13 2018

Key Performance Indicators (KPI)

Any company is interested in improving the efficiency of business and staff. The achievement of these goals is greatly facilitated by the introduction of quantitatively measurable and reliable indicators in the evaluation - KPI (Key performance indicators).

The main advantage of the system, built on the basis of key indicators, is its versatility. It is aimed at increasing the staff's interest in the company's performance. In the development of KPI take into account the specifics of the organization. Apply the same KPI as possible to evaluate the work of the entire company, its individual units and specific employees. In addition, the KPI system allows you to compare homogeneous processes that take place in different conditions. It also makes it possible to compare the indicators for several units for the same period.

The main advantage of KPI systems is that the decision-making process comes down to analyzing data that is available at any time and presented in a pre-approved format.

Calculations and application of KPI
The most effective use of KPI in large retail companies that have an extensive network. In this business, each outlet generates the same business processes. This enables the top management of the head office, thanks to the development of simple indicators, to see differences in the work of the branches and predict difficulties. Moreover, on the basis of these indicators it is quite possible to build a system of staff motivation. In addition, by constantly comparing and analyzing the results of the activities of each of the divisions, it is highly likely that we can predict business development trends in general.

The easiest way to calculate financial performance. The budgets of the divisions are built on their basis, and the long-term strategy of the company is ultimately developed.

The simplicity of financial indicators calculations is provided by a transparent form of financial or management reporting. All the necessary data is contained in the balance sheet and income statement. The management can obtain information for any period as quickly as the used accounting system allows. In practice, this time ranges from three to five days to 20. Such a period is quite acceptable in order to timely carry out managerial influence.

The development and comparison of indicators should be handled by an internal business analyst, due to the need to provide accurate data. He must clearly represent all the pros and cons of each. After all, the indicators applicable to the evaluation of the top manager and the business as a whole, can often not be used to evaluate any department. This is due to the specifics of the work of each structural unit. For example, to assess the head of the responsibility center, an indicator of profit remaining at the disposal of the organization before paying taxes and interest (EBIT - earnings before interest and tax) is appropriate. However, this indicator is completely inapplicable for evaluating the work of a client relations department manager. The fact is that EBIT is an exclusively financial indicator. It characterizes the efficiency of doing business, that is, it directly depends on the income and expenses of the company. The manager of customer service does not directly affect these numbers. The evaluation of his work should be another, non-financial indicator. For example, the number of settled customer claims or the percentage of this amount to the total number of claims.

Basic requirements for KPI
The value of the scorecard is not to monitor data on a “calculated-compared-forgotten” basis. The main thing - it allows you to identify patterns of business development in general or individual business processes. In addition, KPIs are used in short and long-term budgeting. After all, the budget in its essence is a set of financial indicators leading the company to the fulfillment of predetermined strategic and tactical goals. And usually the main one of them is making a profit, the very EBIT, according to which the work of a top manager is evaluated. This is the relationship of the KPI system with budgeting. But the system of key indicators is not limited to only one linking function of budget support. In addition, KPIs perform other functions, for example:

allow you to evaluate the work of each employee or group;
contribute to the motivation of staff on the result;
increase the responsibility of each employee for their work area;
provide an opportunity to develop and improve the most promising areas of business;
provide a base for management to search for "weak" places in business
in an accessible and visual form show the impact of a process on the result;
give meaning to every management decision.
When developing a KPI system, you should consider certain requirements that apply to each of the coefficients:

Each coefficient should be clearly defined, then any user can measure it. Including the employee, whose results are assessedThey are obtained by means of this indicator. For example, the organization of the simplest accounting at the workplace of a customer service manager ensures that he can easily calculate “his” KPI using data that is always at hand. Validated indicators and standards should be achievable. The goal should be real, but at the same time be a stimulus. Each of the indicators should be in the sphere of responsibility of those people who are assessed. Indicators should contribute to motivation and increase staff efficiency, and this is directly related to setting goals. So, when the sales department executes a plan to attract new customers (KPI - the number of new customers attracted during the period), the department can count on an additional premium. If the plan is not fulfilled, on the contrary, the premium is not paid. Indicators should also be comparable, that is, the same indicators can be compared in two similar situations. For example, the average check (KPI is the ratio of the average daily revenue to the number of checks per day) cannot be compared in a store located in a regional city and a store of the same format but located in the outback. The dynamics of the coefficient change should be able to be represented clearly (graphically) so that on the basis of the results it was possible to draw conclusions and make decisions. And finally, each indicator should carry a meaning and be the basis for analysis. At first glance, the principle is banal, but it is fundamental. For example, take such a KPI, as the ratio of the amount of expenses for the maintenance of the administrative apparatus to the total mass of profits. Formally, oddly enough, such an indicator satisfies all of the above characteristics: quantified, can be normalized, presented graphically, shows the dynamics and so on. But let us think for a second, what is its meaning and what does such a coefficient show? Of course, this example in the grotesque form shows the operation of the principle of conformity of form to content. However, in practice, when developing a KPI, such incidents can occur. Particular attention should be paid to the introduction of new indicators, involving experts in the analysis process. They can be managers, as well as the most prepared specialists of financial and commercial structures of enterprises. Examples of using indicators In addition to generally accepted indicators (usually financial), each company will have to develop its own. This is due to the fact that there are different business specifics and different goals that are defined by the owner. For example, a growing business can be measured by the above-mentioned EBIT. But a company that has already passed the period of its formation can be estimated by the level of gross profit (Gross profit) or, alternatively, by the level of profitability (Gross Margin). In this case, of course, other “related” components of the activity are also analyzed: administrative, general, marketing expenses, etc. In conclusion, it makes sense to cite several of the most common KPIs (see table). They can be used to evaluate a manager or department. By filling in a similar table for each of the developed indicators, a manager at any level will be able to find an answer to the question of what he wants to improve in his work or how to use existing resources more efficiently. Examples of indicators for evaluating performance results Indicator What does it mean? For what EBIT can be used, the profit remaining after tax, interest payments and dividends Profit after tax, which is influenced by income levels, expenses Dov, investments (depreciation) Director General, directors of branches responsible for the revenue and expenditure part of their budget Monthly, quarterly, annual Calculation of bonuses, self-financing reserve, obtaining loans, assessing the profitability of investments, etc. percentage rule) The ratio of gross profit to revenue (total sales) Heads of departments, business areas, developing a product or service Annually, monthly, as well as up to the product or technologically completed process To assess the prospects for product development, the impact of demand for a product or service, the impact of competition Turnover ratio, staff rotation The ratio of the total number laid off for the period to the average number of employees for the same period To assess the impact of employee turnover on business results, forecast the periods of the most active personnel search, determine the loyalty of each category x for identifying hidden reserves of economy, performance evaluation of personnel apparataSredny sales Sales volume (in pieces, monetary units), which brings every seller Sales Department, Sales Manager Daily, weekly, ezhemMonthly, quarterly, annual Planning of the revenue part of the budget of the unit, measuring the performance of each person or department and, as a result, distributing the bonus fund, identifying seasonality. to the average term of payment to suppliers Department for work with clients, financial department, commercial department, sales department Monthly, quarterly, annually animating cash flows and cash gaps, obtaining loans, calculating deferred payments for contracts, determining the size of discounts for early payment, identifying internal sources of funding; Motivating employees based on the results of working with key indicators; with this calculate their premium. This contributes to the development of motivation among employees, because they understand that it is on their efforts that the size of the bonus depends. However, in the implementation of KPI, or rather, in determining the key performance indicators can be faced with some difficulties. It is not easy to select the parameter of success "in pure form", and the higher the position of the employee, the more difficult it is to separate factors depending only on him. Then, each parameter must be estimated in monetary terms.

Link to article:: Key Performance Indicators (KPI)