

THE NECESSITY OF USING PERFORMANCE INDICATORS

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Strategic planning is more than ensuring the organization will remain financially sound, it is projecting where your organization expects to be in five or more years and the way the organization will get there. Planning does not only focus on developing goals and objectives but also on accomplishing them. And what better way to see that a goal has been accomplished than to measure the performance. Obtaining results does not always equal obtaining performance, that is why there should be established some metrics against which to measure the results and success of an organization.

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1. STRATEGIC PLANNING

Strategic planning is more than ensuring that the organization will remain financially sound, it is projecting where your organization expects to be in five or more years and the way the organization will get there. This planning process benefits from the continual attention to current changes in the organization and its external environment, and how all these affect the future of the organization. It is the process through which we set a desired future end state which will be translated into goals and objectives and then, a series of steps which will be established in order to accomplish the goals.

Sometimes strategic planning could be mistaken for long-term planning; it is true, there are some similarities between the two which stem from the long term thinking needed in both cases but, while strategic planning includes long term planning the reverse is not possible.

Strategic planning covers the entire organization, it sets its direction; when it starts building strategic planning begins with the desired end state and goes backward to the current status. On the other hand, long term planning is a means through which goals and objectives are accomplished; it begins with the current status and lays down a way to meet estimated future needs. In order

to find the way the strategic planner should answer the following question in a backwards method of thinking: “What should be done at the **previous** (lower) stage to reach the end state?” and the long term planner should start from the question: “What must be done to reach the **next** (higher) stage?”

This is a process made of several phases starting with the identification of the position and status of the organization, the mission, the vision for the future, operating values, needs, goals, prioritized actions and strategies, action plans, and monitoring plans. Still, when planning, we should not forget that the focus is not only to develop goals but also to accomplish them. And what better way to see that a goal has been accomplished than to measure the performance.

The definition of performance given by the business dictionary says that it represents an: *„accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed”* [1]. In other words it is about doing the work as well as about the results achieved and the impact they have. Brumbach gave another definition: *“Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to*

action.” [2] This definition leads to the conclusion that when analyzing and managing performance both inputs (behaviours) and outputs (results) need to be taken into consideration. Still, there is something missing from the definition, results as outputs are not the same with results as outcomes. Obtaining results does not always equal obtaining performance, that is why there should be established some metrics against which to measure the results and the success of an organization.

2. PERFORMANCE INDICATORS

Performance indicators are (should be) a key component of any basic planning. Any strategic planning process develops around the organization’s vision, mission, values. The vision draws the picture of the desired future and indicates the purpose of the organization; the vision talks about the status the organization wants to attain. The mission derives from the vision but it is more concrete. It presents the activity of the organization, in other words the vision says *why* the organization exists and the mission statement explains *what* the organization does in order to pursue its vision. The values are the principles which guide

the organization on its way to accomplish the mission, they help individuals make decisions and take action in accordance with the vision.

The goal(s) are the means through which the vision can be reached and strategies will be developed in order to make the activities more efficient and effective. When setting goals it is critical to make them S.M.A.R.T. (E.R.) (specific, measurable, attainable, realistic, timely – exciting and recorded).

At a first view it may look very simple, we start from the mission, we set the goals and then break them down into smaller pieces (objectives) and we establish some performance indicators to help us measure the progress made towards the goals. But, setting incorrect, incomplete performance indicators will mislead the organization from the right track towards success.

Performance indicators should help the organization align the activity to the strategic objectives. The key to selecting measures and indicators is asking thoughtful questions about the way we can measure the important accomplishments. For example: “Does this measure reflect an performance dimension for the entire organization?”, “Is the data on this measure leading to performance?”, “Will the measure be sustainable for a longer period of years?” The KPIs

will help you make decisions, guide you to where you need to collect data and will give an indication of what improvement(s) have (not) been made and how the data should be used.



Fig. no. 1 Planning elements

The organizations need to know whether they are on the right track or not, whether the goals and objectives are being achieved, they need to know if the strategies are implemented effectively and if they are the right strategies. In order to answer all these questions we need information about performance which may come in the form of quantitative or qualitative data. Much of the information gathered by the organizations brings quantitative information e.g. the number of clients/students attending a seminar, the number of mails/phone calls made etc. But this is not performance information and it is not enough to look only at numbers when assessing performance.

Performance indicators should measure the performance of an activity and not just the level of workload. It is true, that hard work is the way to achieve performance but working long hours does not necessarily lead to success since quite often outcomes and activities are not so directly related. So, if we measure only the time spent at work or the amount of papers written we might get the wrong image about the performance of the organization.

“Performance refers to output results and their outcomes obtained from processes, products, and services that permit evaluation and comparison relative to goals, standards, past results, and other organisations. Performance can be expressed in non-financial and financial terms.” [3]

Furthermore, when setting performance indicators we should ask ourselves the following questions: “How reliable are the indicators we chose?” and “How valid are the indicators?” Reliability means getting the same result if we measure the same thing twice which is almost impossible because there is always error in measurement; so we should find an indicator which does not allow for too much error. Validity reflects the connection between what is measured and the objectives which

must be reached. When want to check the validity of the indicator we should ask ourselves: “Are we measuring the right thing?”

Performance indicators should be established only after an in depth analysis of what the organization wants to obtain through its activity. If the indicators are incorrectly formulated we will get the wrong answers, i.e. finding out how many items are produced does not tell anything about the quality of the product.

When starting to use performance indicators it should not be done only as the basis for rewards because people/employees will start to fudge the figures just to get the rewards or to avoid punishment. Instead they should be used to improve the mistakes, to correct or to speed up the way things are done.

3. TYPES OF PERFORMANCE MEASUREMENTS

David Parmenter in his book “*Key Performance Indicators: Developing, Implementing and Using Winning KPIs*” says that there are four types of performance measurements:

- Key Result Indicators which speak about what we have done from a perspective or critical success factor

- Result Indicators which tell what we have done
- Performance Indicators which tell us what to do
- Key Performance Indicators which tell us what to do in order to increase performance very much [4]

Sometimes they can be used in inappropriate combinations. (**Figure no. 2** [5] describes the relations these measures form.)

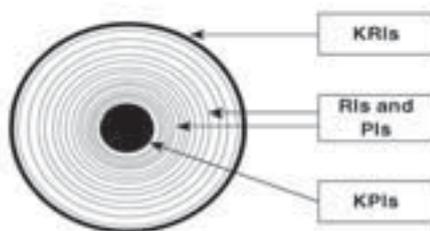


Fig. no. 2 Types of performance measurements

Key result indicators (KRI) are most of the time mistaken for key performance indicators. They can tell us whether or not the activity has an output (result) but they do not tell anything about the value, the usefulness of the output, in other words if the output is an outcome. The key result indicators tell us whether we are travelling

in the right direction but they do not tell what is needed to be done in order to improve the results and they look over a longer period of time like months or quarters as opposed to result indicators (RI) which look at a shorter time span (a day, a week); KRIs bring complementary information to that of the KPIs. The result indicators (RI) summarize the activity and all financial facts and they look at the increase in value the results bring to the organization. Value in this context does not refer to money but to the status/position of the organization and to the satisfaction the stakeholders get from the activity of the organization. KPIs are measures that focus on the aspects of the organizational performance that are of high importance for the success of the organization.

To conclude, it can be said that KPIs are important not only for measuring performance but also for driving the business and, at the same time, for establishing where we are in comparison with the targets.

Every organization should create and use KPIs, as they show what has been successful and also which are the problems and the

ways in which organizations can fix them. This way companies can proactively plan and manage their future activity. Another benefit of using PIs is that employees can readily understand what needs to be done and which are the standards they should meet.

At the same time performance indicators can provide information on what strategies bring success for the long-run. To be most useful, performance indicators must be simple and timely and used to control other factors than the program's effectiveness.

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