The right (and wrong) ways to track your company's performance

Business, Company

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Key performance indicators, or , are the data used to chart a business on its way to success and profits. They're often used when revenue-starved startups need to identify ways to measure progress in the absence of cash flow. But there's a big risk: If you choose the wrong KPIs, you may drive your company to financial ruin.

So, how to pick? Identify your and the activities that lead directly to achieving them. And keep in mind that more often than not, bad KPIs are the result of upper management and the board deciding what to track. You're better off listening to frontline employees; they'll give you more granular KPIs that truly show you how the company is doing. (See the chart below for some starter ideas.)

Turn bad KPIs into good ones

Distributors

BAD: Total number of deliveriesdoesn’t account for incomplete orders, and big orders can mask problems.

GOOD: A lowpercentage of full deliveries vs. all deliveriesindicates a logistics or supply-chain issue.

Sales

BAD: Only trackingrevenuecan hide a slowly rotting operation on its way to failing.

GOOD: A stronger indicator of current and future revenue ispercentage of closed leads per sales rep.

Service

BAD: Customer satisfactionis a vague metric, unreliably comparing you with competitors.

GOOD: Percentage of customers referring new businessreally tells you if people are satisfied.

Manufacturing

BAD: Units producedis meaningless, because an inefficient factory can still churn out a ton of product.

GOOD: Yield per production stepbreaks down each step’s profitability and efficiency, so you can zero in on waste.

All Businesses

BAD: Net profitis misleading, because poorly performing lines can hide behind star products.

GOOD: Percentage gross margin by producttracks profits of each line, leaving no bad ones hidden.