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Best Practices for the Design or Selection of KPIs

Developing meaningful KPIs and measuring strategy execution is both an art and a science that involves a clear understanding of what to measure, how to measure, how to analyze performance information, how to report and clearly inform others regarding desired results and performance, and how to use the information to make better decisions.

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Definition of best practice

a procedure that has been shown by research and experience to produce optimal results and that is established or proposed as a standard suitable for widespread adoption

Definition of Key Performance Indicator (PKI)

a Key Performance Indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives. KPIs are used to evaluate the organization success at reaching targets.

There are high-level KPIs which focus on the overall performance of the business, and low-level KPIs that focus on processes in departments such as procurement, supply chain, human resources, etc.

KPI MANAGEMENT BEST PRACTICES
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KPI management describes the process of designing, selecting, putting in place, monitoring, and analyzing specific industry key performance indicators (KPIs) to enable companies to measure the level of success in reaching their business objectives.

KPIs, whether specifically designed or selected from among a list of commonly used KPIs, have proven how important they are to assess a company's health consequently, it should not surprise us that there are parameters, best practices, that can be followed to guarantee that your KPIs are adequate to your requirements.

The fundamental step before implementing a KPI program is to establish the organization's strategy and goals, its objectives, short, mid, and long term. This is so since your KPIs MUST be aligned to those goals and objectives.

These are the most accepted best practices when it comes to KPI management.

1. **Pick KPIs that are aligned with your strategic business objectives.** Business performance is measured against an organization's mission and objectives and KPIs must be established based on these objectives.

2. **Select different KPIs for different levels of management.** Executives are usually more concerned with medium and long-term objectives, management with medium and short-term objectives, and line operators with short-term objectives. Do not try to build KPIs that speak to all of these groups simultaneously, select KPIs for each user based on their objectives and the business decisions they're responsible for.

3. **Make sure the KPIs you pick are attainable.** What this means is that there is no point in selecting a KPI for which you need data that cannot be collected or that is too expensive to collect.

4. **Make your KPI very precise.** KPIs must keep everyone on the same page, moving in the same direction, and they should be specific enough to inform specific actions. If a KPI is too high level or too vague, it can be interpreted in many ways. Precision eliminates the risk of ambiguity.

5. **Maintain only the right number of KPIs.** Do not try to measure everything. Not everything is worth measuring. The fewer KPIs you have the more you can focus on them. Also, the more KPIs you have the more time and money it will cost you to monitor and optimize them.

6. **Ensure your KPI useful and effective by making it comply with worldwide accepted characteristics.** Desired characteristics are:

    a. **Relevancy.** Indicators should be relevant to the organization. One way of helping to ensure the relevance is to relate the performance indicators to the strategic goals and objectives of the organization or of a specific service area. Indicators should ideally also be relevant to the people providing the data and to the users of the KPI, but it may not be possible for a single indicator to be relevant to all users due to differences in perspectives and interests.
    b. **Clear definition.** A performance indicator should have a clear and intelligible definition to ensure consistent data collection and fair comparison. Vague descriptions can lead to misinterpretation and confusion. Too tight or to broad definitions could also create problems.
    c. **Easy to understand and use.** Indicators must be described in terms that the users of the information will understand, even if the definition itself must use technical terminology. Indicators focused on the public should avoid management jargon, or abstract concepts.
    d. **Comparable.** Indicators should ideally be comparable on a consistent basis both between organizations and over time. An essential aspect of the comparability of performance indicators is the inclusion of the context within which the comparison is taking place. External and internal circumstances can differ to such a degree that comparison is invalid.
    e. **Verifiable.** The indicator also needs to be collected and calculated in a way that enables the information and data to be verified. The indicator should be based on robust data collection systems, and it should be possible for managers to verify the accuracy of information and the consistency of the methods used.
    f. **Cost effective.** Another important criterion is to balance the cost of collecting information with its usefulness. Where possible, an indicator should be based on information already available and linked to existing data collection activity.
    g. **Attributable.** Service managers should be able to influence the performance measured by the indicator. If this is not the case, the incentives for trying to improve performance will diminish, and the performance indicators may be regarded as unfair, and discourage staff and managers.
    h. **Responsive.** A performance indicator should be responsive to change.
    i. **Allow innovation.** The definition of an indicator ought not to deter organizations from developing innovative processes or coming up with alternative methods, systems, or procedures to improve service delivery. PIs should ideally be constructed to allow such innovations take place.
    j. **Statistically valid.** Indicators should be statistically valid.
    k. **Timely.** The KPI should be based on data available within a reasonable time scale. This time scale will depend on the use made of the data. Some data are collected on a weekly or even a daily basis, as they are needed in the operation management of the services, whereas others are available once a year for more strategic and long-term purposes.

7. **Evaluate the adequacy of your KPI set.** Changes in your business environment could easily outdate your KPI so make sure that they are still measuring that which is important to your organization in the best possible way. Establish parameters for KPI adequacy evaluation.

8. **Implement an easy to understand KPI dashboard.** A KPI tracking dashboard collects, groups, organizes, and visualizes the company's important metrics and KPIs, providing a quick overview of business performance and expected growth. By using KPI dashboards, organizations can access their success indicators in real-time and make informed decisions that bring them closer to achieving long-term goals.

Some key benefits of using KPIs are:

- **Clarification** – KPIs help to clarify the current business position and performance expectations
- **Benchmarking** – KPIs provide a point of reference for making future or past comparisons
- **Focus** – KPIs outline the important aspects for attention within the business
- **Consistency** – KPIs enable a consistent approach to achieving business goals
- **Motivation** – KPIs engage employees with company goals and strengthens employee's morale
- **Accountability** – KPIs will highlight both good performance and under performance
- **Waste elimination** – KPIs help identify inefficiencies within the business

In practice, there are very few aspects of an organization's performance that cannot be measured via the effective implementation of relevant KPIs.

Keep in mind though that too few KPIs will make it difficult for your organization to measure critical areas of performance while too many will hamper transparency. It is impossible to specify exactly how many KPIs an organization should implement, as each will have different requirements based on its structure and strategy.

The application of these best practices in the selection of your KPIs will undoubtedly be of great assistance not only to determine which KPIs are appropriate but also the number of KPIs to use so I truly hope that this guide provides some help and clarity in your KPI management process

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