

Re-thinking Performance Measurement



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Performance measurement the choice is yours



Level of audience satisfaction

- Who is satisfied that their KPIs are transforming their organisation from good to great?
- Who is satisfied that their annual planning process produces monthly targets that are relevant for reporting performance?
- Who is satisfied about the reliability of the large spreadsheets used in Finance?



Rethinking performance measurement





Getting your KPIs to work

- 1 Understand more about the drivers of human behaviour
- 2 Challenge the status quo thinking in the organisation that every performance measure is a KPI
- 3 Establish a Chief Measurement Officer position and fill it
- 4 Ascertain the organisation's critical success factors and communicate them to all staff
- 5 Embrace a methodology that will help you select the winning KPIs

Understanding more about the drivers of human behaviour

- Every measure has a dark side
- We need to look for the unintended consequence of performance measures
- Accident and emergency department story
- Sydney train service story
- Zero wastage of chicken in fast food outlet—
lead to less customers



Challenge the status quo thinking in the organisation that every measure is a KPI



Establish a Chief Measurement Officer position and recruit someone

- The change has to come from within - a consultant's report will not change anything
- A well educated person with a broad work experience (not a freshly minted MBA) – see job description
- Educate the senior management team that performance measurement is broken – see article
- Commence the re-education in-house
 - KPIs
 - rolling forecasting and planning
 - performance related pay
 - performance review process



Ascertain the organisation's critical success factors and communicate them to all staff

- Staff should be linking their daily activities to what is important to the organisation
- The five to eight CSFs should be on every wall
- CSFs should drive the performance measures and reporting



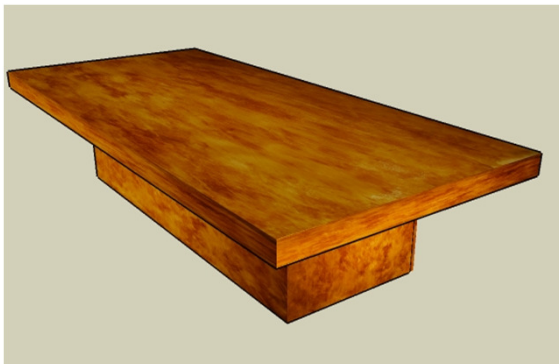
Not knowing your organisation's CSFs is like going to the Soccer World Cup without a goalkeeper

Lets clarify

- A CSF is “timely arrival and departure of planes” it is not “increasing the gross margin of our products”
- A key result indicator (KRI) is a key summary measure like “return on capital employed”
- A performance indicator (PI) can be tied to a team like “Number of employees’ suggestions implemented in last 30 days”
- A result indicator is a summary of more than one team’s effort like “bed utilisation in week” in a Hotel / Hospital
- A KPI needs to meet all the 7 characteristics of “late planes in the sky”
 1. Non financial measures (not expressed in £s,\$s etc)
 2. Measured frequently e.g. daily, 24 by 7, or weekly
 7. They encourage appropriate action e.g. little dark side

Embrace a methodology that will help you select the winning KPIs

- PUMP methodology - Stacey Barr
- Dean Spitzer's "Transforming Performance Measurement"
- Winning KPIs methodology – David Parmenter
- Please read my article "Should we abandon performance measures?"



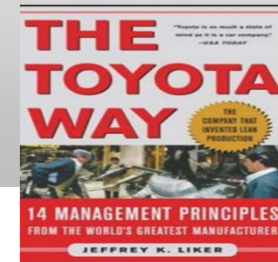
The missing legs:

- Defining what KPIs are
- The use of CSFs
- Measures sourced from CSFs
- Built in-house



Finance team needs to embrace the lean movement - NOW

1. Removal of all the different types of waste (article)
2. Understanding Toyota -14 principles (Jeffrey Liker's book "The Toyota Way")
3. Reporting on a page
4. Using Agile techniques e.g. SCRUM
5. Embrace abandonment e.g. reduce chart of accounts, remove activity based costing, remove large spreadsheets



Corporate accounting has linked too long to Henry Ford's Model T Ford

- Large production based on large runs
- Cost plus viewpoint
- Incorrect view on variable costs
- A torturous annual planning process
- A slow monthly reporting cycle
- Costing very complex, multiple variances, activity based costing, etc.



Lean is about eliminating waste

“Most business process are 90% waste and 10% value-added work”

Dr Jeffrey Liker

Boeing reduced over a trillion of internal transactions through adopting Lean

There are 8 different types of waste

1. Over-production (AF- reports too large, chart of accounts too large)
4. Extra processing (AF- chart of accounts, month-end, year-end, annual planning)
7. Defects, scrap & rework (AF- month-end, year-end, annual planning)
8. Unused employee creativity (AF- all process)

14 Principles of lean from Toyota

- 2 Create continuous process flow to bring problems to the surface
- 4 Level out the workload
- 5 **Build a culture of stopping to fix problems, to get quality right the first time**
- 7 **Use visual control so no problems are hidden**
- 12 Go and see for yourself to thoroughly understand the situation
- 13 **Make decisions slowly by consensus, thoroughly considering all options and then implement the decisions rapidly**
- 14 **Become a learning organisation through relentless reflection (Hansei) and continuous improvement (Kaizen)**

Reporting on one page - one-page month-end financial report to CEO on fanfold (A3)

Financial Performance - for the five months to 30/11/2000

Significant variances:

- Revenue
- Operating Profit
- Operating Expenses
- Finance Costs
- Income Tax
- Share of Profit
- Other

Performance of Business Units

Business unit x's performance is a Concern

Major business units performing well:

- Business unit y
- Business unit z
- Business unit w
- Business unit v
- Business unit u

Under performing business units:

- Business unit t
- Business unit s
- Business unit r
- Business unit q
- Business unit p

Financial Performance for the 5 months ended 30/11/2000

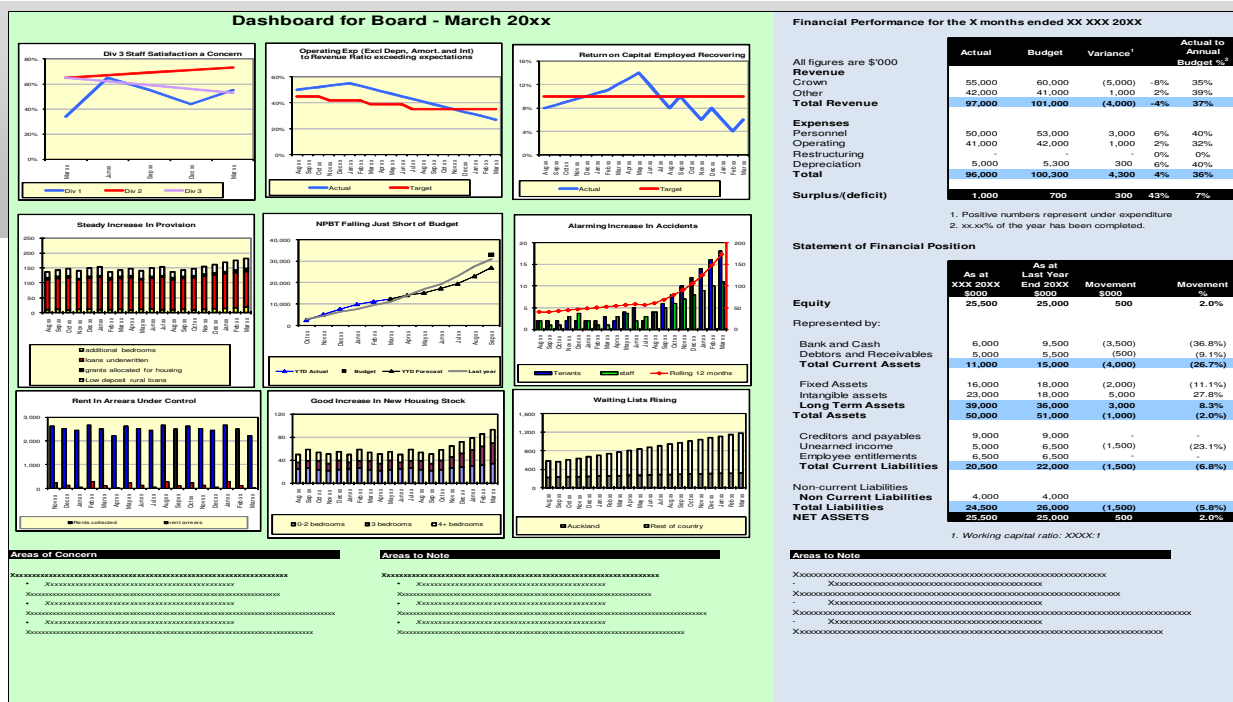
Category	2000	1999	% Change
Revenue	100,000	95,000	5%
Operating Profit	20,000	18,000	11%
Operating Expenses	80,000	77,000	4%
Finance Costs	5,000	4,000	25%
Income Tax	3,000	2,000	50%
Share of Profit	1,000	1,000	0%
Other	1,000	1,000	0%

Statement of Financial Position

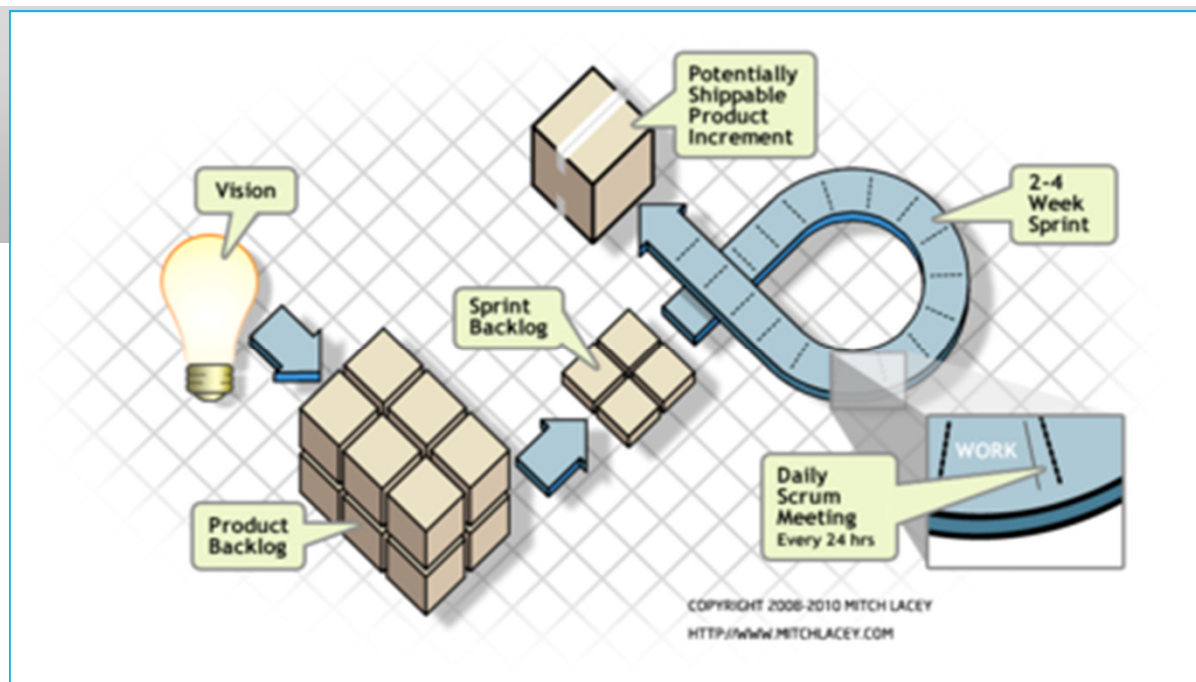
Category	2000	1999	% Change
Revenue	20,000	20,000	0%
Operating Profit	4,000	4,000	0%
Operating Expenses	16,000	16,000	0%
Finance Costs	1,000	1,000	0%
Income Tax	1,000	1,000	0%
Share of Profit	1,000	1,000	0%
Other	1,000	1,000	0%



Reporting on one page – one page board dashboard summarizing performance on fanfold (A3)

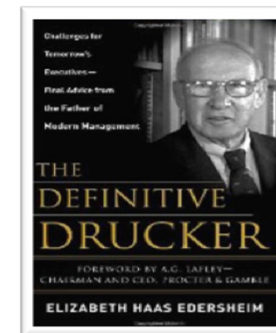


Scrum



Embrace abandonment, embrace Peter Drucker

- The wrong set-up driven by silo accounting
- Too many codes use the 1% rule
- Why do we need to know the cost of producing a Model Ford T at 3pm on Wednesday?
 - We cannot change selling price
 - The number is at best an approximation
 - Based on overhead absorption which is counter to lean thinking



Please read Jeremy Hope “Reinventing the CFO” and Elizabeth Hass Edersheim’s “The Definite Drucker”



In many organisations
performance related pay
is well and truly broken



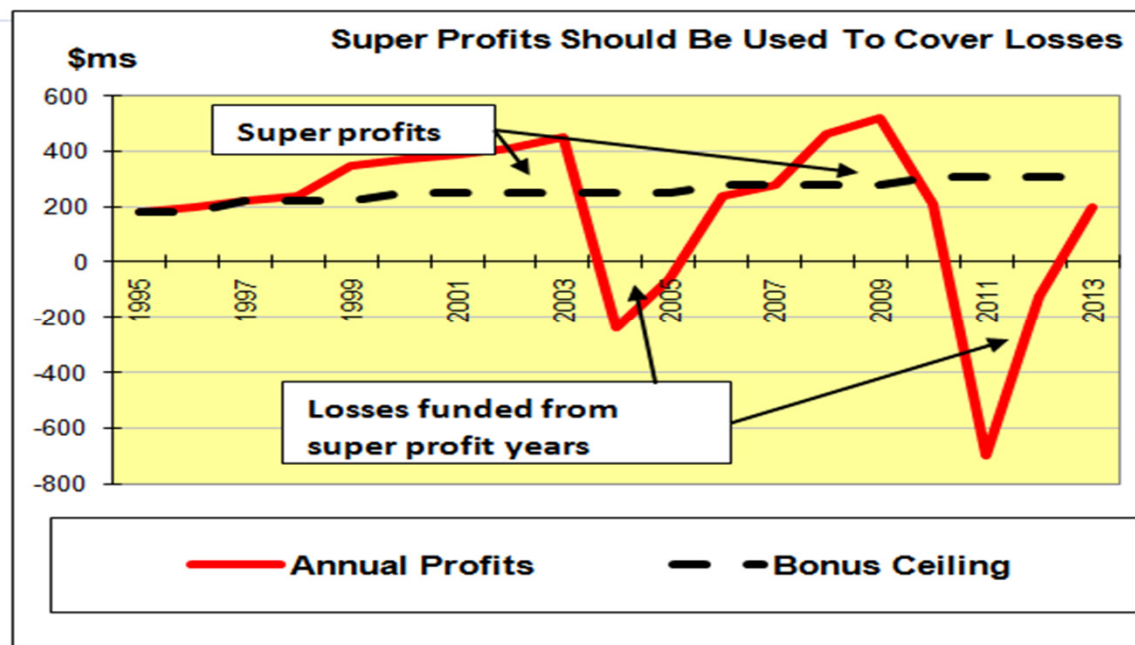
Performance related pay (PRP) needs to be based on sound foundations stones

1. Super profits should be excluded from PRP
2. The profits should be free of all major 'profit enhancing' accounting JVs e.g. rural bank
3. PRP should avoid any linkage to share price movements
4. PRP should not be linked to KPIs
5. Piloting the PRP before you go live

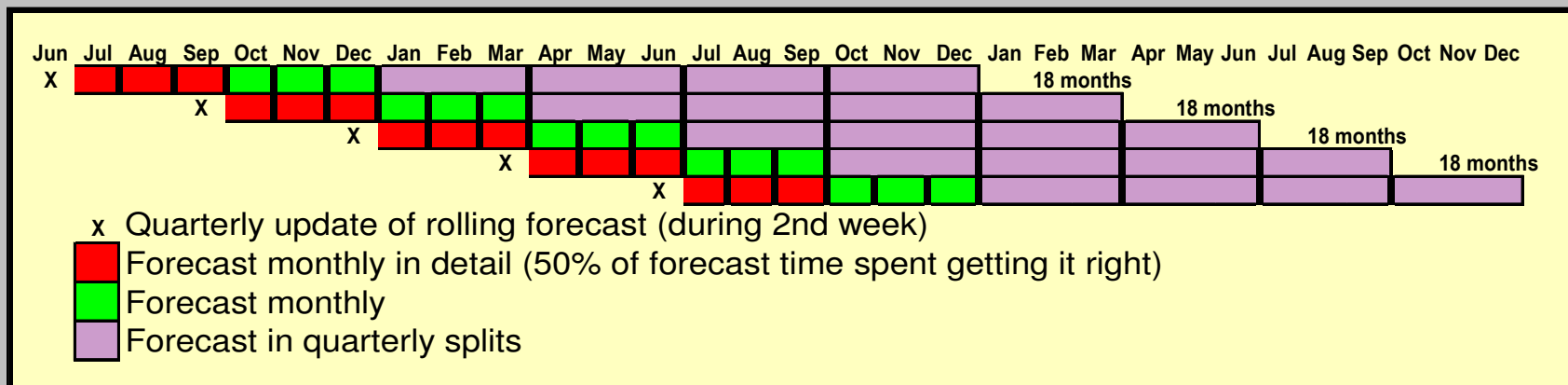
I have made available the foundation stones of PRP as I see them. I would welcome your thoughts.



Organisations need to retain super profits



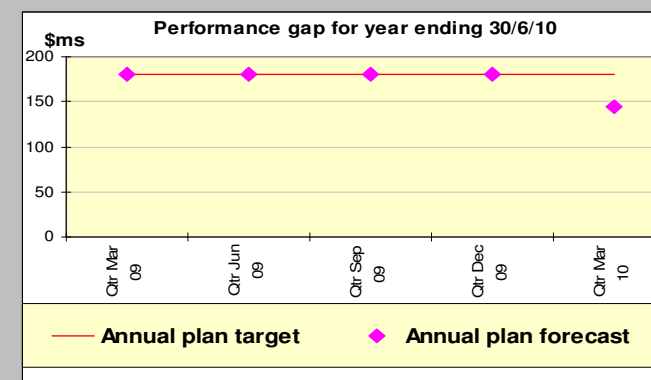
We have to replace the annual plan – it is broken!



The annual planning process is anti lean - it is not “just in time”

The foundation stones for quarterly rolling forecasting and fast planning

- 1 Abandoning processes that do not work
- 2 The quarterly rolling forecast (QRF) model should be built by in-house resources
- 3 Separation of targets from realistic forecasts
- 4 A bottom-up process performed quarterly rather than monthly (wisdom of the crowd)
- 5 Forecast beyond year-end (e.g., six quarters ahead)



The foundation stones for quarterly rolling forecasting and fast planning

- 6 The monthly targets are set, a quarter ahead, from the QRF
- 7 A quarter-by-quarter funding mechanism
- 8 The annual plan becomes a by-product of the QRF
- 9 Forecasting at category level rather than at account code level (slide)
- 10 The QRF should be based around the main events / key drivers

The foundation stones for quarterly rolling forecasting and fast planning

- 11** A fast light touch (completed in one week)
- 12** Built in a planning application—not in a spreadsheet (slide)
- 13** Design the planning tool with four or five week months (slide)



Forecasting at category level rather than at account code level

Forecasting at a detailed level does not lead to a better prediction of the future - e.g. counting trees in a forest

Forecasting at Account Code Level		Forecasting at Category Level	
Stationery	4,556	Consumables	22,000
Uniforms	3,325		
Cleaning	1,245		
Miscellaneous	7,654		
Consumables	2,367		
Tea & Coffee	2,134		
Kitchen Utensils	145		
	<u>21,426</u>		<u>22,000</u>

Built in a planning application—not spreadsheets



Based on a 4 or 5 week month and not Julius Caesar's calendar



Five things you need to do immediately

- 1 Commence the replacement of spreadsheet over 100 rows—start by taking on board the messages of today
- 2 Visit www.davidparmenter.com for the templates and papers
- 3 Set-up the two one page reports using the formats
- 4 Abandon processes and reports that are “broken”
- 5 Commence the journey to rolling planning – read my IBM papers

Obtaining the articles and electronic templates that accompany this presentation

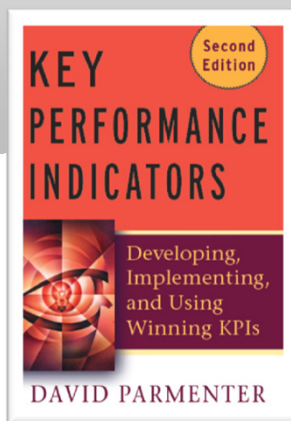


The screenshot shows the website DavidParmenter.com. The header includes the site name, a search bar, and a navigation menu with items like Home, David's Blog, Whitepapers, Books, Courses, Tools & Templates, and David's Specialities. The main content area features an article titled "The King of the KPIs – David Parmenter" with a photo of David Parmenter and a detailed bio. To the right of the article are several promotional sections: "Become a Certified Coach", "Get David to Present for You", "Get David's Help on Your Project", "Subscribe to David's Insights", and "Attended one of David's courses?".



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Thank you for this opportunity to present.
I look forward to hearing about the goals you
have scored.

