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Management with KPIs: Eliminating Underestimated Potential

7 Tips to Improve Your Key Performance Indicators

Today, companies face few technical limitations when it comes to collecting data and facts. In fact, technology's march into almost every realm of business has unleashed a flood of data for preparing reports and analyses assessing your company's structure. The problem doesn't stem from a lack of usable figures. Instead, the challenge is boiling this sea of information down to what is actually relevant.

Key performance indicators (KPIs) help show a company where it has achieved success in relation to the effort expended. KPIs aren't just about revenues and expenditures. They are primarily about assessing a company's overall performance and the efficiency of the methods it uses. By closely analyzing their KPIs, many companies have been able to identify weak spots in their organization's value chain, optimize workflows and automate processes.

This Expert Paper provides tips on how to improve your KPIs and prevent the most common pitfalls. We hope the information will help you re-evaluate how to maximize your company's KPIs to ensure a forward-looking approach that provides a targeted strategy and maximum value.

58%
of KPIs systems are too inconsistent*

1. Use KPIs to Evaluate Your Past, Present and Future

It is baffling that, to this day, KPIs are seldom used for strategic decision-making and almost exclusively for retroactively assessing the performance of previous plans. Of course, the past has much to teach us, which can improve future planning. But this way of operating is ultimately retroactive and does not help us proactively prepare for future problems.

In order to use company KPIs to prepare for the future, you need to identify the value drivers in your business model and assess their various factors in terms of strategic relevance.

2. Question Your KPIs Often in Terms of Their Strategic Value

Most managers and controllers are unhappy with how their company handles its reporting. Typically this is not because of the availability, quality or depth of reports, but because the reports lack a clear, underlying operating logic. At many companies, KPIs were put together rather arbitrarily over the course of the company's history and never re-examined in terms of their actual strategic value. Often, the result is a company that looks at the wrong figures, and this can have disastrous results for the company's overall strategy. As the past shows us, not even the biggest market leaders are protected from missing out on trends in customer behavior or from being surpassed by other companies with far-reaching ideas. For really great reporting, KPIs must reflect the company's strategy and business model. In other words, they must map out the company's DNA.

3. Include External Factors

The key here is to include external KPIs. In today's saturated and competitive market environment, external factors such as market conditions, competitors' situations and overall economic trends must be incorporated into strategic planning. KPIs cannot look solely at generated income and are too valuable to serve only as a basis for statistics on past successes.

4. Prevent Picking KPIs at Random

Resist the temptation to pull as many figures as possible from the mountains of usable information and then define them as KPIs. Remember that when defining your KPIs, it is the usefulness of information that is important, not the amount of analyzable information. A general rule of thumb is that whatever fits on a sheet of printer paper should be enough. Ideally, your company shouldn't have more than 8-12 relevant KPIs serving as the foundation for your decision-making process.

5. Different Target Groups Have Different Needs

When evaluating KPIs, a series of user aspects must be taken into consideration to make better decisions. Senior management monitors the performance of departments across all company divisions and uses KPIs primarily to improve company strategy; middle management analyses and measures primarily regional targets; and analysts use current and historic data to create plan scenarios for management.

Each of these different orientations requires a different data perspective.

6. Effort and Reward Must Be Properly Balanced

Not even one-third of all companies have a KPI system suited for their needs. Often, many reports must be filed, manually extracted and processed to get an overall view of the company's situation. If various, non-standardized information from numerous systems is compiled, data quality and reliability suffer enormously. Ultimately, you end up working with outdated data, and the resources expended are not worth the insights gained from such reports.

7. Use Modern Business Intelligence Solutions

You need the right tools to automatically glean what's most important from the mountains of data and determine the optimal KPIs. In order to master the challenge of sifting through so much operating data, many companies have turned to Business Intelligence (BI) solutions in recent years. This is even truer if their data comes from various sources and needs to be compiled. BI solutions help you create reports that are always up-to-date and granular enough to meet the needs of your department, whether as tables, charts, dashboards or simple traffic lights.

Summary

A KPI system customized to your company's business model offers many strategic management advantages. Reducing reporting to truly relevant information makes it easier to analyze your company's situation and recognize the steps you need to take. The dependencies and interactions of individual factors can be shown in a clearer and more transparent manner, increasing the quality of decision-making. Furthermore, by simulating plan and forecast scenarios, you can better assess future risks and recognize developments earlier. This will make your reporting more transparent and meaningful, while making your planning more future-oriented and proactive.

32%

think the use of resources on reporting is too high*

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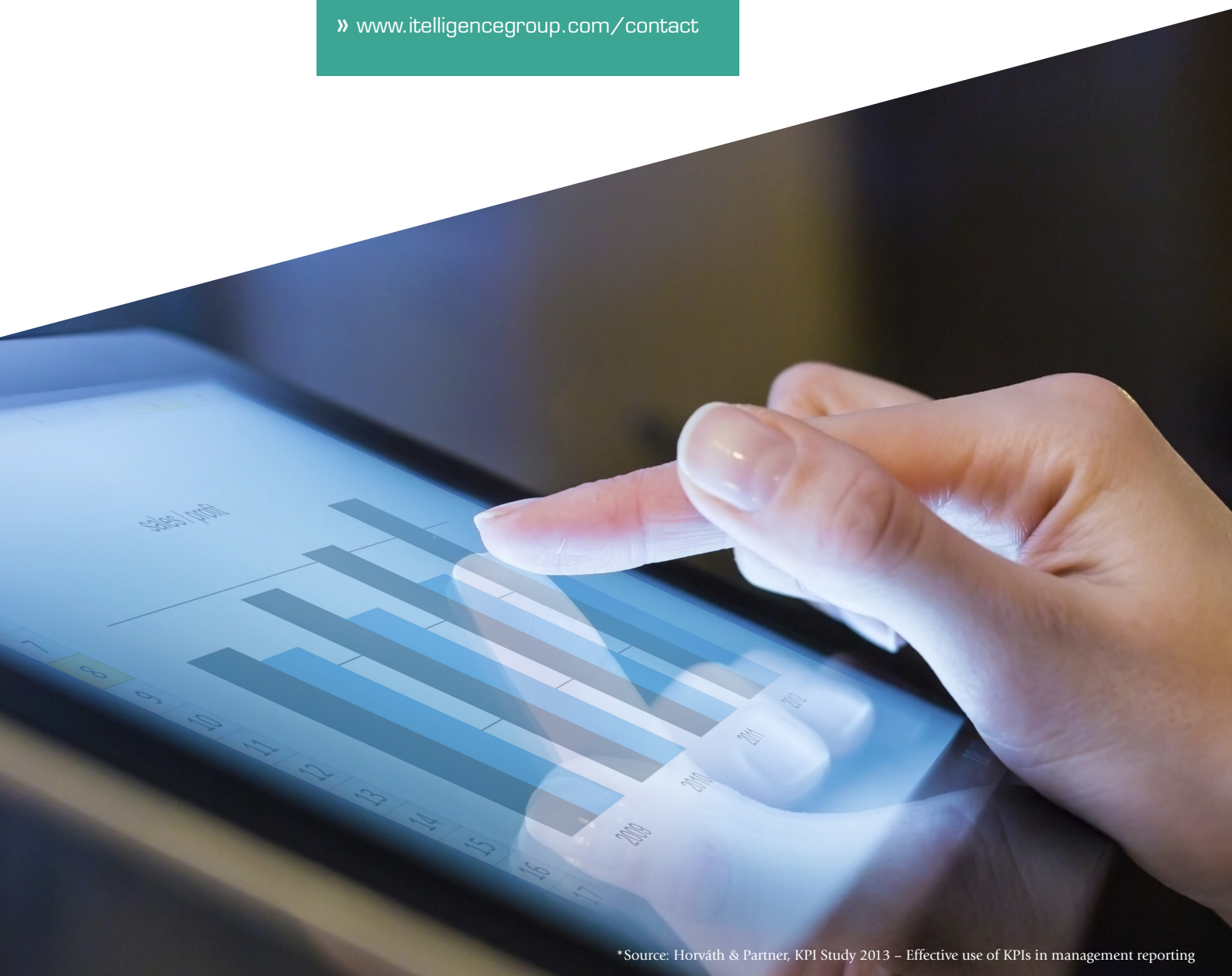

*Source: Horváth & Partner, KPI Study 2013 – Effective use of KPIs in management reporting