7 Principles For KPIs That Drive Success

How to ensure your KPI approaches embody the fundamentals for KPIs that lead to organisational success.

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Are Your KPIs Leading To Success, Or Not?

Great KPIs depend on a minimum level of rigour in the thinking that precedes their selection, creation and use.

Great KPIs are great because they keep everyone focused on the results that matter and guide them to take the right actions to achieve those results. This means much more than just hitting targets or holding people accountable. It's about making real and lasting improvements to organisational performance and success.

Too often, people's experiences with performance measurement make it feel like a waste of time. Experiences like these:

- KPIs don't feel helpful in solving the biggest challenges keeping them awake at night.
- Budgets are spent and targets are hit, with little evidence that performance is better.
- Team KPIs keep the focus inside their organisational silos, not collaborating to reach whole-of-organisation goals.
- More time is spent debating KPI integrity than using them to improve performance.

The approaches we take to select, create and use KPIs have a huge bearing on their calibre, on their ability to make a difference that's worth the time and effort. And the approaches that produce high-calibre KPIs have a set of fundamental principles that guide the thinking behind their selection, creation and use.

Principles for KPIs that are worth it

Principles are beliefs, codes or morals used to guide behaviour. Principles bring consistency and predictability to whatever they are applied to. They are not rules, they are not prescriptive, and they are not truths. But they do provide much-needed intent and direction that to achieve the impact we want.

There are seven principles of performance measurement that lead to greater organisational success when they are embodied in the organisation's KPI approaches:

1. Clear purpose
2. Systems thinking
3. Process alignment
4. Human centred
5. Numerical integrity
6. Statistical interpretation
7. Decision integration

If the performance measurement approach we use doesn't embody these principles, great KPIs will only happen by accident, and most KPIs will be a waste of time and effort.

While we take a closer look at these seven principles, ponder the degree to which your current KPI approaches embody them. If they don't, perhaps also imagine the impact on your organisation's success if they did.

Principle 1: Clear Purpose

Great KPIs are focused more on continually improving the results that matter most, than on hitting targets.

Hitting targets is too often done the wrong way, causing unintended consequences. Like setting targets low enough to be achieved easily, and consequently allowing actual performance to erode over time. Or choosing KPIs that only track effort and activity, so performance looks good even if everyone is busy doing things that don't create value.

The more these behaviours happen, the wider the strategy-execution gap becomes.

Be more results-oriented, rather than action-oriented.

The principle of a clear purpose means choosing KPIs that put, and keep, attention on the results that matter most.

It starts by prioritising the results that matter most in the organisation's strategy process, but so clearly and specifically that they can be understood by everyone in the organisation. Then teams can align their own results with organisational priorities.

When KPIs are then aligned directly with the layers of these results, throughout the organisation, they become the tangible focal points of performance-improving action.

Attitudes shift when measurement is purpose-driven, rather than target- or activity-driven. People find it easier to choose actions that improve the results over time, rather than playing a numbers game.

A clear purpose is essentially the same as having observable results-oriented goals that set the context for choosing KPIs and actions that truly improve overall performance.

TIP: Make sure goals are measurable & aligned.

- [ ] Write goals that describe observable results, so they are more measurable and more easily understood and owned.
- [ ] Design KPIs from direct evidence of those observable results, even if the data doesn't yet exist (but you could get it).

Principle 2: Systems Thinking

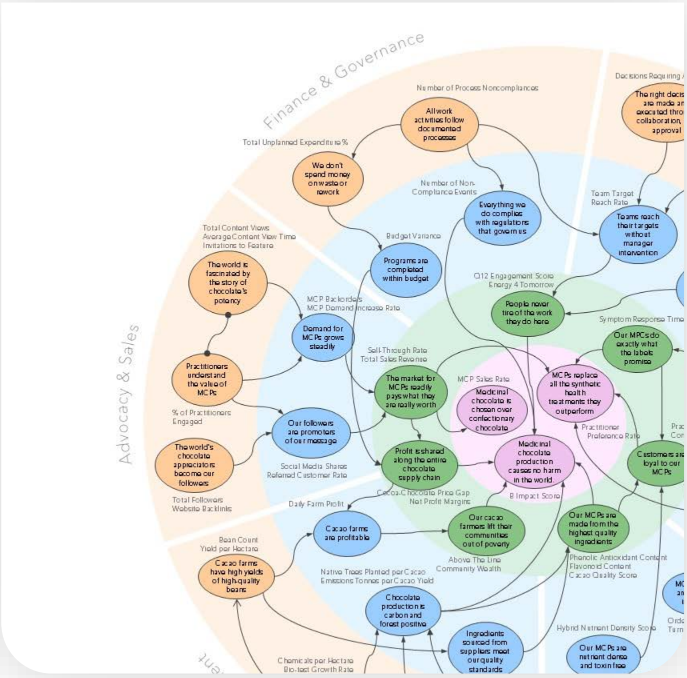
Great KPIs are integrated into a single dynamic story of how the organisation performs, as a whole.

We might hear complaints from the delivery team that their KPI is falling short because of the actions of the supply team. Or we celebrate a reduction in our expenditure KPI, but then find it just goes back up again. Or we see the marketing team kicking all their KPI goals, but no increase in revenue or customer growth. These are signs that the performance of the parts of the organisation isn't serving the performance of the whole organisation.

Systems thinking means appreciating an organisation as an entity made up of interconnecting and interdependent parts. It means that any decision or action can affect the whole system, slightly or monumentally.

Break down the silo thinking.

The best KPIs for each part of the organisation will measure their impact on the whole organisation's success, at the same time as balancing their impact on the other parts of the organisation. For a supply team, their KPI of *Inventory Costs* directly influences the strategic KPI of *Total Expenditure* for the organisation. But it also can impact on the production team's KPI of *On-Time Delivery* when stock isn't available in inventory. Both impacts are important to balance.



It's easy to overthink all the impacts teams have on other teams. But a visual cause-effect map is the simplest way to start. It can quickly and clearly capture the interconnections and interdependencies most important to manage.

A cause-effect map, driven by systems thinking, is a great tool for each team to stay oriented to the organisation's purpose, but also to the collaboration they need with other teams.

TIP: Build a cause-effect map of results & KPIs

- [ ] Build a cause-effect Results Map for the whole organisation, so every team can see their impact on achieving its intended purpose, as well as their impact on other teams.
- [ ] Along with cause-effect relationships, include "conflict" relationships to flag where performance needs to be balanced, not maximised.

Principle 3: Process Alignment

Great KPIs more easily link strategic aims to the right actions when they align with processes, not functions.

When we invest time and resources into change, we want to see improvements that were worth the investment. But how easy is it jump to obvious solutions, which end up with barely any impact? How often do we find we're only treating symptoms of performance problems, because the root causes aren't clear? How hard is it to find performance improvements that don't require an ongoing investment to maintain the new level of performance?

We measure performance to know *what* and *when* to improve. But we can also measure in a way to know exactly *where* to improve. A KPI of *Employee Capability* is *what* we want to improve and tracking it over time shows us *when* to improve it. But it's also important to know exactly *where* in the organisation we can find the most leverage to improve it.

Look for leverage in the process.

Leverage to improve a KPI can be found in the business processes that most affect the KPI. Processes are the sequential flows of tasks and decisions that produce outputs, like new policies or delivered products or employee skills. The root causes of performance usually lie in process design. Fixing these root causes, not treating symptoms, is how we get leverage.

One process that affects *Employee Capability* is employee development, the process that gives each employee the training or experience to directly grow their capability. When we see how these processes work, we more easily see where they can be tweaked or changed to work better.

Processes are the window through which we can see exactly where performance can be improved, by redesigning or modifying the process in a way that fixes the performance problem, once and for all.

TIP: Flowchart the business process affecting a KPI

- ☐ Next time you need to improve a KPI, identify and flowchart the business process that most affects that KPI, and look for root causes.
- ☐ Then, design an improvement project to fix the root causes they find in that process.
- ☐ Follow this example.

Principle 4: Human Centred

Great KPIs drive the right behaviours when accountability focuses on learning and improvement, instead of judgement.

People can have some unintended reactions to KPIs. They may continually argue against every suggested KPI. They may ignore them completely. They may be selective about only reporting the "good news" KPIs. They may report KPIs in a way that distorts the message to make their point. Behaviours like these easily evolve into a culture of avoiding accountability.

Humans, like most animals, have a fight-flight-freeze response to threats. And too often, KPIs do feel like a threat. This happens when they are used for intrinsic or extrinsic reward or recognition (or punishment). Because peoples' lives are affected by these decisions, it's natural they'll do whatever it takes to influence more favourable values of the KPIs.

Replace judgement with learning.

Performance improvement is what we really want from the relationship between people and KPIs. But real and lasting performance improvement will only come from learning (the only time learning isn't required is when performance is already perfect). Learning requires curiosity and collaboration. But neither is possible when people are caught in one of the fight-flight-freeze stress states.

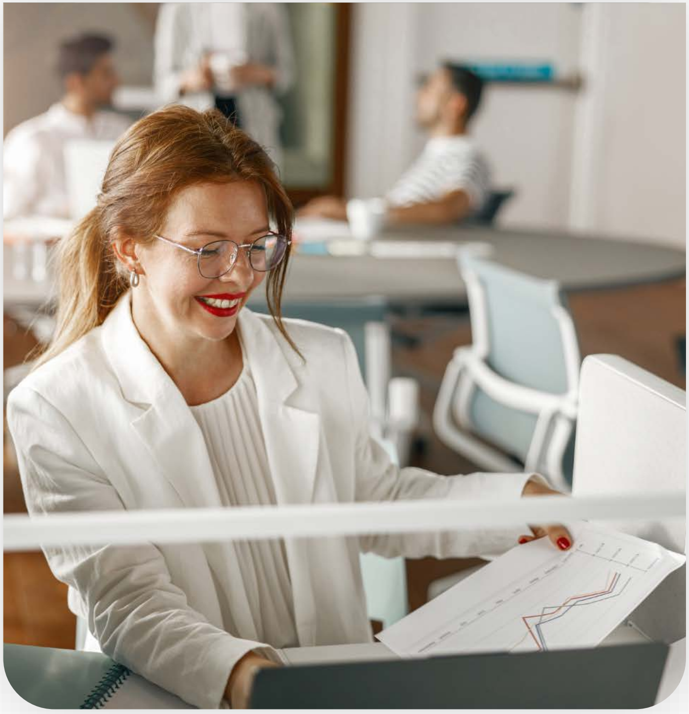
Getting people into a more curious and collaborative relationship with KPIs can be as simple as changing the role that KPIs take in employee performance management and team performance meetings. When this role changes, people feel the freedom to accept any KPI result, good or bad. They feel open to look for the causes of undesirable results, and to explore ways to improve those results, not just shift the numbers to hit the targets.

Instead of holding people accountable for what their KPIs are doing, hold them accountable for what they're doing with their KPIs to improve organisational performance.

TIP: Redefine what KPI accountability means

- [ ] Give people ownership of their KPIs.
- [ ] Define the accountability of KPI owners as monitoring the KPI, validly interpreting the KPI, and initiating action to improve the KPI's performance.

Principle 5: Numerical Integrity



Great KPIs are based on data and calculations that are trusted by everyone who uses them.

Not every KPI is trusted, and not every KPI is trustworthy. One symptom of this is when more time is spent debating KPI integrity than using them to decide on the best performance improvements. Another symptom is when different reports include the same KPI, but they show conflicting results. And yet another symptom is when people assume a KPI is measuring one thing, but it's actually measuring something else.

All three symptoms existed in one transport organisation's *Cycle Time* measure. There were 12 versions of *Cycle Time* being used by different teams, each telling a different story and suggesting different responses.

We depend on the quality of data and information to provide a stable foundation for decision making. Our decisions suffer in both situations: when we don't trust our KPIs enough to rely on them, or when the KPIs aren't trustworthy and lead to the wrong decisions.

Define a single version of the truth.

A KPI is trusted when its definition is transparent to everyone, and that definition proves it to be trustworthy. And a KPI is trustworthy when its calculation is appropriate to its purpose and based on reliable data. Each KPI needs a definition that maintains a single version of the truth.

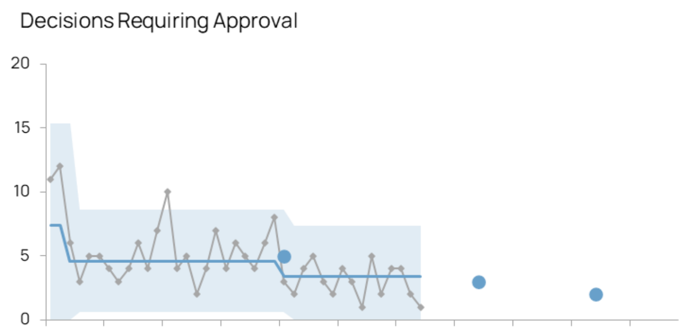
When every KPI is both trusted and trustworthy, no more time is wasted debating their relevance or accuracy. Instead, decisions are faster and more accurate, and lead to bigger and lasting performance improvements.

Documenting each KPI's selection process and calculation details is the basis for managing and improving its numerical integrity.

TIP: Create a corporate KPI definition dictionary

- [ ] Create a single repository for all KPI definitions, and make it transparent so everyone can understand any KPI they need.
- [ ] Integrate this discipline into every KPI design, so that no KPI can be placed on a dashboard until it has a formal definition.

Principle 6: Statistical Interpretation



Great KPIs are analysed and presented based on valid statistical rules so they are never misunderstood.

Have you ever reviewed a KPI with a team and struggled to agree on what the KPI was actually telling you? Have you ever been surprised by performance suddenly getting worse (or better) without apparent warning? Or noticed performance getting more chaotic with each attempt to improve it?

These problems happen when we focus only on the points of data, and not on the patterns in the variation of those points. The consequences are:

- over-reacting by interpreting a trend that isn't really there
- under-reacting by not seeing a pattern that actually is there
- failing to predict likely future performance.

In other words, we misunderstand our KPIs without basic skills in statistical thinking.

Learn to discern signals from noise.

Variation is a statistical term for uncertainty. It's a natural phenomenon that affects all KPIs, and we see it as all that up-and-down movement in our KPI values over time. Some of that movement can signal that performance has changed, but most of the movement is just random noise that doesn't mean anything.

Statistical thinking is the ability to discern signals from random noise. When we practice statistical thinking, we dramatically reduce the risk of misinterpreting our KPIs. Instead we can:

- ignore fake trends and stop wasting time and resources fixing what isn't broken
- see real trends or shifts, even when they're quite small, so we can respond quickly to real problems
- quantitatively track our progress toward targets, to manage future performance

Instead of being misled by "% variances" and comparing individual KPI values to each other, we can quickly and easily see the true signals in our KPI values, using XmR charts.

TIP: Try out XmR charts

- [ ] See this example of how to interpret KPIs more easily with XmR charts. They might seem unusual at first, but their power is quickly appreciated.
- [ ] If you're game, you can follow these instructions and build an XmR chart for one of your KPIs.

Principle 7: Decision Integration

Great KPIs inform each stage of decision making for performance improvement: before, during and after.

How many KPIs are reported, but rarely help to make a better decision about performance? How often are change initiatives forging ahead with no KPI to evaluate the size of their impact? How much do we really learn from KPIs if they're only used at the end of the planning cycle to check if goals were achieved, or not?

A KPI is most useful when it informs decisions at all three stages of change implementation: before, during and after. Before the change initiative's selection, KPIs show us the baseline to improve from, and the performance gap between that baseline and a target. During the change initiative's implementation, KPIs help us course correct based on what's working and what isn't in closing the performance gap. After the change initiative's completion, KPIs show us how much of the performance gap was closed.

KPIs don't work in isolation, and they don't make decisions for us. Great KPIs work together to help us make better decisions. A single KPI might be the trigger that a decision is required. Then other KPIs can help guide how the decision gets made, and what impact it has.

Integrating KPIs with strategic and operational decision making is about creating a rhythm to frequently evaluate performance using a suite of KPIs that answer these three questions:

1. What is performance doing, and do we need to respond or not?
2. Why is performance doing that, and what factors do we need respond to?
3. How exactly should we respond, to get an improvement in performance?

These questions shape the agenda of performance review meetings. They keep decisions focused on closing performance gaps through continuous learning and improvement.

Design performance reports and dashboards that align KPIs with the decisions relevant to achieving current goals. This means framing KPIs and other information to answer those three questions: what, why, and how?

TIP: Redesign your performance dashboards

- [ ] Check your performance dashboards to see if they can answer those three questions: what, why & how.
- [ ] Make sure your performance review meeting agendas are guided by the signals in your

Embody The 7 Principles In Your KPI Approaches

Are your current approaches to KPIs supporting, sabotaging or ignoring these fundamental principles?

Do you know what principles are at the heart of the Balanced Scorecard, or OKRs, or whichever framework you're using as a KPI approach?

PuMP already does.

There are several ways to learn PuMP and adopt a ready-made KPI approach that already embodies all the right principles for successful performance measurement:

- ☐ Join an upcoming public PuMP Blueprint Workshop in your region.
- ☐ Sign up for membership in the self-paced PuMP Online Program.
- ☐ Book a private PuMP Blueprint Workshop for teams in your organisation.

		support	sabotage	ignore
1.	Write results-oriented goals, and design KPIs that quantify the evidence of those results-oriented goals.	☐	☐	☐
2.	Map all the goals and their KPIs into a single diagram that captures the cause-effect and conflict linkages among them.	☐	☐	☐
3.	Align business processes to KPIs in order to find the actionable root causes to fix and lift performance.	☐	☐	☐
4.	Define accountability that drives the desired behaviours of monitoring the right KPIs, interpreting them validly and initiating action to improve them.	☐	☐	☐
5.	Keep a corporate repository of KPI definitions so each KPI can be trusted by everyone as a single version of the truth.	☐	☐	☐
6.	Display KPIs in a way that interprets their variation to discern true signals from noise, based on sound statistical theory.	☐	☐	☐
7.	Focus decisions about improving performance on the three questions of what, why and how.	☐	☐	☐

PuMP is a complete KPI methodology that was deliberately built upon these seven principles. All of PuMP's steps and techniques have the practical instructions to turn these principles into action.

Other KPI approaches can be modified to do the same, but why reinvent thinking that's already been done? Adopting PuMP is the fastest way to transform your measurement approach to produce KPIs that lead to greater organisational success. The thinking has already been done, and proven over decades.

If you're curious to learn more about PuMP, contact us for a referral to your nearest PuMP Partner. You can also choose a licensed PuMP Partner or Contractor from page 14.

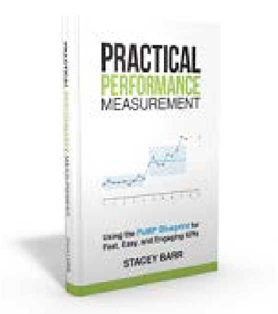
About the Author

Stacey Barr is a globally recognised specialist in organisational performance measurement.

She discovered that the struggles with measuring business performance are, surprisingly, universal. The biggest include hard-to-measure goals, trivial or meaningless measures, and no buy-in from people to measure and improve what matters. The root cause is a set of bad habits that have become common practice.

Stacey created PuMP®, a uniquely methodical and practical performance measurement approach. PuMP replaces the bad KPI habits with techniques that end the common KPI struggles. PuMP makes measuring performance faster, easier, engaging, and meaningful.

Stacey is author of Practical Performance Measurement and Prove It!, publisher of the Measure Up blog, and her content appears on Harvard Business Review's website and in their acclaimed ManageMentor Program.



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PUMP

The deliberate, step-by-step performance measurement process, that makes measuring what matters faster, easier, more meaningful and engaging.

STEP 1

Understanding Measurement's Purpose

Fixing the focus firmly on continuous improvement as the purpose for measurement.

STEP 2

Mapping Measurable Results

Translating our strategy into clear, focused, and measurable performance results.

STEP 3

Designing Meaningful Measures

Choosing the most feasible and relevant measures that evidence our performance results.

STEP 4

Building Buy-In to Measures

Getting ownership from our stakeholders, quickly, easily and engagingly.

STEP 5

Implementing Measures

Documenting in detail the data, analysis and reporting requirements for each of our measures.

STEP 6

Interpreting Signals from Measures

Focusing ourselves on gaps between as-is and to-be performance.

STEP 7

Reporting Performance Measures

Creating useful and usable performance reports that inspire us to action.

STEP 8

Reaching Performance Targets

Improving business processes to move as-is performance toward to-be.

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