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Key Performance Indicators (KPI)

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There are a variety of Key Performance Indicators (KPIs) that can be used by companies to measure performance. These indicators can be used to compare financial, operational, as well as strategic objectives. Depending on the industry the indicators used may be different, this can include revenue growth, labour efficiencies, market share compared to competitors, and operational efficiencies. With the amount of analytics that is available it is important not to be sidetracked by a volume of indicators, but rather focus on a few key indicators as part of Balanced Scorecard. To provide meaningful information, KPIs should be specific, measured objectively, and understood to provide a meaningful context.

Improved access to data is driving the use of KPIs to support analysis. Improved and timely access to data will allow for more appropriate analysis for the stakeholders. The challenges with access to such information often lie with ensuring the confidentiality of data that can be of confidential nature to the various stakeholders which can occur

with the change of data exchanges from third-parties which may require legislative considerations.

KPIs provide a snapshot of performance management based on based action. The establishment of an indicator without understanding the correlated activities, or situation surrounding the events leading to ineffective KPIs. An organisation can use such information to improve performance or benchmark against industry leaders. The establishment of a fair benchmark should be rewarding performance both team and individual based.

Balanced Scorecard

The Balanced Scorecard should be used to complement financial measurements. Each of the four perspectives should note the specific objects, measurements, and the associated targets. The usage of the balanced scorecard allows management to focus on short-term goals, as well as longer-term strategic objective.

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The process of developing a Balanced Scorecard is a four-step process

1. Involving clarifying the vision.
2. Obtain buy-in from decision makers within the organisation.
3. setting goals, develop a business plan with specific targets
4. Provide an opportunity to allow for the sharing of strategic feedback, and encourage continual learning and growth

The Balanced Score Card (BSC) as noted by Michael Porter, has limitations including a particular set of actions occurring and may not consider striking a balance between organisational and external forces. Difficulty can arise when choosing, and implement performance indicators to include. These indicators can be subject to bias, inaccurate, or may not be the appropriate basis for measure for the organisation. Despite some of this shortcoming, Porter's Balanced Scorecard can be an invaluable tool for the organisation.

The Balanced Scorecard Perspective

- Financial Perspective
- Internal Perspective
- Customer Perspective
- Learning & Growth

Financial Perspective

Part of the balanced scorecard involves measurements such as income, return on investment, analysis of financial results and analysis to evaluate the performance of the company regarding traditional analysis.

Internal Perspective

Assessing the core competencies of the organisation that is what they do best including quality,

production, supply-chain management, as well as innovation.

Customer Perspective

Indicators that focus on the client including customer satisfaction, retention, and market share in the market segment in which it operates.

Learning & Growth Perspective

This view includes measuring employee satisfaction, skills, learning, as well as retention.

As indicated previously combined with the use of Big Data Analytics can provide valuable insight into operations and performance to strategic advantage, over its competitors or better manage its operations for accountability or value-for-money depending on the industry. Organizations should have a clear overall objective which should be understood to effectively manage and evaluate and tie these business metrics.

KPIs should be manageable to comprehend, assess, and take action based on the results. The purpose of the sub-components it's to increase accountability based on activities that departments have responsibility for directly, or have interaction. An over a collection of KPIs may lead to action not taken in certain areas.

Key Performance Indicators Should be:

1. Understood by Stakeholders
2. Measured on Specific Performance Targets
3. Engage conversation with Business Unit and Organization
4. Open to improvement based on best practices
5. Measure Corporate Social Responsibility

Understood by Stakeholders

Stakeholders should be able to know how evaluations measured. It should be able to show how the department performs against its past performance, account for the effect of external

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forces such as competitors, customers, as well as the regulatory environment. Done with care, such KPIs can enable business growth or efficiencies. KPIs may need to be modified as business requirements change to remain relevant. These measurements can be both financial or non-financial and include sales growth or customer satisfaction.

Measured on Specific Performance Targets

KPI should be based on specific performance indicators to allow for better management of business units or the organisation as a whole. The establishment of specific goals should engage the various stakeholders and should include which indicators are most relevant for the business unit or situation. The choice of KPIs used should consider best practices utilised in the industry, and include subject matter experts within the organisation.

Engage Conversation within the business unit and organisation

The KPI dashboard should engage conversation within the group related to the outcomes. If the KPI dashboard is merely a report that is glanced at and not discussed regarding results as well as the direction it may offer little meaning. These indicators can be a useful measure of performance, and such dialogue that comes from it may involve conversation from other areas of the business. For example, if sales have declined this can indicate a variety of things including economic factors, changing consumer tastes, action taken by competitors, or government regulation. The conversation will allow probable causes and appropriate action. The involvement of business units including accessing and harnessing such information is necessary for a strategic competitive advantage.

Open to improvement and change based on best practices

KPIs should be useful, precise, and open to improvements based on new information, dialogue, and best practices within the industry. The KPIs chosen should drive performance in measuring operational strategy including validating the data for sound, timely, and reliable decision making, as well ongoing refinements based on best practices within the industry.

Measure Corporate Social Responsibility

A measurement of our corporate social responsibility compared to industry peers, and market expectations will be increasingly important. Awareness of these responsibilities is important as consumers, and government expectations of environmental concerns will continue to increase. These can include a measurement of green initiatives outside of the core KPI analysis in addition to the core dashboard analytics. Organizations will increasingly be pressured to take steps for example to reduce their carbon footprint.



Drivers for KPI Operational Improvement

1. Focus on organisational strategy
2. Concentrate on a few critical KPIs, not overloaded with wealth of analytics
3. Validity of Data for KPIs
4. KPIs should allow focus on accountability

Focus on Organizational Strategy

The drivers should focus on the measurement of

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strategic organisational or business unit objectives. The information gained from KPI dashboard information can be used to obtain valuable feedback which can be used to refine current strategies and set new KPI and organisational objectives.

used strategically can provide benchmarking information that can be relevant to the goal of a business unit or organisation as a whole.

Focus on critical KPIs

When establishing KPIs, it is important to focus on a few that are specific and strategic. Such a focus can allow the organisation to focus on strategies and objectives that are important. The initial selection of KPIs could include those used as best practices within the industry. Such a focus can allow the organisation meet the intended objectives.

Validity of Data for KPIs

The data sources used for the establishment of KPIs should be free of potential data corruption which can be especially so when combining information from several sources. Before the dashboard is established the accuracy should be validated to ensure that decisions are not based on incomplete or inaccurate information.

KPIs should allow focus on accountability

KPIs chosen as part of dashboard reporting should focus on items that are within the control of the business unit or organisation. Including KPI that are not controllable or influenced by the actions of the organisation do not present material value regarding promoting best practices, improvement, or assist in a strategic competitive environment. Key Performance Indicators (KPIs) should focus on "key" items rather than a volume of information which can distract from decision making.

The balanced scorecard if used strategically can provide feedback that can enable appropriate decision making. The key performance indicators should be based on critical indicators for the business unit or organisation to allow decisions. These indicators have challenges and limitations such as those noted in this discussion and should not be used exclusively for decision making. Indicators

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