CHAPTER 1

The Great KPI Misunderstanding

Overview

Many companies are working with the wrong measures, many of which are incorrectly termed key performance indicators (KPIs). It is a myth to consider all performance measures to be KPIs. This chapter explores how the four types of performance measures differ with examples of each type. The seven characteristics of KPIs are defined. The confusion over whether measures are lead or lag indicators is addressed. The questions *How many measures should we have?* and *How many of each measure type?* are answered. The importance of timely measurement is also covered.

Many organizations are working with the wrong measures, many of which are incorrectly termed *key performance indicators* (KPIs). I believe it is a myth to consider all performance measures to be KPIs. From my research over the past 25 years I have come to the conclusion that there are four types of performance measures. 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 in their critical success factors and, by monitoring them, management is able to increase performance dramatically.

Many performance measures used by organizations are, therefore, an inappropriate mix of these four types. First I 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 characteristic of these measures is that they are the result of many actions carried out by many teams, hence the use of the term "result." And they are good summary measures, hence the term "key." They give a clear picture of whether your organization is traveling in the right direction at the right speed. They provide the board or governing body with a good overview as to progress with regard to the organization's strategy. These measures are easy to ascertain and are frequently reported already to the board or governing body.

The fact that key result indicators are called KPIs creates a problem that many organizations do not appreciate. They cannot understand why performance ebbs and flows and appears outside the control of the senior management team. These key result indicators that are reviewed typically on monthly or quarterly cycles will only tell you whether the horse has bolted or not. Key result indicators are thus 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 in reality 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
- 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 we 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 governance report (ideally in a dashboard format), 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.

Result Indicators

The *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 put 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.

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 (e.g., sales made yesterday, number of planned initiatives to be implemented next month to improve the timeliness of planes).

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 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

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 wellbeing. 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.

For the private sector, performance indicators that lie beneath KRIs could include:

- Abandonment rate at call center—caller gives up waiting
- Late deliveries to 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* would 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

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 which 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, however, not impressed as everybody in the industry knows the importance of timely planes. However, the

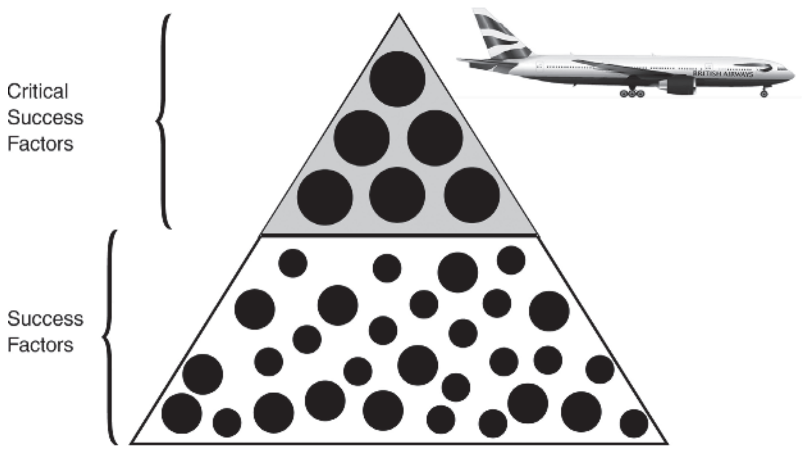

EXHIBIT 1.1 The Importance of Knowing Your Critical Success Factors

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, 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, "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 we lost an elderly passenger in duty-free shopping. We had to offload their bags and, as you can see, we did it in record time, only half an hour!"*
>
> *"Pat, how long have you worked for British Airways?"*
>
> *Pat, realizing this conversation was not going well, responded, "About 30 years, Sam."*
>
> *"In fact, Pat, it is 32. In 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 bring it forward, and instead you added half an hour. 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 manager 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," it linked to the "increase repeat business from key customers" critical success factor, and so on.

It is interesting that Ryanair, an Irish low-cost airline, has a sole 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 programmes.
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 servicing schedules, resulting in poor service quality.
6. Increased employee dissatisfaction, as they were constantly fire fighting 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. A large truck, capable of carrying more than 40 tons, was being sent out with small loads because dispatch managers were focusing on delivering every item on time to customers.

Each day by 9 A.M. the CEO received a report of those trucks that had been sent out with an inadequate load the previous day. The CEO called the dispatch manager and asked whether any action had taken place to see if the customer could have accepted the delivery on a different date that would have enabled better utilization of the trucks. In most cases, the customer could have received it earlier or later, fitting in with a past or future truck going in that direction. The impact on profitability was significant.

In a scenario similar to the airline example, 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.)

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 been able to define what the seven characteristics of KPIs are as set out in Exhibit 1.2.

Non Financial: When you put a dollar 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. As discussed in Chapter 2, it is a myth of performance measurement that KPIs can be financial and nonfinancial indicators. I am adamant that all KPIs are nonfinancial.

Timely: KPIs should be monitored 24/7, daily, or perhaps weekly for some. As stated in Chapter 2, it is a myth that monitoring monthly

EXHIBIT 1.2 Characteristics of KPIs

Nonfinancial	1. Nonfinancial measures (e.g., not expressed in dollars, Yen, Pounds, Euros, etc.)
Timely	2. Measured frequently (e.g., 24/7, daily, or weekly)
CEO focus	3. Acted upon by the CEO and senior management team
Simple	4. All staff understand the measure and what corrective action is required
Team based	5. Responsibility can be tied down to a team or a cluster of teams who work closely together
Significant impact	6. Major impact on the organization (e.g., it impacts on more than one of top CSFs and more than one balanced scorecard perspective)
Limited dark side	7. They encourage appropriate action (e.g., have been tested to ensure that they have a positive impact on performance, whereas poorly thought through measures can lead to dysfunctional behavior)

performance measures will improve performance. 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.

CEO focus: All KPIs make a difference; they have the CEO's constant attention due to daily calls to the relevant staff. Having a career-limiting discussion with the CEO is not something staff members want to repeat, and in the airline example innovative and productive processes were put in place to prevent a recurrence.

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?" Return on capital employed has never been a KPI, because it cannot be tied to a manager—it is a result of many activities under different managers. Can you imagine the reaction if a GM was told one morning by the British Airways official "Pat, I want you to increase the return on capital employed today."

Significant impact: A KPI will affect one or more of the critical success factors and more than one balanced-scorecard perspective. In other words, when the CEO, management, and staff focus on the KPI, the organization scores goals in many directions. In the airline example, the late-planes KPI affected all six balanced-scorecard perspectives. Again, as I refer to Chapter 2, it is a myth to believe that a measure fits neatly into one balanced-scorecard perspective.

Limited dark side: Before becoming a KPI, a performance measure needs to be tested to ensure that it creates the desired behavioral outcome (e.g., helping teams to align their behavior in a coherent way to the benefit of the organization). There are many examples where performance measures have led to dysfunctional behavior, these are discussed in Chapter 3, Unintended Behavior: The Dark Side of Performance Measures.

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
- Staff in vital positions who have handed in their notice in the last hour—the CEO has the opportunity to try to persuade the staff member to stay
- Late deliveries to key customers
- Key position job offers issued to candidates that are more than three days outstanding—the CEO has the opportunity to try to persuade acceptance of offer
- List of late projects, by manager, reported weekly to the senior management team
- 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—monitored weekly for up to three months after survey
- List of level one and two managers who do not have mentors, reported weekly to the CEO—this measure would only need to be operational for a short time on a weekly basis
- 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
- Major projects awaiting decisions that are now running behind schedule—reported weekly to CEO
- Complaints from our key customers that have not been resolved within two hours—report 24/7 to CEO and GMs
- Key customer enquiries that have not been responded to by the sales team for over 24 hours—report daily to the GM
- Date of next visit to major customers by customer name—report 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—monitored daily in the four to six weeks before the appeal day
- Date of next new service initiative

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 1.3 and 1.4 clarify the differences. A car's speedometer provides a useful analogy to show the difference between a result indicator and a performance indicator. The speed the car is traveling is a result indicator, because the car's speed is a combination of what gear the car is in and how many revolutions per minute the engine is doing. Performance indicators might be how economically the car is being driven (e.g., a gauge showing how many miles per gallon), or how hot the engine is running (e.g., a temperature gauge).

EXHIBIT 1.3 Difference between KRIs and KPIs

KRIs	KPIs
Can be financial and nonfinancial (e.g., return on capital employed and customer satisfaction percentage).	Nonfinancial measures (not expressed in dollars, yen, pound, euros, etc.).
Measures are performed mainly monthly and sometimes in a quarterly time period.	Measured frequently (e.g., 24/7, daily or weekly).
Reported to the board as a good summary of progress to date.	Reported to the CEO and senior management team.
It does not help staff or management because nowhere does it tell 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 member's eyes.	Significant impact (e.g., it impacts on more than one internal critical success factor and more than one balanced scorecard perspective).
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 last fifteen 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.

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

EXHIBIT 1.4 Difference between RIs and PIs

RIs	PIs
Can be financial and nonfinancial.	Nonfinancial measures (not expressed in dollars, yen, pound, euros, etc.).
Measured daily, weekly, biweekly, monthly, or sometimes quarterly.	Measured daily, weekly, biweekly, monthly, or sometimes quarterly.
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 team scorecard.	Normally reported in a team scorecard.

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 lead and lag labels are not a useful way of defining KPIs and should be counted among the myths of performance measurement.

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 1.7.

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. Current measures refer to those monitored 24/7 or daily (e.g., late/incomplete deliveries to key customers made yesterday). 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). In your organization, you will find that your KPIs are either current- or future-oriented measures, see Exhibit 1.7.

KPIs are current- or future-oriented measures as opposed to past measures (e.g., number of key customer visits planned in the next month or a list by key customer of the dates of the next planned visits).

EXHIBIT 1.5 Past/Current/Future Performance Measures Analysis Worksheet Causing Late Planes

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.
Date of last visit by key customer.	Cancellation of order by key customer (today).	Date of next visit to key customer.
Sales last month in new products.	Quality defects found today in new products.	Number of improvements to new products to be implemented in next month, months two and three.

Most organizational measures are very much past indicators measuring events of the last month or quarter. These indicators cannot be and never were KPIs.

In workshops, I ask participants to write a couple of their major past measures in the worksheet shown in Exhibit 1.5 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 did not focus adequately enough on current or future-oriented measures. Most organizations that want to create alignment and change behavior need to be monitoring what corrective action is to take place in the future.

Monitoring the activity taken now about the organizing of future actions to occur will help focus staff on what is expected of them. Future measures are often the fence at the top of the cliff. They are in place so we do not have to report inferior performance (the body at the bottom of the cliff). In other words future measures help make

EXHIBIT 1.6 Examples of More Future Measures

Future innovations	To be an innovative organization we need to measure the number of initiatives which are about to come online in the next week, two weeks, and month.
Future sales meetings	To increase sales we need to know the number of sales meetings which have already been organized/scheduled with our key customers in the next week, two weeks, and month.
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 profile of our CEO we need 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 the CEO and SMT.
Key dates	Date of next product launch, date for signing key agreements.

the right future happen. Here, in Exhibit 1.6, are some common 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.

The differences in the four measures and the past, current, and future time periods are further explained in Exhibit 1.7. KRIs are summaries of past performance, principally monthly trend analysis over 18 months. KPIs focus on activity in the past week, yesterday, and

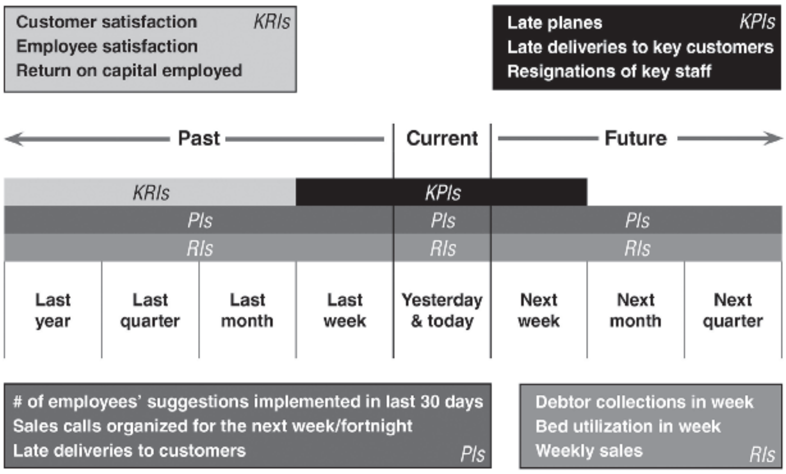

EXHIBIT 1.7 The Differences in the Four Measures and the Time Zones

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.

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 1.7.

I believe an organization, with over 500 FTEs, will have about 10 KRIs, up to 80 RIs and PIs, and 10 KPIs, and these are reported in different time intervals as shown in Exhibit 1.8. These are the upper limits and in many cases, fewer measures will suffice. 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 14.

EXHIBIT 1.8 The 10/80/10 Rule

Types of Performance Measures (PMs)	Characteristics	Frequency of Measurement	Number of Measures
1. Key result indicators (KRIs) give an overview on the organization's past performance and are ideal for the board as they communicate how management have performed (e.g., return on capital employed (%), employee satisfaction (%), net profit before tax and interest).	These measures can be financial or nonfinancial. Does not tell you what you need to do more or less. A summary of the collective efforts of a wide number of teams.	Monthly, quarterly	Up to 10
2. Result indicators (RIs) give a summary of the collective efforts of a number of teams on a specific area (e.g., yesterday sales ($), complaints from key customers)		24/7, daily, weekly, biweekly, monthly, quarterly	80 or so. If it gets over 150 you will begin to have serious problems
3. Performance indicators (PIs) are targeted measures that tell staff and management what to do (e.g., number of sales visits organized with key customers next week/next fortnight, number of employees' suggestions implemented in last 30 days).	These measures are only nonfinancial. Staff know what to do to increase performance. Responsibility can be tied down to a team or a cluster of teams who work closely together.		
4. Key performance indicators (KPIs) tell staff and management what to do to increase performance dramatically (e.g., planes that are currently over two hours late, late deliveries to key customers).		24/7, daily, weekly	Up to 10 (you may have considerably less)

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 ten of them. Kaplan and Norton[1] recommend no more than 20 KPIs. Hope and Fraser[2] suggest fewer than 10 KPIs, while many KPI project teams may, at first, feel that having only 10 KPIs is too restrictive and thus increase 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.

Importance of Timely Measurement

Before proceeding further, we will look at the importance of timely measurement. It is essential that measurement is 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. 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 Appendix E for examples of common 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. In organizations where finishing is a problem, a common weekly KPI is the reporting of projects and reports that are running

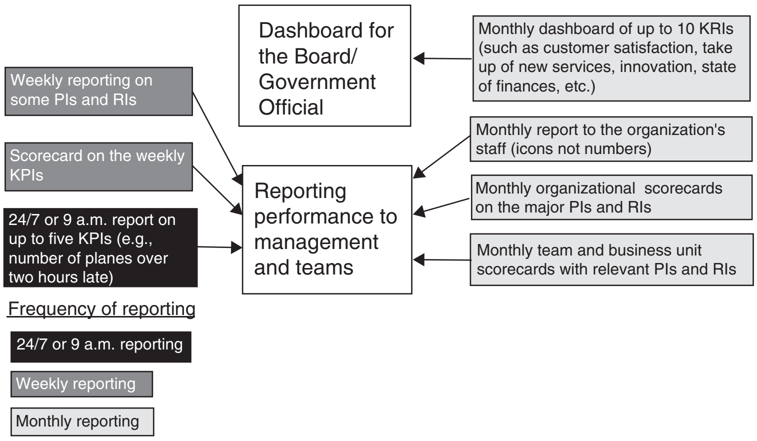

EXHIBIT 1.9 Suggested Reporting Framework

late to the senior management team. 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.

EXHIBIT 1.10 Assessing Your Progress with Performance Measures Checklist

	Is it covered?
Knowledge of the critical success factors	
1. Senior management have 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 used on a daily basis to focus priorities	◻ Yes ◻ No

EXHIBIT 1.10 (*Continued*)

	Is it covered?
Balanced scorecard implementation	
4. We have established our balanced scorecard perspectives	◻ Yes ◻ No
5. The project was largely run by in-house resources with some outside advisory assistance	◻ Yes ◻ No
6. Measures have been ascertained by teams so there is balance between the scorecard perspectives	◻ Yes ◻ No
7. Measures have be derived from brainstorming the identified critical success factors	◻ Yes ◻ No
8. Measures have been segregated into different types so that only measures with specified criteria are called KPIs	◻ Yes ◻ No
9. There is a sound understanding about performance measurement, KPIs, critical success factors within the senior management team	◻ Yes ◻ No
How KPIs are operating	
10. All measures are carefully monitored to ensure they promote appropriate behavior	◻ Yes ◻ No
11. Teams monitor their performance measures	◻ Yes ◻ No
12. Senior management review performance measures more frequently than monthly	◻ Yes ◻ No
13. The CEO is daily focusing on the KPIs and contacting the appropriate people to rectify identified issues	◻ Yes ◻ No
14. There are less than 10 KPIs in the organization and these are monitored frequently 24/7, daily, or weekly	◻ Yes ◻ No
15. KPIs are not linked to pay; they are seen as "tickets to the game"	◻ Yes ◻ No

Your score:
Under 5: Need to read the reference books listed in Chapter 15
Between 5 to 10: This book will assist you with improvements
Over 10: You should write a case study and I will feature it

Notes

1. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Cambridge, MA: 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).