

Should your KPI come from AI?

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First, a quick question.

**How satisfied are you with
the way KPIs are set up in
your organization?**

60%

**MIT Sloan reports that 60% of managers
believe their KPIs need improvement.**

The many problems with KPIs

They are just proxies

And yet, once you put a number on a slide / spreadsheet, the number becomes the goal.

Can be gamed

They become susceptible to Goodhart's Law: "once a measure becomes a target, it stops being a good measure."

Static in a dynamic world

KPIs are often static even when business conditions are dynamic, and there's no good measure of KPI quality.

So can AI help craft and track the perfect KPI?



Firms have already started to use AI to define smarter KPIs.

It has a new name too - KPAI (KPIs enabled by AI).

And many are seeing their KPIs improve as a result.

What does improvement mean here? Usually, that the AI comes up with a proxy better aligned with the business goal.

Let's define an ideal AI-driven KPI system

Dynamic portfolio

A portfolio of metrics, weighted dynamically by the machine (not limited to simple definitions that are easy for people to parse and track).

Real-time adaptation

Weights shift with business changes in near real-time, so the KPI could always be the best representation of the business goal in the changing context.

Human-friendly output

"We're delighting customers at 82% efficiency this quarter". You get it.

**In the ideal state,
AI wouldn't just
be tracking KPIs,
but would also be
defining them.
On the fly.
Forever.**

There's a problem though...

The business philosophy challenge

Consider this simple objective: "we want to drive 20% higher lifetime value per customer."

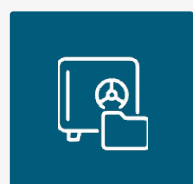
What do you think is the "lifetime value" here?

No two companies will agree on the exact definition. Even the definition of "customer" can vary widely. See the problem?



**Every business
runs on its own
internal
philosophical
precepts.**

Solution? System of Intelligence.



Raw data

Unprocessed
business
information



Semantic layer

Friendly middleman
between raw data
and business
metrics



System of Intelligence

Insight engines
drive goals and
KPIs



Business Insights

Actionable
information for
decision-making

A scenario to consider

Imagine an e-commerce business team.

They begin the year tracking "cart abandonment rate" as a core KPI.

But mid-year, AI detects and notifies the team that supply chain delays - not checkout design - are driving lost conversions.

AI recommends a shift toward "delivery promise adherence" as a more relevant success measure.

The team accepts the recommendation.

The business KPI is now better aligned with what actually matters.

One last thing! The human role in the new AI-KPI world

At Babbage, we think that business leaders will stop policing stale dashboards, and would rather focus on ensuring that the AI-driven metrics serve business purpose.

Clarify business objectives

Humans would focus on clearly articulating what the business truly wants to achieve.

Evaluate progress

Decide whether the organization is genuinely moving toward its objectives.

Ensure meaningful mapping

Make sure these adaptive KPIs are meaningful maps that still lead toward the true north.



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