

STATE OF PERFORMANCE IMPROVEMENT AND KEY PERFORMANCE INDICATOR PRACTICE REPORT 2016

PREVIEW



INTRODUCTION

State of Performance Improvement and Key Performance Indicator Practice Report highlights findings from The KPI Institute's ongoing efforts of identifying the issues, trends and best practices impacting the field of Key Performance Indicators and performance improvement. As a research based organization specialized in business performance, we are interested in the way companies use Performance Management Systems, in the challenges they face, as well as, their latest practices in improving performance. The research study provides insight into the performance management practices of today, practices ranging from KPI selection to data analysis and reporting, from decision making and initiatives management, to the overall impact of performance improvement systems in organizations.

RESEARCH METHODOLOGY

The survey was conducted at international level, and it involved the members of the KPI Institute Community, which currently exceeds 78,000 professionals.

- ▶ Respondents: 300;
- ▶ Survey items: 26 topic related items + 9 demographics;
- ▶ Survey type: quantitative (administered online);
- ▶ Scaling type: LIKERT Scale measuring either positive or negative response for each statement;
- ▶ Data processing: 300 validated responses out of 300;
- ▶ Data collection: October - November 2016.

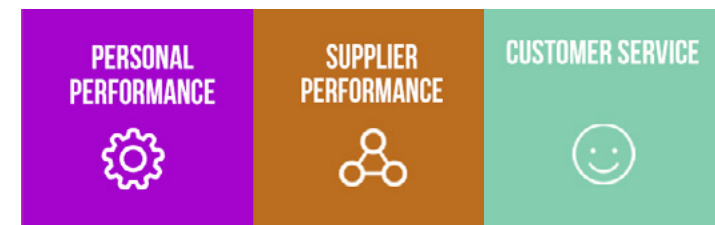
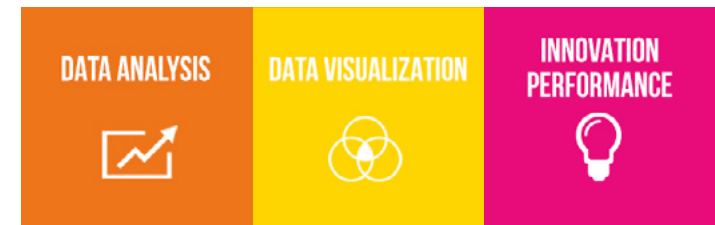
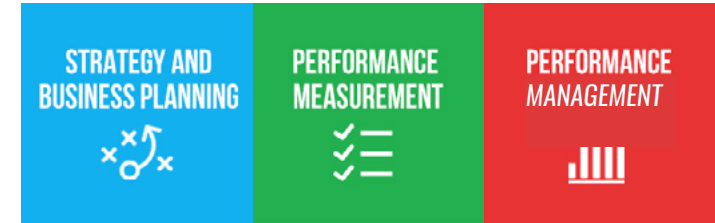
ABOUT THE KPI INSTITUTE

The KPI Institute is a research institute specialized in business performance. It operates research programs in 12 practice domains ranging from strategy and KPIs to employee performance and from customer service to innovation performance. Insights are disseminated through a variety of publications, subscriptions services and through a knowledge platform available to registered members. Support in deploying these insights in practice is offered globally through training and advisory services.

The KPI Institute developed its proprietary KPI Management Framework and operates www.smartKPIs.com, the result of the research program dedicated to documenting and cataloguing how KPIs are used in practice, an online portal containing the largest collection of documented KPI examples.

Over the last 12 years, The KPI Institute team has:

- ▶ Documented 7,900+ KPIs from 16 functional areas and 25 industries;
- ▶ Reviewed 15,000+ performance reports from 250 countries;
- ▶ Referenced 30,000+ resources (books, articles, performance reports) as part of the documentation process;
- ▶ Developed over 200 KPI Dashboards and Balanced Scorecards;
- ▶ Delivered training courses in 25 countries based on 6 continents;
- ▶ Assisted over 50,000 organizations in finding solutions for their KPI needs;
- ▶ Trained over 5,000 participants from 40 countries on how to rigorously work with KPIs.



SURVEY FINDINGS • KPI LIFECYCLE

 KPI SELECTION

Fig. 1: We are confident the KPIs in use are adequate for reflecting the achievement of desired outcomes

To best reflect on the achievement of desired outcomes, KPIs require attentive selection. KPIs selected as such, need to be clear and relevant so as to provide adequate measurement of objectives set. The research study reveals a moderate and high level of confidence in selected KPIs being adequate for reflecting the achievement of desired outcomes among the majority of professionals (30% - moderate and another 55% - high to very high).

Only 15% of respondents claimed to be less confident about the relevancy of their KPIs.

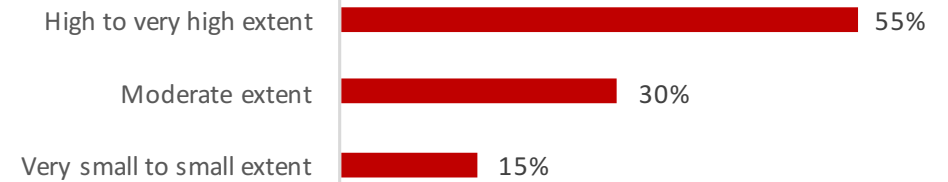
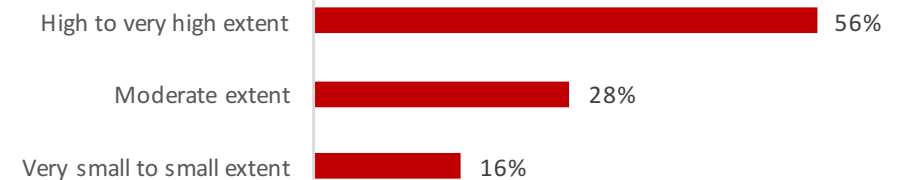


Fig. 2: All strategic objectives have associated at least one KPI

An important aspect of the KPI selection process, is that the KPIs selected reflect on the strategic objectives set. As such, it is essential that all strategic objectives set for the organization have associated at least one KPI so as to reflect on the achievement of desired outcomes.

56% of professionals partaking in the survey claim that at least one KPI has been identified for the strategic objectives set, while 28% have a moderate level of confidence related to this matter.

The research data points out that in 16% of the cases there is little consideration towards associating at least one KPI with the strategic objectives set for the organization.



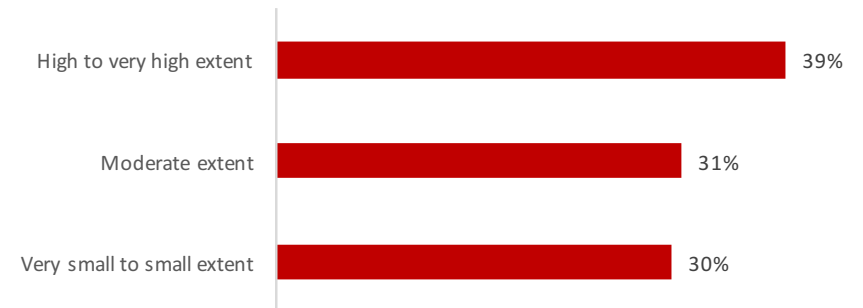
SURVEY FINDINGS • KPI LIFECYCLE

 KPI SELECTION

Fig. 3: A variety of key stakeholders (employees, managers, suppliers) are engaged in the KPI selection process

30% of professionals admit to the key stakeholders of the organization being modestly engaged with the KPI selection process. Stakeholder engagement in the KPI selection process, on the other hand, ultimately ensures that KPIs are appropriately selected, while also being relevant for the strategic objectives set.

Aware of the important contribution of stakeholders to the KPI selection process, 39% of respondents claim to extensively engage their key stakeholders in selecting KPIs for the organization. The last third - 31% - of survey responses indicate a moderate involvement from key stakeholders in the KPI selection process.



SURVEY FINDINGS • KPI LIFECYCLE

 KPI DOCUMENTATION

Fig. 4: All KPIs are documented using a standardized documentation form

The intense use of standardized KPI documentation forms is common for 39% of professionals, while 29% of them stated that they deploy this tool in a moderate manner.

32% of respondents seem to be less familiar with standardized KPI documentation forms, as they stated that they only scarcely use this tool to get full comprehension of their KPIs.

By aggregating the KPI data that is most meaningful and relevant, the KPI documentation form facilitates better understanding of the performance measurement processes within the organization, it works towards getting buy-in from key stakeholders and raises accountability towards measurement.



Fig. 5: All documented KPIs have a corresponding Data Custodian

In terms of accountability towards measurement, the survey reveals the fact that the majority of respondents have been proactive in assigning Data Custodians for their KPIs. The results show that the statement highly applicable in 39% of the cases and moderately applicable to 29% of respondents.

The remaining percentage (32%) seems to have less clarity in regards to the KPI Governance process within their organization, as defined by the people in the organization assigned the responsibility of collecting performance data for the KPIs monitored (Data Custodians).



SURVEY FINDINGS • KPI LIFECYCLE

 KPI DOCUMENTATION

Fig. 6: All documented KPIs have a corresponding KPI Owner

KPI Governance refers to the overall process of owning and distributing responsibility for performance measurement. It reflects on internal accountability levels over performance measurement processes such as KPI Documentation. In this respect, the survey reveals the fact that the majority of respondents clearly understand the meaning of KPI ownership. KPI Owners seem to be highly popular with 47% of respondents and moderately acknowledged 29% of respondents.

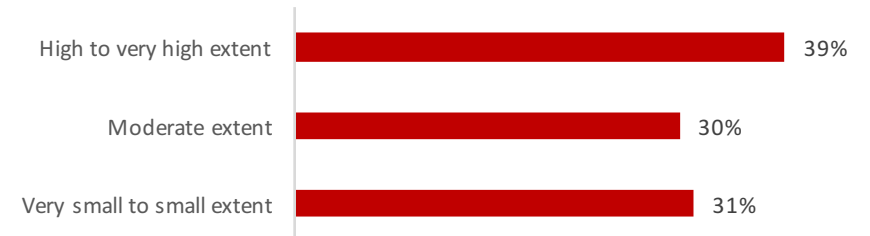
The remaining respondents (24%) seem to have less perception of KPI ownership within their organization. KPI Owners, defined as the persons responsible for reaching KPI targets, are modestly acknowledged in this context.



Fig. 7: All changes, comments and decisions related to a KPIs management are regularly updated in the documentation form

39% of professionals seem to acknowledge the high significance in updating KPIs on a regular basis. A change tracking field placed in the KPI documentation form can provide valuable information to understanding the progress and evolution of a particular KPI.

As such, KPI documentation forms are provided a field where constant updates are enlisted. To 30% of the participants in the survey, such a field is only a moderate practice. The responses of the survey also reveal the fact that keeping track of the changes and decisions related to KPI management is rather an uncommon practice among 31% of professionals.



SURVEY FINDINGS • KPI LIFECYCLE

 KPI TARGET SETTING

Fig. 8: The targets associated to KPIs are realistic

One of the most important fields in the KPI documentation form is the KPI target. Setting KPI targets supports the decision making process by comparing results to expectations and linking results to actions. Assigning realistic targets for the KPIs monitored seems to be common practice among 45% of the participants to the survey.

The survey shows that 40% of the participants to the survey exhibit moderate confidence in KPI targets being realistic, while another 15% of professionals have little to very little confidence in KPI targets being realistic for their organization.

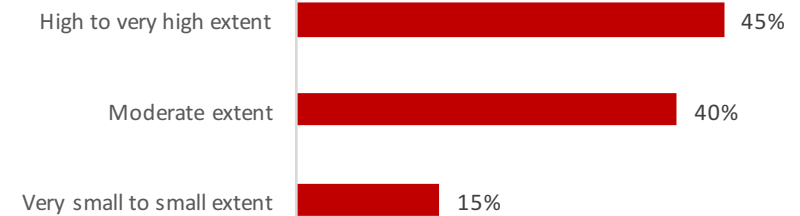


Fig. 9: KPI targets are established through consultation with staff using and managing the KPI data

The KPI target setting process, as part of the wider KPI documentation process, is best performed through consultation with the staff using and managing the KPI data. By closely working with performance data, such staff is key to ensuring that KPI targets are appropriately set. According to our survey, 44% of professionals admitted to a frequent involvement of relevant staff in the target setting process.

At the opposite side, 24% of professionals seems to benefit very little from the involvement of staff using and managing the KPI data, in establishing KPI targets. Another 32% of professionals partaking in the survey are only moderately confident in KPI targets being set with the invaluable contribution of staff using and managing the KPI data.



SURVEY FINDINGS • KPI LIFECYCLE

 KPI TARGET SETTING

Fig. 10: KPI targets seem to create a motivating working environment for employees

Setting realistic KPI targets is an essential component of the performance measurement system within the organization. KPI targets are not only a means by which to ensure the sustainable development of the organization, but also a driver of internal behaviors. The performance culture and the working environment within an organization can be heavily impacted by unrealistic or stretch targets.

Survey results show that 37% of respondents consider that KPI targets are highly motivating for employees. Another 37% are moderately confident that the KPI targets set are also creating a motivating working environment for employees.

Another 26% of the participants tot the survey view KPI targets as having little to very little impact on employee motivation.

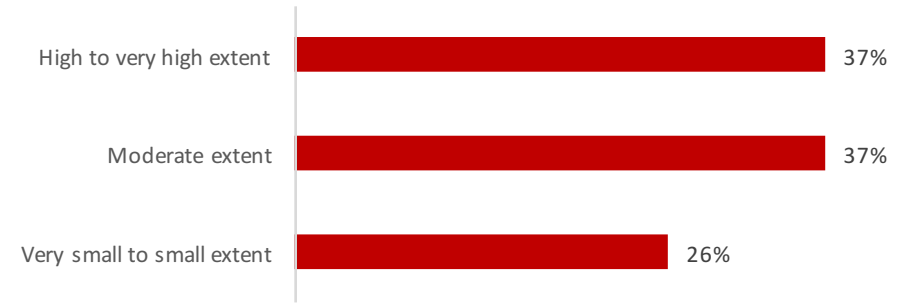
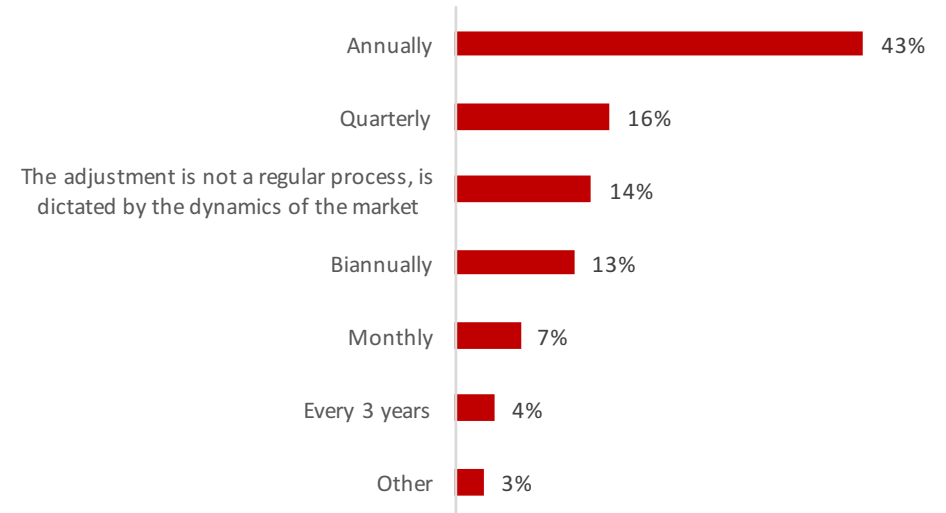


Fig. 11: Frequency of adjusting KPIs targets in organizations

Target recalibration is the process of adjusting KPI targets to the business development need of the organization. Target recalibration is done as frequently as the company deems necessary, but for most companies – according to our survey – it is a process that takes place annually. 43% of the participants in the survey consider KPI target recalibration a necessary process that is realized on an annual basis (43%). Other time intervals mentioned by respondents are quarterly (16%), biannually (13%), monthly (7%), once every 3 years (4%) and other time intervals (3%).

The survey results show that annual, quarterly or biannual recalibrations are most preferred, while time intervals that are too granular – monthly – or too wide – every three years – tend to be avoided. Also worth mentioning is the fact that in 14% of cases adjusting KPIs targets is dictated solely by the market dynamics.



SURVEY FINDINGS • KPI LIFECYCLE

 KPI DATA GATHERING

Fig. 12: Frequency of facing various challenges regarding KPI Data Gathering

When it comes to performance measurement, a successful data gathering process ensures accuracy and completeness of the data, as well as, timeliness in data submissions. However, the KPI Data Gathering process is neither easy, nor exempt of challenges. According to the respondents of our survey, data submission delays (average 3.48) and lack of integration between databases (average 3.43) seem to be the most frequently mentioned challenges encountered throughout the data collection process.

Data unavailability – 3.29 - and unstandardized data - 3.17- also score high in terms of most encountered KPI data gathering challenges.

Less indicated topics are data inaccuracy (average 2.95) and the use of a dedicated BI software solution (average 2.34).

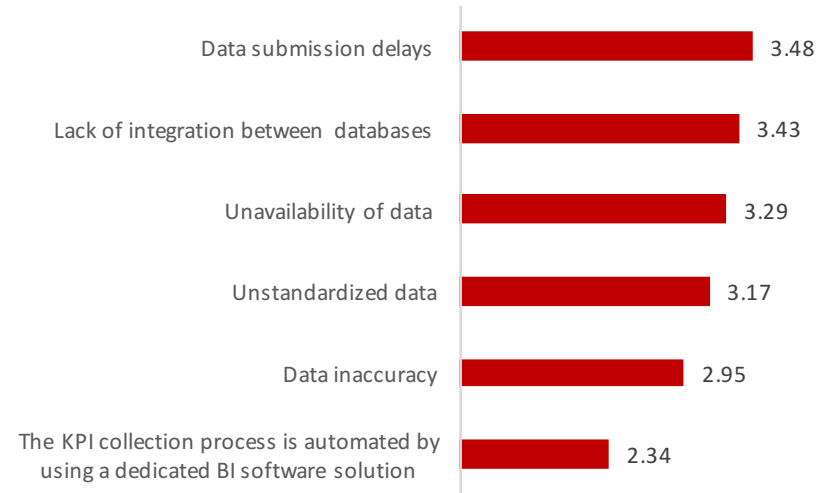
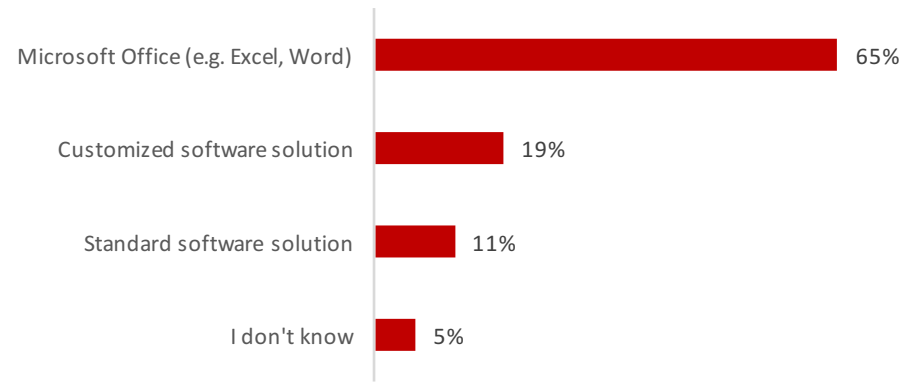


Fig. 13: Software used to collect data and report performance results

Use of technology contributes to a more efficient data collection process. Automated processes and use of dedicated software solutions improves both the accuracy of data and its availability in due time. According to the professionals participating in our survey, the most commonly used software in terms of data gathering and reporting is the Microsoft Office suite as indicated by 65% of cases.

Customized or standard software solutions are far less mentioned by respondents. Such software is indicated in as little as 19% and 11% of the cases. As revealed by the results of the survey, 5% of the respondents cannot acknowledge and elaborate on the software solution used to gather and report on data.



CONCLUSIONS

The implementation of performance improvement initiatives, alongside building a performance culture are the most challenging aspects associated with the performance management cycle.

Although professionals increasingly use performance management tools, they are still struggling with getting the genuine value add from their systems, whether it is a Balanced Scorecard approach or a hybrid performance management framework. In their strive to close the gap between current achievements and expected results, several best practices in performance improvement were identified:

- ▶ Key stakeholders involvement in the KPI selection process;
- ▶ Standardized KPI documentation form usage;
- ▶ Audits to check data reliability;
- ▶ Use of predictive analytics and data modelling;
- ▶ Performance review meetings held on a monthly basis;
- ▶ Decision making based on extensive KPI results analysis;
- ▶ Performance data that is made available to a larger audience of key stakeholders (including non-managerial positions);
- ▶ Initiatives that are documented in standardized templates;
- ▶ Performance management integration with budgeting, quality system and process management;
- ▶ Organizational strategy alignment to employee performance plans.



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