List of key customers where time since last order is > X weeks (reported weekly to sales team and general managers). 3. Date of next major customer focus group (reported quarterly). 4. Date of next initiative to attract targeted noncustomers (reported quarterly).	1. Date of next visit to major customers by customer name (reported weekly to CEO and general managers). 2. Late deliveries/ incomplete deliveries to our key customers (reported 24/7 to CEO, general manager, and all staff). 3. Key customer complaints not resolved within two hours (reported to CEO immediately).
We finish what we start.	Status of all major projects reported monthly.	Number of projects finished in the month.	1. Number of overdue reports/documents (reported weekly to senior management team).	1. List of late projects, by manager (reported weekly to senior management team).

(*continued*)

EXHIBIT 17.1 (*Continued*)

Common CSF	**KRI**	**RI**	**PI**	**Possible KPI**
			2. Number of projects that are managed/staffed by contractors or consultants (reported monthly).	2. List of projects that are at risk of non-completion (project is unassigned, manager has left, no progress has been made in past three months, etc.).
A bias for action.	New initiatives completed. Show past 18 months.	New initiatives that will be fully operational in the next three months by department.	1. Number of recognized mistakes highlighted last month (if the number is too low, you have an unhealthy environment). 2. Number of bureaucratic processes abandoned in the month.	1. Number of prototypes/pilots commenced in month by division. 2. Date of next new service initiative.
Breeding success.	List of key successes in the past 18 months.	New initiatives that will be fully operational in the next three months by department.	1. Number of positive press releases issued in the past 30 days/60 days (reported monthly). 2. Number of papers/radio stations who have used press release (reported monthly, by major press release).	1. Number of recognitions made last week by CEO and each member of senior management team. 2. Number of CEO recognitions planned for next week/next two weeks.

CHAPTER 18

Comparison to Other Methodologies

Overview

This chapter compares the winning KPIs methodology to Kaplan and Norton's balanced scorecard, Stacey Barr's PuMP, and Paul Niven's balanced scorecard work.

There are a number of methodologies which I should address. I am a firm believer that the in-house project team, having researched these 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.

Main Differences Between the Balanced-Scorecard and Winning-KPIs Methodologies

Right from the start, organizations around the world were quick to see the benefits of a balanced-scorecard approach, and many organizations initiated projects. The groundbreaking work of Kaplan and Norton[1] brought to management's attention the fact that strategy had to be balanced, needed to be implemented, and performance should be measured using a more holistic approach.

Unfortunately, many balanced-scorecard initiatives have failed. So how do you adapt and apply a balanced-scorecard approach and

EXHIBIT 18.1 Four Supports to Assist the Balanced Scorecard

get it right the first time? We need to place sturdier support underneath the balanced-scorecard platform, as set out in Exhibit 18.1.

These four supports have been discussed at great length in Chapters 1, 2, 3, 7, and 11.

The balanced scorecard will be with us for centuries to come. We just need to make it work better. I see my methodology *underpinning* the work of Kaplan and Norton rather than undermining it.

There are some important differences that need to be understood. The winning-KPIs methodology states that:

- 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.
- You need to know your organization's critical success factors because these are the crux of finding the KPIs. However, Kaplan and Norton do not mention critical success factors in their work.
- All KPIs are entirely nonfinancial, measured frequently, 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 through mapping the relationships of the organization's success factors and ignoring any attempt to place these success factors into balanced-scorecard perspectives. By contrast, 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 organization and that you can boil down "cause-and-effect" to one or two relationships.

As Jeremy Hope[2] said, "If you think an organization is a machine with levers that you can pull and buttons that you can press to cause a predictable action and counter-action elsewhere (as in a car engine), then cause-and-effect is an idea that works. Strategy maps are seductive models of how we like to think organizations work. But the reality is that they are dangerous weapons in the wrong hands."

- An organization 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."
- The balanced scorecard's perspectives are seen as a guiding force, ensuring that you have balance; the critical success factors and KPIs are seen as transcending more than one balanced-scorecard perspective. In fact, the "timely arrival and departure of planes" critical success factor of an airline 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 organization needs to do well (success factors) in each of the four perspectives in order to implement the strategy.
- The process of finding the right performance measures can be done in-house, whereas the balanced-scorecard approach, due to its complexity, is frequently led by consultants and has created a major industry of providers of software and balanced-scorecard consultants. The balanced-scorecard implementations often break Peter Drucker's advice of "Never giving a new job to a new person."

The differences between the two approaches are summarized in Exhibit 18.2.

Robert Kaplan and David Norton's *The Balanced Scorecard: Translating Strategy into Action* was a game changer. It should be read by the KPI team and the external facilitator. My personal copy has many earmarked pages, which is a sure sign of how useful I think it is to read Kaplan and Norton's work. I have highlighted the main places to visit in Exhibit 18.3.

EXHIBIT 18.2 Differences Between the Balanced-Scorecard and Winning-KPIs Methodologies

Winning-KPIs Methodology	**Balanced-Scorecard Methodology**
Emphasizes the importance of implementing strategy in a balanced way. Total agreement with Kaplan and Norton.	Emphasizes the importance of implementing strategy in a balanced way.
Strategy mapping is seen as an intellectual process with questionable value. This is replaced with relationship mapping of success factors with multiple relationships.	Based around strategy mapping where success factors neatly fit into an individual balanced-scorecard perspective.
Knowing one's critical success factors is seen as fundamental to knowing what to measure.	Critical success factors not addressed in their work.
Performance measures are brainstormed from the critical success factors.	Performance measures are brainstormed from strategic initiatives.
Six balanced-scorecard perspectives through the addition of "staff satisfaction" and "environment and community" perspectives.	Four balanced-scorecard perspectives.
KPIs have seven characteristics and are thus rare. Other measures are either result indicators, key result indicators, or performance indicators.	Key performance indicators not defined. All measures are called KPIs and therefore seen as important to the organization.
Less than 10 KPIs in a business.	Many KPIs in a business.
Measures seen as either looking at the past, the here and now, or the future.	Performance measures are either lead or lag KPIs.
A philosophy that says it can be implemented by an in-house team.	An approach that is largely consultant-based, requiring much intellectual rigor.

EXHIBIT 18.2 (*Continued*)

Winning-KPIs Methodology	**Balanced-Scorecard Methodology**
No software applications required. At some stage a reporting tool will be needed to monitor and report on measures.	A myriad of balanced-scorecard applications that support the strategy mapping and cascading performance measures leading to hundreds of performance measures without any linkage to the organization's critical success factors.
The KPI book is a tool-kit for implementation, containing checklists, agendas for workshops, a framework for a database, report formats, and guidance notes on all 12 steps.	The balanced-scorecard books are largely an academic-based approach with few implementation-based tools provided. There is an implicit suggestion that you will require a consultant to implement the measures.

EXHIBIT 18.3 **Outline of Robert Kaplan and David Norton's** *The Balanced Scorecard: Translating Strategy into Action*

Chapter 1 Measurement and Management in the Information Age	A useful chapter. However, it does miss linkage to Hoshin Kanri.
Chapter 2 Why Does Business Need a Balanced Scorecard?	A useful chapter. Describes the four perspectives. I think their white paper is a better introduction as it talks about innovation and learning rather than learning and growth. The cause and effect section is where the winning KPIs methodology parts company.
Chapter 3 Financial Perspective	A must-read for all the KPI team members.
Chapter 4 Customer Perspective	A must-read for all the KPI team members. There are some useful case studies.

(*continued*)

EXHIBIT 18.3 (*Continued*)

Chapter 5 Internal Process Perspective	A must-read for all the KPI team members.
Chapter 6 Learning and Growth Perspective	A must-read for all the KPI team members.
Chapter 7 Linking Balanced-Scorecard Measures to Your Strategy	This work, I believe, has undone many scorecard implementations. Form your own view.
Chapter 8 Structure and Strategy	This work, I believe, has undone many scorecard implementations. Form your own view.
Chapter 9 Achieving Strategic Alignment: from Top to Bottom	Some useful diagrams. However, two dangerous areas, firstly cascading of measures and secondly the rewards systems linkage. The linkage to pay in this chapter has given rise to many flawed performance-related pay schemes.
Chapter 10 Targets, Resource Allocation, Initiatives, and Budgets	I did not find this chapter of use.
Chapter 11 Feedback and the Strategic Learning Process	I did not find this chapter of use.
Chapter 12 Implementing a Balanced-Scorecard Management Program	I did not find this chapter of use.
Appendix Building a Balanced Scorecard	A must-read for all the KPI team members.

Stacey Barr's PuMP

Stacey Barr's *Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, and Engaging KPIs*[3] will have a profound influence on the reader as it has for me. It will help many teams to arrive at performance measures that work. This book is a must-have for the KPI team's library and should be read by the KPI team and the external facilitator. The team will then need be able to work out, for themselves, which methodology they want to use or what combination would work for them.

Stacey Barr has spent the past 15 years or so helping organizations worldwide find measures that drive performance. She has developed the PuMP (Performance Measurement Process) methodology.

Barr along with Spitzer and myself believe that many organizations have an ad hoc approach to measuring performance and underestimate the effort and rigor needed to produce meaningful measures.

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

Barr has a good website which can be accessed at www.staceybarr.com where you learn more about her approach, and her forthcoming webinars and workshops, and access previous newsletters.

My thoughts on the content of Stacey Barr's book is outlined in Exhibit 18.4.

There are some important differences between Stacey's Barr approach and the winning KPIs methodology that need to be understood.

- Barr sees *critical success factors* (CSFs) as the "overarching themes or headings under which related goals or objectives are clustered" whereas I consider them the issues or aspects of organizational performance that determine ongoing health, vitality, and well-being. As previously argued, I see CSFs as more fundamental to an organization than its strategy.
- As already mentioned, I believe 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. Whereas Barr implies that there their function is more to support the implementation of strategic initiatives.

EXHIBIT 18.4 Outline of Stacey Barr's ***Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, and Engaging KPIs***

Chapter 1 What Exactly Is Performance Measurement?	A very useful chapter that should be re-read a few times by the KPI project team. The sections on "Events or milestones are not performance measures" and "Measures of activity are (mostly) not performance measures" are very important.
Chapter 2 Does Your Performance Measurement Process Work?	A very useful chapter that should be re-read a few times by the KPI project team. The section "The common struggles with performance measurement" is a masterpiece.
Chapter 3 The Eight-Week PuMP Blueprint Pilot Project	Read this after you have read the eight steps in Chapters 3 to 11 inclusive.
Chapter 4 Step 1: Understanding Measurement's Purpose	A very useful chapter that should be re-read a few times by the KPI project team. The section "The common performance measurement habits are bad habits" is excellent.
Chapter 5 to 11 Covering Steps 2 to 8	These chapters are a must-read for the KPI team. Along with a visit to Stacey Barr's website, the team is now in a position to see which methodology they want to use.
Chapter 12 Resources for PuMP Implementation Success	An outline of the resources Stacey Barr has made available to the KPI project team.

- Barr calls all measures "performance measures" and thus does not distinguish between the two groups that are so important in my work

    Result indicators: I use the term result indicators to reflect the fact that many measures are a summation of more than one team's input. These measures are useful in looking at the combined teamwork but, unfortunately, do not help management fix a problem, as it is difficult to pinpoint which teams were responsible for the performance or nonperformance.

Performance indicators: These are measures that can be tied to a team or a cluster of teams working closely together for a common purpose. Good or bad performance is now the responsibility of one team. These measures thus give clarity and ownership.

- Barr does not like the term KPIs whereas I define KPIs as being measures focusing on those aspects of organizational performance that are the most critical for the current and future success of the organization.
- I believe that nonfinancial measures will be the main drivers of performance and thus the important measures, the KPIs, are all nonfinancial. Barr's work does not appear to make a stand on this issue.
- Barr's result mapping process is a welcomed development and will replace, in time, strategy mapping.
- Barr has not referred much to the balanced-scorecard approach and the balanced-scorecard perspectives. The balanced scorecard and its predecessor, Hoshin Kanri, are worthy of more reference. I believe it is advisable to reference back both our strategy, our CSFs, and the resulting measures to the six perspectives (Financial, Customer Focus, Internal Process, Innovation and Learning, Environment and Community, and Staff Satisfaction.
- As a follower of Jeremy Hope,[4] I firmly believe any fixed annual performance contract is doomed to fail, as they will either be too hard or too soft.

Paul Niven's Balanced Scorecard Work

Paul has written a number of books. I wish to feature here his *Balanced Scorecard: Step-by-Step for Government and Nonprofit Agencies*.[5]

This book is a masterpiece and my personal copy has earmarked pages, which is a sure sign of how useful I think it is. I have highlighted the main places to visit in Exhibit 18.5.

EXHIBIT 18.5 Outline of Paul Niven's ***Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies***

Chapter 1 Introduction to the Balanced Scorecard	A very useful chapter. The sections on "Strategy execution is everything" are a must-read section.
Chapter 2 Adapting the Balanced Scorecard to Fit the Public and Nonprofit Sector	Also a very useful chapter. The section on "Importance of cause and effect" is important to understand in order to form a point of view. The section on "Benefits of using a balanced scorecard" will help with your sale process.
Chapter 3 Before You Begin	The information in this chapter would be very valuable for the KPI project team.
Chapter 5 Mission, Values, and Vision	Simply the best summary written anywhere of this aspect of the balanced scorecard. Encourage everybody on the senior management team to read this chapter.
Chapter 6 Strategy: The Core of Every Balanced Scorecard	I would read Jack Welch's chapter on strategy in *Winning*[a] first before digesting this version.
Chapter 7 Strategy Maps	I have expressed my views in Chapters 2 and 11. Determine which approach you want to adopt and then implement.
Chapter 8 Performance Measures, Targets, and Initiatives	This is where I digress from Niven's work. Understand the contrast between my Chapter 1 on KPIs and Niven's Chapter 8 and draw your own conclusions.
Chapter 9 Creating Alignment by Cascading the Balanced Scorecard	I think cascading measures down in the classical balanced-scorecard method, as explained here, will not move you toward achieving your optimal goal. I would prefer you to follow the method in this book.
Chapter 10 Linking Resource Allocation to the Balanced Scorecard	Resource allocation and budgeting is best sourced from Robin Fraser and Jeremy Hope's *Beyond Budgeting*.[b]

EXHIBIT 18.5 (*Continued*)

Chapter 11 Reporting Results	A very useful analysis of the software selection process. It should be read in conjunction with Stephen Few's books which are covered in more detail later in this section.
Chapter 12 The City of Charlotte: A Balanced Scorecard Success Story	This is useful for the project KPI project team.
Chapter 13 Sustaining Balanced Scorecard Success	There is a useful case study in this chapter.

[a]Jack Welch and Suzy Welch, *Winning* (New York: HarperBusiness, 2005).
[b]Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Cambridge, MA: Harvard Business Press, 2003).

Notes

1. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business Press, 1996).
2. Hope, Jeremy "Hidden Costs" whitepaper, 2004.
3. Stacey Barr, *Practical Performance Measurement: Using the PuMP Blueprint for Fast, Easy, and Engaging KPIs* (StaceyBarr, 2014).
4. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Cambridge, MA: Harvard Business School Press, 2003).
5. Paul R. Niven, *Balanced Scorecard: Step-by-Step for Government and Nonprofit Agencies* (Hoboken, NJ: John Wiley & Sons, 2008).

CHAPTER 19

CEO Toolkit

Overview

This chapter is designed to help the busy CEO keep on top of a KPI project. It includes a letter to the CEO, the leadership that will be required, and recommended reading.

This chapter is for the busy CEO who is looking to embed winning KPIs in his or her organization. I have been asked by a CEO to make it easier for fellow CEOs to keep on top of this project, so I have, in this edition, included this CEO tool kit.

I am hopeful that if you are a CEO and are reading this chapter, you may be sharing with me the opinion that performance management is well and truly broken down. The organizations that have moved from good to great have had to challenge the myths surrounding performance management and break in new ground. This process has been well documented by the paradigm shifters (such as Jack Welch, Jim Collins, Gary Hamel, Jeremy Hope, Tom Peters, Robert Waterman, and Peter Drucker) outlined in Chapter 4.

Letter to You, the Chief Executive Officer

Due to your workload as the chief executive officer (CEO), I doubt whether you will have time to read much of this book. That is not such a problem, as I explain in this letter.

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27 February, 2015

Dear CEO,

Re: Invitation to put winning key performance indicators in your organization

I would like to introduce you to a process that will have a major impact on your organization. It will link you and your organization's staff to the key activities in the organization that have the most impact on the bottom line. If implemented successfully, it will have a profound impact, enabling you to leave a major legacy. I would like to wager that you have not carried out an exercise to distinguish those critical success factors from the many success factors you and your senior management team talk about on a regular basis. I would also point out that much of the reporting you receive, whether it is financial or on performance measures, does not aid your daily decision-making process. I know this because much of the information you receive is monthly data received well after the horse has bolted.
I recommend that you read the following chapters of this book:

Preface	Why you should be interested in this book—this covers the major benefits of getting the KPIs right
Chapter 1.	The great KPI misunderstanding—explains the background to a new way of looking at KPIs, considered by many to be a breakthrough in understanding KPIs
Chapter 2.	Myths of performance measurement—the reasons why performance measures may not be working in your organization
Chapter 3.	Unintended consequence: the dark side of performance measures

Chapter 4.	Revitalizing performance—this will assist you in adopting a more holistic and modern approach to enhancing performance based on the leading thinkers of our time
Chapter 5.	Strategy and its relevance to performance measures—having a balanced strategy that is clear and precise
Chapter 7.	Foundation stones for implementing key performance indicators—explains why so many initiatives fail
Chapter 8.	Getting the CEO and senior management team committed to the change
Chapter 10.	Leading and selling the change—this chapter will be useful to all managers who are trying to sell an idea
Chapter 11.	Finding your organization's operational critical success factors—this could be a major legacy at your organization
Appendix A	Foundation stones of performance-related pay schemes—this will help reshape any schemes you have currently running in the organization
Appendix C	Delivering bulletproof PowerPoint presentations —this should be read by all those who deliver presentations to the board and senior executive team

Armed with this information, I trust that you will support the winning KPI project with commitment and enthusiasm. By the time you read this letter, this work will have received international acceptance. My KPI book, *Key Performance Indicators: Developing, Implementing, and Using Winning KPIs*, is already one of the best sellers in performance measurement.

I ask that you spare 15 minutes of your time and listen to my webcast on "The Late Planes in the Sky KPI" (www.davidparmenter.com). It will clearly illustrate to you what a KPI is and that nearly all of your KPIs do not operate in the way this measure does.

I am hopeful that this book, with the support material available on my website (kpi.davidparmenter.com/thirdedition), will help you and your organization achieve a significant improvement in performance. I look forward to hearing about your progress.

Kind regards,
David Parmenter
parmenter@waymark.co.nz

Measurement Leadership Has to Come from the Chief Executive Officer

As Dean Spitzer argues, one of the fundamental issues of the implementation of performance measurement is *measurement leadership*. Only when the chief executive officer (CEO) is passionate and knowledgeable about measurement will you have the opportunity to get twenty-first-century measurement to work effectively and efficiently.

Barriers to Measurement Leadership

The CEO and senior management team need to minimize the barriers to measurement leadership, which include the following:

- CEOs who lack the knowledge to have the requisite expertise to run the organization. As Dr. Scott Gardner, Associate Professor at Murdoch University (Perth, Western Australia), said to me one day: "Experience plus knowledge equals expertise."
- CEOs who are inadequately conversant with the latest management thinking.
- CEOs who are motivated to retain the existing measurement system because they benefit from the flaws with a large year-end bonus.
- CEOs who are addicted to action and quick fixes rather than well thought-out, slow, but effective implementations of change.
- CEOs who are happy to run the business on intuition rather than on facts.
- CEOs who have become immune to waste, who have worked with so many dysfunctional systems that they consider them part of the surroundings.
- CEOs who have very narrow understanding of the work of leading leadership and management writers, such as Peter Drucker, Jim Collins, Peters and Waterman, Jeremy Hope, Gary Hamel, and Jack Welch.

The Top Ten Steps for a CEO

CEOs need to aware of the twenty-first-century management practices.

There are a number of major steps CEOs need to take to get performance measurement to work in their organizations. Let us call them the top 10:

1. Disband any form of primitive performance-based pay mechanism that ties pay to either annual performance targets or performance measures and rebuild when a better understanding has been gained on the foundation stones of performance-related pay as set out in Appendix A.
2. Realize that you have reached the highest echelon of achievement a CEO can reach without the requisite knowledge. Although your *experience* will obviously be sound, you need to avail yourself of the *knowledge* from the greatest thinkers of our time. There is plenty of time to rectify this. You can start by referring to the following reading list:
   - Jack Welch with Suzy Welch, *Winning* (HarperBusiness, 2005)
   - Take a crash course in Peter Drucker's wisdom by reading *The Definitive Drucker: Challenges for Tomorrow's Executives—Final Advice from the Father of Modern Management* by Elizabeth Haas Edersheim (McGraw-Hill, 2006)
   - Jeffrey K. Liker, *The Toyota Way: 14 Management Principles from the World's Greatest Manufacturer* (McGraw-Hill, 2003)
   - Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Harvard Business Press, 2003)
   - Jim Collins, *Good to Great: Why Some Companies Make the Leap … and Others Don't* (HarperBusiness, 2001) and *How the Mighty Fall: And Why Some Companies Never Give In* (HarperCollins, 2009)
   - Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies* (Harper and Row, 1982)
   - The chapters in this book that have been highlighted in an earlier section of this chapter (see the letter addressed to the CEO)
3. Apply the practices of winning leadership featured in my management book.[1]
4. Abandon processes that are not working.
5. Find your organization's critical success factors by following the steps in Chapter 10 and embed them in every team in the

organization, for without them everything will drift from one crisis to another.

6. Become a Toyota convert, embedding as many of its 14 management principles as possible. See Toyota's 14 management principles in Chapter 4 for more details.
7. Commence the KPI project by using handpicked in-house resources and giving them time, resources, and support, so they will have a chance to succeed. It is important that you champion the KPI project 24/7 by having a direct reporting link from the KPI team to you.
8. Appoint someone as the chief measurement officer, as outlined in Chapters 2 and 7 and in Appendix B. This person would:
   - Be knowledgeable in all the facets of performance management
   - Understand the psychology working behind performance measures
   - Have excellent communication skills, including the vital trait of management by walkabout
   - Be able to run workshops to train staff in finding performance measures
   - Exude passion for performance measurement
9. Create a new vision, mission, and values statement that ensures only like-minded management and staff will join the organization in the future.
10. Make the entire staff aware that all KPIs are entirely nonfinancial and are monitored 24/7, daily, or weekly (see "Seven Characteristics of KPIs," in Chapter 1).

Armed with this knowledge, it will be logical for you to challenge the myths and establish a simple yet effective measurement system in your organization. You need to be the figurehead of this change process, like Jack Welch was in implementing Six Sigma and e-commerce within GE. You will need to select your most talented staff to lead this change to making measurement an activity that will lead to greater staff satisfaction. In other words, you will need to champion this process in the same way Jack Welch, former CEO, General Electric did.

Note

1. David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices* (Hoboken, NJ: John Wiley & Sons, 2011).

APPENDIX A

Foundation Stones of Performance-Related Pay Schemes

Performance-related pay is broken both within the private sector and in government and nonprofit agencies. Jeremy Hope[1] in this quote:

> *"… But despite hundreds of research studies over 50 years that tell us that extrinsic motivation (carrot and stick financial targets and incentives) doesn't work, most leaders remain convinced that financial incentives are the key to better performance."*

The Billion-Dollar Giveaway

Performance bonuses give away billions of dollars each year based on methodologies where little thought has been applied. Who are the performance bonus experts? What qualifications do they possess to work in this important area other than prior experience in creating the mayhem we currently have?

When one looks at their skill base one wonders how did they acquire gravitas in the first place? Which bright spark advised the hedge funds to pay a $1 billion bonus to one fund manager who created

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This appendix is adapted from David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices* (Hoboken, NJ: John Wiley & Sons, 2011).

a paper gain that never eventuated into cash? These schemes were flawed from the start; "super" profits were being paid out, there was no allowance made for the cost of capital, and the bonus scheme was only "high side" focused.

The Foundation Stones

There are a number of foundation stones that need to be laid down and never undermined when building a performance-related pay scheme that makes sense and will move the organization in the right direction.

The Foundation Stones include:

- Base the performance-related pay schemes on a relative measure
- Super profits should be excluded from schemes
- Schemes should be free from "profit enhancing" adjustments
- Schemes should take into account the full cost of capital
- At-risk portion of salary separate from the scheme
- Avoid any linkage to the share price
- Team based rather than on an individual
- The bonus should not be seen as an annual entitlement
- Linked to a balanced performance
- The downside of having "deferral provisions"
- Test scheme to minimize risk of being manipulated
- Schemes should not be linked to KPIs
- Schemes need to be communicated
- Schemes should be tested on past results

Base the Performance-Related Pay Schemes on a Relative Measure

Most bonuses fail at this first hurdle. Jeremy Hope and Robin Fraser,[2] pioneers of the beyond budgeting methodology, have pointed out the trap of an annual fixed performance contract. If you set a target in the future, you will never know if it was appropriate, given the particular conditions of that time. You often end up paying incentives to management when, in fact, their performance was substandard. A good example of this would be in the private sector if rising sales did not keep up with the market growth rate.

Relative performance targets measures involve comparing performance to the marketplace. Thus, the financial institutions that are making super profits out of this artificial lower interest rate environment would have a higher benchmark set retrospectively, when the actual impact is known. As Jeremy Hope says, "Not setting a target beforehand is not a problem as long as staff are given regular updates as to how they are progressing against the market." He argues that if you do not know how hard you have to work to get a maximum bonus, you will work as hard as you can.

Super Profits Should Be Excluded from Schemes

Super profits should be excluded from performance-related pay schemes and retained to cover possible losses in the future. In boom times, annual performance targets give away too much. These "super-profit" years come around infrequently and are needed to finance the dark times of a recession. Yet, what do our remuneration experts advise? A package that includes a substantial slice of these super-profits, but no sharing in any downside. This downside, of course, is borne solely by the shareholder.

There needs to be recognition that the boom times have little or no correlation to the impact of the teams. The organization was always going to achieve this, no matter who was working for the firm. As Exhibit A.1 shows, if an organization is to survive, super-profits need

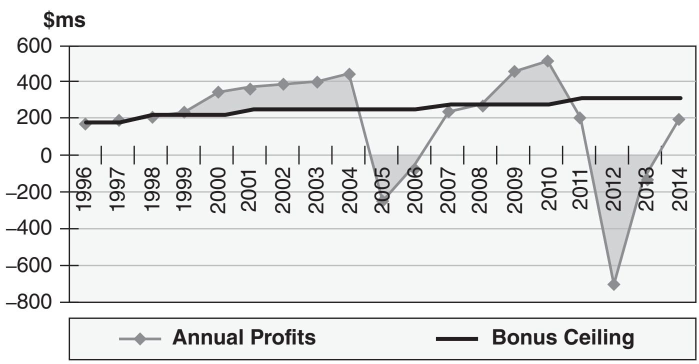


EXHIBIT A.1 Retention of Super-Profits

Source: David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices.*

to be retained. If you look at Toyota's great years, the percentage paid to the executives was a fraction of that paid to the executives in Detroit who had underperformed.

This removal of super-profits has a number of benefits:

- It avoids the need to have a deferral scheme for all unrealized gains
- It is defensible and understandable to employees
- It can be calculated by reference to the market conditions relevant in the year. When the market has become substantially larger, with all the main players reporting a great year, we can attribute a certain amount of period-end performance as super-profits

When designing a bonus scheme, the super-profits component should be removed from the calculation rather than used to create a windfall gain to all those in the bonus scheme. If a bonus pool has maxed out, then staff would rather play golf than go hard to win further business. The ceiling in Exhibit A.1 is shown for illustration purposes only.

Schemes Should Be Free from "Profit-Enhancing" Adjustments

All profits included in a performance bonus scheme calculation should be free of all major "profit-enhancing" accounting adjustments. Many banks generated additional-profits in 2010–2013 as the massive write-downs from the Global Financial Crisis were written back when loans were recovered.

> I remember a classic case in New Zealand where a CEO was rewarded solely on a successful sale of a publicly owned bank. The loan book was written down to such an extent that the purchasing bank reported a profit in the first year that equated to nearly the full purchase price. Most of the written down loans had been repaid in full.

This activity is no different from many other white collar crimes that occur under the eyes of poorly performing directors.

One simple step you can take is to eliminate all short-term accounting adjustments from the bonus scheme profit pool of senior management and the CEO. These eliminations should include:

- Recovery of written-off debt
- Profit on sale of assets

The aim is to avoid the situation where management, in a bad year, will take a massive hit to their loan book so they can feather their nest on the recovery. This type of activity will be alive and well around the globe.

These adjustments do not have to be made for the loan team's bonus calculations. We still want them motivated to turn around non-performing loans.

Schemes Should Take into Account the Full Cost of Capital

The full cost of capital should be taken into account when calculating any bonus pool. A trader can only trade in the vast sums involved because they have a bank's balance sheet behind them. If this was not so, then the traders could operate at home and be among the many solo traders who also play in the market. These individuals cannot hope to make as much profit due to the much smaller positions their personal cash resources facilitate.

Each department in a bank should have a cost of capital, which takes into account the full risks involved. In today's unusual environment the cost of capital should be based on a five-year average cost of debt and a risk weighting associated with the risks involved. With the losses that bank shareholders have had to tolerate the cost of capital should be set in some "higher risk" departments as high as 25 percent.

With the current artificially low base rate, a fool could run a bank and make a huge bottom line. All banks should thus be adjusting their cost of capital based on a five-year average in their performance-related pay schemes.

At-Risk Portion of Salary Separate from the Scheme

Any at-risk portion of salary should be separate from the performance-related pay scheme. The at-risk portion of the salary should be paid

EXHIBIT A.2 **At-Risk Component of Salary**

Source: David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practice.*, Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

	Remuneration		
	Mgr 1	**Mgr 2**	**Mgr 3**
Base salary, paid monthly	48,000	64,000	80,000
At-risk salary (bonus is paid separately)	12,000	16,000	20,000
Salary package	60,000	80,000	100,000
Relative measure, set retrospectively	not met	met	exceeded
Percentage of at-risk salary paid	40%	100%	100%
At-risk salary paid	4,800	16,000	20,000
Share of bonus pool	nil	5,000	10,000
Total period-end payout	4,800	21,000	30,000

when the expected profits figure has been met (see Exhibit A.2). Note that, as already mentioned, this target will be set as a relative measure, set retrospectively, when actual information is known.

When the relative target has been met or exceeded, the "at-risk" portion of the salary will be paid. The surplus over the relative measure will then create a bonus pool for a further payment, which will be calculated, taking into account the adjustments already discussed.

Avoid Any Linkage to the Share Price

Performance-related pay schemes should avoid any linkage to share price movements. No bonus should be pegged to the stock market price as the stock market price does not reflect the contribution staff, management, and the CEO has made.

Only a fool believes that the current share price reflects the long term value of an organization. Just because a buyer, often ill informed, wants to pay a certain sum for a "packet" of shares does not mean the total shareholding is worth that amount.

Providing share options is also giving away too much of shareholder's wealth in an often disguised way. As strategy guru Henry Mintzberg has clearly stated, "Executive bonuses—especially in the form of stock and option grants—represent the most prominent form of legal corruption that has been undermining our large corporations and bringing down the global economy. Get rid of them and we will all be better off for it."

Jeremy Hope points out in his book *Reinventing the CEO,*[3] these incentives have been behind many corporate failures. Due to the pressure to manipulate the accounts, the share price is too great for the CEO and senior management to resist.

With share options it is so easy to get it wrong, and in fact give away more wealth in a period than the actual net profits created. In other words, you have given away future profits that may never be generated, and often not by the executives in question.

There is another more damaging issue in that these measures focus executives on manipulating the short term at the expense of innovation where the costs are often front-loaded and the rewards back-loaded.

Team Based Rather Than on an Individual

Basing accountability and rewards on teams, rather than individuals, has been talked about for years. It is much more closely linked to McGregor's[4] "Theory Y" view that people are motivated by self-esteem and personal development, rather than by additional incentives (Theory X). In Theory Y organizations produce better results by encouraging their people to be creative, to work collaboratively, to improve their skills, and to derive satisfaction from their work.

Only a simpleton would believe that you can separate out an individual's contribution to the bottom line. As Harvard professor of business administration Robert Simons[5] asks, "How do we measure the contribution of a single violin player in relation to the successful season enjoyed by a symphony orchestra?"

Profit Sharing Plan at Southwest

The profit sharing plan at Southwest started in 1973 and is at the heart of its compensation and benefits program. All employees qualify on January 1 following the commencement of their employment. Fifteen percent of pretax profits are paid into the profit sharing pool and this is shared across all employees according to base salary. The payments go into a retirement fund for individual employees. While employees are free to increase that amount, 25 percent of the profit sharing fund is used to purchase Southwest shares. There are no incentive schemes based on achieving annual fixed targets.[6]

As Jeremy Hope points out:

The profit-sharing system can only be understood in the context of its purpose. It is not intended to be an incentive for individuals to pursue financial targets; rather, it is intended as a reward for their collective efforts and competitive success.

The Bonus Should Not Be Seen as an Annual Entitlement

The finance sector has a belief that the bonus is a right and in many cases it has already been spent. We need to move bonuses out of the annual cycle. Southwest does this very cleverly.

Southwest doesn't make an annual cash payment; instead, they pay the bonus into an employee pension plan. This has the effect of minimizing any fallout from a poor year. In other words, employees are not planning to spend their bonus on "something special" and then become disappointed when it doesn't happen. The pension payment approach cushions poor years but also has the effect of relating performance to the share price (both pension schemes own a substantial element of company stock).[7]

Linked to a Balanced Performance

Performance-related pay schemes should be linked to a "balanced" performance. The balanced scorecard has been used, I would argue, largely unsuccessfully, as a vehicle to pay performance. Schemes using a balanced scorecard are often flawed on a number of counts:

- The balanced scorecard is often based on only four perspectives, ignoring the important environment-and-community and staff-satisfaction perspectives

- The measures chosen are open to debate and manipulation
- There is seldom a link to progress in the organization's critical success factors
- Weighting of measures leads to crazy performance agreements such as those shown in Exhibit A.3

An alternative would be to link the scheme to the organization's critical success factors. See an example of an airline scheme in Exhibit A.4.

In this exhibit, all teams have the same weighting for the financial results. Some readers will feel this is too low. However, when you do more research on the balanced-scorecard philosophy, you will understand that the greatest impact to the bottom line, over the medium- and long-term, will be in the organization's critical success factors.

The operational team at one of the airports has a major focus on timely arrival and departure of planes. You could argue that this should have a higher weighting such as 30 percent. However, this team does impact in many other critical success factors. This team clearly

EXHIBIT A.3 **Performance-Related Pay System That Will Never Work**
Source: International Institute of Management. David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices.* Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

Scorecard Perspective	Perspective Weighting	Performance Measure	Measure Weighting
Financial Results	60%	Economic value added	25%
		Unit's profitability	20%
		Market share growth	15%
Customer Focus	20%	Customer satisfaction survey	10%
		Dealer satisfaction survey	10%
Internal Process	10%	Ranking in external quality survey	5%
		Decrease in dealer delivery cycle time	5%
Innovation and Learning	10%	Employee suggestions implemented	5%
		Employee satisfaction survey	5%

EXHIBIT A.4 How the Performance-Related Bonus Would Differ Across Teams (Airline)

Source: David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices,* copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

	Operational Team	Public Relations Team	Maintenance Team	Finance Team	______ Team
Financial performance of team	30%	30%	30%	30%	__
Progress in the critical success factors (CSFs)					
Timely departure and arrival of planes	20%	0%	20%	0%	__
Timely maintenance of planes	10%	0%	30%	0%	__
Retention of key customers	10%	0%	0%	0%	__
Positive public perception of organization—being a preferred airline	10%	30%	0%	0%	__
"Stay, say, strive engagement with staff"	10%	20%	10%	20%	__
Encouraging innovation that matters	10%	20%	10%	20%	__
Accurate, timely information which helps decisions	0%	0%	0%	30%	__
	100%	100%	100%	100%	

impacts the timely maintenance of planes by making them available on time; and impacts the satisfaction of our first class, business class, and gold-cardholder passengers. The public's perception of the airline is reflected in the interaction between staff and the public, along with press releases and the timeliness of planes.

Ensuring that staff members are listened to, are engaged successfully, and are constantly striving to do things better (Toyota's *Kaizen*) is reflected in the weighting of "stay, say, strive" as well as the catchphrase "encouraging innovation that matters." There is no weighting for "accurate timely information that helps decisions" because other teams such as IT and accounting are more responsible for this, and I want to avoid using precise percentages such as 7 percent or 8 percent, which tend to give the impression that a performance pay scheme can be a science-based instrument.

The public relations team has a major focus of creating positive spin for the public and for the staff. All great leaders focus in this area (a superb example is Sir Richard Branson). The weights for the public relations team will focus them in the key areas where they can contribute. By having innovation success stories and recognition celebrations, staff will want to focus in this important area of constant improvement, which has been demonstrated so well at Toyota over the past couple of decades.

The maintenance and accounting teams' focus is narrower. The accounting team has a higher weighting on "stay, say, strive" and "encouraging innovation that matters" to help focus their attention in these important areas. This will improve performance and benefit all the other teams they impact through their work.

The Downside of Having "Deferral Provisions"

The treatment of unrealized gains is a sensitive issue. Some performance-related pay schemes include deferral provisions in an attempt to avoid paying out bonuses on unrealized gains that may never materialize. The question is whether the cure is worse than the ailment. The issue comes back to the impact on human behavior.

Already some financial institutions have adopted a deferral mechanism on unrealized gains to avoid situations like the "$1 billion bonus to one fund manager who created a paper gain that never eventuated into cash." There are some downsides that need to be mitigated, including:

- We do not want all stocks sold and bought back the next day as a window dressing exercise that dealers/brokers could easily arrange with each other
- The financial sector is driven by individuals who worship the monetary unit, rather than any other more benevolent force—this is a fact of life. A deferral system will be very difficult for them to accept
- Staff will worry about their share of the pool when they leave—the last thing you want is a team leaving so they can cash up their deferral pool while it is doing well
- Dead wood may wish to hang around for future paydays out of their deferred bonus scheme

It is my belief that while some sectors may be able to successfully establish deferral provisions, they will be fraught with difficulties in the financial sector. In some cases, it would be better to focus on the other foundation stones especially the removal of super profits, and take into account the full cost of capital.

Test Scheme to Minimize Risk of Being Manipulated

All performance-related pay schemes should be tested to minimize the risk of being manipulated by participants in the scheme. All schemes in which money is at stake will be gamed. Staff will find ways to maximize the payment by undertaking actions that may well be not in the general interest of the organization.

The testing of the new scheme should include:

- Reworking bonuses paid to about five individuals over the last five years to see what would have been paid under the new scheme and compare against actual payments made
- Consulting with a cross section of staff and asking them, "What actions would you undertake if this scheme was in place?"
- Discussing effective best-practices with your peers in other companies: this will help move the industry standard while avoiding the implementation of a scheme that failed elsewhere

Schemes Should Not Be Linked to KPIs

Performance-related pay schemes should not be linked to KPIs. KPIs are a special performance tool, and it is imperative that these are not included in any performance-related pay discussions. KPIs, as defined in Chapter 6, are too important to be gamed by individuals and teams to maximize bonuses. Performance with KPIs should be considered a "ticket to the game."

Although KPIs will show how teams are performing 24/7, daily, or weekly, it is essential to leave the KPIs uncorrupted by performance-related pay. As mentioned in Chapter 2, it is a myth that by tying KPIs to pay, you will increase performance. You will merely increase the manipulation of these important measures, undermining them so much that they will become *key political indicators*.

Certainly most teams will have some useful monthly summary measures, which I call *results indicators*. These *result indicators* help teams track performance and be the basis of any performance-related pay scheme.

Schemes Need to Be Communicated

Performance-related pay schemes need to be communicated to staff using public relations experts. All changes to such a fundamental issue as performance-related pay need to be sold through the emotional drivers of the audience. With a performance-related pay scheme, this will require different presentations when selling the change to the board, chief executive officer (CEO), senior management team, and management and staff. They all have different emotional drivers.

As mentioned in Chapter 10, many change initiatives fail at this hurdle because we attempt to change the culture by using logic, writing reports, and issuing commands via e-mail. It does not work. The new performance-related pay scheme needs a public relations machine behind it. In addition you should "road test" the delivery of all of your presentations in front of the public relations expert before going live.

Schemes Should Be Tested on Past Results

Performance-related pay schemes should be road tested on the last complete business cycle. When you think you have a good scheme,

EXHIBIT A.5 Testing the Performance Scheme on Past Results

Source: David Parmenter, *The Leading-Edge Manager's Guide to Success: Strategies and Better Practices.* Copyright © 2011 by David Parmenter. Reprinted with permission of John Wiley & Sons, Inc.

		1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Annual profits (excluding all cost of capital charges)		180	180	200	220	240	350	370	390	410	450
Removal of accounting entries				(30)							
Super profits clawback							(10)	(20)	(30)	(30)	(40)
Full cost of capital		(30)	(30)	(30)	(32)	(35)	(60)	(62)	(62)	(75)	(75)
Adjusted profit		150	150	140	188	205	280	288	298	305	335
Expected profit based on market share		140	140	140	160	180	260	260	265	280	290
Profits subject to bonus pool		10	10	0	28	25	20	28	33	25	45
Percentage of pool	**33%**	**3**	**3**	**0**	**9**	**8**	**7**	**9**	**11**	**8**	**15**

		2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Annual profits (excluding all cost of capital charges)		(240)	(60)	290	310	460	520	210	(700)	(125)	200
Removal of accounting entries				(20)		(40)	(40)				
Super profits clawback						(20)	(30)				
Full cost of capital		0	0	(40)	(42)	(65)	(70)	(30)	0	0	(30)
Adjusted profit		(240)	(60)	230	268	335	380	180	(700)	(125)	170
Expected profit based on market share				190	220	300	350	170			160
Profits subject to bonus pool				40	48	35	30	10			10
Percentage of pool	**33%**	**0**	**0**	**13**	**16**	**12**	**10**	**3**	**0**	**0**	**3**

EXHIBIT A.6 A Checklist to Ensure That You Lay Down These Foundation Stones Carefully

Checklist	Is it covered?
1. To be based on a relative measure rather than a fixed annual performance contract	
All fixed in advance, annual targets for bonuses are removed	☐ Yes ☐ No
Relative measures are introduced to take account of:	
• Comparison against market share	☐ Yes ☐ No
• Comparison against other peers	☐ Yes ☐ No
• Changes in input costs (e.g., where bank base rate is very low)	☐ Yes ☐ No
Progress against the relative measures are reported three to four times a year	☐ Yes ☐ No
2. Super profits should be excluded from schemes	
Super profit scenarios have been analyzed	☐ Yes ☐ No
Historic trends analyzed to estimate when super profits are being made	☐ Yes ☐ No
Drivers of super profits identified (e.g., the interest margin banks had in 2009 meant that even a fool would have made super profits)	☐ Yes ☐ No
Super profits removed from net profit as a percentage of each $m made rather than have a ceiling	☐ Yes ☐ No
Model tested against past 10 or 20 years retained profit/losses to ensure formula is right	☐ Yes ☐ No
3. Schemes should be free from "profit-enhancing" adjustments	
Eliminate all short term accounting adjustments including:	
• Recovery of written off debt	☐ Yes ☐ No
• Profit on sale of assets	☐ Yes ☐ No
• Recovery of goodwill	☐ Yes ☐ No
4. Schemes should take into account the full cost of capital	
All departments that have a specific profit sharing scheme should have a "cost of capital," which takes into account the full risks involved.	☐ Yes ☐ No
Calculation of cost of capital should be done over a long period covering at last one full boom to bust cycle.	☐ Yes ☐ No

(*continued*)

EXHIBIT A.6 (*Continued*)

Checklist	Is it covered?
5. At-risk portion of salary separate from the scheme	
Test the new system on previous years	☐ Yes ☐ No
Human resources to discuss the change on a one-to-one basis with all managers affected	☐ Yes ☐ No
Prepare an example of the new scheme and publish in a secure area of the HR team's intranet section	☐ Yes ☐ No
6. Avoid linkage to the share price	
Remove all bonuses that are linked to share prices	☐ Yes ☐ No
Remove all share options from remuneration	☐ Yes ☐ No
7. Team based rather than the individual	
Remove all individual schemes	☐ Yes ☐ No
Amend all contract templates	☐ Yes ☐ No
8. The bonus should not be seen as an annual entitlement	
Link schemes to longer term saving (e.g. Southwest Airlines)	☐ Yes ☐ No
9. Linked to a balanced performance	
Remove all balanced scorecard weightings from schemes	☐ Yes ☐ No
Reward performance in the critical success factors	☐ Yes ☐ No
10. The downside of having deferral provisions	
Test any deferral provisions before implementation	☐ Yes ☐ No
11. Test scheme to minimize risk of being manipulated	
Rework bonuses paid to about five individuals over the last five years to see what would have been paid under the new scheme and compare against actual payments made.	☐ Yes ☐ No
Consult with some clever staff and ask them, "What actions would you undertake if this scheme was running?"	☐ Yes ☐ No
Discuss with your peers in other organizations the better practices that work—this will help move the industry standard at the same time as avoiding implementing a scheme that failed elsewhere.	☐ Yes ☐ No

EXHIBIT A.6 (*Continued*)

Checklist	**Is it covered?**
12. Schemes should not be linked to KPIs	
Remove all KPIs from performance-related pay	☐ Yes ☐ No
Remove all KPIs from job descriptions	☐ Yes ☐ No
Remove all KPIs from annual performance agreements	☐ Yes ☐ No
13. Schemes Need to Be Communicated	
Sold changes via the emotional drivers	☐ Yes ☐ No
Have prepared presentations that are targeted specifically at:	
• The board	☐ Yes ☐ No
• CEO	☐ Yes ☐ No
• Senior management team	☐ Yes ☐ No
• The staff on performance related pay schemes	☐ Yes ☐ No
14. Schemes should be tested on past results	
Road test the bonus scheme on last complete business cycle (e.g., between 10 to 20 years)	☐ Yes ☐ No

test it on the results of the last full business cycle, the period between the last two recessions. View the extent of the bonus on the net profit.

You need to appraise the scheme with the same care and attention you would apply to a major fixed asset investment. See Exhibit A.5 for an example of this test, and Exhibit A.6 for a checklist.

Notes

1. Jeremy Hope, "How KPIs Can Help Motivate and Reward the Right Behavior," IBM white paper, 2010.
2. Jeremy Hope, *Reinventing the CFO* (Boston: Harvard Business School Press, 2006).
3. Jeremy Hope, *Reinventing the CFO* (Boston: Harvard Business School Press, 2006).
4. Douglas McGregor, *The Human Side of Enterprise* (New York: McGraw-Hill, 1960).
5. Robert Simons, "Control in an Age of Empowerment," *Harvard Business Review* (March–April 1995): 80.
6. Jeremy Hope, "How KPIs Can Help Motivate and Reward the Right Behavior," IBM white paper, 2010.
7. Ibid.

APPENDIX B

Draft Job Description for the Chief Measurement Officer

The chief measurement officer is responsible for driving twenty-first-century measurement practices within the organization. The position provides support and coordination on various projects and activities related to performance management and measurement to support the operational excellence initiatives.

Outline

Performance measurement is worthy of more intellectual rigor in every organization on the journey from average to good, and finally to great. The chief measurement officer needs to have high credibility within the organization, have advanced interpersonal skills, be experienced in delivering training, and be good at leading and selling change.

The chief measurement officer would be responsible for:

- Testing measures to ensure the dark side of a performance measure is minimized
- Vetting and approval of all measures in the organization
- Leading all balanced scorecard initiatives
- Promoting the abandonment of measures that do not work
- Developing and improving the use of performance measures in the organization
- Learning about the latest thinking in performance measurement
- Being the resident expert on the behavioral implications of performance measures
- Replacing annual planning by introducing quarterly rolling planning

This position has a status equivalent of the senior IT, accounting, and HR officials. The position reports directly to the CEO befitting the knowledge and diverse blend of skills required for this position. Only when we have this level of expertise within the organization can we hope to move away from measurement confusion to measurement clarity.

Duties/Responsibilities of the Chief Measurement Officer

Here is a list of duties/responsibilities, which should be tailored accordingly:

1. Testing of measures to ensure the dark side of a performance measure is minimized
2. Vetting and approval of all measures in the organization
3. Leading all balanced scorecard initiatives
4. Promoting the abandonment of measures that do not work
5. Developing and improving the use of performance measures in the organization
6. Learning about the latest thinking in performance measurement
7. Being the resident expert on the behavioral implications of performance measures
8. Preparing and reporting all performance measures (i.e., the monitoring tool) and Kaizen results to corporate and local management
9. Running a series of in-house workshops to promote the initiatives mentioned above
10. Providing assistance as needed to departments to improve performance and efficiencies
11. Following established policies and procedures; determining and recommending potential enhancements
12. Integrating performance management with all management functions
13. Overseeing all benchmarking with third parties
14. Managing the annual performance evaluation process and cyclical activities
15. Driving corporate operational excellence initiatives (Lean, Total Quality Management, etc.)
16. Performing analysis on key metrics/processes and recommending Kaizen process improvements that maximize efficiencies

17. Creating reports and documenting processes
18. Replacing annual planning by introducing quarterly rolling planning
19. Reviewing and updating performance appraisal tools and technologies
20. Ensuring that performance discussions are documented and implemented accordingly
21. Assisting in communicating measurement standards and key performance indicators to all members of the organization
22. Monitoring and verifying the integrity of the data to be reported and reviewed with local management before distributing
23. Keeping up-to-date on the latest performance management, training and development, and career management issues
24. Maintaining and updating company competencies at all levels and ensuring effective utilization of the competencies and desired behaviors
25. Engaging in career planning for employees and succession planning for key leadership roles
26. Manage and cultivate relationships with best practice organizations and professional bodies involved in Six Sigma, organizational excellence, Agile, Lean
27. Publicly represent the organization with the media and conferences to create external branding around the progress made. This is designed to attract like-minded individuals to apply for positions in the organization

Skills and Experience

It is unlikely that the organization will have many staff who can undertake this role. In addition, the role will be very difficult for someone coming in from outside as they would not have the business understanding nor the credibility within the organization, which would be fundamental for this role. Thus it is important to sell the significance of this role to the few individuals who have the capability to fulfil the role. These individuals are likely to be in high demand and thus a decision needs to be made as where the KPI project fits among the organization's priorities.

For organizations over 500 employees there will be enough talent to find someone who:

- Has tertiary qualifications and thus is able to absorb new methods and practices swiftly
- Has a success track record in project management
- Is known for well thought out and interesting presentations
- Is well respected within the organization—has favors to call on
- Is analytic and a decisive decision maker with the ability to prioritize and communicate to staff key objectives and tactics necessary to achieve organizational goals
- Can be freed from their role and sent on a sabbatical to up-skill their understanding of their role
- Has been able to lead and sell change within the organization successfully
- Has advanced interpersonal skills and an understanding of human behavior
- Has strong written and verbal communication skills; is a persuasive and passionate communicator with excellent public speaking skills
- Is action-oriented, entrepreneurial, flexible, and has an innovative approach to operational management
- Has passion, humility, integrity, a positive attitude, is mission-driven, and is self-directed

It is expected that there will be experience gaps and these will be closed when they go on a study sabbatical visiting progressive organizations around the world.

APPENDIX C

Delivering Bulletproof Presentations

Delivering "bulletproof" presentations is a skill you need to adopt before you can be an effective manager, so it is best to start learning now. I will assume that you have attended a presentation skills course, which is a prerequisite to bulletproof PowerPoint presentations. The speed of delivery, voice levels, using silence, and getting the audience to participate are all techniques that you need to be familiar with and comfortable using.

To assist you I have prepared a list of rules for a bulletproof presentation as shown in Exhibit C.1.

EXHIBIT C.1 Rules for a Bulletproof Presentation

Prepare a paper to go with the presentation	1. Always prepare a paper for the audience covering detailed numbers and so forth so that you do not have to show detail in the slides (see rule 2).
	2. Understand that the PowerPoint slide is not meant to be a document; if you have more than 35 words per slide, you are creating a report, not a presentation. Each point should be relatively cryptic and be understood only by those who have attended your presentation.
Presentation planning	3. Last-minute slide presentations are a career-limiting activity. You would not hang your dirty wash in front of a hundred people, so why would you want to show your audience sloppy slides? Only say "yes" to a presentation if you have the time, resources, and enthusiasm to do the job properly.

(*continued*)

EXHIBIT C.1 (*Continued*)

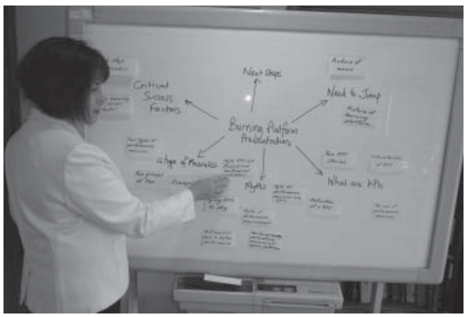
	4. Create time so that you can be in a "thinking space" (e.g., work at home, go to the library, etc.).
	5. Map the subject area out in a mind map and then do a mind dump on Post-it stickers covering all the points, diagrams, pictures you want to cover. Have one sticker for each point. Then you place your stickers where they fit best. Using stickers makes it easy to re-organize your subject matter. This will lead to a better presentation.
	
Presentation content	6. At least 10 to 20 percent of your slides should be high-quality photographs, some of which will not even require a caption.
	7. A picture can replace many words; to understand this point you need to read *Presentation Zen: Simple Ideas on Presentation Design and Delivery* by Garr Reynolds,[a] and *Slide:ology: The Art and Science of Creating Great Presentations* by Nancy Duarte.[b]
	8. Understand what is considered good use of color, photographs, and the "rule of thirds."
	9. For key points, do not go less than 30-pt-size font. As Nancy Duarte says, "Look at the slides in the slide sorter view at 66 percent size. If you can read it on your computer, it is a good chance your audience can read it on the screen."
	10. Limit animation; it is far better that the audience is able to read all the points on the slide quickly rather than holding them back.

EXHIBIT C.1 (*Continued*)

	11. Use Guy Kawasaki's "10/20/30 rule." A sales-pitch PowerPoint presentation should have 10 slides, last no more than 20 minutes, and contain no font smaller than 30 point.
	12. Be aware of being too cute and clever with your slides. The move to creating a lot of white space is all very well, provided your labels on the diagram do not have to be very small.
	13. Never show numbers to a decimal place nor to the dollar if the number is greater than 10,000. If sales are $9,668,943.22, surely it is better to say, "approx. $10 million" or "$9.7 million." The precise number can be in the written document if it is deemed worthwhile.
	14. Never use clip art; it sends shivers down the spine of the audience and you may lose them before you have a chance to present.
Use technology	15. Where possible, if you are going to present on a regular basis, make sure you have a Tablet PC, which gives you the ability to draw when you are making points. This makes the presentation more interesting; no matter how bad you are at drawing.
	16. Have a simple remote mouse so that you can move the slides along independently of your computer.
Practice, practice, practice	17. Practice your delivery. The shorter the presentation, the more you need to practice. For my father's eulogy, I must have practiced it 20 to 30 times. It still remains today the best speech I have ever delivered and the one I prepared the most for.
Presentation itself	18. Bring theatrics into your presentation. Be active as a presenter, walking up the aisle so that those in the back see you close up, vary your voice, get down on one knee to emphasize an important point; have a bit of fun and your audience may as well. Very few things are unacceptable as a presenter.

(*continued*)

EXHIBIT C.1 (*Continued*)

	19. Always tell stories to relate to the audience, bringing in humor that is relevant to them. A good presenter should be able to find plenty of humor in the subject without having to resort to telling jokes. No doubt, some of the audience have heard the jokes and would rather hear them from a professional comedian.
	20. Make sure your opening words grab the audience's attention.
	21. If using graphs in a presentation, ensure you have referred to Stephen Few's work on dashboard design.
	22. Always remember the audience does not know the whole content of your speech, particularly if you keep the details off the slides. If you do leave some point out, don't worry about it—they don't know or would not realize the error.
	23. If there has been some issue relating to transportation, technology, and so forth that has delayed the start, avoid starting off with an apology. You can refer to this later on. Your first five minutes is the most important for the whole presentation and must therefore be strictly on the topic matter.
	24. Greet as many members of the audience as you can before the presentation, as it will help calm your nerves, and it will also give you the opportunity to clarify their knowledge and ask for their participation, such as at question time. The other benefit is that it confirms that nobody in the audience would rather be doing your role, so why should you be nervous?
	25. If you are delivering a workshop at the end shake hands with as many of the audience as possible by positioning yourself by the door when the audience leaves. This develops further rapport between presenter and audience.

[a] Garr Reynolds, *Presentation Zen: Simple Ideas on Presentation Design and Delivery* (Berkeley, CA: New Riders, 2008).
[b] Nancy Duarte, *Slide:ology: The Art and Science of Creating Great Presentations* (Sebastopol, CA: O'Riley, 2008).

In addition, I have included a checklist for preparing and delivering a "bullet proof" presentation. (see Exhibit C.2 for a checklist).

EXHIBIT C.2 **Preparing and Delivering a Bulletproof Presentation Checklist**

Planning	
Develop a purpose of the presentation	☐ Yes ☐ No
Have a goal for the number of slides you will need	☐ Yes ☐ No
Perform research on the subject	☐ Yes ☐ No
Do you know your audience?	☐ Yes ☐ No
Do you know what they are like?	☐ Yes ☐ No
Do you know why they are coming to the presentation?	☐ Yes ☐ No
Do you know what their emotional drivers, points of pain are?	☐ Yes ☐ No
Have you thought about solutions that they can work with immediately?	☐ Yes ☐ No
Have you thought of what handouts you can provide electronically to help them with the next steps?	☐ Yes ☐ No
Have you thought about why they might resist your suggestions?	☐ Yes ☐ No
The creative phase	
While you are creating avoid editing as you are going along—do not mix editing with your creative side, in other words your first cut of a PowerPoint should never be edited as you go, simply pour down your thoughts, leaving clues for your staff or peers to help in certain areas (see below for an example).	☐ Yes ☐ No
Review recent articles or recent seminars you have attended for clever and concise diagrams.	☐ Yes ☐ No
Find some diagrams that tell a story	☐ Yes ☐ No
The editing phase	
The person preparing the slides needs to have attended a course on PowerPoint.	☐ Yes ☐ No
Are you using the whole slide? (avoid using the portrait option for slides)	☐ Yes ☐ No
Do you create a progress icon to show the audience progress through a presentation?	☐ Yes ☐ No
Portrait pictures can be moved to one side and the title and text to the other.	☐ Yes ☐ No
Are all detailed pictures expanded to the whole slide? (ignore the need for a heading)	☐ Yes ☐ No

(*continued*)

EXHIBIT C.2 (*Continued*)

Any typeface in a picture smaller than 24 point will need to be enlarged	☐ Yes ☐ No
Limit to five to six separate points per slide	☐ Yes ☐ No
Repeat a good diagram if you are talking about a section of it at a time	☐ Yes ☐ No
Have slides read through by someone who has good editing skills	☐ Yes ☐ No
If you have pictures of people, do you ensure that they are looking toward the slide content?	☐ Yes ☐ No
First run-through of the presentation	
Once the slides have been edited go straight into a full practice run with one or two of your peers in attendance.	☐ Yes ☐ No
Time the length and avoid any interruptions, the test audience is to note down improvements as they are spotted.	☐ Yes ☐ No
Now repeat this process twice more, if it is a short 15-to-20 minute presentation up to five full practices will be necessary. The shorter the harder!	☐ Yes ☐ No
Prepare the master copy of the slides so you can check all is clear, and courier to seminar organizer.	☐ Yes ☐ No
If workshop exercises are to be included, read through these carefully and get them checked for clarity by an independent person.	☐ Yes ☐ No
PowerPoint presentations checklist	
Print slides three to a page except for complex slides that should be shown on their own.	☐ Yes ☐ No
Test your laptop on at least two video projectors as some custom settings that maximize your network can prevent your laptop linking to projectors	☐ Yes ☐ No
Night before	
Avoid late changes; nothing annoys the audience more than the presentation being in a different order from the presentation handout. You will make a rod for your own back when you get requests for the missing slides!	☐ Yes ☐ No
Always test the video projector the night before if you are required to run it (you may find a missing cable).	☐ Yes ☐ No
Carry a spare power extension lead and the standard laptop to video projector cable with you.	☐ Yes ☐ No
Add some more story clues for you on the slides if necessary.	☐ Yes ☐ No

EXHIBIT C.2 (*Continued*)

Travel up the night before (plane travel deadens the senses, can effect hearing and you cannot trust the schedules).	☐ Yes ☐ No
If possible, bring a spare video projector with you for extra protection.	☐ Yes ☐ No
Avoid alcohol the night before, it does reduce performance the next morning.	☐ Yes ☐ No
Bring your own laptop to the presentation.	☐ Yes ☐ No
Practice the night before, especially the first five minutes (you will need two stories in the first five minutes)	☐ Yes ☐ No
On the day	
A brief run-through the first five minutes at the proper speed before breakfast.	☐ Yes ☐ No
Light exercise is a great idea to freshen the mind (I usually go for a swim before I speak).	☐ Yes ☐ No
PowerPoint presentations checklist	
Tell stories instead of jokes unless you are very good at it (joke telling requires excellent timing).	☐ Yes ☐ No
Greet as many members of the audience as you can **before the presentation**, it will help calm your nerves and give you the opportunity to clarify their knowledge and ask for their participation such as at question time.	☐ Yes ☐ No
At the first break meet with a sample of the audience and enquire about whether the material is of interest and about the pace of delivery. This may pick up any problems and thus helps improve the assessment ratings.	☐ Yes ☐ No
Never apologize to the audience, simply state the facts if there is a difficulty of some kind.	☐ Yes ☐ No
Run through an example of the workshop exercise to ensure every workshop group has the correct idea of what is required.	☐ Yes ☐ No
Recap what has been covered to date and ask for questions.	☐ Yes ☐ No
At the **end of the presentation** shake hands with as many of the audience as possible by positioning yourself by the door when the audience leaves. This develops further rapport between presenter and audience.	☐ Yes ☐ No
Celebrate —you have done your best	☐ Yes ☐ No

APPENDIX D

Presentation Templates

In this third edition I am providing some suggested PowerPoint presentation templates to help you get started:

Presentation 1: A burning platform presentation that I would use to get the senior management team over the line to agreeing to a KPI project.

Presentation 2: A presentation I would use to illustrate the critical success factors to the board/government minister, the aim being to get agreement about the internal critical success factors.

Presentation 3: A presentation I would use to sell the new thinking about KPIs to staff. I would use this presentation as part of the road show for staff.

These presentations can be found at kpi.davidparmenter.com/thirdedition.

APPENDIX E

Performance Measures Database

The key performance indicator (KPI) team will have gathered and recorded performance measures from information gained from discussions held with senior management, revisiting company archives, reviewing monthly reports, and external research. In addition, teams will, during workshop sessions, ascertained new performance measures they wish to use.

These identified performance measures need to be recorded, collated, and modified in a database that is available to all staff. This database will have a read-only facility for all employees. Amendment is permitted only by team coordinators (restricted to their area) and the KPI team (unlimited restriction).

The following tables are a listing of performance measures to help start this process off. They will be a valuable resource when looking at performance measures during brainstorming sessions. You can acquire this database electronically from www.davidparmenter.com (for a small fee).

In this edition I have been influenced by Stacey Barr's work and agree that it is beneficial to evaluate potential measures by asking two questions for each potential measure:

1. How strong an indicator of performance is this measure (5 = very strong, 1 = very weak)?
2. How feasible will it be to actually measure this (5 = very easy as will already be system generated or will be able to be gathered through minimal effort, 3 = special request will be required to gather data, 1 = very difficult to gather data)?

The strength of measure should be evaluated with regards to the critical success factor you are working with. However with this list

I am giving weightings based on their likelihood as an indicator of performance.

It is advisable not to provide attendees with this list of performance measures until they have reviewed the relevant critical success factors and spent time ascertaining measures themselves. Introducing this list too early will lead to a narrowing of potential performance measures. Some of the performance measures in this list will be performance indicators (PIs), result indicators (RI), key performance indicators (KPIs), and key result indicators (KRIs). It is up to the KPI project team to ascertain in which of the four categories the final set of performance measures should be placed. The recommended category headings for a performance measures database are set out in Chapter 12.

Key for Database

Past All measures measuring past activity (Note: Yesterday's activity is considered a current measure.)

Current Yesterday's or today's activity

Future Measuring an event that is to occur in the future (date of next meeting with key client, date of next promotion, etc.)

Customer/Call Center/Tendering/Brand Recognition Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Date of last **contact** with key customer where we are delivering a major project (list by major projects only)	Weekly	Past	Project teams	3	5	All sectors
Direct communications to **key customers** in month (average number of contacts made with the key customers)	Monthly	Past	Sales & Marketing (S&M)	2	3	All private sector
Number of **initiatives** completed from the recent **key customer** satisfaction survey	Weekly for three months post survey	Past	S&M	5	5	All sectors
Number of **initiatives** implemented to improve **key customer** satisfaction	Monthly	Past	S&M	5	5	All sectors
Date of next **key customer** focus group	Quarterly	Future	Sales	5	4	All sectors
Date of next initiative to attract targeted "non customers"	Quarterly	Future	Sales	5	5	All sectors
Date of next visit to **key customers** (by customer name reported to CEO)	Weekly	Future	S&M	5	5	All private sector
Key customer service requests outstanding for more than 48 hours reported to the general manager	24/7	Current	Service teams	4	5	Service

(continued)

(*Continued*)

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Weekly sales to **key customers** by major product lines (no more than five product lines shown)	Weekly	Past	S&M	3	3	All private sector
Number of proactive visits to **key customers** planned for next month,	Weekly	Future	S&M	3	5	All private sector
Number of **key customer** relationships producing significant net profit (over $_______ million)	Quarterly	Past	Sales	5	3	All private sector
Number of credit notes issued/returns from **key customers**	Weekly	Past	Accounting	4	5	All private sector
Number of visits made to **key customers** last month	Monthly	Past	S&M	3	5	All private sector
List of **key customers** where time since last order is > ___ weeks	Weekly	Past	S&M	5	5	All sectors
Number of variations to contract by **key customer**	Monthly	Past	S&M	3	3	All sectors
Percentage of key **customers** covered by partnership projects	Quarterly	Past	S&M	4	5	All private sector

Percentage of key **customers**' business (reported by key customer)	Quarterly	Past	S&M	5	2	All private sector
Key **customer** profitability	Quarterly	Past	S&M	4	2	All private sector
Calls on hold longer than _______ seconds	Daily and in some cases 24/7	Current	Call Center	5	5	All sectors
key customer complaints that have not been resolved within two hours(reported to CEO and general managers)	24/7	Current	Sales	5	5	All sectors
Unresolved **complaints** from other customers at end of week (not key customers)	Weekly	Past	Sales	3	5	All sectors
Complaints not resolved during the first phone call by a customer	Daily	Current	S&M	3	5	All sectors
Number of **key customer complaints** where senior management needed to instigate the remedial action	Monthly	Past	S&M	5	5	All private sector
Average time to resolve customer **complaints**, to give credit notes for product **quality** problems, etc.	Weekly	Past	Sales	3	3	All private sector
Date of next "outside-in" initiative to enhance senior management team understanding of customer needs	Monthly	Future	Sales	2	5	All sectors

(*continued*)

(*Continued*)

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Service requests (faults, works requests) outstanding for other customers (not key customers)	Weekly	Past	Service teams	3	5	Service
Percentage of successful/unsuccessful **tenders**	Quarterly	Past	S&M	4	5	All private sector
Movement in numbers of key customers in last quarter	Quarterly	Past	S&M	5	5	All private sector
Percentage of customer projects on time	Monthly	Past	Project teams	5	3	Service
Average customer size by category (category A being the top 20 percent of customers)	Quarterly	Past	S&M	3	3	All private sector
Average time from customer enquiry to sales team response	Weekly	Current	S&M	4	3	All private sector
Key customer inquiries that have not been responded to by the sales team (over 24 hours old)	Daily	Current	S&M	5	5	All private sector
Number of new customers (the rate business units attracts or wins new customers or business)	Monthly	Past	S&M	3	4	All private sector

Number of **key customer referrals**	Monthly	Past	S&M	5	4	All private sector
Number of **referrals** from other customers (excluding key customers)	Monthly	Past	S&M	3	3	All private sector
Number of customer service initial **inquiries** to follow up	Weekly	Past	S&M	3	5	All private sector
Number of customers with outstanding retention installments (monitoring close-out of project)	Weekly	Past	Sales and Account-ing team	5	5	All sectors
Post-project wrap-ups outstanding with customers (major customer projects only)	Weekly	Past	Project teams	3	5	All private sector
Listing of unprofitable customers and proposed actions to be taken	Quarterly	Past	S&M	5	4	All private sector
Number of initiatives planned for next month, months two to three, four to six attract current non customers to purchase/use our goods or services	Monthly	Future	Marketing	5	5	All sectors
Percentage of **customers** paying cash up front on commencement of project	Monthly	Past	Accounting	3	4	All private sector
Marketing expense per customer ($)	Quarterly	Past	Marketing	2	1	All private sector
Sales to new customers by occurrence type (e.g., referrals, promotional drive, prospecting, website, etc.)	Monthly	Past	S&M	3	3	All private sector

(continued)

(*Continued*)

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of profitable customers	Quarterly	Past	S&M	2	2	All private sector
Percentage unprofitable customers	Monthly	Past	S&M	4	3	All sectors
Percentage of major projects where the first design of a device fully met the **customer's** specifications	Monthly	Past	Sales, Design	3	3	All private sector
Abandon rate at **call** center—caller gives up	Daily	Current	Information Technology (IT)	5	5	All sectors
Calls answered first time by call center (not having to be transferred to another party)	Daily and in some cases 24/7	Current	IT help desk, call centers	5	5	All sectors
Key product brand recognition, percentage of surveyed sample who recalled our key product brands (based from market research)	When market research is performed	Past	S&M	3	2	All private sector
Market share of key brands	Quarterly	Past	S&M	5	2	All private sector
Number of leads generated by agents	Monthly	Past	S&M	5	5	Service
Number of winning tenders that have created losses	Monthly	Past	Operations	3	3	All private sector

Quality/Service/Delivery/Order Processing/Pricing Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
The time elapsed between **quality** assurance failures on key products	Weekly	Past	Production	3	5	Manufacturing
Number of quality problems resolved which were found during a product audit	Weekly for three months post product audit	Past	Quality Assurance (QA)	5	5	All sectors
Cost of **quality** correction—rework, rejects, warrantees, returns and allowances, Inspection labor, and equipment, complaint processing costs	Monthly	Past	QA	5	3	All private sector
Times during day when line at serving counter is over _______ minutes long	Daily	Past	Sales	5	3	Service
Late **deliveries / incomplete deliveries** to **key customers**	Daily, 24/7	Past	Production	5	5	All private sector
Percentage of customer **orders** dispatched in full	Monthly	Past	Production	4	4	Manufacturing
Surrender ratio of equipment or service (where service or equipment is on a monthly contract)	Monthly	Past	S&M	4	4	Service

(*continued*)

(*Continued*)

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Percentage revenues from new products or services	Quarterly	Past	S&M	5	5	All private sector
Date of next **new service** initiative	Monthly	Future	All teams	4	5	All sectors
Percentage of on-time in-full delivery to other customers (reported to general managers	Weekly	Past	Production control, dispatch, etc.	3	5	All sectors who dispatch goods
Order entry error rate	Weekly	Past	Sales and back office	3	5	All private sector
Percentage of key **customer's** orders that have been dispatched to the specifications	Weekly	Past	Operations	4	3	All private sector
Date when remedial work is planned to be completed (major projects only)	Weekly	Past	Project teams	5	5	All sectors
Market share (proportion of business in a given market)	Quarterly	Past	S&M	5	3	All private sector
Order value (total sales value of the week's orders)	Weekly	Past	S&M	4	5	All private sector

Orders cancelled by reason (limit to no more than five categories)	Weekly	Past	Sales	4	4	All private sector
Number of defect goods found during installation (dead on arrival, including those that occur within the first 90 days of operation)	Weekly	Past	S&M, QA	5	5	All private sector
Changes to orders after initial **customer** order—controllable and uncontrollable	Monthly	Past	Sales	3	2	All private sector
Number of pricing errors to key **customer** invoices	Weekly	Past	Sales	5	3	All private sector
Number of pricing errors to other **customer** invoices	Monthly	Past	Sales	4	3	All private sector
Timeliness and accuracy of price quotations to key **customers**	Weekly	Past	Sales	4	3	All private sector
Customer **orders** shipped by express services because of production delays	Monthly	Past	All teams	4	5	All sectors
Percentage of customer **orders** dispatched in full	Monthly	Past	Production	4	4	Manufacturing
Percentage of on-time **delivery** (show progress over the last eighteen months)	Monthly	Past	All teams	5	5	All sectors

Health & Safety/Disaster Recovery Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Date of next **environmental disaster** clean-up practice exercise	Quarterly	Future	Operations	4	5	All sectors
Date of last **environmental disaster** clean-up practice exercise, by type of exercise	Quarterly	Future	Operations	4	5	All sectors
Near miss incident which could have involved pollution of the environment	24/7	Current	Production	5	5	Manufacturing
Emergency calls on hold longer than __ seconds notified to the CEO	24/7	Past	All teams	5	4	Govt and non-profit agencies
Emergency response time over a given duration(reported immediately to the CEO)	24/7	Past	All teams	5	4	Govt and non-profit agencies
Accidents and breaches of safety (reported to the CEO immediately)	24/7	Current	HR	5	5	All sectors
Number of **accidents** or days lost through accidents (by reason)	Monthly	Past	HR, all teams	5	4	All sectors
Accidents per 100,000 hours worked	Monthly	Past	HR	5	4	All sectors
Number of lost time injuries in week	Weekly	Past	HR	4	5	All sectors
Average **emergency** response time	Weekly	Past	Operations	4	4	Critical services sector

Linkage with Local Community/Environmental/Waste/Public Relations Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Waste—all forms: scrap, rejects, underutilized capacity, idle time, downtime, excess production, etc.	Weekly	Past	Production	4	4	Manufacturing
Percentage of current projects that are **environmentally** friendly	Monthly	Past	Public Relations (PR)	5	3	Construction
Community/**environmental** satisfaction rating from external survey	Periodic survey	Past	PR	3	3	All sectors
Entries to **environment/community** awards to be completed in next three months	Monthly	Future	Operations	3	5	All sectors
Number of **environmental** complaints received in a week	Weekly	Past	PR	5	5	All sectors
Emissions from production into the environment (number)	Daily/Weekly	Current, Past	Production	4	5	Manufacturing
Number of environmental innovations implemented in the past 30 days, by location	Monthly	Past	Operations	3	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of environmental innovations to be implemented in the next month and months two to three, by location	Monthly	Future	Operations	3	5	All sectors
Energy consumed by major plant	Daily/Weekly	Past	Production	4	5	All sectors
Percentage of **recycled material** used as consumables	Weekly	Past	Production	3	5	Manufacturing
Percentage of **waste** that is later recycled	Weekly	Past	Production	4	4	Manufacturing
Waste and scrap produced	Weekly	Past	Production	3	3	Manufacturing
Weekly **water consumption** compared to weekly production.	Weekly	Past	Production	3	3	Manufacturing
Number of employees involved in **community activities**	Quarterly	Past	Human Resources (HR)	2	2	All sectors
Quarterly donations to the **community**	Quarterly	Past	PR	4	5	All sectors
Number of employees involved in up-skilling **local community** organizations	Quarterly	Past	PR	4	4	All sectors

Volunteers recruited in month	Monthly	Past	Operations	5	5	Charity
Number of external charities supported by company **staff volunteers**	Quarterly	Past	Operations	3	3	Charity
Number of **media coverage** events planned for next month, months two to three, four to six	Monthly	Future	PR	3	5	All sectors
Number of positive **press releases** issued to the papers and journals in the past 30 days/60 days	Monthly	Past	PR	5	5	All sectors
Number of positive and negative **articles printed** in the papers and journals in the past 30 days/60 days	Monthly	Past	PR	3	3	All sectors
Number of papers/radio stations who have used **press releases**	Monthly	Past	PR	5	3	All sectors
Number of **photos** (CEO board members, company logo, company premises) in papers last month, months two to three, four to six	Monthly	Past	PR	3	3	All sectors
Number of **community sponsorship** projects in past 12 months	Quarterly	Past	PR	3	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of confirmed speeches delivered by **CEO** to **community organizations**, conferences, and public forums planned for next month, months two to three, four to six	Monthly	Future	PR	5	5	All sectors
Number of confirmed speeches delivered by the senior management team to **community organizations**, conferences, and public forums planned for next month, months two to three, four to six	Monthly	Future	PR	5	5	All sectors
Number of initiatives planned for next month, months two to three, four to six to support **tertiary institutions** that are a source of future employees	Monthly	Future	PR	4	5	All sectors
Number of respected journalists who have a sound understanding of our operation	Quarterly	Past	PR	4	5	All sectors
Date of next debrief by CEO to journalists	Monthly	Future	PR	3	5	All sectors

Recruiting/Student Internships Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of **candidates** for advertised position	Quarterly	Past	HR	3	3	All sectors
Candidates (not key positions) who have not responded within 48 hours to their job offer (reported to two layers of management)	24/7, Daily	Current	HR	5	5	All sectors
Key position job offers that are over 48 hours old and have not yet been accepted by the chosen **candidate** (report daily to CEO/GM)	Daily	Current	HR	5	5	All sectors
Expressions of interest from potential **candidates**, which have not been responded to within three days of receipt of interest	Daily	Current	HR	5	5	All sectors
Date of confirmed testing of **candidates** capabilities	Daily	Past	HR	5	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
List of short listed **candidates** when next round of interviews has yet to be organized	Daily	Future	HR	3	4	All sectors
Number of **candidates** that come from employee referrals	Quarterly	Past	HR	4	5	All sectors
Feedback on recruitment (survey of all new employees)	Every employee survey	Past	HR	3	3	
Recruitments in progress when last interview was over two weeks ago	Weekly	Past	HR	5	5	All sectors
Number of managers trained in **recruiting** practices	Monthly	Past	HR, all teams	3	3	All sectors
Number of students who have completed internships in the last quarter (Trialing potential employees)	Quarterly	Past	PR	5	5	All sectors
Number of students offered internships for the next holiday period	Weekly	Future	PR	5	5	All sectors

For Employee Satisfaction/Recognition/Absenteeism/Leave Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Satisfaction with work life balance (from **staff** survey)	Every employee survey	Past	HR	4	3	All sectors
By **staff** member – the number of days worked overseas on jobs in past three months (excluding staff relocated) – limit to top 20 with the longest number of days away	Quarterly	Past	HR	3	4	All sectors
Length of service of **staff** who **have left** (by bands less than 1 year, 2 to 5 years, 6 to 10 years, etc.)	Monthly	Past	HR	3	5	All sectors
Turnover of experienced **staff** who have been with the organization for over three years	Monthly	Past	HR, all teams	4	5	All sectors
Number of **staff** members who **have left** within 3 months, 6 months, 12 months of joining the organization. Reported division by division.	Quarterly	Past	HR	4	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
List of managers who have a **high turnover** of **staff** who left within 12 months of joining	Monthly	Past	HR, all teams	4	5	All sectors
Turnover of female **staff**	Monthly	Past	HR, all teams	4	5	All sectors
Turnover of **staff** by ethnicity	Monthly	Past	HR, all teams	4	5	All sectors
Percentage of managers who are women	Monthly	Past	HR, all teams	3	5	All sectors
List of high performing **staff** who have been in the same position for over two years	Quarterly	Past	HR	5	4	All sectors
Percent of **staff** satisfied with empowerment and fulfillment (assumes a survey is done three to four times a year)	Every employee survey	Past	HR	4	4	All sectors

Staff who have handed in their notice today. Staff in key positions would be notified directly to the chief executive officer (CEO), other staff would be reported to the relevant general manager or senior manger.(The CEO has the opportunity to try to persuade the **staff** member to stay)	24/7	Current	HR	5	5	All sectors
Attendance numbers for social club functions – by function in last quarter	Quarterly	Past	HR	3	4	All sectors
Percentage of staff, who have been absent for more than three weeks, who have a back-to-work program	Weekly	Past	HR	3	3	All sectors
Number of CEO **recognitions made** in the past week/ next two weeks	Weekly	Past	HR	5	5	All sectors
Number of CEO **recognitions** planned for next week/ next two weeks	Weekly	Future	HR	5	5	All sectors
Number of planned **recognitions** in the next week/next two weeks(maintained weekly by each manager)	Weekly	Future	HR	5	5	All sectors
Analysis of employee absenteeism	Monthly	Past	all teams	5	5	All sectors
Employee complaints still unresolved after two weeks	Weekly	Past	HR	5	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of initiatives implemented after the **staff** satisfaction survey	Weekly for three months post employee survey	Past	HR	5	5	All sectors
Date of next **staff** survey	Monthly	Future	HR	3	5	All sectors
Number of planned celebrations in next week/next two weeks by each manager)	Weekly	Future	HR	5	5	All sectors
Staff with greater than 30 days **leave owing**	Monthly	Past	HR	3	5	All sectors
Staff who have been ill for over two weeks who do not have a back to work program (reported to the relevant manager and general manager)	Weekly	Past	All teams	3	5	All sectors
Number of teams who have undertaken internal user **satisfaction** surveys in past 6 months	Monthly	Past	HR	4	3	All sectors
Percentage of **staff** meeting continuing professional development requirements	Quarterly	Past	All teams	3	2	Professional service firms

For Finance Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Debtors over 30 days/60 days/90 days	Weekly	Past	Accounting	5	5	All private sector
Bad debt percentage to turnover	Monthly	Past	Accounting	4	5	All private sector
Days sales in receivables	Monthly	Past	Accounting	3	5	All private sector
Days of purchases in accounts payable	Quarterly	Past	Accounting	3	5	All private sector
Net surplus/deficit by major department	Monthly	Past	Accounting	3	5	All private sector
Debt-to-equity ratio	Monthly	Past	Accounting	5	5	All private sector
IT expense as a percentage of total administrative expense	Quarterly	Past	IT, Account-ing, or Finance	3	5	All sectors
Total headquarters costs/employee (total organization's **staff**)	Monthly	Past	Accounting	3	5	All sectors
Status (completed, on-track, behind, at risk) of the major top ten capital expenditure projects	Monthly	Past	Accounting	5	4	All sectors
Percentage of sales that have arisen from cross-selling among business units	Monthly	Past	S&M	5	3	All private sector

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Free **cash flow** (operating cash flow minus capital expenditures)	Monthly	Past	Accounting	5	5	All private sector
Cash-to-cash cycle—length of time from cash out to cash in	Quarterly	Past	Accounting	3	2	All private sector
Percentage complete to percentage billed by major assignment	Monthly	Past	Operations	5	3	All private sector
Key product profitability	Quarterly	Past	S&M	4	2	All private sector
The average number of days of production which can be sourced from raw materials/components in inventory (major raw materials/components only)	Monthly	Past	Accounting	5	5	All private sector
Dealer profitability	Quarterly	Past	S&M	4	4	All private sector
Economic value added per employee ($)	Quarterly	Past	Accounting	3	2	All private sector
Gross margin by major business division	Monthly	Past	Accounting	5	5	All private sector
Indirect expenses as a percentage of sales	Monthly	Past	Accounting	5	5	All private sector
Net income by major business division	Monthly	Past	Accounting	4	5	All private sector

Number of current projects with all progress payments paid up to date	Monthly	Past	Accounting	3	4	All private sector
Profits from new products or business operations ($)	Monthly	Past	S&M	4	2	All private sector
Profit before interest and tax per employee ($)	Monthly	Past	Accounting	4	2	All private sector
Return on capital employed	Monthly	Past	Accounting	4	5	All private sector
Return on net asset value	Monthly	Past	Accounting	4	4	All private sector
Return on equity	Monthly	Past	Accounting	4	5	All private sector
Revenues per employee ($)	Monthly	Past	Accounting	3	5	All private sector
Revenues/total assets (%)	Monthly	Past	Accounting	3	5	All private sector
Sales by sales team	Monthly	Past	S&M	5	5	All private sector
Sales growth rate by market segment	Quarterly	Past	S&M	4	5	All private sector
Credit rating by external agencies (would be changed periodically)	Quarterly	Past	Accounting	5	5	All sectors
Investment made to develop new markets for products/services($)	Quarterly	Past	Sales	3	2	All sectors
Teams expenditure year to date plus forecast against year-end target (tracks actual and expected against planned expenditure profile for year)	Monthly	Past	All Teams	4	4	All sectors
Total assets/employee ($)	Monthly	Past	Accounting	3	3	All sectors
Value of work in progress ($)	Monthly	Past	Operations	3	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Average cost of maintaining a customer account ($)	Quarterly	Past	Operations	1	2	Banking
Administrative expense as a percentage of gross premium	Quarterly	Past	Accounting	3	5	Insurance
Percentage of hours worked split into four categories (chargeable, non-recoverable, administration, other)	Weekly	Past	All service teams	5	4	Service
Budgeted time against actual time on weekly basis	Weekly	Past	All service teams	3	3	Service
Number of suppliers on the accounts payable ledger	Quarterly	Past	Finance	2	5	All sectors
Dollars saved by employee suggestions	Quarterly	Past	Accounting	5	2	All sectors
Percentage of payments (excluding payroll) where the right amount was paid and on time	Monthly	Past	Accounting	3	3	All sectors

Business development expense/administrative expense	Monthly	Past	Accounting	3	3	All sectors
Time taken from month-end to get a monthly finance report to the CEO	Monthly	Past	Accounting or Finance, HR, IT	4	5	All sectors
Time taken from month-end to get the monthly report to budget holders	Monthly	Past	Accounting	4	5	All sectors
Number of accounts payable invoices paid late	Monthly	Past	Accounting	4	5	All sectors
Potential revenue in sales pipeline	Weekly	Past	S&M	3	3	All private sector
Sales to selling costs ratio	Monthly	Past	S&M	4	3	All private sector
Average labor cost per hour for direct, indirect, and total labor costs	Monthly	Past	Production	2	2	All sectors
Client funds received for investment	Monthly	Past	Operations	4	5	Banking

Transaction Flow/Abandonment/Staff Management/Leadership Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Percentage of accounts payable invoices processed within __ days of receipt	Monthly	Past	Operations	4	4	All private sector
Number of employees terminated for **performance** or other issues	Monthly	Past	HR	2	4	All sectors
Percentage of staff **performance** reviews completed	Monthly	Past	HR, all teams	3	4	All sectors
Staff who have verbal feedback about **performance** every month	Quarterly	Past	HR	3	4	All sectors
Percentage of level 1 and level 2 managers who have mentors	Quarterly	Past	HR	5	3	All sectors
Date of next 360 feedbacks for Level-1 and level-1 managers	Monthly	Future				
List of level 3 managers who do not have mentors	Weekly	Past	HR	5	3	All sectors
Number of managers who are scoring over ________ on their leadership from the 360 feedback surveys (by manager level)						

Number of vacant **leadership** places on in-house course (report daily to the CEO in the last three weeks before the course's scheduled date)	Daily	Current	All teams	4	3	All sectors
Number of **leadership** initiatives targeted to rising stars to be completed next month, months 2 to 3, months 4 to 6	Monthly	Future	HR	4	3	All sectors
Date of next leadership program and the list of suggested attendes by division (reported to CEO)	Weekly	Future				
Date of next 360 feedback for level 1 and level 2 managers	Monthly	Future	All teams	3	5	All sectors
Time saved each month by through **abandonments** by team (reported monthly featuring top quartile performing teams in this area).	Monthly	Past	All teams	2	2	All sectors
Number of committees/task forces disbanded this month	Monthly	Past	All teams	4	4	All sectors
Number of overdue reports/documents required by the senior management team	Weekly	Past	All teams	4	4	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of **contractors**, undertaking employee roles, involved in major profile project	Monthly	Past	HR	3	5	All sectors
Number of promotions for high performing staff planned in the next three months	Monthly	Future	All teams	3	4	All sectors
Date of the next executive course to be attended by senior management/team members	Monthly	Future	All teams	4	5	All sectors
Percentage of employees below the age ____	Quarterly	Past	IT	2	2	All sectors
Percentage of employees with tertiary education	Quarterly	Past	IT	2	4	All sectors
Percentage of managers with satisfactory IT literacy	Monthly	Past	IT	4	3	All sectors
Percentage of staff who joined less than three months ago who have had a post-employment interview	Monthly	Past	IT	4	4	All sectors

Percentage of **performance** reviews completed on time	Monthly	Past	IT	3	4	All sectors
Teams with the best on-time delivery record (reported to the GMs and made available to all **staff** in the organization)	Weekly	Past	All teams	4	4	All sectors
Percentage completed timesheets by deadline	Weekly	Past	All teams	2	4	All sectors
List of **abandonments** in last month by team	Monthly	Past	All teams	5	5	All sectors
Last meaningful action implemented by each standing committee	Monthly	Past	All teams	3	4	All sectors
Number of reports terminated this month	Monthly	Past	All teams	4	5	All sectors
Date of planned replacement of service that has now become outdated	Monthly	Future	All teams	4	5	All sectors
Number of **abandonments** to be actioned in the next 30 days, 60 days and 90 days (reported to the CEO)	Weekly	Future	All teams	5	5	All sectors
Number of high performing staff by division	Monthly	Past	All teams	4	4	All sectors
Number of high-performing staff who do not have a mentor (reported to the general managers)	weekly	Past	All teams	4	4	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Percentage of payroll payments where right amount was paid and on time	Monthly	Past	Payroll	4	4	All sectors
Percentage of sales invoices issued on time (within __ days from dispatch)	Monthly	Past	Sales	4	3	All sectors
Number of manual transactions converted to automated electronic feed	Monthly	Past	All teams	4	4	All sectors
Number of strategic supply relationships where long term agreement is in place	Quarterly	Past	Procure-ment	3	5	All sectors
Percentage of teams having a team meeting once a week	Monthly	Past	All teams	3	3	All sectors
Number of progress invoices which are due that have not yet been invoiced	Monthly	Past	Operations	4	5	All sectors
Number of management team meetings planned for next week	Weekly	Future	All teams	3	3	All sectors
Number of major plant and equipment which is in use but past its natural replacement life	Monthly	Past	Operations	4	5	All sectors

Time delay between a major event happening and it being reported to the senior management team (integrity gap)	Daily	Past	Operations	5	4	All sectors
Number of employees in the organization	Monthly	Past	HR	3	5	All sectors
Time recording errors (e.g., time charged to closed or wrong jobs)	Monthly	Past	All teams	3	3	Service
Number of new initiatives that will be fully operational in the next three months by department	Monthly	Future	All teams	5	5	All sectors
Number of teams who have their policy and procedures sections accessible on intranet, in a user friendly format, and up to date	Monthly	Past	All teams	3	5	All sectors
Percent of large purchases(greater than $_____) from certified vendors	Monthly	Past	Operations	2	2	All sectors
Percent of positive feedback from employees after attending meetings (Note: assumes a feedback process after every meeting via intranet)	Monthly	Past	All teams	3	2	All sectors
Percentage of **contractors** to total staff	Quarterly	Past	HR	3	3	All sectors
Number of **contractors** who have been employed for over three months	Quarterly	Past	HR	4	3	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Average employees' years of service with company	Quarterly	Past	HR	2	3	All sectors
Number of employees certified for skilled positions	Quarterly	Past	HR	3	3	All sectors
Number of employees with delegated spending authority	Quarterly	Past	HR	3	3	All sectors
Number of managers accessing their department's accounts in the general ledger	Monthly	Past	Accounting	3	4	All sectors
Resource consent returned to originator for rework and resubmission (numbers and dollars)	Monthly	Past	Planning	4	4	Construction
Timeliness of **resource consents** processing	Quarterly	Past	Planning	4	4	Construction
Resource consent applications that are now late	Weekly	Past	Planning	4	4	Construction
Number of **policy holder** claims made	Monthly	Past	Accounting	4	4	Insurance
Value of **policy holder** claims made by category	Monthly	Past	Accounting	3	4	Insurance
Insurance premiums received from new insurance products	Quarterly	Past	S&M	4	5	Insurance

Inventory/Stock Levels/Stock Outs Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of **stock** outs in week of major inventory items	Weekly	Past	Production	4	5	All private sector
Percentage of **inventory** system records that were tested to be correct to actual quantity held	Monthly, Rolling checks	Past	Production	3	3	Manufacturing
Number of days of sales which can be sourced from current stock level - major **inventory** items only (Using the last quarter's daily average for major inventory item)	Monthly	Past	Production	3	3	Manufacturing
The production of late runs (sign of poor planning) as a percentage of average daily production	Weekly	Past	Production	3	3	Manufacturing
Excess **inventory**—stock levels above normal requirements (list of the stocks where more than xx days of sales, and list of stocks where last movement was over 12 months ago)	Quarterly	Past	Production	4	4	All private sector

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Inventory items above maximum level or below minimum level (major inventory items)	Monthly	Past	Production	4	4	All private sector
Key products that are anticipated to be "**out of stock**" before next delivery (notified to CEO)	Daily	Current	Production	5	5	All private sector
Number of items that make it through the process without being reworked at any stage	Weekly	Past	Operations	4	4	All private sector
Availability of top 10 products – days of sales in store	Weekly	Past	Operations	5	4	All private sector
Manufacturing cycle effectiveness - processing/throughput time for top 10 product lines	Weekly	Past	Operations	4	3	All private sector

Research & Development/Patents Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Design cycle time for new products finished this quarter	Quarterly	Past	Research & Devel-opment (R&D)	3	4	Manufacturing
Quality problems attributable to design	Weekly	Past	R&D	5	3	Manufacturing
Reduction of moving parts in major products	Quarterly	Past	R&D	3	4	Manufacturing
Median patent age in key products	Quarterly	Past	R&D	2	5	All sectors
Number of profitable new products (with quarterly sales over $_____ and greater than ___ percentage gross margin)	Quarterly	Past	R&D	4	3	All private sector
Number of changes to the programming of major off-the-shelf applications used by the organization	Monthly	Past	R&D	5	5	Manufacturing
Late changes to new major products after design completion	Monthly	Past	R&D	5	5	Manufacturing

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Expected launch dates of the next top five new products/services	Weekly	Future	R&D	4	5	All private sector
Service or product launches behind **schedule**	Weekly	Future	R&D	4	3	All private sector
Time taken from new product initial planning to new product launch (major products only)	Quarterly	Past	R&D	3	3	All private sector
Numbers of registered **patents**	Quarterly	Past	Accounting	3	5	All sectors
Average age of company **patents**	Quarterly	Past	Accounting	3	5	All sectors
Patents filed and issued that have been incorporated into products	Monthly	Past	R&D	3	5	All private sector
Number of **research** papers generated	Quarterly	Past	R&D	3	4	Tertiary
Research and Development expenditure as a percentage of sales from propriety products	Quarterly	Past	R&D	3	3	All private sector
Percentage of hours spent on **research and development** by research team (excludes admin time etc.)	Quarterly	Past	R&D	2	3	All private sector
Investment in research ($)	Quarterly	Past	R&D	2	3	All private sector
Date of prototype completion	Monthly	Future	All teams	4	5	All sectors

Managing Projects Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
List of late **projects** by manager (reported weekly to the senior management team)	Weekly	Past	Project teams	5	5	All sectors
List of **projects** that are at risk of non completion (unassigned, manager has left, no progress has been made in the last three months)	Weekly	Past	Project teams	5	5	All sectors
Completion of **projects** on time and budget (percentage or dollars of total projects)	Monthly	Past	All teams	4	3	All sectors
Number of **projects** finished in the month	Monthly	Past	All teams	3	5	All sectors
Major **projects** awaiting consensus and sign off (reported to CEO)	Weekly	Past	All teams	5	5	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Major projects awaiting decisions that are now running behind schedule (reported to CEO)	Weekly					
Major **projects** in progress without contingency plans (reported to CEO)	Weekly	Past	All teams	3	4	All sectors
List of top 20 capital expenditure **projects** running behind schedule	Weekly	Past	All teams	5	5	All sectors
Number post **project** reviews outstanding (major projects only)	Weekly	Past	Accounting	4	4	All sectors
Number of **projects** that are managed or staffed by contractors or consultants	Monthly	Past	All teams	4	5	All sectors
Number of post **project** reviews undertaken to ascertain lessons learned	Monthly	Past	HR	3	4	All sectors

Head Quarters Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of **initiatives** completed from the recent in-house satisfaction survey on HQ functions	Weekly for three months post survey	Past	S&M	5	5	All sectors
Percentage of "customer-facing" **employees** having on-line access to information about **customers**	Monthly	Past	IT	3	3	All sectors
Percentage of employees who have interacted with **customers**	Monthly	Past	IT	2	3	All sectors

For Production/Utilization/IT Department Performance Measures

Measure	**Frequency of Measurement**	**Time Zone (Past, Current, Future)**	**Team (s) That Would Use Measure**	**Strength**	**Feasibility**	**Sector (s) That Would Use Measure**
Number of hours key systems unavailable during office hours (list top 10 worst offenders)	Monthly	Past	IT	3	3	All private sector
Downtime due to different types of equipment failure	Weekly	Past	Production, IT	3	3	Manufacturing
Number of days where key systems were not backed-up at night	Weekly	Past	IT	5	5	All sectors
Date of last test of recovering data from a back-up held at a remote site	Monthly	Past	IT	5	5	All sectors
Number of current users of key systems	Monthly	Past	IT	5	3	All sectors
Faults or service requests closed in month	Monthly	Past	IT	4	4	All sectors
Utilization/capacity of top five IT systems	Monthly	Past	IT	5	4	All sectors
Last update of each team's intranet page	Monthly	Past	All teams	3	5	All sectors
Percentage spent of this year's technology capital expenditure	Monthly	Past	IT	4	4	All sectors
Average mainframe response time by major system	Weekly	Past	IT	4	5	All sectors

Number of IT contractors as a percentage of IT employees	Quarterly	Past	IT, HR	3	5	All sectors
Production yield (Percentage of product produced fit for purpose over total product produced)	Weekly	Past	Production	5	5	Manufacturing
Space productivity—sales or **production** per square foot	Monthly	Past	S&M	5	5	Retail
Date of **pilot testing** completion	Weekly	Past	All teams	3	5	All sectors
Date of next **pilot test**	Weekly	Future	All teams	3	5	All sectors
Number of prototypes / **pilot tests** commenced in month by division	Monthly	Past	All teams	2	4	All sectors
Defects per 1 million ________ (six SIGMA measurement process)	Monthly	Past	Production	4	4	Manufacturing
Production set-up/changeover time	Weekly	Past	Production	4	4	Manufacturing
Total value of finished **products**/total **production** costs	Weekly	Past	Operations	4	4	Manufacturing
Unplanned versus planned maintenance	Monthly	Past	Production	5	4	Manufacturing
Utilization rates of major machines	Monthly	Past	Operations	3	4	All sectors
Planned uneconomic runs of top 10 machines	Daily	Future	Operations	3	4	All sectors
Number of users of the human resources system	Monthly	Past	HR	3	5	All sectors
Production cycle time (time in each stage) – use for top five **product** lines	Monthly	Past	Operations	2	2	All private sector
Quality problems due to equipment failure	Monthly	Past	Production	4	3	All private sector

(*continued*)

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Ratio of new **products** (less than X years old) to full company catalog (%)	Quarterly	Past	Operations	3	3	All private sector
Production schedule delays because of material shortages	Daily	Current	Production	5	4	Manufacturing
Time lost due to **production schedule** changes or deviations from schedule	Monthly	Past	Production	5	2	Manufacturing
Improvement in **productivity** (%)	Weekly	Past	Production	4	4	Manufacturing
Number of major processes made foolproof	Quarterly	Past	Production	4	4	Manufacturing
Instances where **production** tasks are not being performed on time for key product lines	Daily	Current	Production	4	4	All sectors
Percentage of requests for help fixed by Help Desk during the first phone call	Monthly	Past	Help Desk	4	4	All sectors
Percentage of time IT program developers have spent on programming (excludes admin time, etc.)	Monthly	Past	IT, especially IT	4	4	All sectors
Number of systems that have been integrated with other systems	Quarterly	Past	IT	4	5	All sectors
Outage hours per month	Monthly	Past	Operations	4	3	

For Innovation/Staff Training Performance Measures

Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Managers with the most success with implementations over past three years, reported to the CEO	Quarterly	Past	All teams	3	5	All sectors
Number of staff **innovations** implemented by team	Weekly	Past	All teams	5	3	All sectors
Innovations that are running behind	Weekly	Past	All teams	5	3	All sectors
Number of **innovations** planned for implementation in 30 days, 60 days, 90 days reported to the CEO	Weekly	Past	All teams	5	4	All sectors
Number of **innovations implemented** last month by team (reported to the CEO)	Monthly	Past	All teams	5	3	All sectors
Number of **suggested innovations** from employees by team	Monthly	Past	HR	5	4	All sectors
Date of next **innovation training** sessions	Monthly	Future	All teams	4	5	All sectors
Annual average of **training** days by team	Monthly	Past	All teams	4	5	All sectors

(*continued*)

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of **innovations** made to existing services	Monthly	Past	R&D	3	5	All sectors
Number of **innovations planned for implementation** in the next 30 days, 60 days, 90 days	Weekly	Future	R&D	5	4	All sectors
Number of **innovations** made to major products in last quarter	Quarterly	Past	R&D	3	4	Manufacturing
Number of **innovations** made to other products (not major products)	Monthly	Past	R&D	3	3	All private sector
Number of **innovations** to internal processes introduced in one to three, four to six, seven to nine, ten to twelve months	Quarterly	Past	Operations	5	4	All sectors
Number of recognized mistakes highlighted last month	Quarterly	Past	Operations	5	4	
Number of **training** hours booked for next month, months 2 to 3, months 4 to 6 (in both external/internal courses by team)	Monthly	Future	HR	4	3	All sectors

Number of **training** hours-booked for next month, months 2 to 3, months 4 to 6 (in both external/internal courses for the senior management team)	Monthly	Future	HR	4	3	All sectors
Training days attended this month, by team	Monthly	Past	HR	3	5	All sectors
Date of next **innovation** to our key services	Monthly	Future	All teams	4	4	All sectors
Expected date when major product lines will become obsolete	Quarterly	Future	All teams	3	4	All sectors
Ratio of implementations to suggestions made	Quarterly	Past	All teams	3	3	All sectors
Number of managers who have been through the **innovation** course	Monthly	Past	All teams	3	4	All sectors
Major implementations in the past eighteen months showing the degree of success (exceed expectations, met, less than expectations, abandoned)	Quarterly	Past	All teams	3	3	All sectors
Number of employees attending courses to increase reading and mathematical skills	Quarterly	Past	HR, training	3	3	All sectors
Number of positions where needs assessment gap has not been performed for position	Quarterly	Past	HR, training	4	3	All sectors

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Measure	Frequency of Measurement	Time Zone (Past, Current, Future)	Team (s) That Would Use Measure	Strength	Feasibility	Sector (s) That Would Use Measure
Number of **staff** who have attended key courses (e.g., leadership, stress management, etc.)	Monthly	Past	HR	4	5	All sectors
List of level 1 and level 2 managers who do not have mentors reported weekly to the CEO. This measure would only need to be operational for a short time on a weekly basis	Weekly	Past	HR	5	5	All sectors
Number of **mentoring** meetings held last month for rising stars	Monthly	Past	HR	4	3	All sectors
Number of **mentoring** meetings held last month for other staff	Monthly	Past	HR	3	3	All sectors
Number of internal promotions in the last quarter	Monthly	Past	HR	4	3	All sectors
Number of staff who have agreed upon professional development plans	Quarterly	Past	HR	4	3	All sectors
Number of teams with a balanced scorecard	Monthly	Past	Balanced scorecard team	3	4	All sectors

Number of internal applications for job applications closed in month	Monthly	Past	HR	3	3	All sectors
Number of level 1 and 2 managers who were promoted internally	Quarterly	Past	HR	3	3	All sectors
New staff who have not attended an induction program within two weeks of joining (reported to CEO)	Weekly	Past	HR	5	5	All sectors
Percentage of cross-trained personnel per team	Quarterly	Past	All teams	3	3	All sectors
Teams not represented in the in-house courses to be held in the next two weeks (reported daily to the CEO)	Daily	Future	All teams	5	5	All sectors
Number of cumulative work experience (years) in the management team	Quarterly	Past	HR	2	4	All sectors
Number of key positions with succession plans	Quarterly	Past	HR	4	5	All sectors
Suggestions made by staff as a percentage of suggestions implemented	Quarterly	Past	HR	4	4	All sectors
Number of changes to new major products to correct design deficiencies	Quarterly	Past	Design	3	3	All sectors
Number of employees up to date with their professional development plan	Quarterly	Past	HR, training	3	3	All sectors
Number of employees that have improved skills	Six monthly	Past	HR, training	3	3	All sectors
Number of staff trained in first aid	Quarterly	Past	HR	3	3	All sectors

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