

Key Process Metrics- Prevent the Unexpected Surprise

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Most companies use top level financial metrics to track and report their performance against the business plan. The most successful ones go further by using **Key Process Indicators, KPI** in support of the financial metrics to communicate what is important in the business plan and to provide trend data to minimize the unexpected surprise.

KPI metrics should not be considered permanent like financials metrics. They should mirror the business plan, market conditions and the global business environment which can change over time. Some metrics will become permanent. An example of this is raw, work in process and finished goods Inventory turns. Until the 80's inventory turns was not considered important and was seldom a KPI metric. Today, with the focus on Demand Flow, Pull Manufacturing and Lean, most companies measure their inventory turns and have as part of their business plan an annual goal to improve turns. Another example is "Order Cycle", the time from order receipt to product delivery. All things being equal, a business with the shortest cycle has a competitive advantage - a key process metric that has come into vogue in today's competitive business world.

Key process indicators should be part of the business framework, not something nice to do but rather, a part of the process. All departments, functions and processes should have key metrics that help them manage their piece of the overall business process, alerting the business of a significant trend reversal, up or down, positive or negative. To be of value these metrics need be supported with a strategy for data collection, analysis and upward reporting from the lowest levels in the organization.

Why Have KPIs?

We all have heard the expression, "What gets measured gets done". Having metrics that support the key business plan objectives appropriate to each process and level of the organization helps ensure that everyone hears the same message, understands their role and knows how well they are contributing to the business goals. Selection of the correct metrics will:

- Communicate direction (the business plan trend performance).
- Stimulate action in the most important areas (the business plan)
- Establish the current situation against the business plan goals
- Facilitate learning (where the business stands against world class performance)
- Influence behavior (what gets measured gets attention and action)

Getting Started – Bottlenecks First

If your organization does not have Key process metrics, start by developing a group of measurements in perceived bottleneck areas; areas that are having the greatest impact on meeting the business goals or customers needs.

The process is very simple

- Start by interviewing all the staff involved in the process, all shifts if there are more than one. Understand all the issues that are preventing or causing the process to be impacted.
- Put the issues on a list and have the staff document each time the problem occurs and any supporting data that can be provided.
- Pick those that are the easiest to correct and get them fixed immediately.
- If more data is needed such as shift, time of day, weather conditions etc, add these items to the collection process.
- Use the classical problem solving tools of 6-Sigma to understand the data and begin a controlled change of the process.
- If new causes are detected change the collection record to allow reporting of these new causes.
- Don't stop measuring even when the problem is resolved; kept those metrics that will provide a picture of the business process trend (KPI).

Once a KPI metric is selected the work begins. Behind each metric there must be a process. The process can be a work instruction or a formal procedure.

- A work instruction or procedure on how the data will be collected, analyzed and reported
- Who will be responsible for the data collection, what form will be used to collect it how will the data be stored pending analysis
- The graphing or tabular format to be used to communicate accumulated data

Key Process Indicators – Measure What is Important to Your Business

KPIs should be selected to provide information in support of the key business processes whose performance can impact the financial numbers (no surprises). Besides the financials there should be metrics that monitor:

- Customer perceived quality, cycle time, on-time delivery, after sales support, easy of operation, life cycle and today, the environment.
- Internal work processes, order process, development cycle, production cycle, continuous improvement.
- Supplier performance, delivery, technical support, quality, on-time delivery
- Employees, retention, training, salaries and benefits, health programming

The key here is to develop metrics customized and relevant to your business plan and processes.

Summary

Successful companies analyze, understand and measure their key processes to assure business goals are being met. Early detection of deviations allows management to make necessary changes before unwelcomed surprises arrive.

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