

Getting real with KPIs

Killing progress with Kooky Performance Indicators is the sub-title of this month's column, writes QNewZ columnist, Ian Hendra. And yes, 'kooky' is a real word. According to the Scrabble Word Finder, it's an adjective meaning "informal or slang term for mentally irregular", which is exactly what I'm driving at in this article!



Here are a couple of scenarios:

1. Rolling to a halt...

You have to drive 350km to get to your vacation destination. You've been driving down the highway for an hour or so and suddenly it all goes quiet under the bonnet...you coast to the side of the road and roll to a halt...only then do you notice the fuel gauge is on E. You're surprised because, being a good manager, you had your KPIs all lined up. You

knew how far you had to drive and you'd had the car serviced. You'd filled the car's tank last weekend just as usual. You knew your fuel consumption was about 9 litres per 100 km; so you expected to have plenty of fuel for another hour at least.

2. That hole again...

Rusty Bucket is CEO of Bucket Enterprises Ltd, my favourite manufacturers of shiny metal buckets for manual milkers. Liza Dear, his

Quality Manager, tells him in high dudgeon that one of BEL's best customers has complained about a leak in a new bucket, and this is the second time in three weeks. Rusty tells her to replace the faulty buckets but don't worry about it because it hasn't happened before. "First time in 30 years, so it can't be a prob, can it Liza?"

Item	Business Objective	KPIs (Leading indicators)	KRAs (Lagging indicators)
1	New product right first time	<ul style="list-style-type: none"> Product development process compliance (milestones) Production data validation statistics vs customer requirements 	<ul style="list-style-type: none"> Rework unplanned Compliance with budget
2	Product quality meets customer expectations	<ul style="list-style-type: none"> Process performance within statistical process control limits (of behaviour) 	<ul style="list-style-type: none"> Reject statistics Delivery In Full On Time In Spec and on budget (DIFOTIS on \$)
3	Quality management system administration working effectively	<ul style="list-style-type: none"> Internal and external communications working to plan to identify improvement opportunities (e.g. management, staff, customers, suppliers) Internal audit results Resource applied to continual improvement initiatives (time/cost) 	<ul style="list-style-type: none"> Process improvement statistics Production efficiency (outputs per resource) Complaints from stakeholders
4	More sales	<ul style="list-style-type: none"> Promotional, prospecting and follow-up processes as per plan (marketing & sales) Customer support statistics Repeat orders 	<ul style="list-style-type: none"> Customers gained Customers lost
5	Motivated workforce	<ul style="list-style-type: none"> Working climate monitors (e.g. attendance at social events, staff going the extra mile, etc) Training & personal development as per plan (inc succession) Integrity of employment agreements (inc comparison with industry norms) 	<ul style="list-style-type: none"> Staff turnover Absenteeism (inc unjustified sick leave)
6	Safe workplace	<ul style="list-style-type: none"> Hazard identification procedure statistics Safety monitoring statistics 	<ul style="list-style-type: none"> Accident statistics Lost time injuries
7	Healthy business	<ul style="list-style-type: none"> Clear lines of sight across the business for each stakeholder 	<ul style="list-style-type: none"> Surprises Overall performance (ROI).

Curious, he checks what he calls his "KPIs". Last month's sales were OK, debtors were not a problem, stock turn was OK, financials were OK, the monthly hygiene check was OK. He checks out the production inspection sheets for the batches in question and they were all OK, too. And nobody from production had grumbled about anything going wrong. In the end he puts Liza's frustration down to a lack of understanding and moves on to more serious matters.

When is a KPI not a KPI? Easy, when it's a KRA!

KPI is short for 'Key Performance Indicator'. KRA is short for 'Key Result Area'.

A KPI is a 'leading' indicator that shows a 'state of readiness'. It tells us something about what is likely to happen; next month, for instance.

A KRA is a 'lagging' indicator, a 'result' that tells us what did happen, last month for instance.

Using KRAs as the main source of management information is, as Dr W Edwards Deming put it so eloquently, like trying to drive forwards by looking in the rear-view mirror. There are serious risks that you won't get where you want to go and you'll hit something along the way.

Or looking at it another way,

Another way to spot the difference is that KPIs are about things we can change right now to affect what happens next. KRAs are about history and the curse of hindsight.

Back to the scenarios...

1. Rolling to a halt ...: On the road trip, the only KPI that mattered was the reading on the fuel gauge. With the exception of meeting the service schedule, all the rest were KRAs that in effect only served to confirm the accuracy of the fuel gauge. If you'd looked at the fuel gauge before you left, you could have changed what it told you by filling up with fuel. It was relying on KRAs that let you down....and not knowing that your daughter had borrowed the car for a trip to the beach on her day off from varsity (sons do stuff like that too...).

2. That hole again: As for Rusty's leaky buckets, that he had no production process performance measures shows that he had no real inkling of variability and its inevitable consequences.

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Materials: Materials that we use have an impact in that: our supply may not be consistent; we might change suppliers often; we might buy our materials based on price; and we may not communicate clearly to our suppliers what our requirements are. It is worthwhile to think of materials outside of a manufacturing view; what are the materials that you use in your industry? These are the things that you bring in and use up in your processes.

Environment: Whilst the physical conditions in the workplace have a big impact on the quality of product, so do the emotional and cultural aspects of your workplace. The environment and culture should match your industry and customers' expectations.

Methods (or lack thereof): It is all very nice to have pristine manuals and procedures sitting in the office filing cabinet. What is important are the methods and practices that your staff really do follow in the real workplace. All too often we try too hard to document our procedures when what we are

Had he investigated deeper, by setting up meaningful internal audits, for example, he might have found that his production staff continually tampered with equipment to make it 'work better'; that holes had indeed been a problem in the past but nobody had worked out how to adjust the process to avoid them. So he relied on 'quality' inspectors to find and reject the defectives.

Had he run proper process validation when the production line was commissioned and had developed production control charts subsequently, he would have had KPIs. He could then have responded to the trends in the control charts and completely avoided his customers having to tell Liza "there's a hole in my bucket". At the time, he had no KPIs at all because pass/fail inspection is a KRA.

In the end he got what he measured; namely, confirmation from his customers that he was not controlling his production process with the intention of avoiding rejects. Not only that, but he was happy to use his customers as his final QA check!

Once again, as Dr Deming told us, you can't inspect quality into a product or service, it has to be designed in from the outset (and that means understanding and managing the production processes).

You shouldn't have one without the other

In reality you ought to have both KPIs and KRAs; and they should be reciprocals. Each lagging indicator needs its lead, because you can control the future; the past has gone. KPIs enable you to exert timely control before things turn to custard; KRAs confirm how well your custard controls work in reality. The point here is that once the KRAs have validated the effectiveness of your KPIs, you might not need them anymore!

The table illustrates the point - but it's far from complete. The message is that if you have cases of one without the other in your quality system you're missing some vital links; not only that, but if you're relying on KRAs your chances of making any progress are minimal.

Hope this helps.....and best wishes for a Happy Christmas and bountiful New Year.

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trying to achieve is good consistent practice which can be achieved through: qualifications, good on-the-job training, good supervision, and positive reinforcement.

Machines: I don't think computers were around in the day of Ishikawa, otherwise he might have included computer systems in the fishbone diagram. I think modern technology provides the greatest opportunities for quality improvement, yet at the same time are the greatest source of frustration. I like the quotation, "If you regularly shoot yourself in the foot, don't buy a machine gun". Enshrining poor processes through locking them into IT applications that are difficult and expensive to change is a significant factor and usually leads to the dreaded "work-around".

In summary, the traditional fishbone tool applied in a modern environment is still a great tool for identifying where to start to improve your processes.

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