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THE NEW DISEASE

It is called "KPI-itous"

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There is a new disease that is infecting corporate America. It is not something that we will hear about in warnings from the Center For Disease Control. However, it has become an epidemic of momentous proportions. It is called "KPI-itous". The disease is caused by an obsessive desire to measure business processes.

KPI – itous (kA – pE – I – Tous) – a management disease where everyone in the company is obsessed with trying to find Key Performance Indicators (KPIs) that are right for their company.

Symptoms include asking other companies what they measure, reading books and articles on KPIs, using industry benchmarks as KPIs, and using excessive amounts of KPIs.

Treatment – A personal vaccination of education to personally learn what the company's business is and how shareholder/ owner value is created. With this understanding, the next step is to communicate to each employee how each of the company's core business processes contribute to shareholder value/ profits and how to measure whether or not this is being accomplished. Once this understanding is realized, then the proper KPIs can be designed and utilized to manage the business.

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While this fictitious dictionary entry may not seem realistic, most companies have caught this disease or at least have its symptoms. You only have to visit companies, listen to their discussions at conferences and tradeshows, or interview company executives. They all talk about their "symptoms"; how they can't find the "right" KPIs. If they only read the fictitious medical handbook, they would realize that the cure (finding and then properly utilizing the right performance indicators) is not that complicated.

The process of developing the right KPIs begins with the clear understanding of the business; having a shared vision from the boardroom to the shop floor. Each employee, whether an executive or a shop floor person, must understand the business at a level where they can connect their department to the company's profitability. If they can not achieve this understanding, the organization loses focus and the business efforts are inefficient and will consume more resource (and ultimately profits) than they should.

Once the business connections are clearly understood, then process strategies should be developed with the companies financial goals in view. There is always a corporate financial measure (total cost to produce, total cost of occupancy, etc.) that executives measure. Each of the business processes in the company need to connect to this measure. For example, consider the maintenance business process. Many companies measure maintenance cost as a percentage of the product cost (maintenance cost per unit produced) or of occupancy (maintenance cost per square foot maintained).

These indicators, while not always the optimum, are common in many plants. However, here is where a disconnect occurs. They fail to connect the next level of indicators to the company financials.

Financial indicators are impacted by the efficiency and effectiveness of the maintenance organization. If there is waste in the execution of maintenance activities, then the costs are higher than necessary. This highlights the need for a level of indicators to monitor the efficiency and effectiveness of the maintenance organization. For example, an indicator such as level of maintenance technician's productive time could be utilized. If the productive time is low (less than 50%), this indicates an areas of waste that needs to be investigated. This indicator would need to be supported by additional indicators that highlight the cause of the low productive time.

The low productivity may be caused by excessive reactive maintenance. In this case another indicator showing the comparison of planned, reactive, preventive, and predictive work activities would be useful. Another possible cause of low productivity could be lack of spare parts from the stores and purchasing function. An indicator such as stores service level or stock out percentage would be useful to highlight this problem.

There are other indicators that may need to be investigated that also impact on the productivity of maintenance technicians. These are tactical indicators that focus on the proper organizational deployment and support. Ratios of technicians to supervisors or technicians to planners should also be utilized. An indicator monitoring response time may indicate that the maintenance organizational structure is contributing to low productivity. For example, utilizing a centralized deployment model when an area deployment model would be more efficient and effective, thereby raising the maintenance technician's productivity.

It is only when companies "vaccinate" themselves with this knowledge that the disease known as KPI-itous will ever be eliminated.

While the previous scenario in only one of the many possible, it is clear that there is a process to developing the right KPIs. It is only when companies "vaccinate" themselves with this knowledge that the disease known as KPI-itous will ever be eliminated. If your company is struggling with KPIs, perhaps a vaccination with the knowledge of linking all indicators to corporate goals and objectives is needed.

If your company is struggling with KPIs, contact us today!

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