Use KPI to motivate

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About the author

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1. What MIS reports *don't* tell managers that is important. For example, **they don't tell them much about where they are today, where they are heading in the near term, what is the trend and why is it occurring, how the results compare with peers (a far better context for performance evaluation than a budget) or what action they need to take to improve performance. In other words, financial numbers tell you the score but don't help you to play and win the game.**

2. Managers are lost in a fog of measurement. Instead of using information to improve decision-making, most use it to explain variances in the plan or budget and thus keep their noses clean and their jobs secure. The real casualty is learning and improvement.

3. Most measures and reports are used to reinforce the top-down command and control management model. Strategy and targets are set by the senior executive team and sent down the organization so that every division, function and department can set their own budgets based on these higher-level parameters.

4. The behavior expected of managers is compliance rather than creativity. **But, as many organizations are now discovering, this is not enough. They need far more from their people. They need more initiative, creativity, collaboration and leadership. But to switch on these behavioral drivers takes not only new rhetoric but, more importantly, a change to the *management model itself. Key changes include how targets are set, how performance is* measured and how people are evaluated and rewarded.**

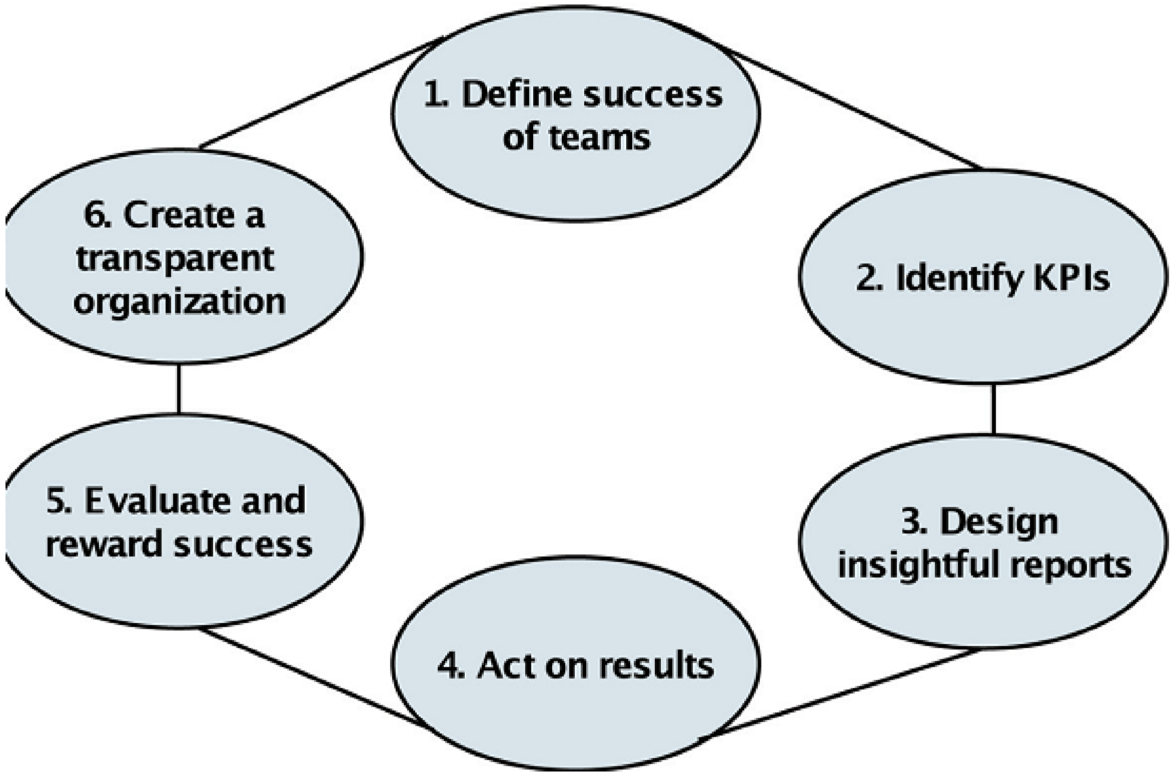
4. Since 1992 the 'scorecard' has become a popular supplement to the traditional accounting system. But it is *how* the balanced scorecard is designed and used that is the key to its success. Kaplan and Norton have always insisted that it should be used to change the management model by placing strategy (rather than the budget) at the core of the management system.

5. **Most measures and reports are used to reinforce the top-down command and control management model. Strategy and targets are set by the senior executive team and sent down the organization so that every division, function and department can set their own budgets based on these higher-level parameters. The behavior expected of managers is compliance rather than creativity.** Key changes include how targets are set, how performance is measured and how people are evaluated and rewarded. As the focus is on developing key performance indicators (KPIs), setting annual targets for each of them and measuring

performance against them rather than on developing strategy maps and generating strategic action plans that drive performance improvement. **In other words,**
the scorecard has been used as just another tool to reinforce the old command and control management model.

6. Professor Tom Johnson, co-author with Bob Kaplan of the seminal book on management accounting Relevance Lost (1987), once said that “the only way to ensure satisfactory and stable long-term financial results is to work on improving the system from which those results emerge.” Notes Johnson: “The fact that Toyota makes virtually no use of management accounting targets (or “levers”) to control or motivate operations is no doubt an important reason why Toyota’s financial performance is unsurpassed in its industry. **Toyota focuses its operations on continuous system improvement through endless rapid problem solving.” A well-designed measurement and reporting framework should also form the basis of a fair and equitable management evaluation and rewards system as well as drive the right ethical and value-adding behavior**

7. Figure 3: The six steps in a holistic, team-based performance measurement framework



Paper #2 – How to define team-based success and choose the right KPIs

Most organizations are trying to decentralize more decision-making, but their measurement and control systems remain top-down and designed for command and control. Decentralization and empowerment will not happen without radical changes in the measurement and reporting system. Most organizations are comprised of only three permanent types of team (executives, support services and value centers) plus a number of temporary project management teams. In most medium- to large-sized organizations value center teams (integrated teams that directly provide products and services to external customers, also known as business units or profit centers) will be grouped into geographic clusters such as regions or countries. It is around these four teams that measures and reports together with management evaluation, recognition and rewards should be based. In other words, teams are at the center of the information system. The key question that systems designers need to ask is 'what does success look like' for each team? This helps teams to identify the best KPIs. Defining success in a more holistic way is the foundation stone of an effective measurement, reporting and reward system.

Paper #3 – How to use KPIs to build insightful reports

Too many management reports are filled with irrelevant detail and lead to little or no action. They should be eliminated. In this paper I will describe how to use KPIs to provide insightful information. While individual KPIs are important, they rarely capture enough knowledge about what's happening to tell managers whether one or another success criterion is being achieved. Some companies are creating clusters of KPIs (called analytics) to bridge the gap between the need to have just a few 'actionable' metrics and deeper knowledge of what's going on. With the use of dedicated software, reports based on analytics can be made available on demand and provide managers with early warning signals as well as sufficient depth to tell them where problems are occurring and thus where action needs to be taken.

Paper #4 – How to use KPIs to evaluate and reward performance

Most performance evaluation and reward systems are based on a formula related to individual targets. But, as I have noted, more often than not this leads to dysfunctional behavior. In this paper I will suggest that leaders use KPIs to supplement a team-based management evaluation scorecard that encourages the right value creating and ethical behavior. In other words, KPI scores are used to inform and supplement a judgmental assessment related to the chosen key success factors (often using peer reviews). Take a finance team. Most finance teams are evaluated on how well they manage costs. But imagine evaluating performance based on these criteria: How well are we satisfying the needs of our business partners? How well are we managing our people? How well are we managing our costs? How well are we improving our competences? How well are we providing fast, relevant, error free reports? Few of these 'value added' evaluations are currently done in practice (though much work is done on transaction cost benchmarking).

Paper #5 – How to use KPIs to create a transparent organization

The number one complaint of most managers and employees is poor communication. No one tells them what's going on. Managers only see what they need to see to carry out their work. Much can be done with the measurement system to overcome these problems. In this paper I will suggest that leaders need to promote a more open and transparent information system that builds trust and enables empowerment. KPIs are at the core of this type of organization. Finance leaders also have a key role to play as teachers of performance measurement (a key element of becoming an effective business partner). In a transparent organization every team can see the performance of every other team. This generates peer pressure which is a key driver of continuous improvement.

Conclusion

With so many detailed reports appearing each month it is often difficult for managers to see with any clarity what is really happening. Too many spurious measures are clouding key issues. The CFO needs to bring measurement back under control and provide clear guidance about its meaning. Measures should relate to success criteria and be used to enable local managers to learn and improve. If, instead of using measures to control performance against a target, they are used to provoke inquiry and improvement, teams will begin to see how useful they can be. Liberated from the fear of failing to meet fixed targets, teams will learn to see measures as a friend that guides them rather than a whip that controls them. **They will start to use them to ask questions and drive dialogue about context, purpose, meaning and action. Leaders will see patterns and trends and feel confident to open up the information system to everyone who is able to make sense of it and contribute ideas and suggestions for improvement. The result is a more accountable and transparent organization.**

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