CHAPTER 1

Introduction

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Many companies are working with the wrong measures, many of which are incorrectly termed key performance indicators (KPIs). Very few organizations really monitor their true KPIs. The reason is that very few organizations, business leaders, writers, accountants, and consultants have explored what a KPI actually is. There are four types of performance measures (see Exhibit 1.1):

1. Key result indicators (KRIs) tell you how you have done in a perspective or critical success factor.
2. Result indicators (RIs) tell you what you have done.
3. Performance indicators (PIs) tell you what to do.
4. KPIs tell you what to do to increase performance dramatically.

Many performance measures used by organizations are thus an inappropriate mix of these four types.

An onion analogy can be used to describe the relationship of these four measures. The outside skin describes the overall condition of the onion, the amount of sun, water, and nutrients it has received; and how it has been handled from harvest to the supermarket shelf. The outside skin is a key result indicator. However, as we peel the layers off the onion, we find more information. The layers represent the various performance and

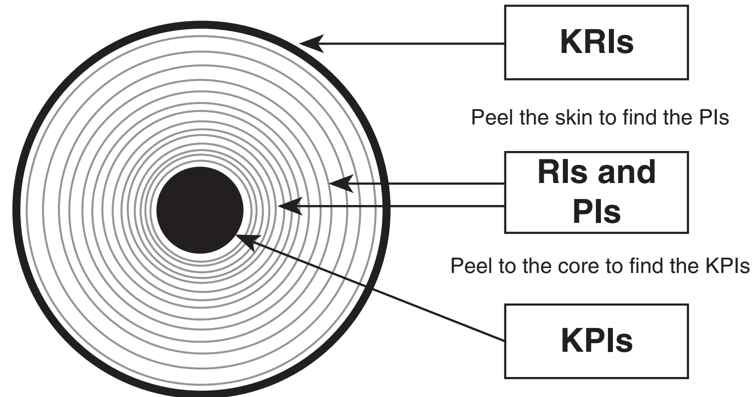

EXHIBIT 1.1 Four Types of Performance Measures

result indicators, and the core represents the key performance indicator.

Key Result Indicators

What are *KRIs*? KRIs are measures that often have been mistaken for KPIs. They include:

- Customer satisfaction
- Net profit before tax
- Profitability of customers
- Employee satisfaction
- Return on capital employed

The common characteristic of these measures is that they are the result of many actions. They give a clear picture of whether you are traveling in the right direction. They do not, however, tell you what you need to do to improve these results. Thus, KRIs provide information that is ideal for the board (i.e., those people who are not involved in day-to-day management).

KRIs typically cover a longer period of time than KPIs; they are reviewed on monthly/quarterly cycles, not on a daily/

weekly basis as KPIs are. 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. That is, an organization should have a governance report (ideally in a dashboard format), consisting of up to 10 measures providing high-level KRIs for the board, and a balanced scorecard (BSC) comprising up to 20 measures (a mix of KPIs, RIs, and PIs) for management.

In between KRIs and the true KPIs are numerous performance and result indicators. These complement the KPIs and are shown with them on the scorecard for the organization and the scorecard for each division, department, and team.

Performance and Result Indicators

The 80 or so performance measures that lie between the KRIs and the KPIs are the performance and result indicators (PIs and RIs). The performance indicators, while important, are not key to the business. The PIs help teams to align themselves with their organization's strategy. PIs are nonfinancial and complement the KPIs; they are shown with KPIs on the scorecard for each organization, division, department, and team.

Performance indicators that lie beneath KRIs could include:

- Percentage increase in sales with top 10% of customers
- Number of employees' suggestions implemented in last 30 days
- Customer complaints from key customers
- Sales calls organized for the next week, two weeks
- Late deliveries to key customers

The RIs summarize activity, and all financial performance measures are RIs (e.g., daily or weekly sales analysis is a very useful summary, but it is a result of the efforts of many teams).

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To fully understand what to increase or decrease, we need to look at the activities that created the sales (the result).

Result indicators that lie beneath KRIs could include:

- Net profit on key product lines
- Sales made yesterday
- Customer complaints from key customers
- Hospital bed utilization in week

Key Performance Indicators

What are *KPIs*? KPIs represent a set of measures focusing on those 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

This example concerns a senior British BA official, who set about turning British Airways (BA) around in the 1980s by reportedly concentrating on one KPI. He was notified, wherever he was in the world, if a BA plane was delayed. 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 the BA official. It was not long before BA planes had a reputation for leaving on time. This KPI affected all six of the BSC perspectives. Late planes:

- Increased cost in many ways, including additional airport surcharges and the cost of accommodating

passengers overnight as a result of planes being curfewed due to noise restrictions late at night.

- Increased customer dissatisfaction and alienation of people meeting passengers at their destination (possible future customers).
- Contributed more to ozone depletion (environmental impact) as additional fuel was used in order to make up time during the flight.
- Had a negative impact on staff development as they learned to replicate the bad habits that created late planes.
- Adversely affected supplier relationships and servicing schedules, resulting in poor service quality.
- Increased employee dissatisfaction, as they were constantly firefighting and dealing with frustrated customers.

Example: A Distribution Company

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

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

(*Continued*)

in with a past or future truck going in that direction. The impact on profitability was significant.

Just as with the airline example, staff members did their utmost to avoid a career-limiting phone call from the CEO. Both these stories are told in greater detail in my webcast, "Introduction to Winning KPIs," which is free to access on www.bettermanagement.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 the seven characteristics of KPIs. KPIs:

1. Are nonfinancial measures (e.g., not expressed in dollars, yen, pounds, euros, etc.)
2. Are measured frequently (e.g., 24/7, daily, or weekly)
3. Are acted on by the CEO and senior management team (e.g., CEO calls relevant staff to enquire what is going on)
4. Clearly indicate what action is required by staff (e.g., staff can understand the measures and know what to fix)
5. Are measures that tie responsibility down to a team (e.g., CEO can call a team leader who can take the necessary action)
6. Have a significant impact (e.g., affect one or more of the critical success factors [CSFs] and more than one BSC perspective)
7. They encourage appropriate action (e.g., have been tested to ensure they have a positive impact on performance, whereas poorly thought-through measures can lead to dysfunctional behavior)

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.

KPIs should be monitored 24/7, daily, or perhaps weekly for some. A monthly, quarterly, or annual measure cannot be a KPI, as it cannot be *key* to your business if you are monitoring it well after the horse has bolted. 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). Most organizational measures are very much past indicators measuring events of the last month or quarter. These indicators cannot be and never were KPIs.

All KPIs make a difference; they have the CEO's constant attention, with 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 case, innovative and productive processes were put in place to prevent a recurrence.

A KPI should tell you what action needs to take place. The British Airways late-plane KPI communicated immediately to everyone that there needed to be a focus on recovering the lost time. Cleaners, caterers, ground crew, flight attendants, and liaison officers with traffic controllers would all work some magic to save a minute here and a minute there while maintaining or improving service standards.

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, as it cannot be tied to a manager—it is a result of many activities under different managers.

A KPI will affect one or more of the CSFs and more than one BSC perspective. In other words, when the CEO, management,

and staff focus on the KPI, the organization scores goals in all directions. In the airline example, the late-plane KPI affected all six BSC perspectives.

Before becoming a KPI, a performance measure needs to be tested to ensure 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. There are two examples discussed later in this chapter.

Difference between KRIs and KPIs

Often in workshops one question emerges time and time again: "What is the difference between KRIs and KPIs, and RIs and PIs?" Exhibits 1.2 and 1.3 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, since 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).

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 in the sky is certainly both a lead and lag indicator. It talks about the past and it is

EXHIBIT 1.2 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, pounds, euros, etc.)
Measures mainly monthly and sometimes quarterly	Measured frequently (e.g., 24/7, daily or weekly)
As a summary of progress in an organization's critical success factor, it is ideal for reporting progress to a board	Acted on by 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 the individual or team
A KRI is designed to summarize activity within one CSF	Significant impact (e.g., it impacts on more than one of top CSFs and more than one balanced scorecard perspective)
A KRI is a result of many activities managed through a variety of performance measures	Has a positive impact (e.g., affects all other performance measures in a positive way)
Normally reported by way of a trend graph covering at least the last 15 months of activity	Normally reported by way of an intranet screen indicating activity, person responsible, past history, so a meaningful phone call can be made

EXHIBIT 1.3 Difference between RIs and PIs

RIs	PIs
Can be financial and nonfinancial	Nonfinancial measures (not expressed in dollars, yen, pounds, euros, etc.)
Measured daily, weekly, fortnightly, monthly, or sometimes quarterly	Same
Cannot be tied to a discrete activity	Tied to a discrete activity and thus to a team
Does not tell you what you need to do more or less of	All staff understand what action is required to improve PI
Designed to summarize *some activity* within a CSF/SF	Specific activity impacts on one of the CSFs/SFs
Result of more than one activity	Focuses on a specific activity
Normally reported in a team scorecard	Same

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.

KRIs and RIs replace outcome measures. KRIs typically look at activity over months or quarters, whereas RIs can have a shorter timeframe (e.g., sales made yesterday). PIs and KPIs are now characterized as past-, current-, or future-focused measures. *Current measures* refers to those monitored 24/7 or daily (e.g., late/incomplete deliveries to key customers made yesterday). *Future measures* are the record of a future commitment when an action is to take place (e.g., date of next meeting with key customer, date of next product launch, date of next social interaction with key customers). In your organization, you will find that your KPIs are either current- or future-oriented measures.

EXHIBIT 1.4 Past/Current/Future Performance Measures Analysis Worksheet

Past Measures (last week/2 weeks/ month/quarter)	Current Measures (real-time/ today/yesterday)	Future Measures (next/week/ month/quarter)
E.g., number of late planes last week/ last month	E.g., planes over 2 hours late (updated continuously)	E.g., number of initiatives to be commenced in the next month/ 2 months to target areas that are causing late planes

In workshops, I ask participants to write a couple of their major measures in the worksheet shown in Exhibit 1.4 and then restate the measure in the other tenses. Take time out now and restate three measures (see Exhibit 1.4).

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. Examples of future measures include:

- To be an innovative organization, we need to measure the number of initiatives that are about to come online in the next week, fortnight, and month.
- To increase sales, we need to know the number of sales meetings that have already been organized/scheduled with our key customers in the next week, fortnight, and month.
- 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.).

- To maintain the profile of our CEO, we need to monitor the public relation events that have been organized in the next 1–3, 4–6, 7–9 months.
- To maintain staff recognition, the CEO needs to monitor the formal recognitions planned next week/next fortnight by the CEO and SMT.

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 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.

10/80/10 Rule

Kaplan and Norton[1] recommend no more than 20 KPIs. Hope and Fraser[2] suggest fewer than 10 KPIs. The 10/80/10 rule is a good guide. That is, there are about 10 KRIs, up to 80 RIs and PIs, and 10 KPIs in an organization (see Exhibit 1.5). Very seldom are more measures needed, and in many cases even fewer measures are necessary.

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

Key result indicators (10)	Tell you how you have done in a perspective or CSF
Result indicators } **(80)**	Tell you what you have done
Performance indicators } **(80)**	Tell you what to do
Key performance indicators (10)	Tell you what to do to increase performance dramatically

EXHIBIT 1.5 10/80/10 Rule

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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 in the past month" performance measure should be consistently applied with the same definition graph).

Many KPI project teams will also, at first, feel that having only 10 KPIs is too restrictive and may wish to increase KPIs to 30. With careful analysis, that number will soon be reduced to the 10 suggested unless the organization is made up of many businesses from very different sectors; in that case, the 10/80/10 rule can apply to each diverse business, providing it is large enough to warrant its own KPI rollout.

Importance of Timely Measurement

Before proceeding further, we will look at the importance of measurement. The use of measurement varies widely across the world. In the United States, many businesses use the BSC to create behavioral alignment in a balanced way.

It is essential that measurement be 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 1.6.

Some of the KPIs will be updated daily or even 24/7 (as in the British Airways case), while the rest of the KPIs will be reported weekly. Performance measures that focus on

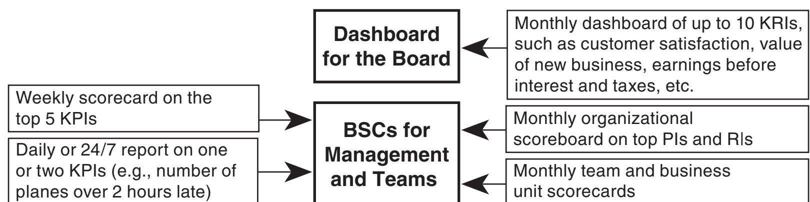

EXHIBIT 1.6 Suggested Reporting Framework

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 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 timeframes from daily, weekly, and fortnightly to monthly. The KRIs, which are best used to report performance to the board, will thus be based around the timing of the board meeting.

Adverse Results from Performance Measures

Measurement initiatives are often cobbled together without the knowledge of the organization's critical success factors and without consultation with staff. The behavioral side is very important with any KPI. You have to ask staff if we measure what action will you take. In many cases, it will be necessary to pilot the performance measure. How performance measures can go wrong can be illustrated by two 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, albeit the customers, both on the train and on the platform, were not so happy.

Management needed to realize that late trains are not caused by train drivers, just as 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. Management should have been focusing on controllable events that led to late trains, such as the timeliness of investigating signal faults reported by drivers, preventative maintenance on critical equipment that is running behind schedule, etc.

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.

Management should have been focusing on the timeliness of critical patients and thus they only needed to measure the time from registration to consultation of these critical patients. Nurses would have thus treated patients in ambulances as a priority, the very thing they were doing before the measures came into being.

Such dysfunctional behavior suggests that a better-practice approach to performance measurement was not followed. There needs to be a new approach to measurement—one that is consultative, promotes partnership, and obtains behavioral alignment, empowering all the people who work in the organization.

Management Models that Have a Profound Impact on KPIs

Balanced Scorecard

The groundbreaking work of Kaplan and Norton[3] brought to management's attention the fact that performance needed to be measured in a more holistic way. Kaplan and Norton came up with four perspectives: Financial, Customer, Internal Process, and Learning and Growth. I recommend that these four perspectives be increased by the inclusion of two more perspectives (see Exhibit 1.7).

Employee Satisfaction is far too important to be relegated to a subsection within internal process. Informed directors know

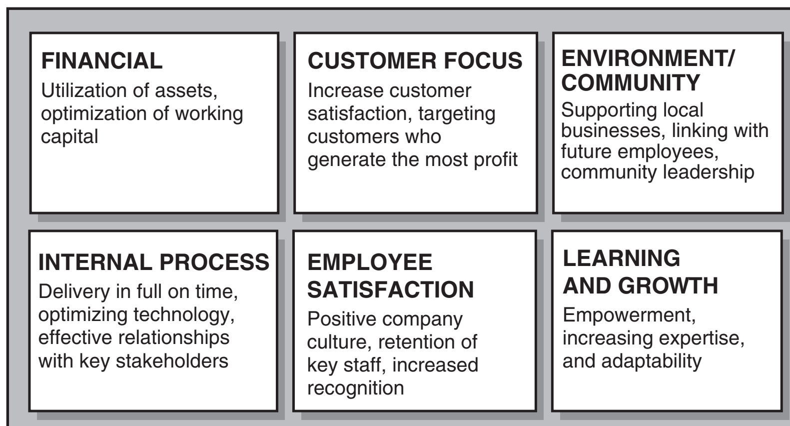

EXHIBIT 1.7 Six-Perspective Balanced Scorecard

that happy staff make happy customers who make happy shareholders. Measurement of employee satisfaction needs to be far more sophisticated than a customer satisfaction survey every blue moon. Having a separate perspective encourages management to measure staff satisfaction three to four times a year using small statistical samples. In addition, the measurement of staff recognitions will have a higher profile. These recognitions should be managed proactively on a weekly basis by the senior management team.

The Environment and Community perspective has been managed brilliantly by some leading CEOs. Measurement in this area looks at increasing public awareness about being an employee of first choice, staff learning new skills through doing voluntary work in the community, reducing costs through minimizing waste, creating positive press, and increasing higher staff morale by implementing green initiatives. Leading CEOs intuitively work in this area. They realize that the community is the source of your current and future employees and customers.

Kaplan and Norton's later work on strategic mapping[4] also alludes to the importance of employee satisfaction and the environment/community perspectives. This modification is important because it means the BSC now incorporates all triple-bottom-line issues.

Many balanced scorecards have failed to deliver. I believe the reason is due largely to the implementation rather than the flaws in the model. Although I believe the balanced scorecard is a management model that will be with us for generations, I see a number of weaknesses that need to be rectified, including:

- A lack of definition of what a KPI is and what it is not.
- The use of the terms *lead* and *lag indicators.*
- The suggestion that success factors neatly fit within a BSC perspective.

- The unnecessary complexity that has been introduced by many writers to justify the need for consultants (e.g., third-generation, fourth-generation BSCs)!
- BSC applications that have been designed, it would appear, by freshly minted MBAs, with an engineer's eye for detail, but who have never been in an operational management position. Surely this is the reason for the neat, matrix management models where everything neatly fits into a box and performance measures are cascaded down until an organization ends up measuring simply everything.

Example: Scoring Goals with the Community: Your Future Customers

I had the pleasure of sitting next to a person who once worked for Virgin Atlantic. She told me that whenever a new route was opened, Richard Branson would fly in, achieve a prominent photo in the local press, and hold a party. All staff members were told to bring their partner and their best friend.

Throughout the evening, Richard Branson would pose for photographs. Every person had a signed photo at the end of the evening. Where do you think these photos ended up? In a box under the bed? I do not think so. They were put in pride of place, center of mantelpiece, wedding photo moved to the right! Every time your friends looks at the photograph, what would they think? What a great night, and how much they value your friendship.

In a single evening, Richard Branson enhanced staff morale and satisfaction, created free press exposure, and linked the Virgin group to new customers. What airline would you fly if you had a photo of you meeting Richard Branson on your mantelpiece?

Hoshin Kanri Business Methodology

The balanced scorecard had its origins in *Hoshin Kanri*, so it is appropriate to examine this business methodology. As I understand it, translated, the term 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 1.8). As with the balanced scorecard, *Hoshin Kanri* can be improved with the introduction of employee satisfaction and environment and community.

Employee satisfaction initiatives and measures would surely put a stop to the Japanese practice of subordinates staying at

EXHIBIT 1.8 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
Both of these approaches should be augmented by:	
Employee satisfaction	Employee satisfaction
Environment and community	Environment and community

work until their boss leaves, which leads to the ridiculous practice of managers coming back to the office after an evening meal with a client so the staff will go home.

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.

Beyond Budgeting Management Model

It is easy for the BSC, with its financial and nonfinancial measures, to develop into yet another fixed performance contract and eventually result in the same dysfunctional behavior that we see with the annual planning process.

The adoption of the beyond budgeting management model will enhance the power of the BSC. Companies worldwide are beginning to recognize that existing budget processes are not satisfactory. These methods have been used since the Romans planned and budgeted their invasion of northern Europe! The budget process is often seen as a hindrance to management rather than a help. An international survey of chief financial officers (CFOs) in 1998 by the U.S. consulting firm Hackett Benchmarking & Research found that almost 90% of CFOs were dissatisfied with their budget process and that the annual budget was not linked to organizational strategy. Performance measures are a key tool for organizations that have thrown out the annual planning process.

Example: Road Construction Company

A managing director of a large road contracting company told me the group has never had an annual planning process. He said if the group could predict when it was going to be sunny and when it was going to rain, annual planning would be useful.

The business encompasses concrete, transport (local and rural), fuel distribution, and roading. The group has around 1,000 staff and a constant profit growth, the envy of many larger organizations.

The company monitors key ratios and has different league tables depending on the size of operations so the group companies can compare performance with each other. The ratios they monitor include:

- Return per kilometer (km): revenue and cost per km
- Margin per liter
- Delivery cost per liter
- Concrete cost per cubic meter
- Cubic meter delivered by pay hour

Providing operations are working within set ranges, operational managers have a high degree of autonomy. If, for example, a unit hits a problem constructing a road, the head office would be informed immediately through the daily ratios and would investigate how the manager intended to get around the issue.

In a month of favorable weather, management would expect all companies to be performing well, the ratios in the zone and results tracking well against prior months' activity. Any exceptions would be spotted in the daily and weekly ratios and performance measures and investigated.

Establishment of a quarterly rolling planning regime, wherein management both sets out its revenue and expenditure requirements for the next 18 months and seeks approval for expenditure planned for the next 3 months, is a key requirement for beyond budgeting management.

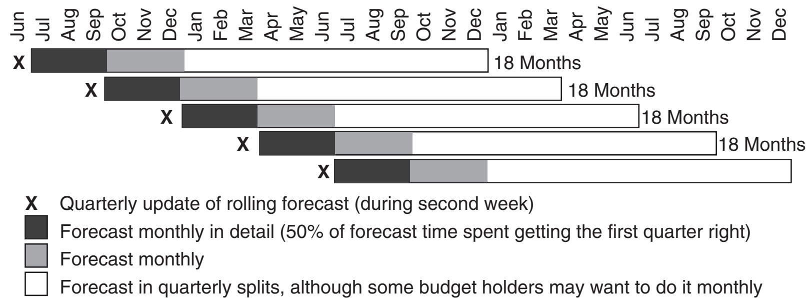

EXHIBIT 1.9 How Quarterly Rolling Planning Works for an Organization with a Year-End that Falls at the End of a Traditional Calendar Quarter

Each quarter, before approving these estimates, management sees the bigger picture six quarters out. While firming up the short-term numbers for the next three months, all subsequent forecasts also update the annual forecast. Budget holders are encouraged to spend half the time on getting the details of the next three months right, as 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 as 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.

Most organizations can use the cycle set out in Exhibit 1.9 if their year-end falls on a calendar quarter-end. Some organizations may wish to stagger the cycle, say May, August, November, and February.

You can access, for free, a webcast and paper on quarterly rolling planning from www.bettermanagement.com. Search "parmenter," select the material, and then register, if you have not done so already.

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Converting Reporting from Information Memorandums to Decision-Based Reports

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.

I have delivered a webcast and paper on decision-based reporting on www.bettermanagement.com. These are free to access. Simply search "parmenter," select the material, and then register, if you have not done so already.

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

People Practices

At the center of all organizations are people practices; these are integral to all the elements of best practice. It is important that the KPI team understand people practices, as many KPIs, PIs, and RIs will influence them.

The placement of people practices at the center of all organizations is deliberate. The ability of any organization to pursue the best-practice path to performance improvement is determined by the effectiveness of its people practices.

Examples of people practices that leading firms 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 bouquets)
- Focus on daily innovation at the workface (e.g., doing what we do every day better)
- Performance-based remuneration that relies on relative measures rather than performance against an annual fixed target
- Migration away from the classic staff performance review cycle, which is cumbersome, expensive, and too late to be of any use

Definitions

The next definitions are listed in order of importance:

Performance measure. Throughout this book, the term *performance measure* refers to an indicator used by management to measure, report, and improve performance. Performance measures are classed as key result indicators, result indicators, performance indicators, or key performance indicators.

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Critical success factors (CSFs). CSFs are the list of issues or aspects of organizational performance that determine ongoing health, vitality, and wellbeing. Normally there are between five and eight CSFs in any organization.

Success factors. A list of 30 or so issues or aspects of organizational performance that management knows are important in order to perform well in any given sector/ industry. Some of these success factors are much more important; these are known as critical success factors.

Balanced scorecard. A term first introduced by Kaplan and Norton describing how you need to measure performance in a more holistic way. You need to see an organization's performance in a number of different perspectives. For the purposes of this book, there are six perspectives in a balanced scorecard (see Exhibit 1.7).

Oracles and young guns. In an organization, oracles are those gray-haired individuals who have seen it all before. They are often considered to be slow, ponderous, and, quite frankly, a nuisance by the new management. Often they are retired early or made redundant only to be rehired as contractors at twice their previous salary when management realizes they have lost too much institutional knowledge. Their considered pace is often a reflection that they can see that an exercise is futile because it has failed twice before.

The young guns are fearless and precocious leaders of the future who are not afraid to go where angels fear to tread. These staff members have not yet achieved management positions.

The mixing of the oracles and young guns during a KPI project benefits both parties and the organization. The young guns learn much and the oracles rediscover their energy being around these live wires.

Empowerment. For the purposes of this book, *empowerment* is an outcome of a process that matches competencies, skills, and motivations with the required level of autonomy and responsibility in the workplace.

Senior management team (SMT). The team comprised of the CEO and all direct reports.

Better practice. The efficient and effective way management and staff undertake business activities in all key processes: leadership, planning, customers, suppliers, community relations, production and supply of products and services, employee wellbeing, and so forth.

Best practice. A commonly misused term, especially because what is best practice for one organization may not be best practice for another, albeit they are in the same sector. Best practice is where better practices, when effectively linked together, lead to sustainable world-class outcomes in quality, customer service, flexibility, timeliness, innovation, cost, and competitiveness.

Best-practice organizations commonly use the latest time-saving technologies, always focus on the 80/20, are members of quality management and continuous improvement professional bodies, and utilize benchmarking.

Exhibit 1.10 shows the contents of the toolkit used by best-practice organizations to achieve world-class performance.

Benchmarking. An ongoing, systematic process to search for international better practices, compare against them, and then introduce them, modified where necessary, into your organization. Benchmarking may be focused on products, services, business practices, and processes of recognized leading organizations.

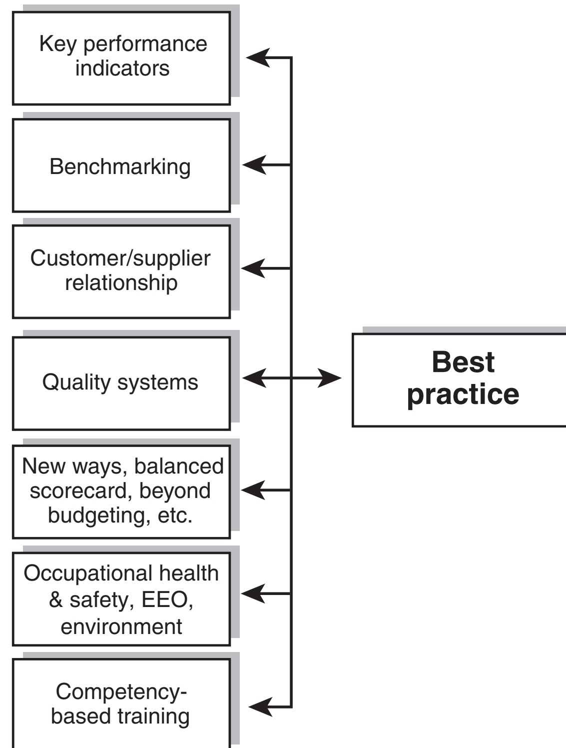

EXHIBIT 1.10 Best-Practice Toolkit

Notes

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

4. Robert S. Kaplan and David P. Norton, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (Boston: Harvard Business School Press, 2004).
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*, *Vol* 45, no. 3 (2007): 518–538.