

TO WIN THE GAME, KNOW THE SCORE

USING SMART KPI DEPLOYMENT TO DRIVE PERFORMANCE

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By Bob Stewart

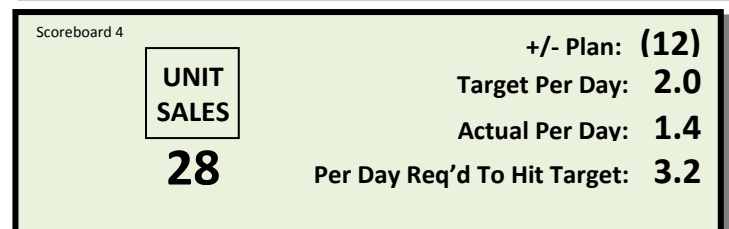
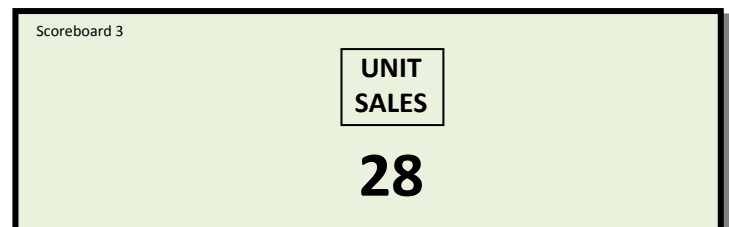
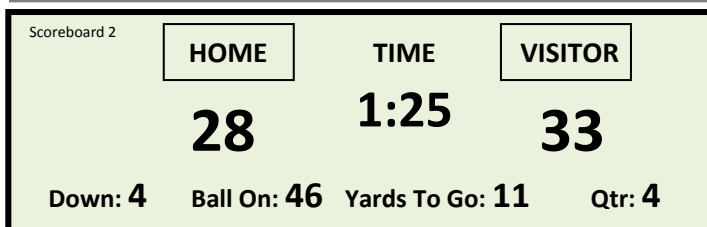
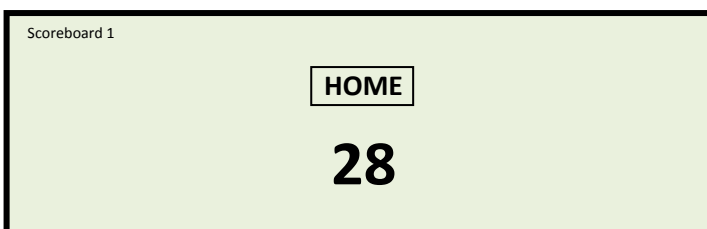
OVERVIEW

After nearly two years of economic trauma, many leaders are once again looking to kickstart growth. But with survival in hand, they're now struggling to keep themselves and their employees on track. We're hearing questions like: How do we know what progress the business is making? How do we make sense of data, the environment, and feedback from our customers to correct strategic drift? What are our key performance measures and how do they compare with our goals, trends, and competitors— today, this week, this month, this year? And how do I ensure that our busier-than-ever staff is not only working hard, but working on the right things – the things that enable us to reach our goals?

Here's how: *Keep your eye on the ball, but keep good score.* Keep score of the right things – both milestones (past history) and predictors (future performance). Keep score at the right intervals. Keep progress and improvement score. And keep your eye on the final score. Keeping score the right way can be the difference between winning and losing. It doesn't have to be complicated, but it does need to be intentional and focused.

SCOREKEEPING WITH KPI's¹

Key Performance Indicators, or KPI's, are used by successful organizations worldwide as the scoreboard for their performance. But what does an effective scoreboard communicate? The score – sure. But that's not enough to motivate winning performance. A competitive team needs to know whether they are ahead or behind and how much time is left in the game. A superior team needs to know what they need to do right away, how it affects the ultimate outcome of the game, and how to go about doing it. For example:



Scoreboards 1 and 3 tell us what we've accomplished to date, don't they? More importantly, though, Scoreboard 2 tells us what we need to accomplish going forward (a touchdown – based upon the score and the time remaining), how much time we have to do it, and what our next play needs to be (on 4th and 11, likely a pass). Scoreboard 4 does much the same: we're behind plan, and our daily performance needs to more than double to reach our goal. As a coach and a leader, Scoreboards 2 and 4 provide the focus our team needs to succeed.

DEVELOPING EFFECTIVE KPI's

Despite this apparent simplicity, even savvy leaders can become perplexed or jaded by the concept and practice of KPI's. The perplexed ask, "How can I create a metric or scoreboard that simple and focused for my complex business team?" The jaded complain that, "We've tried the Balanced Scorecard™ drill² – everyone seemed to focus on producing binders of reports instead of getting the work done." The solution, as usual, is in design and implementation.

From a design standpoint, good KPI's measure three things, all captured in the acronym:

KEY – Define and measure the few *key* indicators of your organization's performance. What gets measured, gets done – but if you measure everything, you will manage nothing. A good rule of thumb is five to seven solid measures. Note the difference between *research* and *score keeping*. Research can provide deep insights like the root cause of a failure, the changing preferences of customers, and the tactical pricing mechanism to drive product sales. KPI's, however, are the first level signals of success or failure, like the warning lights on your car dashboard. When the oil light is off, everything is fine. When the oil light comes on, pull to the side of the road immediately and diagnose the problem.

Many business leaders don't know what happened in their business last week, last month, even last quarter – until it's too late. I don't need to know the future – if I just knew for sure what happened yesterday, I'd be the richest man in the world.
- Steve Jobs, ceo Apple

PERFORMANCE – Measure the *performance* of your organization and not the multitude of events that simply occur. When a track athlete is running, his heartbeat might be interesting, his lung capacity might be predictive, but his *speed and position versus the competition* is the measure of success. It is the performance he exhibits from starting block to tape that makes the difference. The best measurements are those that materially reflect and/or predict the performance of your organization ... and that your people can directly affect. For example, a sales team certainly needs to track sales – the ultimate goal – but the relevant KPI's are more likely upstream in the process: pipeline sales volume, average purchase size,

sales conversion rate, repeat/loyalty rates, and so on. Companies, divisions, departments and teams must understand and define the KPI's that are uniquely related to their performance – there's no one-size-fits-all.

INDICATOR – Every good KPI needs a good reference point, and it ought to show the score. Usually, this means thinking "time series" versus the goal or standard -showing both speed and direction of performance. How are sales moving week to week or month to month? How is on-time delivery performance relative to our goal? How does performance need to change – at this stage of the game – to meet the goal? An example: if we're making all our shots and the game is still tied, where do we need to increase our focus? *Defense*. Sometimes, reference points can act as multidimensional guardrails, ensuring – for example – that we don't increase out-of-stocks while focusing on improved inventory turns. Bottom line, good indicators are the reference points and milestones that put actual performance into context.

IMPLEMENTING KPI's

"Great!" you say, "but how do we do this? We're running hard already – how do we keep from just adding more work?" Glad you asked. We recommend a simple approach that has proven to be effective in the organizations we have managed and coached:

1. Answer the key question, "How do we know if we win?" and focus on the Team KPI's first. Make sure you reward the team for winning before you hand out the scoring trophy.
2. Select the primary "score keeping measures" and secondary "warning light" measures. Make sure you follow the rule of thumb: 5-to-7 is the limit for score keeping measures. Cascade these measures or their components across and down to the organization.
3. Make effective visual displays and keep them up to date. Time series are best. Show the targets versus meaningful benchmarks (prior performance, competitive performance, specific interim and final goals...).
4. Make the discussion of KPI's an integral part of your management routines and discussions. One client of ours said, "If I am talking to a leader and we are not discussing one of the KPI's, then I am probably having the wrong conversation."
5. Don't wait for the "technology solution." Deploy the scorecards with the tools on-hand and automate later.

A few words of caution: think about how your team will respond to a KPI.

Basic social science says that when we clearly see how to control an outcome, we modify our behaviors to achieve and even maximize the outcome. When we can't see – or have misconceptions about – how our efforts affect the outcome, we can easily disengage, reject responsibility for results, or engage in counterproductive efforts. Your team is the same way. Focus on “controllable” KPI's first – metrics that clearly reflect specific individual and team behaviors. And recognize which outcomes are the result of “team” efforts. An inexperienced point guard and power forward might both believe that personally scoring more points is the best route to success. As a leader, though, you know that a point guard who distributes the ball well to teammates in scoring position – and a forward who excels at defense and rebounding – are more likely to create a higher team score, a lower opponent score, and the best opportunity to win the game. So you focus this point guard and power forward on the “assists” and “rebounds” KPI's and not the “points” KPI.

Secondly, people respond best when the feedback is timely. Seeing a shot go up, the experienced forward can quickly gauge the distance, arc, and trajectory of the ball, allowing him to compute the probability of a basket and take position for either a rebound or a transition to defense. Your KPI's need the same timely feedback loop built in.

Finally, change happens. When markets or plans shift, quickly change KPI's to reflect the new set of required behaviors. Consistency is important, but external change must always be met with an appropriate internal response.

COMMUNICATING KPI's

Finally, create compelling displays of the KPI's. We are always struck by how audiences react differently to visual displays versus tables of data. Admittedly, there are those among us with the ability to achieve critical insights from raw numbers and text, but most of us need to see a picture. That's why maps and nautical charts caught on with travelers. Just think if Columbus had only his log of compass and sextant readings without a map to plot them upon. We need to see where we've been, where we're headed, and how much farther remains to the destination. That's the beauty of the scoreboard in the gymnasium:

| HOME | TIME | VISITOR |
|---------|-------------|-----------------|
| 28 | 1:25 | 33 |
| Down: 4 | Ball On: 46 | Yards To Go: 11 |
| | | Qtr: 4 |

It's simple. Effective. And to the point.

For more information, visit
www.Conequity.com or contact the author
of this position paper.

¹The Game of Work, Charles Coonradt, Liberty Press, 1984

²The Balanced Scorecard – Measures That Drive Performance, Harvard Business Review, February 1992

SEE THE GOAL, FINISH STRONG

We can't say enough about keeping score in a way that keeps the finish line – your organizational goals - in sight. Consider Florence Chadwick, the first woman to swim the English Channel both ways. Chadwick wanted to become the first woman to make the dangerous, 26-mile swim from Catalina Island to the California coast. So on a cold July 4th, 1952 she plunged into the water, flanked by small boats in case the sharks or the water became too much. As she swam, a thick fog enveloped her and the small flotilla. For 15 hours she swam until the fog and the fatigue began to take their toll. Despite the encouragement of her mother and her coach, an exhausted Chadwick insisted on being pulled from the water. Only then did she see that her destination, the coastline, was less than one mile away. In a newspaper interview, Chadwick simply stated, “Look, I'm not excusing myself, but if I could have seen land I might have made it.” Lacking a view of her destination and an understanding of what more was required to reach it, Chadwick expended enormous effort yet failed to accomplish her goal. Two months later, flanked by the same small flotilla of boats and swimming through the same fog, she plunged into the icy waters again and completed the swim. This time, she knew the goal and kept the clear image of the shoreline in her mind.

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