

# Implementing Key Performance Indicators

Continuous improvement programs have been used in business for many years to assist in achieving a competitive advantage, and to help create a productive and profitable organisation.

Measuring those things that are critical to the success of the business is an integral part of good governance.

## Key Performance Indicators Explained

KPI's are a method of measuring a business to ascertain if the business is continuously improving, so it can meet key objectives. They indicate (I) the performance (P) in key (K) areas of the business.

They provide boards, business owners or management with timely information to allow them to better understand the dynamics of the business, and to stimulate better strategy development or decision making.

## What to Measure

There are a plethora of activities or outcomes in business that could be measured. The key question to ask is 'will the KPI allow us to continually improve the business through better strategy development or decision making'. If the answer to this is no, then that activity or outcome may be nice to know, but may add little value to the board or management team.

## Critical Success Factors

The process of implementing key performance indicators provides the opportunity to review those factors that are critical to the success of the business. Critical Success Factors are those activities the business must consistently perform to the best of its ability. They are critical to the success of the business. They are the drivers of business success and prosperity.

## Lead versus Lag Indicators

Ideally the business should have a number of KPI's that measure the drivers (activity) of business success (lead KPI's) as well as measuring the outcome (lag KPI's). An example of this is illustrated:

### Critical Success Factor

- Retaining a highly motivated, energetic team

### Lead KPI

- Number of social functions
- Number of one to one feedback discussions

### Lag KPI

- Staff turnover
- Number of sick days

## Identifying Appropriate KPI's

This process usually requires considerable thought, and is made considerably easier by first identifying the Critical Success Factors for the business. Raffino Business Solutions has a standard list of key performance indicators to assist the process. Use the following process to identify the KPI's for your business:

- Identify the Critical Success Factors for each function of the business
- Identify the lead KPI's that will measure how well you are driving the success of that critical factor.
- Identify the lag KPI's that measure the performance outcomes of that Critical Success Factor.
- Develop a bench mark for the KPI's based on what the realistic objective for that area is.
- Identify how you will capture the data
- Prepare the KPI report

## Collecting the Source Data

The data for the KPI's will come from a number of sources within the business including the profit and loss statement and balance sheet.

It will be necessary to develop some simple documents to record other data as the month progresses, so the KPI report can be completed ready for the board or management meeting.

## The KPI Report

Raffino Business Solutions has developed a standard KPI report template that allows analysis of data across a financial year. This yearly view provides visibility around trends and allows directors or management to monitor and measure continuous improvement initiatives, or identify warning signs regarding future performance or compliance.

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