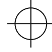


CHAPTER 1

The Great KPI Misunderstanding

For far too long organizations have measured too much, with the cost often outweighing the benefit of the measurement. They have relied too much on financial measures and have used "bottom of the cliff" monthly measures that are too late to change events. Added to this mix is often a balanced scorecard, driven by consultants, at great expense and populated by measures designed by managers to keep the boss happy. A mess of epic proportions.

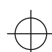
> There are four types of performance measures, and thus it is a myth to consider all measures as KPIs.

The Four Types of Performance Measures

From my research over the past 30 years I have come to the conclusion that there are four types of performance measures, and thus it is a myth to consider all measures as KPIs. These four measures are in two groups: *result indicators* and *performance indicators*.

I use the term *result indicators* to reflect the fact that many measures are a summation of more than one team's input. These measures are useful in looking at the combined teamwork but, unfortunately, do not help management fix a problem, as it is difficult to pinpoint which teams were responsible for the performance or nonperformance.

Performance indicators, on the other hand, are measures that can be tied to a team or a cluster of teams working closely together for a common



purpose. Good or bad performance is now the responsibility of one team. These measures thus give clarity and ownership.

With both these measures some are more important, so we use the extra word "key." Thus, we now have two measures for each measure type:

1. Key result indicators (KRIs) give the board an overall summary of how the organization is performing.
2. Result indicators (RIs) tell management how teams are combining to produce results.
3. Performance indicators (PIs) tell management what teams are delivering.
4. Key performance indicators (KPIs) tell management how the organization is performing 24/7, daily, or weekly in their critical success factors, and by taking action management is able to increase performance dramatically.

Many performance measures used by organizations are result indicators and it is thus, no wonder, why reporting these measures has not improved performance. First, I will describe each type of measure.

Key Result Indicators

What are key result indicators (KRIs)? KRIs are measures that often have been mistaken for KPIs. The common characteristics of these measures is that they are the result of many actions carried out by many teams over a period of time, hence the use of the term "result," and they are good summary measures, hence the term "key." These key result indicators should be reviewed typically at the bimonthly or quarterly board meetings giving the board an understanding as to how the organization is progressing with its strategy. KRIs are always a past measure.

Key result indicators are of little use to management as they are reported too late to change direction, nor do they tell you what you need to do to improve these results. You know you have a KRI when the CEO is the person ultimately responsible for the measure. For the private sector, key result indicators would include:

- Net profit before tax
- Net profit on key product lines

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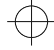


- Customer satisfaction (by customer group, showing the trend over an 18-month period)
- Return on capital employed
- Employee satisfaction (by groups showing the trend over an 18-month period)

For government and nonprofit agencies these measures would also include:

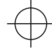
- Availability of the major services that are offered, e.g., average waiting time for service
- On-time implementation of infrastructure projects
- Membership numbers (for professional organizations)

Separating KRIs from other measures has a profound impact on reporting, resulting in a separation of performance measures into those impacting governance and those impacting management. Accordingly, an organization should have a Board Dashboard consisting of up to 10 KRIs for the board, and a series of management reports reporting progress in various intervals during the month depending on the significance of the measure. These reports are illustrated in Chapter 10.

Result Indicators

Result indicators (RIs) summarize the activity of more than one team. They are good to review as an overview of how teams are working together. The difference between a key result indicator and a result indicator is simply that the key result indicator is a more overall and more important summary of activities that have taken place.

When you look at a financial measure, you will note that you have assigned a value to various activities that have taken place. In other words, financial indicators are a result of activities. I thus believe all financial performance measures are RIs. Daily or weekly sales analysis is a very useful summary, but it is a result of the effort of a number of teams: from the sales team to the teams involved in manufacture, quality assurance, and dispatch. Financial indicators are useful but mask the real drivers of the performance. To fully understand what to increase or decrease, we need to look at the activities that created the financial indicator.

Trim Size: 6in x 9in  Parmenter620778 C01.tex V1 - 09/10/2019 6:25pm Page 6

Key performance indicators (KPIs) are those indicators that focus on the aspects of organizational performance that are the most critical for the current and future success of the organization.

Result indicators look at activity over a wider time horizon. They not only measure quarterly and monthly results but also weekly, daily activities, and future planned events. For the private sector, result indicators that lie beneath KRIs could include:

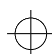
- Sales made yesterday
- Number of initiatives implemented from the recent customer satisfaction survey
- Number of planned initiatives to be implemented next month to improve the timeliness of ________
- Number of initiatives implemented from the staff survey
- Number of employees' suggestions implemented in the past 30 days
- In-house courses scheduled to be held within three weeks where attendee numbers are below target
- Number of managers who have not attended leadership training (reported quarterly, by manager level)
- Number of staff trained to use specified systems (key systems only)

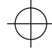
For government and nonprofit agencies, result indicators would also include:

- Weekly hospital bed utilization
- Percent coverage of [Enterprise Name]'s supported services
- Number of people on treatment/tested for [Disease Name 1], [Disease Name 2], and for [Disease Name 3]
- Grants achieving their public health targets as per grant agreements
- Percentage of investments covering low-income, high disease-burdened countries

Key Performance Indicators

Key performance indicators (KPIs) are those indicators that focus on the aspects of organizational performance that are the most critical for the current and future success of the organization.





KPIs are rarely new to the organization. Either they have not been recognized, or they were gathering dust somewhere unknown to the current management team. KPIs can be illustrated by two examples.

Example: An Airline KPI

My favorite KPI story is about a senior British Airways official who set about turning British Airways (BA) around in the 1980s by reportedly concentrating on one KPI.

The senior BA official employed some consultants to investigate and report on the key measures he should concentrate on to turn around the ailing airline. They came back and told the senior BA official that he needed to focus on one critical success factor (CSF), the timely arrival and departure of airplanes. The consultants must have gone through a sifting process sorting out the success factors that were critical from those that were less important. Ascertaining the five to eight CSFs is a vital step in any KPI exercise, and one seldom performed. In Exhibit 1.1 the CSFs are shown as the larger circles in the diagram.

The senior BA official was, I am sure, initially not impressed, as everybody in the industry knows the importance of timely planes.

However, the consultants then pointed out that this is where the KPIs lay, and they proposed that he focus on a late plane KPI. He was notified,

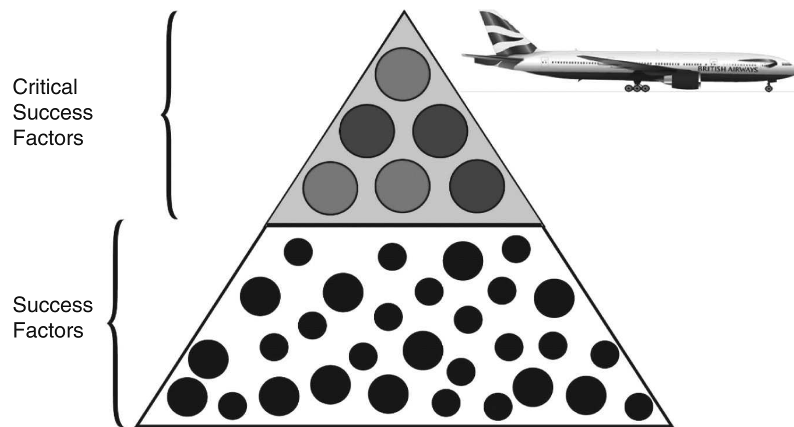
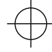


Exhibit 1.1 The Importance of Knowing Your Critical Success Factors

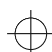
Trim Size: 6in x 9in  Parmenter620778 C01.tex V1 - 09/10/2019 6:25pm Page 8

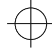
wherever he was in the world, if a BA plane was delayed over a certain time. The BA airport manager at the relevant airport knew that if a plane was delayed beyond a certain "threshold," they would receive a personal call from the senior BA official (let's call him Sam). I imagine the conversation going like this:

> *"Pat, it's Sam on the phone. I am ringing up about BA135 that left Kennedy Airport over two and a quarter hours late, what happened?" Pat replies, "There is an easy explanation to this late plane Sam. The system will tell you that the plane was late leaving Hawaii. In fact, it was one and three quarters hours late and everything was in order at our end except an elderly passenger got lost in the duty-free shopping area. We had to offload their bags and, as you can see, we did it in record time, only half an hour—a time I wish to celebrate with my team next week!"*
>
> *"Pat, how long have you worked for British Airways?"*
>
> *Pat, now realizing this conversation is not going well, responded, "About 30 years, Sam."*
>
> *"In fact, Pat, it is 32. So, with 32 years of experience with us you are telling me that with six hours of advance notice that the plane was already late, you and your team could do nothing to reduce the delay, and instead you added half an hour to an already late plane. Quite frankly Pat, I am disappointed, as you and your team are better than this!"*

Pat and many others employed by the airline had the "not invented by us" syndrome. A late plane created by another BA team was their problem not ours. Pat gathered the troops the next day and undertook many proactive steps to ensure they recaptured the lost time, no matter who had created the problem. Actions such as:

- Doubling up the cleaning crew, even though there was an additional external cost to this.
- Communicating to the refueling team which planes were a priority.
- Providing the external caterers with late-plane updates so they could better manage re-equipping the late plane.
- Staff on the check-in counters asked to watch out for at-risk customers and chaperone them to the gate.





- Not allowing the business class passenger to check in late, yet again. This time saying, "Sorry Mr. Carruthers, we will need to reschedule you as you are too late to risk your bags missing this plane. It is on a tight schedule. I am sure you are aware that the deadline for boarding passed over 30 minutes ago."

The BA managers at the relevant airport knew that if a plane was delayed beyond a certain threshold, they would receive a personal call from Sam. It was not long before BA planes had a reputation for leaving on time.

The late-planes KPI worked because it was linked to most of the critical success factors for the airline. It linked to the "delivery in full and on time" critical success factor, namely the "timely arrival and departure of airplanes," and it linked to the "timely maintenance of planes" critical success factor.

It is interesting that Ryanair, a low-cost Irish airline, has a major focus on timeliness of planes. They know that is where they make money, often getting an extra European flight each day out of a plane due to their swift turnaround and their uncompromising stand against late check-in. They simply do not allow customers to get in the way of their tight schedules.

The late-planes KPI affected many aspects of the business. Late planes:

1. Increased cost in many ways, including additional airport surcharges and the cost of accommodating passengers overnight as a result of planes having a delayed departure due to late-night noise restrictions.
2. Increased customer dissatisfaction leading to passengers trying other airlines and changing over to their loyalty programs.
3. Alienated potential future customers as those relatives, friends, or work colleagues inconvenienced by the late arrival of the passenger avoided future flights with the airline.
4. Had a negative impact on staff development as they learned to replicate the bad habits that created late planes.
5. Adversely affected supplier relationships and maintenance scheduling.
6. Increased employee dissatisfaction, as they were constantly firefighting and dealing with frustrated customers.

Example: A Distribution Company KPI

A distribution company's chief executive officer (CEO) realized that a critical success factor for the business was for trucks to leave as close to capacity as possible. Where trucks were sent out underweight, he would ring them.

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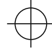
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KPIs have seven characteristics.

"Pat, it's Sam on the phone. I am ringing up about the truck that was sent to Alice Springs yesterday with only ten tons on it. What happened?" Pat replies, "There is an easy explanation. We had agreed to a delivery date, and there was no other freight going to that town. I am a stickler for ensuring we deliver every item on time to customers, Sam."

"Pat, you have worked for us for 12 years and are one of our most experienced dispatchers, and you know that making calls to customers to optimize our truck fleet is the most important part of your job. I am disappointed, Pat, as I know you are better than this!"

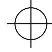
In both examples the impact on profitability was significant, and staff members did their utmost to avoid a career-limiting phone call from the CEO. (Both these examples are provided in greater detail in my webcast, "Introduction to Winning KPIs," which can be accessed via www.davidparmenter.com.)

The Seven Characteristics of KPIs

From extensive analysis and from discussions with over 3,000 participants in my KPI workshops, covering most organization types in the public and private sectors, I have concluded that KPIs have seven characteristics, as set out in Exhibit 1.2.

Exhibit 1.2 The Seven Characteristics of KPIs

Nonfinancial	Nonfinancial measures (e.g., not expressed in dollars, yen, pounds, euros, etc.)
Timely	Measured frequently (e.g., 24/7, daily, or weekly)
CEO focus	Acted upon by the CEO and senior management team
Simple	All staff understand the measure and what corrective action is required
Team based	A team can be phoned, and they will accept responsibility, and can take action to improve measure
Significant impact	Major impact on the organization's critical success factors
Limited dark side	Have been tested to ensure that they have a positive impact on performance, with any unintended consequence being of minor significance



Non financial. When you put a dollar, yen, pound, or euro sign on a measure, you have already converted it into a result indicator (e.g., daily sales are a result of activities that have taken place to create the sales). The KPI lies deeper down. It may be the number of visits to contacts with the key customers who make up most of the profitable business.

Timely. KPIs should be monitored 24/7, daily, or perhaps weekly for some. A monthly, quarterly, or annual measure cannot be a KPI, as it cannot be key to your business if you are monitoring it well after the horse has bolted. I have yet to see a monthly performance measure improve performance.

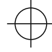
CEO focus. All KPIs will have the CEO's constant attention with daily calls being made to the relevant staff enquiring about exceptions or recognizing their outstanding performance. Staff will perceive talking about poor performance with the CEO, on a regular basis, as career-limiting and will take innovative steps to prevent recurrences.

Simple. A KPI should tell you what action needs to be taken. The British Airways late-planes KPI communicated immediately to everyone that there needed to be a focus on recovering the lost time. Cleaners, caterers, baggage handlers, flight attendants, and front desk staff would all work some magic to save a minute here and a minute there while maintaining or improving service standards.

Team based. A KPI is deep enough in the organization that it can be tied to a team. In other words, the CEO can call someone and ask, "Why did this happen?" and that manager will take on the responsibility to fix the issue. Return on capital employed has never been a KPI, because the CEO would get nowhere saying to a GM, "Pat, I want you to increase the return on capital employed today."

Significant impact. A KPI will affect a number of the organization's critical success factors. In other words, when the CEO, management, and staff focus on the KPI, the organization scores goals in many directions.

Limited dark side. All measures have a dark side, an unintended consequence where staff will take some remedial actions that will be contrary to the desired intentions. Before becoming a KPI, a performance measure needs to be tested to ensure that it helps teams to align their behavior in a coherent way to the benefit of the organization. The possible unintended consequence associated with measuring all the selected KPIs being checked to ensure they are not major or of significance.



For the private sector, key performance indicators that fit the characteristics I have proposed could include:

- Number of CEO recognitions planned for next week or the next two weeks—reported weekly to the CEO
- Staff in vital positions who have handed in their notice in the last hour—reported within one hour to the CEO
- Late deliveries to key customers—reported daily to the CEO
- Key position job offers issued to candidates that are more than three days outstanding—reported daily to the CEO
- List of late projects, by manager, reported weekly to the senior management team—reported weekly to the CEO
- Number of vacant places at an important in-house course—reported daily to the CEO in the last three weeks before the course is due to run
- Number of initiatives implemented after the staff-satisfaction survey—reported weekly to the CEO for up to two months after survey
- Number of innovations planned for implementation in the next 30, 60, or 90 days—reported weekly to the CEO
- Number of abandonments to be actioned in the next 30, 60, or 90 days—reported weekly to the CEO
- Complaints from key customers that have not been resolved within two hours—reported 24/7 to CEO and GMs
- Key customer enquiries that have not been responded to by the sales team for over 24 hours—reported daily to the GM
- Date of next visit to major customers by customer name—reported weekly to CEO and GMs

For government and nonprofit agencies, key performance indicators could also include:

- Emergency response time over a given duration—reported immediately to the CEO
- Number of confirmed volunteers to be street collectors for the annual street appeal—reported daily to the CEO in the four to six weeks before the appeal day
- Date of next new service initiative—reported weekly to the CEO

Performance Indicators

Performance indicators (PIs) are those indicators that are nonfinancial (otherwise they would be result indicators) that can be traced back to a team. The difference between performance indicators and KPIs is that the latter are deemed fundamental to the organization's well-being. Performance indicators, although important, are thus not crucial to the business. The performance indicators help teams to align themselves with their organization's strategy. Performance indicators complement the KPIs; they are shown on the organization, division, department, and team scorecards.

An organization, with over 500 FTEs, will have about 10 KRIs, up to 80 RIs and PIs, and 10 KPIs.

For the private sector, performance indicators could include:

- Abandonment rate at call center—callers giving up waiting
- Late deliveries to other customers (excluding key customers)
- Planned abandonments of reports, meetings, processes that are no longer functioning
- Number of innovations implemented by each team/division
- Sales calls organized for the next week, two weeks, and so forth
- Number of training hours booked for next month, months two and three, and months four to six—in both external and internal courses

For government and nonprofit agencies, performance indicators could also include:

- Number of media coverage events planned for next month, months two to three, and months four to six
- Date of next customer focus group
- Date of next research project into customer needs and ideas

Number of Measures Required: The 10/80/10 Rule

How many measures should we have? How many of each measure type? What time frames are they measured in? To answer these questions, I devised, more than 10 years ago, the 10/80/10 rule, as illustrated in Exhibit 1.3. I believe an organization with over 500 FTEs will have about 10 KRIs, up to 80 RIs and PIs, and 10 KPIs. These numbers are the upper limits and, in many cases, fewer measures will suffice.

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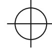


Measure	Number	Reporting
Key result indicators (Board KPIs)	10	Reported every board meeting
Result indicators / **Performance indicators**	80	Reported daily, weekly, monthly
Key performance indicators (Operational KPIs)	10	Reported 24/7, daily or weekly

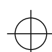
Exhibit 1.3 The 10/80/10 Rule for the Number of Measures

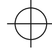
For smaller organizations, the major change would be a reduction in the number of RIs and PIs. Reporting up to 10 KRIs to the board or governing body is entirely logical. We do not want to bury them in too much detail. A Board Dashboard can easily be designed to show these KRIs along with a summary financials all on one fan-fold (A3) page, as shown in Chapter 10.

For many organizations, 80 RIs and PIs will at first appear totally inadequate. Yet, on investigation, you will find that separate teams are actually working with variations of the same indicator, so it is better to standardize them (e.g., a "number of training days attended in the past month" performance measure should have the same definition and the same graph).

When we look at the characteristics of KPIs one will see that these measures are indeed rare and that many organizations will operate very successfully with no more than 10 KPIs. Kaplan and Norton[1] recommend no more than 20 KPIs and Hope and Fraser[2] suggest fewer than 10 KPIs. KPI project teams may, at first, feel that having only 10 KPIs is too restrictive and thus increase the number of KPIs to 30 or so. With careful analysis, that number will soon be reduced to the 10 suggested, unless the organization is composed of many businesses from very different sectors. If that is the case, the 10/80/10 rule can apply to each diverse business, providing it is large enough to warrant its own KPI rollout.

As explained in Chapter 2, it is a myth that the more measures there are, the better performance measurement will be. In fact, as has no doubt been witnessed by many readers, the reverse is true. I believe the 10/80/10 rule is a good guide, as it appears to have withstood the test of time.





Difference between KRIs and KPIs and RIs and PIs

During workshops, one question emerges time and time again: “What are the differences between KRIs and KPIs, and RIs and PIs?” Exhibits 1.4 and 1.5 clarify these differences.

Exhibit 1.4 Difference between KRIs and KPIs

KRIs	KPIs
Can be financial or nonfinancial (e.g., return on capital employed and customer satisfaction percentage).	Nonfinancial measures (not expressed in dollars, yen, pound, euros, etc.).
Measured monthly, bimonthly, and quarterly.	Measured frequently (e.g., 24/7, daily, or weekly).
Reported at the board meetings as a good summary of progress to date (e.g., seen as an outcome measure).	Available to all staff so action can be taken.
It does not help staff or management because nowhere does it tell you what you need to fix.	All staff understand the measure and what corrective action is required.
Commonly, the only person responsible for a KRI is the CEO.	Responsibility can be tied down to a team or a cluster of teams working closely together.
A KRI is designed to summarize progress in a particular area. Tends to focus on the external critical success factors as seen through the board members’ eyes.	Significant impact (e.g., it impacts on more than one internal critical success factor).
A KRI is a result of many activities managed through a variety of performance measures.	Focuses on a specific activity.
Normally reported by way of a trend graph covering at least the past 15 months of activity.	Normally reported by way of an intranet screen indicating activity, person responsible, past history, so that a meaningful phone call can be made.

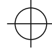
Trim Size: 6in x 9in  Parmenter620778 C01.tex V1 - 09/10/2019 6:25pm Page 16

Exhibit 1.5 Difference between RIs and PIs

RIs	PIs
Can be financial and nonfinancial.	Mainly nonfinancial measures (not expressed in dollars, yen, pound, euros, etc.).
Measured more frequently as monthly or sometimes quarterly measures.	Measured more frequently as daily, weekly, biweekly, or monthly.
Designed to summarize overall performance by a collection of diverse teams.	Tied to a discrete activity, and thus to a team, or a cluster of teams who work closely together.
A result of more than one activity.	Focuses on a specific activity.
Does not tell you what you need to do more or less of.	All staff understand what action is required to improve performance.
Normally reported in a division/ department scorecard summarizing various team performance.	Normally reported in a team scorecard.

When sorting through measures I use the following simple set of rules:

1. If it is a financial indicator—it can never be a KPI.
2. If the time period is longer than a week—it can never be a KPI.
3. If you cannot find a manager to phone who will accept responsibility for performance—it can never be a KPI.

The Lead and Lag Confusion

Many management books that cover KPIs talk about lead and lag indicators; this merely clouds the KPI debate. Using the new way of looking at performance measures, we dispense with the terms *lag* (outcome) and *lead* (performance driver) indicators. At my seminars, when the audience is asked, “Is the late-planes-in-the-air KPI a lead indicator or a lag indicator?” the vote count is always evenly split. The late plane in the sky is certainly both a lead and a lag indicator. It talks about the past, and it is about to create a future problem when it lands. Surely this is enough proof that the

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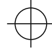


labeling of measures as lead-and-lag indicators is misleading and should be included among the myths of performance measurement.

Lead-and-lag labeling of measures is misleading.

Have a Mix of 60 Percent Past, 20 Percent Current, and 20 Percent Future-Oriented Measures

Key result indicators replace outcome measures, which typically look at past activity over months or quarters. PIs and KPIs are now characterized as past, current, or future measures; see Exhibit 1.6.

Past measures are those that look at historic events—activity that took place last week, last month, last quarter, and so on. PIs and KPIs are now characterized as past-, current-, or future-focused measures. Typically, most measures fit into this category. Ideally while they will always be the more dominant, they should not exceed 60 percent of the total number of measures.

Current measures refer to those monitored 24/7 or daily (e.g., late/incomplete deliveries to key customers made yesterday). While most organizations have some current measures, they need to extend the number to around 20 percent of the total number of measures.

Future measures are the record of an agreed future commitment when an action is to take place (e.g., date of next meeting with key customer, date of next product launch, date of next social interaction with key customers). Typically, these have not been measured in the past. I recommend that you have up to 20 percent of your measures in this category.

In your organization, you will find that your KPIs are either past measures (where the KPI relates to last week's activity) current (where it is referring to yesterday's or today's activity)—or future-oriented measures (e.g., a list, by key customer, of the dates of the next planned sales visits).

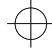
Most organizational indicators are measuring events of the past month or quarter. All measures that look back beyond a week, as already mentioned, cannot be and never were KPIs.

In workshops, I ask participants to write a couple of their major past measures and then restate the measures as current and future measures. Try this on your organization, please take five minutes to restate three measures used in your organization.

The lead/lag division of measures did not focus adequately on current or future-oriented measures. Entities that want to create a better alignment

Exhibit 1.6 Past/Current/Future Performance Measures Analysis

Past measures (past week/two weeks/month/quarter).	**Current measures (real-time/ today/yesterday).**	**Future measures (next week/month/quarter).**
Number of late planes last week/last month.	Planes more than two hours late (updated continuously).	Number of initiatives to be commenced in the next month, two months to target areas that are causing late planes.
Percentage of **on-time delivery** (show progress over past 18 months)	Late deliveries/incomplete deliveries to key customers. Cancellation of order by key customer.	Number of initiatives planned within next three months to **increase on-time delivery** to customers.
Monthly sales by key customer. Sales last month in new products. Percentage of **sales** that have arisen from cross-selling among business units.	**Sales** made yesterday. Key customer **inquiries** that have not been responded to by the sales team within __ hours. Complaints from our key customers that have not been resolved within two hours, reported to the CEO.	Date of next visit to key customers (by customer name, reported to CEO). Number of initiatives planned within next three months to **increase sales staff time in front of customers.** Date of next initiative to attract targeted **new customers.** Number of improvements to new products to be implemented in next month, months two and three.
Number of managers trained in **recruiting** practices. Number of **candidates** that come from employee referrals. **Turnover of new hires** within one year.	Key position job offers that are over 48 hours old and have not yet been accepted by the chosen candidate. Job applications from potential **candidates**, which have not been responded to within three days of receipt.	Names of shortlisted **candidates** for whom the next round of interviews has yet to be scheduled.



of staff activities with the organization's critical success factors will need to be monitoring more current and future measures.

Monitoring the activity taken now about the organizing of future actions to occur will help focus staff on what is expected of them. *Current* and *future* measures are often the fence at the top of the cliff. They are in place, so that we do not have to report inferior performance at month-end (the body at the bottom of the cliff). In other words, current and future measures help make the right future happen. In Exhibit 1.7 are some useful future measures that will work in most organizations.

All these future measures would be reported in a weekly update given to the CEO. Although CEOs may let a couple of weeks pass with gaps appearing on these updates, they will soon start asking questions. Management would take action, prior to the next meeting, to start filling in the gaps to ensure they avoided further uncomfortable questioning.

Exhibit 1.7 Examples of Common Future Measures

Future innovations	To encourage future innovations it is desirable to measure the number of new innovations that will be fully operational in the next month, month two, and month three by department.
Future key customer events	To maintain a close relationship with our key customers, a list should be prepared with the next agreed social interaction (e.g., date agreed to attend a sports event, a meal, the opera, etc.).
Future PR events	To maintain the CEO's profile it is desirable to monitor the public relations events that have been organized in the next one to three, four to six, seven to nine months.
Future recognitions	To maintain staff recognition, the CEO needs to monitor the formal recognitions planned next week/next two weeks by themselves and their direct reports.
New products	The CEO needs to maintain an active watch on the planned date of the next product launch to prevent unnecessary date slippage.
Disaster planning	The CEO needs to ensure that the organization is ready for a disaster by monitoring the date of **next environmental disaster** clean-up practice exercise.
Staff satisfaction	The CEO needs to ensure staff satisfaction surveys are carried out at least three times a year. By monitoring the date of next planned **staff satisfaction** survey the CEO has the ability to bring the date forward.
In-house training	To re-enforce the commitment that every manager should have to in-house training the CEO needs to know, on a weekly basis, all the managers that do not have any staff registered to attend the **in-house courses** scheduled in the upcoming weeks.
Health and safety	The CEO needs to ensure a constant focus on health and safety by monitoring the date of the next **health and safety** audit.

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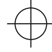


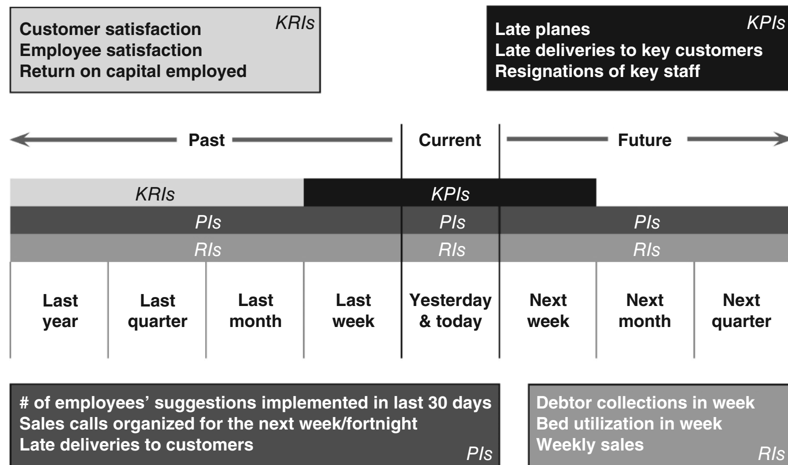


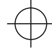
Exhibit 1.8 The Differences in the Four Measures and the Time Zones

A KPI provided to management that is more than a few days old is useless.

The differences in the four measures and the past, current, and future time periods are further explained in Exhibit 1.8. KRIs are summaries of past performance, principally monthly trend analysis over 18 months. KPIs focus on activity in the past week, yesterday, and today, and that planned for the next week and the next two weeks. PIs and RIs will be heavily weighted to the past; however, we do need at least 20 percent of measures to be current- or future-focused.

Importance of Timely Measurement

Before proceeding further, we will look at the importance of timely measurement. It is essential that measurement be timely. Today, a KPI provided to management that is more than a few days old is useless. KPIs are prepared in real time, with even weekly ones available by the next working day. The suggested reporting framework of performance indicators is set out in Exhibit 1.9.



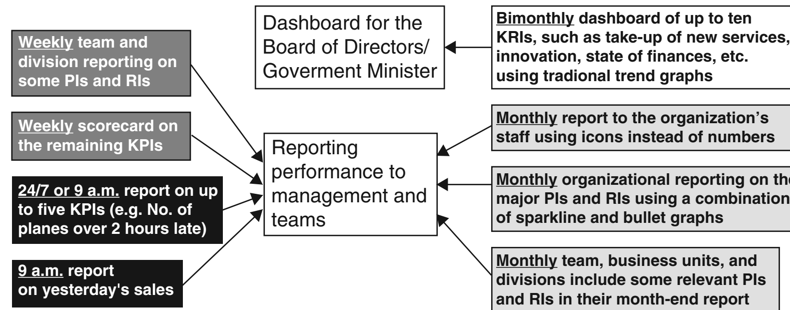


Exhibit 1.9 Suggested Reporting Framework

Frequently, staff working for government and nonprofit agencies tell me that we do not have any measures that we need to monitor frequently. I beg to differ. Review the Appendix for examples of measures that will be useful for all sectors.

Some of the KPIs will be updated daily or even 24/7 (as in the British Airways case), whereas the rest of the KPIs will be reported weekly. Performance measures that focus on completion should be included. A common weekly KPI, for organizations where finishing is a problem, is the reporting to the senior management team of all important projects and reports that are running late. Such reporting will revolutionize project and task completion in your organization.

The RIs and PIs will be reported in various time frames from daily, weekly, and fortnightly to monthly. The KRIs, which are best used to report performance to the board, will, therefore, be based around the timing of the board meeting.

Where Are You in Your Journey with Performance Measures?

The checklist in Exhibit 1.10 is designed to assess your progress with performance measures. It will help you assess how far you are on the journey.

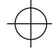


Exhibit 1.10 Assessing Your Progress with Performance Measures Checklist

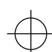
Knowledge of the critical success factors	**Is it covered?**
1. Senior management has a common understanding of the organization's success factors.	◻ Yes ◻ No
2. The organization has identified the critical success factors.	◻ Yes ◻ No
3. The critical success factors have been communicated to all staff and are impacting positively on the setting of daily priorities.	◻ Yes ◻ No
Existing KPI implementation	
1. Teams have been trained in designing measures.	◻ Yes ◻ No
2. The KPI team vet all measures before they are approved.	◻ Yes ◻ No
3. The KPIs were implemented based around a methodology such as a Balanced Scorecard, PuMP, Winning KPIs.	◻ Yes ◻ No
4. Teams have selected measures from an approved list of measures.	◻ Yes ◻ No
5. Measures have been derived from the identified critical success factors.	◻ Yes ◻ No
6. There is an awareness that not all measures are KPIs.	◻ Yes ◻ No
7. There are no more than 100 measures in the organization.	◻ Yes ◻ No
How KPIs are operating	
1. Measures are carefully vetted to ensure they promote appropriate action and all those measures that are damaging performance are removed.	◻ Yes ◻ No
2. There is a mix of past, current, and future measures.	◻ Yes ◻ No
3. The performance measures reporting follows best practice graphical presentation rules.	◻ Yes ◻ No
4. There are fewer than 10 KPIs in the organization and these are monitored frequently 24/7, daily, or weekly.	◻ Yes ◻ No
5. KPIs are not linked to pay; performance with KPIs is deemed as a given, e.g., seen as a "ticket to the game."	◻ Yes ◻ No

Your score:

Under 5: A complete visit to performance measurement is in order. This book and accompanying download materials will assist you to sell the change and commence the project.

Between 5 and 10: Some good progress has been made. This book will assist you with improvements.

Over 10: You should write a case study and I will feature it.



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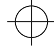

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Notes

1. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge: Harvard Business Press, 1996).
2. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Cambridge, MA: Harvard Business Press, 2003).