

RELEVANCE OF ADEQUATE INDICATOR UNDERSTANDING FOR BUSINESS PERFORMANCE

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Abstract: Key performance indicators (KPIs) present relevant, quantifiable measurements of achievement for specific objectives during a certain period. Setting KPIs is crucial in ensuring teams and individuals support higher overall organizational goals. These indicators are set throughout the organization, across different sectors, teams, and for various individuals. Often, achieving some KPIs may have an opposing effect on others. However, the ultimate expectation is to balance their impact and fine-tune their effects to reach optimal company performance. The disruptive environment in the last few years has affected supply chains in all industries, emphasizing the relevance of sharing information and team alignment more than ever before. A proper understanding of those KPIs and their impact on business results is of utmost importance. Establishing a proper KPI monitoring system and making necessary adjustments when needed is another step in assuring that goals are achieved. Based on the author's experience, this paper will present some actual cases of how a proper understanding of KPIs impacts performance results.

Key words: People management, Performance, Indicators, Supply chain

1. INTRODUCTION

Key performance indicators (KPIs) refer to a set of measurable indicators used to monitor the success of a company's operations. KPIs play an essential role in determining strategic, operational, and financial achievements, acting as a compass, especially when compared with other companies in the same industry.

Many people wonder when it is necessary to start defining and monitoring KPIs in a company. At the very beginning of a company's development, KPI structure is not very much developed or even doesn't exist at all. However, after a certain period of time and operation growth, when the company has defined its goals and strategy, it becomes necessary to introduce a system for monitoring the success of goal execution, i.e., KPIs (Marr B., Gray D., 2012; Patrick Mutabazi, 2022).

Key Performance Indicators (KPIs) represent crucial indicators of success or performance that are chosen in advance to set, monitor, and evaluate activities in different phases and based on results, determine possible corrective measures. They must be measurable, achievable, relevant, specific, and time-framed. The primary purpose of KPIs is for the organization to reach its set goals and achieve targets, enabling timely recognition of any deviations and successfully organizing appropriate corrective activities. An important factor in choosing indicators is the reliability of the source. Relying on pre-developed templates and sources might have been viable twenty years ago, but today, due to the rapidly changing business landscape, constant work on new or updated sources is practically necessary.

It is not enough to merely define KPIs and monitor their achievement; all employees must understand the KPIs and their specific implications for their work. Without defined KPIs, employees may rely on instincts, personal preferences, or hypothetical criteria that often lack confirmation in reality. This approach can be hazardous for business because relying on intuition alone can lead to misunderstandings and significant problems in the mid and long-run. Tracking KPIs is crucial for understanding why certain situations occur, enabling better decision-making.

The use of KPIs in companies is the primary means of motivating employees and thus enhances productivity and employee performance evaluation based on results. This collective effort contributes to the achievement of strategic goals (Acupower LTD., 2022).

However, it's important to note that the mere existence of defined KPIs doesn't guarantee improved staff performance. As demonstrated in the example of a company operating in Serbia, if employees do not understand or choose not to understand the KPIs and do not actively work towards achieving them because they perceive them as unattainable, performance may decrease.

As Endru Lang said: "Most people use statistics like drunkards use a bottle, more to mask a problem than to come to enlightenment. The real power of KPIs lies in your ability to interpret data and draw actionable conclusions, which can help you improve your business. With them, you can achieve long-term success by consistently taking optimal actions."

2. UNDERSTANDING KEY PERFORMANCE INDICATORS

How to overcome the problem when employees do not understand the importance of KPIs for their business and the company's success? How to deal with negative employee reactions when introducing a performance monitoring model? In this paper, we will show a case of how one company succeeded and the results were achieved.

The first step is for management to convey to employees the information that KPIs offer a reward system for achieving specific goals and implementing well-defined processes within these goals. Employees should not only understand that such an approach is beneficial for them but also see the criteria for evaluating the efficiency of their work after the system's implementation. However, changes that impact working conditions and especially salary conditions may cause natural resistance among employees.

The emergence of fear and concerns in this case is a normal process, and the manager needs to address this issue and conduct targeted employee training simultaneously with the implementation of the KPIs. Effective communication with employees is essential in this process.

In the introductory part, we touched on what KPIs are and their significance for successful business operations. In the subsequent sections, we will prospect into the theoretical foundations of KPIs to provide a better understanding of their importance for the company's successful operation.

When attempting to improve a company's operations or foster its growth, finding a starting point can be challenging. The company operates to achieve its mission, vision, and goals and carries out various activities, processes and operations accordingly. To assess which activities, processes, and operations lead to the achievement of set goals, the company requires measurable indicators. Not only are measurable indicators necessary, but their selection is crucial to obtain a balanced measurement of success. It is essential to include all business performances and define KPIs that serve as success factors for achieving set goals. The company should monitor KPIs at both the high level (company level) and the low level (within each of the company's functions, departments, services, etc.) or all business processes. When discussing the lower level of KPI monitoring for the company, it is preferable to monitor KPIs by processes, utilizing a process-oriented approach instead of monitoring by departments (Müllner A., 2007). The reason is that certain processes occur across multiple organizational departments, services, and plants, leading to overlapping or unmonitored KPIs because one organizational unit assumes that another will take care of it, etc.

Based on this, we can divide KPIs into two groups:

- KPIs at the company level
- KPIs that are monitored for each organizational unit (e.g., procurement, sales, marketing, human resources, production, etc.)

KPIs should be seen as a guide, indicating the direction in which the company is heading and how far it has progressed towards fulfilling its business goals. When choosing KPIs, it is essential to ensure that they lead the company in the right direction. Some KPIs will have opposed effect on different sectors, departments, or can be even opposed within the same sector or department. However, real success is to make the right balance in achieving them, do proper prioritization and align all stakeholders.

When defining KPI, it is necessary to answer the following questions:

- Why is this goal important?
- How will we measure progress?
- How can we influence the outcome?
- Who is responsible for the business result?
- How do we know that we have achieved the desired results?
- How often we must analyze the achieved results?

Successful companies have KPIs that all employees focus on, aligning their work with the company's strategy. KPIs can determine and measure how well each individual is performing, helping the company identify necessary changes to improve productivity and overall success (Addison, R., Haig, C., & Kearny, L., 2009).

3. RESULTS

This thesis will explore real-life examples and what impact those changes made for the company. Solely, this information would be not complete and that is why research papers concerned with different influence factors on business performance will also be assessed to provide a more holistic picture and a greater acceptance of the proposed KPIs.

Based on the problem and the goal of the research, data was analyzed in a foreign company operating in Serbia. For the sake of data protection, we will not specify which company is the subject of the research. The mentioned company has defined KPIs for all its business processes, however, the set goals were not achieved. The reason for the poor fulfilment of the set goals is the employees' familiarity with KPIs and their importance for the company's operations. During the data analysis, it was observed that many employees knew they have defined personal KPIs, but they never looked at them, tried to understand them, let alone tried to achieve them. The reason for this is that the employees were not aware of the KPI relevance and the management has not explained to them what it means for the company (Parmenter D., 2015).

After the observed problems and certain changes in the management of the company, KPIs monitoring and the achievement of the goals were approached more seriously. The management organized several training sessions with employees where everyone was familiarized with the KPI and where they could give their suggestions for improving the KPI. KPIs were no longer just numbers on paper. In this paper we will analyze several segments of logistics operations in the company, performance achievement and the definition of KPIs in business processes.

Following business processes were observed and relevant set of KPIs were established:

- Level of service to customers (KPI - Service rate development)
- What is the number of process mistakes toward customer (KPI - Number of justified customer complaints)
- Order fulfillment process review from suppliers (Number of justified complaints to suppliers)

First, we observed the achievement in cooperation with customers and level of service that was provided to them before and after familiarizing all employees with the goals and KPIs by which those goals are measured, and the motivation of employees based on the measurement of the fulfilment of the set goals for each KPI. The changes took place in May 2022.

Table 1: Service rate development for 2022. and 2023.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	23,7%	27,8%	25,4%	31,8%	24,3%	26,5%	44,2%	59,6%	42,2%	57,9%	22,3%	59,4%
2023	42,2%	11,4%	77,3%	93,4%	92,8%	93,6%						

Data analysis (Table 1) shows the percentage of fulfilment of the set KPIs that were monitored in 2022 ranged from 23.7% in January to 59.4% in December. The changes that occurred in the implementation of the KPI in May began to give the first results in July when the fulfilment was 44.2%. Growth trend was recorded until the end of the year, except in November, when there was a decline in performance with a realization of only 22.3%. The reason for this were problems in the company's operations and effect was expected and known to all relevant stakeholders. We can see really improved results only in 2023 when the result reached the level of 93.6%, which was in June.

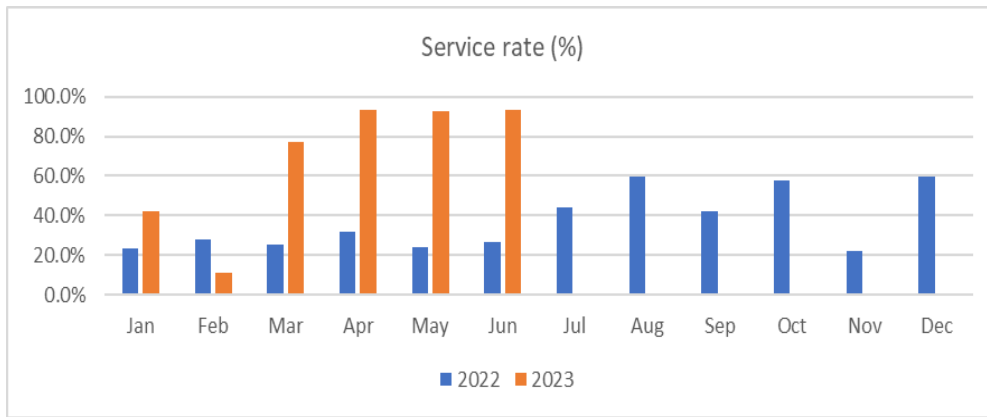


Figure 1. Service rate development

The quality of the service has increased, and we will see if this is reflected in the other logistics processes of the business through the findings of the number of justified complaints from customers and to suppliers.

We saw in the previous part that the service rate increased from July 2022 until the end of the year (apart of Sept and Nov). In the case of justified complaints, there was a declining trend (in May there were 85, and then they decreased to 15 in October and 20 in December).

Table 2: Number of justified customer complaints in 2022 and 2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	4	12	16	16	85	55	54	18	24	15	23	29
2023	12	20	29	12	18	24						
YTD2022	4	16	32	48	133	188	242	260	284	299	322	352
YTD2023	12	32	61	73	91	115						

If we compare 2023 vs 2022 (Figure 2), it is visible that number of complaints is lower in 2023. Figure 2 shows the number of justified complaints by month and the cumulative number of complaints for 2022 and 2023 by June for both years. Total number of complaints until end of June 2022. was 188, and by end of June 2023 that number was 115, more than 30% less.

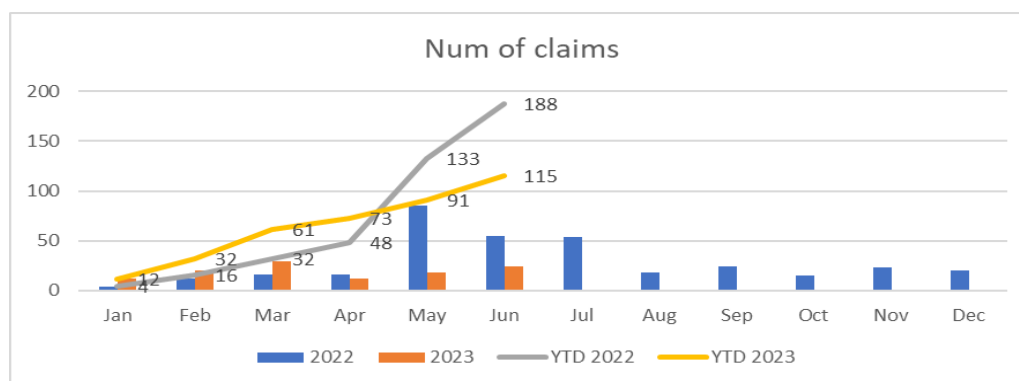


Figure 2. Number of justified customer complaints in 2022 and 2023

In addition to the number of justified complaints, we analyzed the number of justified complaints to suppliers. Achieving the set goals requires the quality of raw and other materials used in production. The analysis shows the number of complaints in 2022 to suppliers was in the range of 1 to 3 complaints per month. By increasing the fulfilment of stated goals and involving all employees in the creation of KPIs, the number of justified complaints to suppliers has also increased. Employees increasingly noticed the poor performance in suppliers' behavior when providing materials to the plant, which had a direct effect on the lower results in production efficiency, causing often stoppages and plan changes. The number of justified

complaints in 2023 ranged from 3 to 5 complaints per month. The number of complaints is small because the company itself does not have many suppliers, but the purpose was to establish a proper way of cooperation where all obligations will be respected and all parties will be satisfied.

Table 3: Number of justified complaints to suppliers in 2022 and 2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	1	1	2	1	2	1	1	0	1	1	2	3
2023	3	4	2	5	4	4						
YTD2022	1	2	4	5	7	8	9	9	10	11	13	16
YTD2023	3	7	9	14	18	22						

When the cumulative data is analyzed, we see that in 2022 there were 16 complaints to suppliers, and in 2023, until June, the number of complaints to suppliers was 22. Looking at the same period for both years (Jan – Jun) in 2022, there were 8 complaints vs 22 in the same period in 2023., which is almost three times more.

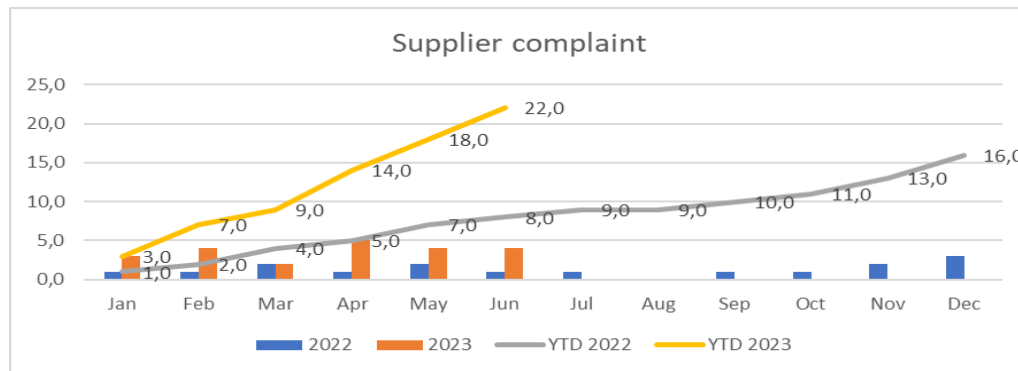


Figure 3. Number of justified complaints to suppliers in 2022. And 2023.

The connection and interdependence between the increase in the fulfilment of set goals and KPIs and justified complaints from customers and to suppliers will be presented in the next part of the work, i.e. the discussion.

4. DISCUSSION

Poor performance from the supplier side which was caused by a few factors, but not adressed as a serious issue, had a negative impact on production efficiency and consequently on product availability. For understanding purposes, only one delay of material for a few days could disturb customer supply for more than a month. This led to an increased number of negative effects (more customer compleints and higher associated costs, higher transportations cost, prolonged weekly production shifts,...). Better follow-up and improvement actions led to better performance results.

In the given case KPIs have been established but monitoring, route causes analysis and corrective activities were not conducted. The culture of setting KPIs was there but not as a process of running operational activities, tracking them, finding out what has an impact on them and how this can be improved. We can say that the form has been fulfilled but the essence was missing.

When KPIs were properly explained, the monitoring system was established and mutual correlation recognized, it was easier to move forward by involving more people and setting the whole process as it should work.

5. CONCLUSIONS

To improve business and advance the development of the company, we need to find a clear starting point. Every company in the world monitors its work through certain set goals and monitors their achievement. To evaluate the activities that need to be carried out to achieve these goals, the company needs measurable business indicators, which are known as key performance (business) indicators or KPIs. Selecting and monitoring KPIs is the best way to begin to discover what is working and what is not working in a company's business. There are many KPIs but only the right ones prove to be effective if carefully selected.

In addition to this, KPIs can determine and measure how much each individual participates in achieving the specific goals of the business. In addition, KPIs will help the company determine what changes need to be implemented to improve productivity and success. This is probably the most important reason why companies set and track KPIs. In our example, we saw what changes the observed company made to improve its business and what results were achieved.

When we have defined KPIs and when we know that they represent key indicators for a successful business, we should know that each KPI is only worth as much as it inspires employees to achieve it. Companies often adopt KPIs and then wonder why those KPIs do not reflect their business results and do not effect any positive change. One of the most important, and often interchangeable, that we saw in the observed company is communication. All employees should be familiar with KPIs what they bring to them and how they can help in achieving them. The employees must understand the KPIs and react according to them. It is necessary for employees to understand the business strategy based on which the KPIs were formulated and to understand what the organizational goals are, how to plan their achievement and how it can affect their work and motivation.

KPIs are useless if not communicated properly. How will the employees who are tasked with implementing the company's business vision implement it, if they don't know what they are? Or even worse, if employees don't know what the company's KPIs are, then they alienate them from their goals and make them frustrated because they don't see the direction in which the company is going and should go. KPIs need to be communicated effectively. This can only be achieved if it is explained to all employees what we measure, and why we do it. If we fail to do that, KPIs will become just numbers that have no meaning for either management or employees.

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