

Stratum Key Performance Indicators (KPIs)



KPIs: Why Do We Need Them?

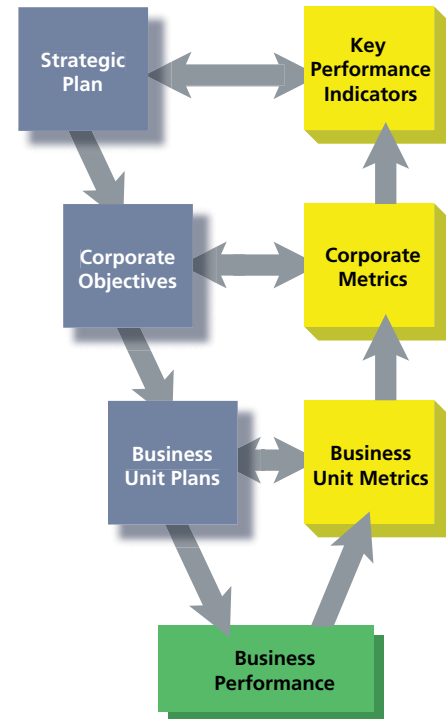
In today's business setting, executives and line of business managers are constantly bombarded with information about the business and the marketplace. They do not always understand what key business issues should be managed and how to effectively manage them. Nor do they have the time to review and prioritize every piece of information that crosses their desks, let alone, do so in a timely fashion. Lacking these key fundamentals, they are at risk of missing or not reacting quickly enough to critical business issues that may negatively impact the business. Key Performance Indicators (KPIs) give executives and managers the ability to focus on what matters most to the business. KPIs are financial and non-financial measures that explain what has happened. They assist managers in identifying an organization's strengths and weaknesses and provide a starting point for the performance improvement process by demonstrating whether a business is in line with its strategic objectives. Key performance initiatives also enable a Balanced Scorecard to measure and drive strategic change.

What Should KPIs Address?

To be effective in improving business performance, key performance indicators must:

- Address all aspects of performance results in these areas: customer satisfaction, product and service performance, financial and marketplace performance, supplier and partner results, operational performance, and performance relative to competitors
- Support strategic goals and describe the targeted performance in measurable terms
- Be deployed to the organizational level which has the authority, resources, and knowledge to take the necessary action
- Not be overwhelming to manage (they should not require full-time employees to monitor them)

Stratum KPIs include numerous financial and non-financial measures for monitoring business performance. The non-financial measures offer four clear advantages over measurement systems based on financial data alone. First of these is a closer link to long-term organizational strategies. Financial evaluation systems generally focus on annual or short-term performance against accounting yardsticks. They do not deal with progress relative to customer requirements or competitors, nor other nonfinancial objectives that may be important in achieving profitability, competitive strength and longer-term strategic goals. Second, critics of traditional measures argue that drivers of success in many industries are "intangible assets" such as intellectual capital and customer loyalty, rather than the "hard assets" found on balance sheets.



Although it is difficult to quantify intangible assets in financial terms, non-financial data can provide indirect, quantitative indicators of a firm's intangible assets. Third, non-financial measures can be better indicators of future financial performance. Even when the ultimate goal is maximizing financial performance, current financial measures may not capture long-term benefits from decisions made now.

Finally, the choice of measures should be based on providing information about managerial actions. Managers must be aware of how much success is due to their actions or they will not have the signals they need to maximize their effect on performance. Because many non-financial measures are less susceptible to external noise than accounting measures, their use may improve managers' performance by providing more precise evaluation of their actions.

Stratum: Tracking Valuable KPIs for Supply Chain Businesses

Stratum includes more than 500 pre-defined sets of measurements, 65 of which cover the management processes of Plan, Source, Make and Deliver as defined by the Supply Chain Council's Supply Chain Operations Reference-model (SCOR). The SCOR model serves as the standard process reference model for communicating supply chain management practices across companies. SCOR provides a common supply chain framework, standard terminology, common metrics with associated benchmarks, and best practices.

