Lagging and Leading Indicators in developing a performance management strategy

Almost by default, entrepreneurs are quite competitive and they hate losing. Constantly seeking wins, they meticulously measure their success through increased sales volumes, early return on investment, greater customers' satisfaction, and overall company growth. These important Key Performance Indicators (KPIs) define what success looks like for CEOs.

A strategic vision of where your startup is going is paramount in performance management, but knowing how to get there is equally significant. Leading and lagging indicators are two groups of metrics that can influence or lead us to our primary KPI.

Lagging Indicators

Lagging indicators are the end result, the outcome of our strategy and efforts. They're easy to measure, they tell us how we are doing as an organization, but, in most instances, they're hard to directly influence or improve. The aforementioned primary KPIs are most likely to fall into this category.

Leading Indicators

In order to create opportunities to proactively manage our company success, to notice early warning signs and take actions while there's still time, a different type of measurement is required. Leading indicators are predictive, in-process metrics, which describe how CEOs see their startups achieve the set goals. These indicators are easier to influence, but harder to measure.

Focusing on the Road Straight Ahead vs. Looking in the Rear View Mirror

Jim Schleckser, author of the best-selling book "Great CEOs Are Lazy", makes an interesting comparison of lagging indicators with looking in the rear view mirror in a car.

“They [Lagging indicators] are in the past and you can't do anything now to change them. Yes, they are an important part of measuring how successful your business is and how far you've come. But they won't help you avoid hitting the potholes still ahead of you.”

Lag indicators are historical; they can only record what has already happened. They're after-an-event metrics, crucial for charting progress, but useless when attempting to influence future performance.

Are lagging KPIs important? Of course they are. But they only paint part of the picture. Using the same car analogy, you need to keep your eyes on the road in front of you, peering through the windshield. Only the leading indicators will provide you with a reliable roadmap that helps you identify where to go next, instead of just looking back at where you've been.

The predictive power of leading indicators can be outright remarkable. By monitoring these metrics you are creating opportunities to take early corrective actions whenever something goes off track. Lead indicators are harder to determine as they're predictive in nature, and therefore cannot guarantee successful results. This is the reason why most CEOs are mainly focused on tracking the lag indicators, even though a well-defined set of lead metrics can effectively usher their startup to exceptional achievement.

Scenarios Where Measuring Leading Indicators Is Vital

1. When lagging KPIs are long-term, so you need one or more leading indicators to make sure you're on track at all time. Say you want to increase proceeds but your sales cycles are cyclical. Additional leading metrics like number of leads in sales pipeline, or number of calls and meetings with prospects needed to close enough deals, can help measure the progress towards the end result and make necessary adjustments on the way, instead of waiting for 6+ months without any indications.
2. When new processes are implemented lead indicators can serve as benchmarks for the progress. Implementing changes in a company isn't easy and takes time. For example, you're applying new policies for handling high priority incidents with customers. Leading indicators like percent of open incidents older than 24 hours, or average backlog per agent, can give you a clearer picture of the success you've been able to achieve.
3. Complex and difficult to quantify lag KPIs are best tracked with more specific, lead metrics. Greater employee satisfaction is a good example. First you need to define a strategy for how you want to secure this result. This can vary widely depending on your business, but some valuable metrics to track may include employees' goals alignment, information availability, or the service/product cover ratio.

A combination of both lagging and leading indicators is necessary when developing a performance management strategy. Leading KPIs for one department are often lagging KPIs for another. There's an important cause and effect chain between them. A lag indicator with no lead indicators gives us no indication of how to achieve the result we desire, and a lead indicator with no lag indicator may make us feel good about keeping things busy, but provides no indication that progress is actually occurring.

Understanding this correlation, and how these two groups of indicators work together simultaneously, helps us establish better metrics to track the progress towards our ultimate goals.