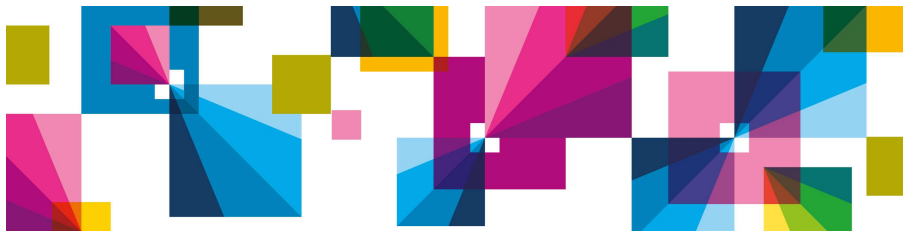


Presented by David Parmenter
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Re-thinking Performance Measurement



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Performance measurement the choice is yours



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Level of audience satisfaction

- Who is satisfied that their KPIs are transforming their organisation from good to great?
- Who is satisfied that their accounting function has adequately embraced the Lean movement?
- Who is satisfied about the reliability of the large spreadsheets used in Finance?



3

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Rethinking performance measurement



4

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Getting your KPIs to work

Getting KPIs to Work

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

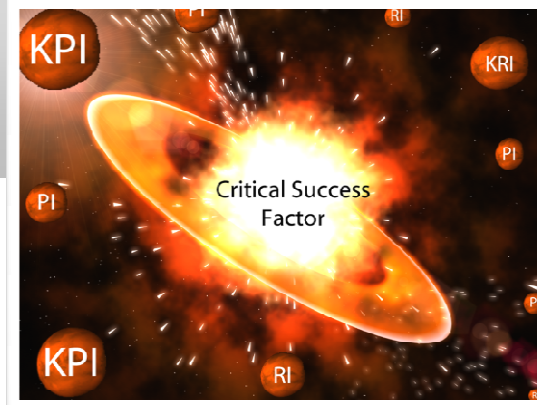
Understanding more about the drivers of human behaviour

- 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



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

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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 meets all the characteristics like "late planes in the sky"
 1. Non financial measures (not expressed in £s, \$s etc)
 2. Measured frequently e.g. daily or 24 by 7
 7. They encourage appropriate action e.g. little dark side

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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 consultants report will not change anything
- A well educated person with a broad work experience (not a freshly minted MBA) – see job description
- Educated 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



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?"



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The missing legs:

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



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

Embracing
Lean

- 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.

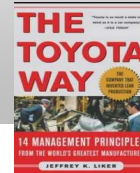


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Finance team needs to embrace the lean movement - NOW

1. Removal of all the different types of waste (article)
2. Understanding Toyota -14 principles (Jeffrey Liker's book "The Toyota Way")
3. Impact on reporting
 - reporting on a page
 - in-or-out source decisions
 - value stream reporting
4. Using Agile techniques e.g. SCRUM
5. Activity based costing is dead



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 eight different types of waste – see my article

1. Over-production (AF- reports 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)

The chart of accounts myth - the more accounts the better

- The wrong set-up driven by silo accounting
- Too many codes
- “Reinventing the CFO” by Jeremy Hope
- 1% rule

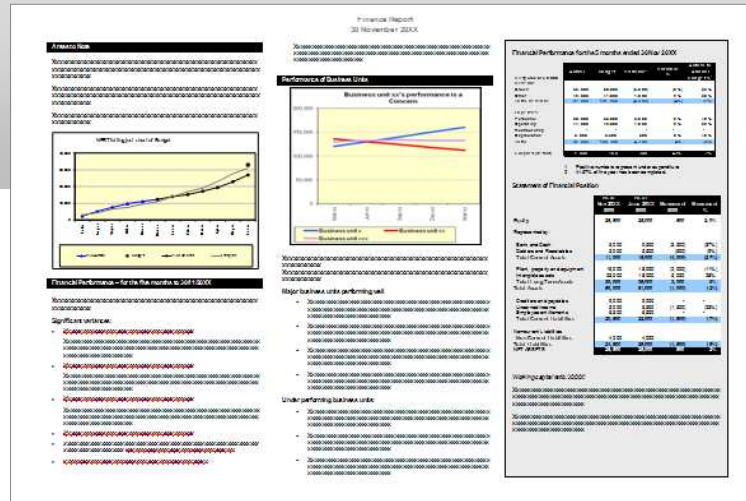


14 Principles of lean from Toyota

- 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)

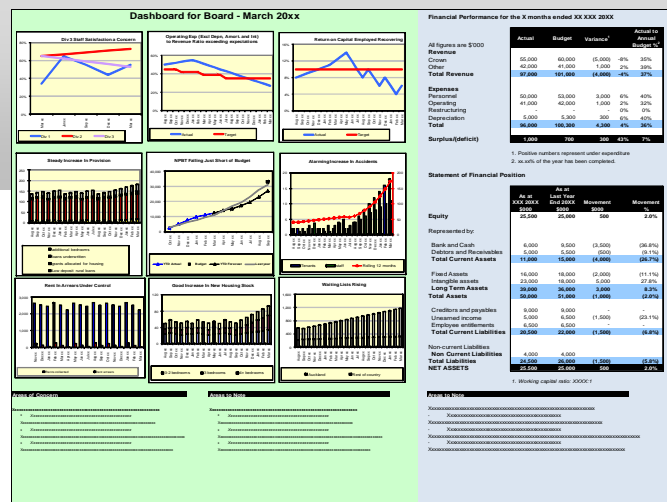


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Reporting on one page – one page board dashboard summarizing performance on fanfold (A3)



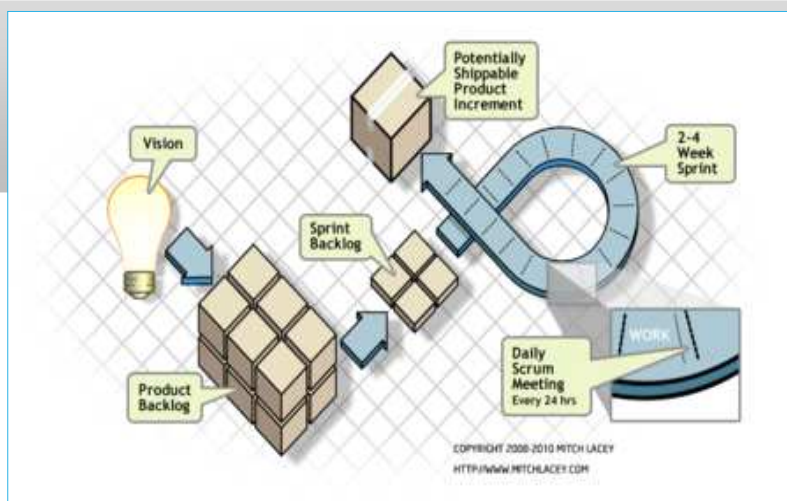
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Value stream separation (see paper)

	Product group	Product group	Sustaining Costs	Total Plant
Sales	2,708,000	2,855,000		5,563,000
Material Costs	-1,040,000	-691,000		-1,731,000
Employee Costs	-191,000	-394,000	-359,000	-943,000
Equipment related Costs	-156,000	-358,000		-514,000
Occupancy Costs	-120,000	-235,000	-37,000	-391,000
Other Costs-VS	-297,000	-114,000		-411,000
	-1,804,000	-1,792,000	-396,000	-3,990,000
Value Stream Profit	904,000	1,063,000	-396,000	1,573,000
	33%	37%		28%
Inventory Reduction (additional cost)				-181,000
Inventory Increase (reducing costs)				
Plant Profit				1,392,000
Corporate Allocation				85,000
Net Operating Income				1,307,000
Return on Sales				23%

Scrum



Activity based costing is dead

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

“Activity based costing remains trapped in a time-warp of mass production and the type of product (standard) costing that it supports”

Jeremy Hope

Performance
Related
Pay

In many organisations
performance related pay
is well and truly broken



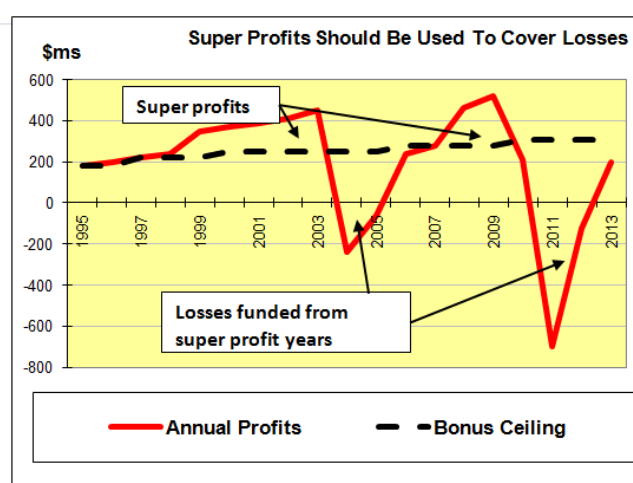
Performance related pay (PRP) needs to be based on sound foundations stones

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

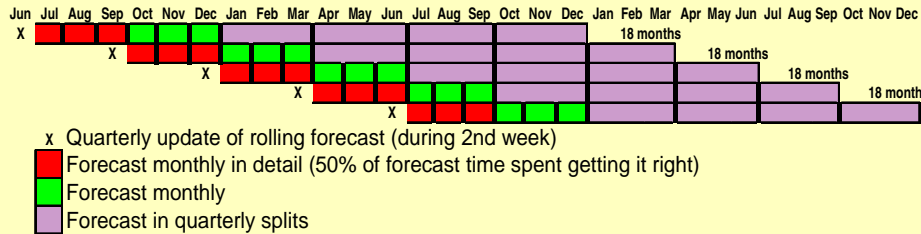
I have made available the foundation stones of PRP as I see them. I would welcome your thoughts.



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”

Extract from the foundation stones for quarterly rolling forecasting and fast planning

- 3 Separation of targets from forecasts (telling management what they need to know rather than what they want to hear)
- 7 The annual entitlement to spend is replaced with a quarter-by-quarter funding mechanism
- 9 Forecasting at a detailed level does not lead to a better prediction of the future
- 12 Built in a planning application—not spreadsheets
- 13 Design the planning tool with four or five week months and not Julius Caesar's calendar



Forecasting at a detailed level does not lead to a better prediction of the future

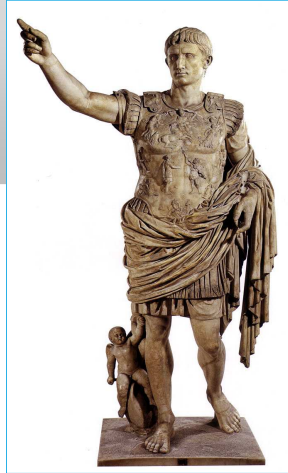
Counting trees in a forest

Old detailed approach		Forecasting by categories	
Stationery	4,556		
Uniforms	3,325		
Cleaning	1,245		
Miscellaneous	7,654		
Consumables	2,367		
Tea & coffee	2,134		
kitchen utensils	145		
	<hr/>		
	21,426	Consumables	<hr/>
			21,400

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

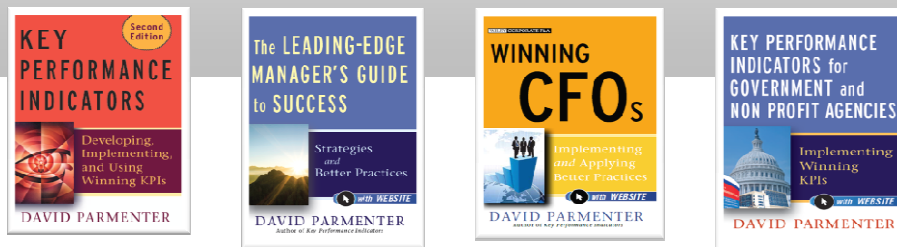
Five things you need to do immediately

- 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 Commence research into lean accounting
- 5 Commence the selling of a “Chief Measurement Officer” position by circulating my article

Obtaining the articles and electronic templates that accompany this presentation

The screenshot shows the website DavidParmenter.com. The main heading is "The King of the KPIs – David Parmenter". Below this is a photo of David Parmenter and a biographical text. To the right, there is a "Subscribe to David's Insights" section. A red arrow points to a link that says "Download the templates from the workshops." A purple box with the text "Password: IBM2013" is overlaid on the page.

John Wiley & Sons have published



Amazon link on www.davidparmenter.com

Thank you for this opportunity to present.

I look forward to hearing about the goals you have scored.

