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Create KPIs That Reflect Your Strategic Priorities

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What do you think of our scorecard?" asked Phil (not his real name), the CEO of the main roads department of a large Australian state. Phil had emailed me his organization's scorecard of 29 key performance indicators (KPIs) to review ahead of a workshop I was to run for them. Unfortunately, I could see that, aside from being on the long side, the list was skewed and biased, with large holes that would leave the department vulnerable to underperformance in critical areas.

Structure Is Primary

To answer Phil's query, I started with this fundamental question: Does the scorecard follow a key stakeholder structure? Organizations operate in environments defined by their [key stakeholders](#). Consider a Hilton hotel: its key stakeholders are customers, suppliers, employees, the holding company, and the community in which it operates. The Hilton will only do well if it has strong relationships with all these stakeholders. If it has poor relations with its employees, it will struggle to deliver satisfactory service and to prosper. If it has poor relations with its customers, it won't be long before the business goes belly up. In fact, an organization is only as strong as its weakest link within its group of key stakeholders. That's why I tell clients that "measuring performance is measuring relationships."

Applying the Test

So how did Phil's department's scorecard do? Not very well. What the executive team had done was to break the organization into six programs. Here are three examples: road safety program, road efficiency program, road maintenance program. No mention of stakeholders. So, who are the key stakeholders of a main roads department?

I happened to know the answer, since I had worked with an executive team in an identical organization in another state on the very same exercise. Here's the result: road users, local government, affected community, service providers, central agencies, and employees.

Let me explain each briefly. Road users includes an array of people and organizations, from cyclists to trucking companies. Local government refers to councils whose cooperation is essential to building the road system across the state. Affected community refers to landowners adjacent to any road expansion whose property might be infringed upon. Service providers covers a range of groups, most notably contractors who build the roads. Central agencies refers to other government entities on which main roads might depend (for example, the state treasury) for funding. Employees refers to paid staff.

Note the Impact

I categorized the main roads department's 29 KPIs against the six key stakeholders and came up with startling results.

Sixteen of the KPIs related to one stakeholder: road users. These quite rightly referred to road safety, satisfaction with the road network, measures of a smooth road-travel experience, and figures around road maintenance. Ten KPIs referred to service providers in terms of contracts finished on time and on budget. Three related to central agencies and were concerned with the effective use of funds; for example, one of these KPIs was "average \$ cost of network maintenance per lane kilometer of road network." There were no KPIs for three key stakeholder groups: local government, affected community, and employees.

Here was an organization with nearly 7,000 staff but none of its 29 KPIs related to employee satisfaction, safety, turnover, productivity, or innovation. This was not a good sign for the workforce, nor did it reflect positively on the way the CEO and the executive team thought about the organization. And why didn't local government and affected community rate a mention? If the department alienated these stakeholders, it risked a serious political fallout.

So, what should Phil and his main roads group (and you) do instead?

Create the Scorecard

The first step, clearly, is to identify the key stakeholders of your organization or strategic business unit. Understand that your relationship with each is a two-way street, then develop measures on both sides of those relationships. In the case of employees of the main roads department, you'd choose measures of what the group wants from them, such as productivity (employee turnover is often a proxy here) and innovation. In the case of customers of the Hilton hotel, you'd choose measures of what is desired from them, such as revenue and profit margin.

On the other side of relationship, look for the factors that make your organization competitive from the stakeholder's perspective. For employees at the main roads department, factors such as physical working conditions, pay, safety, and organizational

culture matter. Hilton customers might rate the group on customer service, price, and facility quality. Look for both subjective and objective measures in all cases.

Of course, this approach yields a great many measures, but you can winnow down to the most important from that long list, knowing that you have been far more strategic in identifying them and that no important KPI has been missed.

At the main roads department, I organized the 42 managers participating into groups focused on each of the six stakeholders we had identified, and they came up with an initial list of around 30 measures per stakeholder, for a total of around 180. At that point, the baton was passed to the executive team (12 people) who selected just two or three per stakeholder group to end up with a balanced list of 17 KPIs.

If you truly care about tracking the metrics critical to your group or organization's success, I would recommend doing the same exercise.