The use of key performance indicators

Many companies are operating with the wrong actions, many of which are wrongly termed key performance indicators (KPIs). Only some organizations supervise their true KPIs.. The types of performance:-

Key result indicators (KRIs) inform you how you have done in a viewpoint or critical success feature,

Result indicators (RIs) tell you what you have done,

Performance indicators (PIs) tell you what to do,

KPIs tell you what to do to increase performance dramatically.

Many performance measures used by organizations are thus an inappropriate mix of these three types.

Onion analogies are used to depict the link of the three measures. We get more information as we strip the layers off the onion. The layers characterize a variety of performance indicators, and the core, the key performance indicators.

1. 2 Key Result Indicators

What are KRIs? KRIs are measures that often have been mistaken for KPIs. They include:

Customer satisfaction,

Net profit before tax, .

The frequent feature of these measures is that they are the result of many actions. They provide an understandable image of whether you are going in

the right direction. Neverthless you is not told what must be done to improve these results. Therefore, the information available by KRIs is best for the board (i. e., those individual who are not concerned with the day-to-day management.)Usually KRIs cover a longer time period than KPIs; they are evaluated on monthly/quarterly cycles, not on a daily/ weekly basis such as KPIs. Separating KRIs from other measures has an intense force on reporting, resulting in a partition of performance measures into those impacting governance and those impacting management. An organization must have a governance report (preferably in a dashboard system), containing of up to 10 procedures giving high-level KRIs.

1. 3 Performance and Result Indicators

The 80 or so performance measures that lie between the KRIs and the KPIs are the performance and result indicators (PIs and RIs). The performance indicators, while important, are not key to the business. The PIs help teams to align themselves with their organization’s strategy. PIs are non-financial and complement the KPIs; they are shown with KPIs on the scorecard for each organization, team, division and department. Performance indicators that trigger KRIs could include:

An increase in the percentage of sales with top 10% of customers,

Customer complaints from key customers,

Late deliveries to key customers.

The RIs abridge action, and all economic performance measures are RIs (e. g., daily or weekly sales analysis is a very useful summary, but it is the outcome of the hard work of many teams).

We must look at the performance that created sales (outcome) to understand completely what to increase or decrease. Outcome indicators that cause KRIs could include:

Net profit on key product lines,

Sales made yesterday,

Complaints from key customers.

1. 4 Key Performance Indicators

KPIs stand for a set of method focusing on those aspects of organizational performance that are the most important for the current and future achievement of the organization. KPIs are rarely new to the organization.

1. 4. 1 Seven Characteristics of KPIs

Mr. David Parmenter KPI workshops has done extensive analysis and discussions with over 3, 000 participants, which has covered nearly every organization types in the private and public sectors, he has been able to identify the seven characteristics of KPIs.

KPIs:

Are nonfinancial measures (e. g., not expressed in dollars, yen, pounds, euros, etc.),

Are measured regularly (e. g., 24/7, daily, or weekly),

Are acted on by the CEO and senior management team (e. g., CEO calls relevant staff to enquire what is going on),

visibly specify what action is necessary by staff (e. g., staff can be aware of the measures and know what to put right),

Are measures that fix task down to a team (e. g., CEO can call a team leader who can take the required act),

Have an important impact (e. g., affect one or more of the critical success factors [CSFs] and more than one BSC perspective),

They promote appropriate action (e. g., have been experienced to certify they have a positive impact on performance, whereas poorly thought-through measures can lead to dysfunctional behaviour).

Once a dollar sign is put on a measure, it has already converted into a result indicator (e. g., daily sales are an outcome of activities that have taken place to create the sales). The KPI lies deeper down. KPIs should be monitored 24/7, daily, or perhaps weekly for some.

KPIs must be supervised 24/7, daily, or possibly weekly for some. A KPI is deep enough in the organization that it can be attached to a team. In other words, the CEO can call someone and ask “ why.” Return on capital employed has never been a KPI, as it cannot be attached to a manager-it is an outcome of many activities under diverse managers.

1. 5 Difference between KRIs and KPIs

Frequently their is one question that comes forward time and time again: " What is the difference between KRIs and KPIs, and RIs and PIs?" A car's speedometer provides a useful analogy to show the difference between a result indicator and a performance indicator. The speed the car is travelling is a result indicator, since the car's speed is a combination of what gear the car is in and how many revolutions per minute the engine is doing. Performance indicators might be how efficiently the car is being driven (e. g., a gauge showing how many miles per gallon), or how hot the engine is running (e. g., a temperature gauge).

KRIs

KPIs

Can be financial and non financial

Non financial measures

Measures mainly monthly or quarterly

Measures daily or weakly

As a summary of progress in an organization's critical success factor, it is perfect for reporting progress to a board

Acted on by the CEO and senior management team

It does not help staff or management because nowhere does it tell what you need to fix

All staff understand the measure and what corrective action is required

Commonly, the only person responsible for a KRI is the CEO

Responsibility can be tied down to the individual or team

A KRI is designed to summarize activity within one CSF

Significant impact (e. g., it impacts on more than one of top CSFs and more than one balanced scorecard perspective)

A KRI is a result of many activities managed through variety of performance measures

Has a positive impact (e. g., affects all other performance measures in a positive way)

Normally reported by way of a trend graph covering at least the last 15 months of activity

Normally reported by way of an intranet screen indicating activity, person responsible, past history, so a meaningful

phone call can be made

RIs

PIs

Can be financial and nonfinancial

Nonfinancial measures (not expressed in dollars, yen, pounds, euros, etc.)

Measured daily, weekly, fortnightly, monthly, or sometimes quarterly

Same

Cannot be tied to a discrete activity

Tied to a discrete activity and thus to a team

Does not tell you what you need to do more or less of

All staff understand what action is required to improve PI

Designed to summarize some activity within a CSF/SF

Specific activity impacts on one of the CSFs/SFs

Result of more than one activity

Focuses on a specific activity

Normally reported in a team scorecard

Same

1. 6 Management Models that Have a Profound Impact on KPIs

The groundbreaking work of Kaplan and Norton (3) brought to management's attention the fact that performance needed to be measured in a more holistic way. Kaplan and Norton came up with four perspectives: Financial, Customer, Internal Process, and Learning and Growth.

But two more perspectives need to be added. Employee Satisfaction is far too important to be relegated to a subsection within internal process. Informed directors know that happy staffs make happy customers who make happy shareholders. The measure employee satisfaction must be more

sophisticated than a customer satisfaction survey every blue moon. The Environment and Community perspective has been managed brilliantly by some leading CEOs. Measurement in this area looks at increasing public awareness about being an employee of first choice, staff learning new skills through doing voluntary work in the community, reducing costs through minimizing waste, creating positive press, and increasing higher staff morale by implementing green initiatives. Leading CEOs intuitively work in this area. They realize that the community is the source of your current and future employees and customers. Kaplan and Norton's later work on strategic mapping(4) also alludes to the importance of employee satisfaction and the environment/community perspectives. This modification is important because it means the BSC now incorporates all triple- bottom-line issues.

1. 7 Definition

Performance measure:- The term performance measure refers to an indicator used by management to measure, report, and improve performance. Performance measures are classed as key result indicators, result indicators, performance indicators, or key performance indicators.

Critical success factors (CSFs):- CSFs are the list of issues or aspects of organizational performance that determine ongoing health, vitality, and wellbeing. Normally there are between five and eight CSFs in any organization.

Success factors:- A list of 30 or so issues or aspects of organizational performance that management knows are important in order to perform well

in any given sector/ industry. Some of these success factors are much more important; these are known as critical success factors.

Balanced scorecard:- A term first introduced by Kaplan and Norton describing how you need to measure performance in a more holistic way. You need to see an organization’s performance in a number of different perspectives.

Senior management team (SMT):- The team comprised of the CEO and all direct reports.

1. 8 Notes

1. Robert S. Kaplan and David P. Norton, The Balanced Scorecard: Translating Strategy into Action (Boston: Harvard Business School Press, 1996).

2. Jeremy Hope and Robin Fraser, Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap (Boston: Harvard Business School Press, 2003).

3. Robert S. Kaplan and David P. Norton, The Balanced Scorecard: Translating Strategy into Action (Boston: Harvard Business School Press, 1996).