

**WINNING
WITH THE RIGHT
KPIs**

PETER GEELEN

IN COLLABORATION WITH LUC VAN SAS

To me, this book is a page-turner. It's a nice mirror for organisations of all sizes. The examples and struggles are very recognisable. A must for every manager who wants to put ambition on paper but also truly wants to realise it. You will be guided step-by-step to learn how the organisation can work in teams on real improvement.

Leonard Geluk, Chairman of the Board of Directors
of The Hague University of Applied Sciences.

TABLE OF CONTENTS

INTRODUCTION 9

1	DON'T MAKE A FALSE START WITH YOUR KPI PROGRAMME	15
2	DAILY DELUSION RULES YOUR ORGANISATION	21
3	LESS IS MORE	27
4	A KPI LIST IS USELESS	33
5	THINK IN CUSTOMER CHAINS AND PREVENT 'ISLAND THINKING'	39
6	IS PLANNING & CONTROL BECOMING OBSOLETE?	45
7	KING-SIZE PERFORMANCE INFARCT	51
8	THE MANAGING DIRECTOR INTERVENES	57
#	AVOID THE 5 PITFALLS OF THE TRADITIONAL KPI STRUCTURE	63
9	GETTING STARTED WITH DREAM AND GOAL (THE 'WHY' AND 'WHAT')	75
10	GETTING STARTED WITH CUSTOMER CHAINS (THE 'HOW')	85
11	CUSTOMER VALUES AND INTERNAL VALUES	93
12	LINK PROCESS KPIs TO RESULT KPIs	99
13	COMPREHEND YOUR PROCESS BEFORE DEFINING THE OTHER PROCESS KPIs	107
14	SEE THE FOREST AGAIN THROUGH KPI TREES	115
15	KPI BUTTONS YOU CAN TRULY PRESS	123
16	THE RIGHT CHART INSPIRES THE RIGHT BEHAVIOUR	131

- 17** PUSH VERSUS PULL **137**
- 18** WHO MANAGES WHAT? **141**
- 19** THE PERFORMANCE REVIEW CAN START **149**
- 20** DAILY DELUSION NO LONGER RULES YOUR
 ORGANISATION? **157**

APPENDIX: eHOMES ORGANISATION CHART **165**

ABOUT THE AUTHOR **169**

INTRODUCTION

Organisations expect to perform better when they implement Key Performance Indicators (KPIs). In practice, however, this is disappointing. I myself have experienced how KPIs can have a negative impact on the performances of employees, teams, and even the organisation as a whole. Negative effects that are caused by making false starts in the design and the use of KPIs. The biggest mistake made is translating the indicators using the organisation chart. Within organisations, islands are created that do not cooperate with each other. KPIs evolve into control instruments that encourage undesirable behaviour, and it ends in a big accountability mess that no one wanted.

I was bewildered by these mistakes and, in response, I developed a new performance management approach in early 2000, an approach that I have called integral Performance Management (iPM®) and in which setting up a well-functioning KPI structure is an important starting point.

In earlier publications I explained how the iPM method works in practice. iPM is an integral approach with a lot of attention to process improvement, team development, leadership, and collaboration. KPIs form the foundation. In this book, we reveal this foundation and guide you through the correct design and use of KPIs. With a case study (see the appendix for the organisation chart) and practical examples, you will see why KPIs do not generally deliver what is expected of them and you will learn how it can be done differently. Following the tips and tricks, you will create a winning KPI structure for your organisation. Based on this structure, we will show you how you can effectively manage and improve with KPIs that do not prevent but rather encourage collaboration.

This book is of interest to everyone who must deal with KPIs (and who isn't dealing with KPIs nowadays?) in both public and private organisations, whether you are a director or manager who wants to manage more effec-

tively or a colleague who wants to demonstrate that things can be done differently. It will also be of value to those who want to know more about how to start an iPM programme.

My mission is to make organisations perform better. I expect that this book will contribute to that goal. It was written in collaboration with my colleague Luc van Sas. I also would like to thank my daughter Sanne, my colleagues Fred Vijvers and Joost Bijlsma for their positive contributions. I would like to express special thanks to the directors and executives who helped to shape this book.

I am convinced that your organisation will be more successful through a KPI structure based on iPM that stimulates collaboration.

Peter Geelen
iPM Partners B.V.

This easy to read book explains clearly why organisations encounter problems turning strategy into reality and what an important role performance indicators play in this transition and implementation. Pleasant and important reading for anyone who doesn't want to get caught up in the daily delusions and does not want to lose sight of the customer!

Rob Scholte, former Executive Board and Board Member at Metro, Goodyear, Nestlé, and Unilever.

DON'T MAKE
A FALSE START
WITH YOUR KPI
PROGRAMME

1

1. DON'T MAKE A FALSE START WITH YOUR KPI PROGRAMME

It's Thursday and the eHomes management team will convene in ten minutes for the weekly meeting. Vince, the general manager, isn't happy with yesterday's kick-off. The launch of the KPI programme was not well-received. That's annoying, because the management team worked hard on the new strategy for several months and everyone seemed to be on the same page.

eHomes has achieved a number of technical breakthroughs in the past two years. A leading position in the market is now a real possibility. The organisation has the technology at its fingertips to create an intelligent home for everyone. The latest technology makes it possible to create the house of the future and rebuild existing houses at affordable prices. That's a genuine breakthrough and that's how the company can differentiate itself from the competition. The new direction and ambitions are summarised in the strategic plan for eHomes for the next few years.

In order for all employees to be part of the new strategy, the management team decided to start a programme. 'If we want to get 250 people aligned on the new course, we have to measure whether we are making progress', was the idea. 'Let's use KPIs for that. Translating strategy to the work floor, right? Translating the new ambitions into tangible objectives and KPIs. Making performance transparent and creating focus.'

The management team was unanimous about who should lead the KPI programme. That was Martin, the Financial director. When it comes to numbers, he's your guy and he also takes care of the financial key figures.

But Martin quickly ran into problems during the kick-off session. It was not clear to employees why the management team started the KPI programme and Martin was not able to explain it very well. He had no good answers for questions like: ‘Why do we need KPIs? We’re already transparent!’ and ‘I tell you everything you need to know, and if you think I’m not doing it right, you just ask me’.

Food for thought. Management had to come up with a different pitch.

The example of eHomes is by no means unique. Managers develop an adapted or new strategy. They start an implementation programme and want to monitor progress. The objectives and ambitions at the strategic level are translated to the work floor. They need clear information with which they can manage and improve the organisation. This management information should visualise how things are progressing. It gives management the possibility to press the buttons when things go wrong. When management information is focused too much on its financial performance, many organisations must start to measure other things, using Key Performance Indicators (KPIs).

Organisations that want to work with KPIs can choose from various methods for implementing KPIs and translating them to the work floor. But: What would really work? How do you define the right objectives and KPIs? What buttons can you really press? And how to foster enthusiasm among employees and improve the way departments cooperate?

In any case, your KPI programme – i.e. bringing your strategic objectives and ambitions to life – does not start with KPIs and words such as transparency and focus. Consider objectives and KPIs as the means to get where you want

1. DON'T MAKE A FALSE START WITH YOUR KPI PROGRAMME

to be. Your goal is not to have KPIs, your goal is realise the new ambition and the dream of your organisation. The 'why' according to Simon Sinek (2011) or the profound underlying 'purpose'. Start your KPI programme, or any type of programme you can come up with, with the dream behind it and the change that is needed to realise the dream.

eHomes has such a dream. The management team is enthusiastic about its latest products and wants to use them to get ahead of the competition. The strategy will determine the route. It's a beautiful, positive dream that can be translated into a 'why' or 'purpose', such as safety, convenience, and comfort for as many households as possible. eHomes is not there yet and will have to make several changes successfully in order to realise its dream. That's quite a journey. A journey is easier with a compass, a compass that redirects the organisation before it takes a wrong turn, a compass that shows you what's doing well, and one that leads your employees towards your dream. KPIs are an important part of that compass. Starting a KPI programme in which words like focus, transparency, and monitoring are central is not an inspiring starting point. But your dream is.



DO!

1. **See objectives and KPIs as the means to achieve your dream.**
2. **Take your dream and the journey to be made as the starting point for your KPI programme.**
3. **Keep repeating your dream and the journey towards that goal.**

DAILY
DELUSION
RULES YOUR
ORGANISATION

2

2. DAILY DELUSION RULES YOUR ORGANISATION

The meeting of the management team is over. Martin has realised that the approach they took to inform employees about the start of the KPI programme could have been better. But the management team is determined that the KPI programme will go forward. The management team starts with their own measures, and the roll-out continues to the departments – management information is needed at all levels to monitor the progress of the strategy. Martin remains the project leader since it's about numbers. During the kick-off, it became clear that an additional project was not appreciated. 'There is already so much going on' is the response to management. 'Adding another project is really getting too much'.

The daily delusions rule in many organisations. Everybody's busy all day. The focus is on things that need to be done today, and employees barely have time to consider tomorrow, let alone the longer term. This lack of time and the hustle and bustle are often caused by flaws in the management control structure. Can we call that 'misorganisation' in the same way we refer to mismanagement where misconduct is the main reason for failure, now that the management control structure is the root cause? This leads to doing things unnecessarily or twice, waiting for colleagues, correcting mistakes, making it unclear how the work can best be carried out and so on. This obviously makes time fly.

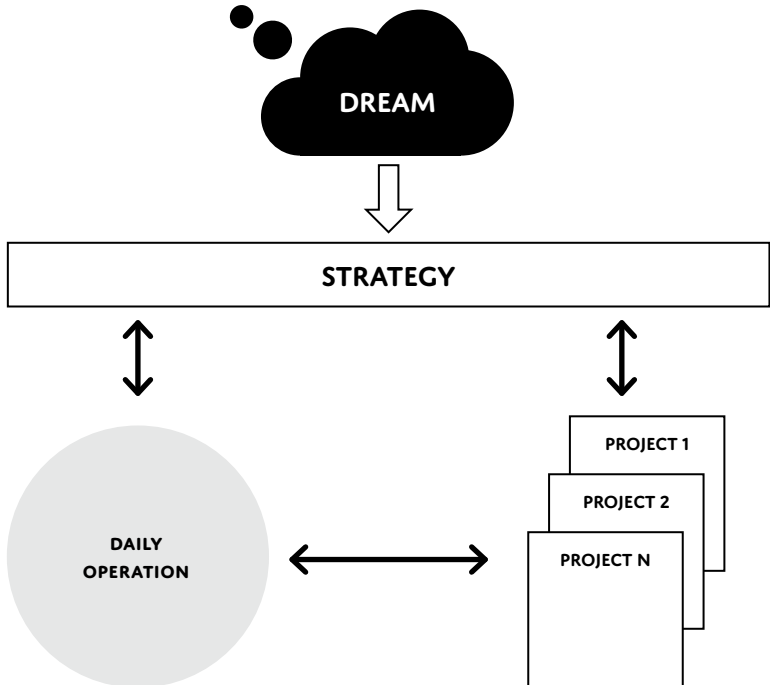
In addition, all kinds of changes and innovations are ongoing: Implementing new systems, introducing new ways of working, adding new products to the range, attending (competence) training courses – it doesn't stop. The success of all these changes, which are usually implemented on a project basis, is limited. It turns out that 70% of all change projects fail (Homan, 2005). Every year, companies and governments around the world waste some €4.3 billion on IT projects that are not running well (Schönfeld, 2012).

The failure rate of change projects often has nothing to do with the projects themselves. The cause of poor implementation is usually to be found in the daily delusions. Employees experience a shortage of time. According to the scarcity theory of Shafir and Mullainathan (2013), there are far-reaching consequences to acting when scarcity takes possession of the mind. Their research shows that scarcity leads to 'limited bandwidth'. The brain chooses to focus on the scarce things, for example money, calories, or time. The result is tunnel vision: the focus on the scarcity problem – 'I can't get my work done' – causes other (long-term) activities to be neglected. It also reduces the ability to make good decisions or to stick to previously made plans. Employees focus on what needs to be done today, and they ignore tomorrow's tasks which are important but not urgent. The employee has to book that order now, deal with this complaint now, and call that customer back now because she or he wants a different quotation. The daily delusions rule.

And it also works the other way around. Employees who are busy with the daily delusions don't have time to make their contribution to projects. They are the same highly valued employees who are approached for everything and who have limited availability during the project phase and set up the innovation. However, this is often not seen as a sufficient reason to postpone the project. It has to go ahead (at least that's what the project leader was hired for) and so we are going live with a project that, due to the daily delusions, did not receive enough attention in the preparation phase. The new system has not been sufficiently tested and it is questionable whether fellow workers really understand how it works. Work instructions will follow later. That's how daily delusions get perpetuated.

2. DAILY DELUSION RULES YOUR ORGANISATION

Figure 1. Strategy implementation: daily operations and projects under control.



Turning strategy into results is only possible if you reduce the daily delusions (Figure 1). The daily operation must run smoothly and this can be done by reducing the misorganisation. Furthermore, the number of projects must be manageable. In short, you must have control over your organisation. KPIs can help you with that. Without these basic conditions, every change and renewal will have a false start and the daily delusions continue to rule.



DO!

1. **Clean up your project list and only fulfil projects that contribute to the strategy (or the projects that comply with legislation and regulations).**
2. **Bring the delusions of the day – the daily operation – under control to make sure that projects can be successfully implemented.**
3. **Follow the KPI tips in this book and you'll really get the daily delusions under control.**

The writer's mission is to make organisations perform better. The same ambition is the driving force behind my work. After reading this book, I am sure that this fresh approach contributes to better performing organisations. However, the introduction of KPI programmes can go completely wrong as I – through trial and error – found out myself. The vision or dream of the organisation must remain central and the CEO must emphasise it. I like to be on the soapbox to guide the staff. For that reason it is important that every target group is addressed in the right way. The customer chains as described in this book are an important and interesting way of looking at business processes. Above all, this is a good way to make it clear that for a successful company, good collaboration among all departments is crucial. That is why I strongly believe in Process KPIs based on customer chains instead of departmental KPIs.

This is the only way to maintain the right customer- and people-oriented spirit. Even though it looks easy in this book, don't underestimate these essential changes. The positive effects on your performance can be significant. I'd like to encourage you to start.

Maiko van der Meer, CEO Marine Harvest Consumer Products.

ABOUT THE AUTHOR



Peter Geelen is the founder of the integral Performance Management® method. Peter worked on Performance Management for Philips and worked with and for Cor Boonstra, Jan Hommen, and Gerard Kleisterlee, among others. Peter wanted to break through island thinking in organisations at all costs, and he designed and developed the iPM method and perfected it over the last fifteen years into a successful method and consultancy agency iPM Partners. Peter is the author of several books and many publications on Performance Management. He is a guest lecturer at Maastricht University, speaker, and sparring partner for management teams and organisations. He still cares about the results of his customers.

For more information www.ipmpartners.com

WINNING
WITH THE RIGHT
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From strategy to execution: how performance indicators can help

A common pitfall for organisations is that they – albeit often unknowingly and with the best intentions – create barriers for a successful execution of their strategy by implementing conflicting Key Performance Indicators (or KPIs). This comes at the expense of customers and fixing the mistakes takes a lot of time, effort, and money. KPIs don't generate the desired performance improvement and the daily delusions continue to rule the organisation. But working with KPIs can have a different result.

In *Winning With the Right KPIs*, iPM founder and former Performance Manager at Royal Philips Electronics, Peter Geelen shares practical insights to use KPIs effectively and describes an innovative approach that has been battle-tested and proven successfully in practice for more than 15 years. You learn how to set up KPIs that really do improve collaboration, customer value and customer service, and give you buttons you can truly press to realise the ambitions, goals, and dreams of your organisation.

“This book is a page-turner, and recognisable for organisations of all sizes. A must-read for every manager who wants to put ambition on paper but also truly wants to realise it. You will be guided step-by-step to learn how the organisation can work in teams on real improvement.”

— Leonard Geluk, Chairman of the Board of Directors of The Hague University of Applied Sciences.

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— Rob Scholte, former Executive Board and Board Member at Metro, Goodyear, Nestlé, and Unilever.

“We have been working with iPM since 2010 and we have realised significant improvements in results in failure costs and lead times. Customer satisfaction has also increased significantly!”

— Piet van Loenhout, Managing director of Berkvens door systems.

