



PERFORMANCE INDICATORS - How to use them effectively

Performance Indicators are sometimes known as Key Performance Indicators (KPIs). They are measurables that an organisation uses to gauge its performance.

Using Performance Indicators can be a good way to explore the potential for improving efficiency and reducing costs in the various areas of your business. It's worth remembering that departments dealing directly with the product/service being provided, such as manufacturing and delivery operations, are often well monitored whilst other activities are not. Consider every area.

The idea is to find an indicator that provides sufficient information to monitor reliably ongoing levels of process performance but ideally adds nothing to costs.

Remember, you are looking for an indicator that will at least demonstrate an improving or worsening situation; you don't need to know the last decimal place when other less costly information will do the job. Be creative.

SOME EXAMPLES OF EFFECTIVE PERFORMANCE INDICATORS:

Purchasing

- Failure attributed to suppliers, sub-contractors, carriers etc
- High/Excessive/Obsolete stocks
- Cost savings against standard material costs or budgeted costs
- Down time due to material shortages
- Increases in direct labour costs due to defective components
- Costs of bought-out sub-assemblies and sub-contract labour services

Design

- Costs associated with Design/Engineering changes
- Project activity slippage
- Costs incurred due to inadequate design
- Costs incurred due to frequent or unnecessary design changes

Sales

- Time to respond to requests for quotations
- Orders confirmed against target
- Costs attributable to incorrect sales order processing
- Concessions and discounts
- Loss/gain of market share
- Analysis of customer complaints
- Issue of credit notes to customers
- Litigation costs

Personnel & Recruitment

- Number of unfilled vacancies
- Time to fill vacancies
- Staff turnover rates
- Absenteeism

Production

- In-house costs attributable to scrap, re-work, rectification
- Repairs or replacement to products that are defective on delivery
- Warranty and Guarantee costs
- Production Hours Paid vs Actual Hours Sold
- Production down time
- Costs incurred due to reduction in batch sizes
- Additional setting-up costs (for production equipment)
- Additional direct labour costs (overtime, re-work and repairs)
- Product/Service failures
- Turn-around time for repairs/service
- Efficient/Inefficient use of resources

Delivery

- Delivery performance
- Additional transport costs
- Carriage claims against carriers
- Incidence of part deliveries
- Transit damage attributable to inadequate packaging etc

Finance & Accounts

- Incorrect invoices raised
- Debtor days outstanding
- Supplier payment delays (resulting in late material delivery)
- Number and value (£) of Credit Notes issued

GENERAL GUIDANCE

The impact of the indicator can be enhanced by the use of bar charts, pie charts, histograms etc, and indication of trends will help to contribute to potential performance improvement.

- Ensure that factual data is available to support graphical representation of performance indicators to demonstrate credibility.
- Develop Performance Indicators to demonstrate successes as well as failures
- Concentrate on Performance Indicators that can be directly associated with potential performance improvement
- Ensure that criteria used in Performance Indicators can be collected readily and consistently
- Use standard data and costs where practical
- Relate Performance Indicators to business objectives if possible
- Ensure that Performance Indicators are circulated and displayed where they can be most effective
- Use Performance Indicators to set Improvement Targets over realistic periods
- Monitor achievement against targets and review/revise targets where appropriate
- Publicise success as well as failure and acknowledge efforts of individuals and departments where significant improvements are made

Polyfield can help with performance indicators and business improvement. Contact us for more information.

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