

Hints and tips for political finance oversight institution performance management

Designing key performance indicators - methodology

To design a good performance indicator, you should ask yourself the following questions:

- What is the purpose of this KPI?
- What objective(s) does it relate to?
- What level of performance are we aiming for, i.e. what is the target we want to measure against?
- How will we measure, or count, this KPI?
- How often should we measure it?
- Who can measure it?
- What will the data source be?
- Who will then receive the reported data, and what will they do with it?
- Who is responsible for ensuring the data is recorded accurately and at the agreed frequency?
- How might we act on the indicator if it does not achieve the target?

Once you have written your performance indicator and know how you will measure it, you should also test it for robustness:

- The truth test – will this KPI definitely measure what you intend it to measure?
- The focus test – will this measure *only* be measuring what it is meant to measure?
- The consistency test – is the measure consistent regardless of who measures it, and when?
- The access test – can the data be communicated and understood?
- The clarity test – is any ambiguity possible in the interpretation of results?
- The ‘so what’ test – can the data be acted on? And will it be?
- The timeliness test – is it possible to obtain and interpret this data in time for action to be taken?
- The cost test – is collecting this data worth the cost/time involved?
- The gaming test – will the existence of this KPI encourage any undesirable behaviours (for instance, cutting corners on quality to achieve a time-based target)?

It’s a good idea to involve the relevant staff in the development and testing of indicators because doing so:

- Helps to ensure your indicators are worthwhile and
- Deepens the staff’s understanding of the purpose and use of the indicators relating to their work.

Once you have your indicator and have agreed a target, you should also think about what outcomes would be classed as red (poor), amber (slightly off-target) or green (good). It’s best to determine this at the outset, so that you then report (e.g. to the Board) based on consistent definitions. A KPI that has performed in the red would normally be a prompt for some improvement action to be taken, unless there are demonstrable reasons why this should be viewed as a one-off unusual event, and you know performance has recovered afterwards.

For instance, you may track staff turnover (the number of staff leaving per month) as a KPI. It is unrealistic, and undesirable, to have no staff turnover at all. People naturally develop and then move on, and it is good to bring in new people with new skills and a fresh approach. But high turnover can be

hard to manage, can put pressure on your other staff (perhaps causing them, too, to leave) and can hamper your achievement of objectives. So your staff turnover KPI may look something like this:

Target – 1% - 5% staff turnover per month.

Green = 1% - 5%

Amber = 5.1% - 9.9%; or less than 1%

Red = 10% or higher