

Third
Edition

KEY PERFORMANCE INDICATORS



Developing,
Implementing,
and Using
Winning KPIs

DAVID PARMENTER

WILEY

Key Performance Indicators

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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).

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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

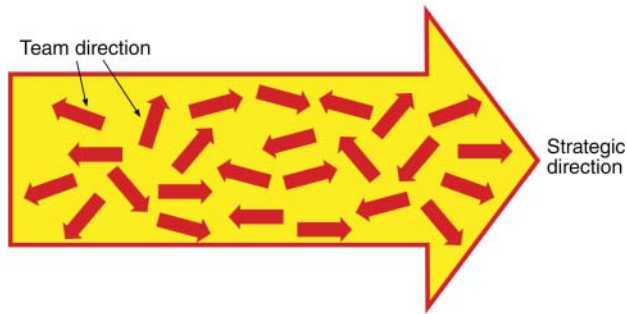


EXHIBIT P.1 Discord with Strategy

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

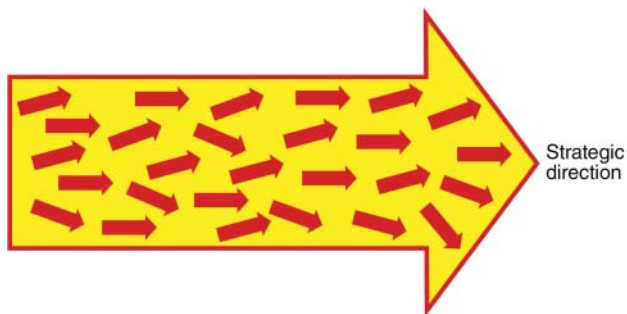


EXHIBIT P.2 Alignment with Strategy

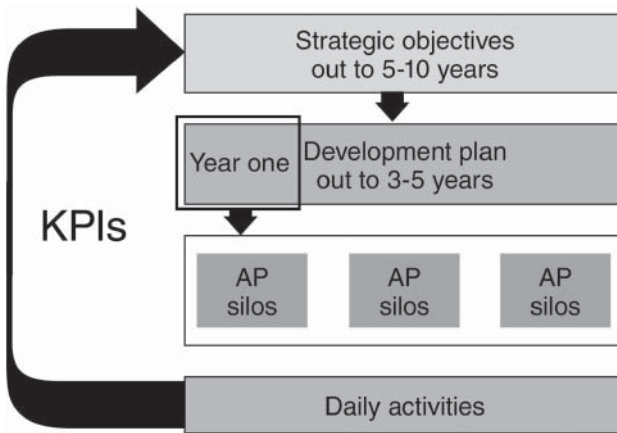


EXHIBIT P.3 Linkage of KPIs to Strategic Objectives

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 Spitzer² 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 Drucker³ 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 KPI⁵ 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.

	Project weeks																		
	Prework	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Post	
1 Senior management team commitment	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
2 Establishing a "winning KPI" project team	■	■																	
3 Establishing a "just do it" culture and process		■	■	■															
4 Setting up a holistic KPI development strategy		■	■																
5 Marketing KPI system to all employees			■	■	■	■	■	■	■	■	■	■							
6 Identifying operational critical success factors			■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
7 Recording of performance measures in a database				■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
8 Selecting team performance measures							■	■	■	■	■	■	■	■	■	■	■	■	■
9 Selecting organizational winning KPIs										■	■	■	■	■	■	■	■	■	■
10 Developing the reporting frameworks at all levels										■	■	■	■	■	■	■	■	■	■
11 Facilitating the use of "winning KPIs"														■	■	■	■	■	■
12 Refining KPIs to maintain their relevance																			

EXHIBIT B5 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 P6 The 12 Steps Merged into a Six-Stage Process

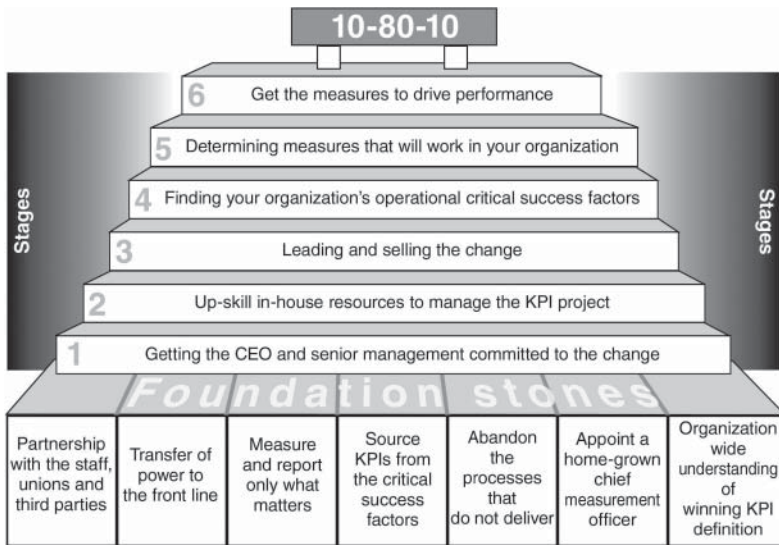


EXHIBIT P.7 The Seven Foundation Stones Underpinning the Six-Stage Process

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 Spitzer⁶ 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



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.