BusinessPlus+ Newsletter

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Business Performance Indicators for Growth

Appropriate business indicators, if implemented correctly with accountability, responsibility, and regular monitoring, are an important part of a business' strategy. **Measuring the right Key Performance Indicators (KPI's) and creating actionable items from the data can elevate a business above its competition.**

However, the road to creating and implementing effective KPI's is generally very difficult for business, as shown in the figure below, based upon survey feedback from a large range of SME's and larger business; only about 10% hit the mark with great KPI's! The information is sourced from Australian Stacey Barr who has developed "**PuMP**" – which stands for **Performance Measurement Process** and written a book on the subject titled – "***Practical Performance Measurement***".

Setting and Monitoring KPI's

First and foremost, you must understand where you are, where you want to go, and how you're going to get there. It's only then that you can set KPI strategies to achieve those goals. The best business KPIs specifically relate to broader business objectives such as sales, customer numbers, brand reputation or awareness.

Once you have your KPIs in place, best practice is to review them on a monthly basis via a monthly management report. The reason for your review is to monitor your KPIs. For example, if your goal was to have completed 20 projects but have only delivered on 16, this could affect you achieving your long-term goals as an organisation.

With each review, look at your KPI targets and strategies and identify the gaps that need to be addressed during the remainder of the year. Above all, your organisation needs to be ready, willing and able to deliver on your KPIs. The real challenge is determining how best to cover any short-term gaps while keeping your team motivated to achieve their goals for the rest of the year.

Managing KPI Shortfalls

A KPI gap can occur for any number of reasons. The best way to understand the reason for the gap and determine how to address it is to break down the situation. Here are some examples of business KPI gaps and how they could be rectified:

Gap: You're meeting your sales targets, but your gross margin is not where you expected it to be.
Solution: ***Revisit your pricing strategy*.**
Gap: Your sales are falling short.
Solution: ***Look at initiatives and resources.*** Consider advertising, marketing, people, pricing, and service or product.
Gap: Your profit benchmarks aren't being achieved.
Solution: ***Review staff, revenue, expenses and service to identify ways to reduce costs.***
Gap: Your revenue benchmarks aren't being achieved.
Solution: ***Review your pricing, sales volumes, input prices purchases and other costs of selling.***
Set yourself a big but achievable goal. Take accountability and responsibility for it but have everyone on the business team motivated and engaged in making it happen. Once you have people's buy-in you can work towards achieving those strategies and goals together.

Staying on Track with Your KPI Business Plan

KPIs can be an invaluable form of business intelligence. If you use them appropriately, you and your employees will be able to clearly see the vision, what's needed to achieve this vision, and what should be done to improve their organisation. This in itself develops a strong team approach to business.

Even if you're a business that's exceeding your KPIs, you always need to keep one eye on success and one on risk management. Often, companies growing at a rapid pace do so with increased risk. You need to make sure you have the right strategies in place to continue to grow successfully and sustainably.

And if you are easily achieving your KPIs, keep in mind you may not have set challenging enough objectives. If this is the case, consider revising your KPIs to see your full potential realised.

Performance Signals for your KPI's

The simple secret to prioritising the KPIs that need your attention is to monitor the size and direction of the gap between current performance and targets**. Your performance measures are there to give you advice about what is going on in your business so you can choose the most appropriate way to manage its performance**. This means that you will choose different types of actions depending on what kind of advice your measure is giving you, or, what kind of signal it's giving off.

Improving performance is about closing performance gaps. **There are several ways to explain what a performance gap is:**

- **the difference between as-is performance and should-be performance**
- **the difference between the current level of performance and the target**
- **how far away we are now from where we want to be**

Your KPI signals each have a specific level of urgency, depending on the size and direction of the performance gap.

This helps prioritise which KPIs to give your limited attention and resources to.

Prioritise Each Measure - Only Fix the Urgent Ones

How many beanbags can be juggled at the same time? The world record is 14 beanbags, set by Alex Barron in 2017.

He only managed to hold on for a few seconds, enough to catch each beanbag once. Improving performance is like juggling beanbags too, as we can only handle so much at any one time. Real-world limits on our attention, resources, and energy make certain of that.

But we need our improvements to hold for longer than a few seconds, so we're better off trying for far less than 14 at once. **The moral of this story is that it's not realistic to try and improve all of our KPIs at once!**

"Improving everything isn't the same as everything is improving. Focus on what needs to be improved, improve it and ensure it can be sustained and then move on to the next thing to improve."

The 7 Signals Set Your KPI Priorities

There are seven important performance signals you'll want to look for, and be prepared to respond to when you see them:

Signal 1: Performance Is Unpredictable or Chaotic

When performance is unpredictable you'll see it fluctuating wildly with very large variability from week to week or month to month, with no steady and consistent pattern of randomness. This chaotic KPI behaviour is symptomatic of a business process that is out of control because it lacks standardisation in the process steps or the inputs used.

ACTION: ***Don't try to improve performance. You need to get the business process under control first.***

Signal 2: Performance Is Worsening

Depending on your performance measure, worsening performance might be evidenced by an upward trend or shift, as in the case of Expenditure or Rework Hours, or by a downward trend or shift, as in the case of Customer Satisfaction or Profit.

ACTION: ***If you can pinpoint when the worsening in performance began, you have a better chance of finding out why, and taking successful action to turn the trend around.***

Signal 3: Performance Is Stable and Not Changing

Performance values will always vary to some extent, and variation does not necessarily mean change. If your performance measure values are varying consistently within the same band or range, and you don't see any values breaking away from this consistent but random pattern over time, the measure is signalling that nothing is changing.

ACTION: ***Sometimes no change in performance is good, when it's already at the target level. But it's not good if you expected or planned to see improvement, such as after you implemented a change initiative.***

Signal 4: Performance Is Improving, But Not Fast Enough to Reach the Target

All improvement in performance is good, when it's planned. But sometimes the improvement is not big enough or fast enough to reach the planned targets. If the targets still matter, and your measure is signalling that the improvement rate won't be fast enough to reach the target in time, you need to intervene.

ACTION: ***Find out what's still holding performance back, despite your previous efforts, and then allocate more resources to continue closing the performance gap.*** Or maybe the target was just for inspiration, and the improvements achieved so far are a win anyway?

Signal 5: Performance Is Improving at A Rate Fast Enough That the Target Will Likely Be Met

This is a good signal! That you measure is indeed tracking confidently toward its target level of performance is a great sign that your strategies and improvement projects aimed at reaching the target are working. But such signals are not a sure sign, because just as extraneous factors can cause a deterioration performance beyond your control, they can also cause an improvement in performance beyond your control too (just take the economy as an example in both cases).

ACTION: ***Don't celebrate too early!*** Check that your actions were the real reason for reaching the target, and if they weren't, be ready to respond if performance starts falling back again.

Signal 6: Performance Has Reached Target

The best signal to get from your performance measures is that the target has been achieved. As with the signal of performance tracking confidently toward its target, this is a great sign that your strategies and improvement projects have worked. Once again, though, such signals are not a sure sign, because of those extraneous factors outside your control.

ACTION: ***Check before you celebrate.***

Signal 7: **Performance Has Exceeded the Target**

Contrary to what you may think, exceeding a target is not better than meeting a target. It is a potential waste of resources and time that could have been better spent closing performance gaps in other important KPIs.

ACTION: ***Can and should resources be diverted to other KPIs that still have unacceptable performance gaps?***

If you would like a copy of a "***Strategic Plan on a Page***" ***-*** that incorporates KPI's - ***please click on the link*** **HERE**.
Additionally, if you want a copy of the article "KPI's and the Logic of Decision Making" please click on the *link* **HERE**.

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