

Performance Management and KPI's



Linking Activities to your Business Vision and Strategy

Managers talk a lot about employee performance.

There's constant pressure to achieve performance targets, to reach higher performance levels, and to ensure that people's work supports and furthers the organization's goals. Performance management is the process used to manage this performance.

The key question asked is, "How well is an employee applying his or her current skills, and to what extent is he or she achieving the outcomes desired?" The answer has traditionally been found in the performance evaluation process, where managers look for hard data to tell how well an employee has performed his or her duties.

What is often missing from this evaluation, however, is the part about making sure that the employee is doing the right thing. After all, you may have a very hard-working and dedicated team member, but if he or she is not working on things that advance the organisation's purpose, what is the point?

This is where key performance indicators come into play, and they apply both at the organisational and individual levels. At an organisational level, a **Key Performance Indicator (KPI)** is a **quantifiable** metric that reflects how well an organisation is achieving its stated goals and objectives.

For example, if your vision includes providing superior customer service, then a KPI may target the number of customer support requests that remain unsatisfied by the end of a week. By monitoring this, you can directly measure how well your organisation is meeting its long-term goal of providing outstanding customer service.

However if your KPI is inappropriate or naive, the resulting behaviours may be counterproductive. For example, using the same goal of providing superior customer service, the first KPI that often comes to mind is the number of customer complaints received. Intuitively, you may feel that the fewer complaints you receive, the higher the customer service you're offering. This is not necessarily true: You may be getting fewer complaints because you have fewer customers, or because customers are not able to access your support services.

Taking this a step further, while it is important for organisations to choose the correct KPIs for business performance, it is equally useful if managers and employees define KPIs for members of their teams. In fact, an ideal situation is where KPIs cascade from level to level in the organisation (in reality, this may be impractical if there are many levels to the organisation.) This helps people work in such a way that their activities are aligned with corporate strategy.

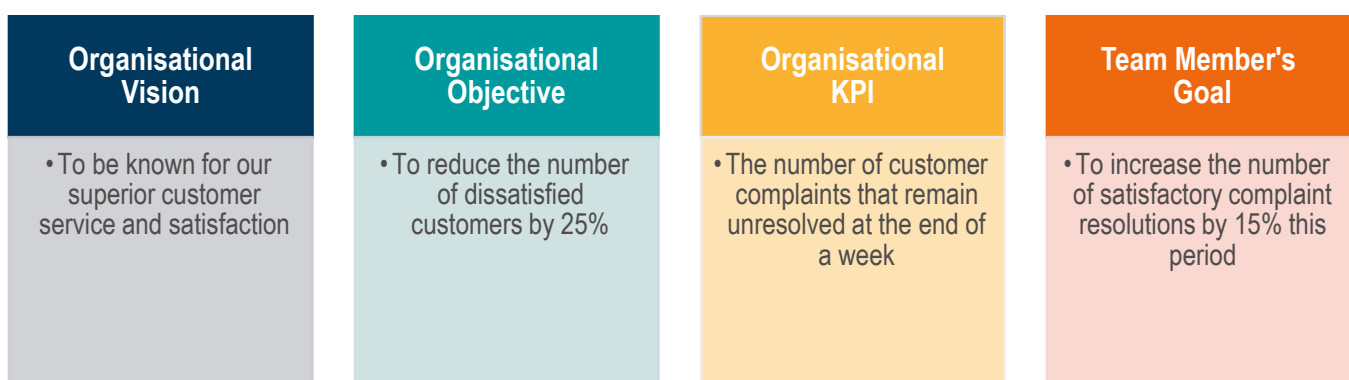
Employee Goals and KPIs

Part of performance management is setting goals with members of your team. This may be done within the formal appraisal process, but it doesn't have to be. The important factor is that the goals that are set are aligned with the department's strategy, which in turn is aligned with the overall strategy of the organisation.

This follows the common adage in management that says, "What is measured gets done." If you set a goal around a certain outcome, the chances of that outcome occurring are much higher, simply because you have committed to managing and measuring the results.

When an employee's goal is defined in terms of an organisational KPI, it ensures that what the employee is doing is well aligned with the goals of the organisation. This is the critical link between employee performance and organisational success.

Let's take an example of how an individual employee's goal is linked to organisational strategy:



Taken to the next level, each employee goal should have at least one associated KPI. How will you specifically measure, on a regular basis, whether or not this person is meeting his or her goal?

Team Member KPI

The weekly percentage difference in complaints handled that result in satisfied customers versus unsatisfied customers.

Use the following questions to help you work towards defining effective KPIs:

Understanding the context

- › What is the vision for the future?
- › What is the strategy? How will the strategic vision be accomplished?
- › What are the organisation's objectives? What needs to be done to keep moving in the strategic direction?
- › What are the Critical Success Factors? Where should the focus be to achieve the vision?

Defining KPIs

- › Which metrics will indicate that you are successfully pursuing your vision and strategy?
- › How many metrics should you have? (Enough, but not too many!)
- › How often should you measure?
- › Who is accountable for the metric?

- › How complex should the metric be?
- › What should you use as a benchmark?
- › How do you ensure the metrics reflect strategic drivers for organisational success?
- › How could the metrics be cheated, and how will you guard against this?
- › What negative, perverse incentives would be set up if this metric was used, and how will you ensure these perverse incentives are not created?

KPIs and Rewards, Recognition, and Development

When you are satisfied that you have meaningful metrics for measuring organisational or employee performance, you now have to make sure that the supporting elements of employee performance are aligned as well.

Just as what gets measured, gets done; so does what gets rewarded!

When you are establishing your rewards and recognition practices, make sure that what you are rewarding ties directly to the KPIs you set. For example, if you are measuring people on how well they deal with customer complaints, then rewarding them for lowering numbers of complaints confuses the message you're trying to send.

Conversely, if your organisation wants to attract new customers, then you might have a KPI that measures how many new customers are attracted each week. Depending on the situation, a well-aligned performance system may reward employees based on the number of new customers they personally help to attract.

Key Points

KPIs are metrics that link organisational vision with individual action. If you think of strategic practice as a pyramid, as shown in Figure 1 below, with vision at the top and actions at the bottom, in the middle you find the KPIs that have been derived from the strategy, objectives, and critical success factors of the organisation.

Right are the KPIs are the activities and projects that are pursued by the organisation in an attempt to achieve the KPIs.

To ensure that these activities are in fact aligned with the organisation's strategy, you need to concentrate on what the employees are actually doing. You do this through performance management.



By applying the principle of KPIs to employee goals and performance, you create a direct link between all of the key success factors that have been derived from the overall strategy.

The result is that members of your team actually do what they should be doing, and that your measurements for determining how well they are doing are clearly tied to organisational success.

If you need any clarification or advice the team at Prime Strategies are here to support and mentor.