How to

Use KPIs to Produce Better Business Results

MASTERING MIDSIZED

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Having a strong set of key performance indicators (KPIs) is crucial for sustainable, long-term business success. But many leaders struggle to create the right KPIs and use them effectively. Great KPIs are simple… but hard to implement. Using powerful KPIs leads to better decision making and supports continuous improvement in your organization. You are in good company if you've taken a few runs at it and feel like it didn't work.

In this guide we'll explore how having the right written KPIs and a systematic, monthly approach to tracking and responding can help you more successfully and easily get the results you want. Read on for specific common pitfalls as well as best practices.

What Exactly is a KPI?

KPIs are objective tools we use to guide us to achieve the results that matter the most. They help evaluate the success (or shortfalls) in an organization relating to its important initiatives, objectives, or programs. Examples of common KPIs include revenue, profit margin, clients served, closing ratios, inventory turnover, average sale, social media shares, patient waiting times, customer satisfaction, return on investment, or cost per unit. We use the word "key" in front of "performance indicators" to suggest that a small number of performance indicators are "key," thus we watch this small number of indicators very closely. We suggest that for any leader, the number of "key" indicators should be nine or fewer.

Essentially, there are two main types of KPIs: leading (or supporting) and lagging (or results). For example, sales revenue is a lagging indicator – an end result we seek. But what critical indicator helps us get sales? A common leading (or supporting indicator) is "number of sales presentations."

How Common Approaches to Using KPIs Fall Short

KPIs can effectively guide a managements' actions, waste their time, or cause them to do the wrong things. What often goes wrong? Let's explore.

- Too many or too few KPIs. The use of too many KPIs will become overwhelming and often come from computer-driven dashboards. Just because you can measure something doesn't mean it's worth paying attention to. Too few KPIs may indicate a general lack of controls in the organization.

- Overly focusing on financial data—which are far too narrow and always lagging. Take the case of a national financial services company that became one of our clients. Their main KPI was "Money under Management." On the 10th of each month, they would review results of the prior 30 days. The problem was that once the numbers came in and fell short of expectations, there was nothing left to do except vow to do better next month. The problem was the main KPI they were using was a lagging one. Once introduced to the concept of leading/supportive KPIs, such as leads generated, appointments set, and closing ratios, their results markedly improved.

- Overly automating KPIs can substantially reduce their effectiveness. Expensive and complex IT systems rarely get completed on time and when they do, the data dump is often too overwhelming to be useful.

- KPIs without written assumptions behind them are often based on perceptions versus facts. A KPI that can't be justified as to its intent and importance in a simple paragraph may be easily misunderstood.

- KPIs are talked about, but not written and graphed. We often say, "It's not real if it's not written."

- KPIs are too complex. It takes too long to calculate it each month, and the meaning of it going up or down isn't clear.

- Lopsided KPIs. Taken as a whole, the set of KPIs don't lead to long-term, sustainable success. For example, too much focus on profits without a counterbalancing focus on quality can damage a brand. Another example is too much emphasis on efficiency without an emphasis on safety and quality.

- KPIs managed on spreadsheets are often difficult to read and suffer from version control issues. Formula mistakes are commonplace. Setting up a visually oriented dashboard is a time-consuming process beyond the skills of most computer users.

Building Powerful KPIs is Challenging

This is often true even for experienced executives who have worked their way up the organization chart. Business owners often have never been coached on how to do this well. But developing a workable set of KPIs is possible for every business. Here are some suggestions that may help you.

- Limit the number of KPIs assigned to each team member to no more than 9, but at least 3.

- Be sure you include enough leading indicators that you know will predict a positive result.

- Design your KPIs to be clear and graphable. Can you get a reasonably accurate number each month? Did you state your target number each month? Non-quantifiable, vague KPIs are useless.

- Cascade your KPIs throughout your organization. Lower-level leaders should know that if they hit their KPI targets, their wins will add up to a win for the organization.

- Have a written business plan detailing how you will triumph over the competition. Develop meaningful KPIs that drive the strategy statements in that plan.

- A good set of KPIs should be based on a balanced scorecard approach, meaning you will have KPIs in each of these four categories:

    - Financial (things like profits, sales revenue and working capital)

- Efficiency (things like utilization, waste, and revenues per headcount)
- Customers (things like customer satisfaction, market share and ideal customer acquisition)
- Capabilities (things like training, hiring key talent and strength of core competencies)

- Make sure one person is responsible for the success of each KPI. Ensure they have written action plans designed to communicate progress towards achieving the target.
- Use a color coded, dashboard system for tracking progress towards meeting critical KPIs. This makes it easier to identify those KPIs that are on target to be achieved and those that are not.
- Hold structured monthly plan review meetings to assess progress toward your objectives. Without these meetings, it's easy to become distracted with daily firefighting activities and forget KPIs in favor of the urgent.
- Don't go it alone. Use a coach or consultant who has experience in this area.
- Adjust KPIs over time to keep the management team focused on what is most important at the time.

The Real Secret Behind KPIs

Surprisingly, the true purpose of KPIs is not so much to hit a specific target, but to spur the right activities day in and day out. Don't get held back by not having perfect data. Data that approximates reality is often all that is needed to encourage the behaviors that lead to better results. Setting up the right KPIs is the first part of the job. But managing the activities of the team to strive toward achieving their targets is most powerful part of the process.

Predictable Systematic Growth

Mastering Midsized partners with leaders of midsized companies to build the strong business infrastructure your company needs to grow – predictably and sustainably.

Growth Drivers for Midsized Companies

We've identified nine drivers of growth for midsized businesses. It's not that midsized businesses don't know they exist. It's that they tend to underweight or skip certain elements of each growth driver and that can hobble growth. Likewise, these aren't the only important elements in a business; many other areas support growth. But that's different than driving growth. As you read below, you'll also find an emphasis on systemization. While one person doing a critical activity right propels growth for small companies, at midsized, the whole team must do that activity well consistently. That requires systematization.

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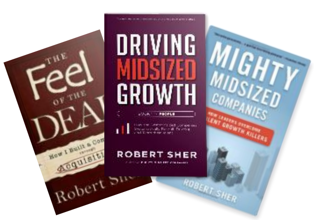

Books About Midsized Growth

Robert has published extensively on the successful leadership traits and skills of CEOs of midsized companies, helping leaders elevate their game and lead their companies to the next level. See them here.

14+

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Mastering Midsized
www.MasteringMidsized.com
info@MasteringMidsized.com
(925) 829-8190

