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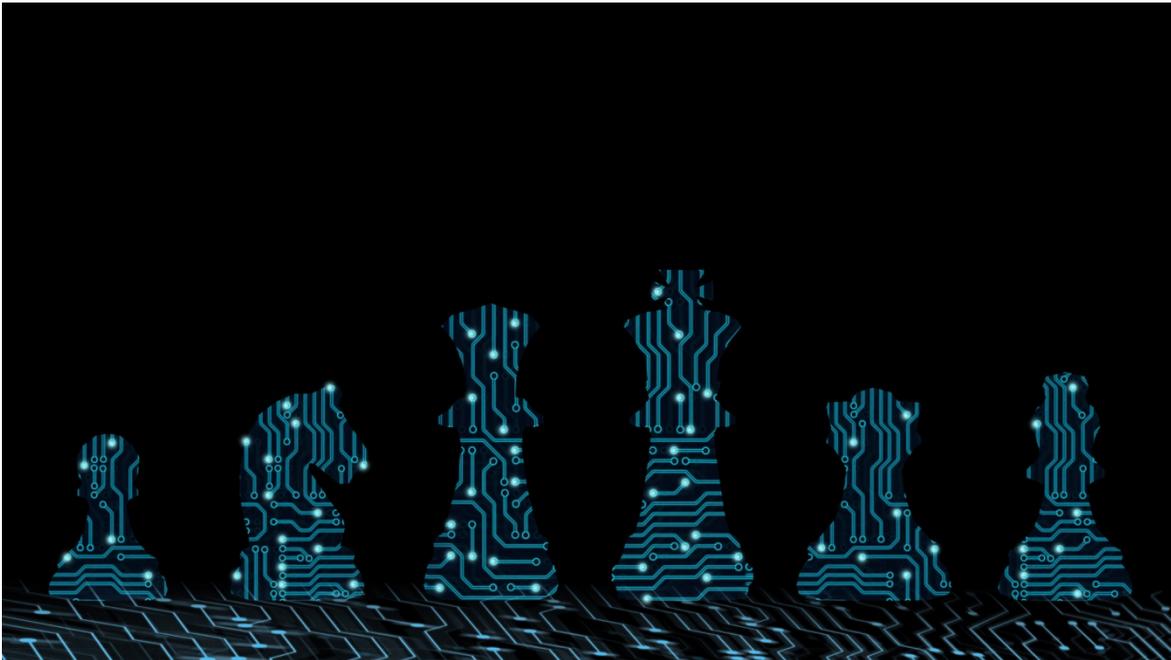


**DIGITAL  
INTENSITY**

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## How to Win the KPI Chess Game in 3 Smart Moves

By: David S. Harker, VCI Senior Consultant



The following story may resonate with managers:

A client company wanted to speed up mobile usage for close interval supervision at one of its plants. The manager chose a KPI to track volumetric results that would hopefully accelerate the transformation. Unfortunately, not everything went according to plan. The KPI was overly sensitive to delays due to breakdowns. This signaled to workers that it was more important to focus on the existing ad hoc work process and just get stuff done as opposed to following optimized work cycles.

During the deployment, some of the employees tried to cheat the system. During their shifts, they retroactively populated a workshop maintenance report reflecting the expected schedules.

The plant manager was seen pulling out hair the next day when he discovered none of the actual maintenance work was done and the fire-fighting culture was still pervasive.



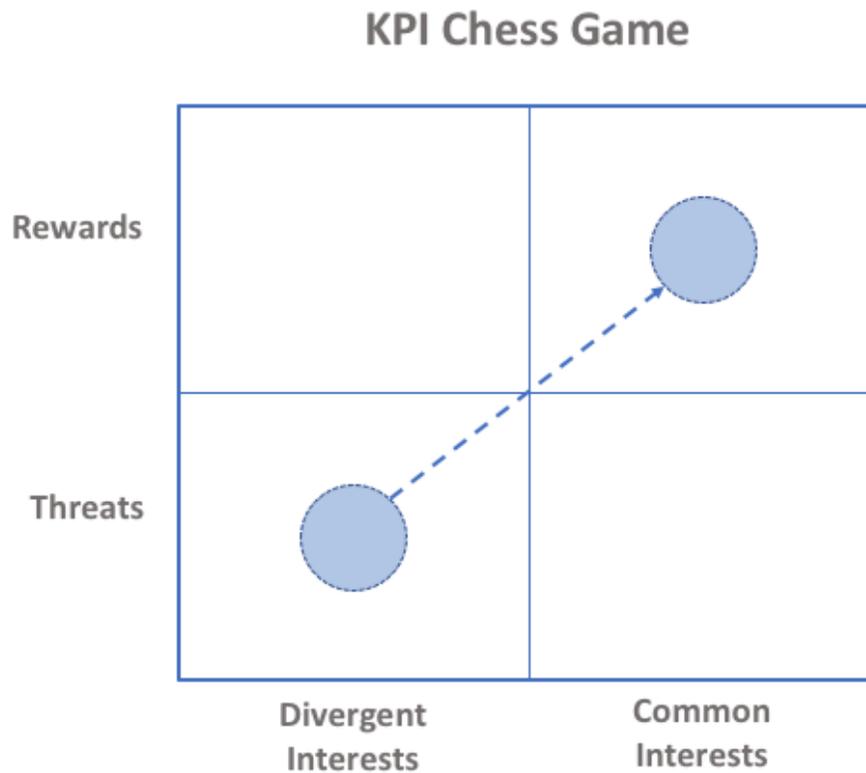
Many a manager has discovered that KPIs don't always produce the intended results. Perhaps you have encountered some of the following KPI pitfalls yourself:

- KPIs that encourage unwanted behaviors
- KPIs that are chosen out of convenience (either because they are easy to measure, or readily available in the system)
- KPIs that lack a logical connection with business outcomes
- KPIs that place too much emphasis on efficiency and not enough on effectiveness
- KPIs that create an imbalance where less-important things are over-valued

Don't get us wrong... KPIs and metrics are absolutely important. The point is that it requires thought and effort to get them right. Especially if the organization is undergoing a transformation. This is when there are conflicts between old processes and new ones – and in

many cases old metrics and new ones. Capable leaders understand this and take care to ensure KPIs measure the right things and that rewards motivate the right behaviors.

The below visual, illustrates the “KPI Chess Game”:



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The analogy of the KPI chess game is that workers often find it hard to adopt new work processes. When working with people that in some cases represent second and third generation plant operators, it pays to appreciate how well vested their old behaviors are. Their interests are getting the work done with the least amount of effort. Management’s new digital approach may be difficult to understand, and even tougher to execute as it’s all new and on-screen – i.e. everybody can see how they’re struggling and making mistakes. The worker now tries to avoid the transformation and as a consequence, has divergent interests to those of management. The trick is to know which “moves” to make in order to establish “common interests” that are shared between the worker and the company. Common interests ensure that the worker is motivated to act in the best interest of the organization. KPI masters have figured out how to ensure that articulated KPIs measure the right things. They have also mastered the ability to use rewards as a lever to encourage desired behaviors.

Here are the moves that will help you win the KPI Chess Game:

## KPI Chess Game Move #1: Focus on strategic outcomes

The first step in selecting a KPI is not to “ask the internet.” Sure, there can be value in doing a Google search to see what metrics are used in your particular industry... but that shouldn’t be the first step.

Instead, a good first step is to focus on strategic outcomes. The higher the strategic order of the KPI, the better chance of not having unintended consequences. But, the highest order KPI must remain directly connected to the expected behavior. So, “making a dent in the universe” is not a good KPI. Whereas, “having 95% work compliance of all plant work orders, digitally and not on paper” is a good KPI. In this instance, management wants people to use the digital system exclusively, with no deviations nor informal systems to cut corners, and still deliver on their production targets.

In formulating effective KPIs, ask yourself the following questions:

- What is your organization’s digital strategy?
- What do you have to do to be successful... to win?
- What outcomes and objectives are key to your organization’s success?
- Who are your key stakeholders? What makes them happy/unhappy?

Most operational KPIs focus on efficiency. Efficiency is certainly important, but it is not the only thing managers should be worried about. Your KPIs will increase in impact if you make a logical connection between the metric and strategic outcomes. By first connecting with your digital strategy, you will ensure that your metrics and KPIs are anchored in outcomes and effectiveness.

## KPI Chess Game Move #2: Clearly define your outcome goals

Leaders add value when they clearly define outcome goals for their organizations.

The FAST (*Frequently discussed, Ambitious, Specific, and Transparent*) framework is a new approach put forth by some folks at the MIT School of Management. It has been tested and refined with Google, Intel, and Anheuser-Busch InBev. We highlight it here as it is a fresh new way to think about goals and is supported by solid research.

The key difference between SMART and FAST is in the letter “A.” The FAST “A” stands for “ambitious” while the SMART “A” stands for “achievable.” The Sull brothers argue, “Expecting employees to hit 100% of their targets to earn their bonus, for example, creates strong motivation for them to ‘sandbag’ by setting conservative targets they are sure to achieve.”

Definitions and benefits of the framework are identified as:

	<b>Definition</b>	<b>Benefits</b>
 <b>Frequently discussed</b>	Goals should be embedded in ongoing discussions to review progress, allocate resources, prioritize initiatives, and provide feedback.	<ul style="list-style-type: none"> <li>• Provides guidance for key decisions.</li> <li>• Keeps employees focused on what matters most.</li> <li>• Links performance feedback to concrete goals.</li> <li>• Evaluates progress and course corrects.</li> </ul>
 <b>Ambitious</b>	Objectives should be difficult but not impossible to achieve.	<ul style="list-style-type: none"> <li>• Boosts performance of individuals and teams.</li> <li>• Minimizes the risk of sandbagging.</li> <li>• Forces broader search for innovative ways to achieve goals.</li> </ul>
 <b>Specific</b>	Goals are translated into concrete metrics and milestones that force clarity on how to achieve each goal and measure progress.	<ul style="list-style-type: none"> <li>• Clarifies what employees are expected to deliver.</li> <li>• Helps identify what is not working and quickly course corrects.</li> <li>• Boosts performance of individuals and teams.</li> </ul>
 <b>Transparent</b>	Goals and current performance should be made public for all employees to see.	<ul style="list-style-type: none"> <li>• Makes use of peer pressure to perform on goals.</li> <li>• Shows employees how their activities support company goals.</li> <li>• Understands other teams' agendas.</li> <li>• Surfaces activities that are redundant or unaligned with strategy.</li> </ul>

Source: <https://sloanreview.mit.edu/article/with-goals-fast-beats-smart/>

How well you are able to define clear outcome goals will directly influence the quality of your KPIs and metrics. Remain sensitive to the transformation goal. If it's only production (and safety) you're focusing on, the digital transformation will never happen. Production challenges will always override digital enabling activities. We must include the digital processes as an inherent condition of every goal. Unlike traditional KPIs we now include both the "how" and the "what." This step is worth doing right. "Measure twice and cut once" as the saying goes.

### KPI Chess Game Move #3: Design your metrics for maximum fit

The goal with Step 2 is to strive for a "tight fit" between the KPI and the outcome goal, making sure we have included the digital process into the expected outcome. The following questions are helpful:

- Are you able to establish a logical connection between the KPI and the outcome goal?
- Are there potential unintended consequences?
- Is the digital work flow behind every KPI clearly explained?
- How will the KPI be measured? Is the data tracked in a system and is it currently available?

Sometimes a tighter fit between the KPI and the outcome goal can be established using an alternative to the “ad hoc” metrics and KPIs that are used.

For example, VCI provides consulting services to companies going through digital transformation. We developed a scoring system for digital initiatives that can be used as a KPI. In this type of approach, the key is to identify the criteria important for success and have a fair process for evaluating performance. This approach works well in cases where a more traditional metric doesn’t achieve a great fit with strategic outcomes.

The below table provides a sample of what this digital scoring system might look like:

Digital Initiative Scoring System (10 = Meets Criteria, 1=Does not meet criteria) **Option to assign different weights. For example, we recommend giving most weight to <b>impact</b> .						
Digital Initiative	Impact What kind of business or strategic impact do we expect the initiative to have?	Cost Is the cost appropriate given the expected ROI?	On-time Has implementation been on schedule?	Usability Has the user experience been considered and planned for?	Quality Has the solution been tested, bugs resolved, and found to be of high quality?	Score
Initiative #1	5	7	3	10	10	35
Initiative#2	9	8	10	8	8	43
Initiative #3	4	3	6	7	8	28

### KPI Chess Game Mastery

Following these 3 smart moves in the KPI chess game will set you on a path to becoming an effective designer and manager of KPIs. Remember to *focus on strategic outcomes*. This will ensure you are focused on the right things. Next, bring clarity to your organization by *defining outcome goals*. Finally, *design metrics that have a logical connection* to your outcome goals and overall strategy.



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