

KPI: Individual Performance to Make Organization Great

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Types of Performance Management

There are three types of performance measures:

- **Key result Indicators (KRIs)** - tell you how you have done in a perspective.
- **Performance Indicators (PIs)** - tell you what to do.
- **Key Performance Indicators (KPIs)** - tell you what to do to increase performance dramatically.

What are KPIs?

KPIs are measures that a sector or organization uses to define success and track progress in meeting its strategic goals.

Key Performance Indicators (KPIs) are quantitative and qualitative measures used to review an organization's progress against its goals.

KPIs also measure performance by comparing results against standards or other similar organizations.

KPIs measure performance by showing trends to demonstrate that improvements are being made over time.

KPI Characteristics

KPI characteristics identified in the literature are:

- **Relevant** to and consistent with the specific organization's vision, strategy and objectives.
- **Focused** on organization wide strategic value rather than non-critical local business outcomes.
- **Representative** appropriate to the organization together with its operational performance.
- **Realistic** fits into the organization's constraints and cost effective.
- **Specific** clear and focused to avoid misinterpretation or ambiguity.
- **Attainable** requires targets to be set that are observable, achievable, reasonable and credible under expected conditions as well as independently validated.
- **Measurable** can be quantified/measured and may be either quantitative or qualitative.
- **Timely** achievable within the given timeframe
- **Understood** individuals and groups know how their behaviors and activities contribute to overall company goals.
- **Agreed** all contributors agree and share responsibility within the agency.

- **Reported** regular reports are made available to all stakeholders and contributors.
- **Governed** accountability and responsibility is defined and understood.
- **Assessed** regular assessment to ensure that they remain relevant.

Characteristics of good KPIs

People often use the acronym "**SMART**" to refer to the characteristics of good performance indicators

It should be SMART

Specific

Measurabl
e

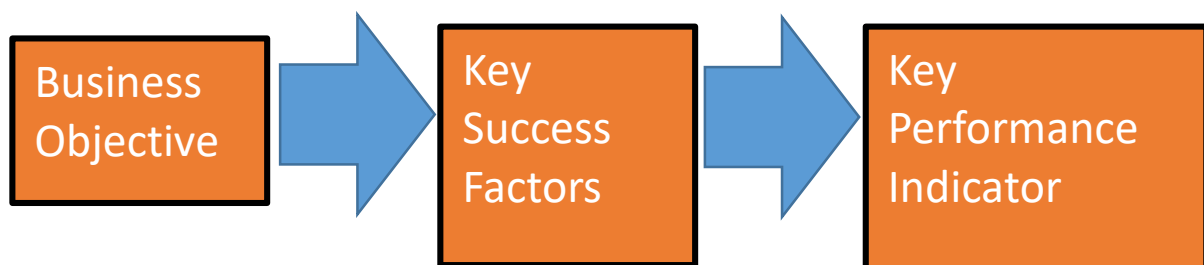
Achievable

Relevant

Time-
bound

Uses of KPIs

- Performance Effectiveness
- To make decision making process easier
- For the accuracy, actual reflection of the process efficacy in delivering the outcome
- The effects of a change can be monitored reliably, repeatedly and accurately by KPI
- A KPI can be used to closely monitor of actions
- Detect potential problems and it can drive improvement
- It is reasonable to use the KPIs a tool to improve ongoing process performance



How to Design KPIs

Overall Business Strategy

What is the business trying to accomplish

Goals and Objective

What are the short and long term objectives to achieve the strategy

Key Business Drivers

What are the important execution steps to meet goals and objectives

Key Performance Indicators

What measures of success are tied to the drivers

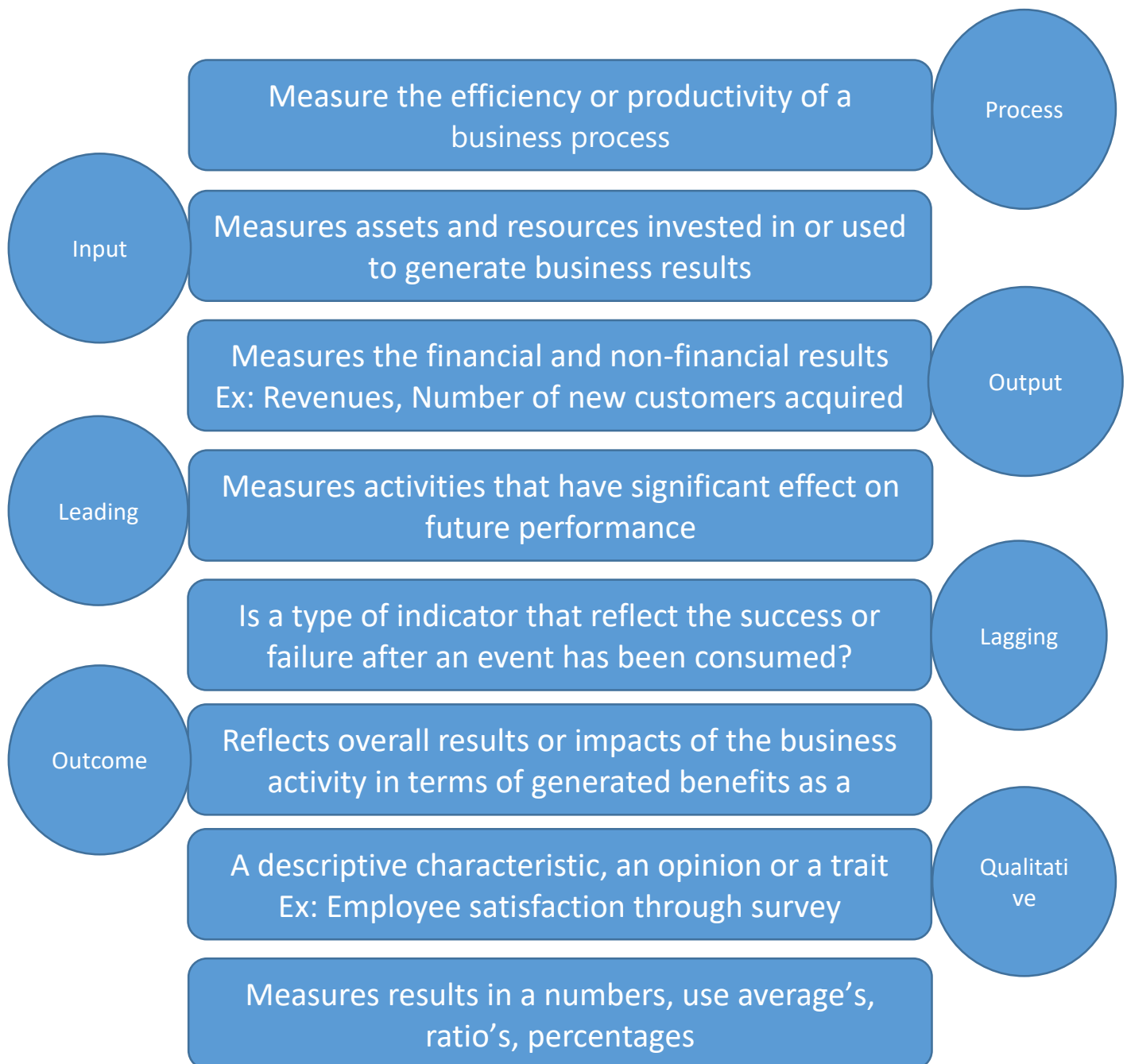
Supporting Metrics

What are the detailed measures that feed and augment the KPIs

Alignment with Strategic Direction



Types of KPIs



Development of KPIs

A number of factors should to be considered when developing and evaluating KPIs:

1. Define the audience and use for measurement.
2. Consult with stakeholders and advisory group.
3. Choose the area to measure.
4. Achieve a balance in measurement.
5. Determine selection criteria.
6. Define the indicator

- ✓ Identify the target population
- ✓ Define the target to be achieved
- ✓ Threshold for action
- ✓ Action

Define the audience and use for measurement

- It is important to define the intended audience in order to identify and develop a suitable KPI.
- The audience refers to the person or group for whom the KPI will aid decision-making and can be the service-user etc.

Define the audience and use for measurement

- It is essential to note that whether the goal of the measurement is for benchmarking, either internally for quality improvement purposes or externally against standards or other organizations, will influence the KPI selection process.
- Before embarking on the performance measurement process, it is necessary to identify the domains for which the measurement is intended, which may in turn be dependent on the customer

Consult with stakeholders and advisory group

- There should be consultation with all stakeholders throughout the data development process.
- Consultation facilitates the identification of the needs of stakeholders while simultaneously contributes to the acceptance of the selected KPIs.

Choose the Area to Measure

Choosing the area to be measured should be based on the importance of the problem

Achieve a balance in measurement

A number of approaches have been developed to assist in identifying a balanced set of KPIs including:

- The “balanced scorecard” which was originally developed by Kaplan and Norton.
- The “Three Es” framework uses the three domains of economy, efficiency and effectiveness.

The “Balanced Scorecard” method

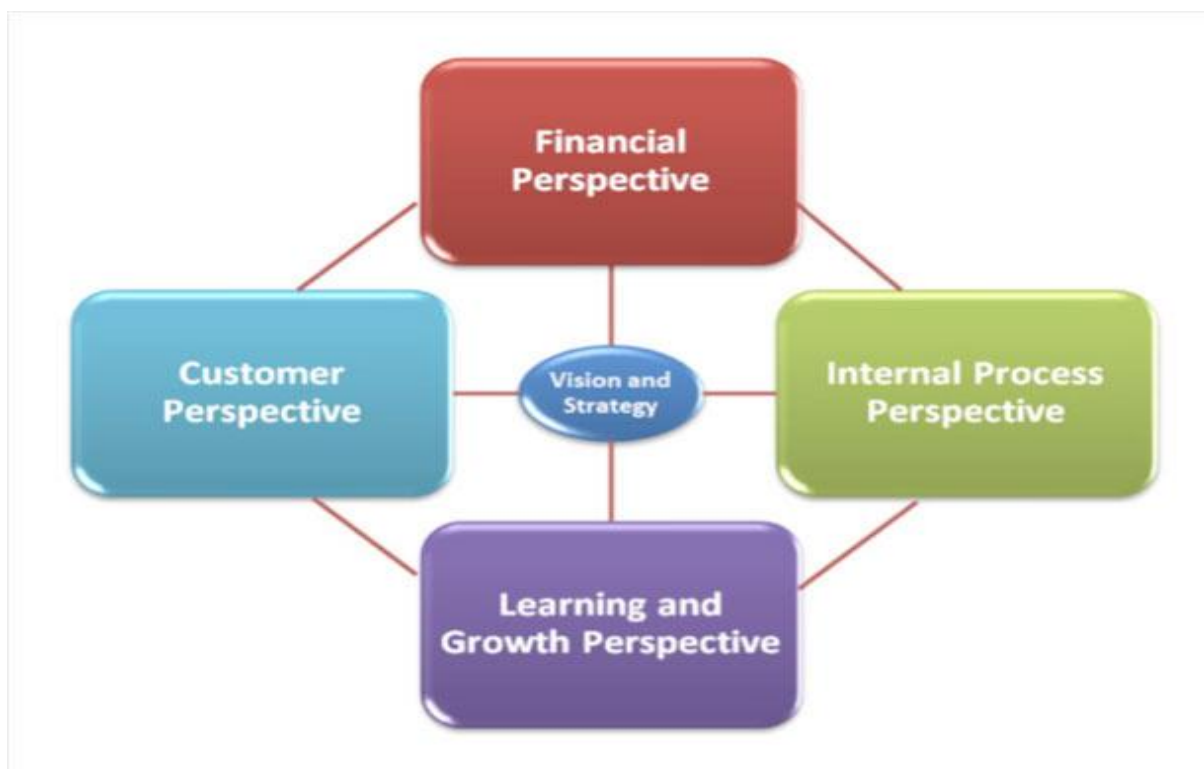
In 1992, Robert Kaplan and David Norton introduced the Balanced Scorecard concept as a way of motivating and measuring an organization’s performance.

The method looks at four interconnected perspectives (dimensions).

These are:

- **Financial** – How do we look to our stakeholders?
- **Customer** – How well do we satisfy our internal and external customer’s needs?
- **Internal Business Process** – How well do we perform at key internal business (sub) processes?
- **Learning and Growth** – Are we able to sustain innovation, change, and continuous improvement?

Balanced Scorecard Perspectives



The “Three Es” framework

- **Economy** - which measures the acquisition of human and material resources of the appropriate quality and quantity at the lowest cost
- **Efficiency** - which measures the capacity to provide effective services using minimum resources.
- **Effectiveness** - which measures the degree to which the organization attains established goals.

Determine Selection Criteria

Validity

- Does the KPI measure what it is supposed to measure?

Reliability

- Does the KPI provide a consistent measure?

Explicit evidence base

- Is the KPI supported by scientific evidence or the consensus of experts?

Acceptability

- Are the KPIs acceptable?

Feasibility

- Is it possible to collect the required data and is it worth the resources?

Sensitivity

- Are small changes reflected in the results?

Determine Selection Criteria

Balance

- Do we have a set of KPIs that measure different aspects of the service?

Tested

- Have national and international KPIs been considered?

Specificity

- Does the KPI actually capture changes that occur in the service for which the measure is intended?

Relevance

- What useful decisions can be made from the KPI?

Safe

- Will an undue focus on the KPI lead to potential adverse effects on

Avoid duplication

- Has consideration been given to other projects or initiatives?

Timeliness

- Is the information available within an acceptable period of time to inform decision-makers?

Setting KPI Targets

- A performance target combines the selected indicator with a target level.
- Specifying the quantitative degree or amount of performance the program is expected to achieve by a specific date, given the planned structure and funding level.

Targets Setting Summary

Introduction

Targets are those values (determined in each KPI) that the management wants to achieve within a certain time.

Purpose

To make the KPIs and the measurement more quantifiable and measureable

Suitable Techniques

- Benchmarking
- Forecasting
- Feasibility studies
- Market Research

Expected Outcomes

Once the targets setting is done, it is expected to have:

- KPIs targets
- Targets values & units

Action

- Unless actions are taken based on results, the measurement process will become an end in itself and will not contribute to quality improvement.
- There should be an agreement reached with stakeholders for actions in response to performance indicator results.
- There may be a series of incremental actions depending on the variation of the result from the target.

Develop the Minimum Data Set (MDS)

- Once KPIs have been developed, it is necessary to determine what data needs to be collected for each KPI being used to measure performance.
- The minimum data set should be developed based solely on the essential data required to operationalize the KPI.
- The MDS should be incorporated into a data dictionary to ensure the data is clearly defined and values are agreed.
- A data dictionary contains a list of data element definitions and attributes which supports the consistent collection of data for different purposes and by different people/organizations.

Example: Sales KPI

- **Sales Growth:** Is our business growing steadily?
- **Sales Target:** Are we on track regarding the sales targets?
- **Customer Acquisition Cost:** How much does a new customer cost?
- **Average Revenue per Unit:** What is your average revenue per user?
- **Customer Churn Rate:** How many customers do we lose?
- **Average Sales Cycle Length:** How do we shorten our sales cycle?
- **Lead-to-Opportunity Ratio:** How about our lead quality?
- **Lead Conversion Ratio:** Is our conversion ratio stable?
- **Revenue per Sales Rep:** How much revenue do our sales rep bring?
- **Profit Margin per Sales Rep:** Is our sales team profitable as expected?

Example: KPI Template

ResourceGate Bangladesh					
Key Performance Indicator Form					
Employee Information					
ID			Name		
Position			Period/year		
Department			Location		
Function			Grade		
Reporting to			Date		
Sl	Priority	Criteria	KPI	Target	Weight
1					
2					
3					
4					
5					
					100%

The Myths Surrounding Performance Measures

- Most Measures Lead to Better Performance
- All Measures Can Work Successfully in Any Organization, At Any Time
- All Performance Measures Are KPIs
- By Tying KPIs to Remuneration You Will Increase Performance
- We Can Set Relevant Year-End Targets
- Measuring Performance Is Relatively Simple and the Appropriate Measures Are Obvious
- KPIs Are Financial and Nonfinancial Indicators
- You Can Delegate a KPI Project to a Consulting Firm