IBM WHITE GLOVE EVENTS

Moderator: Rhonda Reksted
June 8, 2010
10:00 a.m. CT

(Tim): Hello and welcome, everyone, to this installment of the best practices and action Webcast series featuring Jeremy Hope. Today's topic is "How to Select the Right KPIs by Aligning Them with Team-Based Success Factors." This event is being brought to you by the IBM Cognos Innovation Center.

Before I bring Jeremy Hope on to discuss this topic, I wanted to tell you all a little bit about the IBM Cognos Innovation Center and Business Analytics at IBM.

The IBM Cognos Innovation Center is a membership organization at IBM that is for our customer community. All customers are welcome to join our community. We've got over 6,000 customers that participate in our community. We also have third-party thought leaders, such as Jeremy Hope, that are a part of our community that author whitepapers and research articles that we make available to our global customer community. They speak at our live agents and workshops that we deliver around the globe and they also speak at Webcasts such as these that we make available to our customers.

And we also produce other assets that we make available to our community such as our IBM Cognos Performance Blueprints. And these are pre-built data process and policy models. And these are essentially pre-built solutions that are built off of our IBM Cognos products. And you've probably heard of some of our products, IBM Cognos TM1, Controller, IBM Cognos BI and a few other solutions. We built these pre-packaged solutions built around functional processes such as capital project planning, workforce planning, headcount and compensation planning, and also around industry solutions

such as store operations planning, merchandise planning within the retail industry and across many other industries.

And we encourage you all to go out to our Webcast and look at some of these other blueprints. And we'll certainly provide you that URL at the end of the Webcast so you can make sure to go out and find out not only more information about our IBM Cognos Performance Blueprints but the other assets that the innovation center provides.

We also deliver a number of workshops. And one of which is around rolling forecast, both best practices and forecasting frameworks. And these are some of these best practices that we drill into detail around that help organizations get better insight into their organization's operations, to get better insight into the future, to exploit opportunities and perhaps course correct and avoid pitfalls or threats to their organization in the future.

We also deliver another workshop around strategy execution. And that is to focus around some of these best practices, we help them identify these best practices and implement them in their organization. So look out for some of these workshops coming to your city literally around the globe.

And the best way to stay connected to the innovation center is through our IBM Cognos Innovation Center widget. And you can filter by live workshops, live events, Webcasts. We deliver a number of Webcasts including the one you're participating in today.

We do another one that features our IBM Cognos Performance Blueprints that takes place the first Tuesday of every month. We also feature another one called the Financial Performance Insider. It's the third Tuesday of every month. We feature a different financial performance management solution that third Tuesday of every month. And then the fourth Tuesday of every month, we have something called BI Strategies – that Webcast. And we focus on a different best practice within business intelligence.

So a lot of great stuff there. Customer success stories and research articles, thought leadership is available that we provide in an easily packaged, easy-to-consume single package here called the IBM Cognos Innovation Center

widget. There's also a LinkedIn group that we host, a Twitter account, a really great tool for you all to use to really stay up to date on what's coming from the innovation center. And again, we'll provide the information on how to download that at the end of the Webcast.

So a little bit about Business Analytics. And really what we're talking about is how to decide and act. It's decision-making software. And really, you're answering three questions as you're making a decision, and that's what's happening, you know, how are – how are we doing today? It's through measuring and monitoring your business.

And then you want to understand why, you know? And that's through reporting and analysis. That's drilling through in context to understand how are we doing and why, why are we – why are we doing well, why are we on target, why are we off target, and then lastly, what's likely to happen. And I'll get into a little more detail in a second on that, but I just want to talk to you about these components of Business Analytics.

And the components of Business Analytics are really broken down into four categories. And Business Analytics is unique because we offer the ability to address all the key requirements of clients. And there are traditionally four main categories that make up Business Analytics. And one is business intelligence; two is financial performance and strategy management; three is advanced analytics including predictive analytics; and four is advanced application. And IBM is able to help clients optimize their performance across the enterprise or by functional needs.

And the first one, business intelligence, and what we mean by that is query, reporting, analysis, scorecards and dashboards to enable decision-makers across the organization to easily find, analyze and share the information they need to improve decision-making.

And the second one, advanced analytics, that's data mining, predictive modeling, what is simulation, statistics and text analytics to identify meaningful patterns and correlations and datasets to predict future events and assess the attractiveness of various courses of action.

The third is financial performance and strategy management. And that's budgeting and planning, financial consolidation, score-carding and strategy management, financial analytics and related-reporting capabilities to help simplify structure and automate dynamic and sustainable financial performance and strategy management practices.

Lastly, that last component comprising business analytics is called the analytic applications. And that's applications that package business analytics capabilities, data modes, process workflows and reports to address a particular domain or business problem; for example, customer, workforce supply chain and financial performance management. And altogether, IBM helps our clients optimize business performance through one actionable insight per decision-makers and consistent, accurate and trusted information, and rich industry solutions, proven practices and professional services.

And getting back to these three questions of Business Analytics and that first one is what's happening, and that's really accomplished through scorecards and dashboards, reports and real-time monitoring. This is where you're measuring and monitoring the business for immediate insights to business performance.

Then you're asking that question of why. And you don't want to be logging in and out of different applications. You want to do this through a single platform. You really want to drill through of that measuring and monitoring, that question of how we're doing. You want to drill through on that number through a single version of the truth, right? You want to drill through and answer that question of why through ad hoc querying, through your trend and statistical analysis, through content analytics, those are the tools that you're using for deeper analysis of trends and patterns.

And then lastly, based on the answers coming out of those first two questions, let's take a look at what's likely to happen. And that's what you're doing through what-if analysis, through predictive modeling, through planning and budgeting. This provides that foresight to plan and allocate resources.

And all of these things that we've been discussing here that comprise Business Analytics, that's the business side, the business process side and that's the tool side, all are comprised together to be packaged together in a way that IBM has solutions that are available to you to help extend the value and implement a best practice based solution to give you a head start on your implementation, help you plan your journey better.

We've got C-level studies through our global CFO and global CIO studies. We've also got a Performance Manager book made available to you. It's actually broken down by industry. We've got about seven or eight industries represented. And it's got functional metrics set up called Decision Areas, so you literally know what the cross-functional synergies are, what the metrics are, to where there's a sort of a shared collaboration, to know how much marketing and sales and procurement and HR and IT all sort of work together in collaboration to achieve top-line goals against business units, metrics and measurements of achieving those top-line goals.

So it lays out a really nice roadmap for you to get you started on this performance management and business analytic journey.

There's also the innovation center of which I am a part, a Champion's Kit and many other tools that you can leverage to help you down this path towards enterprise-wide pervasive business analytics. And IBM really is a great partner to help you on this journey for optimized decision-making, maximized business and IT productivity and accelerated success.

So I thank you for your time. Hopefully this was helpful to you all, give you a little insight into what it is when we talk about the IBM Cognos Innovation Center, what it is when we talk about business analytics and how IBM can help you implement this type of vision in your organization.

So thank you again. It's now my pleasure to introduce our keynote speaker, Jeremy Hope.

Jeremy, you have the floor.

Jeremy Hope: Thanks, (Tim), and hello everyone and a big welcome from me to this Webcast on How to Select the Right KPIs by Aligning Them with Team-Based Success Factors.

Key performance indicators, or KPIs as they're generally known, are increasingly seen as a crucial element of effective performance management and instrumental in aligning management accountability, evaluation and rewards with an organization's purpose and strategy.

But it is how you derive and implement KPIs that is the key to success. Most of us gain some advantage from using KPIs, but few of us really get what we're looking for – a system that tells us where we are now, what the trends are and whether they are moving up or down, and what action to take to execute our strategy effectively and meet our longer term goals.

Many leaders are also using KPIs to re-map accountability flows and to communicate performance to all their people as part of a move towards a more accountable and transparent organization.

This Webcast is the first in a series of five about how to derive and use KPIs that I will be presenting throughout 2010 for IBM Cognos. The others are How to Turn Dumb KPIs into Intelligent Analytics, How to Use KPIs to Design Insightful Reports, How to Use KPIs to Support Performance Evaluation and Rewards, and finally How to Use KPIs to Empower People through Better Transparency and Communication.

Let's start with a typical accounting report that shows you how the business is performing and whether you need to take any action to meet the pre-determined budget.

You can glean from this report the performance is less than satisfactory compared with budget. While sales have held up, gross profit margins have fallen significantly. You can tell from further analysis whether this is caused by lower prices or higher production costs.

And if you want more information, you can drill down into lower levels of detail and find out what's going on by division, department or cost center.

You can see reports that tell you how many Blue Pens were purchased in location X or Y, compared with this year's budget and last year's actuals. And you can tell whether 30 or more types of travel and entertaining expense are within budget.

But it is what this report doesn't tell you that we should be concerned about. For example, it doesn't tell you whether you are gaining or losing your best customers, whether recent products are selling well and profitably, I mean at the net profit level, whether we are attracting and keeping the best people, whether key operating processes like production are achieving best practice standards, which costs are good cost, those that add value to customers, and which are bad costs. And studies show that up to 40 percent of costs are bad and it doesn't show whether your performance is good, bad or average compared with peers, a much better measure of success than a budget.

The problem is that accounting numbers show only a one-dimensional view of performance. Like an iceberg, most of our report shows only the one-tenth of information that we can easily see. The real performance insights, the other nine-tenths remain below the surface. We need to use a lot more imagination, as well as good systems to find and report upon them.

And these are not the only problems concerned with the management information system. The volume of data and the level of detail is escalating out of control. Until a few years ago, business leaders were shielded from much of the detail flowing through the organization. But now technology has delivered greater power, speed and capacity. And the dataflow is not only overwhelming but can also be accessed instantly by senior people at increasing levels of detail. But for many senior managers, the overload problems have outweighed the control benefits.

You can't see the forest for the trees, swamped with information and drowning in data yet thirsty for knowledge, are all comments you regularly hear relating to the information system. And these problems have got worse since the introduction of mandatory compliance procedures that require organizations to keep just about every document that flows through the organization every day, including e-mails.

According to one expert, around 20 percent of this data is inaccurate, inconsistent or incorrectly formatted. So you can only imagine how much time it absorbs and what the storage and retrieval problems might be.

Another problem is that the number of measures and reports keeps growing as organizations add more systems and tools such as customer relationship management systems and balanced scorecards.

While we keep adding new systems' metrics and reports, we rarely, if ever, take anything away. And most reports are long on detail and short on analysis. The average management report contains thousands of data points, yet managers typically use only a fraction of the information contained in any report.

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

It is often said that what you measure is what you get, or what get measured – what gets measured gets done. This should concern every business leader as measures based on short-term fixed targets often reinforced by aggressive incentives cause a range of unbalanced and often undesirable behaviors, as well as high level of stress and burnout as managers strive and strain to meet them.

Think of a purchasing manager with a target of reducing costs, new orders invoked or peer suppliers late, but has no responsibility for the poor quality of the products bought, the costs of high inventories or their deteriorating relationships with suppliers.

Think of a patient sales person who sells those products that provide her with the highest commissions rather than those that best fit the client's needs. And think of a mortgage broker who ignores risk controls and sells mortgages to people who can't afford them to achieve this maximum bonus.

Sounds familiar? Many commentators place a lot of blame on over-aggressive targets and incentives that are causing the recent collapse of the financial system.

So choosing the right KPIs especially if incentives are based on them is critical to an effective performance management system.

But selecting the right KPIs is easier said than done. I suggest the four-step process. One, identify the teams. Two, define the success criteria for each team. Three, observe the KPI database. And four, choose the best three to five KPIs for each success factor.

To get real clarity about how to define a measure of success, leaders need to turn the traditional vertically straight organization on its side to face the customer. It isn't usually staff changes; more about relationships and structure. Instead of the organization comprised of many units in a multi-led hierarchy, the key change is that each unit is the link in a horizontal value chain that continuously connects and combines to deliver solutions to the customer.

In most organizations, there are only four kinds of team. The executive team is the C-level suite responsible for setting purpose, goals and strategy, as well as challenging other units to maximize their performance.

The support services team, including for example finance, HR, marketing, IT, design, production, procurement and customer service, is responsible for serving and supporting value centers.

The value-center team is responsible for formulating and executing its strategy.

Value-centered teams invariably have their own profit and loss accounts and are typically created around lines of business, brands and product groups, and regions and countries. The aim is to create as many value-center teams as possible by sub-dividing them in our daily ventures. They should be placed around a clear market niche and have a distinctive customer value proposition.

Finally, the project management team is usually established on a temporary basis to execute a specific improvement initiative such as acquiring a business or implementing an enterprise-wide information system.

A few visionary leaders such as Jan Wallander, at Swedish bank, Handelsbanken, John Mackey at Whole Foods Market, Herb Kelleher at Southwest Airlines, Ken Iverson at Nucor Steel and to (Chiyono) at Toyota, all went a great lengths to clear out stifling bureaucracy, central control systems, head office empires, and all the machinery that makes large company operations complex, costly and slow. And they all created hundreds of small teams with value creating accountability.

At Handelsbanken, each branch team is a profit center with a scope and authority to run its own business.

At Whole Foods Market, each store is made up of multiple teams such as Fresh Foods that are accountable for their results and have the authority to appoint their own team members.

At Southwest, each route and each airport station is a team.

At Nucor Steel, all divisions are independently run at the local level and employees work in teams that are largely sales directed.

At Toyota, each plant is full of workstation teams that are accountable for serving the next team in the line, as well as continuously improving their own performance.

Compared with their peers, each of these organizations attracts more of the best people and customers, operate at lower costs and is more adaptive to change. They all operate with a management model based around sales managed teams. The important point is that information is used to empower rather than control these teams.

The next step is to define the key success factors for each team. Let’s start with an executive team.

The first point is that success factors should be derived from the organization's strategy and its medium-term aspirational goals.

Here are six success criteria that you might think about for the executive team – how we are we improving our financials, how well are we satisfying our customers, how well are we improving our operations, how well are we managing our people, how well are we innovating and growing, and how well are we managing risk. or those of you familiar with the designing balanced scorecards will notice the similarities with the scorecard perspectives.

One Asian telecommunications company set five aspirational goals to be achieved within three years. First, to become the number one telco in the Asia Pacific region based on earnings before tax depreciation and amortization and return on the invested capital; secondly, to be in the top 10 percent of its peers based on customer satisfaction and loyalty; thirdly, to be number one in terms of customer fulfillment, for example, the fastest broadband provider; fourthly, to be in the top three employers based on attracting and keeping the best talent; and fifthly, to be in the top three based on an index of corporate social responsibility. These five goals have enabled teams at every level to develop and report upon the right KPIs.

Southwest Airlines uses the balanced scorecard to define its strategic objectives and align its strategic initiatives and the measures with them.

You can see how it keeps the scorecard as simple as possible with short objective statements, clear initiatives and only a few simple KPIs.

Also notice how the normal top-down scorecard approach has been inverted through one that flows from the bottom up. This belief in people, process, customer and profit is the cornerstone of the Southwest philosophy and underpins all its actions.

Also notice how few KPIs there are and how many of them are relative to industry best practices.

In a recent interview, CFO Laura Wright explains Southwest's approach to the scorecard. We start with a foundation which is the focus on our people

culture and leadership. Our view is that we need all of those things in place to be able to be successful at the other objectives. In operational excellence, we focus on people efficiency and asset utilization. We focus on good spending practices and safety.

Our belief is that if we do well at this, we'll be able to offer low fares to our customers. We'll be able to provide legendary customer service which will be a positive image of our brand. All of this leads to the top category which is our financial management. If we can do all of these, our revenue should grow, our cost should decrease, and we should improve our shareholder return.

Let's turn to support services. A support services team aims to be both efficient and effective. Therefore, it needs to manage routine back office transactions at the highest quality and the lowest cost and it needs to provide an effective service to its value-center partners.

Its success factors might therefore be the following – how well are managing our costs, how well are we improving our competencies, how well are we improving our systems and processes, how well are we managing our people, and how well are we satisfying our business partners.

A value-center team might want to know how well are we improving our financials, how well are we satisfying our customers, how well are we managing our operations, and how well are we managing our people.

A value-center team is primarily responsible for executing its strategy successfully.

At Handelsbanken branch, they use two primary financial KPIs, cost-to-income ratio and profit per employee, to monitor their progress.

There are four customer KPIs – customer profitability, customer chain, customer satisfaction and customer compliance.

There are two operational KPIs – staff productivity and branch efficiency based on the actual hours worked compared with total available hours.

And there are two KPIs related to people – employee satisfaction and recruitment rating. That is how graduates rate Handelsbanken as a potential employer compared with its peers.

All KPIs where possible are published within the bank's open and transparent information system so that every branch and region can see the performance of every other branch and region every month.

Project management team might want to know how well are we managing our merger projects, how well are we meeting our cost goals, how well are we meeting our project milestones, and how well are we managing our resources.

Of this, there is a success criteria accounts in high-level terms. Keeping the criteria for each success factor to a range between three to five is important. Otherwise, the measurement and reporting system will become overloaded. The real challenge comes next. How do you choose the right KPIs that enable you to measure and report upon these high-level success criteria?

Individual KPIs are important. But they rarely capture enough knowledge about what's happening to tell managers whether one or another success factor is being achieved. You would to know for example if customer relationships were in good or bad shape just from looking at customer complaints. Many unhappy customers of course don't complain. They just never return or repurchase. This KPI would give you some clues, but it would not tell you the full story. So we need a minimum of three KPIs to support each success factor.

Think again about customer relationships. How many metrics would you need to be confident that you know whether these are strong and improving or weak and deteriorating?

You might want to start by breaking down customer relationships into three key issues. First, how good are we at attracting new customers? Second, how good are we at satisfying our existing customers? And third, how good are we at improving the profitability of our customers?

Think of the metrics you might use for the first issue, attracting new customers. You might think about the number of seminars, one-to-one contacts, demonstrations, brochures, leads, prospects, proposals and percentage of proposals that are closed. These are all quantifiable factors that can be counted. And some might provide a useful correlation with actual sales.

You can then move on to customer satisfaction and customer profitability and think of another 10 to 20 possible metrics. You could easily end it with over 60 metrics that in one way or another help you to measure customer relationships.

The selection process usually takes place through one or more brainstorming sessions, often facilitated by an external consultant.

Defining success is rarely straightforward. And although you may think it is a fundamental question that should already have been asked and answered, it is surprising how few teams have actually done it.

The aim is to choose, as I said earlier, only three to five KPIs for each success factor. As far as customer relationship, management is concerned, some managers might choose willingness to recommend, number of complaints and customer retention.

What managers are looking for is a triangulation effect. In other words, do all KPIs relating to any one success factor tell the same story? If so, the confidence level still is right and therefore any action plan based on it will also be right will be much higher.

Here are my 10 tests for a good set of KPIs. One, are they derived from business purpose or strategy? Two, do they provide clear direction and guidance about what’s important? Three, do they encourage the right behavior? Four, are they understandable? Are they written in a language that doesn’t use too many buzzwords? Five, do they include both leading and lagging indicators? For example if we go back to our customer relationship management example earlier, customer complaints are very much a leading

indicator whereas customer retention or loyalty is very much a lagging indicator.

Six, do they lead to fast action if the trend line changes? Seven, can data be collected in an accurate and timely way? Eight, are they owned by the team and not self – not imposed from a higher level? Nine, do they enable managers to set appropriate goals and show relative results? And finally 10, do they help to evaluate and reward teams fairly?

While each team should be engaged in thinking about the right KPIs, it is important to remember that if you are using KPIs as the basis for peer comparisons – and I'll talk more about this later – that each team within the same peer group must use the same set of KPIs.

Let's look at how Statoil developed a process for selecting KPIs and how it uses them to drive continuous performance improvement.

Statoil is the largest company in Scandinavia with approximately $80 billion of revenue and 29,500 employees in 40 countries. It has a strong collegiate culture and hundreds of empowered teams. Over 800 value centers use the company's version of the balanced scorecard known as Ambition to Action that drives growth and innovation. It has no budgets. I'll explain why in a moment.

Ambition to Action is more than a scorecard. It is the name of the company's integrated performance management process which runs all the way from strategy to business management and into individual goals, evaluation and rewards. It comes – it did not just overlay Ambition to Action on top of what it already had; it also took something away.

The budget is a serious competitor which almost always wins when these two steering mechanisms collide. When budgets were eliminated, it was a strong signal to the organization that leaders were serious about Ambition to Action because that was all they had.

Project leader, Bjarte Bogsnes, commented that by eliminating the budget, we turbocharged the scorecard.

For many years, scorecards in Statoil are with KPI scorecards only. In many parts of the organization, a tired cynicism around KPIs was emerging because they were promoted more than they deserved. By placing strategic objectives and actions alongside KPIs, they got a broad and more meaningful process for both target setting and performance evaluation. Ambition to Action became a process that reflected business realities and how people actually work. It is also used to build bridges, not just to the strategy process but also to the people management process.

The new focus on integrated performance management has been well received in the organization. Again, because it reflects how teams actually work. This integration has brought more synergies than the company first expected.

Statoil's leaders believe that decisions are best when taken close to the situation. This requires sufficient authority and responsibility at the front line. People need room to think to come back. This is why they have made the room to move much bigger. But the room still has walls. This is not freedom without boundaries.

The first one in the bigger room is the Statoil handbook which sets out its leadership principles and ethical values. It spells out how people should act in the company. It is not a telephone-sized instruction book. It provides guidance and direction but not micro-instructions.

The second wall is each team's ambition to action. It provides each team with specific guidance and direction to agree strategic objectives, KPIs and action plans. More on this in a few moments.

The third wall is the common set of decision criteria and decision processes. The larger projects are majoring the activities. This is nothing new. What is new is that the company has eliminated the competing decision-making processes set by the budget. In addition, the company has well established decision thresholds.

The last wall is sound business judgment. Instead of spending money on marketing or other expenses, because we have a budget, managers now have

to ask themselves what is the compelling reason that I need to spend this money.

Within this framework, resources are, in principle, available for running operations. The larger projects are majoring new activities. Leaders still hand out bags of money. But they do this when the funding is needed, not during the annual budget allocation process. In other words, the funding bank is now open 12 months a year, not just during the four weeks in October when the budget negotiations take place. But your loan application can still be turned down.

The purpose of Ambition to Action is simple. The starting point is an established strategy where the necessary situation analysis ambitions strategic choices and the overall direction is established. This process is subject to challenge by more senior people. In other words, the role of senior managers is to challenge ambition, strategic options, forecasts and risks, so that everyone is comfortable with the goals and actions chosen.

According to Bjarte Bogsnes, the aim of Ambition to Action is to help managers to execute their strategy by translating it into something more actionable – where are we going, how do we know that we are moving in the right direction, or what actions do we need to take to get there.

These questions are addressed through the four standard balance scorecard perspectives – finance, market, operations and people in the organization. However, Statoil has added a fifth known as health safety and environment due to its extreme importance in the oil and gas industry.

Like Southwest Airlines, they have also turned the conventional order of these perspectives in their heads. In key meetings, Statoil now starts its reviews with people in the organization, followed by health safety and environment and ending with finance. They do this to ensure that business reviews follow the cost-and-effect chain between the various perspectives.

This slide shows an example of an Ambition-to-Action report from the retail business in Poland and is taken straight out with the company's management information system.

I know you may be trying to look at the detail, the very small print detail on the slide. The idea of putting this in was not so you could read every word but to show you the flow and the style on how these reports are put together. You might also note that this team has formulated its overall ambition as a leaner retailing beyond expectations.

The first part of Ambition to Action strategic objectives starts with the strategic process. This varies. At group level, it is either continuous ambitious, issue-driven or it takes place to two executive committee sessions each year. Key outcomes are ambition statements and strategic objectives. Once established, these remain relatively stable unless there are major changes in strategic direction.

A strategic objective has a medium-term time horizon. How long this is will vary, depending on the type and rhythm of the actual business. The objective describes what success looks like when the team has achieved its aims.

Many teams get impatient with working with strategic objectives. They want to move on to the KPIs and action plans because these appear to be more relevant. It is however critically important that each team spends sufficient time developing a strategy together. The discussion itself has value because it often brings out different views about goals and direction that otherwise might have been left unaddressed.

Teams know quite well the strategies of levels above even if these have not yet completed their objectives. In this there shouldn't be any surprises when completed. One could always adjust; the more self regulating the process is the better.

Bjarte Bogsnes explains the thinking. We don't want a mechanical cascading and strategic objectives out into the organization. To the extent that they come from above, the process should be about strategy translation. Each level should interpret and translate what the objectives above mean for them.

In addition, each unit should run its own strategic process. This might add on themes and objectives that cannot be read out of the messages from above. It

can also bring out new strategic issues that might influence strategists at higher levels.

From a group perspective, strategic objectives become more and more operational and closer to the front line they get. But that's exactly right. In the front line units, they still see their own objectives as strategic because they provide guidance and direction.

Let's turn to KPIs. According to Bjarte Bogsnes, the most challenging part is to find good, relative KPIs, especially peers to compare with inside or outside the company. However, it is experienced. There are many options when you use your imagination. For example, market share percentages can be replaced with market share rankings. Production regularity percentages can be replaced with internal lead tables and so on.

It seems financial KPIs and the group's Ambition to Action are now both relative. The first one, relative return of capital employed used to be an absolute KPI, expressed as a percentage figure. Instead they now use the lead table of 14 other reasonably similar oil companies, and compare the company's return on capital employed performance with this peer group. The target is a certain lead table position. And that's not at the bottom.

They have done the same with the other financial KPI, relative shareholder return. Again, they use a similar lead table and measure against a targeted position.

These two KPI targets are the only financial targets that board approves as part of their overall Ambition to Action approval. The company is also working together with the health safety and environment – and environment function to make some of their KPIs relative. And they're building an impressive range of KPIs in this area. Indeed, many of them are already in use within the health safety and environment perspective of Ambition to Action.

A common one is Serious Injury Frequency or SIF. This KPI is a frequency measure measuring number of serious injuries per million man hours worked.

Although the target-setting process is quite lean, some time is still spent discussing or negotiating targets between different levels. This is typically a decimal discussion. If current performance is 4.2, should next year's target is 4.1, the manager's view, or 4.0, the bosses view? Some arguments are provided from both sides before an agreement is finally reached.

The plan is to stop all of this and establish lead tables of similar teams. The target would only be set in once to be above the average. Many benefits flow from this. First, there is no further need to negotiate targets each year. Second, those below average might become more interested in learning from those above. And finally, managers are taking on more ambitious targets without protest.

Being above average is in fact a tough target. Of course, half the peer group would be on average – with an average not make it. But few would still see it as a very ambitious target. Show me a manager who openly would aim for below average.

Statoil now has more than 800 Ambition to Action programs, and the number is still growing as Bjarte Bogsnes says. We are constantly asked by front-line managers if they should use Ambition to Action in their own units. Our answer is simple. There is no corporate instruction imposing the use on such teams. We absolutely recommend these managers to try it out, but making your own Ambition to Action should be driven by a wish to use it because it works and makes sense to the team itself.

If someone established an Ambition to Action because they were told to, they might be better off without it.

Statoil CEO, Helge Lund, he certainly made this statement about the company's progress. We have a management model which is very well suited to dealing with turbulence and rapid change. It enables us to act and reprioritize quickly so that we can fend off threats or seize new opportunities. This is much more difficult than a traditional budgeting model.

And here's a final summary of my recommendations. First, identify the key teams. The KPI reporting system should focus on four teams, the executive

teams, the support services team, the value-center team, and the project management team.

Secondly, define the success factors for each team. This discussion should involve the whole team so there's buy-in from all key people. The point is that these measures are owned by the team and have not been imposed on them by a higher authority. Members will also know that they will be evaluated and rewarded on these same success criteria.

Thirdly, agree to KPIs to be tracked and reported upon. Think of both financial and operation measures, as well as a mix of leading and lagging indicators. Choose between three and five KPIs that pass the data integrity test. It is important to remember that similar teams require the same KPIs; otherwise, it will be difficult to compare results.

And fourthly, consider moving from individual KPIs to analytics. Analytics translate all KPIs into common indexes out to the hundred. This enables KPIs to be weighted by relative importance and aggregated to be – to form higher level indicators.

Analytics can be introduced gradually as they start to replace more detailed KPIs. This enables the organization to select and implement the software necessary to make analytics come alive and show their real power and relevance within an integrated enterprise-wide information system. This is the subject of my next Webcast.

One final comment, the primary role of traditional measurement systems, which are still used in most companies, is to pull good information up so that senior managers can make good information, good – sorry, good decisions that flow down. However, information is much more relevant if it is available in real time and action can be taken immediately by the team doing the work.

This is the real role of KPIs. They enable frontline teams to regulate their own performance and thus continuously improve. It is a vital component in the emerging accountable and transparent organization.

Thank you for listening.

Back to you, (Tim).

(Tim): That's fantastic, Jeremy. And really what you're talking about is creating a real nimble strategy execution framework for an organization with the appropriate KPIs that represent the right KPIs, depending on the support unit, the appropriate support unit and the business unit in question within the organization. That's great stuff.

This is the first in a series of five Webcasts that Jeremy Hope with the BBRT will be bringing to us brought to you by the IBM Cognos Innovation Center. This was a Webcast entitled, "How to Select the Right KPIs by Aligning Them with Team-Based Success Factors." The next four are "How to Turn Dumb KPIs into Intelligent Analytics." The third in the series will be "How to Use KPIs to Design Insightful Reports." The fourth will be "How to Use KPIs to Support Performance Evaluation and Rewards." And the last in the series of five will be "How to Use KPIs to Empower People through Better Transparency and Communication." So we look forward to the next four coming in the series of five.

Thank you, everyone, for joining. Thank you, Jeremy for delivering a great presentation today. I appreciate your time.

Take care, everyone.

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