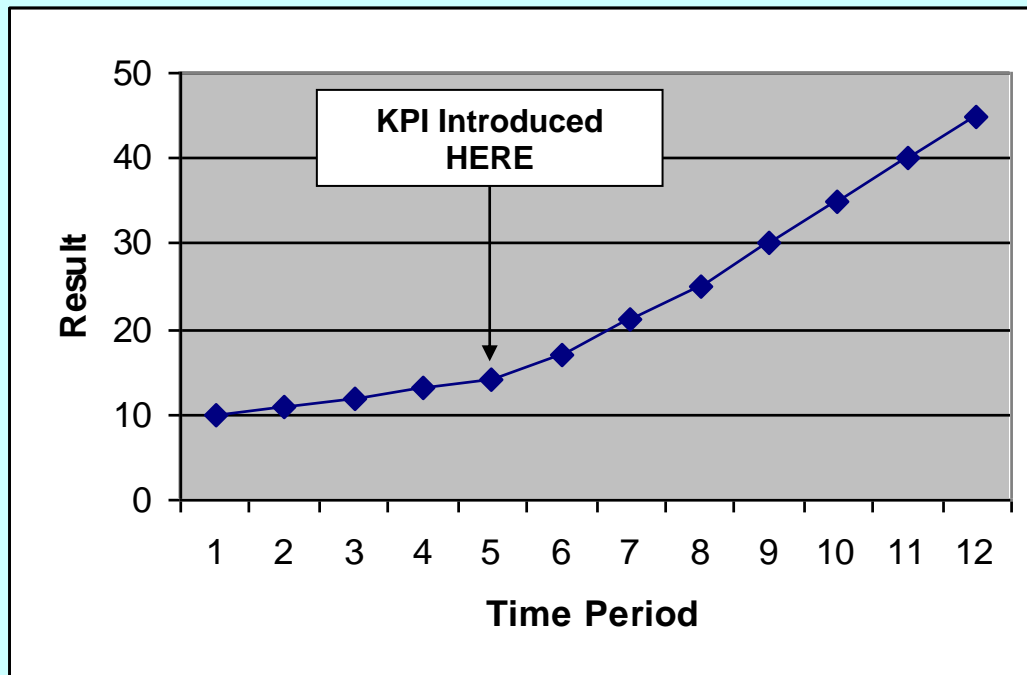


Business Strategy Management With KPI.

The book that helps you find the right Key Performance Indicator (KPI) definition, the right KPI reporting, so you can act and deliver on those business strategies.



By Mike Sondalini

Business Strategy Management With Total Clarity

The right Key Performance Indicator (KPI) definition, the right KPI reporting, and how to act and deliver on those reports.

A Key Performance Indicator (KPI) is a powerful business tool. With a KPI you can manage difficult and complicated situations easily, with clarity of purpose and effort. With them you can direct the performance of corporate giants, large and medium sized businesses, small businesses, not-for-profit organisations, workplace groups, and the people that work in them.

You can read the story of how a great industrialist used KPI's to manage a multi-national conglomerate to deliver outstanding share growth performance year after year. Managing with KPI's works and it works wonderfully well when done properly.

This book shows you how to create KPI's that suit your operation and organisation perfectly. You will learn where to use KPI's, when to use them, how to find the information you need to track a KPI, how to present them and how to manage to them.

There are KPI's for all situations. Anywhere a task needs to be done to deliver a result, you will be able to find and introduce the right KPI to boost performances and results.

Your people and teams will like working to KPI's. They will see the effects their work produces and they will have a target to strive for. Using KPI's to focus effort and clarify goals will become normal and natural for you as you apply the successful techniques and methods covered in this book.



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1. Purpose of Key Performance Indicators

There is a story about a great industrialist that wonderfully explains the purpose of key performance indicators. The story goes that after years of building his business he was interviewed for a national magazine article. The business was performing at world class levels and had been delivering average annual returns of 23% for the last eight years. It was a truly outstanding financial result.

The journalist asked the industrialist how he had maintained such a powerful business performance for so long. The industrialist explained his simple methods.

During the years, as the business grew through both acquisitions and organic growth, more operations and businesses were added to the portfolio. In time the business became a major multi-national company with significant presence in the stock market. Clearly he could not be everywhere at once to guide the many business managers now needed. It was necessary to develop a system to keep him in control, while providing direction to the organisation and its thousands of people.

Through continuously testing business performance measures he settled on eight KPI's suitable for the organisation that he tracked each hour on his computer screen. These eight KPI's allowed him to run the entire conglomerate from his office. It was said of him that he would know within half a day if there were any problems in any of his businesses by reading the KPI graphs on his screen. If the trends were not right he would follow-up the problem with his managers till it was favourably resolved.

Such is the power of Key Performance Indicators. With them you can proactively identify problems, provide direction and focus, measure performance and identify the necessary corrective actions.

Use them to measure the effectiveness with which a strategy or change is being implemented.

2. When to Use KPI's

KPI's are used to monitor change. They reflect the efficiency and effectiveness of the conversion process from inputs to desired outputs.

Throughout this book 'process' means the series of organised tasks needing to be done to accomplish a result. It is used to represent every situation where work is performed to deliver a product or service. Figure 1 represents a process as a series of sequential steps undertaken to complete a job.

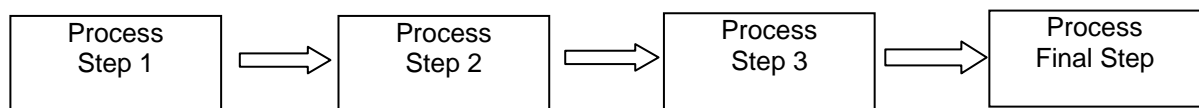


Figure 1: Steps in a Process

Any time that you want to measure changes in a process, be it a business process or an industrial process or some other type of process, it is appropriate to track it with a key performance indicator, or even a number of KPI's.

The use of a KPI allows the outcome of a process to be monitored and trended. The actual process performance can be compared against its ideal performance, or required performance. This permits identification of any discrepancy between what is wanted and what is actually happening. Once recognised, a negative discrepancy can be investigated and rectified if necessary. A positive discrepancy can also be analysed to learn what are causing the good result and whether the better performance can be retained and made standard practice throughout the organisation.

There is no limit on the range, scale, timing and use of KPI's. They can be used to measure the results of a single step in a process, right through to evaluating the complete process itself. As the industrialist previously mentioned found to his great success, the use of KPI's can be extended to controlling complex, multi-national operations regardless of place or time.

3. Why Use KPI's

When an outcome is monitored and trended with a KPI, the resulting figure tells you the process performance effectiveness. The KPI should be an accurate, honest reflection of the process efficacy in delivering the outcome. With a reliable KPI measure of performance the effect of a change made to a process, or a new strategy implemented, is then reflected in the KPI results produced. The KPI will echo if the change improved the result, did not affect the result or made the result worse.

Once the effects of a change can be monitored reliably, repeatably and accurately by KPI it is reasonable to use the KPI as a tool to improve ongoing process performance. Simply introduce the test change into the process and monitor its effect with the KPI. Keep those changes that work and discard those changes that do not produce suitable results.

A KPI can offer many perspectives on an event. It can permit intense focus and scrutiny, it can detect changed conditions, it can score performance, it can indicate a change from plan, it can detect potential problems and it can drive improvement.

Focus

A KPI can be used to closely monitor the results of actions.

When it is not certain that a result is due to a specific set of plans and actions it is useful to introduce KPI's to detect and track what is happening. KPI measures that are thought to be appropriate can be trended over a period of time, and in different situations, to see if they in-fact highlight the relevant factors that are truly important to the successful outcomes from the actions.

Change

A KPI can track the effect of making a change.

If a change is made to a process how is one to know it has been a useful change. This is when an appropriate KPI, or a series of KPI's, can be used to prove that a change has been beneficial. If

in fact the change has made matters worse, then the KPI's will prove it and things can either be changed back to what they were or further changes are introduced and tested.

Score

A KPI can act as a means to measure progress toward achievement.

Often the organisation's aim is simply to gradually improve what is being done. In such cases the current performance becomes the base line for improvement and all future performances aim at being better than the last result.

Track

A KPI is also ideal to use when set targets are to be met.

When a target is set it becomes critical to track the efforts used to meet the target. Suitable KPI's are put into place to monitor the effects of the organisation's processes on meeting the targets.

Detect

A KPI can proactively warn of future performance.

In every organisation there are people who are aware of the 'danger signs' that forewarn of future problems. These indicators can be made into KPI's and purposefully tracked and monitored to prevent and reduce the risk of future failures.

Improve

A KPI can drive continuous improvement.

Where organisations have several similar operations it is valuable to introduce identical KPI's into each workplace. This allows comparisons between groups. One group will always outperform the rest. Once that group is identified, investigate why it outperforms the rest and introduce its methods into the other operations. In this way the KPI system is used to continually improve the organisation as a whole.

4. Which KPI's?

The choice of a KPI is dependent on the perspective you want to investigate.

The industrialist mentioned at the beginning of the book was concerned to detect changes early so that he could make corrections before poor performance impacted on business returns. The KPI's he used were chosen as a proactive warning device. He would have selected data generated very early in the business process that reflected complications and losses that would result later in his business' processes if they were not corrected.

It is equally valid to use KPI's that reflect the issues that caused a problem after the problem is present. In this case the KPI is used to fault-find and highlight trouble spots so they can be addressed and removed from the process. By removing process problems efficiency improves.

The perspective taken when wanting to develop a KPI dictates to a great extent the KPI's to use, including what their constituents need to be, when in the process they are to be measured and how they will be used to control performance.

KPI's need to be relevant and meaningful to the performance being monitored. Do not try and draw 'a long bow' to infer conclusions not directly supported by the KPI results. It is better to find a more appropriate, believable KPI or introduce a KPI with the purpose of identifying and clarifying an uncertain situation than to guess a conclusion.

5. How To Develop Key Performance Indicators

Selecting the right Key Performance Indicator is critical to managing the desired performance. The KPI(s) must track the outcome(s) required. Equally important is to select the right factors, parameters or variables to be collected and monitored.

For example, if on time delivery to your customers is important a suitable KPI would be to measure 'Required Delivery Date' verse 'Actual Delivery Date'. It would be less useful to track 'Planned Despatch Date' verses 'Actual Despatch Date' since a product shipped when planned could go astray during transport. It could get to the client late. Yet the KPI based on Despatch Date would be acceptable, even if it was a terribly unsatisfactory result for the customer.

If however you were tracking the performance of the delivery contractor, then it would be appropriate to use both the Despatch KPI and the Delivery KPI to measure their performance. You could track the reliability of their service in picking up the item on time and in delivering the item on time. If they do not meet a satisfactory target you have proof of their poor performance with the KPI and can rightfully address the quality of their service with them.

There are four common methods used in selecting suitable KPI's measures and their constituents. These are the 'Input vs. Output' method, the 'Process Boundary' Method, the 'Results Focus' method and the 'Best-in-Class' method.

6. Input Vs Output Method

For direct conversion processes where an item is changed from one form to another it is common to measure numbers going into the process and the numbers going out. The difference reflects the efficiency and effectiveness of the conversion.

For example a KPI on electrical energy efficiency of a building's air conditioning system would measure electrical power into the system against the cooling capacity of the system. Such a measure would tell you how well the electricity you are paying for is used. Once you establish such a KPI you can trend day by day performance of the air conditioning system.

A diagrammatic example of the 'input vs. output' approach is shown in Figure 2. In the diagram multiple inputs enter the process and multiple outputs are delivered. A KPI could be developed for each of the conversions.

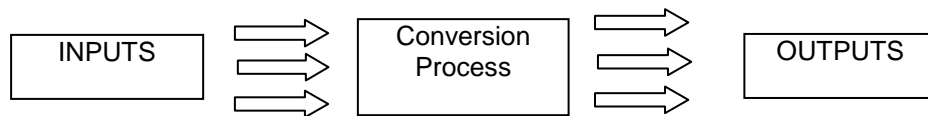


Figure 2: Multiple Inputs Are Converted To Multiple Outputs

In Figure 3 multiple inputs are converted to a single output. In this case multiple 'input vs. output' KPI's can measure the effectiveness of individual conversions in the process.

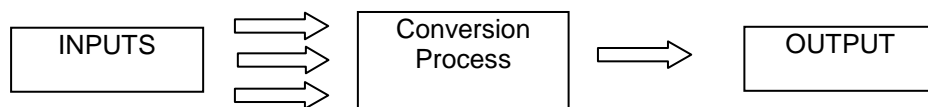


Figure 3: Multiple Inputs Are Converted To A Single Output

As a secondary benefit, the KPI's from an 'input vs. output' measure provides you with a benchmark to rate all other equivalent systems. Once you know what your current system performance is, you can then investigate other systems to see if they are better than the one you have. The other systems maybe within your organisation or they maybe competitor's systems.

When you find a better performing system you can recognise it and look to see what has made the difference between your system and the other. You can then make a decision based on solid facts whether you want to change your system to match the better system, or adopt the other system outright.

The 'input vs. output' approach has the intention of driving process improvement to use existing resources better. Once you can reliably and accurately measure the efficiency of a conversion you have a 'tool' to experiment with changes that will further improve the process.

7. Process Boundary Method

A business or industrial process can be represented on paper as a series of progressive steps linked one to the other in a pattern. An example is a process logic flow chart for a manufacturing plant, or a flow diagram for the processing of accident insurance claims in an insurance company.

Once the process is drawn on paper a boundary can be put around the steps that are to be monitored. KPI's are then selected that reflect what materials, documents or other inputs cross into the boundary region versus the materials, documents or outputs that come out of the boundary region.

If there are no formal diagrams of your organisation's process flows they will need to be created. It simple requires that people who know the various parts of the operation well sit down with pen and paper and flow chart the process. As the process is developed on paper include the various inputs and outputs from each phase to the next. Once completed by hand the flow diagrams can be drawn up and made an official company document to be kept up-to-date.

The process boundary approach typically results in multiple KPI's. The majority of business, organizational and industrial processes requires several key factors to be addressed at the same time. It is unlikely that one KPI alone will be sufficiently sound and robust to alone reflect all the factors affecting the process. By using multiple KPI's it is possible to measure the performance of individual factors and identify their individual effects on the performance of the entire operation.

Figures 4, 5 and 6 show how the process boundary method is applied in a variety of ways. It can be used to measure an entire process or the individual steps within a process.

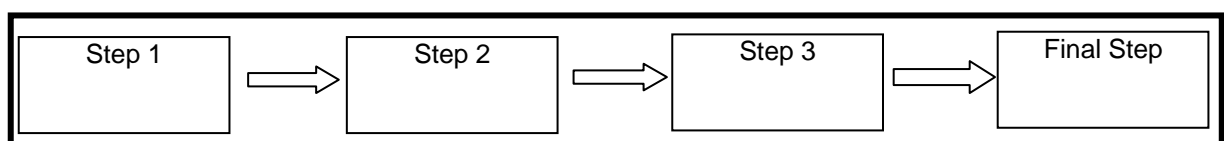


Figure 4: Process Boundary Applied Across An Entire Operation

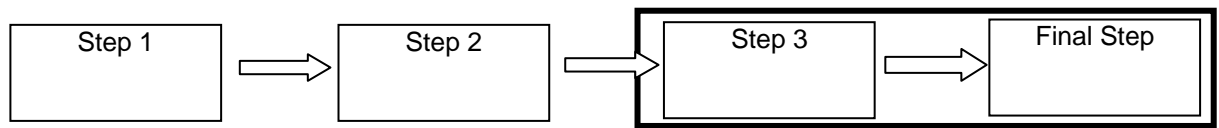


Figure 5: Process Boundary Applied Across Part Of An Operation

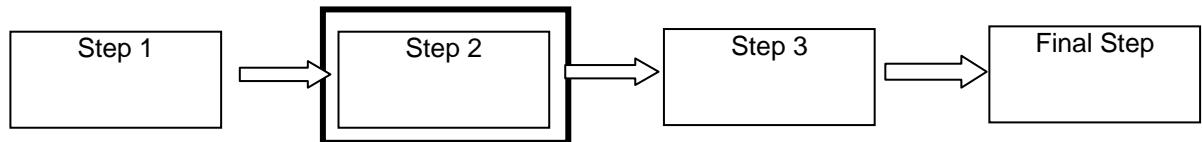


Figure 6: Process Boundary Applied Across A Step In An Operation

The Process Boundary Method is ideal for comparing process changes, or procedural changes, to evaluate their effect against another similar process. Figure 7 shows two processes being compared by using the same KPI. One process would typically be the 'control' and the other process would be the test case to which the change would be done.

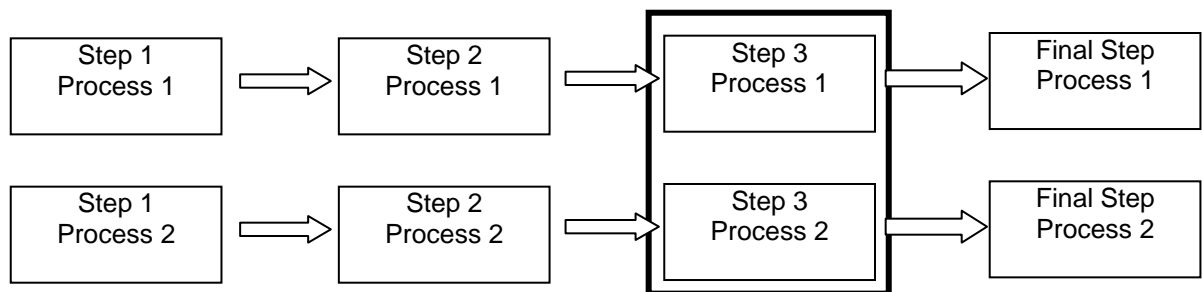


Figure 7: Using Process Boundary Method Used To Compare Across Processes

Many business organisations already have their processes laid-out in step fashion in their quality system documentation. Most manufacturers have their processes laid-out in drawings. It is a simple matter to get copies of those documents and draw the KPI boundaries you want to measure.

Once the boundaries are set the various inputs and outputs into and out of the boundary available to be used in KPI's are also specified and defined by default.

Often the multiple KPI's can be combined into one 'global' KPI that more simply represents the entire group's performance. An example of a 'global' KPI often used to measure manufacturing equipment performance is 'Overall Equipment Effectiveness' (OEE).

OEE combines KPI's that measure production quality, production throughput and time available for production. The one measure blends the effects of the three individual factors into one number that reflects how the entire operation performed. The full KPI for OEE is shown below as an example of a single number that reflects multiple factors in an operation or process.

$$\text{OEE} = \text{Availability} \times \text{Performance Rate} \times \text{Quality Rate}$$

Availability - Percent of scheduled production (a measure of reliability) or calendar hours 24/7/365 (a measure of equipment utilization), that equipment is available for production.

$$\text{Availability} = \frac{\text{Hours equipment was available to be used in the time period}}{\text{Total hours for the time period}}$$

Measures the equipment uptime (actual production time) divided by the time that the equipment could be used (usually total hours of 24-7-365) as a percent. It is also another measure for equipment utilisation. Along with determining this KPI it would also be necessary to record the causes of the losses and their frequency of occurrence. Each of the causes can then be analysed and plans put into place to address how they can be totally eliminated.

Performance Rate - Percent of parts produced per time frame, of the maximum Original Equipment Manufacturer (OEM) rated production rate. If the OEM specification is not available, use the best known consecutive production rate over a four-hour period.

$$\text{Performance Rate} = \frac{\text{Actual production output in the time period}}{\text{OEM rated production output for the time period}}$$

Measures the percentage of available time that the equipment is producing product at its theoretical speed for each individual product. It measures speed losses regardless of cause (E.g. inefficient batching, machine jams). Along with determining this KPI it would also be necessary to record the causes of the losses and their frequency of occurrence. Those causes can then be analysed and plans put into place to address how they can be eliminated.

Quality Rate - Percent of in-specification parts out of total parts produced per the time frame.

$$\text{Quality Rate} = \frac{\text{Number of parts in specification for the time period}}{\text{Total number of parts produced in the time period}}$$

Measures the percent of the total output that is good. Along with determining this KPI it would also be necessary to record the causes of the waste and the frequency of occurrence. Each of the causes can then be analysed and plans put into place to address how they can be totally eliminated. It is necessary to address all product quality losses, including those due to production, handling, engineering design, etc that produced rework and scrap, otherwise no improvements will be permanent.

OEE Example: Availability (0.5) x Performance Rate (0.8) x Quality Rate (0.9) = 36% (which is a terrible result when compared to the world-class benchmark of 90%)

A KPI like Overall Equipment Effectiveness becomes a benchmark target that is used to:

- focus on improving the performance of machinery, plant and equipment already owned.
- find the areas for greatest improvement to provide the greatest return on asset.
- show how improvements in the process, such as changeovers, quality, machine reliability improvements, working through breaks, etc, will affect your bottom line.

8. Results Focus Method

This method requires that a target be set which becomes the goal for the individual, workgroup, department or organisation to hit. The target is the required result. By implication it becomes necessary to make whatever changes are required in the existing processes, and methods, needed to hit it.

When a specified performance output is to be met, it is then used as the benchmark against which actual results are measured. This approach focuses on achieving a set target by intentionally forcing change to happen.

The results focused approach is very powerful, as it sends a clear signal that all past practices are open for review if changing them will lead to achieving the result.

It is often used in sales departments when quotas are set for product sales. It is also seen in operating departments when production targets or quality targets are set. The target becomes the least acceptable result and the ongoing performance is tracked with the KPI.

Implicit in the results focused approach is the need to question what must be done to the current process to hit the target. If a target is not being met using the current process and systems then changes are required that will produce the intended results.

The results focused approach can create harsh and stressful work environments if it is badly managed. Yet, if well managed, it can introduce inspiration and adventure into the workplace.

9. Best in Class Method

This approach for determining KPI's is relatively simple. You only need to find the KPI's presently used by the best organisations in the industry and adopt them for yourself.

The one difficulty may be establishing systems within your operation to provide the data needed to measure the KPI's. Typically 'best in class' organisations have already gone through significant changes by monitoring their KPI's. In using the same KPI's they now use you will need to provide identical information to have equivalency of comparison. This may necessitate introducing changes to your existing process so that the information is in a form that lets you compare your business against the best in your industry.

The 'best in class' KPI's provide encouragement to employees and managers since they already have an example of a successful operation using them. All that they are required to do is catching with a better operator. This makes introducing changes much easier and clearly justifiable.

10. Good KPI's – Bad KPI's

A good KPI is believable and reflects the true situation completely in all circumstances. A bad KPI is one that can give you a false impression.

For example a KPI that measures actual results against planned results is rife for manipulation and the presenting of falsehoods. An example of a 'bad' KPI is shown below.

$$\text{Percentage Planned Production Completed} = \frac{\text{Production Completed in the Period}}{\text{Total Production Planned in the Period}} \times 100$$

It is easy to get great results with this KPI. All you need to do is not plan to do a lot during the time period involved. Results close to 100% can be virtually guaranteed. This KPI will eventually be manipulated to make the manager happy.

Try and select KPI's that will only deliver the facts and the truth. Where 'bad' KPI's must be used because of the circumstances, include additional KPI's that prove the veracity and robustness of those KPI's that can be manipulated to present a false 'picture' of the situation.

With the 'bad' Percentage of Planned Production Achieved KPI example above, it is necessary to have a KPI which also measures the production load to check that the planned production does in fact load the facility up to full or 'name-plate' capacity. With both measures presented together it would then clearly indicate how well the production equipment was actually being utilised, as well as how well the operation was being run.

11. Gathering and Collecting Information for KPI's.

Part of selecting a KPI management measure is to identify where the ongoing performance data will come from, how it will be collected and when will it be collected. If the data is not currently collected then someone will need to be appointed to gather it and provide it in a suitable form to be used.

Along with determining a KPI it is absolutely critical to record the causes of discrepancies and problems and the frequency of their occurrence. The purpose of a KPI is to highlight a problem and decide if it needs to be removed. The problems and their effects must be captured so they can be quantified and the cost impacts determined. Each of the causes can then be analysed for their impact to the operation. Then plans based on a problem's priority and urgency can put into place to address how it can be totally eliminated.

The clerical function of compiling data is usually delegated to a lower level employee. It is critical that they are given the time to properly collect the information, collate it correctly and believably, then provide it in a usable form to put straight into the KPI.

Creation of numerical data is usually easy, as numbers and dates are usually required on many reports in most organisations. Collating the data into a usable form can be expensive and time consuming where no such systems presently exist. Where completely new data is required, a great deal of planning and preparation will be needed to introduce the new data collection requirements and methods into the current work processes.

Because of the disruption and start-up errors that will occur it is ideally preferred to work with the data now available in the operation. However, if the importance of the data is critical to the future success of the organisation, then its inherent value justifies making whatever changes are necessary to allow the collection of the relevant information.

To reduce the use of people's time recording and then finding the data later, introduce computerisation into the lowest level of the organisation from which the data is derived. By computerising data collection it becomes quicker and simpler to gather and interrogate the data.

It also allows various reports presenting different information to be developed from the same records.

Data Integrity

The data you use in KPI's must be unquestionably correct. Collecting data is easy. Collecting data that is a true reflection of what actually happened is much harder. And collecting data that you would stake your reputation and career on is the hardest of all to do consistently.

It is critical to insure that the information being collated is that information which is to be used in the KPI. Collecting the wrong information is a complete waste of time, people and money.

The issues of data integrity necessitates that the managers using the KPI specify exactly what information is to be gathered and how it is to be displayed. It is not a clerk's role to insure the KPI information to be used is the correct one in the first place.

It is the manager's responsibility to set up the KPI system and define the parameters being measured and the base data needed to develop the KPI. The clerk is only responsible to follow the specifications and requirements put in place by the manager.

Industry Data

KPI's that are trended against benchmarks require a benchmark to be established. The benchmark figures can often be found from industry and corporate bodies or professional organisations. Another source can be bureaus of statistics or recognised data collection organisations.

Best in Class Data

When organisations are striving to improve themselves and move toward best-in-class performance it is necessary to know what best-in-class results need to be. You can look for such standards from consultants in your industry. Those consultants with long and broad experience in the industry will know what world-class performance results need to be.

Occasionally the best in class measures are available at an industry conventions and presentations. Usually copies of white papers are made available after the presentation. Other avenues to find best-in-class benchmarks include industry magazine articles.

Depending on how serious and critical the situation is, it may be possible to head-hunt a competitor's personnel to join your organisation.

Self-Developed Data

In many cases the use of KPI's is intended to simply improve future results without reference to external parties and benchmarks. In that case you must develop KPI's which use existing data available to the organisation. If no appropriate data is present then it must be developed and new collection methods and reports must be put into place.

Frequency of Data Collection

How often do you need to see the KPI's? Your answer that question will define how much time and resources to put into developing your KPI system and its reporting requirements. As much as possible computerise the data collection and the data interrogation.

KPI's with a time component will require a collection frequency to match the time parameter – fractions of a second, seconds, minutes, hours, days, weeks, months and years. The amount of data generated for time related KPI's is proportional to the reporting frequency and needs suitable storage capacity and resources to develop the associated reports and charts.

12. Presenting KPI's

A KPI can be as simple as a single number, through to multiple lines on a graph or strings of results in a table. KPI reports can be a single page in length, through to a substantial multi-page document.

Human beings receive most sensory data through their eyes. Our brains are excellent at detecting changes and variation. The brain can handle only 5 or 6 pieces of information at one time. These natural traits make graphic formats using colour, contrast and clarity preferred to using numerical lists. Where possible it is best to present KPI results in a graph.

As well as showing the current KPI being reported the presentation must also show either historical trends or the benchmark target to be attained. It is only by comparing the reported value against a known performance that a true comparison of achievement can be made.

Below are three graphs showing different ways to present KPI trends.

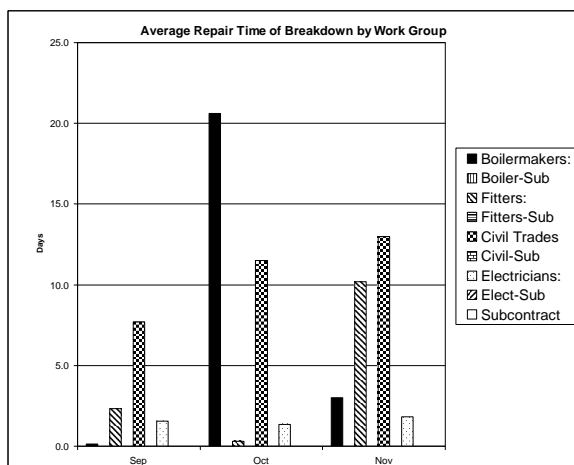


Figure 8: Bar Chart of a Long-Term Continuous Improvement Initiative

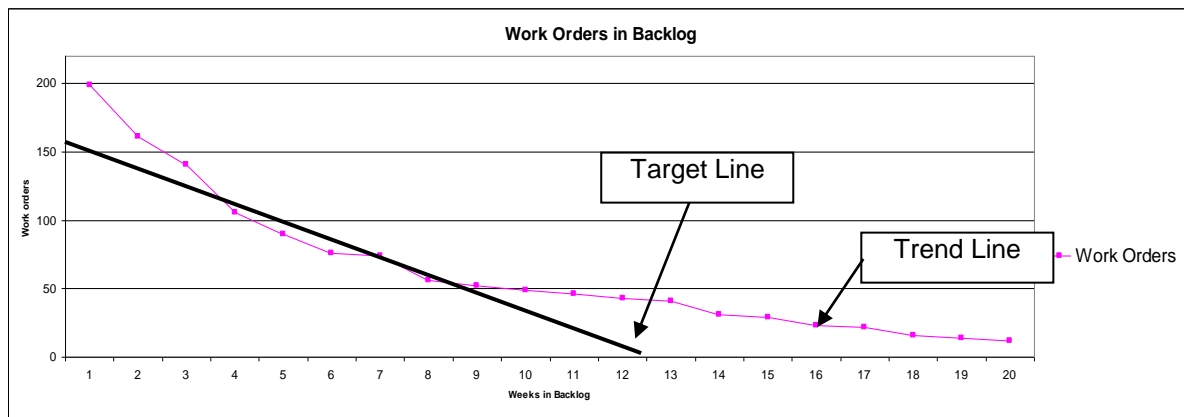


Figure 9: Trending Graph Showing Current Performance Against Target

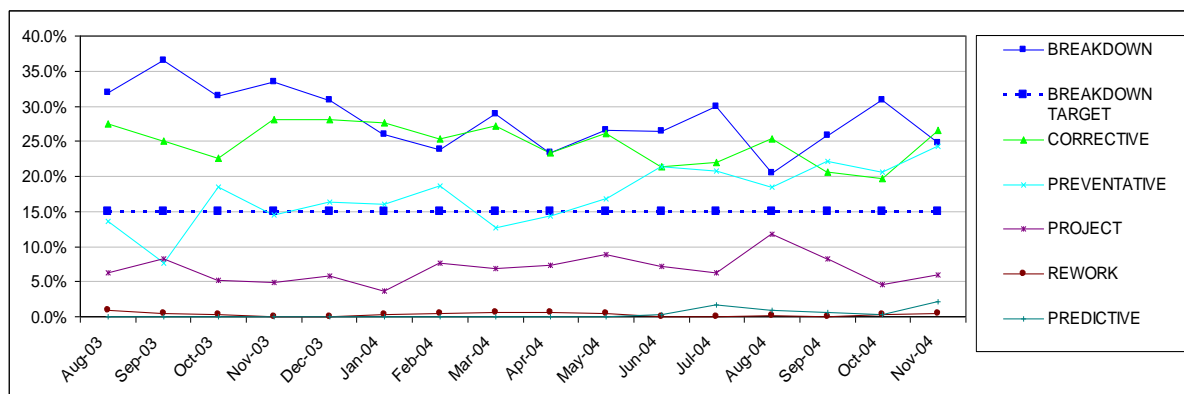


Figure 10: Trending Graph Showing Multiple KPI's On One Graph Including Important Targets

Mathematically, a KPI is often a ratio of one number over another number, though it does not need to be. A single numerical count, or the recording of a completed number of actions, is suitable for many situations.

When written as a ratio, the KPI compares the current result against a previous result or a set target. The previous result, or the target, is the denominator and goes on the bottom line of the ratio. The current result is the numerator and goes on the top line of the ratio. Below is the typical way to calculate a ratio-type KPI.

$$\text{KPI ratio} = \frac{\text{Current result}}{\text{Previous result (or set target)}}$$

13. How to Use KPI's

Key Performance Indicators trend performance. Performance is the result of actions taken. And actions are the result of decisions made. You use KPI's to either help people make decisions or to check on the effect of the decisions people have previously made.

A KPI will tell you if the decisions taken and the subsequent actions have produced a change. Hopefully the change has been beneficial.

KPI's can be used to aid in improving the decision making of all your people. Once a KPI is presented it should be made available to all persons who can gain benefit from knowing the result. People will self-correct and adjust their practices based upon the KPI. It may require some time for some people to change their work methods and practices based on seeing a KPI. It is necessary to continue pointing out that no beneficial change has yet occurred and that is unacceptable for the future wellbeing of the person, workgroup, department or organisation.

If the result is not an improvement then your people will take that to heart and begin looking for ways to better the result next time. This will require encouragement and the opportunity to discuss ideas that will bring about improvements. Make time to let everyone affected by the need for change to be involved in deciding how to make the change. If they are not involved they will unconsciously block the effort of others. This approach will get commitment and acceptance from all. It will also be the quickest way to find a good, lasting solution to the issues.

If the result is on or above expectation then your people will see it as an endorsement of their efforts and want to continue, and even improve, what they do. Reward people for the progress they have made.

14. Introducing KPI's Into the Workplace

When KPI's are introduced into a workplace it is necessary to explain their purpose, the workplace changes that may result from them and the input required by the people in the workplace to collect them and manage to them.

People will have a natural concern with changes in their workday and workplace. Most people want to see improvement and will accept changes that they believe will help the organisation or themselves. When introducing KPI's talk about the improvements and benefits they will bring.

Anytime there is hesitation with the use or introduction of KPI reporting it is best to request a trail period, after which a final assessment will be made to their continued use. The trail period should be a minimum of six reporting period's duration. By then people will have been through the introduction phase and are starting to realise the value of the KPI.

Privately, openly, truthfully explain to each person impacted by the KPI, whether collecting the data, analysing the data or managing by the KPI, the specifics of how the KPI will be used and the effect it could have on them. You want their acceptance and support in using the KPI and you will most likely get that if they are fully aware of how they are impacted by it.

Realise that KPI's will cause changes in people's behaviour. Reward the good changes and the people who lead them. Reward the group if success was a group effort. Be fair in your reward and spend according to the benefit the change has brought the organisation.

Bad behaviours will also need to be identified and their effects made public so that all can learn from them. Do not publicly punish the individuals involved in poor behaviour or performance, they need to be dealt with privately using support and encouragement and training to develop the appropriate behaviours.

15. Managing Performance With KPI's

Once a KPI is in use there will be people responsible for its attainment. A KPI reflects performance. Some people will be affronted by fear of under-achievement while others will see the KPI as a challenge to strive for. The proper use of KPI's is not to cause pain to people but to help them to find ways to improve the process they are in charge of so that it produces the required results.

KPI's bring a means to measure the effects of actions performed in a process. If the actions do not deliver the required results then they are scrutinized and reviewed to determine what part of their performance was not effective. Once issues are identified an action plan with time limits and individual responsibilities is put into place to rectify the situation.

Without KPI's monitoring a process, the process is not under control. A process can be horribly inefficient and ineffective, terribly costly to the organisation, but continue being performed because there are no measures in place to judge the worth of its results.

KPI's provide a check on progress, they provide direction and they provide data to make sound decisions. KPI's purposefully feedback and feed-forward critical information in a timely manner to address bad effects of changes in a process.

Personal KPI's

When KPI's are used to manage at a personal level their purpose is to focus and boost individual performance. For the KPI to be seen as valid, the parameters used in the KPI must under the total control of the individual.

Typically parameters such as time, throughput, quality, frequency, accuracy, cleanliness, safety, time keeping, etc are the responsibility of the individual. By selecting suitable KPI's the individual can be made aware of their level of performance and whether it meets the necessary standard.

Work Group KPI's

KPI's applied to a work group are used to focus the group on working together to achieve a suitable level of performance. They act to promote team work and higher efficiency amongst team members.

Department KPI's

Departmental KPI's typically are about efficient and effective use of available resources. They are used to highlight opportunities to improve and streamline processes.

Organisational KPI's

At the organisational level KPI's are aimed at meeting stakeholder requirements and corporate goals. Organisational KPI's can be a mix of financial, community, governmental and operational measures that track performance against set targets.

At this level of a business the KPI's reflect the entire organisation's performance. The KPI's are a compilation of many factors and influences. A good organisational KPI would be structured so that it is subdivided into its components. These components would themselves be constructed to allow further breakdown and analysis. By delving deeper through the make-up of the KPI it should be possible to highlight the problem factors and isolate them for closer investigation.

Each department, workgroup and individual should be producing outputs in-line with the organisation's goals. If they each have KPI's to achieve that have been cascaded down from the highest levels of the organisation then alignment and focus is present throughout the operation.

16. KPI Alignment

To get the greatest benefit from using KPI's it is best to align them so that at each level in the organisation the KPI's act to direct and reinforce common goals and purpose. The KPI's should cascade down from Organisational, to Departmental, to Work Group and finally to the Personal level. In this way everyone works toward the same aims.

That does not stop the use of KPI's to detect problems and resolve them. KPI's of that form are often temporary, and only used until the issue is addressed. KPI's that drive an organisation are comparatively permanent and in use for many years. When an organisation's needs change the KPI's also change to match the new focus and direction.