Defining The Corporate Metrics

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ABSTRACT

To define an effective and powerful corporate metrics is an ongoing endeavour to measure what really matters that follows the strategy. The corporate strategy defined by the top level management should be cascaded into organization units and positions. In attempt to define the right metrics, many companies has been trapped into measuring many corporate KPIs and degrade the essence of corporate metrics.

The aim of this paper is to give some insights regarding the our endeavour to define the corporate metrics that really works.

The proposed practical guide of KPI definition is developed in order to contribute to performance measurement research, Companies can adjust and make interpretation freely on the frameworks depend on their unique condition.

Keyword *: Metrics , Key Performance Indicator, Performance Management*

1. INTRODUCTION

Companies have goals to achieve to satisfy the internal and external stakeholders in terms of financial and non-financial perspectives. In performance management perspective, goals define the result that the employee should pursue.

The performance is a result of a process that involves many different components of activity, not only as a result that occurs at a certain point at a certain time. Companies should define goals and set the target with top-down approach and align the goals with company wide strategy.

Some frameworks has been developed to give “standard” in defining the company performance. NSAA (National State Auditors Associations) has given definition of type of measurement based on its characteristic. Many approach have different point of view and basic philosophy.

Problem arise when the companies try to apply the performance indicators as management tools to monitor and evaluate the business. Sometimes, they are trapped to select metrics that actually a routine task and performance index that makes everybody happy since it needs too much effort to achieve.

Other challenge occurs when an individual KPI is different with unit KPI. The unit KPI should be the result of the organization unit as a team while individual KPI is simply a personal performance. The conflict arise when a personnel has put interest only in his or her KPI rather than achieving the unit’s target. The personnel will refer to his/her job description and performing the job. The job description tells about the list of task and responsibility and to whom the employee will report to. It does not tell about the goals of the task.

Usually, the performance appraisal system refers to individual achievement and the benefit system follows the rule.

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does not tell about the goals of the task.

2. LITERATURE STUDY

Below are the characteristics of effective goals :

1. Recognized as important
2. Clear
3. Written in specific terms
4. Measurable and framed in time
5. Alligned with organization strategy
6. Achievable but challaging
7. Supported by appropriate rewards

The goal setting should be a top-down approach that began with the company strategy and cascaded until the person target. The strength of cascading goals should rely on how it aligns with company strategy. It means achieving the company goals properly will lead to the success of company strategy.

GARTNER/EBRC has developed industry standard measurement measures that are predictive of corporate performance.

Under the approach there are 3 (three) business domains:

1. **Demand Management** All the actionable activities involved with generating demand for the products and services offered by the organization.
2. **Supply Management** All the actionable activities directly involved with satisfying demand for the products and services offered by the organization.
3. **Support Services** All other actionable activities involved with supporting the organization. These services operate within organizations by providing services to internal clients. They operate on business principles and provide internal services at a cost and quality that is acceptable to its clients, when assessed against alternatives.

Below table provides the standard definitions and calculation formulas for the standard KPIs.

Table 1 : Standar KPI

Standard Key Performance Indicators for All Industries (common)					
Business Domain	**Aggregates**	**Prime Metrics**			
Demand Management	Market Responsiveness	Target Market Index	Market Coverage Index	Market Share Index	Opportunity/ Threat Index
		Product Portfolio Index	Channel Profitability Index	Configure-ability Index	
	Sales Effectiveness	Sales Opportunity Index	Sales Cycle Index	Sales Close Index	Sales Price Index
		Cost of Sales Index	Forecast Accuracy	Customer Retention Index	
	Product Development Effectiveness	New Products Index	Feature Function Index	Time to Market Index	R&D Success Index
Supply	Customer	On-Time	Order Fill	Material	Service

Management	Responsiveness	Delivery	Rate	Quality	Accuracy
		Service Performance	Customer Care Performance	Agreement Effectiveness	Transformation Ratio
	Supplier Effectiveness	Supplier On-Time Delivery	Supplier Order Fill Rate	Supplier Material Quality	Supplier Service Accuracy
		Supplier Service Performance	Supplier Care Performance	Supplier Agreement Effectiveness	Supplier Transformation Ratio
	Operational Efficiency	Cash to Cash Cycle Time	Conversion Cost	Asset Utilization	Sigma Value
Support Services	Human Resources Responsiveness	Recruitment Effectiveness Index	Benefits Administration Index	Skills Inventory Index	Employee Training Index
		HR Advisory Index	HR Total Cost Index		
	Information Technology Responsiveness	Systems Performance	IT Support Performance	Partnership Ratio	Service Level Effectiveness
		New Projects Index	IT Total Cost Index		
	Finance & Regulatory Responsiveness	Compliance Index	Accuracy Index	Advisory Index	Cost of Service Index

In the Supply Chain Management area – which include demand side and supply side, Whelwright and Bowen defined the performance of SCM as cost, quality, delivery and flexibility. The research of Shin et.eal proposed that the measure of provider performance consists of delivery, quality and cost – in accordance to buyer performance indicators i.e. delivery, cost and delivery (Bachtiar, 2014)

The formulation of strategy was constructed and designed using the Balance Scorecard methodology with four perspectives that we adjust in order to align to environment i.e. Service Perspective, Customer Perspective, Business Process and Growth and Learning Perspective. Each perspective includes several Strategic Objective that consists of one or more Key Performance Indicator (KPI).

Sometimes the companies confuse to assign the metrics to proper unit level. The normative metrics sometimes misplaced to inproper level. The high level management often take responsibility for activity metrics or operational indicators. On contrary, the small unit take huge responsibility for market index which is inproper (depend on company size).

Continual measuring is a base for continual improvements of organization performances that is one of the most important management principle (Besic & Djordjevic, 2007)Good performance measurement uses metrics with a real and valid link to the program's effects, and that measure what they intend to measure (McDavid & Hawthorn, 2006).

The performance is a result of a process that involves many different components of activity, not only as a result that occurs at a certain point at a certain time.(Bachtiar,2014) Performance measurement is a process by which an organization monitors important aspects of its programs, systems, and care processes. Data is collected to reflect how its processes are working, and that information is used to drive an organization's decisions over time. Typically, performance is measured and compared to organizational goals and objectives. Results of performance measurement provide information on how an organization's current programs are working and how its resources can be allocated to optimize the programs' efficiencies and effectiveness. (US Department of Health and Human Services, 2012)

KPIs are by no means a new phenomenon. The private sector has long embraced them as an important management tool to track and explain progress toward corporate or organizational goals (Developing Key Performance Indicator , a toolkit for health sector managers, USAID, Steve Rozner, the Health and Governance Project, 2013)

The performance dashboard are the visual representation that show the target achievement and provide performance data. This data can utilized by managers or decision makers to make decisions about budgeting, cutting or expanding programs, staffing requirements, etc (Poister, 2003)

According to Eckerson (2005), the company needs performance dashboard that translates the organization's strategy into objectives, metrics, initiatives, and tasks customized to each group and individual in the organization. Eckerson states that performance dashboard is a performance management system which communicates strategic objectives and enables business people to measure, monitor, and manage the key activities and processes needed to achieve their goals.i.e.

1. Monitor critical business processes and activities using metrics of business performance that trigger alerts when potential problems arise.
2. Analyze the root cause of problems by exploring relevant and timely information from multiple perspectives and at various levels of detail.
3. Manage people and processes to improve decisions, optimize performance, and steer the organization in the right direction.

Based on NSAA (National State Auditors Associations) Best Practised in Performance Measurement) the types of indicators as below:

1. Input measures show the amount of resources, either financial or otherwise, used for a specific service or program. Input measures include labor, materials, equipment, and supplies. Demand for governmental services may also be considered an input indicator.
2. Output measures show units produced or services provided by a service or program. Output measures include the amount of products or services provided, the number of customers served, and the level of activity to provide services.
3. Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved.
4. Efficiency measures reflect the cost per unit of output or outcome.
5. Explanatory information can explain the environment and other factors that might affect an organization's performance. This information may give a more complete understanding of the reported measures and identify variables that affect performance.
6. A quality indicator shows the effectiveness in meeting the expectations of customers, stakeholders, and other groups. Quality indicators show the quality of the services delivered.

3. PROBLEM DEFINITION

The companies has challenged when defining the performance metrics that really matters to the organization following the mainstream framework. It falls to the normative metrics that tend to satisfy the dashboard readers otherwise often fail to keep the companies in track to pursue the strategic goals.

4. RESULT AND DISCUSSION

A bunch of framework has been referred and applied by companies to define the performance indicators (PI). For example Balance Scorecard strategy map has been utilized to define the Strategic Objectives (SO) and the PI and KPI within each SO.

While Balance Scorecard gives broad framework to interpret, the companies has its unique framework that derives from owners business philosophy and cascade the PI

While GARTNER/EBRC provides framework for KPI across industries, the KPI applies for organization units in high level. The framework simply divides the area into 3 (three) areas i.e. Supply Management , Demand Management and Support Management. Most of the KPI in proposed are the index and they can be interpreted and adjusted to fit the company requirement.

According to the author, the index is high level metrics that can included more criterias in it. For organization units in lower level (department, units) the index should be transformed into more operational KPI.

In cascading the KPI to the lower level , below possibility can occur :

1. KPI is similar to the above
2. KPI is transformed to other KPI (more operational)

Based on the author's several works in defining the KPI, every company has different approach to define what is really matters to them.

Table 2 : Proposed KPI Framework

Level	Organization Unit	PIC	CategoryKPI	Common Types of Measures *
0	Holding / Corporate		Strategic	Explanatory / Outcome
1	Directorate	Directors	Strategic	Explanatory/Outcome /Quality
2	Division/Dept	Dept Head	Operational/Activity	Efficiency/Output/Outcome /Quality
3	Below Dept	Sect. Head	Activity	Input / Output /Quality

Note : *) May include but not limited to

In holding/corporate level, the performance is categorized into strategic KPI and usually is measured by index .The type of measurement is explanatory or outcome / explanatory as it provides end result or explain the condition that affect the company. The outcome is beyond the output since outcome deal with the next impact resulted from output. The example of this KPI is : ROI (Return of Investment) , Sustainability Index , Brand Index.

In directorate level, the PIC will be directors that has responsibility to strategic KPI. The directors also have explanatory/Outcome and in addition the quality aspect of performance. The example of this KPI is : Market Coverage Index , Brand Index , Market Penetration

The Division and Department Unit deals with operating issues and therefore the performance is measured in term of quality, output , outcome and efficiency. Depend on the organization size , the utilization of outcome measurement is optional. Small organization will tend to apply output instead of outcome in this level. The example of this KPI is : Maintenance Completion , Cost Reduction (%) , Project Completion , Number of new vendor.

For organization units below Dept. Level (Section , unit), they are responsible for daily tasks and activities. Therefore the performance measurement type might include : input , output and quality. Example : Average Output per day , % Reject Rate

In relation the Strategy Map, the author believe that the strategic achievement of companies in the long run is rooted from the execution of strategic programs or breakthrough. In practical point of view, the completion of strategic programs (projects) can be defined as a kind of corporate KPI – which the directors should take responsible on. The completion of strategic program/project should be treated differently with other performance index in internal process perspective – where they usually put in. The strategic program has strategic impact to the company.

The strategic program is a breakthrough program or action plan that differ from the daily opration. The exponential growth of the company will depend merely of the success of strategic program. Since it is a strategic program, sometimes significant budget are injected into the programs.

For documentation purposes, the author proposed dictionary template to fill in with information regarding the KPI. The dictionary will be useful as sources to see detail and keep track of changes of KPI. The dictionary might include :

- KPI Record Number
- Person in Charge
- Strategic Objective
- Name of KPI
- Definition
- Calculation Formula
- Unit measurement
- Measurement Rule
- Polarization (max/min)
- Period of Data Collection and Review
- Source of Data
- Required Capability
- Weight
- Target
- Reference

5. CONCLUSION

From the findings and literature review, we can conclude below

1. The performance indicator in corporate wide level is proposed to be index that indicating outcome and cover the strategic goals of company. The index might include several criteria or metrics.
2. Gardner/ERBC provides general framework for defining the KPI and simply divide the value chains of companies into Demand Side, Supply Side and Support. The framework is quite flexible enough to cover various business model.
3. Companies can adjust and make interpretation freely on

the frameworks depend on their unique condition.

4. The number of KPI is proposed to be very limited – up to 3 (three) in order to keep the focus on a few target instead of many targets.
5. It is recommended to apply the strategic program completion as part of executives KPI.

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