PRACTICAL GUIDE

Using KPIs and Measures in Performance Management

How to design measures that focus attention, strengthen accountability and improve organisational performance

A practical article for boards, executives, managers and Human Resources professionals

INDUSTRIAL PSYCHOLOGY CONSULTANTS

A Practical Guide to Using KPIs and Measures in Performance Management

Many organisations have performance management systems that consume enormous amounts of time but produce little improvement in performance. Employees complete performance contracts, managers conduct quarterly reviews, Human Resources consolidates scores, and executives present colourful dashboards to the board. Despite all this activity, projects remain behind schedule, customers continue to complain, costs rise, revenue targets are missed, and poor performance is repeatedly explained away. The organisation measures a great deal but manages very little.

The problem normally starts with the quality of the measures. Many performance contracts contain activities presented as Key Performance Indicators, targets selected without evidence, and measures over which employees have little influence. Some contain so many indicators that employees cannot tell which results matter most. At the end of the year, managers are forced to rate people using measures that were defective from the beginning.

A good KPI system should make the organisation's priorities clear, show whether its strategy is working, identify performance problems early and guide corrective action. It should also provide credible evidence for decisions about recognition, development, promotion, remuneration and accountability. When properly designed, KPIs help managers move performance discussions away from opinions and personalities towards results and evidence. This article explains how to design and use KPIs as part of a practical performance management system.

What is a KPI?

A KPI is a quantitative or qualitative measure used to assess performance. A Key Performance Indicator is a measure considered critical to the achievement of an important organisational, functional or individual goal. The word key is important because not every measure used by an organisation qualifies as a KPI. An organisation may track hundreds of operational statistics, but only a limited number should receive the attention of senior management.

For example, a customer service department may track the number of calls received, call duration, abandoned calls, repeat calls, complaints, response time and customer satisfaction. All these measures may be useful for managing operations. However, the department's key indicators may be first-contact resolution, customer satisfaction and the percentage of complaints resolved within the agreed service standard. These measures provide stronger evidence of whether customers are receiving the required service.

Many organisations use the terms goal, measure, target and initiative as if they mean the same thing. They do not. A goal describes the result the organisation intends to achieve. A measure shows how progress or achievement will be assessed, while a target specifies the required level of performance and the deadline.

An initiative is the work undertaken to achieve the target. Evidence is the information that confirms what was achieved. Keeping these elements separate improves the quality of a performance contract and reduces disputes during reviews. Consider the following example:

- Goal: Improve customer retention.
- Measure: Annual customer retention rate.

- Target: 82%.
- Target Period: annually
- Initiatives: Introduce customer recovery calls, analyse the main causes of customer loss and improve complaint resolution.
- Evidence: Verified customer records from the customer relationship management system.

The initiative should not be confused with the result. An employee may complete every planned customer recovery call without improving customer retention. Completing an activity proves that work was done, but it does not necessarily prove that the intended result was achieved.

Start with strategy

The most common mistake in KPI development is to start by asking departments what they can measure. This produces indicators based on available reports rather than on the organisation's strategic priorities. Departments submit the information they have always collected, and the result is a performance scorecard that reports historical activity without showing whether the strategy is succeeding. An impressive dashboard can therefore conceal a serious absence of strategic focus.

KPI development should begin with the organisation's strategic choices. Leaders must be clear about where the organisation intends to compete, how it intends to succeed, which customer problems it will solve, and which capabilities it must develop. These choices should be translated into a small number of strategic goals. Measures should then be developed to show whether those goals are being achieved.

Suppose an organisation's strategy is to achieve profitable growth in selected market segments. Revenue growth alone would not provide a complete picture of performance. The organisation may need to measure customer acquisition in the targeted segments, sales conversion, customer retention, gross margin, product availability and cash collection. Together, these measures show whether the organisation is growing in the markets it selected and whether that growth is financially sustainable.

The Balanced Scorecard was developed partly to correct excessive reliance on financial measures. Financial results remain essential, but they normally report the consequences of decisions and actions already taken. A balanced scorecard adds customer, internal process, and learning and growth measures to provide a broader view of organisational performance. More importantly, it should show the cause-and-effect assumptions behind the strategy.

For example, the organisation may assume that strengthening technical skills will improve product quality, which will increase customer satisfaction, strengthen retention and ultimately improve revenue. Measures should be selected at each critical point in this performance chain. If technical capability improves but product quality does not, management must test whether the assumed relationship was correct. A scorecard should help leaders learn whether the strategy is working, not merely record whether targets were reached.

Distinguish activities, outputs and outcomes

Most weak performance contracts are dominated by activities. They use words such as conduct, coordinate, facilitate, monitor, participate, prepare and engage. These words describe what an employee will do, but they do not state what the work must achieve. An employee can complete every activity and still fail to create any meaningful organisational value.

"Conduct four customer-service training programmes" is an activity. "Train 95 per cent of customer-facing employees" is an output because it records the immediate product of the activity. "Increase customer satisfaction from 70 per cent to 82 per cent” is an outcome because it measures the change the training and other interventions were intended to produce. The performance contract should focus primarily on outcomes while retaining selected outputs where they represent important progress towards a longer-term result.

The same distinction applies across organisational functions. “Prepare monthly financial reports” is an activity. “Issue complete and accurate monthly management accounts by the fifth working day” is a stronger measure because it incorporates timeliness and quality. “Improve the accuracy and speed of management decisions” may be the ultimate outcome, although it may require a combination of quantitative and qualitative evidence.

In Human Resources, “conduct employee engagement surveys” is an activity. “Achieve an 80 per cent survey participation rate” is an output. “Improve the employee engagement score from 68 per cent to 75 per cent while reducing regrettable turnover in critical roles” measures outcomes. The organisation should not reward the Human Resources team simply for administering a survey if the findings are ignored and the employee experience does not improve.

Activities are still necessary because outcomes do not occur without action. They belong mainly in operating plans and action plans rather than dominating performance scorecards. Where an outcome will take several years to emerge, meaningful milestones and outputs may be used as interim measures. The test is whether the measure represents substantive progress rather than mere busyness.

Use both leading and lagging indicators

A lagging indicator measures a result that has already occurred. Revenue, profit, market share, employee turnover, customer retention and accident frequency are common examples. These measures are important because they confirm whether the organisation achieved its intended results. Their limitation is that, by the time they deteriorate, management may have little opportunity to correct the problem within the performance period.

Leading indicators measure activities, conditions or intermediate results expected to influence future performance. The value of qualified sales opportunities may provide an early indication of future revenue. Preventive maintenance compliance may signal future equipment reliability. The percentage of critical positions with ready successors may provide an indication of the organisation’s future leadership continuity.

A useful performance scorecard combines both types. A sales executive should not be measured only on revenue because a weak sales pipeline may already indicate that future revenue is at risk. An operations executive should not wait for equipment failure before acting if preventive maintenance compliance is declining. A Human Resources executive should not wait for critical employees to resign before examining employee risk, succession coverage and the completion of retention actions.

However, organisations must not assume that every activity measure is a leading indicator. For a measure to be genuinely leading, there should be a credible reason to believe that it influences the intended outcome. Where possible, this relationship should be tested using the organisation’s historical data. If an increase in sales calls does not improve qualified opportunities or conversion, the number of calls may be measuring activity rather than future performance.

Leading indicators are particularly useful during monthly and quarterly reviews because they allow managers to intervene before final results are lost. Lagging indicators establish whether the desired outcome was achieved. Together, they allow performance management to address both delivery and the drivers of delivery. A scorecard made entirely of lagging measures is largely a record of what has already happened.

Write every KPI correctly

A KPI title is not a complete measure. Terms such as customer satisfaction, productivity, profitability, employee turnover and service quality can be calculated in several ways. Unless the organisation agrees on a precise definition, managers and employees may present different results for the same indicator. The dispute often appears at the end of the year, when ratings and bonuses are already at stake.

Every KPI should have a measure profile or technical definition. This should state the purpose of the measure, the exact formula, the unit of measurement, the scope, exclusions, data source, reporting frequency, target, accountable owner and required evidence. It should also state whether higher or lower performance is desirable. Where the calculation is complex, the profile should include a worked example.

> **Employee turnover rate = Number of employees who left during the period ÷ Average number of employees during the period × 100**

This formula still leaves important questions unanswered. Does the numerator include retirement, death, dismissal, internal transfers and the expiry of fixed-term contracts? Is the organisation measuring total turnover, voluntary turnover or regrettable turnover? How is the average employee population calculated when workforce numbers change significantly during the year?

The measure may also need to distinguish between general turnover and turnover in critical roles. A five per cent turnover rate may appear acceptable until management discovers that most employees who left were engineers, salespeople or other scarce specialists. The overall number can hide the organisational damage. Good KPI definitions prevent useful information from being buried inside broad averages.

A properly written measure should be capable of surviving the departure of the person who developed it. Another competent employee using the same data and definition should obtain the same result. If two people can calculate materially different results, the KPI is not sufficiently defined. A measure that cannot be calculated consistently cannot support a fair performance rating.

Select the correct unit of measurement

Measures can be expressed as numbers, percentages, ratios, currency values, time, milestones, quality ratings or index scores. The unit must suit the result being assessed. Counting transactions may be useful for volume, while percentages may show the proportion meeting a standard. Ratios can reveal relationships that absolute numbers conceal.

For example, reporting the number of customer complaints without considering the number of transactions may create the wrong impression. Two hundred complaints arising from one million transactions represent a different level of performance from two hundred complaints arising from ten thousand transactions. A complaint rate per thousand transactions may therefore provide a more meaningful comparison. The same principle applies to accidents, defects, employee absence and operating costs.

Percentages can also mislead when the underlying population is small. If one employee leaves a department of four people, the turnover rate is 25 per cent. The percentage is mathematically correct, but management should also see the absolute number and the size of the workforce. Sound interpretation requires both statistical accuracy and operational context.

Time-based measures must specify the starting and ending points. “Recruitment turnaround time” is meaningless unless the organisation states whether the clock starts when a vacancy arises, when approval is granted or when the vacancy is advertised. It must also define whether the process ends when an offer is issued, accepted or when the new employee reports for work. These details must be settled before performance is assessed.

Set targets using evidence

A measure without a target provides information but does not establish accountability. Saying that revenue, customer satisfaction or employee turnover will be measured does not define the required performance level. The target must specify how much improvement is expected and by when. It should also be clear whether the target is a minimum requirement, an expected result or an exceptional level of achievement.

Targets should not be invented during performance-contracting workshops. They should be informed by historical results, strategic requirements, customer expectations, regulatory standards, industry benchmarks, process capability, available resources and expected market conditions. The assumptions supporting the target should be recorded. This becomes particularly important when the operating environment is affected by inflation, currency instability, supply shortages or major regulatory changes.

If customer satisfaction is currently 60 per cent, a target of 95 per cent may look ambitious but may be impossible within one year. The organisation may have serious staffing, technology and process problems that cannot be corrected immediately. An impossible target does not create motivation. It encourages employees to disengage, negotiate lower standards or manipulate the data.

The opposite problem occurs when organisations simply add a small percentage to the previous year’s performance. This may preserve mediocrity. A loss-making business cannot justify another year of inadequate margins merely because the new target represents a slight improvement. The strategic requirement must influence the target, even where meeting it will require significant changes in capabilities and resources.

A good target-setting discussion should establish the baseline, the level required by the strategy, the performance of relevant comparators, the improvement that is operationally possible, and the resources needed to deliver it. It should also identify the assumptions that could invalidate the target. Targets may need formal adjustment when a major uncontrollable event fundamentally changes the conditions under which they were agreed. Such adjustments should be exceptional, properly governed and supported by evidence.

Organisations should define performance thresholds in advance. A measure may have a minimum acceptable level, a target level and an exceptional-performance level. The scoring formula must be approved before actual results are known. It is poor governance to design or change the scoring scale after management has seen the final performance.

Use weights to communicate priorities

Weights show the relative importance of the measures in a performance contract. A scorecard containing ten equally weighted KPIs suggests that every result is equally important, which is rarely true. Measures connected directly to strategic success should normally carry greater weight than administrative or supporting measures. The weighting process should force management to make choices about priorities.

A chief financial officer's responsibility for financial sustainability should not carry the same weight as submitting a routine administrative report. A sales executive's revenue, gross margin and collection performance should normally carry more weight than the completion of internal meetings. When minor activities receive significant weights, employees can accumulate points from easy measures while failing on the results for which their roles exist.

The organisation must also decide whether some measures are non-compensatory. Under a purely additive scoring system, exceptional performance on several minor KPIs can compensate for catastrophic failure on one critical result. This may produce a high overall score even when the organisation suffered serious financial, safety, regulatory or customer consequences. Critical indicators may therefore require minimum thresholds.

For example, the performance policy may state that a material safety breach, ethical violation or regulatory failure limits the overall rating, regardless of the mathematical score. Such rules must be specific and applied consistently. They should not be introduced after an incident to reduce a particular employee's rating. Governance requires employees to understand the rules before the performance period begins.

Cascade goals without copying scorecards

Cascading performance goals does not mean copying the chief executive officer's scorecard into every executive's contract. When everyone is accountable for every organisational result, accountability becomes diluted. Executives can argue that poor results arose from another function, while individual contributions remain difficult to assess. Apparent alignment then produces collective avoidance.

The correct approach is to identify how each role contributes to the higher-level goal. If the organisation intends to increase revenue by 15 per cent, the Sales Executive may own revenue, sales conversion and pipeline quality. The Operations Executive may own product availability and order fulfilment. The Marketing Executive may own qualified leads and market penetration in the selected segments.

The Finance Executive may own credit controls and collection efficiency, while the Human Resources Executive may own the timely staffing and capability development of critical commercial roles. Each function contributes to the same strategic goal through measures appropriate to its mandate. The measures are connected, but they are not identical. This creates alignment while preserving accountability.

Some shared measures are appropriate, especially at executive level. Executives should have a degree of collective accountability for organisational performance because no major result is produced by one function alone. However, shared measures should be combined with individual functional measures. Otherwise, the performance contract will not distinguish strong individual contribution from dependence on the work of others.

Individual performance contracts should be derived from the actual purpose and accountabilities of each role. Job descriptions, strategic plans, annual operating plans and process responsibilities should provide the foundation. A person should not receive a KPI merely because another employee at the same grade has it. Performance accountability must follow the work, not the grade.

Hold people accountable for results they can influence

A basic principle of performance management is that accountability should be matched with authority and resources. Employees should not be rated primarily on results over which they have no reasonable influence. This does not mean that every factor must be completely under their control. Senior roles exist partly to manage uncertainty, coordinate across boundaries and influence other stakeholders.

However, there must be a credible relationship between the employee's decisions and the measured result. A branch manager cannot reasonably be held fully accountable for a system-wide technology failure that only head office can correct. A Human Resources Executive cannot deliver recruitment targets when management refuses to approve vacancies or participate in selection. A Sales Executive cannot be held solely responsible for lost revenue caused by chronic production failures.

Managers should ask whether the employee has the authority, resources, information and cooperation required to deliver each target. Dependencies should be identified during performance contracting, not raised for the first time after a target is missed. Where responsibility is genuinely shared, the relevant roles should have linked measures and clearly defined contributions. When accountability exceeds authority, the contract is unfair; when authority exceeds accountability, governance is weak.

Balance cost, quality, speed, volume and risk

A single measure rarely captures the full quality of performance. If procurement employees are measured only on cost savings, they may select cheaper suppliers who provide poor-quality products or unreliable delivery. If a call centre is measured only on average handling time, employees may rush customers off calls. If recruiters are measured only on time to fill vacancies, they may compromise the quality of hiring decisions.

Important measures should therefore be paired with guardrails. Revenue growth should be considered alongside gross margin and cash collection. Production volume should be balanced with defects, equipment reliability and safety. Cost reduction should be balanced with service quality, risk and the organisation's ability to operate sustainably.

A recruitment function may measure time to fill, but it should also track hiring-manager satisfaction, new-hire performance, early turnover or another credible indication of quality of hire. A maintenance function may measure cost, but it should also track equipment availability and unplanned downtime. A bank may measure loan growth, but it must also monitor portfolio quality and regulatory compliance.

This is the real meaning of a balanced scorecard. Balance is not achieved merely by putting measures under four headings. It is achieved by recognising the tensions among cost, quality, speed, volume, risk, customer value and long-term capability. A well-designed scorecard prevents success in one area from being achieved through damage to another.

Keep the number of KPIs manageable

A performance contract containing 25 or 30 equally presented measures has no priorities. The employee cannot focus on everything with the same intensity. Managers also struggle to collect credible evidence and conduct a meaningful review of such a large number of indicators. The process becomes a scoring exercise rather than a management conversation.

For most roles, five to ten well-selected KPIs will provide more value than a long list of activities. Complex executive roles may require more, but the scorecard must still distinguish the measures that are genuinely critical. Supporting operational measures can remain in departmental dashboards without all becoming part of the individual performance rating. The purpose is focus, not exhaustive documentation of every responsibility.

A practical test is to ask whether achieving all the measures would demonstrate that the employee had performed the role successfully. If the answer is no, an important result is missing. Management should also ask which measures could be removed without weakening that judgement. If several can be removed, the scorecard contains unnecessary clutter.

Review performance throughout the year

An annual review is too late to manage performance. By the time the organisation discovers in December that a project was delayed in March, the opportunity for timely intervention has passed. Performance management should operate as a continuous cycle of agreement, monitoring, feedback, corrective action, support and accountability. The annual rating is only one part of that cycle.

The review frequency should match the nature of the measure. Cash collection, production and service delivery may require weekly or monthly monitoring. Strategic projects may be reviewed monthly against milestones. Employee engagement, leadership development and succession readiness may require quarterly review, while some long-term impact measures may only be meaningful annually.

A performance review should concentrate on material variances and decisions required. Managers should examine what was expected, what happened, what evidence supports the result, why the variance occurred and what corrective action is required. They should identify whether the problem relates to effort, capability, resources, process design, cooperation, leadership or external conditions. Simply recording a red status without deciding what to do serves no management purpose.

Corrective actions should have owners and deadlines. The following review should confirm whether the actions were completed and whether performance improved. Where the organisation does not provide agreed resources or remove known barriers, that failure must also be recorded. Performance management must hold both the employee and the organisation accountable for their respective commitments.

Feedback should remain focused on the task and the evidence. Research shows that feedback can improve performance, but it can also reduce performance when it directs attention towards the recipient's personality or self-image rather than the work. Managers should discuss the performance gap, its causes and the action required instead of making vague personal judgements. "The report contained five material errors and was submitted three days late" is more useful than "You need to be more professional."

Require auditable evidence

Performance ratings should not depend on confidence, presentation skills, seniority or the manager's memory of recent events. Every material score should be supported by evidence agreed when the target is set. The evidence may come from financial records, operational systems, project completion certificates, customer records, survey results, quality reports, regulatory returns or independent assessments. The source must be authoritative and capable of verification.

Where performance results are self-reported, there should be an independent verification process. This is especially important where ratings influence bonuses, promotion, contract renewal or executive remuneration. The employee responsible for producing a result should not have unrestricted authority to define, calculate and approve the same result. Separation of responsibilities improves credibility.

Managers should also avoid accepting attractive dashboards without examining the underlying data. A green status may conceal a changed formula, incomplete data or a convenient exclusion. Internal Audit, Finance, Risk and other assurance functions may be required to test significant measures. The board should receive one reliable version of performance truth rather than competing reports from management functions.

Prevent KPI gaming

When rewards, reputation and job security depend on a measure, people have an incentive to improve the number. Sometimes the underlying performance improves. In other cases, people change classifications, timing, data or behaviour so that the indicator improves while the real problem remains. This is commonly described as gaming the measure.

A customer service employee may close a complaint in the system before the customer confirms that the matter was resolved. A manager may delay recording supplier invoices to keep expenditure within budget. A recruiter may focus on easy vacancies while neglecting difficult but strategically critical positions. A sales team may push products to customers who are unlikely to pay in order to reach a volume target.

Gaming does not always involve deliberate fraud. Employees often respond rationally to the incentives created by the organisation. If management announces that one number will determine bonuses, people will naturally concentrate on that number. The narrower the measure and the greater the reward attached to it, the greater the risk that unmeasured aspects of performance will be neglected.

The organisation can reduce this risk by balancing measures, defining formulas carefully, verifying data, reviewing unusual patterns and examining the underlying outcome. Managers should ask whether the customer, shareholder or other intended beneficiary is actually better off. They should also examine how the result was achieved. A target reached through unacceptable risk, unethical conduct or damage to future performance should not be treated as genuine success.

Do not use mathematical precision to conceal managerial judgement

A score of 86.7 per cent may create an impression of scientific accuracy, but it is only as credible as the measures, targets, evidence and scoring rules behind it. If the KPIs were poorly defined or the data were unreliable, calculating the result to one decimal place does not make it valid. Performance systems often become obsessed with arithmetic while ignoring measurement quality. This produces precise answers to the wrong questions.

Some work is also difficult to capture fully through quantitative measures. Leadership quality, strategic judgement, innovation and the handling of complex stakeholder relationships may require structured qualitative assessment. Qualitative does not mean subjective or unsupported. The organisation can define behavioural anchors, required outcomes, evidence standards and rating criteria.

For example, “provide effective leadership” is too vague. A stronger assessment may consider whether the executive built a capable team, addressed persistent underperformance, developed successors, improved cross-functional cooperation and maintained ethical standards. Each area should require specified evidence. The rating panel should assess performance against the agreed criteria rather than against personal impressions.

Managerial judgement remains necessary, especially in complex roles. The answer is not to remove judgement but to discipline it with definitions, evidence, independent review and clear governance. Mechanical scoring should support a decision, not replace thinking. A performance score is a summary of evidence, not the evidence itself.

Connect KPIs to consequences and support

A performance system loses credibility when strong and weak performance produce the same outcome. Employees quickly recognise when reviews have no consequences. High performers become frustrated, while persistent underperformance becomes normal. The organisation continues conducting reviews but stops managing accountability.

Consequences do not refer only to punishment. Strong performance should influence recognition, development opportunities, promotion decisions, succession planning and, where appropriate, remuneration. Poor performance should trigger diagnosis, support, corrective action and closer monitoring. Where the employee lacks capability, the organisation may provide training, coaching or reassignment.

Where the problem is insufficient effort, refusal to perform or repeated failure after reasonable support, formal consequences may be necessary. The response must follow the organisation's policies and applicable employment law. Managers should not wait until the end of the year to inform an employee that performance has been unacceptable. No annual rating should come as a surprise.

Performance pay must be designed carefully. Paying employees for every measurable result can narrow attention, weaken cooperation and increase gaming. Some outcomes depend heavily on market conditions or collective effort. The organisation should therefore consider both individual and organisational performance, the quality of results, risk, conduct and long-term sustainability before approving performance-related rewards.

Review and improve the measures annually

KPIs should not remain unchanged simply because they appeared in the previous year's contracts. Strategy changes, customer expectations evolve, systems improve and operating conditions shift. Some measures prove useful, while others generate little information or encourage undesirable behaviour. The measurement system itself must therefore be reviewed.

The annual review should ask whether each KPI remains strategically relevant, whether the formula is still appropriate, whether the data are reliable and whether the accountable employee can influence the result. It should examine whether the target was too easy, impossible or distorted by changed conditions. Management should also test whether improvement in the KPI corresponded with genuine organisational improvement.

If the indicator improved while customers, employees or financial results deteriorated, the measure may be defective. If the organisation repeatedly fails to collect reliable data, it must either improve the data system or reconsider the indicator. Measures that do not inform decisions should be removed. Every KPI creates a reporting and management cost, and it should justify that cost.

Human Resources should facilitate performance management, but it cannot own every organisational measure. Functional executives must define the results expected from their areas, Finance should verify financial measures, and data owners should ensure reporting integrity. Internal Audit and Risk may provide assurance over critical indicators. The board must ensure that the chief executive officer's performance contract reflects the strategy and is reviewed using auditable evidence.

A practical process for developing KPIs

The organisation can improve KPI quality by following a disciplined process. It should begin by confirming the strategic priorities and identifying the few outcomes required from each priority. Those outcomes should then be translated into organisational goals, followed by the development of measures that show progress and final achievement. The organisation should select both leading and lagging indicators where appropriate.

Each measure should then be technically defined. The baseline must be established using verified historical data, and a target should be agreed using strategic requirements, benchmarks, resources and operating conditions. The responsible role must have sufficient authority and influence. Dependencies and shared responsibilities must be documented.

Management should test the measure for possible unintended consequences. Where pursuing one measure could damage quality, risk, service or sustainability, a balancing measure should be added. The measures should then be weighted according to strategic importance. Required evidence, reporting frequency and scoring rules must be approved before the performance period begins.

The completed organisational scorecard should be cascaded into executive, departmental and individual scorecards according to each role’s contribution. Managers and employees should sign performance contracts early enough for them to guide the year’s work. Monthly or quarterly reviews should monitor progress, diagnose problems and agree corrective action. At year-end, the final assessment should consolidate evidence already discussed throughout the year rather than introduce new judgements.

A final quality test for every KPI

Before approving any KPI, managers should ask the following questions:

1. Is the measure directly connected to an important goal?
2. Does it assess a result rather than merely record an activity?
3. Is the formula clear enough for two people to calculate the same result?
4. Is the data source reliable and capable of independent verification?
5. Does the accountable employee have reasonable influence over the result?
6. Is the target based on credible evidence?
7. Is the reporting frequency appropriate?
8. Does the measure provide information early enough for management to act?
9. Could it encourage harmful or unethical behaviour?
10. Is it balanced by quality, risk or sustainability measures where necessary?
11. Is the weight consistent with its strategic importance?
12. Will management take action when performance moves off target?

A measure that fails several of these tests should not be placed in a performance contract. It will create administration, disputes and misleading scores without improving performance. The organisation is better served by a few sound measures than by a large scorecard that no one trusts. Measurement discipline is one of the foundations of performance governance.

Conclusion

KPIs do not improve performance by themselves. They direct attention, define expected results, expose performance gaps and provide evidence for action. Poorly designed indicators direct attention towards activities, encourage gaming and create false confidence in unreliable scores. Good KPIs help employees understand what matters and help managers intervene before problems become permanent.

A functioning performance management system requires clear strategy, carefully selected measures, credible targets, reliable data, regular reviews and real consequences. Performance contracts must be agreed early, and performance must be reviewed throughout the year. The discussion must focus on evidence, causes, corrective actions and the support required. An annual scoring meeting cannot compensate for twelve months of weak management.

The ultimate test is whether the KPI system improves the quality of decisions and increases the certainty that the organisation will deliver its strategy. If the system merely produces completed forms and year-end ratings, it is an appraisal process. It is not managing performance.