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TRANSFORMERS

Developing Key Performance Indicators

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Organizational leaders, managers, strategy professionals and human resources professionals are often tasked with the responsibility of developing key performance indicators that will be used for setting performance expectations for their team members.

Our experience shows that many professionals and managers struggle in this area and it is our intention that this Teaching Note will provide some much-needed guidance in this area.

We will explore the subject by looking at the following areas:

- General Principles that guide KPI development
- Types and Sources of KPIs
- Format and Process for KPIs
- Features of Effective KPIs
- Implementation and Next Steps

General Principles

There are a number of general principles that will guide the development and deployment of KPIs in the Company including but not limited to 1) The use of the Balanced Score Card; 2) Engaging Line Managers and Employees through the Process; and 3) Ensuring that KPIs are Strategy-Aligned.

The Balanced Score Card is a framework for developing and implementing strategy and also for performance management that looks at strategy and performance in an organization from four perspectives, as follows:

1) **Financial:** Your strategy initiatives and performance goals should focus on ensuring that the organization attains financial success through a combination of top and bottom-line growth. Examples of Financial KPIs include: Sales Growth; Return on Investments; Cost to Income; Profit, Return on Assets, etc.

2) **Customer:** To ensure that your financial goals are achieved and sustained, you need to pay attention to strategic initiatives and KPIs that relate to attracting and keeping loyal customers. Examples of KPIs may include Customer Service Retention Rates, Service Survey Ratings, Referral Rates from Existing Customers, etc.

3) **Process/Risk:** Once you start interacting with customers, collecting your income and providing goods and services, you need to pay attention to managing risk - the possibility that negative things will happen. For example: underpayments by customers, delays in payments, bad debts, pilferage by employees, operational losses, accidents, etc.

   You therefore need to put in place disciplined processes across your organization to minimize these risks. KPIs that relate to process/risk include: Error/Incident Tracking; Regulatory Infractions; Implementation of Processes; Audit/Internal Control Measures, etc.

4) **People/Culture:** The entire strategy and the previous three perspectives rests on the quality of your employees and the strength of your organizational culture. You therefore need to have initiatives and KPIs that relate to people and culture. Examples of People and Culture KPIs include: Staff Retention Ratios; Employee Training Results; Line Manager Capability Ratios, Employee Engagement Survey Results, etc.

In addition to the Balanced Scorecard, you should also ensure that employees across the organization are carried along in the process of developing KPIs.

In Omagbitse Barrow's article "Bolstering Employee Performance through Performance Contracting Clinics' published by Harvard Business Review (copy enclosed), organizations are encouraged to use the "Clinic Approach" wherein employees and Line Managers sit together to co-create KPIs rather than have these KPIs handed down from one level of the organization to another.

The clinic can be facilitated by the Human Resources team and ensures that employees really understand the source and origin of KPIs and ultimately builds the "strategic muscle" of such employees and the entire organization.

Not using the clinic approach and simply "handing-down" KPIs to employees reduces accountability around KPIs, increases apathy towards strategy implementation and performance, and may ultimately hurt the achievement of the organization's goals. We therefore very strongly recommend the "clinic approach".

Finally, it is very important for KPIs to be strategy-aligned and that every employee can see a clear line of sight regardless of their level of seniority to the organization's strategy.

The famed story of John F Kennedy, the U.S. President who was told by a janitor at the National Space Agency (NASA) that he, the janitor "sent people to space" because he kept the floors clean, dry and safe from slipping by astronauts is an excellent example of how important it is for KPIs to be strategy aligned. This way, every employee will be focused on the ultimate prize - the strategy.

Types and Sources of KPIs

Our experience suggests that KPIs can come from a variety of sources. Our non-exhaustive list of sources and types of KPIs include:

S/No	Source of KPIs	Description
1.	Organizational Strategy	The strategic themes and the Strategy Map of the organization can give many senior managers and executives direction on their KPIs.

		Usually, the higher you are in the organization, the clearer the line of sight between the strategy and your KPIs. Therefore, please study the organization's strategy map properly and identify KPIs that relate to you or your department directly or KPIs that you can derive from them.
2.	Organizational Work Plans	Some organizations have a detailed work plan or corporate score card that actually cascades the strategy map to more specific initiatives and goals. Sometimes these goals and initiatives are assigned to specific departments/units and individuals. By reviewing your corporate work plan or score card, you can also identify goals and initiatives that are already assigned to your department/unit or even to you as an individual. If you do not see a direct (assumed) goal or initiative, you may see some that you can derive your own KPIs from. Sometimes the Office of Strategy Management may already have broken down the Company Workplan to the various responsibility officers and their departments. If you have this already, then it will be very helpful.
3.	Company-wide KPIs	Some organizations have some company-wide goals that they believe everyone should share in the responsibility for achieving. In some organizations, managers are all made to have KPIs that relate to sales, and customer service.

		Some organizations challenge Line Managers with KPIs that have to do with their implementation of HR life-cycle events (appraisals, PDPs, etc.) Also, some organizations track and assign KPIs for inter-departmental SLAs and for knowledge tests taken by staff in a particular cadre. Usually these KPIs are supplied by the Office of Strategy Management and the Human Resources Department.
4.	Prior Year KPIs	Another useful source of KPIs could be goals set for prior years that still remain unattained or still need to be sustained in the present year because of their strategic importance. Reviewing the previous year's Performance Appraisal scores for such items before you craft the new year's KPIs will be very useful.
5.	Job Descriptions	Your job descriptions can provide a number of KPIs especially for employees in purely operational roles whose goals may not be significantly affected by strategic activities. Usually at this level, the organization may have some generic KPIs based on specific job families that can be easily incorporated. Here are a few examples: ***Finance Officers:*** *Publish Error-Free Management Accounts by 2nd Working Day of each new month* ***Sales Officers****: Sell 2 houses each new month* The OSM and the HR Department may have a directory of KPIs that you can draw on based on your job family

6.	Personal Projects	Individuals working closely with their Line Managers may identify personal projects that may or may not be linked to the strategy of the organization at that time but will certainly add value to the organization. Such initiatives can be captured as KPIs and incorporated into your performance contract for the year.

As indicated, this is our non-exhaustive list of types and sources of KPIs. If you use the clinic approach properly and ensure that everyone is carried along, these various sources of KPIs will no doubt enrich your performance contract and the entire system of performance management in your organization.

Format and Process for Performance Contracts

The Performance contracts will be captured in a format that includes the following:

- **Balanced Score Card (BSC) Perspective:** The four perspectives of the BSC will be captured on the vertical side of the table because the KPIs will relate to the corresponding BSC perspective - Financial, Customer, Process, People. The others below will be captured as headers on the horizontal axis.

- **Theme:** The thematic area of your strategy to which the KPI relates should be captured. This way we can be sure that the KPI is actually aligned to the strategy and that the goals that individuals are pursuing are aligned with broader organizational priorities

- **KPI:** The actual KPIs corresponding to each BSC perspective will be stated here.

- **Weight:** The KPI will carry a weight out of 100. This weighting is determined based on the relative importance and impact of the KPI. The total weight for all the KPIs will equal 100. The weighting is used in the scoring of KPIs during the performance evaluation.

- **Tracker:** It is also important to state the source of evidence for each KPI - who is the tracker and/or what is the tracker, e.g. HR Report; Sales Report; P&L, etc.

- **Rubric:** It is important to set the rubric - the basis for measurement or assessment. Let's say a KPI is submit a report by 01 April 2021, what score will the person get if he submits on 05 April 2021, will this be different if he submitted on say 05 June 2021? Rubrics will help to convert the absolute performance to a performance score in a consistent manner. This makes a difference when carrying out the appraisal

The performance contract should also contain the name and department of the employee and the line manager, the dates and an attestation to the fact that both parties have discussed the contract and sought reasonable clarifications regarding it.

It may not be realistic to expect both parties, especially the employee to "agree" to the contract, because KPIs in their very nature may stretch and challenge employees in ways that they may not agree.

KPIs represent what the organization wants, and ALL employees are bound to them in line with their letters of employment, so while they may NOT AGREE, they must UNDERSTAND. The attestation therefore is to their UNDERSTANDING, NOT AGREEMENT.

Using the clinic approach, the Line Manager should meet with employees carrying out a particular job to co-create the Performance Contract and then finalize.

This can be done with a HR/OSM facilitator present to provide context and coaching. Both parties are encouraged to study these guidelines and actually come prepared with ideas for KPIs based on the various types and sources of KPIs discussed earlier.

Features of Effective KPIs

The following features make for effective KPIs:

- **SMART:** They should be specific, measurable, aligned, realistic and time bound. Rather than say - "Grow our sales significantly", the KPI should be "Grow sales by 22% each year starting Dec 2021"
- **Owned:** Both parties should be engaged and participate fully in the process
- **Well Documented**: KPIs should be documented as we have prescribed earlier showing measures, trackers, rubrics and strategy alignment. They should be filed in the Line Manager's Performance File and also in the personnel file kept by HR.
- **Future-Focused:** The KPIs should not just address the challenges of today but must help to overcome the challenges of the future. This is why they must be aligned to the organization's strategy
- **Stretch**: Effective KPIs should stretch the individual and push the productivity frontier. You cannot just keep giving yourself the same targets from previous years or adding small increases at your convenience. While noting the need to be realistic, effective KPIs must stretch individuals and push the organization in the right direction.
- **Action-Oriented**: KPIs should be expressed as an action with appropriate verbs to describe the action, e.g. rather than say "2 houses each month" the KPI should be stated as Sell 2 houses each Month". The verb "sell" in this example provides clarity on what the employee is actually meant to do. Clarity ensures that performance happens the way you expect without any ambiguity.

When crafting KPIs and putting together your performance contract, please be mindful of these characteristics.

Implementation and Next Steps

The first step in developing KPIs is to build the capacity of Line Managers and employees to develop and use KPIs effectively.

The guidelines in this Teaching Note will help in creating awareness and also in bridging some of the knowledge gaps that exist.

Please take time to study them once more, noting areas that require clarification so that you can engage with the HR Manager, Office of Strategy Management or the external HR Consultants.

It is noteworthy to mention that some organizations simply engage consultants to create KPIs for them and hand them down to line managers and employees. This approach while expeditious suffers from a number of setbacks.

Firstly, employees and line managers do not OWN the KPIs and this affects implementation negatively and secondly, there is no capacity building, and the organization, line managers and employees will forever be dependent on external consultants for KPIs.

The preponderance of external consultants preparing KPIs and handing them down to organizations is the reason why you can meet a very experienced manager with 10-20 years professional experience who has used KPIs all through his career and yet, cannot craft KPIs for his team 20 years later and is still dependent on an external consultant or waiting for a HR Manager to do so.

Our belief is that organizations should go through this process the right way, so that employees can own their performance and we can all build our “strategic muscle” for now and the future.