

KEY PERFORMANCE INDICATORS

BetterEvaluation and ANZSOG

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WHAT IS THE PURPOSE OF KEY PERFORMANCE INDICATORS (KPIs)?

Organisations usually select a limited set of indicators to collect, analyse and report routinely. This is seen as a pragmatic approach to minimize cost and effort and avoid drowning in data – especially data of little relevance to operational decision making (Hunter and Nielsen 2013).

An example from the Australian public sector context

The Auditor General's Report on the *Pilot Project to Audit Key Performance Indicators* states:

“Within the context of the current Outcomes and Programs framework, KPIs as stated in agencies' Portfolio Budget Statements (PBSs), are established to provide information (either qualitative or quantitative) on the effectiveness of programs in achieving objectives in support of respective outcomes.” (p.9) “It is not expected that KPIs [within this context] will measure inputs to a program (resources provided to administer the program), or the outputs (that is, quantity and quality indicators which are related to the deliverables (goods and services produced through the implementation of a program).” (p.15)

“The establishment and reporting of entity key performance indicators is a fundamental underpinning of the Australian Government's performance measurement and reporting framework. Key performance indicators are expected to inform entities and government about the performance of programs including their impact and cost-effectiveness, and signal opportunities for improvements. Key performance indicators also provide the basis for entities and ministers informing the Parliament and the public of the effectiveness and efficiency of government programs.” (p.10)

WHAT DO YOU THINK?

- How many KPIs does your entity (agency, department, unit or other) have and what do they focus on?
- What are some of the key benefits of the KPIs for your entity?
- What are some of the challenges in selecting, collecting, analysing, reporting or using these KPIs in your entity?

WHAT DO WE MEAN BY ‘PERFORMANCE’?

The concept of ‘performance’ is defined differently in different organisations. An organisation’s conceptual model for performance, or its performance framework, reflects its values, responsibilities and preferences, especially in terms of the criteria used to assess performance.

Performance can be defined in terms of an organisation, an intervention (a small project, a large program, a collection of activities, a policy), an individual, a team or a network. *For example:*

- an organisation’s ability to achieve its goals and objectives measurably, reliably, and sustainably through intentional actions (Hunter and Nielsen 2013).

This definition focuses on organisational performance and only on performance in terms of stated goals and objectives –excluding other results, whether positive or negative. It only includes what is achieved through intentional action –excluding accidental or serendipitous results, and, only what can be measured.

- maximizing an intervention’s:
 - **Effectiveness** – appropriateness, accessibility, quality
 - **Efficiency** – technical efficiency (converting inputs to outputs), cost-effectiveness (converting inputs to outcomes/impacts)
 - **Equity** – horizontal (equal treatment of equals) or vertical (unequal but fair treatment of unequals)

This definition focuses on an intervention’s performance and only on a limited set of performance criteria –excluding other possible criteria such as relevance or sustainability. It singles out specific approaches to be used for the assessment –such as cost-effectiveness– which have inherent value judgements that are different from alternative approaches.

An implication of using different definitions of performance is that an organisation may be judged to perform well through the lens of one conceptual model/performance framework but poorly through the lens of another (Contandriopoulos et al. 2008).

The focus on performance in the public sector is not new but has, more recently, incorporated a fundamental shift from judging performance based on ‘inputs’ and ‘activities’ (how allocated budgets were spent and whether activities were consistent with prescribed processes) and ‘outputs’ (the immediate results that are directly within the control of an intervention or entity) to “outcomes or impacts” (the longer-term results that are most often affected by a range of factors, not just one particular intervention or one entity’s program of work).

WHAT DO YOU THINK?

- How is performance defined in your organisation?
- Are there particular strengths or weaknesses in how performance has been defined?
- Is there a common understanding of performance across the organisation?

WHAT IS THE PURPOSE OF PERFORMANCE MEASUREMENT?

Performance measurement is often used as a fairly inclusive term to refer to the *routine* measurement of inputs, activities, outputs, outcomes and/or impacts of an intervention (a project, program, collection of activities or a policy). The emphasis is on regularly collecting a limited set of data to determine where improvements can be made.

There are a range of other purposes performance measurement can serve, such as:

- **Accountability** – is the organisation doing what it should be doing, at the levels it should, with the quality it should, and, at the cost levels it should?
- **Transparency about results** – is the organisation achieving what it should be achieving, to what extent, for whom?
- **Value for money** – is the organisation achieving results in the most cost-effective manner?.

An example from the Australian public sector context

The Auditor General summed up the purpose of performance measurement as follows:

“Those charged with running public sector entities need regular access to a suite of both financial and non-financial information **to manage their business, determine whether they are on track and take timely corrective action if needed**. Public sector entities must also publicly report on their performance as part of their accountability obligations, **to demonstrate their effective stewardship and responsible use of taxpayer-funded resources.**”

(Report to Parliament No. 18 for 2013-2014: *Monitoring and Reporting Performance*)

WHAT DO YOU THINK?

- Are the purpose(s) of performance measurement made explicit in your organisation?
- What are some of the challenges in implementing performance measurement to ensure all of its stated purposes are met?

WHAT IS THE DIFFERENCE BETWEEN PERFORMANCE MEASURES, INDICATORS, METRICS AND INFORMATION?

These terms are used in different ways by different people and sometimes used interchangeably. It can be useful to distinguish between them as follows:

- A **performance measure** is direct and accurate – such as room temperature in degrees Celsius.
- A **performance indicator** is indirect (i.e., it is always approximate only) and requires interpretation and explanation, even if it is measured accurately – such as the percentage of people wearing a coat.
- A **performance metric** is a figure that provides an easily interpreted sign of performance (e.g., % of staff testing with blood alcohol levels over 0.05% during work hours, when 0 is expected)
- **Performance information** refers to the additional information needed to make sense of performance measures and indicators – such as the time of day, the outside temperature, the size of the crowd.

[based on Rogers 2006]

WHAT DO YOU THINK?

- Are these distinctions between performance ‘measure’, ‘indicator’, ‘metric’ and ‘information’ important in your view? Why or why not?

WHAT IS THE PURPOSE OF KEY PERFORMANCE INDICATORS (KPIs)?

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IS PERFORMANCE MEASUREMENT THE SAME AS PERFORMANCE MANAGEMENT?

Performance measurement is an essential *part of* a broader process often referred to as performance-based management (also called ‘managing for results’ or ‘results-based management, RBM). Some argue that If an organisation does not collect performance data, it cannot manage its performance effectively, reliably, and accountably. Hence, the issue for performance management is not *whether* to collect data, but *what* data to collect and how to convert performance data into actionable information to support tactical and strategic decision making (Hunter and Nielsen 2013).

The OECD defines performance management as “the system, which integrates organisational strategic management, performance information, evaluation, performance monitoring, assessment and performance reporting” (2002). Others define performance management differently, *for example*:

[if performance is defined as] “an organisation’s ability to achieve its goals and objectives measurably, reliably, and sustainably through intentional actions. Performance management, then, is the set of self-correcting processes, grounded in real-time data measuring, monitoring and analysis, that an organisation uses to learn from its work and to make tactical (front line, quotidian) and strategic adjustments to achieve its goals and objectives”. (Hunter and Nielsen 2013, p.10).

An example from the Australian public sector context

A Guide to the Queensland Government Performance Management Framework (2015) states:

“Opportunities exist for agencies to continuously improve organisational performance to better meet the government’s broad objectives for the community. This guide establishes the minimum requirements for agencies in relation to performance management.” (p.5)

WHAT DO YOU THINK?

- What are some of the key uses of performance data in your entity (agency, department, unit or other)?

IS PERFORMANCE MEASUREMENT DIFFERENT FROM PROGRAM EVALUATION?

The essential purpose of both program evaluation and performance measurement in the public sector is to provide information for public officials to help them improve the effectiveness, efficiency, equity (and/or other evaluative criteria) of public services. In essence, public officials need information that is accurate, complete and timely (Hatry 2013).

While some of the information may overlap, each of the two processes provides some information that the other, typically, does not. Hence, there are distinct advantages to integrate both processes into an agency’s monitoring and evaluation (M&E) approach framework.

For example, performance measurement assumes causality when linking actions and outcomes; it works on the assumptions that the operational theory of change is correct and will lead to intended outcomes, and, that internally measured data are valid (Hunter and Nielsen 2013). Program evaluation, with its in-depth assessment and often conducted by those external to the program, can provide key information not only on the extent to which desired outcomes have been achieved, but also why or why not, and to what extent the program has caused (or contributed) to the results. Performance measurement, typically, provides more timely information and can cover most, if not all, of a government’s program (Hatry 2013).

WHAT DO YOU THINK?

- Does your organisation define and address performance measurement and program evaluation separately?
- To what extent are they integrated (e.g., addressed as essential and complementary processes) in the planning, implementing and use of the agency’s M&E approach to support decision making?

WHAT ARE SOME OF THE RISKS IN GETTING PERFORMANCE MEASUREMENT WRONG?

The “exclusive use” of performance indicators for performance management purposes and evaluative knowledge production raises concerns such as:

- **Misrepresentation** – deliberate or accidental.
- **Goal displacement** – working towards the indicator rather than addressing the basic need. Indicators can have the perverse effect of distorting rather than enhancing performance. For example, a practice referred to as ‘creaming’ may occur: Cardiologist whose performance was assessed on the ‘survival’ of their patients noted that this creates pressure to operate on the less risky and less critical needs; Pressure to demonstrate results in services for disadvantaged people can lead to neglect of those with the most challenging needs.
- **What gets measured, gets done** – can distort program activities away from what should be done. At the same time, important results that are hard to measure are ignored.
- **Delayed feedback on results** – can lead to over-correction or terminating effective interventions.

[Based on Perrin 2011]

WHAT DO YOU THINK?

- What are some other risks of getting performance measurement wrong?
- To what extent does your agency make risks and the strategies for minimizing them explicit?

HOW CAN WE DEVELOP OR SELECT GOOD PERFORMANCE INDICATORS?

Indicators can be useful when recognised for what they are: partial information that can provide alerts of things not going as planned and signs of important changes (or lack thereof) which may trigger further investigation. Indicator selection should be focused on the type of ‘summary’ information that can tell us whether or not the intervention is ‘on track’ in terms of its implementation and anticipated results.

Some important considerations in selecting and using indicators:

- **Involve a range of stakeholders in the selection of indicators** –those funding, managing, implementing or participating in the intervention and those collecting and reporting the data. At the very least, the primary intended users need to be included and, wherever possible, the communities targeted or involved in the intervention. This will not only enhance ownership but also use of data.

- **Select an appropriate ‘set’ of indicators** which can be interpreted together to get a more complete picture of what has happened. Selecting a ‘set’ of indicators that reflect different points along the pathway to longer-term results (outcomes and impact) –as made explicit in the intervention theory of change– can give a better understanding of how results are linked (or not) and ‘indicate’ areas that might need further, more in-depth, investigation (e.g., negative and positive outliers or lack of change where you expected to see change).
- **Address not only results but also the quality and quantity of implementation** (e.g., making sure that an intervention adheres to the principles of ‘participation’ or that implementation of the intervention is done to the extent needed to expect results).
- **Use existing indicators where appropriate** – in the first instance, it is important to check if appropriate indicators already exist rather than developing new ones. That way, we can draw on the experience from others in terms of the usefulness and use of an indicator as well as the feasibility of collecting and interpreting the data on a regular basis (i.e., we can learn something from the track record of these indicators to help us decide whether or not to select that indicator for our particular purposes, resources and context).
- **Where new indicators are needed, use a collaborative, standards-based process to develop them** – ideally, only develop new indicators if existing good indicators do not serve your information needs. Use available indicator standards (these are specific criteria for what constitutes a good indicator) and a collaborative process. Include pilot-testing of the new indicators and revise them as needed before rolling them out for use. Ensure, among other things, that:
 - the indicator is fully defined so it is clear to those collecting, analysing, interpreting and using the indicator data what it is that is being measured, how, with what frequency etc;
 - it specifies the required data dis-aggregations. In terms of ‘what worked for whom’, it is important to pay attention to particular ‘sub-groups’ in the population. These need to be specified as appropriate to the intervention and the context and often need to include age, sex, socio-economic status, levels of vulnerability etc.
 - it actually measures what it intends to measure or is a reasonable indicator of it (referred to as its ‘validity’)
 - data can be collected consistently by different people and at different times (referred to as its ‘reliability’)
 - it is affordable and feasible to collect the data regularly and with high quality.
- Given there are many elements to quality assurance, it is often hard to capture through just a handful of indicators. Using rubrics may be particularly useful here but also, more generally, to cover different dimensions of what is considered ‘success’; hence, [rubrics](#) can complement indicators, can incorporate indicators or can be used as an alternative to indicators.

- Where the intervention content or implementation needs to be very adaptive and/or the results cannot be fully defined in advance (such as in complex situations), different indicators may need to be selected at different times during the intervention period. The indicators should help to answer the ‘key learning questions’ that are posed at various times.
- For most indicators, we are particularly interested in assessing changes over time (i.e., looking at trends in the indicator data) so it is crucially important to be able to collect, analyse and interpret the data regularly (the frequency will depend on the type of indicator) and with good quality. Indicator data that is of low quality can mislead decision making.
- It might be useful to undertake a ‘data rehearsal’, where primary intended users of indicator data are presented with different scenarios of data and asked to discuss how they could use these to inform their decisions – and to identify what changes need to be made to their content or presentation to make them more useful. It is recommended to do this as part of the process of selecting or developing indicators.
- As part of rolling out indicators for use, make sure they are fully defined and described (indicator guidelines) and train people in how to collect the data, how to store and manage the data, and how to interpret and use the data.
- Periodically re-assess the utility of the indicator and continue using it (as is) or stop using it or revise it (you need to weigh up the pros and cons of a disruption in trend data before you stop using or revise the indicator).

[Adapted from Peersman G, Selecting indicators for C4D interventions]

Examples from the Australian public sector context

There are several guidelines for assisting agencies in developing/selecting good performance indicators or reviewing existing performance indicators (or performance information more generally). *For example:*

Australian Government Department of Finance (2015). [Resource Management Guide No. 131. Developing good performance information](#). Commonwealth of Australia.

Queensland Government (2015). [A Guide to the Queensland Government Performance Management Framework](#). The State of Queensland DPC, Version 3.2, May 2015. See p.40.

WHAT DO YOU THINK?

- How are performance indicators developed or selected in your organisation?
- Are performance indicators regularly reviewed and/or revised?
- What are some of the successes of your organisation in developing, selecting, revising performance indicators?
- What are some of the challenges in developing, selecting, revising performance indicators in your organisation?