The Reality of Key Performance Indicators

Balanced Scorecard Reporting was created by Robert S. Kaplan and David P.Norton and was devised to allow top executives to communicate and implement their key planning and operational strategies throughout the organisation.

This is achieved via Scorecards containing the **K**ey **P**erformance **I**ndicators (or, if you prefer, **C**ritical **S**uccess **F**actors or **K**ey **R**esult **A**reas) that are critical to keeping the organisation focused on the right objectives and strategies.

Further, the need to measure organisations' performance on a multidimensional basis is driven by the knowledge that financial measures relate to past performance (and are known as 'lag indicators'). Non-financial measures are known as 'lead indicators' as they indicate future financial performance**.**

The key perspectives employed within Scorecards pursuant to the Executive level view of the organisation (i.e. the organisation's Vision & Strategy) are –

Financial………cash flow, working capital, investment capital

Customer………'nothing can happen until somebody buys something off us'

Internal Process……… the processes and human issues of the organisation

Innovation & Learning………the organisation's intellectual capital – both human and non-human

The rules of implementing Scorecards are perfectly summarised by Richard Chang & Mark Morgan as follows – **"KPI's must be quantifiable, easily understood, valid, provide useful feedback……………"**.

KPI's are the 3rd dimension beyond the 2-Dimensional view of the organisation that is represented by its Financial data. They measure the organisation's future value by measuring it's –

a) internal health (measures such as staff turnover and absenteeism are very simple examples),

b) customer-centric issues (simple examples are time to resolve service issues and customer re-order cycles, which may be compared to industry benchmarks), and

c) the organisation's ability to learn and grow (for instance, the number of new patents registered compared to last year and improvements in both quality and quantity of valid staff training and consequent improvements in competency levels), and of course

d) the organisation's financial health – (for example, monthly and YTD average revenue and profitability per $ invested in employees).

Given this perspective, it might now be appropriate to suggest a positioning statement: 'Balanced Scorecarding is an ideal process for communicating the organisation's strategy to employees and then making the implementation of that strategy a key part of every employee's day-to-day job'.

So, how then, are Scorecards built and implemented ?

Logically, from the top down. The senior executives determine the goals and outcomes that are most appropriate to the organisation's next stage of development and from these decisions come the top level KPI's i.e. those upon which the top tier of management judge themselves and are judged.

Where the organisations are public companies, judgement is by the owners of the company (shareholders) and the marketplace (share analysts). Where the organisations are government entities, they are judged by their political masters and taxpayers. Where the organisations are private companies, the lines become blurred, as the senior manager is also likely the owner.

Regardless of the nature of the organisation, though, the issues are equally relevant and the issue of human impact is now becoming evident, is it not ?

The human impact is the fact that the KPI's are being chosen at the top of the organisation, but need to be implemented throughout the structure by the people whose involvement is in the day-to-day processes. The humans being impacted by this process are not only the internal employees, but also the customers, suppliers and the external employees (i.e. marketplace representatives) of the organisation.

If, in this age of empowerment, we aim to give our employees as much authority as possible to achieve the outcomes we seek, how do we balance that policy with the seemingly conflicting need to ensure that the Executive's wishes (expressed as KPI's) are carried out ?

The answer is that, intelligently implemented, the two needs actually complement each other and the solution is actually found within the Manager's daily dilemma.

On the one hand, Managers are expected by employees to act as their advocate to top level management in their expectations of rewards and remuneration. On the other hand, they are employed to implement the organisation's policies (in which they are not guaranteed decision-making authority) as those policies apply to employees. Given that they are employees themselves, they sympathise with the former, but the nature of their employment also demands their compliance with the latter.

The Manager's daily dilemma ? How to best align the demands of the organisation with the expectations of the employees, such that harmonious progress is achieved for the organisation as a whole. In other words, if the organisation's overall KPI's are synchronised with employee's individual and team KPI's then a so-called 'win-win' situation exists, which of course is the best of all possible outcomes.

How then, do the Human Resources team best develop the KPI's for individuals and teams when the organisation's KPI's are delivered from above ?

Quite simple, really. They avoid doing what is often done with any large-scale project that fails. The reason that so many large-scale projects implementing a so-called Enterprise-wide solution fail is that the organisation has to fit the solution – rather than tailoring the solution to the needs of each team and individual, thereby maximising the project's relevance, the people have to fit the solution. This leads to varying levels of 'buy-in' by the organisation – some ignore the new project because they are naturally resistant to change, some because they've "seen it all before – there'll be something new next year", some because they genuinely feel threatened, and others because they simply don't understand it and so avoid it so as not to appear ignorant. This leads to one of the oldest of all truisms - "any chain is only as strong as its weakest link". Ultimately, some projects take far longer than originally planned, cost far more than originally budgeted and can even end up putting the organisation behind its start point due to the time and effort wasted.

The solution is to ensure that all people involved have genuine input at the start, with the word genuine being the key to success. A good example is a conversation I recently had with a friend who is a National Manager in a company with a globally recognised brand name and a strong image of quality. An intelligent and practical man who has been with the company for several years and whose work is well regarded, he was complaining (quite bitterly) about the nuisance of being measured by KPI's (a system recently implemented by a vendor also engaged in a range of other enterprise-wide implmentations). He claimed that they (the KPI's) were a headache and "anyway, why should I – I'm not on commission and I don't get a bonus !"

I reminded him that not only does he enjoy a good income but that in fact he had received a bonus early in the year. He replied that the Bonus bore no relation to his KPI's and in fact the KPI's bore little relation to his actual job. I countered by pointing out that "surely given your senior position, you had a strong input in determining your KPI's". His answer ? "I did give my input, but my boss didn't agree, so he overruled me". It takes little imagination to see that any feedback received by this employee on his performance against his KPI's will be received poorly, and also that his inevitable drop in morale will lead to a previously valuable company asset potentially being a company liability – pure wastage of two vitally valuable corporate resources - talent and motivation. Even worse, such problems are infectious – both fellow employees and customers dealing with this employee may become tainted unless the problem is properly and quickly redressed.

The first question one must ask upon recovering from hearing this valuable employee's extraordinary admission of being overruled, is 'why would a boss overrule such a valued and senior employee ?' I've no doubt it's because his boss wanted to comply with the KPI's his boss perceived the Board-level executives as wanting and many readers may nod their heads in agreement at the wisdom of my friend's boss, given the challenges faced by anyone determined to survive the savagery of the corporate jungle.

But what if I suggested that there is a better way ?

Please take a minute to examine the diagram on the following page -

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Sample Implementation of a KPI Scorecard

CEO's Scorecard
12-15 KPI's ?
- changeable as the organisation changes

The information contained in the 40 KPIs from the four scorecards below must be consolidated into the CEO's Scorecard allowing the CEO a concise and accurate view of the Organisation's performance, as required.

Manager 1
Maybe five KPIs shared with Managers 2, 3 and 4, and 5 or so KPIs specific to *this* group.

Manager 2
Maybe five KPIs shared with Managers 1, 3 and 4, and five or so KPIs specific to *this* group.

Manager 3
Maybe five KPIs shared with Managers 1, 2 and 4, and five or so KPIs specific to *this* group.

Manager 4
Maybe five KPIs shared with Managers 1, 2 and 3, and five or so KPIs specific to *this* group.

The KPIs from the teams must be consolidated into the 10 or so KPIs for the Managers' Scorecards

Managers must be similarly informed by their own KPI Scorecards

Team 1.1
Maybe 4 or 5 KPIs specific to *this* team.

Team 1.2
Maybe 6 or 7 KPIs specific to *this* team.

Team 1.3
Maybe only 3 KPIs specific to *this*

Team 1.4
Maybe 9 or 10 KPIs specific to *this* team.

Your Facilitator – Grant Hyman
+61 (0)407-219-541

You can clearly see how each measured individual and team within the organisation can have a Scorecard that is *genuinely* relevant to them, recalling Chang & Morgan's wisdom - **"KPI's must be quantifiable, easily understood, valid, provide useful feedback…………."**.

It is not necessary for the CEO's Scorecard to be interpreted literally by successive layers of management. Rather, I contend that to do such a thing is potentially fatal for an organisation. The strength of any organisation lies within its ability to optimally utilise its varied strengths – therefore, surely the most sensible thing would be to give each member of the organisation the means to capitalise on their strengths – once again quoting an old truism – "round pegs belong in round holes and square pegs belong in square holes".

In conclusion, the key requirement is that each Scorecard be relevant and be able to provide the right information to enable dependent Scorecards to be also relevant. Further, I would like to record my thanks to Geoff Dalziel, Luke Maddison and Gavin Sinclair for their much valued contributions.

GRANT HYMAN, the Founder and Director of Sales Central is the author of this article. Grant is an in-field practitioner of Scorecard creation and Implementation. For literature from the acknowledged specialists, Grant recommends you to –

'The Strategy Focused Organisation'
(Kaplan and Norton)
ISBN 1578512506. Publisher – Harvard Business School Press.

'Performance Scorecards – Measuring the Right Things in the Real World'
(Chang and Morgan)
ISBN – 0787952729. Publisher – John Wiley & Sons.

'Performance Drivers'
(Olve', Roy and Wetter)
ISBN – 0471986232. Publisher – John Wiley & Sons.