

KEY PERFORMANCE INDICATORS

Second
Edition



Developing,
Implementing,
and Using
Winning KPIs

DAVID PARMENTER

KEY PERFORMANCE INDICATORS

Developing, Implementing, and Using Winning KPIs

Second Edition

Key performance indicators (KPIs), while used commonly around the world, have never until now been clearly defined. Management personnel have identified measures as KPIs though these measures have never been KPIs. The lack of understanding of performance measures has led most monitoring and reporting of measures to fail. The casualty has often been the balanced scorecard, a brilliant tool that can only work if the appropriate measures are in it.

Fully revised and updated, *Key Performance Indicators: Developing, Implementing, and Using Winning KPIs, Second Edition* represents a significant shift in the way KPIs are developed and used, with an abundance of implementation tools. This *Second Edition* includes new features to assist you with their implementation:

- A letter to the CEO
- A 12-step model for developing and using KPIs with revised guidelines
- Implementation guidelines for small to medium enterprises and not-for-profit organizations
- How to brainstorm performance measures
- A kit to help you find your organization's critical success factors
- New examples and illustrations
- Worksheets, workshop programs, and questionnaires
- Over 300 performance measures
- Updated templates for reporting performance measures
- A facilitator's (consultant) resource kit
- References to "free" and "for fee" electronic media to help save you time

(continued on back flap)

Key Performance Indicators

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*Developing, Implementing,
and Using Winning KPIs*

Second Edition

DAVID PARMENTER



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Preface

Performance measurement is failing organizations all around the world, whether they are multinationals, government departments, or small local charities. The measures that have been adopted were dreamed up one day without any linkage to the critical success factors of the organizations. These measures are frequently 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 strategic objectives. This book has been written to assist you in developing, implementing, and using winning KPIs—those performance measures that will make a profound difference. This book is also aimed at providing the missing link between the balanced scorecard work of Robert Kaplan and David Norton and the reality of implementing performance measurement in an organization. The implementation difficulties were first grasped by a key performance indicator (KPI) manual developed by 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, and has incorporated more implementation tools, the balanced scorecard philosophy, the author’s work on winning KPIs, and many checklists to assist with implementation.

Embarking on a KPI/Balanced Scorecard Project

The goal of this book is to help minimize the risks that working on a KPI/balanced scorecard project encompasses. It is designed for the project team, senior management, external project facilitators, and team coordinators whose role it is to steer such a project to success. The roles they play could leave a great legacy in the organization for years to come or could amount to nothing by joining the many performance measurement initiatives that have failed. It is my wish that the material in this book, along with the workshops I deliver around the world, will increase the likelihood of success.

In order for both you and your project to succeed, I suggest that you:

- Read Chapters 1 and 2 carefully, a couple of times.
- Visit my Web site, www.davidparmenter.com, for other useful information.
- Scan the material in subsequent chapters so you know what is there.
- Begin Step 1 in Chapter 3 by setting up the focus group one-day workshop.
- Listen to my webcasts on www.bettermanagement.com; webcast support is available for most chapters of this book.
- Seek an outside facilitator who will help guide/mentor you in the early weeks of the project.
- Begin the KPI project team-building exercises, and undertake any training to plug those identified skill gaps in the KPI project team.

Letter to the Chief Executive Officer

Due to the workload of chief executive officers (CEOs), few will have the time to read much of this book. I have thus written a

letter to the CEO of your organization to help explain his or her involvement. It is important that the CEO knows:

- The content of Chapters 1 and 2
- The seven characteristics of KPIs
- The difference between success factors and critical success factors
- The extent of his or her involvement, and the risks the project faces if the CEO does not actively support the KPI team
- The content of my “Introduction to Winning KPIs” and “Implementing Critical Success Factors” webcasts on www.bettermanagement.com

Using Chapter 1: Introduction

For years, organizations that have had what they thought were KPIs have not had the focus, adaptability, innovation, and profitability that they were seeking. KPIs themselves were mislabeled and misused. Examine a company with over 20 KPIs and you will find a lack of focus, lack of alignment, and underachievement. Some organizations try to manage with over 40 KPIs, many of which are not actually KPIs. This chapter explains a new way of breaking performance measures into key result indicators (KRIs), result indicators (RIs), performance indicators (PIs), and key performance indicators (KPIs). It also explains a significant shift in the way KPIs are used to ensure they do not create dysfunctional behavior.

Using Chapter 2: Foundation Stones for Implementing Key Performance Indicators

Effective organizational change relies heavily on creating appropriate people practices as the centerpiece of a new

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January 31, 2010

Dear CEO,

Invitation to put winning KPIs in your organization

I would like to introduce you to a process that will have a profound impact on your organization. It will link you 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 (CSFs) 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.

Whereas this book is principally an implementation guide and thus is suitable for advisors, facilitators, and implementation staff, I recommend that you read these sections:

- Chapter 1, which explains the background to this breakthrough
- Chapter 2, which emphasizes the four foundation stones you need to put in place and ensure they are not compromised at any time
- Chapter 7, on finding your critical success factors

Armed with this information, I trust that you will support the winning KPI project with commitment and enthusiasm.

By the time you read it, this work will have received international acceptance. The first edition of this book is a best seller in performance measurement.

I ask that you spare 45 minutes of your time and listen to my webcast "An Introduction to Winning KPIs" on www.bettermanagement.com.

I am hopeful that this book, with the support material available on my Web site, www.davidparmenter.com, will help you and your organization achieve a significant performance improvement. I look forward to hearing about your progress.

Kind regards,

David Parmenter

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workplace culture. In this context, the introduction of KPIs must be achieved in a way that supports and extends the idea of a cooperative partnership in the workplace—a partnership among employees, management, suppliers, customers, and the communities in which the organization operates. This chapter advances four general principles, called the four foundation stones:

1. Partnership with the staff, unions, key suppliers, and key customers
2. Transfer of power to the front line
3. Measuring and Reporting only what happens
4. Linkage of performance measures to strategy through the CSFs

Using Chapter 3: Developing and Using KPIs: A 12-Step Model

When you are ready to introduce performance measures (including result indicators, performance indicators, and KPIs) into your organization, we anticipate that you will want to broadly follow the 12-step approach outlined in this chapter. This chapter analyzes each step in detail, its purpose, the key tasks to be carried out, implementation guidelines, and a checklist to ensure that you undertake the key steps.

Using Chapter 4: KPI Team Resource Kit

This chapter provides the KPI team with useful tools for gathering information. For many of the steps, a questionnaire has been included and, in some cases, a worksheet that needs to be completed by the project team or by the teams developing their performance measures. For all key workshop sessions, a program has been developed based on successful ones run by the author. Electronic templates of all checklists can be acquired from www.davidparmenter.com (for a small fee).

Using Chapter 5: Templates for Reporting Performance Measures

This chapter illustrates how to present KRIs, RIs, PIs, and KPIs.

Using Chapter 6: Facilitator's Resource Kit

The involvement of a skilled KPI facilitator sourced from outside the company assists the process of developing and using performance measures (including KRIs, RIs, PIs, and KPIs). The facilitator's key roles are to help educate the senior management team and then set up and mentor the project team. Chapter 3 suggests that certain key activities within the 12 steps should be performed by this external facilitator.

Using Chapter 7: Critical Success Factors Kit

It is the critical success factors (CSFs), and the performance measures within them, that link daily activities to the organization's strategies. This, I believe, is the El Dorado of management.

In these trying times, knowing your CSFs maybe the deciding factor in survival. If your organization has not completed a thorough exercise to know its CSFs, performance management cannot possibly function. Performance measurement, monitoring, and reporting will be a random process creating an army of measurers producing numerous numbing reports, full of measures that monitor progress in a direction very remote from the organization's strategy.

Although most organizations know their success factors, few organizations have:

- Worded their success factors appropriately
- Segregated out success factors from their strategic objectives

- Sifted through the success factors to find their critical ones—their critical success factors
- Communicated the critical success factors to staff

The process outlined in this chapter will crystallize and communicate the organization's CSFs. The beauty of the method is that it is a simple methodical process that can be run by in-house staff.

CSF selection is a very subjective exercise. The effectiveness and usefulness of the CSFs chosen is highly dependent on the analytical skill of those involved. Active leadership by senior management in this process is thus mandatory.

Using Chapter 8: Brainstorming Performance Measures

Once the CSFs have been established, it is important to find the performance measures. This exercise is best done as part of a brainstorming exercise. Please listen to “Sorting the Wheat from the Chaff” webcast on www.bettermanagement.com when reading this chapter.

Using Chapter 9: Implementation Variations for Small-to-Medium Enterprises and Not-for-Profit Organizations

When I first wrote about the 12-step process, I set out an implementation Gantt chart showing 12 steps. Attendees from small-to-medium enterprises often request advice on a simpler process. This chapter presents my new thinking, which I use when I help smaller organizations.

I also point out useful tips for not-for-profit organizations, who may believe that performance measurement has to be different.

Using Chapter 10: Implementation Lessons

Kaplan and Norton, in their groundbreaking book, *The Balanced Scorecard—Translating Strategy into Action*, indicated that 16 weeks is enough time to establish a working balanced scorecard with 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 the key implementation lessons covered in this chapter.

Using the Epilogue: Electronic Media Available to You

This epilogue presents the electronic media available, some for free and some with a fee.

Using the Appendix: Performance Measures Database

The appendix provides a list of performance measures (including KRIs, RIs, PIs, and KPIs), some of which will be relevant for your organization. These are organized according to balanced scorecard perspectives and are updated constantly. An electronic version of the updated database can be acquired from www.davidparmenter.com (for a fee).

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 manual to ensure all follow the same plan. Team members are expected to take the manual with them when meeting staff and management, as they will be able to clarify issues by using examples from the manual. (Please note that this book is copyrighted, so it is a breach of the copyright to photocopy sections for distribution.)

	Overview	Board	CEO & SMT	KPI Project Team, External Facilitator	Team Co-ordinators
Chapter 1	Introduction.	✓	✓	✓	✓
Chapter 2	The foundation stones for implementing KPIs.		✓	✓	✓
Chapter 3	Developing and using KPIs: A 12-step model.			✓	✓
Chapter 4	KPI team resource kit.			✓	
Chapter 5	Templates for reporting performance measures.			✓	✓
Chapter 6	Facilitator's resource kit.			✓	
Chapter 7	Critical Success Factors Kit.		✓	✓	
Chapter 8	Brainstorming Performance Measures.			✓	
Chapter 9	Implementation Variations for Small-to-Medium Enterprises and Not-for-Profit Organizations.		✓	✓	
Chapter 10	Implementation Lessons.		✓	✓	
Appendix	List of performance measures (including KRIs, RIs, PIs, and KPIs) to assist with the short-listing of likely performance measures.			✓	✓
