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(PM)² – method

LEARN MORE ABOUT THE BASICS OF KPI MANAGEMENT.

By Yves Van Nuland and Grace Duffy

Some doubt the value of KPIs (key performance indicators) as a tool for business or organization process management. The use of KPIs helps management make correct decisions. However, the way KPIs are used by most organizations is far from perfect. This paper helps evaluate and improve KPI management. This (PM)² method can be applied to any organization, public or private, and contributes to the better management of a country as described by the authors in our SAC-Model. A paper describing the Society and Active Citizenship Model was recently published by the Quality Management Division of ASQ¹.

All excellence models are designed to develop enablers and to achieve results. The SAC-model (Society & Active Citizenship Model²) also illustrates whether a country is well managed. Although working with KPIs seems obvious, it is not always easy to put KPIs in practice. Many people struggle to establish and monitor key performance indicators. Often, government organizations have difficulty finding, defining, and applying the correct indicators.

This paper provides the basics of KPI management. The application of the method described in this paper guides an organization to professionally manage KPIs. This application leads to effective performance management. The authors call this method (PM)² or PM square (Professional Management of Performance Management).

Definition

A Key Performance Indicator or KPI is a measurable value that demonstrates how effectively an organization is achieving the strategic plan. Organizations use KPIs at multiple levels to evaluate their success at reaching their targets. Senior management focuses on the overall performance of the key processes and the achievement of strategic goals. Middle management focuses on its core activities, processes in the departments and services, but also contributes to the achievement of the strategic KPIs of senior management.

Usefulness Of A KPI

When you work with KPIs, the following seven questions must be answered:

1. What is your desired outcome?
2. Why does this outcome matter?
3. How are you going to measure progress?
4. How can you influence the outcome?
5. Who is accountable for the outcome of the organization?
6. How will you know you've achieved the outcome?
7. How often will you review progress toward the outcome?

Example 1: Application Of These 7 Steps

A county council decided to install a system of traffic surveillance cameras. Car drivers who speed receive a ticket. The objective is to increase safety on the roads by reducing speeding. Reducing speed reduces accidents, which reduces casualties and death. A goal is to drastically decrease the number of casualties over 10 years.

From this general long-term objective, the KPI is defined as follows:

1. **Desired outcome:** decrease of the number of casualties and deaths in the county by over 50% in 10 years.
2. **Why does this outcome matter?** Last year there were more than 800 severely injured people and 71 deaths in the county. If we can reduce these numbers by over 50% this will lead to higher well-being for more than 435 persons and their families.
3. **How are you going to measure progress?** KPI 1 is the Total number of tickets per month, KPI 2: Total number of severely injured people/month, and KPI 3: Number of deaths per month. You might also add three sub-KPIs, segmenting results for the urban streets, rural roads, and major highways.
4. **How can you influence the outcome?** Drivers who receive two tickets within six months lose their driver's license for one month.
5. **Who is accountable for the outcome?** The sheriff and his team are accountable for the management of these KPIs.
6. **How will you know you've achieved your outcome?** Comparison between the actual measure and the target.
7. **How often will you review progress towards the outcome?** Percent of current casualties versus baseline on a monthly basis.

Difference Between A KPI And An Indicator

From the above definition of a KPI, it follows that we need to differentiate between an indicator and a key performance indicator. The latter is always linked to long-term goals, aligned with the vision and strategy of the organization. The number of KPIs for an organization should be low; a few KPIs for each leader of the management team and their direct subordinates. At lower hierarchical levels, indicators should be aligned with management KPIs. Also, the teams and team members have only a few indicators each (maximum five each).

Standardization Of A KPI

A KPI is presented in a standardized way. The advantage is that reading, interpreting, and evaluating a KPI can be done quickly, regardless of the subject being treated by the KPI. In addition, there is little chance that the presentation of the KPI will be incomplete. It also avoids misunderstandings and wrong decisions. The monograph KPI Management³ gives the reader much more detail and examples of the use of KPIs and the importance of reliability of data.

An additional advantage of a standardized KPI presentation: you can quickly read and interpret the KPIs and results when the leaders of all AOPS (All Organizations of the Public Sector)⁴ put their KPIs on their organizational website⁵. If each AOPS has its own way of presenting a KPI, the interpretation of the KPIs and results will take longer. A non-standardized approach may obscure important parameters, for example, the alignment of the KPI with the strategic objectives of the organization.

The standardized KPI consists of seven sections. Once all seven sections have been precisely described, the description of a KPI is considered complete. The seven parts are: 1) title, 2) owner, 3) purpose, 4) tree of indicators⁶, 5) technical definition and measurement method, 6) presentation of the results and 7) discussion of the results by the KPI owner.

The KPI starts with the most obvious part: the title. This is short (one to three words). The title does not contain a target description. The title only indicates the subject.

The name (first and last name of the owner + his/her position) is displayed. This is not only an expression of the accountability of the person who feels responsible and behaves accordingly, but it validates that every manager in the organizational chart must have at least one KPI. Omitting the name and function of the KPI leads to poorer management of the KPI. If the KPI is “managed” by an anonymous person, no one feels accountable to take necessary measures when difficulties arise.

The owner of the KPI starts with a clear description of the goal. Always ask “What do I want to achieve with this KPI? What is the outcome when the goal is achieved?” The owner of the KPI also describes the “Why?” How is this aligned with the vision and mission of the organization?

In addition, the owner of this KPI provides a description of the relationship between the realization of the indicator and the following elements:

- How is this KPI aligned with the strategy of its ministry, department, organization?
- How is this KPI aligned with the strategy of the board of directors (for non-profit organizations)?
- How is this KPI directly related to the realization of one or more core tasks of this manager (leader)?
- How does this KPI contribute to a better realization of the objectives of her direct superior?

Explaining what you plan to achieve with a KPI may seem obvious and simple. Daily practice proves differently. Many people don't distinguish between an activity KPI and a results KPI. The latter is a real KPI. When people start to use KPIs, they often start with an activity KPI, i.e., a description of a step-by-step approach. These leading indicators of project or process steps are short term. The driving indicator is the lagging or results KPI. Each of the leading indicators should guide the project or process to the final desired result.

A systematic use of KPIs helps all leaders and team members stay focused on what is important for the organization, i.e., the long-term objectives. Without a systematic use of KPIs, leaders and employees become distracted and achieve fewer results compared to when focus is present.

Results KPIs show the impact or outcome results. This results KPI, monitored month after month, indicates whether you are closer to the set goal.

Each member of the executive committee (board of directors, management team, etc.) of every AOPS places a hyperlink for at least one KPI to a KPI of a higher management layer. In this way, every AOPS contributes through a tree of indicators to the creation and maintenance of sustainable results for the well-being of the country. If a topic is covered by another AOPS, the owner of this KPI will also display a hyperlink to the KPI of the colleague from the other AOPS. In this way you can quickly see how efficiently things are done (little or no overlap, no fragmentation of resources).

In the sixth section, the data are presented in a table and/or graph. This graph shows both the results and the target. If there is no target, we are referring to a statistic and not an indicator.

The monitoring frequency depends on the parameter used; it can be weekly, biweekly, monthly, eventually bimonthly. If the frequency is too low, e.g., every six months or even yearly, this may be a statistic, not a KPI. The aim of a KPI is make progress, to see in daily life a step-by-step progress towards the planned target. You can't wait six months if you check the KPI only bi-annually before you take corrective action. If the frequency of control is low, you have to identify another leading indicator that you can steer monthly and that contributes to the realization of the "bi-annual KPI."

It is valuable to monitor performance of an indicator over a number of years to avoid making wrong decisions. If you look at the price of gold over the last five years you will draw different conclusions depending on whether you look at short, medium, or long-term price fluctuations. The chart of the price of gold⁷ for one month (September 4 – October 4, 2021) indicates that the price of gold is falling. The chart for one year (October 2020- October 2021) shows that there is a large fluctuation in the price of gold. The 5-year chart (2016-2021) leads to the conclusion that the gold price is rather constant at approximately \$1200/ounce for the period 2016-2019 and then it increased to a much higher value, approximately \$1800/ounce for the period 2020-2021.

This example proves that:

- You can draw incorrect conclusions when you consider a series over too small a time period (compare the results and conclusions of the three periods)
- An explanation of the results (the price of gold) is necessary (when do you buy or sell gold and what are the price expectations for gold in the future (depending on the supply and demand of gold and the political situation in the world))
- If these explanations are not provided by the owner, the reader of the charts may draw incorrect conclusions. That is why with a KPI not only results are given (preferably in a graph), but also an interpretation and discussion of the results obtained by the owner of the KPI. It is up to him to describe the actions (decisions) taken for further improvement of the results.

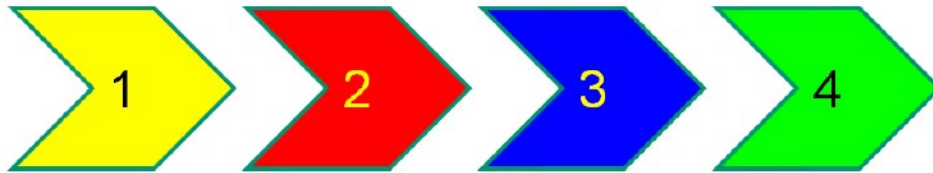
In the seventh section of the KPI, the KPI owner provides a discussion of the results within his team. He also identifies what he will do within the next month to make progress. The leaders of the KPI put their indicators on the AOPS-website (see SAC-Model). Third parties and other website visitors can then provide their feedback to the owner of the KPI.

Those who provide feedback on the KPI (on the AOPS website where the owner of this KPI works) can immediately see whether their feedback has been used. Note: the owner is not obliged to apply the suggestion. The "owner of the KPI" can autonomously decide whether to act on the feedback.

Why would a website visitor give feedback? Many citizens want to be more involved in what concerns or interests them. In this way they are better and correctly informed about a current situation. When all leaders of AOPS update their KPIs monthly, the visitor can consult a reliable source quickly and easily. This is theoretically possible today (there are many databases available), but it takes time to find an answer to a specific question.

Types Of Indicators

A key process can be monitored by four types of indicators: 1) input indicator, 2) process or throughput indicator, 3) output indicator and 4) outcome indicator.



Let us use a metaphor to illustrate this concept. We take the process of cooking.



Every AOPS must classify its KPIs according to their key processes. It is then apparent that members of the management team are accountable for output and outcome KPIs. However, the authors observe that in practice, the leaders of government organizations often only monitor the input and process KPIs, which should be managed at lower hierarchical levels.

References:

1. SAC model: Society & Active Citizenship Model Yves Van Nuland and Grace Duffy, How well is our country managed? ASQ Quality Management Forum, Winter 2021, vol 47 number 4
2. Ibid.
3. <https://www.comatech.be/sac-model/>
4. The focus of the Society and Active Citizenship Model (SAC Model) is management of the whole public sector. There are two categories addressed. One is the general government, agencies who report directly to politicians (e.g., Governor, Minister, Mayor). Examples are governmental organizations like ministries, agencies, departments, regional and local organizations like counties, cities, fire departments, and police stations. The second category includes public service organizations, such as public schools, public universities, not for profit organizations, public private partnerships, and government contractors such as defense and social service suppliers. The latter category consists of organizations that depend on taxpayer funding for at least 50% of their budget through direct payments or grants. When we speak in this article of public sector (AOPS), we always refer to both categories. Public Service Organizations can be classified based on a variety of criteria such as task, ownership structure, legal status, degree of autonomy, financing and budget structure, distribution of financial surpluses, or 'publicness.' When the organization is more than 50% dependent on tax or social services funding, we call it a public sector organization. This paper refers to these entities as "All Organizations of the Public Sector (AOPS)."
5. See SAC model
6. In the SAC model, each KPI is mapped into a tree showing how lower level indicators roll up to align and support the eventual key performance indicator to which it is associated.
7. <https://goldprice.org/gold-price-usa.html>

Opening Image Source: gorodenkoff/Creatas Video+ / Getty Images Plus via Getty Images.



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After his PhD in Chemistry at the University of Leuven (Belgium) (1977), Yves worked at the Belgian FDA (1978). Next, he was laboratory and quality manager at PRB (chemical industry) (1979-1988) and quality manager at UCB Chemicals in Brussels (1989-1994). As a self-employed consultant-trainer, he supports his customers on subjects such as excellence models (EFQM and MBA), Business Process Management, KPIs and company culture. He is coauthor and editor of the book "Excellent, A guide for the implementation of the EFQM Excellence model" and "Validating a Best Practice."



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Grace has over 45 years' experience in successful business and process management in corporate, government, education, and healthcare. Grace uses her experience as president, CEO, and senior manager to help organizations improve. She has authored 15 texts and many articles. She is a frequent speaker and trainer. Grace holds an MBA from Georgia State University. She is a LSS Master Black Belt, ASQ Fellow and Distinguished Service Medalist.



For further detailed information on key performance indicators and the Society and Active Citizenship Model, see the references or visit www.comatech.com.