Examining the importanceof key performance indicators construction essay

The Latham Report, also known as ‘ Constructing the Team’ was published by Sir Michael Latham in 1994 to highlight the inefficiencies of UK construction industry at that time. The industry was underperforming as a whole, generating low profitability and unable to meet clients’ satisfaction. Latham Report served as a wake-up call for the nation and underlined the immediate need to reform. Sir John Egan picked up from where Latham left off and published the Egan Report, also known as ‘ Rethinking Construction’ in 1998. Egan Report (1998) identified five key drivers of change which are committed leadership, a focus on the customer, integrated processes and teams, a quality driven agenda and commitment to people. Sir John Egan also challenged the industry to reduce its construction cost and time by 10% annually. Egan Report concluded that, if the UK construction industry is to meet new challenges and opportunities, it must transform itself, and KPIs were highlighted as a tool for attaining this (Cooper, 2004). The first set of UK Key Performance Indicators (KPIs) was published in 1999 with three main objectives (Constructing Excellence, 2006):

Key Performance Indicators can be rather confusing to those who have little knowledge in business management. It is believed that the benefits of KPIs are yet to be fully exploited by the construction industry ever since the publication of Egan Report. KPIs are not new to the industry but they are either not recognised or kept away by the management teams (Parmenter, 2007). Nowadays, the term KPIs has become one of the most over-used and little understood terms in business development and management (Ibis, 2010). According to KPIs expert David Parmenter, KPIs represent a set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation (Parmenter, 2004). When used correctly, KPIs are able to tell an organisation what to do to improve performance dramatically. However, the organisation can only succeed when the company leaders and staff are all together focusing on KPIs. Each business industry has a different set of KPIs for companies to use to measure their success. In the construction industry, companies use indicators such as the number of safety incidents in a specified time period, profitability of construction projects or reviewing cost of construction materials against the predetermined budget (Vitez, 2010).

Cox et al. (2003) state that KPIs are compilations of data measures used to assess the performance of a construction operation. They also state that KPIs could be the methods management uses to evaluate employee performance of a particular task. These evaluations typically compare the actual and estimated performance in terms of effectiveness, efficiency, and quality in terms of both workmanship and product. In order to measure performance or calculate the effects of any given change on the construction process, one must first determine the appropriate KPIs to focus on to measure its impact (Cox et al., 2003). Performance indicators can be defined by either the quantitative results of a construction process, for example £/unit, or by qualitative measures such as worker behaviour on the job. Accurate analysis of construction performance can be only performed after the KPIs are determined and monitored (Cox et al., 2003).

Before any Key Performance Indicators are determined, it is vital to identify what the organisation's goal is (Visitask, 2010). After the goals are identified, KPIs will act as a measure of progress towards those goals. Whatever the

KPIs may be, they must be critical to the success of the organisation (Reh, 2010). After the KPIs have been defined and the way to measure it has also been determined, a clear target has to be demarcated which should be understandable by everyone in the organisation (Visitask, 2010). The target should also be specific so that every individual are able to work together towards accomplishing it. To achieve a particular target level of Key Performance Indicator for a company, every department along with the company leaders have to work in synergy towards it (Visitask, 2010).

In short, KPIs help an organisation define and measure progress toward organisational goals. Once an organisation has analysed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals and KPIs are those measurements (Reh, 2010). Measuring performance allows an organisation to objectively determine what is working and what is not (Ling and Peh, 2005). There are many ways to use KPIs in the business and industry. According to Constructing Excellence (2006), the main ways that KPIs are used in the construction industry are:

CIPFA (1996) describes benchmarking as a tool for self improvement. It suggests that organisations are often prompted to use benchmarking when they want to reduce cost, achieve more with the same or fewer resources, prepare for competitive tendering, improve quality of service, or change culture of the organisation. Benchmarking can be used in a host of ways. For example a company can compare its performance internally, by benchmarking processes in one office against the same processes in another; or it can undertake similar work externally by examining how it compares with its direct competitors (Pickrell and Garnett, 1997). When choosing a target for benchmarking, it is best to benchmark similar organisations in the same industry, in similar marketplaces, of a similar size and if possible, working in a similar locality. Such an approach provides not only more meaningful and focused targets for improvement, but also data and more general information about what competitors are achieving (Cooper, 2004). However, sometimes it is necessary to go beyond the sphere of one’s own industry to identify the best practice in the business (McGeorge and Palmer, 1997).

KPIs are a type of performance measurement tool. It allows management to measure the performance of a company in a certain area such as profitability. KPIs can help a team to work together to achieve a common set of measurable goals, and provide a very quick way of seeing the actual performance of a goal or strategic objective (RapidBI, 2009). According to Constructing Excellence (2006), KPIs can also be used as a marketing tool. For example, Contractors can use KPIs to prove that they have excellent safety records to promote themselves in front of clients when tendering. Besides, KPIs can help companies to make decisions quicker when there are accurate and visible measures to back them up (RapidBI, 2009). In the construction industry, KPIs help managers to find weak areas in their operations that can be improved, leading to faster construction completion times and fewer employee safety incidents (Vitez, 2010). Moreover, constructions companies who use KPIs in their operations usually have more flexible operations than their competitors (Vitez, 2010). Although not realised by many people, KPIs actually play a part in providing sustainable construction. There are environmental KPIs that measure impact on the environment, energy use, waste, and impact on biodiversity which are all crucial to sustainability.

Benchmarking can provide an objective analysis of how successful an organisation is performing and allows a company to identify its position in the market (Ling and Peh, 2005). By benchmarking against best practice in the industry, one can identify potential areas of growth or weaknesses and use lessons learnt to make targeted improvements. In long run, companies who benchmark will be able to deliver clients’ expectations and increase clients’ satisfaction. Besides, benchmarking can help to lock an organisation into continuous performance improvement, and to develop a culture in which it is easier to admit mistakes and make changes (CIPFA, 1996). Pickrell and Garnett (1997) claim that benchmarking can help to reduce overheads and increase profitability of a company. It also enables companies to really understand their business processes. The most important thing of all about benchmarking is that it allows better companies to demonstrate that they are capable of delivering good services and products, thus developing a barrier to the poorer performers in the market. When this happens, poorer performers will strive to improve their performance by means of benchmarking the better ones and consequently the overall performance of the industry is increased as the market gets more competitive.