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KPI Alignment

Critical operationally-based KPIs are strategic in helping organizations align with their corporate mission.

By Richard Wilding, Ph.D.

In business — and supply management — measurement is important. As the 19th century Scottish physicist Lord Kelvin observed, “if you cannot measure it, you cannot improve it.”

However, the world of business is over-supplied with measures. Complex reporting systems abound, supplying metrics on almost every conceivable aspect of a business’s operations. It can be hard to determine which measures are important and which ones aren’t.

That’s where KPIs come into play. But this set of metrics — the critical measures regarded as having the greatest correlation between the overall health of an organization and its operations — must be chosen with care. As American accounting historian H. Thomas Johnson observed, “What you measure is what you get. And more likely, what you measure is *all* you’ll get.”

Commonplace KPIs

How should an organization go about selecting KPIs? How should they select them from a supply chain point of view? To some people, those questions don’t need to be asked. Why not use KPIs already commonplace in business, such as inventory turns, working capital efficiency, profitability growth and cost minimization?

Look carefully, though, and you see that these are invariably focused on shareholder value. That doesn’t mean they’re wrong. Rather, it says they aren’t operational enough to guide day-to-day decision-making. In supply management, almost everything we do has the end customer’s satisfaction as its ultimate objective. These commonplace KPIs usually aren't customer-focused.

Consequently, we need to look past these commonplace KPIs to a set of operationally-based measures that better reflect the success or otherwise of the actions and transactions which directly impact customers.

There doesn't have to be a dichotomy between financially-centered KPIs and operationally-based KPIs. A well-chosen set of both will not only correlate well but also will provide a firmer handle on how to influence KPIs that are financially-centered.

Put another way: Financially-centered KPIs tell you how you're doing — but operationally-based KPIs provide the levers to actually achieve your goals.

Operationally-Based KPIs

From a supply chain perspective, and with the objective of maximizing customer satisfaction, two types of metrics are especially critical.

The first group of KPIs is *time-centered*. At its simplest, this involves asking such questions as:

- How quickly did we manufacture or pick the customer's order?
- How quickly were we able to dispatch it?
- How long did it take to arrive?
- How variable is our performance on these measures?
- What are the trends?
- How quickly do we respond to customer queries?

The second group of KPIs is *relationship-centered*. Here, we're again looking at where we are impacting the customer, but the key focus is success-based. One measure is the order fill-rate, for example, what proportion of orders are completely filled within the stated lead-time? Another is the first-time fix rate: How many service calls successfully deal with the customer's repair or maintenance issue on the first call?

Also ask:

- What is our customer satisfaction score?
- How broad is our relationship with the customer — do we jointly collaborate with them?
- Have we established a relationship with senior-level contacts?

Such questions aren't difficult to come up with, and you will doubtless come up with many others. The metrics to translate most of them into hard numbers will be readily available within most businesses' enterprise systems, even if present-day reporting systems don't currently report on them.

Critical KPIs

Throughout this process, you'll develop numerous KPIs. But monitoring a set of 20 or more KPIs can be unwieldy and time-consuming, and it defeats the purpose of having "key" measures. Thus, one fundamental question remains: How do you choose the most important KPIs to track?

There is no easy answer. Nor are there ready-made lists. Each business must determine which measures are the most important for itself. For any given business, critical KPIs will be those that are most appropriate for its commercial context and competitive stance, and its overall business strategy and the supply chain "subset" of that strategy.

In other words, the starting point for deciding upon a set of KPIs is the present position of the business itself, and the overall strategy and supply chain strategy that it wishes to follow. A set of KPIs that aren't synchronized with these strategic requirements won't be of much help, but a set of KPIs that *are* synchronized with them will help an organization achieve success.

For example, is cash conservation and working capital efficiency important to the business? A set of KPIs including metrics such as invoice accuracy, invoice cycle time, "on time in full" rates, and inventory turns will be of help. Suppose, though, that customer satisfaction is the goal. Then, while "on time in full" metrics are important, the set of synchronized KPIs also will feature direct measures of customer satisfaction, complaint handling and speed of order fulfilment.

Similarly, if the goal is enhanced end-to-end supply chain collaboration, KPIs such as the extent of EDI or other e-commerce transactions, the use of invoice automation, and the proportion of spend that is under contract will come to the fore. So too might less commonly-found metrics, seeking to capture the more qualitative aspects of supply chain collaboration: partnership agreements, the involvement of supply chain partners in new product development, and the number of bi-lateral senior-level meetings, for example.

In every case, the trick is to identify the strategic priorities and seek out those KPIs that most directly impact on those priorities.

This approach isn't difficult to accomplish. And at a time when organizations seem intent on building up increasingly granular repositories of transaction and performance data — to literally "Big Data proportions" — it is also a refreshingly direct approach.

While supply professionals can continue to accumulate data stores to mine for insights and unsuspected relationships, they shouldn't lose sight of the fact that they will benefit more from scrutinizing a much smaller, albeit well-chosen, set of KPI measures that *really* matter.

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