

PathStone Group



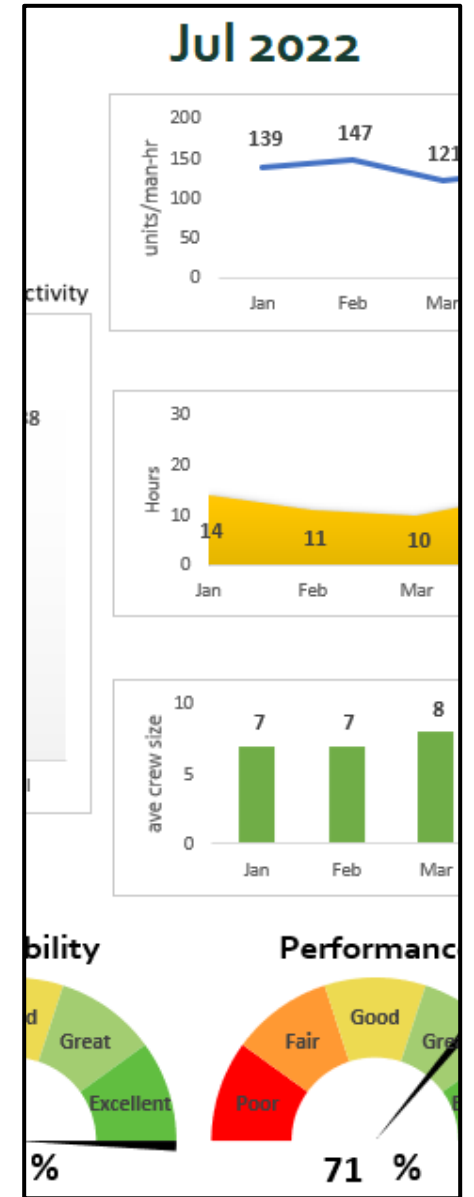
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Metrics and KPI

Agenda

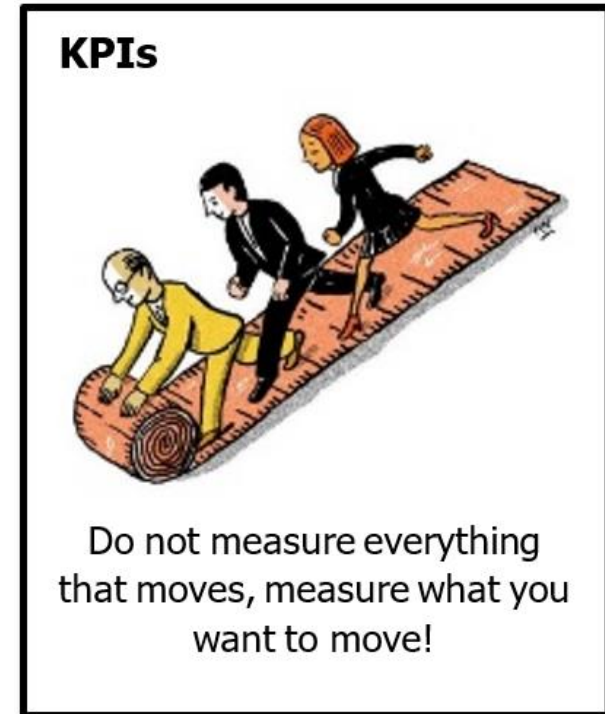
1. Metrics and KPI: What are they ?
2. Metrics and KPI purpose and benefits ?
3. Construction
4. Selecting a KPI
5. Takeaways



Introduction

What is it ?

The goal of performance metrics is to **drive improved results.**

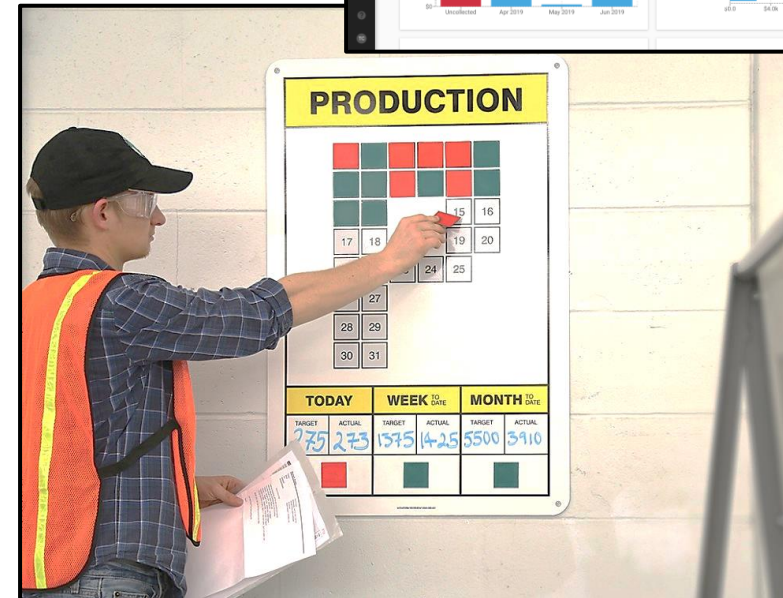
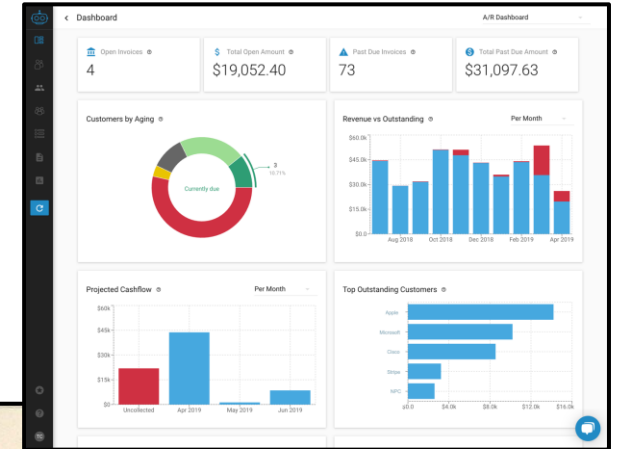


Metrics and KPI

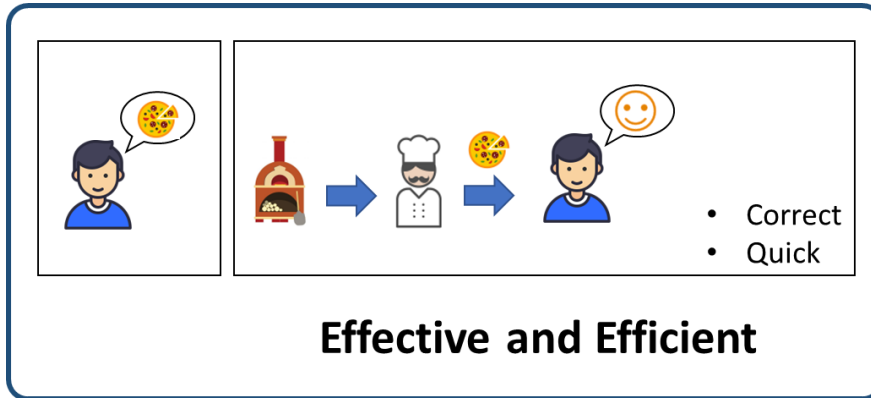
Purpose and Benefits:

A well-designed performance management system, sets key performance indicators (KPIs) that are translated into **concrete** and **operational terms**.

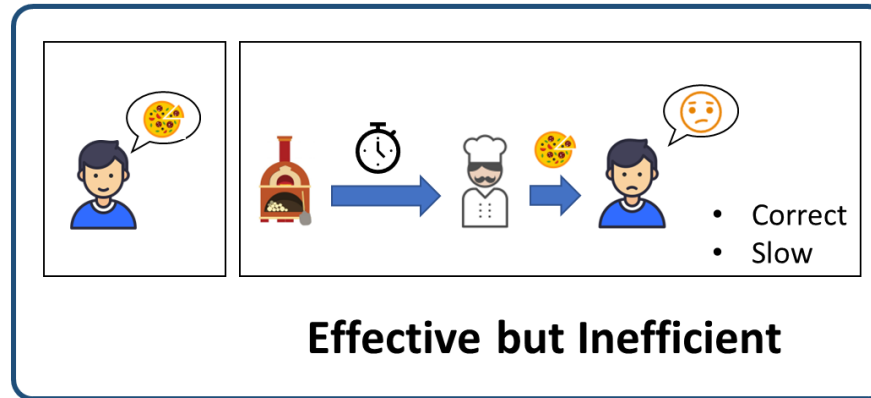
Operations **KPI** can be measured, communicated, and used to drive reporting, analysis, decision making, and action at both the business unit and individual levels.



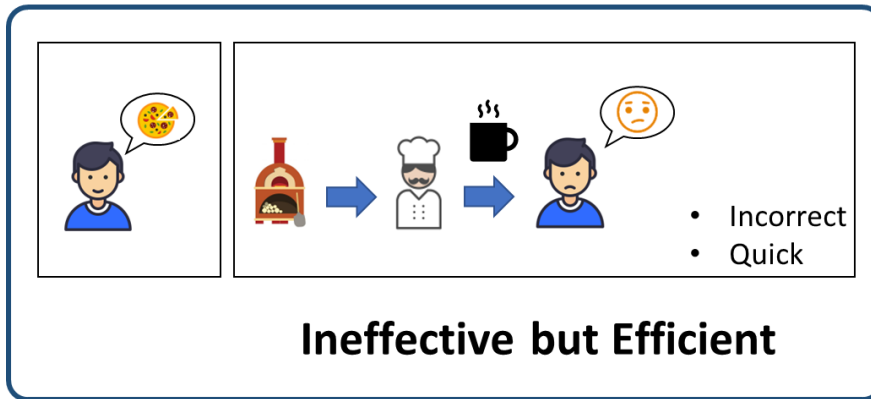
Metrics and KPI



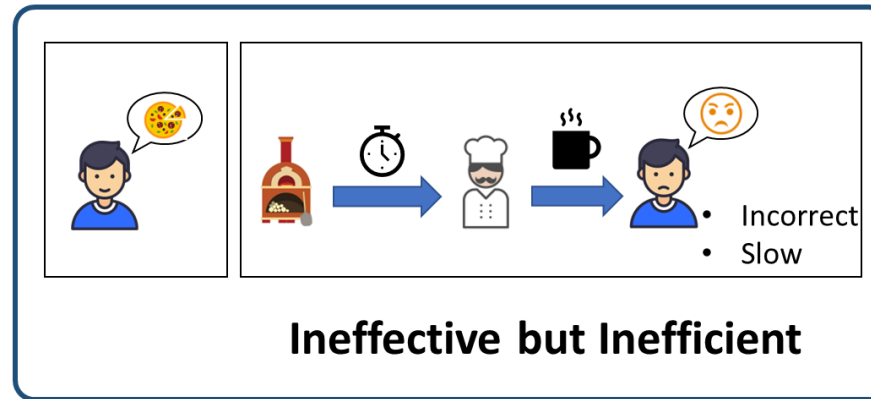
Effective and Efficient



Effective but Inefficient



Ineffective but Efficient



Ineffective but Inefficient

Metrics and KPI

Construction:



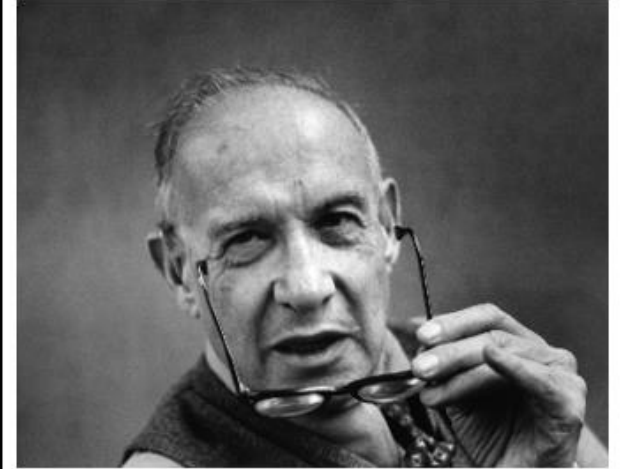
Productivity is solely about output versus **time**. What is the quantity of the production rate?



Efficiency refers to the **ability** to do something or produce something without wasting materials, time or energy.



Effectiveness is related to the **Critical Quality Attributes** of the product: those features and characteristics that a customer expects and will pay for. A process is effective only if it provides what the customer wants.



“There is nothing quite so useless, as doing with great efficiency, something that should not be done at all.”

Peter Drucker

Metrics and KPI

Construction:

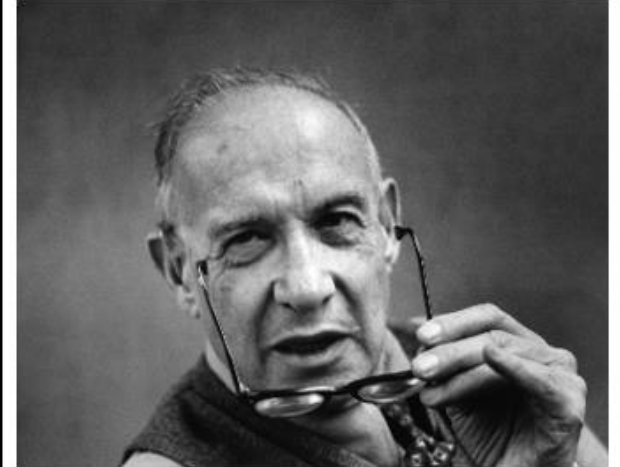
Measures of **effectiveness** may include:

Quality: A grade of product or a level of service.

Quantity: Tones, lots, bedrooms cleaned, accounts opened.

Timeliness: Speed of response, product lead times, cycle time.

Cost/price: Unit costs.

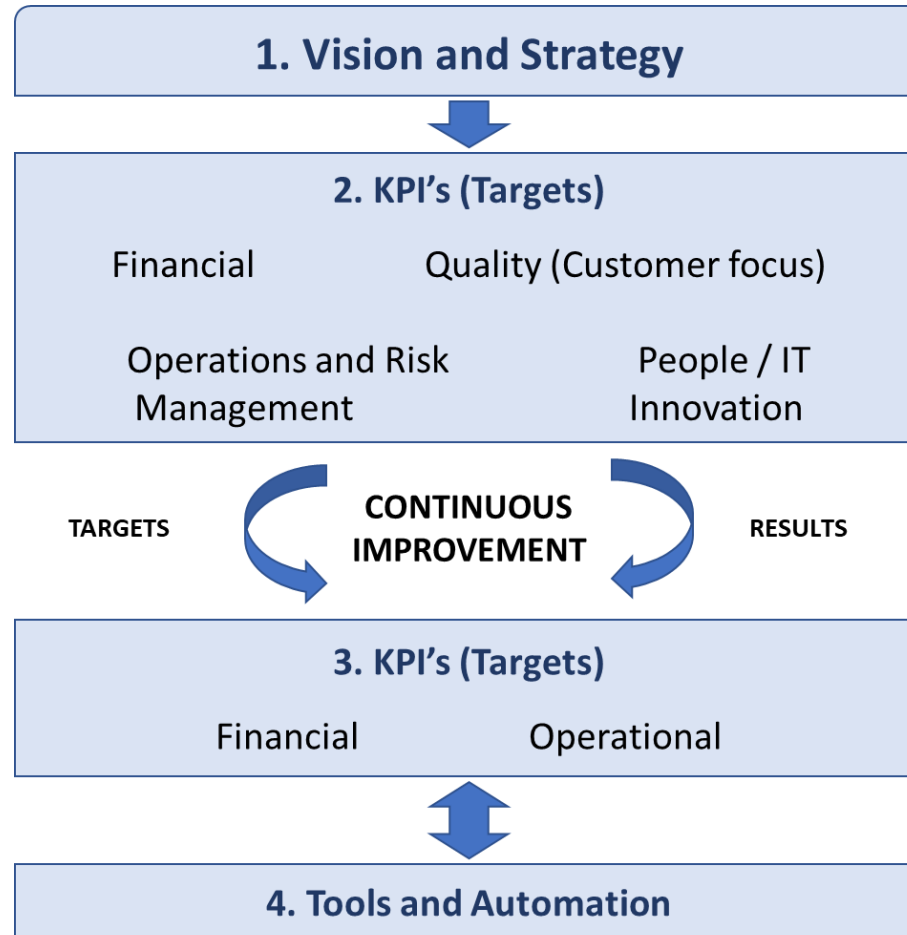


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Metrics and KPI

Construction:

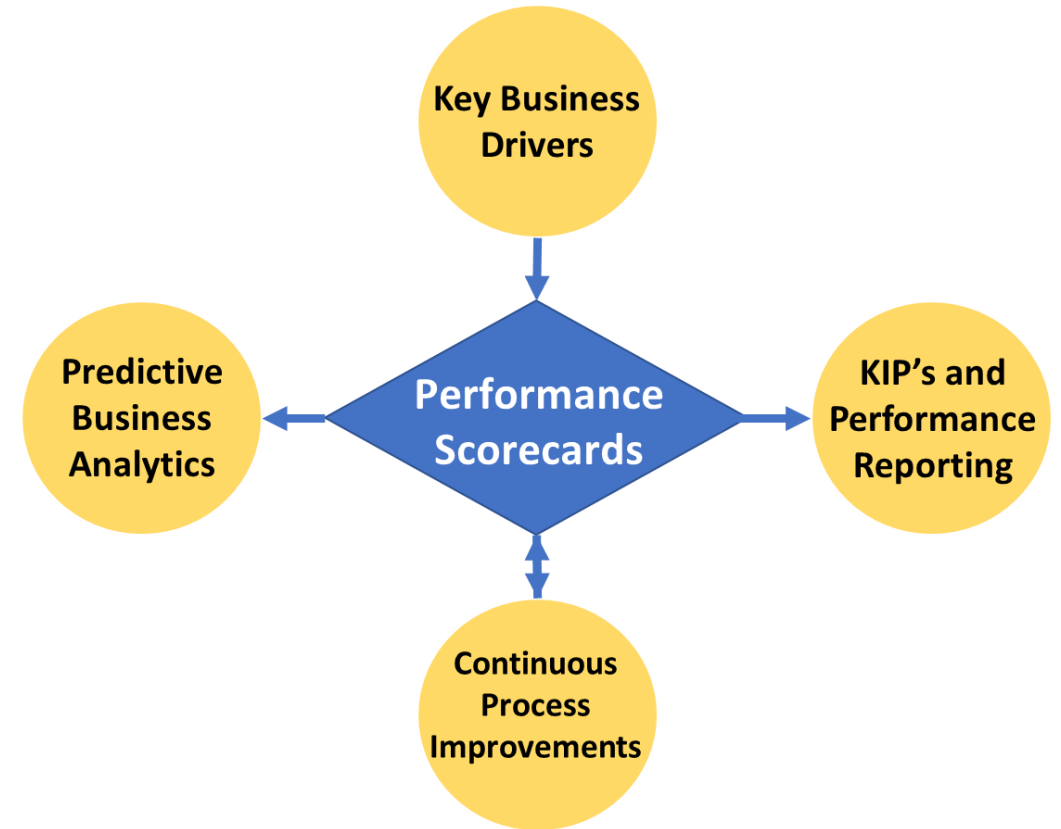


Metrics and KPI

Construction:

Performance scorecards are the core of an effective **predictive business analytical** (PBA) capability by facilitating performance analysis, decisions, and resource allocations and providing feedback and commentary on comparative results.

Continuous process improvements establish the basis for enabling better operating performances.

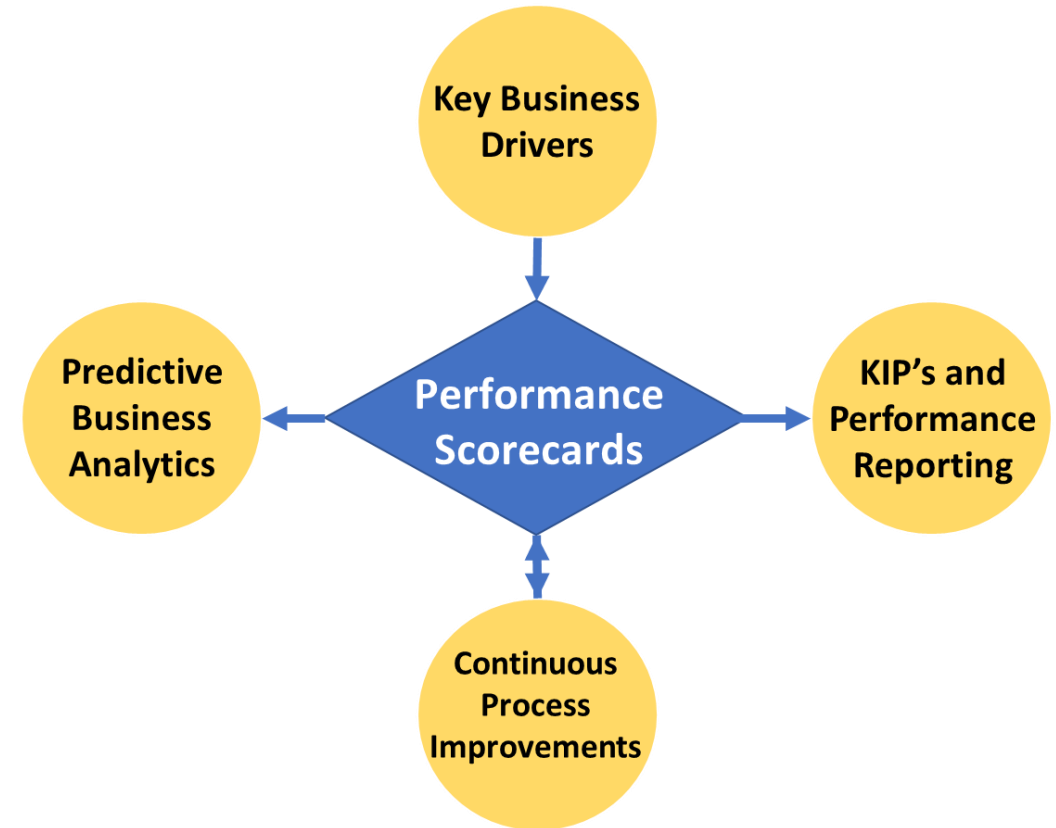


Metrics and KPI

Selecting a KPI:

In selecting measures, three important notions are given:

1. Select a **critical few**.
2. Seek a **balance** between **leading** and **lagging** measures and **financial** and **nonfinancial** ones.
3. Ensure **alignment** with strategies, operations, and organizational roles and responsibilities.



Metrics and KPI

Selecting a KPI:



LAGGING INDICATORS Results measures

PURPOSE

Focus on the performance results at the end of a time period or activity

STRENGTHS

Usually objective and easy captured

ISSUES

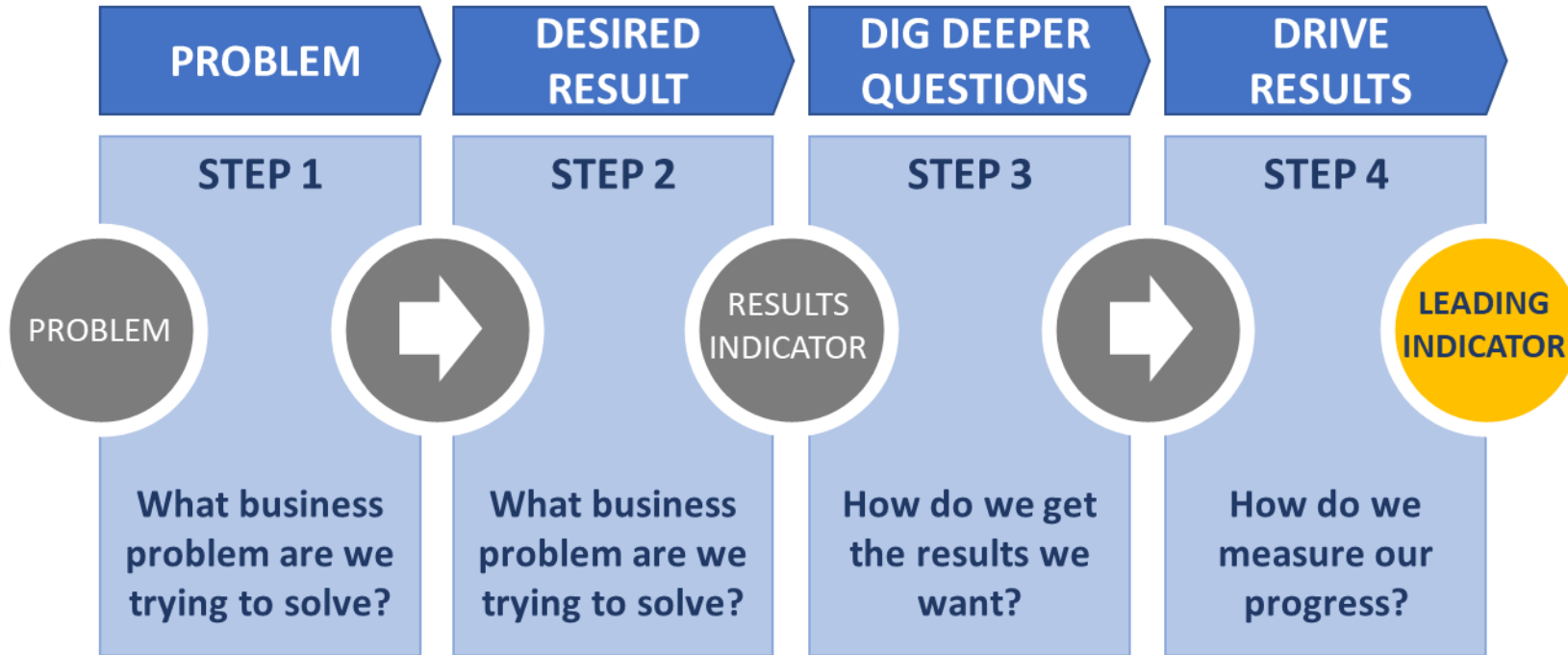
Reflec the past, not current activities or decisions

EXAMPLES

- Year-end sales
- Market share
- Cycle time

Metrics and KPI

Selecting a KPI:



LEADING INDICATORS Results measures

PURPOSE

Measure intermediate processes and activities

STRENGTHS

More predictive in nature
Allows organization to adjust behaviours for performance

ISSUES

Based on hypothesis of cause and effect
Sometimes difficult to collect supporting data

EXAMPLES

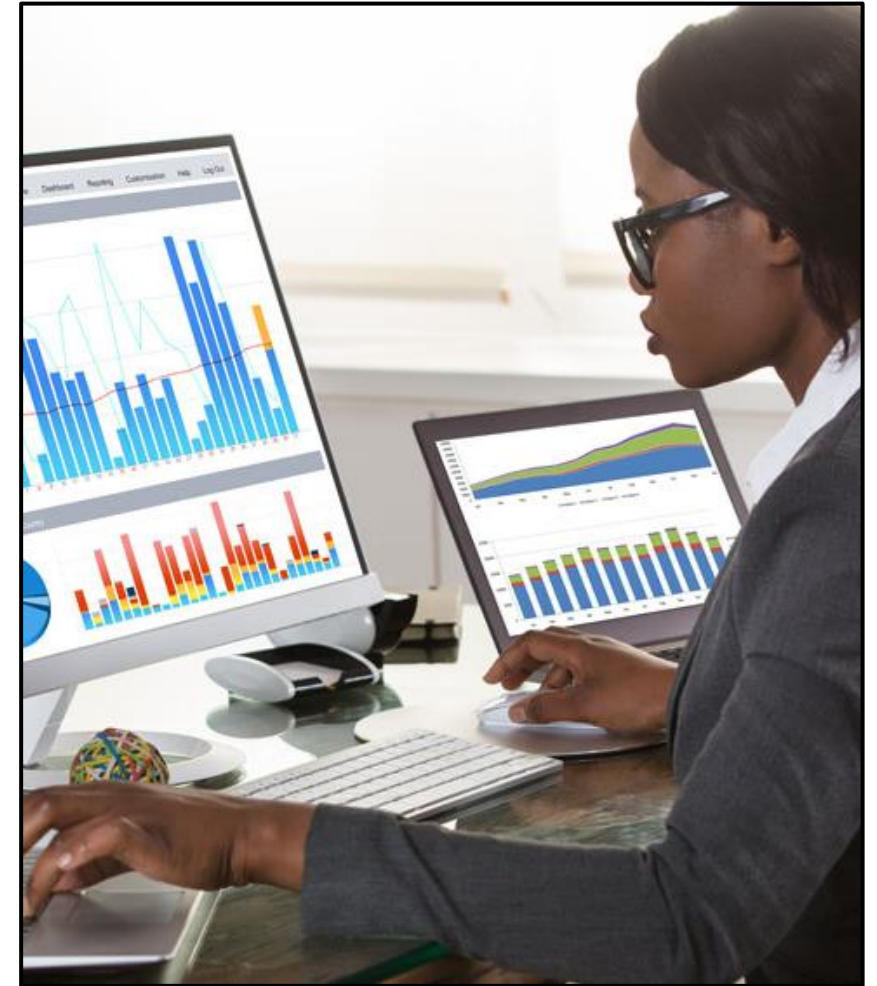
- Hours spent with customers
- Number of mortgages applications

Metrics and KPI

Selecting a KPI:

The selection of KPIs is as much art as a science. However, a few selection criteria may help in determining whether current KPIs are sufficient for predictive performance measures. Some hints are:

- **Gut feel** measures are a good start—but are often not reliably correlated with results.
- We should **test results** against multiple variables using statistical analysis and/or regression analysis.
- Back-test results; **use past data** to see if the measure would have predicted events.
- Measure and adjust as required; **look for new drivers**.



Metrics and KPI

Examples:



Capacity Utilization:
This measure how much of available capacity we are using on the production lines.



Overall Equipment Effectiveness (OEE):
This metric measures the overall effectiveness of a piece of production equipment or the entire line. Availability x Performance x Quality.



On-Time Delivery:
This is a KPI that really keeps customers happy but is also motivating production employees.



Unscheduled Downtime:
Scheduled and predictive maintenance can help minimize unscheduled downtime.



Metrics and KPI

Examples:



Employee Turnover:
Quality and efficiency problems often stem from high turnover because of training new inexperienced employees.



Inventory Turns:
Keeping inventories to a minimum can really help free up cash and give the ability to respond to changing customer needs much more efficiently and with better delivery times.



Inventory Accuracy:
Errors in accuracy either delays the start of production or causes delays in the line if the order made it into the process.



Quality:
There are many ways to measure quality; control charts, cost of quality (COQ), developing critical-to-quality indicators.



TOOLBOX



KPI Definition Worksheet

KPI DEFINITION WORKSHEET					
What business problem are we trying to solve?		How often (Reporting Period):			
		Daily	Monthly	Quarterly	Yearly
What is the desire outcome ?		When?	Measurement Information is:		
			Currently Available		
			Available with minor changes		
			Not Available		
How will we measure the results?		Measurement formula:			
Indicator (or measure)	UOM	Success Criteria	Data elements and sources:		
1					
2					
3					
4					
Is this a leading or lagging indicator?	<input type="checkbox"/> Lagging		Source for and approach to setting targets		
	<input type="checkbox"/> Leading				
Does the KPI predict the desired result?	<input type="checkbox"/> YES				
	<input type="checkbox"/> NO				
Is the KPI in between our control?	<input type="checkbox"/> YES		Responsible for Target-Setting:		
	<input type="checkbox"/> NO				
Can we Influence the KPI?	<input type="checkbox"/> YES		Accountability for Meeting Target:		
	<input type="checkbox"/> NO				



Takeaways

The secret of success is not in the KPI. **The secret of success is in the actions taken to move the KPI towards the goal, not in the measurement itself.**

Focus on the actions, get value, get success, and get momentum. True improvement only comes from creating a process, not doing an event.

Rather than having 18-25 KPIs, **just do 2 to 5**. Focus on the actions, get value, get success, and get momentum.

KPI are one of the most useful tools we have for keeping teams focused, aligned, and accountable. They are a **balanced scorecard for company health**.



Thank You



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Metrics and KPI

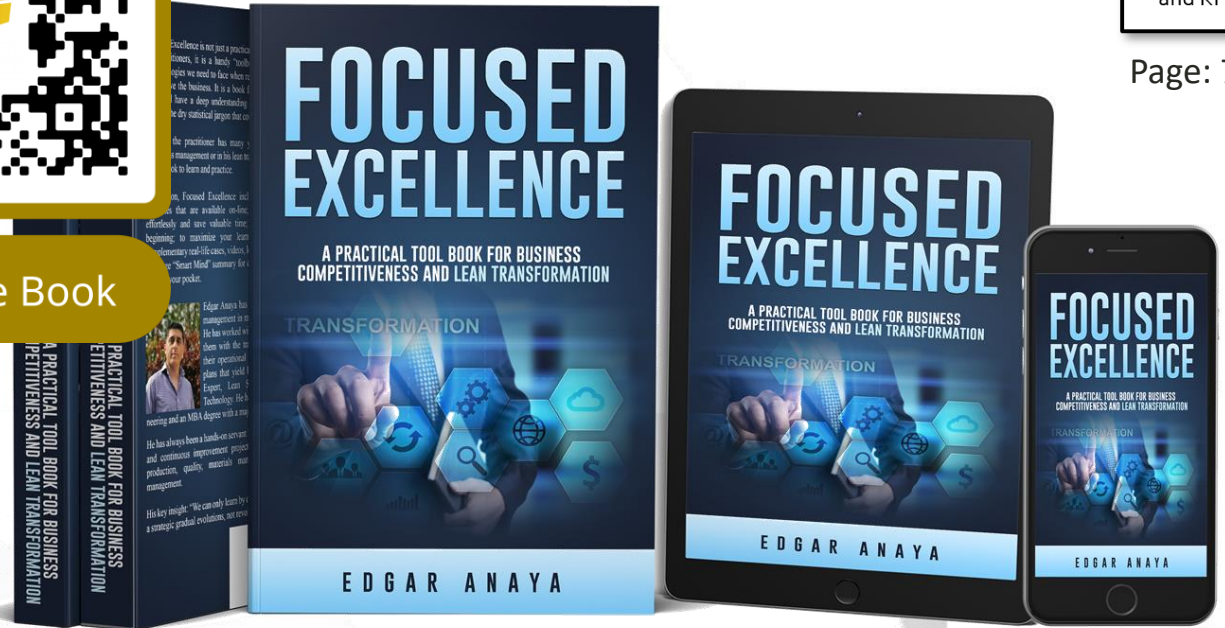
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TOPIC



Metrics
and KPI

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A Practical Tool Book for
**Business Competitiveness and
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