The Use of Key Performance Areas in Decision Making

by
Lewis F. Norwood
Extension Service - U.S. Department of Agriculture
Washington, D.C.

Outlines relevant variables to be considered in measuring and setting standards for business performance.

The most effective control occurs when major attention is given to those business performance areas which are vital to the survival of the company.

It is not possible for an executive for follow every detail...or all of the various phases of performance...he must know how well plans are being carried out so that desired objectives will be achieved.

To do this, he must concentrate his attention on those performance factors which indicate whether important deviations have or are about to occur.

The number of key performance areas will vary...according to consequences of deviation, nature of industry, requirements of firms for evaluating performance.

KPA's (examples)--

- Raw Product Procurement
- Plant Production and Operations
- Store Operations
- Organizational structure and Key Personnel
- Customer and Stockholder Relations
- Market Standing and Sales
- Public and Government Relations
- Policies and Objectives
- Finance

After identifying the key performance area (KPA), it next is necessary to identify what standards of performance to establish for each KPA. Business failures often occur when management is unaware that results with KPA's are dangerously off standard.

Key Indicators

Management must know what to look for in each key area. There may be one or more key indicators (KI's) which alert the board and executive to pending trouble. KI's may be a number, a ratio, a percentage, or a qualitative statement of condition.

KI's should be:

- Relevant...having a close logical relationship
- Reliable...will do what's expected or required
- Valid...conforms to law, logic, and facts
- Objective-oriented...reflect desired standards for achieving company objectives
- Timely...to be a help or service at an appropriate time
- Brief...clear but compact

KI's for Store Operations (a KPA)

- Dollar sales per store
- Percent gross margin
- Percent labor expense
- Percent contribution to overhead
- Dollar cash over or short
- Dollar NSF checks
- Dollar sales per manhour
- Dollar Inventory
- Inventory turns

Effective development and use of KPA's and KI's should aid decision makers to evaluate the company's operations in terms of short- and long-run objectives, to recognize deviations from the desired standards, and to take timely and decisive action when and where needed.