

# Six Steps to Identifying Your Organization's Key Performance Indicators (KPIs)



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KPIs are an important component of HR Analytics and other related projects that seek to identify the top people-related drivers of an organization's key outcomes. Not sure what your organization's key performance indicators (KPIs) are? Follow this six-step process to identify them.

## **STEP 1**

Determine the "unit of analysis" that you will be using in your analysis.

There are a variety of units of analysis that could be used, including the following: the entire organization, major business units, geographic sites (e.g., plants, retail outlets, sales offices), functions/departments, teams with P&L responsibilities, and individual performers.

We suggest starting with one of the "higher order" units of analysis—such as the entire organization, a major business unit, or geographic sites. As your evidence-based HR capabilities grow, you can expand your analysis to include more disaggregated units of analysis (e.g., teams and/or individual performers).

## **STEP 2**

Undertake a search for key measures that are important for the unit of analysis chosen in Step 1.

If your organization has already definitively identified its KPIs, then this step simply consists of obtaining the relevant documentation.

If your organization has not done so, then you need to "create" them, using one or more of the following methods:

1. Ask key employees to give you their working list of KPIs or other key measures
2. Examine your organization's balanced scorecard (or equivalent) measures
3. Look for KPIs that are embedded in bonus structures for key employees

Compile the list of all KPIs that have been generated.

## **STEP 3**

Take the list that you have compiled in Step 2 and ask the following questions about each KPI on the list:

1. Is it measured frequently?
2. Is it of critical interest to and acted upon by senior management team?
3. Does it provide information on what to do (guidance on necessary corrective action)?
4. Is it tied to the responsibility of an individual or team?
5. Does it have significant impact on multiple business outcomes?
6. Is it positively associated with all other performance measures?

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## **STEP 4**

Eliminate any KPIs for which you do not answer questions 1 to 4 (in Step 3) affirmatively.

Assess whether a particular KPI for which you cannot answer both questions 5 and 6 affirmatively should stay on the list.

## **STEP 5**

Compile the shortened list of those KPIs that have made it through the winnowing process in Step 4.

## **STEP 6**

Share the list that emerges from Step 6 with key employees and members of your senior management team to determine what might still be missing and/or which items should be eliminated.

McBassi is a human capital analytics firm that helps organizations improve their performance through more effective management and development of people. Our services include analytics, employee surveys, and assisting organizations in tackling other major people-related issues.



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