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KPI BASICS

Key Performance Indicators (KPIs) are the critical (key) indicators of progress toward an intended result. KPIs provides a focus for strategic and operational improvement, create an analytical basis for decision making and help focus attention on what matters most. As Peter Drucker famously said, "What gets measured gets done."

Managing with the use of KPIs includes setting **targets** (the desired level of performance) and tracking progress against that target. Managing with KPIs often means working to improve **leading indicators** that will later drive lagging benefits. Leading indicators are precursors of future success; **lagging indicators** show how successful the organization was at achieving results in the past.

Good KPIs:

- Provide objective evidence of progress towards achieving a desired result
- Measure what is intended to be measured to help inform better decision making
- Offer a comparison that gauges the degree of performance change over time
- Can track efficiency, effectiveness, quality, timeliness, governance, compliance, behaviors, economics, project performance, personnel performance or resource utilization
- Are balanced between leading and lagging indicators

Terminology Example: Let's say someone wants to use KPIs to help them lose weight. Their actual weight is a

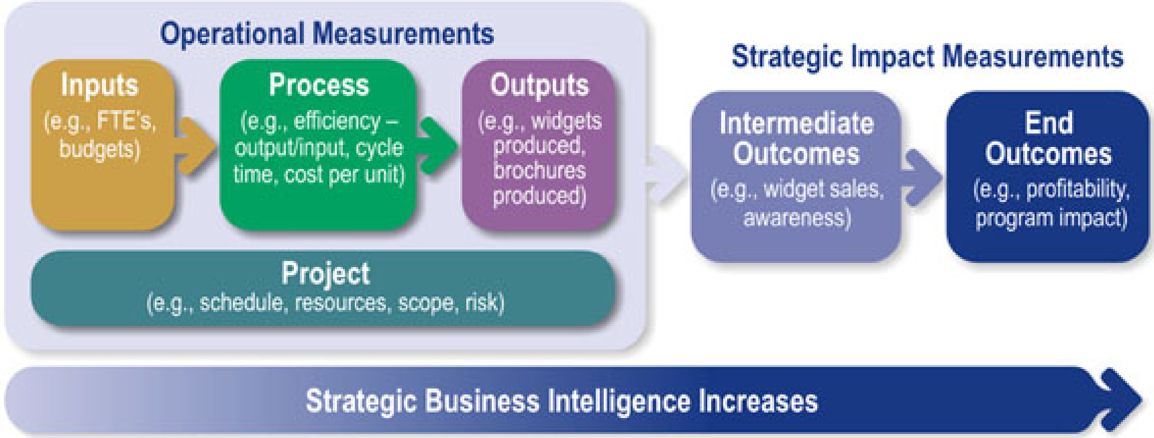
lagging indicator, as it indicates past success, and the number of calories they eat per day is a **leading indicator,** as it predicts future success. If the person weighs 250 lbs / 113 kg (a historical trend is called a **baseline**), and a person they would like to emulate is 185 lbs / 84 kg (comparison research is called **benchmarking**), they might set an 1,700 calorie-per-day **target** (desired level of performance) for the leading KPI in order to reach their lagging KPI target of 185 lbs / 84 kg by the end of a year.

The relative business intelligence value of a set of measurements is greatly improved when the organization understands how various metrics are used and how different types of measures contribute to the picture of how the organization is doing. KPIs can be categorized into several different types:

- **Inputs** measure attributes (amount, type, quality) of resources consumed in processes that produce outputs
- **Process** or activity measures focus on how the efficiency, quality, or consistency of specific processes used to produce a specific output; they can also measure controls on that process, such as the tools/equipment used or process training
- **Outputs** are result measures that indicate how much work is done and define what is produced
- **Outcomes** focus on accomplishments or impacts, and are classified as Intermediate Outcomes, such as customer brand awareness (a direct result of, say, marketing or communications outputs), or End Outcomes, such as customer retention or sales (that are driven by the increased brand awareness)
- **Project** measures answer questions about the status of deliverables and milestone progress related to important projects or initiatives

Terminology Example: Let's say my business provides coffee for catered events. Some **inputs** include the coffee (suppliers, quality, storage, etc.), the water, and time (in hours or employee costs) that my business invests. My **process** measures could relate to coffee making procedure or equipment efficiency or consistency. **Outputs** would focus on the coffee itself (taste, temperature, strength, style, presentation, accessories, etc.). And desired **outcomes** would likely focus on customer satisfaction and sales. **Project** measures would focus on the deliverables from any major improvement projects or initiatives, such as a new marketing campaign.

Every organization needs both strategic and operational measures, and some typically already exist. Figure 2 depicts strategic, operational and other measures as described below:



- **Strategic Measures** track progress toward strategic goals, focusing on intended/desired results of the End Outcome or Intermediate Outcome. When using a balanced scorecard, these strategic measures are used to evaluate the organization's progress in achieving its Strategic Objectives depicted in each of the following four balanced scorecard perspectives:
  - Customer/Stakeholder
  - Financial
  - Internal Processes
  - Organizational Capacity
- **Operational Measures,** which are focused on operations and tactics, and designed to inform better decisions around day-to-day product / service delivery or other operational functions
- **Project Measures,** which are focused on project progress and effectiveness
- **Risk Measures,** which are focused on the risk factors that can threaten our success
- **Employee Measures**, which are focused on the human behavior, skills, or performance needed to execute strategy
- An entire family of measures, including those from each of these categories, can be used to help understand how effectively strategy is being executed.
