Key Performance Indicators: A Guide for Managers

Author: Yolanda Chimonyo . February 2022

What are key performance indicators?

The aspects of your strategy that indicate what you aim to achieve and by when are known as key performance indicators (KPIs). They will be the quantitative, outcome-based statements you'll use to see if you're on pace to reach your objectives or goals.

Uses of performance indicators

Internal uses:

1. **Strategic planning**: Tracking KPI levels over time presents insightful information about the business' success in achieving strategic goals and progress towards the organizational vision. Top management can better plan for future periods and set relevant goals with this insight.
2. **Performance monitoring**: KPI data is determined by performance levels. Keeping a pulse on the KPIs for each relevant dimension is a sure way to monitor the performance of individuals, departments, and the organization as a whole.
3. **Performance improvement**: Monitoring KPI data allows you to note and flag areas of low or non-performance early. Interventions can then be fashioned to address the lack of performance.
4. **Decision making**: KPI data reflects the current position of the business and insight on the steps that can be taken to achieve the required status.
5. **Cleaning up business processes and internal control systems:** KPI data can expose loopholes in the business processes by highlighting performance levels to targets and benchmarks. Where business performance is significantly lower than required levels, procedures and controls may need to be revised.
6. **Rewarding and compensating employees**: KPI data allows you to highlight individuals and departments that consistently perform well to targets.
7. **Note and monitor value drivers**: Monitoring lead indicators allows a business to note areas where value can be derived and regions that produce significant value presently.

External uses:

1. External reporting: KPI data is required for external financial reports according to reporting standards and laws.

Categories of Key performance indicators:

Strategic KPIs

- Financial
- Customer
- Internal Business Processes
- Organizational Capacity/ Learning and Growth

Operational KPIs

- Product/Service Quality
- Efficiency
- Output
- Timeliness

Human resources KPIs

- Culture
- Performance
- Learning and growth
- Succession

Project management KPIs

- Scheduling
- Resource Management
- Risk
- Scope

Risk management KPIs

- Workplace/ Occupational Hazard
- Economic
- Security
- Operational
- Strategic

Expressing Key Performance Indicators:

Values

Numbers, particularly those part of official statistics or pertain to a company's financial success.

Proportions

A percentage is a pair of numeric values with the numerator and denominator equal. A proportion will determine the relative importance of an aspect in the population.

Percentages

A fraction multiplied by 100 equals a percentage. The numerator is in the denominator for measuring percentages.

Rates

A rate is a unit of measurement typically used to express the frequency of phenomena in a specific group or population. The numerator is included in the denominator when computing a rate.

Ratios

Ratios are used to compare a demographic characteristic to the proportion of the population that shares the feature. A ratio is a pair of numbers that are compared. The numerator is not included in the denominator of a ratio.

Qualities of a good key performance indicator

https://www.google.com/url?sa=i&url=https%3A%2F%2Fwww.resourceumc.org%2Fen%2Fcontent%2Fcritical-components-of-smart-church-goals&psig=AOvVaw0nhNAT1WW8TSUPfHITMnVc&ust=1643450119889000&source=images&cd=vfe&ved=0CA0Q3YkBahcKEwj4rbCXl9T1AhUAAAAAHQAAAAAQGw

Good KPIs:

- Provide objective evidence that a strategic aim is being met.
- Measures what has to be measured in order to make better decisions.
- Provides a comparison to determine the degree to which performance has changed over time.
- Are valid, verifiable, and balanced between leading and lagging indicators.
- They support goals which are:
    - Specific:
        - A goal must be defined for it to be effective. A specified objective responds to questions such as:
            - What tasks must be completed?
            - Who is to blame for it?
            - What measures must be made to attain it?
        - Measurable:
            - Specificity is a good start, but quantifying your objectives (i.e., making sure they're quantifiable) makes it easier to follow your progress and determine when you've arrived at your destination.
        - Achievable:
            - This is the moment in the process where you should do a serious self-evaluation. Consider whether your goal is something your team can fairly

achieve. Realistic goals, not pedestals from which you will undoubtedly fall, should be set.

- Relevant:
    - This is when you must consider the larger picture. Why are you aiming for this particular goal?
- Timely:
    - You and your team must agree on when a target has been met to assess success accurately. What is your time frame? When will the team begin developing and executing the tasks that they've identified? When will they be done?
    - Time-related constraints should be included in SMART objectives so that everyone knows how to stay on track within a specific time limit.

Implementing Key Performance Indicators

1. Determine whatever aspect of business performance you want to evaluate.
2. Determine the benchmark against which performance will be judged.
3. Keep the management team up to speed on the strategy and goals.
4. Compare your present performance to the goals you've set.
5. With the support of management, create an improvement strategy (leading indicators/future measurements).
6. As the strategy is implemented, review the performance changes so far.
7. Establish a reasonable time period between each KPI assessment.

How do you get everyone in your company to care about the KPIs that drive your desired results?

Select the appropriate KPIs:

Before you make any changes to your KPI strategy, make sure you know the difference between lagging and leading indicators, when to use each, and why you should track both.

Lagging indicators track past/ current output.

Lagging indicators represent outcomes across time, such as total sales in the previous quarter. They're simple to track and offer rapid feedback on whether you've fulfilled your objectives. C-level executives frequently use lagging indicators to create aggressive targets; for example, they could look at sales in the most recent quarter and decide to strive to double sales in the next. Annual sales or profits are the ultimate lagging indicator.

Leading indicators predict the future output.

Leading indicators are useful for forecasting or expecting an output because they capture data that impacts it.

A festival may offer prospective attendees the opportunity to book tickets in advance of payment. The number of ticket bookings would be a lead indicator predicting the level of revenue to be realized when the festival tickets are sold.

Leading indicators are more operational, making them more difficult to assess yet more easily influenced.

Lagging and leading indicators do not exist in silos. In reality, the two of them have a vital bond.

Lagging indications show how you've performed, but they don't tell you what you should do to improve.

Leading indicators assess and monitor the factors that influence your outcomes, allowing you to take action to enhance them.

You can identify which leading KPIs will have the most influence on your lagging KPIs if you have a significant connection between a chosen number of leading KPIs and a larger number of lagging KPIs. That is an excellent KPI method. Not every lagging or leading indication, however, should be considered a KPI. So, how do you make the best decisions? Begin with your end goal in mind and work backward from there.

Create a culture that is driven by KPIs:

Buy-in from the top is crucial.

Having executives mention KPIs in stand-ups, meetings, and performance evaluations is the most remarkable approach to emphasize their value.

Ensure that everyone is speaking data.

1. Develop a well-organized program that includes training. It gives people employment purpose when they realize how their work influences larger corporate goals. Instead of being asked to complete yet another chore that adds to their workload, it makes them feel included and important.
2. Assign ownership to the appropriate individuals. Different stakeholders look at your KPIs from different perspectives. Each team member should be in charge of the KPIs that best reflect their knowledge, abilities, and capacity to affect outcomes. You may establish groups of KPIs suited for each organizational level once you've determined the correlations between your leading KPIs and various hierarchies of your trailing KPIs.
3. KPI sprawl should be avoided. Stakeholders should drill down into any dashboard for a deeper look at the numbers behind the figures using your BI solution. They will be able to obtain the information they want without creating additional KPIs. If one of your items is underperforming, for example, managers will want to go beyond the aggregated data to see what's going on with sales, service, expenses, and operations.
4. Use technology to your advantage. In recent years, BI platforms have advanced tremendously, employing breakthroughs such as natural-language queries, Augmented Analytics, and Machine Learning to become much more accessible for users at all levels – and to help users uncover insights they would not have noticed otherwise.

Establish a KPI iteration process:

KPIs are prone to change, just like everything else in the business. Your clients' behavior will change over time. Your business objectives will change as the market changes. You can find that a KPI is not assisting you in achieving your goal or causing you to take the wrong activities. That's why it's critical to build a structured iteration process to track what's working and what is not.

> "Companies have access to a growing torrent of statistics that could improve their performance, but executives still cling to old-fashioned and often flawed methods for choosing metrics. In the past, companies could get away with going on gut and ignoring the right statistics because that's what everyone else was doing. Today, using them is necessary to compete. More to the point, identifying and exploiting them before rivals do will be the key to seizing advantage."
>
> — MICHAEL J. MAUBOUSSIN
> "The True Measure of Success," Harvard Business Review, October 2012

https://www.qlik.com/us/-/media/files/resource-library/global-us/register/whitepapers/wp-reporting-made-easy-3-steps-to-a-stronger-kpi-strategy-en.pdf

1. Create a repeating report cycle.

Gather stakeholders to examine KPI data on a regular basis that corresponds to your company's natural cycle. Telecom firms, for example, bill on a regular basis; therefore, monthly KPI meetings make sense. Because software businesses provide products and financials on a quarterly basis, quarterly meetings may be more appropriate.

2. Make sure you're asking the appropriate questions.

- Do you see any patterns or notable differences from the previous quarter?
- Are any of your key performance indicators (KPIs) underperforming?
- Do your leading KPIs provide sufficient information to your trailing KPIs?
- Do the right people own the correct KPIs?
- Have any of your goals shifted?

3. Revise your KPIs and make all changes public.

- Using the data acquired above, adjust or redefine KPIs as needed.
- Define clear next steps for connecting KPI findings with action.
- Keep all stakeholders informed of any changes.

What is the most effective technique to report KPIs?

Choosing the correct ones is the first step toward successful reporting. Focus on the following once you've established your strategy:

- Providing important KPIs to the appropriate persons regularly.
- Presenting facts in an easy-to-understand and actionable style.
- Using interactive dashboards and visualizations to go beyond typical Excel reports or PDFs provides your users with the ability to examine and explore data to find new connections.

Yolanda Chimonyo is a Strategy and Performance Management Consultant at Industrial Psychology Consultants (Pvt) Ltd, a management and human resources consulting firm.

Phone +263 242 481946-48/481950

Email: yolanda@ipcconsultants.com

Visit our website at www.ipcconsultants.com

https://thehumancapitalhub.com/articles/key-performance-indicators-a-guide-for-managers-