What Makes a Good Project KPI Framework?
By Gareth Byatt, Gary Hamilton and Jeff Hodgkinson

Key Performance Indicators, or KPIs as generally referred to by all of us, are a powerful tool at the project manager's disposition that can, if structured appropriately:

1. Play an important role in driving the behaviours and actions undertaken on a project
2. Have a significant effect on the reporting and monitoring of a project's progress.

Our article does not seek to focus on enterprise-wide or portfolio-level KPI metrics, nor does it seek to be all-encompassing in the uses of specific types of KPIs that can be deployed or how KPIs and metrics can help to run a business. We simply put forward some "pointers" to think about for project-level KPI control and how KPIs can be a tool to help you as an effective project manager 'manage' your project.

The type of KPIs you use is influenced (determined, even) by the size and nature of your project. For example, a long, large, and complex infrastructure project involving many stakeholders each with varying degrees of influence will have different KPI control and reporting needs to a small, comparatively low-cost research project that is specific to one organisation. Here are seven (7) essential pointers to consider when assessing the use of KPIs for your project:

1. Need to be meaningful to the audience they are intended for.
2. Need to be clearly measurable (especially if project KPIs part of a formal contract)
3. Need to drive towards the benefits that your project is expected to deliver once its output is being used
4. Should be a blend of "lag indicators" and "lead indicators".
5. Need to align with program and/or portfolio level objectives.
6. Need to be regularly measured and progress reported.
7. Need to be continually measured once the project's output goes into use

Let's look at each point in turn.

1. KPIs need to be meaningful for the audience they are intended for.

This statement stands to reason, but it is not always easy to achieve. The devil is in the detail, and reaching agreement on the right KPIs to use, and how to use them, should be a key part of your planning activities prior to starting your project's Delivery or Execution phase. Large projects with many internal and external stakeholders will inevitably have many needs, and as a result it may not be practical to report all KPIs to all stakeholders – some KPIs will be relevant to a particular group, and others will not be.

The type of industry you are working in has a large bearing on the KPIs used as well. Plan in advance and make sure you have the capacity to provide status updates on KPIs that matter to your stakeholders. Think about whether several detailed project KPIs (for example, for budget control) can and should "wrap up" into a single KPI for senior management reporting. For example, it is helpful if the KPIs being used at a detailed project-level control can wrap up to Management-level Project Review Groups and Governance Boards. Measure what matters to each stakeholder, and focus on relevant metrics for each stakeholder group.

2. KPIs need to be clearly measurable.

KPIs can be a valuable tool for formally agreeing incentives and penalties on projects that involve formal contracts and undertakings. For example, KPIs in a formal contract can be used as incentives to perform work faster or at lower cost in a way that benefits all parties involved. Such KPIs should always be fair and be focused on ensuring a good outcome for the project. Decide which KPIs need to include quantitative metrics and which ones are more focused on qualitative feedback.

It is important to ensure that the agreed KPIs can be realistically measured and are transparent in their message (the same is true for "internal projects" with no formal contracts, however it is particularly important when contracts are involved).

3. KPIs need to drive towards the benefits that your project is expected to deliver once its output is being used.

How do you know if you are effectively monitoring the delivery of your project's end output, from the start-up of activities through to its closure? A project exists to deliver benefits, which should be outlined in an approved Business Case or similar business justification. If KPIs are being used to measure a project's success, they should be driving actions that focus on the longevity of the end product the project delivers and not purely "works to get the project completed". They should certainly not be set up so that they work against the project's intended long-term benefits! Strategy Mapping, which maps your project's benefits to the strategy of the organisation it is being delivered for, can be a useful way to assess you KPIs for their relevance to the "end goal".

4. KPIs should be a blend of "lag indicators" and "lead indicators".

Lag indicators reflect what has already happened or post-activity. Lead or predictive indicators provide you with data to suggest how things may proceed in future, or the level of risk or opportunity that exists based on knowledge known at the time. It is important to get the right blend of lead and lag indicators to suit your project's needs. Getting the balance of lead and lag indicators is important. Too many lag indicators will push you into a reactive mode. Too many lead indicators will diffuse the importance of key risks and future events to focus on. Just in Time (JiT) indicators can be useful, but obtaining them can be difficult.

5. KPIs need to align with program and/or portfolio level objectives.

Many, but not all projects are component parts of a larger program or portfolio of work. It may be that for the "project provider" it is part of such a grouping, but for the customer of the particular project it is a one-off. Program and portfolio management is increasingly used to organise and control activities and resources working across projects, and if this is the case, it is useful to consider whether the KPIs used to drive project performance and/or monitor project status can be transferable "upwards". Rules are often applied at a program or portfolio level to group projects together into categories depending on their performance, in order to manage at a program or portfolio level. For example, if X% of projects are in "green status" then the portfolio is "green overall". Project KPI reporting requirements should be captured in the project communication plan.

When projects are part of a larger organisational strategy, the KPIs they are being measured against should drive their deliverables towards this overall success. By this, we mean that focusing on completing the project on time and on budget is fine, but if the particular project does not deliver benefits that meet the organisation's needs then it is "failing" overall. Setting the KPIs for a project, and if relevant for a wider program and perhaps a portfolio overview, has an important influence in how people working on your project focus their activities.

6. KPIs need to be regularly measured and progress-reported

KPI measurement and reporting can be done in a number of ways. Visual indicators such as Red/Amber/Green metrics are commonplace, and may be calculated (through systems or manually) based on achievement of agreed criteria. Such colour-coded metrics may be fed by supporting data – if so, does it need to be manually obtained (at an administration cost), or is it collected through automated systems data collation?

KPIs can be a major determinant in the way that project meetings and status reviews are conducted. The style of KPI reporting can influence the type of discussion being held. Also, are the KPIs set up so that the project is self-assessed and also (at agreed intervals) audited by people external to the project using the same metrics?

7. KPI measurement needs to be continued once the project's output goes into use

As explained above in point 3, projects are implemented for a particular reason, which should be explained and approved in a Business Case or a similar justification statement. The KPIs you use in the project phase to produce the end product (be it a building, a manufacturing solution, an IT system, a new service, or anything else) may be different to the KPIs you intend to use to track the successful ongoing use of the end output that the project delivers. However, there may be an opportunity to have a "cross over" of certain KPIs that allow you to focus on the end benefits during the project execution, which seamlessly transfer through to the "operating stage" once the project is delivered. An example of this could be ensuring quality during the project is robust enough so that, once the end output is in operation, it can be repeatedly used with minimal downtime.

In conclusion, Key Performance Indicators can be an important tool for driving project behaviours and measuring project success – be they for projects that are large and complex with multiple stakeholders and various contractually binding agreements, or small with few parties involved and no contractual arrangements in place. The key is to get these KPI metrics agreed early, to think carefully to ensure they are practical and workable, and to ensure that their monitoring and reporting is part of effective program/ project communications.

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