CHALLENGES
WHEN DEVELOPING PERFORMANCE INDICATORS

Brindusa Maria POPA

Regional Department of Defense Resources Management Studies,
Brasov, Romania

Developing key performance indicators (KPIs) represents one step closer to the achievement of objectives and strategic vision of the organization. They are important elements of the pathway towards performance, they evaluate and indicate the level of progress, guide the organizational strategy, they can be considered even the qualitative or quantitative expression of the execution of the strategy. Building reliable and appropiate measurement systems is one of the most difficult stage in the performance evaluation process. Such systems of management will help the executives and the management teams identify and build upon the elements that create competitive advantage and opportunities for better results.

Key words: *KPI, KPQ, measurements, culture, strategies, goals, objectives.*

1. ORGANIZATIONAL STRATEGY AND PERFORMANCE

Nowadays, the trend in societies and in economies is a constant growth in complexity and volatility. Organizations, as part of the social and economic environment, are influenced by these phenomena thus, establishing accountability and strategy has became a crucial, but very sensitive matter for managers. With the purpose to respond as accurateley as possible to all these changes, measurement systems have been developed in order to evaluate organizational performance.

Developing reliable and appropiate measurement systems is one of the most difficult stage in the evaluation process. Such systems of management will help the management teams identify and build upon the elements that create competitive advantage and opportunities for better results.

One of the buzz terms of the decade is KPI (Key Performance Indicator). Everyone agrees on the importance of KPIs since they are closely linked to the accomplishment of objectives and of the organizational strategic vision. They are important elements of the pathway towards successful achievent of objectives, they evaluate and indicate the level of progress, guide the organizational strategy, they can be considered even the qualitative or quantitative expression of the execution of the strategy.

According to Dennis Mortensen *"A KPI: 1) Echoes organisational goals, 2) is decided by management, 3) provides context, 4) creates meaning on all levels of the organization, 5) is based on legitimate data, 6) is easy to understand and 7) leads to action."* [1] Despite their important role, we should be very careful when establishing and using KPIs. One of the most frequent problems arises from the overusage of such indicators, meaning that, not everything should be measured. According to specialized literature (some say Peter Druker, others say Edward Deming), „what gets measured, gets done". This is true, but should everything be measured? We should measure only what helps us make better informed decisions in order to diminish uncertainty and to clarify the direction to be taken. We should measure only the things that can tell what is most important in and for the organization. Therefore, establishing the right indicators is not simple. A KPI is a metric, but a metric is not always a KPI. However, if the metric can be used as source for recommendations that could impact positively present or future ways of action, it can be a KPI.

2. KPQs AND THE DESIGNING OF KPIs

Organizations should not only try to capitalize on their strengths, but they should also attempt to discover their weaknesses and try to minimize them. Finding out what the organization cannot do or what it is not good at is not proof of ignorance, it is actually a step towards improving the activity.

The simplest way to design a KPI is by asking a question, a question that will elicit an answer about what is needed to be known, about the data that is necessary to be collected in order to assess progress. Such questions are called Key Performance Questions (KPQs).

KPIs should always be correlated with KPQs in order to show more clearly why the data collected is relevant. Collecting data just because it is interesting to know and not making use of it in the decision taking process is just a waste of time and resources. KPQs must be derived from the organizational strategy, each strategic objective can be the source of one or more KPQs. For example, if the objective of your organization is to increase profit, the number of people accessing the company's website is just a metric, unless it impacts or can be correlated with the revenue.

KPQs guide us towards what we need to know, data collected randomly, generally, is not useful information. KPQs should not be generic, standard questions from already existing questionnaires, they should always be tailored to the specific domain and the stage of activity. One of the most difficult questions is what could be be measured in the organization in order to show what progress has been made.

When deciding upon one KPI we should start by considering the main (final) objective(s) to be attained, then breaking it into sub-objectives and only then trying to develop the KPI. Unfortunatelly, the ICE approch (described below) appears far too often when developing KPIs [2]:

1. Identifying the elements which are easily measurable;

2. Collecting data about easy to count elements;

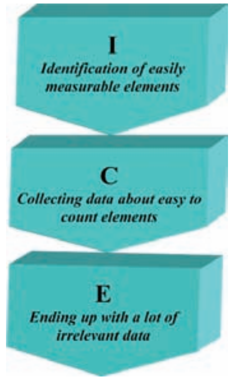

Figure 1. The ICE approach

3. Ending up with a lot of irrelevant data.

Consequently, the information provided by the KPIs is wrong or in the best case, partially relevant.

KPIs should not be developped in excess, not every activity needs measuring since not every measurement brings useful information on the progress made.

There should be four main reasons for developing KPIs:

- to check if the ways of action adopted are in acoordance with the objectives;
- to gather the information necessary to improve the activity;
- to control and monitor the activities and the people performing them;
- to provide support for the reports going to external stakeholders (external reporting indicators).

3. ORGANIZATIONAL CULTURE AND PERFORMANCE

Organizational culture is mostly invisible to the employees even though it affects all employee behaviors, thinking, acting thus, the results obtained by the organization.

The cultural specific of the organization influences performance and effectiveness almost as much as strategy does. Culture fosters some of the success factors of an organization:

- the way value is assessed and appreciated within the organization;
- the way people are perceived by the organization and the present and future opportunities the employees recognize and have within the organization;

- what actions the employees shall take in order to carry out their tasks and accomplish the objectives.

The shared values within the organization, may increase performance. Researchers proved that there is a connection between organizational culture and performance, with respect to success indicators such as revenues, sales volume, market share, and stock prices [3]. More than that, it is important that the culture match the requirements of the environment so that the shared values are appropiate for the organization in question and performance may benefit from culture [4].

For instance, if the organization belongs to the high-tech field, having a culture that stimulates innovation and adaptability will enhance its performance. Nevertheless, if a company in the same industry has a culture characterized by stability, conformity, tradition its evolution towards performance might be slowed down. Consequently, having the “proper” culture could become a competitive advantage for an organization whereas having the “improper” culture may generate performance difficulties to the extent of organizational failure. Also, an improper culture may act as a change barrier preventing the organization from taking risks.

Developing ways of measuring the impact culture has upon the accomplishment of objectives will provide good indication on the effectiveness of the organization.

Most of the time, executives focus mostly on financial and operational ratios and statistics. They consider that employees work just for financial benefits and the idea of having a work place. “Realistic, down to Earth managers” are those who make money, focus on objective data and “soft” stuff like organizational culture is not important.

Kandula [5] states that a strong culture fosters performance and every specific trait will influence the way strategies are put into practice. In consequence, the same strategy will produce different results for two organizations functioning in the same domain and the same geographical region. Strong cultures will always influence positively the activity whereas, in weak cultures employees are prone to underperformance. Magee [6] claims that the impact of organizational culture upon organizational practices and performance (or underperformance) is the natural result of this interaction. The two are so closely related that any change in one is mirrored by the other.

Organizational culture may be a useful predictor of performance, traits like participatory management, creativity, empowerment, consistency, voluntarism, adaptability they all influence the development of indicators.

Denison’s organizational culture model is based on four cultural traits involvement, consistency, adaptability, and mission that have been shown in the literature to have an influence on organizational performance [7].

The four traits of organizational culture in Denison’s framework [8] are as follows:

Involvement: Organizations which empower their people, develop human capability, independent thinking and initiative. Managers, and employees see the organization as more that a source of income, they are committed to it. They think that their input in the decision making process will influence the future course of action and the achievement of objectives.

Consistency: Strong cultures that are highly consistent, well structured. Strong core values are at the base of consistent and productive behaviours. Consistency creates a stable environment with well integrated employees whose activity perseveres towards reaching their objectives.

Adaptability: Well integrated organizations are often quite rigid and reluctant to change. Internal integration and external adaptation are in contradiction. Adaptability involves accepting change and the risks embeded in this with a view to improve the organizational system in order to satisfy their custemers and provide value for them.

Mission: Success in organizations is given by a clear sense of purpose and direction arising from the organizational goals and strategic objectives. A clear vision of how the organization will look in the future guides the present activity. When an organization’s underlying mission changes, changes also occur in other aspects of the organization’s culture.

4. CONCLUSIONS

Performance indicators can provide information on what strategies bring success for the long-run. To be most useful, performance indicators must objective, uniform and rigorous picture of reality.

KPIs are important not only for performance measurement, but also for mapping organizational development. Best practice organizations clearly understand what is needed for their development. They separate external reporting indicators if they are not relevant for the measures that must be adopted internally, in order to avoid confusion and data overload. They create the proper culture for driving high performance.

At the same time, performance indicators offer information on what stimulates success for the long-run. Useful, performance indicators are simple, timely, specific guiding us towards what we need to know not just data collected randomly.

As a conclusion, we can say that the relationship between organizational culture and performance management is very close. Measuring for discovering and improving is the most natural form of using KPIs, with a view to provide the managers and the employees with the information necessary for taking decisions. In this context, KPIs are used inside the organization as support for managerial decisions and for learning and development.

REFERENCES

[1]http://www.slideshare.net/dennis.mortensen/the-difference-between-a-kpi-and-a-metric.

[2]http://www.ap-institute.com/Key%20Performance%20Indicators.html.

[3] Kotter, J. P., & Heskett, J. L. (1992). Corporate Culture and Performance. New York: Free Press; Marcoulides, G. A., & Heck, R. H. (1993, May). Organizational culture and performance: Proposing and testing a model. Organizational Science, 4, 209–225.

[4] Arogyaswamy, B., & Byles, C. H. (1987). Organizational culture: Internal and external fits. Journal of Management, 13, 647–658.

[5] Kandula, S. R. (2006), Performance Management. New Delhi: Prentice Hall of India private limited.

[6] Magee, K. C. (2002), The impact of organizational culture on the implementation of performance management (Doctoral dissertation). Available from Dissertations and Theses database (UMI No. 3047909).

[7] Denison, D. R. (2000), Organizational culture: Can it be a key lever for driving organizational change. In S. Cartwright & C. Cooper (Eds.), The handbook of organizational culture. London: John Wiley & Sons.

[8] Denison, D. R., & Mishra, A. K. (1995), Toward a theory of organizational culture and effectiveness. Organization Science, 6(2), 204–223.