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# Improve performance by using KPIs to drive behaviour

For many of MHC‟s clients, Key Performance Indicators (KPIs) represent the most succinct description of their objectives. Analysis of a number of our recent engagements identified five factors which cause KPIs to diminish as effective tools for driving behaviour, and ultimately, performance.

### Too many headline KPIs

Our clients respond to a diverse range of expectations, including those of owners, regulators, customers and staff. These expectations include financial performance, delivery on key strategies, asset performance and reliability, customer service, environmental, safety and technical compliance, and other workforce-related domains.

While these are all relevant areas in which to assess performance, most utilities translate these into their corporate scorecard. These scorecards can become populated with (typically) 15-20+ measures.

Businesses which drive effective management behaviour through their corporate scorecard focus on a more narrow set of KPIs – typically 7 to 10.

### Adding, subtracting and amending KPIs over time results in suites that are incongruent or do not reflect strategy

Many of our clients sensibly re-set their KPI suite (and possibly key result areas) at various points in their history, reflecting changes to the focus of the business. However, there is a temptation to add or remove KPIs as part of the annual planning process – either as a result of a short-term performance imperative, regulatory requirement, or particular interest.

While adapting to change is healthy management practice, often the impact of these annual incremental changes is not considered in the context of the overall KPI suite. Over time, these individually small changes can create a KPI framework with overlaps, gaps and inconsistencies, decreasing its effectiveness in guiding decision making or influencing behaviour. In addition, these KPIs may no longer reflect corporate strategy in terms of alignment, focus and balance.

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While every change in strategy should include a change in KPIs to reflect new outcomes, businesses must always remain vigilant against incremental change diffusing the focus.

MHC perspective

### Rigour in aligning KPIs (and understanding the contributing factors) often does not extend through to management levels

Even when KPI definitions at the corporate level are sound and well understood by the executive, the disaggregation of these measures into contributing factors (suitable for subordinate KPIs) is often not well understood. Similarly, while most businesses assign different measures in the corporate suite to one business unit – either as wholly accountable or as a „lead" business unit – assignment to the management level below this is often weak or unclear. This is despite that management level having arguably the most control over discrete levels of performance.

In an electricity distribution example, although it is common for asset management executives to be accountable for whole-of-system reliability, rarely are their direct reports assigned accountability for the key individual levers – such as outage frequency (by Asset Class) or Average Customer Numbers Affected by Outage (ACNABO). It is more common to see overall system reliability being "rolled up" to the management layer above, despite that manager having only moderate influence rather than control over performance.

The best suites of KPIs push accountability to the lowest possible level consistent with management capacity and capability to control outcomes for that KPI.

### Definitions behind KPIs must be rigorous and able to withstand gaming

The desire to deliver against KPIs and targets is intended to drive desirable behaviours; there is, however, always the potential for unintended (although somewhat predictable) adverse behaviour. MHC"s experience with KPIs shows an element of every business will ignore the strategic intent of a given measure, and seek to meet the target in ways that do not reflect sound underlying performance. A common example is the "re-setting" of milestones in major projects which results in a high „percentage of milestones met", despite the project being delivered significantly later than planned.

There is no singular solution to this challenge – the best organisations define their KPIs with great care, anticipate and take action to mitigate against adverse behaviours, set and hold true a clear baseline of performance (including by validating raw data elements), and take early action to confront any circumstance where the KPIs are thought to be driving (or supporting) actions which are undesirable.

### Driving performance through KPIs is a mixture of 'hard' elements and 'soft' elements

Sustainable performance management is complex – KPIs are but one useful tool. Organisations which do not systemically and culturally embrace performance management principles and practices will only achieve moderate value from a framework of KPIs and targets. Changes to KPIs and targets must be supported by change management activities. In addition to creating awareness that performance matters at the individual level, organisations need to understand what motivates their workforce to ensure the KPI framework is reflective of these motivations, while being driven by corporate goals.