

MEASURING FOR A HEALTHY FUTURE

Measuring organisational performance is one of the most difficult problems for management. Because the traditional, mainly financial, measures are based on the past, they are often ineffective in guiding future action. As well, using the wrong performance measures could lead to inappropriate action, so it is vital that the right measures are used.

These measures are called key performance indicators (KPIs), which are often regarded as the health barometers of an organisation. They include traditional financial indicators as well as non-traditional measures such as staff morale, teamwork, capacity utilisation, innovation and customer responsiveness.

A useful analogy is the medical check-up, in which pulse rate, temperature, blood pressure, reflexes, eyesight, hearing, lung and cardiac function and so on are tested for an overall picture of one's health. Just one or two of these key indicators are not enough to accurately assess a person's health, nor is past health a measure of future wellbeing.

Developing effective KPIs

There is no guidebook to developing KPIs - it depends on what suits your organisation at its present stage of development. However, the following points may help:

- If the chairperson or CEO unexpectedly asked you how things are going, how would you respond? What would be the most important aspects of the business you would talk about?
- Is your information management system mostly reporting historical data? These traditional lagging indicators give a clear picture of what has happened, but no clues as to what lies ahead. Try to find leading indicators that help management be proactive rather than reactive.
- Indicators do not need to be definitive or accurate in an accounting sense as they are only intended to highlight key areas for management attention.
- KPIs should be meaningful to the user, and expressed in terms that are easily understood. Operating staff may find financial indicators meaningless, but will respond to indicators of quality, productivity, output, new product development and so on, where they can see how their actions have an impact.
- It is generally easier to find meaningful KPIs at the operating or work-group level of an organisation than at the section, division or department level.

- Because most people like to do a good job and want to know how they are doing, KPIs can be important to the organisation's culture, motivating employees to constantly strive to improve their performance.
- Finally, KPIs are only valuable if they influence actions to improve performance.