CORPORATER

GUIDE

A Practical Guide to

Key Performance Indicators

How to create powerful KPIs that will drive your business forward

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Key Performance Indicators

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Introduction

If used correctly, KPIs can work as a guide for your organization, leading it towards growth and long-term success.

Key Performance Indicators (KPIs) are among the most commonly used tools for measuring progress towards business objectives. KPIs serve as a reference point for tracking various operational measures and enable organizations to proactively monitor the overall health of their business. If used correctly, KPIs can work as a guide for your organization, leading it towards growth and long-term success.

In this guide we will cover:

- What are KPIs?
- Why are KPIs important?
- How to create powerful KPIs?
- How many KPIs should I track?
- How often should I measure KPIs?
- How to keep track of KPIs?

What are KPIs?

Key performance indicators (KPIs) are metrics that show how effectively an organization is achieving its business objectives. KPIs can be used to measure performance at all levels of an organization – from the enterprise level to business units, entities, departments, teams, and individual employees.

Why are KPIs important?

KPIs are important because they can help you understand the health of your business and whether you are on track to achieve your strategic objectives. Without KPIs, it can be difficult to determine whether your organization is moving towards meeting its set goals or falling short of expectations. If defined correctly, KPIs can help your teams stay focused on what is important to drive your business forward, evaluate your past and current performance, make predictions for the future, uncover areas for improvement, and make smarter, data-informed decisions that lead to business outcomes.

How to create powerful KPIs?

To create powerful KPIs that will drive your business forward, consider this 5-step approach:

1. Define your KPIs

For KPIs to be effective, they need to be tied to your strategy.

To create powerful KPIs, start the process by evaluating what is key for your organization. Look at your strategy – your vision, goals, and objectives – and use it to outline which key metrics are needed to measure progress towards your business goals. If you are unclear about your strategy, take a step back before delving into KPIs. For KPIs to be effective, they need to be tied to your strategy.

Two commonly used methods for KPI formulation are: SMARTER (extended SMART method) and 6 A's. Either method may serve as a criteria checklist to ensure that your KPIs are well-defined.

S	Specific – *Is this KPI clearly defined or is it too vague?* KPIs should clearly state what they are intended to measure.
M	Measurable – *Can we quantify these measures?* KPIs should be quantifiable.
A	Achievable – *Can we realistically achieve these KPI targets?* KPIs should be realistic and possible to accomplish.
R	Relevant – *Are these KPIs relevant to our goals?* KPIs should be relevant to the organization's goals.
T	Timely – *Can we measure these KPIs on a periodic basis?* KPIs should be possible to regularly evaluate.
E	Explainable – *Do we understand the reason for the KPI?* KPIs should be easy to understand.
R	Relative – *Can the KPI stay relative as our business evolves?* KPIs should allow you to measure performance over time so that growth becomes relative to the current state and size of your business (and not baselined on the past).

SMARTER KPIs Framework

6 A's

Aligned

KPIs should be aligned with your strategic goals and objectives.

Attainable

KPIs should be attainable; you should be able to obtain the data needed to measure the KPIs.

Acute

KPIs should be crucial to reaching your goals.

Accurate

KPIs should be accurate and reliable; based on quality data.

Actionable

KPIs should be within your control to take action on.

Alive

KPIs should be alive – possible to adjust to ensure they continue to provide useful information to your decision-makers.

6 A's KPIs Framework

Using the SMARTER or the 6 A's KPI formulation method helps ensure that your KPIs are relevant to your strategy, actionable, and articulated in a clear way.

Well-defined KPIs are important because they enable organizations to align on how to measure performance and progress towards set goals. Using the SMARTER or the 6 A's criteria helps ensure that your KPIs are relevant to your strategy, actionable, and articulated in a clear way.

As you start the process of creating your KPIs, you should know that KPIs are not a *"one size fits all."* Although commonalities exist among businesses and industries, for KPIs to be useful to *your* organization, they need to be tailored to *your* organization's objectives. The word *your* is key here. Avoid using vanity and cookie-cutter KPIs as those might be too generic to yield any useful value.

Pro Tip: *Be sure to involve all key stakeholders and top decision makers in your KPI selection process. As Stephen Covey wrote, "Without involvement, there is no commitment. Mark it down, asterisk it, circle it, underline it. No involvement, no commitment."*

Note that your KPIs will differ across different levels of your organization.

- At the top (strategic) level, your KPIs will represent your organization's performance as a whole and focus on long-term goals. Strategic KPIs are typically used by senior executives and top decision makers to keep a pulse on the progress towards meeting the organization's strategic objectives.
- At the lower (operational) level, your KPIs will represent the performance of specific business units (departments, teams, etc.) and focus on short-term goals. Operational KPIs are typically used by managers, supervisors, and team leaders to track the performance of day-to-day activities.

Strategic KPIs	Operational KPIs
• High-level • Tied to strategic objectives • Focus on long-term goals • Used by senior executives and top decision makers to track performance and progress towards meeting strategic objectives • E.g., company net profit, company growth	• Low-level • Tied to strategic KPIs • Focus on short-term goals • Used by managers, supervisors, and team leaders to track performance and progress of day-to-day business activities • E.g., sales in region A, delivery time in region B

Strategic and Operational KPIs comparison

Strategic and operational KPIs are equally important even though they serve different purposes.

Strategic and operational KPIs are equally important even though they serve different purposes. Strategic KPIs enable top management to have a high-level overview of their business performance, while operational KPIs are the core drivers of business success.

For your strategic KPIs to be effective, they must be tied to your strategic objectives. And for your operational KPIs to be effective, they must be linked to your strategic KPIs. For instance, if your strategic objective is to increase revenue and your strategic KPI indicates that are not reaching your target, you may drill down into your operational KPIs to investigate which area of your business needs improvement. This is only possible if your strategic objectives, strategic KPIs, and operational KPIs are linked.

2. Set KPI targets

A KPI without a target is just a number. To set targets for your KPIs, assess your current performance and use it as a benchmark for improvement. (If metrics from your past performance are available to you, look at those as well.) This way you will be able to gauge a clear picture of *where you are now* and set clear targets for *where you want to be*.

Look to your overarching strategic goals to set long-term KPI targets, and then work backwards to arrive at your short-term KPI targets. For instance, let's say that your long-term KPI target is to increase revenue by 20% by the end of YYYY (3-5 years). From here, you may calculate what your short-term (yearly, monthly, weekly) KPI targets should be in order to reach the long-term KPI target.

Look to your overarching strategic goals to set long-term KPI targets, and then work backwards to arrive at your short-term KPI targets.

Pro Tip: *Set KPI targets that are challenging and ambitious. A best practice for KPI target-setting is to set high targets and then have discussions with the responsible party about how to reach these targets. Discuss what is needed in terms of resources (people, technology, equipment, information, capital, etc.) and processes (training, product development, market research, resource allocation, etc.), consider internal and external factors, and together align on targets that are challenging, but achievable. Setting challenging targets helps foster a culture of high performance and continuous improvement. Easy KPI targets can actually make employees less motivated to put in the effort.*

3. Add initiatives to your KPIs

Performance improvement does not happen by itself. You need to do something. Here is where initiatives come into play.

Initiatives are action plans that an organization sets out to undertake to achieve its goals. A goal describes what you want to achieve, an initiative describes how you plan to achieve it. You should first be clear about your goals, KPIs, and targets, and then add your initiatives accordingly.

For instance, your goal, KPI, target, and initiative(s) outline may look as follows:

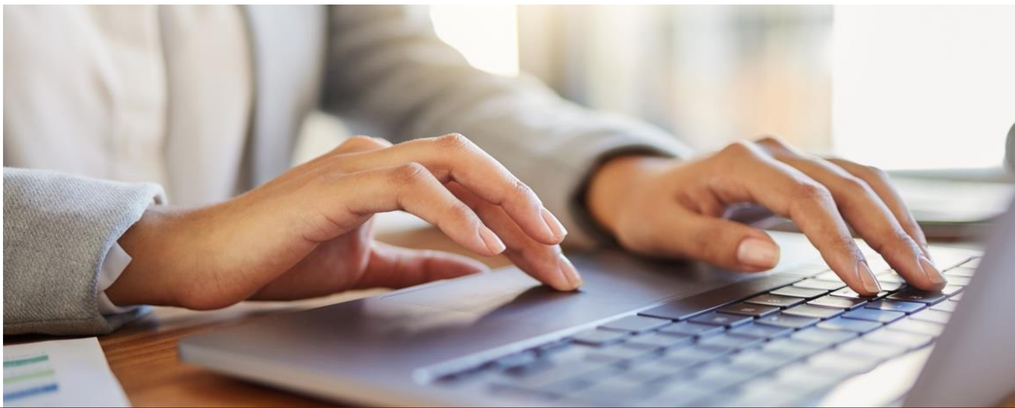
Goal	KPI	Target	Initiative(s)
Increase profits by X% by EOY.	Profit margin	X%	Introduce a new product line in region ABC.

Example of a goal, KPI, target, and initiative outline

It is important to note that goals and initiatives can be interrelated:

- One initiative can contribute towards achieving several goals
- Several initiatives can contribute towards achieving one goal

Pro Tip: *A good KPI software will help you outline your goals, KPIs, and targets, and add and prioritize your initiatives. Generally, initiatives that make a stronger contribution to your goals should be given a higher priority.*



4. Visualize your KPIs

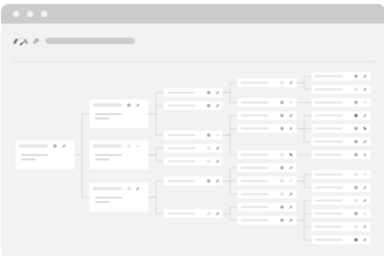
The next step in making your KPIs effective is to visualize them. Visualizing KPIs not only makes them easier to understand but also helps drive action and informed decision-making. Two common ways to visualize KPIs are KPI dashboards and KPI value driver trees.

KPI Dashboards

A KPI dashboard is a graphical representation of KPIs, metrics, and other information used by organizations to monitor their performance. [KPI dashboards] are a useful tool for KPI management because they enable organizations to display KPIs alongside data visualizations such as status lights, trend arrows, and sparklines, which helps improve data understanding and speed up decision-making. For instance, seeing a green trend arrow pointing up indicates that a KPI is up compared to its target, and therefore no action is needed. Seeing a red arrow pointing down indicates that a KPI is behind its set target, and therefore may require a corrective action.

KPI dashboards are also used to help organizations visualize and understand dependencies between their goals, KPIs, and initiatives.

KPI Value Driver Trees



A KPI value driver tree is a hierarchical representation of KPIs and the relationships between them. KPI value trees are useful because they enable organizations to visualize how individual KPIs drive value for the organization based on the organization's strategic objectives.

Value driver trees enable organizations to tell their KPI story from top to bottom, and from bottom to top. At the lowest level, a KPI value driver includes operational KPIs, which lead into tactical KPIs, which are based on the organization's strategic objectives – the highest level of the value driver tree.

KPI value driver trees are a great KPI visualization tool because they are visually engaging and enable everyone to understand how each KPI contributes to the big picture.

5. Communicate your KPIs

Keeping your KPIs saved in a spreadsheet where no one can see them won't do anyone any good. For KPIs to be effective, they need to be communicated.

The most efficient way to communicate KPIs across all levels of your organization is to use a KPI software. With a good [KPI software] you may share your overarching strategic goals, keep track of your KPIs and initiatives, and enable everyone in your organization to see how their actions contribute to the overall organization's strategy. A good KPI software lets you notify users when a new KPI is added, set up automated alerts for when KPIs reach a threshold, and generate KPI reports.

To ensure that KPIs stay at the forefront of everyone's decisions, consider sharing important KPI updates via email, scheduling regular KPI review meetings with your teams, and sending periodic KPI reports to key stakeholders.

The most efficient way to communicate KPIs across all levels of your organization is to use a KPI software.

Pro Tip: *Different KPIs matter to different teams. To keep your teams focused on the KPIs that they are responsible for, create team-specific dashboards where teams may quickly see the status of their assigned KPIs and initiatives, monitor how they are performing against set targets, and take action on underperforming metrics. If your team shares an office space, consider putting up a screen to display the team's shared KPI dashboard to help keep KPIs top of mind.*

How many KPIs should I track?

The optimal number of KPIs to track varies from organization to organization. It depends on the size of your organization, your business model, the number of objectives, etc. With too few KPIs you may not get the complete picture. With too many KPIs you may become overwhelmed with too much information. As a rule, you may aim to track 2-3 strategic KPIs per objective. Some objectives will only need one KPI, and others will need more.

There are numerous business activities that can be assigned a KPI. To help you narrow down the number of KPIs, focus only on those business activities that are critical to achieving your strategic objectives. Assigning KPIs to activities that are irrelevant to reaching your objectives would be a waste of time.

Pro Tip: *If your organization is new to KPIs, start with a small number of KPIs and optimize your selection over time. In a few months' time of tracking your KPIs, you should be able to tell which KPIs provide the most value, which KPIs can be omitted, and which KPIs would be useful to add. A good KPI software makes the process of adding, modifying, and removing KPIs easy.*

How often should I measure KPIs?

Once your KPIs are defined, it is useful to align with your team on how often you will evaluate your KPIs. At an operational level, it is best to monitor your KPIs daily or weekly, so that you could take immediate action where needed. At a strategic level, it is a good practice to take a closer look at your KPIs monthly, quarterly, and yearly.

Pro Tip: *Consider scheduling a KPI evaluation meeting for the first day of each month. That way you may review performance of your metrics from a previous month, identify trends and outliers, investigate underperforming metrics, and take action (e.g., follow up, adjust resources, modify plans) to ensure you are on track to meet your set goals. Meeting with your team on a regular basis to evaluate your KPIs helps keep your corporate strategy on the forefront of your organization's mind and your strategic initiatives on track.*

What is the best way to keep track of KPIs?

The best, most efficient way to keep track of KPIs and your business performance overall is to use a KPI software. While it is possible to use the age-old method of spreadsheets and endless cut-and-paste, it is not recommended as it is inefficient and prone to human error. With a good KPI software you can map out your strategic objectives on strategy maps, automate data collection and analysis, visualize KPIs on dashboards, set targets for each KPI, track KPI performance over time, assign tasks and due dates, and generate performance reports. Using a KPI software not only saves you time but also makes your reports more accurate. With better visibility into your performance, you and your teams can make smarter decisions that will drive your business forward.

Final thoughts

Key Performance Indicators (KPIs) are essential to tracking the health of your business and ensuring that your organization is moving towards meeting its set goals and objectives. To create powerful KPIs that will drive your business forward, start the process by evaluating what is key for your organization. Look at your strategy and use it to outline which key metrics are needed to measure progress towards your set goals. Clearly define your KPIs (consider using the SMARTER or 6 A's methods), set short-term and long-term KPI targets, and then add initiatives to your KPIs to set your strategy into action.

For KPIs to be effective, they also need to be understood. KPI dashboards and KPI value driver trees are great tools to use to visualize KPIs and illustrate how each KPI contributes to the organization's overarching strategic objectives. Visualizing KPIs makes them easier to understand and helps decision-makers make faster, data-informed decisions.

The most efficient way to communicate and keep track of your KPIs is to use a KPI software. Using a KPI software has many benefits. It enables you to achieve a centralized view of your KPIs, communicate your organization's goals and how you are tracking performance towards those goals, and ensure that your organization stays on track to meet its strategic objectives. It also helps free your teams from administrative tasks, such as collecting data and generating reports, so they can spend their time on tasks that drive value for your organization.

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