Mitigating Metrics Madness: Distinguishing Between Metrics and KPIs

A three-step litmus test

A White Paper

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Summary

With the popularity of dashboards, many organizations have gone from drowning in data to drowning in metrics. An organization with both corporate and business unit dashboards may have hundreds, or even thousands, of metrics that are updated monthly, weekly, or even daily.

By now, most organizations realize that the one with the most metrics does not win. In fact, to the contrary; a surplus of metrics not only is an organizational resource drain from a maintenance perspective; moreover, it provides little meaningful value in guiding an organization down the path to its objectives. Measuring is, of course, a required step, but understanding why, how and what is measured are equally important. Taking each of these into consideration can help focus attention on the critical few metrics that truly tell how an organization is doing. Distilled focus on a smaller number of key performance indicators arms an organization with the critical information to advance toward their strategic objectives.

With so many metrics, how do you decide which ones are critical? The answer lies in distinguishing key performance indicators (KPIs) from mere metrics. Well-designed KPIs provide quick insight into trends and summary information, while supporting drill-down into more detailed metrics.

In this white paper, you will learn:

- How to focus regular monitoring on a manageable number of metrics
- The difference between metrics and KPIs
- Best practices for creating and managing KPIs

History of Metrics: Why More is Not Better

With more ways than ever to capture information, organizations today have a wealth of metrics at their disposal. The rise of dashboards has provided a neat package in which to display metrics; with the ability to create a limitless number of dashboards, from enterprise-level to business unit and departmental all the way to individual, the number of metrics tracked has skyrocketed. Yet for many organizations, this wealth of metrics yields a decided dearth of useful insight; metrics have multiplied to the point that they've become not only overwhelming, but also meaningless to those

who monitor them. In fact, studies have shown that organizations are tracking as many as *nine times* the effectual number of measures.

While many organizations have fallen into this trap — with rationales such as "We've *always* collected this metric" or "We collect it because we *can*" — this abundance of metrics can actually be a detriment to organizational success for a number of reasons. Building on existing transactional data often produces a plethora of metrics that lack strategic context, reflect only past behavior, or don't measure an organization's intended outcomes. When metrics are created simply because the data is available, they often bear little connection to organizational objectives. For example, it can be tempting to create a metric for the *number of calls handled by each contact center agent*. However, that metric alone may not convey enough information if the objective is either increasing customer satisfaction or moving to customer self-service. Unfortunately, this approach too often yields a proliferation of metrics that provide little insight to advance the organization's goals, graduating the organization from being overwhelmed by reports to being overwhelmed by metrics.

The lack of context surrounding data-driven metrics is compounded by the fact that most metrics used are financial and represent information about the past. For example, even though *revenue* and *profitability* are two of the most common metrics used, *lead quality* and *time to close a transaction* may be more appropriate metrics for an organization that is interested in understanding momentum during a new product introduction. Relying solely on financial and lagging metrics is akin to driving while looking in the rearview mirror; it limits an organization's ability to proactively drive in their chosen direction.

Moreover, many organizations naturally draw from transactional systems (e.g., financial, CRM, ERP) for their data. Unfortunately, this means that the resulting metrics typically reflect an organization's activity or *outputs*, not the *outcomes* it is trying to achieve. Returning to the contact center example, it might be tempting to create an activity metric such as *percentage of calls returned in the same day* as a way of measuring customer satisfaction because this data is contained in most call center CRM solutions. However, the number of calls returned doesn't directly measure customer satisfaction. Instead, it may be more appropriate to regularly

survey a portion of the customer base in order to gauge reported satisfaction. This survey metric, while subjective, more directly reflects the intended outcome.

Even when organizations focus on the right metrics, they often struggle to ensure that metrics are understood — how they are calculated, where they came from, and what they mean — correctly and consistently throughout the organization. Take *profitability* as an example. Just on the face of it, how do you know whether it is gross or net? Fully burdened or raw cost? Operating or cash flow? Once you establish metrics, be sure that everyone in the organization understands what they are, how they are to be used, how they will be calculated, and from what source the data will come. Documentation is essential here, with formal, standard definitions; be sure you have the facility to include such documentation with your metrics.

KPIs vs. Metrics: What's the Difference?

With so many metrics, how do you decide which ones are critical? The answer lies in distinguishing which metrics are actually key performance indicators (KPIs). KPIs are performance metrics explicitly linked to a strategic objective that help an organization translate strategy execution into quantifiable terms. Well-designed KPIs provide quick insight into trends and summary information, while supporting drill-down into more detailed metrics — allowing an organization to see where it's doing well and where it requires improvements and/or course adjustments. Think of KPIs as the yardstick by which success and progress are measured — those measures most tightly linked to its success or failure in executing strategy.

All KPIs are metrics, but not all metrics are KPIs. An organization will have many metrics, but few KPIs. While metrics can be a measure of just about anything, KPIs are the measures that matter most.

So when is a metric a KPI? There are three criteria which loosely define it as a KPI. KPIs are metrics that are:

1. *Outcome-oriented* — tied to an objective
2. *Target-based* — have at least one defined time-sensitive target value
3. *Rated or graded* — have explicit thresholds which grade the difference (or gap) between the actual value and the target

The above criteria, used in evaluating whether a metric meets KPI status, serve as a "litmus test" to help ensure focus on the measures that truly matter to the success of your organization. Each of the three criteria is described in further detail below.

The Keys to KPIs: A Three-Step Litmus Test

1. Outcome-oriented

The first — and perhaps most critical of all — criteria a metric must meet to be deemed a KPI is that is must be *outcome-oriented.* Metrics that track *inputs* (the amount of financial and non-financial resources applied to providing service or producing product) or *outputs* (the quantity of service or products produced) are just metrics. A KPI tracks *outcomes* that measure progress toward a defined goal so that you can understand impacts.

Three Keys to KPIs:

To help ensure focus on the measures that truly matter to your organization's success, use this three-step "litmus test" to determine whether a metric qualifies as a key performance indicator. A KPI is a metric that is:

1. **Outcome-oriented** — tied to an objective; if you can't describe the business goal it's monitoring, then it's not a KPI, it's a metric.
2. **Target-based** — has at least one defined time-sensitive target value. Milestone-based targets provide critical context.
3. **Rated or graded** — has explicit thresholds which grade the difference (or gap) between the actual value and the target. Associating a grading system with KPIs provides a quick and easy-to-understand reading of whether a particular KPI status is good or bad, how on or off-target it is.

If a metric doesn't fit the above criteria, then although it may still be relevant, it is not a KPI and therefore might belong on a dashboard or report.

Another way of looking at this is that a KPI is explicitly tied to an objective; if you can't describe the business goal it's monitoring, then it's not a KPI, it's a metric. While it might seem natural to simply start by looking at your current pool of metrics and asking which of them meet this criterion, such an approach places focus only on those measures already being tracked — which may exclude other measures critical to your objectives. For example, if you don't currently measure *employee satisfaction*, then it likely will be excluded from consideration, even though it may be a critical factor in the *Promote an environment that values employees* strategic objective.

A more effective approach is to start with your goals. Take existing metrics — and, as much as possible, take organizational politics off the table for a moment — and ask yourselves, "What measures will tell us if we are on track with the objectives on

our strategy plan?" In doing so, be sure to consider a balance of measures — operational as well as financial, leading as well as lagging, and subjective (qualitative) as well as objective (quantitative). While financial and other backwards-looking lagging indicators provide an important view of how the organization has performed up until now, they offer little visibility into how the organization will perform moving forward. Leading indicators, on the other hand, help forecast future performance, lending critical insight into how today's decisions will impact tomorrow's performance — and giving you an opportunity to address issues and/or shift course if necessary. A leading indicator such as *customer satisfaction* that is trending downward, for example, tells you that future renewals may be in jeopardy, enabling proactive efforts by the organization to address satisfaction issues and fend off attrition.

While people naturally tend to think of metrics as quantitative in nature — pulled from transactional systems, for example — it is important not to overlook qualitative metrics. Qualitative metrics convey subjective information that is often critical to performance — such as feedback from important constituents such as employees or customers. For example, with a goal of *Elevating employees to valued associates*, a qualitative survey provides detail and depth that may get to the heart of what's behind the quantitative measure of *employee turnover.*

In starting with your goals to identify the right KPIs, you may establish KPIs that aren't currently being tracked. What if you don't already have the underlying data to support the new KPI(s)? Not to worry; this issue is relatively easily addressed by manually entering data for the KPI in question. In fact, a good performance management solution will allow for this. Be sure not only that you are focusing on the right KPIs but also that you are tracking *all* of the KPIs critical to your objectives.

2. Target-based

The second point to remember when evaluating whether a metric is truly a KPI is that KPIs are more than just numbers. In order to provide a meaningful gauge of progress toward organizational objectives, a metric must have context. Milestone-based targets provide this context. As an example, one of your metrics, intended to measure *customer satisfaction*, may currently have a value of 61. Is 61 cause for celebration or concern? The only way you can effectively evaluate whether the value

is good or bad — and consequently, contributing to or detracting from the achievement of your objectives — is by having targets associated with your key performance indicators. Taking this one step further, while 61 may constitute “good” today, what about six months from now? Effective KPIs have targets associated with a specific timeframe. For example, for the KPI *reduce the cost of service*, the target for one year might be 12%, with incremental milestones of 0% for the first six months and 2% per month for the remaining six months.

3. Rated or graded

In addition to being outcome-oriented and target-based, a true and effective KPI also should be rated or graded. Associating a rating system with KPIs provides a quick and easy-to-understand reading of whether a particular KPI status is good or bad, how on or off-target it is. Many scorecards use a “traffic light” metaphor for rating systems, with green (denoting meeting objectives currently), yellow (potential issues) and red (underperforming/needs attention). A “letter grade” system, using A/B/C/D/F as thresholds, is another familiar and intuitive system. Whatever system your organization adopts, it can then assign appropriate thresholds for each KPI. For example, using the letter grade system, greater than or equal to 90% of target might be an ‘A’; 80 – 89% of target a ‘B’; 70 – 79% of target a ‘C’; 60 – 69% of target a ‘D’; and less than 60% of target an ‘F’. In this system, ‘A’ becomes a stretch score; anything ‘B’ and above is deemed success. (For more details on rating systems and target gaps, refer to the white paper “Moving from a Metrics-Based System to Actionable Performance Management.”)

If a metric doesn’t fit the above three criteria, then although it may still be relevant, it is not a KPI and therefore might belong on a dashboard or a report.

Staying on Track

Just as organizational goals and targets are not static, selecting KPIs is not a one-time exercise; the KPIs your organization tracks likely will evolve and/or change over time. As you reach your targets, you should change them or drop the KPI altogether. As your organization’s objectives change, be sure to update your KPIs accordingly to be sure they are serving current organizational objectives.

Establishing the right KPIs is as essential a component of successful strategy execution as defining the right strategy for your organization. Trying to execute without KPIs — or perhaps worse, the wrong ones — is akin to taking a road trip without using a map: if you're lucky enough to ultimately make it to your intended destination, it is likely to have cost you excessive cycles, wrong turns and detours — not to mention frustration — to get there.