Key performance indicators - essay

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A performance indicator or also known as key performance indicator (KPI) is a kind method to measure performance used by organization or company (Irwin, 2011). It is mostly use to monitor an operation or to measure focusing in the aspects of organizational performance which are most critical for an organization current and future success (Irwin, 2011). According to MaryLynn Zahn, KPIs are used in order to assess the company's performance in their business units, division, departments and employees (Zahn, 2013). It is very helpful in providing evidence that certain results have or have not been achieved, enable achievement of intended outputs, outcomes, goals and objectives to be mad by decision makers, help in perceiving differences, improvements or developments which is related to a desired change in a particular context and also it consists of information which shows the changes such as factors or variables that provide a simple and reliable which reflect the changes (Zahn, 2013). There are a few types of performance indicators in an organization with certain characteristics and description.

Key performance indicators or KPIs are non-financial measures and they are not expressed in monetary figures. For example, if you put a Ringgit Malaysia sign in measuring, you have not dug deep enough. Yesterday sales made by an organization will be a result of sales calls made previously into existing and prospective customers as well as in advertising, amount of contact with the key customers and product reliability. Result indicators are a sales indicator which has been expressed in monetary terms (Irwin, 2011). Most of the organization uses KPI for certain activities which undertaken their key customers and who are often generate most or all of their profit (Irwin, 2011).

Besides, KPI will be used in measuring frequently. It is usually being monitored and reported 24/7, daily or perhaps weekly. It could not be use in monthly measurement as it will be shutting the stable door well after the horse has bolted (Irwin, 2011). It is current or future measures and as opposed to the past measures. Most of the organization measures are past indicator and they usually measure events of the last month or quarter (Irwin, 2011). These measures are not KPI which is why a satisfaction percentage such as 65% of customer satisfaction survey performed in every six months couldn’t be a performance indicator (Irwin, 2011).

KPIs should be made clear of what action is needed and can be understood by staff. Usually they are acted upon by the CEO and senior management and good KPIs can make differences to the CEO or superior for constant attention such as with daily calls to the relevant staff (Irwin, 2011). Besides, they have a very significant effect upon the organization. Usually it will affect the critical success factors and more than a balanced scorecard perspective. In other words, when theCEOfocuses on the KPI and the staff follows, the organization scores goals in all directions (Irwin, 2011). KPI also has a positive effects or a flow on effect on the other measure. For example, reducing late planes would improve performance measures around improved service by ground staff as there is less “ firefighting” to distract them from a quality and caring customer contact.

There are three types of key performance indicators which are quantitative, directional and actionable. This sub categorization could be an extremely valuable tool for a company in the assessment of its performance (Zahn, 2013).

In quantitative indicators, it is used to measure quantity or expressed it as in a form of numbers (Zahn, 2013). Depending on the data being used and involved, they can be expressed in a number ways. It could be in the form as whole number, decimals, ratios, fractions, percentages and monetary values. This type of indicator is easy to use and compare and it benefits us when it come to comparing data (Zahn, 2013). For example, an organization can use the data to compare a scientific indicator throughout a period of time in order to understand the business trends or the position of a company against the competitor. As an example of quantitative indicators in business world are number of invoices processed, turnaround time, number of payments posted, number of reconciliations completed, number of journal entries posted, annual sales, annual expenditures and etc (Zahn, 2013).

The second type of directional indicators is used to provide the necessity data for a company in order to get a pulse around whether they wish to improve, remain the same or failing. It will be used to help in identifying the improvement or progress as such in comparing last month's and this month's sales (Zahn, 2013). Directional indicators are extremely helpful to identify the areas which are not performing effectively or efficiently and also to track and corrective action which is taken in a timely manner or it can be the mean difference in between a company success and failure (Zahn, 2013).

Actionable indicator is used to assist in a company to identify area which they can be changed effectively by taking action. As an example that could be shown is a company would do better by the outsourcing processes (Zahn, 2013). In this, the true benefit can be realized when a company or organization analyzes the indicators in place and take appropriate action.

Company’s performance could be assist by these indicators because it is a valuable tool for them in order to stay ahead of the company competitors. If this indicator is being use to their fullest, it will make a great difference in between a highly successful company or whether the company is barely only maintaining (Zahn, 2013).

There is another one type of indicator which was not included by MarLynn Zahn, the qualitative indicators (Evaluation, n. d.). In qualitative indicators, it does not show the numeric measures but the depict the status of something which is in more qualitative terms. These indicators are not seem to be appealing but there are some things which are better as compared to the quantitative indicator (Evaluation, n. d.). For example, how much a poor community is empowered may not be measurable in strict quantitative terms. But they can be graded based on qualitative findings. Whether a cooperative body is properly functioning or not, can be assessed in qualitative terms and then it can be graded (Evaluation, n. d.).

In my opinion, if a small company or organizations which wish to identify their own company performance, it will be appropriate to use quantitative indicator as it will be easier to understand and view by them. It will be more appropriate and easy to view since the data all will be shown in the form of numbers and it can be clearly seen through the graphs or tables (Zahn, 2013). For company which wants to know about their performance as in the total of sales or profit without the intention to against their competitor, quantitative indicator will be the best indicator to be used (Institute, 2011). However, for a company or organization that wants to improve in their performance or sales, it will be useful to use directional indicator. This is because in directional indicator, it can help an organization to identify the improvement or the progress of their performance such as their sales or rundown of the company from time to time (Methadology, 2014). This will ease them in looking or identifying what is the reason or factors of the success. It can be the same for them to identify their problems as well if there happen to be a loss rather than profit so they could identify the problem and solve it before it leads to another crisis of an organization or company. It is not a comparison or competition in between the types of indicators but rather depends on own perspectives values and respective importance by an organization or company. Depending on their goal to get from the performance indicators and select which is the one that suits them using it (Evaluation, n. d.).

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