Key Performance Indicators (KPIs) – A Briefing & Process

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What is a KPI?

There are many metrics in a company. All KPIs are metrics but not all metrics are KPIs. KPIs are the metrics which tell the company whether it has achieved or is likely to achieve its objectives for a specific period. These objectives will be linked to the overall company goals.

KPIs measure a quantity of something over a time period. The quantity must be measurable, objective and unambiguous. The time period must be meaningful in the context of managing to a specific outcome.

A KPI should be objective. A KPI can only assess quality if the measure of quality is quantifiable in some way, for example, when a satisfaction survey is converted to marks out of ten. (Even then there are dangers in taking such marks as absolute.)

KPIs are related to on-going processes within the business. Targets relating to one-off events, activities or deliverables will be milestones, rather than KPIs.

The KPI is a simple concept, however, the nuances of form and fit are what make their creation and use both a science and an art.

Why have KPIs?

Modern cars have a number of instruments which constantly relay data to the driver. As drivers we create our own performance measures without realising. For example, 'for the duration of the journey there should be no instances where the speed exceeds the limit' may become my unwritten KPI when I wish to avoid a speeding ticket. And 'for the duration the fuel level should not go below a quarter full' is always in place as I never want to be miles from home without fuel. If I follow these (and other) performance measures (don't exceed speed limit and maintain a minimum fuel level) I am likely to achieve the objectives (no ticket and never running out of fuel) and if I achieve the objectives I am likely to move towards my goal (e.g. get to my friend's house in time for the party).

In companies it is a similar situation. Company goals are converted into measurable objectives. To help us understand and quantify our progress towards the objectives (and thus the goals) we have KPIs. KPIs tell us what we are doing over time and what that activity is achieving in terms of results. Importantly, by extrapolating the activity and results it is possible to predict future results, such as the likely end of year performance.

What do KPIs look like?

Similar to objectives, KPIs will always be 'SMART'. There are multiple definitions of the acronym and all have some value in crafting KPIs:

S - Specific, significant, stretching

M - Measurable, meaningful, motivational

A - Agreed upon, attainable, achievable, acceptable, action-oriented

R - Realistic, relevant, reasonable, rewarding, results-oriented

T - Time-based, time-bound, timely, tangible, trackable

To be useful the KPIs will have a number of additional characteristics:

- 'Key' – no point having a KPI that does not tell you something important about the business. There are plenty of PIs. What is needed are KPIs. Does the KPI tell a big and important story?
- Simple – most of the time KPIs will be the responsibility of people in the company. These people may not have been involved in the process of developing the KPIs. But they still need to 'get' and fully understand the KPI and the rationale behind it.
- Quantifiable – is it possible to put a number to the measurement? Does everyone agree on and understand the implications of that number? Good. The KPI is useful when it gives a clear indication of the degree to which something is succeeding or not. It needs to be a quantity. Where a KPI relies on qualitative data, such as a customer survey, the results need to be converted into a number (and this only works if there are a lot of responses to smooth qualitative inconsistencies).
- Measurable – it must be possible to get the data required for the KPI. If the data is impossible to acquire, if it is from a questionable source or if for some reason no-one believes the numbers then the KPI is of no value.
- Objective – a picture may paint a thousand words but whether you like the picture or not is a very subjective thing. Art is not the same to everyone. Subjectivity is useful in some contexts but when asking questions about actual performance it is less useful. Being objective means everyone sees the same message. It is not personal, meaning people focus on the problem or opportunity and not on each other.
- Unambiguous – if two people independently took the KPI measurement for the same time period would they get the same answer? Different answers would make the KPI meaningless.
- Appropriate – the time period used for a KPI should be appropriate to the activity and the units used should be meaningful. A baker selling bread could reasonably check sales of loaves per day. Knowing the number of sales of super tankers made each day is unlikely to be informative. A baker buys flour in kilos but the shipbuilder takes steel by the ton.
- Timely – does the KPI alert you in time for you to take action? Checking sales figures at the end of the year tells you what happened but gives no chance to improve the sales result.
- Aligned to Objectives and Goals – For all KPIs across the company it should be possible to trace their purpose back to a company objective and thus a corporate goal. KPIs take time and effort (and therefore cost) to implement, measure and review. If it does not link to the purpose of the organisation then bin it.
- Drive right behaviour – watch for giving mutually exclusive goals to different people or functions. Managing costs and getting sales is a good example. Sales activity is a cost. Keeping costs down means limiting sales activity. Business is littered with this type of conflict. Understanding the priorities for the business is an essential prerequisite to setting the KPIs. Is it 'orders at all costs' or is there a maximum cost of the sales activity? Or is there a cost per sale? This decision has implications for the KPIs and for the way information is captured. For example, if there is a KPI to measure the maximum cost per sale then you must be able to track and assign the costs.

The description of the KPI will include the following:

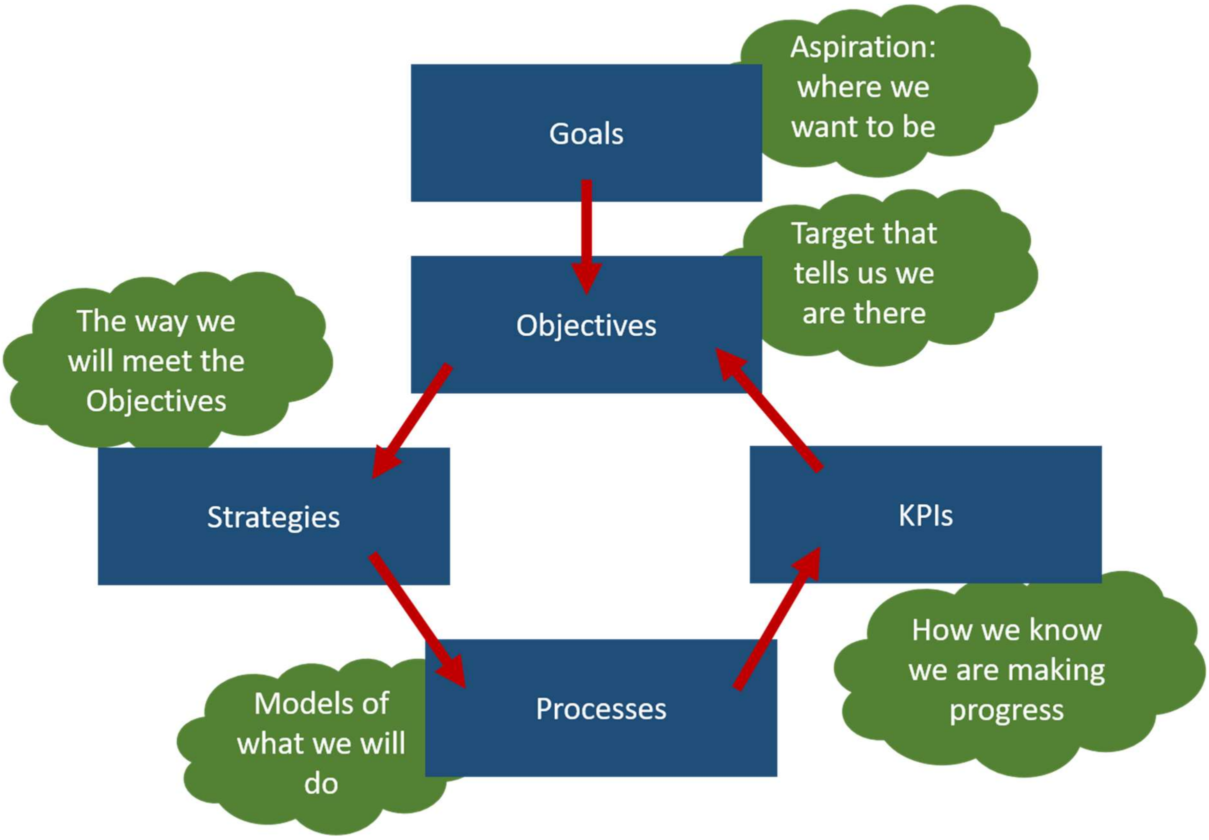
- A name – a simple thing but the name becomes part of the company language and it means everyone knows what is been talked about.
- The company goal it relates to – so everyone knows why the KPI exists.
- The performance question – what is the question the KPI is addressing, for example, 'to what extent are we meeting our delivery commitments?'.

- How the data is collected – where the data come from, who will collect the data, when and how often it be collected and how it be reported and who gets to see it?
- Who owns the KPI? – the person who is responsible for making sure the KPI target is achieved?
- What is the target? – what makes a 'good' number for the KPI? What does a good or bad number mean to the organisation? And what is the overall target for the period or periods? What is a good level of challenge without being impossible? Importantly what must the number be to ensure the objectives are met?

The way you write out your KPIs is up to you, but the minimum description should include these aspects. It all helps ensure that everyone sees the KPI in the same way. It also allows people to spot ways it could go wrong and to offer improvements.

Where do KPIs 'fit'?

Your company will have its goals, objectives, strategies and processes. These are basic and essential building blocks of the business. The KPIs play a central role by providing concrete information on the progress being made towards the goals.



The goals describe the aspiration; where you want to be at a certain point in the future, for example, 'to be one of the top five sellers of bread in two years' time'. A meaningful goal, this needs further definition, which is provided by the objective, which might be 'to sell at least 2000 loaves per day in two years' time'. This gives a specific target to aim for. In this example it will have been established that the level of sales noted (2000 loaves per day) would be a larger volume than the lowest of the current top five providers to ensure the goal is met.

The strategy relates to 'how' the objective will be reached. For example, the plan could be to focus on existing customers or new customers. To offer different loaf products or keep the same. To be a low-cost producer or to be a premium-priced artisan provider. Decisions made here will determine much about the way you deliver the processes. The process models, informed by the strategy (the way we want to do it) provide the roadmap for the people doing the baking.

At this stage the KPIs are put in place around the processes to ensure that things are being done the right way, that they are being done enough times and that they are achieving progress towards the company objective.

How are KPIs used?

All KPIs share the same characteristics; they measure a quantity over time. So, while some discuss KPI ‘types’ it may be more helpful to review how KPIs can be used. The most common applications are as follows:

KPI Use	Does what…	Comment
As an Input indicator	Measures the amount of resource used to create a particular output or outcome.	Often applied where costs and profitability are being monitored. For example, are we using more flour and eggs than we planned to use?
As a Process indicator	Gives insight into the efficiency of a particular activity or process.	Asks the question ‘are we doing what we do well?’. Do we burn more loves than we would like?
As an Output or Outcome indicator	Monitors the results of the process.	Provides a measure of the effectiveness of the process. Did we bake all the loaves we needed? Did every customer get all they ordered?

Each of these indicators, input, process and output, are ‘lagging indicators’ insofar as they tell us what has happened. However, these may be adapted to act as ‘leading indicators’ that allows us a glimpse of the future.

A Lagging indicator	States what has happened as a result of a process.	Sales last month. Number of units shipped today. And so on. Used to assess performance against budgets and targets. Or, commonly, to compare with ‘the same time period last year or last month’ to give an indication of relative performance.
A Leading indicator	Predicts the future outcome of a process.	Often KPI results are compared over a number of consecutive periods so a trend can be observed. Or results are extrapolated to a future date to derive a forecast. For example, the baker may notice sales of wholemeal loaves have been steadily falling and wonder why this might be. If the trend continues then the monthly order of wholemeal flour might need to be reduced. Also, if experience shows the baker that sales are normally the same each week then the first three months’ sales would be a reasonable indicator of the likely annual sales.

Leading indicators are worth a further discussion. These are predictors of the future and are immensely useful if used wisely. Leading indicators are derived in different ways.

First, trends can be spotted by taking results from each period. The trend can be extrapolated to give a likely future result. It is useful when the trend is built from a larger number of previous results than a smaller number, in order to smooth any random blips.

A desired result, such as the sale of a super tanker, may be too infrequent to be useful management indicator. Breaking the activity down into smaller events and outputs is a common strategy. For example, sales calls lead to appointments and appointments can become orders. Thus keeping a watch on sales calls may be a useful predictor of sales orders (particularly if there are reliable conversion rates of calls to orders).

Comparing period results to budgets for the period or to last year's results in the same period can give useful predictive information. 'If we carry on like this, the end of year result is likely to be over (or under) budget.'

KPIs and the Unattainable Triangles

The trio of price, speed and quality is often called 'the unattainable triangle' insofar as you can have any two of fast, cheap or good product but you cannot have all three. For all organisations providing some form of product or service the balance between price, speed and quality will be linked to that company's market positioning.

A clear understanding of the way the company balances these dynamics is important in developing the right KPIs. If the general wisdom is that one can have two of the trio but not all, which two are the focus for the company? A fast food store serving quick, cheap food to lots of people will have different KPIs to the Michelin starred restaurant, offering high quality at a high price for a few customers who are able to take their time.

The notion of price, speed and quality in respect of the customer offer is analogous to the production conundrum of cost, throughput and quality. This is the second unattainable triangle. When making the product or service it is possible to employ two of these dimensions but not all three. For example, a high cost product might be produced quickly or to a demanding specification but not both.

How you decide to balance these and other criteria is part of the strategy of the organisation; as such it helps determine the way you will go about achieving your objectives. It will also be a big part of how you are seen by customers and the wider community. It will be all or part of your differential positioning in the market, defining and describing how you are different (and, thus, hopefully, attractive). Therefore, making decisions about price, speed and quality is not trivial. But it is very important to be clear about these decisions as they will have a bearing on the sort of KPIs you will set. You will craft KPIs which ensure the strategy is being followed (and differential positioning maintained) as well as further KPIs that determine whether the strategy is working or not.

What will KPIs not do?

They won't run the business or make the decisions. They will make running the business a more informed activity which should lead to better decisions. They are a tool, not a substitute for good management.

When a process is already proven, i.e. it has had a long period of stability and produces consistent levels of reliable, quality results, then the KPI will tell you how new (and existing) staff members, machinery or raw materials employed on the process are performing. This is on the basis that if the process works then poor results must be 'operator, equipment or input error'. You may need to dig a bit deeper as the 'error' may be the result of poor training, lack of supervision or wilful negligence in the case of staff, calibration of equipment or change of supplier.

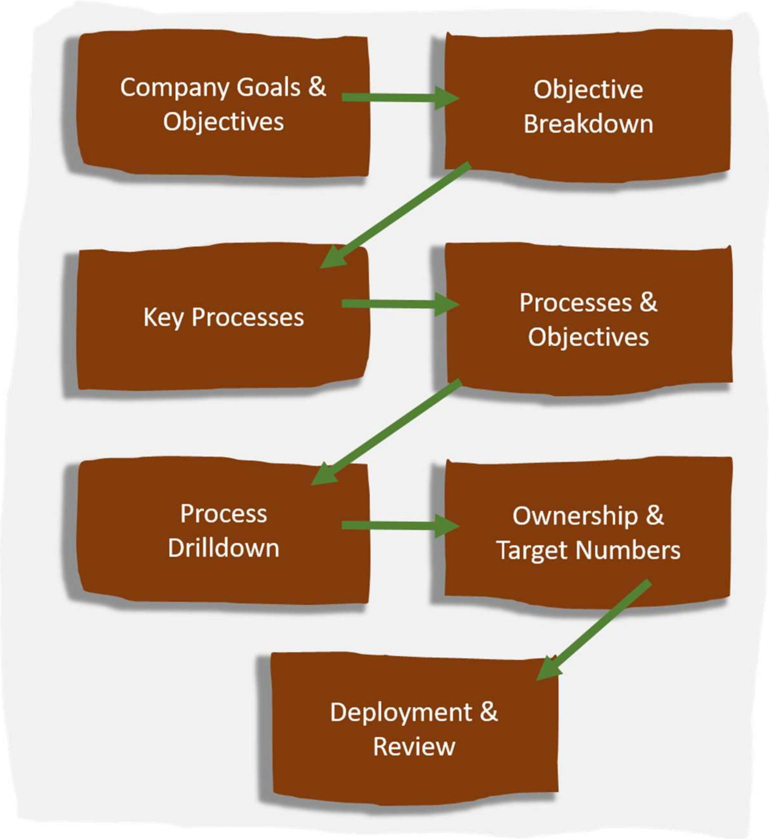
The same cannot be applied to a new, unproven process. The KPIs will report what is happening, but it is can be difficult to attribute success or failure without looking closely. For example, what if the process is a poor one but several staff members are working harder and filling in gaps to make sure the result is good? And the converse is also possible; a great process spoiled by a poor operator, a defective machine or unsuitable materials.

Remember the 'Human Factor'

The previous reference to 'operator error' is part of a reality which must be borne in mind when developing and operating KPIs – the human factor. KPIs can get a bad name for all sorts of people-related reasons:

- Poor execution – a good process can be destroyed by poor execution whether due to poor staff selection, training or ineffective line management and coaching. Sometimes people may deliberately try to 'play the system'. With a well-motivated team this is unlikely but always possible. When wondering what has gone wrong with the process it is worth remembering that it could be the people, either by omission or commission.
- People going the extra mile – a process may be producing great results and you may wonder why all the staff involved look a little jaded. It could be the loyal and hard-working staff are covering the inadequacies of the process and may be filling a few holes with a mass of extra effort. Excellent results may be down to the people in spite of, rather than because of the process.
- Poor documentation or reporting – the KPI may be perfect when it leaves the planning stage but something goes wrong with the implementation. A few 'Chinese whispers' in the documentation or an information collection and reporting system which slightly misses the point can negate the value of the KPI. Check implementation before throwing out the KPI.
- Bad definition – KPIs are a numbers game; things get counted over a period of time. But what defines the 'things'? For the baker it is important that each loaf of bread is good enough. There has to be a definition of 'good enough'. The loaf within the parameters of the definition goes to the customer, otherwise it goes to the birds. Agreeing parameters for quality may be tricky but it is important. Get the definition of quality wrong and all sorts of undesirable loaves could get to a customer.
- Narrow perspective – record order levels might mean the sales department is achieving its KPIs. However, orders which are not profitable are not good for the business finances. And orders with impossible delivery dates will harm the business's reputation. Striving to achieve is a natural human trait, however, the achievements need to be good for the business as a whole.

KPI Development Process



The diagram above and the table below describe a way of defining the KPIs for an organisation. The process is not complicated. The complexity is in framing the right KPIs and in reducing these to the minimum while still keeping the right tabs on the right things. One thing to bear in mind, if no-one bothers to report and review the KPIs once they are implemented they are useless. While thinking about the KPIs also think about the data capture, reporting and review processes.

Step	Brief Description
Identify and Agree Company Goals & Objectives	All KPIs link back to the company goals and objectives. Clear goals and objectives which support progress to those goals are prerequisites for setting KPIs.
Objective Breakdown	A quick, high level look at the things that need to happen or be in place to achieve each objective.
Identify Key Company Processes	Laying out the operational processes which do and make things so the company can achieve its objectives.
Key Processes & Company Objectives	Applying the objectives to the key processes gives an early indication of the operational implications for each process.
Drilling Down	Ensuring KPIs cover all the critical aspects of the processes; inputs, throughput and outputs.
Ownership & Target Numbers	Distilling the list of KPIs to the essentials and assigning ownership. By assigning targets to each KPI the KPI framework moves from the theoretical to the practical.
Deployment & Review	Making sure the ownership is successfully transferred and that data collection and review is happening as intended.

By thinking about KPIs in this manner you retain the link between individual KPIs and what the company is trying to achieve. Maintaining this alignment means everyone is pulling the same way. It limits the chance for individuals to succeed, in some form of 'silo', while the company fails. By keeping an eye on the connection between each person's role and the organisation's goals everyone is part of and can legitimately share in the success of the whole. Everyone plays an important part.

Company Goals & Objectives

Everything stems from the overall goals of the company. As noted, it makes sense to have everyone's efforts aligned with and therefore contributing to these aims. Company goals and objectives will probably be set around a number of key outcomes, including the following examples:

Goals	Objectives
'Have great social impact'	- Create a validated Theory of Change by end of Q1. - Implement measures aligned to the Theory of Change by end Q2.
'Become a profitable business and start to build reserves'	- Increase profitable revenue by 30% for the year.
'Increase customer satisfaction and retention'	- Increase percentage of good and outstanding scores in customer survey by 25% in the annual survey.

The general convention is that goals describe where you would like to be and when you want to get there. Objectives are the steps you must take to get there – what you need to do and by when. A big goal may take some time. An objective for one year may not always get the company to its goal but it will move it towards that goal.

Some objectives will be more easily converted to a work programme. For example, creating the Theory of Change would be easy to imagine and assign to an individual or team. However, increasing revenue could impact people across the organisation. As could getting better at delighting customers. Most company objectives will need action across different parts of the company.

At this stage therefore, it is worth a first attempt to break down each objective into its component parts. It will not be perfect or comprehensive at this stage but it starts to break things into useful chunks.

Objective Breakdown

This step is not essential. It may, however, provide a useful exercise for some ventures as it gives a simple structure to breaking down tasks. There are other methods and models that can be employed and these may be used to replace the one below. The aim of this stage is to help people understand how to take a big objective and start to render it in smaller more manageable chunks. Any form of end back plan mode will help.

Imagine, for each objective, having the celebration party for its achievement. Now think about all the things that would need to be in place and have happened to make that success possible. Taking one of the objectives listed above:

Increase profitable revenue by 30% for the year (assuming the same products and customer segment)

- Opportunity creation would have improved, thereby increasing the number of high quality new opportunities going into the sales funnel.
- Sales funnel conversion rates would have improved meaning that more opportunities would be turned into orders, making sales activity more efficient and effective.
- Delivery costs associated with the higher number of orders would have been kept low enough to ensure a good margin on each order.
- Invoicing and cash collection would have improved to properly manage the higher order volumes.

There are many ways revenues can be increased and this is one example. What it shows is that the burden of work is not solely on the shoulders of the sales people. Delivery and finance also need to step up to handle the increased order throughput.

How the objectives are broken down will depend on the strategies adopted to achieve the objective. The example above assumes the company will increase sales of existing products to the existing customer segments. A strategy which introduced new products would have different implications for the organisation.

Key Company Processes

Companies have a number of processes and models which they use to run the company. For KPI purposes it is worth considering five main processes/models:

- Impact model – the theory of change and the operational processes which bring it to life.
- Revenue process – the sales process which is used to generate orders and therefore revenue.
- Delivery process – the process by which customer order commitments are fulfilled and the orders turned into revenue.
- Accounting process – collecting and accounting for the revenue.
- Staff model – making sure the right people are in the right place with the right role, skills and knowledge.

Most organisations will have activities in these areas. They may not have a defined and documented process for each but they will all sell things, deliver things and collect money. And they will need people to do all that.

List out the key processes of the company. Put a little detail around each in terms of the inputs, activities and outputs. This is a simple model for processes and each process may be broken down into smaller sub-process elements. At this stage think about the high-level process and the things that are needed (inputs) and that must happen (activities) for the process to succeed. For example, the process for baking bread orders could be something like:

Inputs	Activity	Outputs
- List of orders for individual customers (from sales process) - Raw materials (from purchasing process) (This can also extend to include other variable inputs	- Aggregate orders into bread types and make preparation & baking lists and schedules - Decide and allocate tasks to staff - Decide oven plan - Prepare dough - Bake bread	- Delivery van loaded with completed orders for delivery - Delivery schedule and route plan

such as consumables, power, etc.)	- Sort into orders and pack - Create delivery notes for each order - Create delivery schedule for driver - Load delivery van	

This process takes orders and raw materials and creates finished product ready for delivery. No doubt the delivery process will result in customers getting their bread and the accounts department getting proof of delivery so they are then able to invoice. Notice that processes generally receive inputs from a previous process which in turn feed the next process. Creating a simple map of the processes for the venture helps in many ways, so is a useful exercise.

Key Processes and Company Objectives

If we match the company objectives to each key process, what does this tell us about the total work load for this process? If we would like a 30% increase in revenue what does this mean for sales? How many orders does this mean, how many sales calls might this require and might this create a need for more sales people?

Let’s consider the bread maker and the previous baking process and the same 30% increase in revenue. More raw materials will be required, which means more working capital is tied up. More bread may mean more staff, extra ovens and more cooling space. If the increases revenue is derived from bigger orders to the same customers this may change the way orders are priced and discounted. More customers might mean a more complex order sorting and packing operation.

Key issues arise at this point. Firstly, having looked at how the objectives impact certain processes, are the company objectives doable with the current resources and models? For example, a 30% increase in revenue may require a complete refit of the ovens. If such actions are unachievable there may be a need to change the company objectives or get more resource.

This high-level review of the processes, the inputs, activities and outputs, starts to ask questions about where the company objectives will create most operational challenge and about which bits of the company will take most responsibility for delivering the objectives. Most importantly it starts to define what each process must deliver for the business.

Matching company objectives to key processes starts to establish objective ownership. Each of the functions (sales, delivery, etc.) uses the models and processes to deliver a certain set of outcomes for the company. These outcomes should be aligned with the objectives. The number of functions in any company is generally dependent on the number of people and management positions the business supports. When the founder is alone the founder has all the functions and all the objectives. The larger organisation has a complex web of functional units each owning ever smaller parts of the overall company goals.

Drilling Down

For each of the high-level processes the key questions are:

- What do we need to get right to achieve the objectives?
- How many times or how often do we need to get things right?
- How much should it cost to get it right enough times?

For our baker the answers might be:

- Bake the right bread to high quality with low/zero waste.
- Bake enough to fulfil the increased order rate every day.
- Spend no more than 40% of the selling price of the bread.

Putting it in a slightly different way, at each process (input / activity / output) stage there are key aspects where KPIs might be appropriate:

- Qualitative assessment – are we effective in what we do or is there a lot of waste for every good output? How often do we do things well?
- Throughput and run rate – how efficient are we and how many (of whatever it is) do we achieve or consume in any period? Is this rate trending up or down?
- Cost per iteration or per unit – do we achieve the desired output or outcome at a cost which fits with our business model? Is what we do affordable?

There are metrics one might apply across all these areas, however, the KPIs will be those which are necessary and sufficient to show whether the required performance is being achieved.

Make a list of possible KPIs for each process across the three dimensions – quality, throughput and cost. For example, for the bakery:

Process	Baking Bread
Quality Measures	Percentage of dough made which is rejected. Percentage of bread made which is rejected. Percentage of orders fully completed for delivery on time.
Throughput Measures	Value of orders fulfilled by period. Percentage of staff and oven capacity utilised by period.
Cost Measures	Variable costs per period (staff, consumables, energy). Raw material costs per period.

The way the company markets its products will have a bearing on the way KPIs are set. The notion of the ‘unattainable triangle’ suggests a trade-off between quality, throughput and cost; for example, you can have high quality with a lower cost or higher throughput, but not both. The market positioning of the product (say ‘low price, replace often’ or higher price, lasts forever’) will determine the approach to KPIs.

Different metrics provide information about different company goals. For example, while the value of orders fulfilled is an indicator of revenue performance, the percentage of orders where the customer receives all they ordered could be an indicator of customer satisfaction. If one specific aspect of the process is a major issue for the company you may elect to have more KPIs focused on this.

There are a couple of areas to think about when defining possible KPIs. Consider:

a) what information you need about what has happened and what is likely to happen. This relates to ‘leading and lagging’ KPI indicators.
b) what information you need about what people are doing and what is being produced. This involves watching both ‘activity and results’.
c) experimenting with ratios. Low costs may be great but not if quality is poor. Thus a cost measure might need to be framed as ‘average cost per quality item’.

Leading and Lagging

Looking at the draft KPIs in the table above, none of these metrics gives information about the future. They are 'lagging' insofar as they tell us what has happened; this much dough was rejected, so many orders were fulfilled correctly and so on. To get an indication of future performance we need to extrapolate the results and have a look at trends and run rates.

- Trend – this shows the direction of the metric. For example, if three months ago the percentage of bread rejected was 15% but last month it was 10% and this month 5%, we would probably be happy with the trend. However, if the percentage of orders fulfilled is decreasing each month we may wish to ask questions. Trends give useful information in terms of predicting the future as a 'leading' KPI.
- Run Rate – run rates report how throughputs change over time. Our bakery must bake a certain amount of product in a given year to ensure the revenue target is achieved. Divide the number by 12 and, if we assume there are no seasonal variations, we have the amount of bread the bakery must deliver each month. This is the run rate we should achieve (which could be adjusted if there were a seasonal aspect). Watching the run rate is a useful predictor of future results and thus can act as a 'leading' KPI.

Activity and Results

Sometimes the results are the key. This is particularly true where the turnaround time for the activity is relatively short, for example, in our bakery, where all the bread is produced within the day. In some processes, however, waiting for the result is not a good strategy. Let's say our bakery sells to supermarkets. Let's assume supermarkets take some convincing to take and sell the bread. It means the sales process might be a long one. If I need 10 more supermarket customers to meet my target then finding out I have achieved just 4 at the end of the year is not helpful. Therefore the KPIs need to monitor activity within the sales process. For example, if I assume it takes ten calls to get an appointment and ten appointments to get a sale then I know I need to see at least 1000 calls through the year. (As an aside, if it normally takes around three months to close a sale all the 1000 calls to need to happen in the first nine months of the year). Watching the number of calls is a useful indicator of likely orders and therefore a useful KPI option.

A word of warning; activity measures should be structured with due attention to the three dimensions noted previously – quality, throughput and cost. Having a simple 'number of calls made' KPI may not be enough. If calls are made to the wrong people or are performed poorly these are not of the right quality and should not count. Equally, if calls are over-long they may cost too much (and could mean fewer calls per hour). Remember: quality (are we doing the right thing right?); throughput (are we doing enough of it?); cost (is the activity at an affordable rate?).

Watching Ratios

Very often single metrics fail to give the right information and a combination of metrics is required. In the bakery example, the total variable costs for the baking process is of limited value. It will tell management whether costs, for raw materials, energy and other consumables are within budgets. However, when the costs are expressed as a ratio against the value of bread shipped to customers it gives an average variable cost percentage per order for a period, which gives much of what is needed to establish the gross margin percentage. The ratio format, as in 'we need/use so much of 'x' for so much of 'y'', is very useful.

Ownership & Target Numbers

By now the main processes in the company will have a high level 'input / activity / output' model. Draft KPIs will have been noted for each with care taken to look at each in terms of quality, throughput and cost. In addition, the draft KPIs will have been revisited to ensure they are in their most useful form, whether as leading KPIs, activity or result KPIs and ratio KPIs.

At this stage, two things need to happen:

- Removal of duplication – Revisit the draft KPIs to check for duplicates. Sometimes different metrics monitor the same question. For example, tracking the ratio of the raw material costs against the total value of bread made may tell all you need to know about delivery quality. It may mean that dough and bakery reject levels, while being useful metrics, are not KPIs. There is no easy way to do this and it may be good to play safe and track multiple KPIs in the first instance. One method is to ask 'does this KPI answer different questions to another KPI?'.
- A first look at ownership – People at different levels of responsibility have different information needs but they all ask the question, 'what do I need to know to feel in control?' and come up with different answers. No surprise as people have differing roles in the organisation. At this stage it is worth starting to identify which draft KPIs might rest with which role and function.

Both these aspects will be iterative as is the whole of the KPI process. Discoveries and epiphanies can mean revisiting earlier stages.

Assigning Ownership to Roles

If it is not someone's job to deliver a KPI it probably will not happen. If a KPI is not of use in someone's job it is probably not a valid KPI. So, it is useful to share out the KPIs among the roles in the organisation.

People need KPIs suited to their job and appropriate for their role and authority. People need to have the authority, knowledge, skills and resources to act if a KPI is not being achieved.

There is no easy process to allocate KPIs to individual roles, particularly in smaller organisations which are at early development stages. That said it is useful to consider the following:

1. Starting at the highest level of management, define what each role will deliver for the business. What asset or assets will the role create for the company? Assets in this context are generally outputs and outcomes. At company level this includes sales orders, revenue, delivered order commitments, profit, staff satisfaction, customer satisfaction, social impact, costs on or below budget and so forth. At departmental level there will be different targets. For example, in administration there might be accurate and timely invoice delivery, low age debtor days, bills paid on time and so on. Remember, this stage is not about defining what roles will spend their time doing. This is about the end product of all the doing.
2. Match the assets identified with the draft KPIs. Where the roles and the company objectives are already well aligned this should be a fairly simple task. In the developing social venture it may be more iterative. Roles may be assigned different or additional assets to manage and thus attract different KPIs. The end result should be a complete picture of role, assets and KPIs.
3. Complete parts 1 and 2 above for each part of the organisation (if it is large enough). At department level, such as Sales, or Bakery, what does each role deliver for the department? And so on.

Putting in Numbers

Once the KPIs have been decided and each has been allocated to a role the final step is to put in the target figures. These figures will tell management whether the right things are being done, that enough of these things are being done for a given period and whether the expected and required results are being achieved.

Assigning numbers and targets links the KPIs to the overall objectives; if all the KPIs are achieved then the objectives should also be achieved and the company should have moved towards its goals. Importantly the KPIs also allow an objective appraisal of individual and team performance. Thus KPIs often form an integral part of any Performance Review Process.

KPIs also inform the continuous improvement of the key company processes. In some organisations process-focused KPIs are implemented solely for this purpose.

Deployment & Review

Introducing new KPIs, or revising existing ones, will involve some element of change. People need help with change, so deploying the KPIs will need a bit of care and thoughtful change management. Some of the principles of good change management are useful:

- Early involvement to foster ownership – get managers and staff involved in the KPI development process.
- Set expectations clearly – take time to explain what is expected of each individual.
- Over-communicate – take every opportunity to explain the what, why, how and the implications of the KPIs to everyone in the business.

It is important to make sure people understand what the KPIs are and how to use them, believe they are a good thing for the business (and not aimed at catching them out) and that they have the skills and time to deploy and use them. People should know that KPIs are not ‘in addition to’ the day job; they are very much a full and essential part of the day job.

Other tips for deployment and review:

- Take time to make sure it is all understood, accepted and working. Time invested in making sure everything is how it needs to be is never wasted.
- Make sure everyone has the skills, resources and (most importantly) the authority to take the necessary actions to achieve their KPIs.
- Review their plans to cascade their KPIs if there are teams and/or layers of management. Coach the managers through their plans for introducing the KPIs through their team/s.
- Recognise that KPIs take time; time to implement, time and energy to collect data, time to review. Demonstrate that it is important to take this time and be a visible role model.
- Use the KPIs yourself. If you don’t bother, why should others? A big part of ensuring the KPIs are used is for the top people to use them. This drives the need for information and action right through the organisation.

In Summary

The KPI is a simple instrument; a quantity over time in most cases. When applied properly and used well it informs management decisions, drives process improvement and ensure progress towards company goals.

Developing the KPIs for a particular organisation takes time and attention if those KPIs are to be useful. The development process starts with the clear articulation of the company goals and the overall objectives for the planning period.

The company processes determine how its resources are organised to produce results. KPIs provide information about how the processes are running and the results they produce. Linking the company objectives to the key company processes is therefore an essential step.

Not every metric is a KPI and, given there are myriad possible metrics, the sifting process which identifies those metrics used as KPIs is important. If there are too many KPIs or if the measurement and reporting process is cumbersome, then important indicators might be lost in a mass of information.

Finding the balance is a theme that runs through KPI development. Is the mix of price, speed and quality in line with the company's market position? Do the KPIs find a balance between the level of sales activity and the cost of that activity? Do KPIs provide enough challenge to staff and teams?

Maintaining the link with the company goals and objectives is a key design intent. Ensuring that there are people responsible for all the links in the chain is just as important. Things that have no owner are likely to be missed and if it is important enough to have a KPI it is important enough to have an owner.

Putting the numbers in needs thought particularly if the KPIs form part of Performance Management processes. Changing the targets halfway through the period is possible but never desirable as few people respond well to 'moving the goalposts'. And the numbers need to maintain the alignment with company objectives – do the KPI numbers 'add up' to the objectives? Success in the KPIs should lead to the achievement of objectives and consequent movement towards the overall goals.

Some Key Messages about KPIs

In no particular order, the following is a minimum checklist.

KPIs are no substitute for good management. Make sure people can manage.

> KPIs provide information. If the KPI has been set correctly and the data is captured and reported accurately and in a timely manner, the KPI should provide useful, actionable information. But that is all KPIs can do – what is done with the information is up to the staff, managers and executive team. As leader, make sure people understand what you expect them to do with the KPI information. What are the limits of their authority in terms of using company assets to make changes?

See KPIs 'in the round' and not in isolation. Ask questions of and make decisions based on the whole picture.

> The dynamics of business are rarely summed up in a single KPI. For example, for every revenue increase there is always some form of cost increase, as in 'our sales activity went up, we made more sales, but sales people's expenses are much higher'. It pays to set KPIs

such that they answer all the questions you need to ask. If that means multiple KPIs then so be it.

KPIs should tell you all you need to know in order to sleep at night.

This is a simple check question. Do all the KPIs I have answer all my information needs or is there still a niggling doubt? If there is a doubt fix it by adjusting the existing KPIs or by introducing more.

KPIs must be aligned to the organisation's goals and objectives for a particular time period.

Company priorities and imperatives change and KPIs will need to change with them. The KPIs, when properly set and managed, should ensure the company achieves its goals for the period. Properly aligned KPIs allow every individual in the organisation to see clearly how they are contributing to the company's success. It also means everyone is pulling the same way; all the energy is focused on the company goals.

It must be possible to give the KPIs to people in the business.

If the KPI is not clear to the person it is being assigned to it is a poor KPI and it will fail. If you don't hand over the KPI properly it will fail. Keep KPIs simple. Be clear about the rationale behind the KPI, the company goals it relates to, the performance question it is asking and why, what it will be used for, how it will be used. Be clear about the required targets and about what defines a good and a bad result. Invest time in a proper allocation and handover of the KPIs. Make sure the person understands and buys in.

KPIs must be measured, reported and acted upon and must be seen to be.

When a KPI is used, and used properly and overtly, people take it and the targets it represents more seriously. Make sure KPIs are reported to all those who can make a difference. If performance is good everyone can feel good. When performance is not up to scratch everyone can work to improve. KPIs are not a rod to beat people with. KPIs are information to help people spot and overcome barriers to targeted performance.

KPIs should not allow one part of the business to succeed while the business goes bust.

The goals of the company are paramount. The KPIs are a set of targets which, if they are all met, should mean the company achieves its goals for the period. KPIs divide up the work required to achieve the goals. When allocating the KPIs to the various people and functions in the company ask the question – is it possible for someone to achieve all their KPI targets while the company fails to meet its goals? If the answer is yes then adjust the KPIs and the allocation of the KPIs so that this is not possible. While people have specialist skills and roles across the organisation it is important that all individuals have an eye to the company's success.

Watch for unintended consequences.

A KPI can look perfect but still drive the wrong behaviour. For example, a target of zero customer complaints could result in managers hiding customer issues, calling them different names and generally keeping problems off the visible agenda. This is clearly not a good basis for continuous improvement. In this instance the KPI has the wrong target. Bad KPIs can drive unwanted behaviour (as in the example) and they can pass problems from one part of the company to another (as with sales promising impossible delivery dates to secure orders).

Make sure KPIs do what you need them to do, even if it means adding more to provide balance.

Review the KPIs regularly

What is right for the business now might change in the future. The focus for the company might change, for example, from consolidation to growth or through the introduction of new products or services. Make sure the KPIs in the business maintain their alignment with the rest of the company model; goals, objectives, strategy and processes. Never be afraid to add, change or delete KPIs.

