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HOW TO DEVELOP KPIS / PERFORMANCE MEASURES

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The methodologies taught in the KPI Certification Program were created to help organizations redesign their performance measurement process. These practical step-by-step methodologies and tools were designed to help organizations:

- Make strategy measurable and easier to communicate and cascade
- Select and design performance measures that are far more meaningful than brainstorming or benchmarking can produce
- Get buy-in from staff and stakeholders to enthusiastically own performance measurement and improvement
- Bring their measures to life in a consistent way, using the right data and with the right ownership
- Design insightful and actionable reports and dashboards that focus discussion on improvement
- Clearly see the real signals from their measures about whether performance is improving or not
- Convincingly hit performance targets, and make measurement about transformation

Pre-KPI: Always begin by articulating your strategy properly. Use one of the many popular frameworks for strategy or goal setting (Balanced Scorecard, SMART, MBO, OKRs, WIGs, or other) to set objectives/goals and determine your strategy for achieving them. If you don't know what you are trying to accomplish, it is too early for KPIs!

There are six process components within the performance measure step of the *Nine Steps to SuccessTM*:

- Describe the intended result(s)
- Understand alternative measures
- Select the right measurement(s) for each objective
- Define composite indices as needed
- Set targets and thresholds
- Define and document selected performance measures



Work typically begins with strategy owners and teams, who refine objective commentaries to clarify the intended results, develop candidate performance measures, select and define the performance measures and initial targets, and refine the list of candidate strategic initiatives.

1. Describe the Intended Results

Meaningful measures require clear intended results. Strategy tends to be written in the form of abstract ideals. Measurement is specific, so agreement on definitions and expectations is critical. For example, the strategic objective, Improve Product Quality, might sound like an obviously concrete and specific objective, but one person on the team believes quality means that the products meet certain specifications, while another defines quality in terms of the usability or reliability for the customer after purchase.

Once agreement is reached on the intended result, it's easier to explicitly define what to measure.

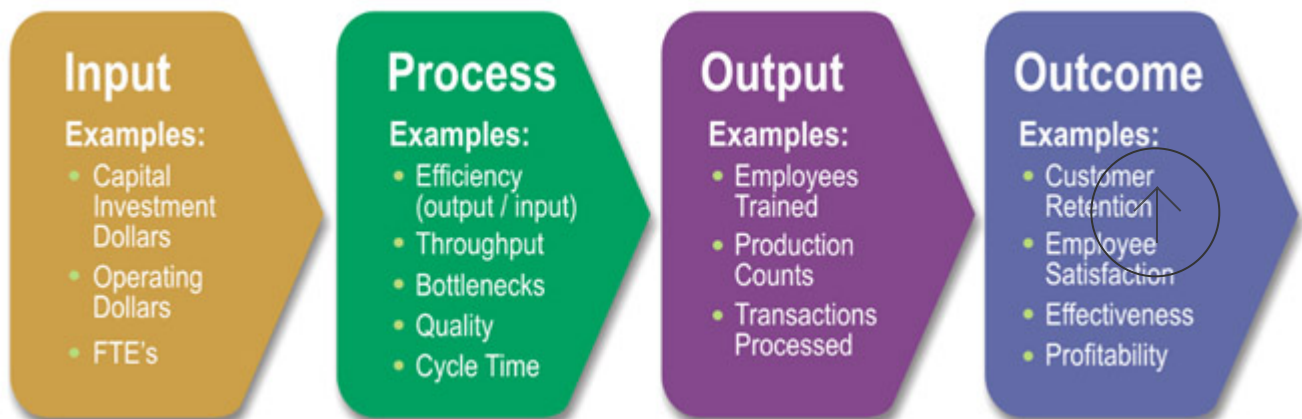
2. Understand Alternative Measures

Analyze how results can be measured, starting with these questions: Can the intended result be measured directly? Is there a clear way to capture the entire intended result in one or more measures?

If the answer is yes, identify the most appropriate direct measure. Objectives in the two results perspectives (financial/stewardship and customer/stakeholder) usually have easily identifiable direct measures. For example, if Increase Product Sales is a strategic objective and the intended result is that product sales revenue increases, the direct measure is sales revenue dollars.

If the answer is no, results can't be measured directly, develop measurable components that thoroughly describe the intended result, usually by establishing a hypothesis around correlation or contribution.

The logic model, cause-effect analysis and/or process flow analysis are three popular tools that can be used to better understand measurable components before selecting indirect measurements.



3. Select the Right Measure(s) for Each Objective

Narrow down the potential measures identified in the previous steps and select final measures that best reveal how strategic performance is improving, worsening or staying the same. Choose metrics that have meaning and relevance, and:

- Answer key user questions about the organization's performance towards strategic objectives
- Provide information needed to make better strategic decisions
- Are valid and verified, measuring what is intended
- Encourage desirable employee behaviors
- Avoid an undue data collection burden or other unintended consequences

4. Define Composite Indices as Needed

If the individually developed measures provide useful data on different dimensions or components of the objective's intended result, construct an index, which groups together several measures under one heading, to aid in analysis.

Composite indices are most useful when a single measure (indicator) isn't meaningful by itself or doesn't provide a complete picture of performance on an intended result or strategic objective. This is especially common for intangibles like satisfaction or loyalty, where multiple indicators that separately address different dimensions of the intended result can be grouped together.

5. Set Targets and Thresholds

Describing desired performance levels and determining how data is interpreted is as important as selecting the measure. This step defines good and bad performance, and determines how the data is used.

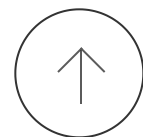
Performance is based on targets, the desired level of performance for a specific reporting period, and thresholds, the upper and lower limits of desired performance around a target value. Thresholds create the exact points where an indicator displays green for good performance, yellow for satisfactory or red for poor. Figure 8 shows an example of targets and thresholds.





6. Define and Document Selected Performance Measures

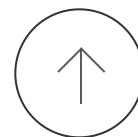
The Performance Measure Data Definition Table, developed by each objective ownership team, documents the essential information comprising every performance measure on a scorecard.



Objective	Measure Description:	
Objective Owner	Measurement Type:	
	Formula:	
Desired Result (s)	Unit of Measure:	
	Measure Location:	
	Measure Owner:	
	Data Source:	
	Collection Frequency:	
Measurement	Reporting Frequency:	
	Verified by:	
	Validated by:	
	Presentation:	
	Targets and Thresholds:	

This is a critical step for transitioning from performance management system development to implementation and use.

Data definition is especially important if the organization plans to use a performance management or business intelligence software solution to report performance information for decision making. Consistent and thorough data definition makes the software implementation much easier and faster and the decisions based on the collected data more reliable. Even if the organization plans to manually collect, calculate and present the data, it is important to document the details of the measure so that the measure is consistently calculated and presented from reporting period to reporting period which will allow for meaningful performance analysis and conclusions. The data definition table is completed by an objective ownership team and explicitly defines terms to ensure consistency across measures.



Term	Definition
(Strategic) Objective	Continuous improvement activities that are the basic building blocks of strategy
Objective Owner	Individual assigned to be responsible for a strategic objective
Intended Results	Desired outcomes associated with an objective
Measurement	Word or short phrase that names the specific measurement and is understood by the users
Measurement Description	What the measurement is about, including its intent, why it matters and what it includes and excludes
Measurement Type	Input, process, output, project, intermediate outcome or end outcome
Formula	Mathematical equation(s) used to calculate the measurement, preferably a ratio like percentage completion, fraction of a total, rate of errors or defects per number of occurrences, costs per capita, efficiency (output/input), or productivity (output/input/work hour)
Unit of Measure	What's being counted, such as dollars, number of items, degrees Fahrenheit, seconds, unit produced
Measure Location	Where data resides (e.g., HR department, sales department)
Measure Owner	Individual responsible for the measure and associated data; who completes the data definition table, verifies data, assists with visualization reporting and recommends measurement changes as needed
Data Source	Where the data is collected like in a particular report on someone's desktop, in a spreadsheet on a network, in a particular database
Collection and Reporting Frequency	How often the measure data will be collected and reported usually monthly, weekly, daily or continuously
Validation	Individual responsible for knowing and certifying that the measure is realistic, understandable, pertinent to decision making, reflective of the activity being measured and accurate
Verification	Individual responsible for knowing and certifying that the data is correct based on independent evaluation of data standards and procedures, data handling, data integrity and oversight mechanisms
Presentation	The initial plan for visualization to inform users, usually some sort of graph or chart that demonstrates the overall direction or level of performance over some period of time in a comparative way



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