Technical Guide

"KPIs in context of Balance Score Card"

Small and Medium Enterprises Development Authority

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Table of Contents

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2 Introduction to SMEDA

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs). With a mission "to assist in Employment Generation and Value Addition to the national income, through development of SME sectors, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify Policy, Access to Finance, Business Development Services, strategic initiatives and institutional collaboration & networking initiatives. Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA. Concurrent to the prefeasibility studies, a broad spectrum of Business Development Services is also offered to the SMEs by SMEDA. These services include identification of experts and consultants and delivery of need-based capacity building programs of different types in addition to business guidance through help desk services.

2.1 Industry Support Program

In order to enhance competitiveness of SMEs and achieve operational excellence, SMEDA established an Industry Support Cell (ISC) for provision of foreign technical support and knowledge transfer in collaboration with International Development Organizations. SMEDA's Industry Support Program (ISP) initially launched with Japan International Cooperation Agency (JICA) and actively engaged in reducing energy inefficiencies and improving production and quality of products with the support of Japanese Experts. Later on, similar activities with other international partner organizations like German Corporation for International Cooperation (GIZ), Training and Development Centers of the Bavarian Employers' Association (bfz), Germany, and United Nations Industrial Development Organization (UNIDO) were also successfully implemented.

3 Balance Score Card:

The balanced scorecard (BSC) is a strategic planning and management system that organizations use to:

- Communicate what they are trying to accomplish
- Align the day-to-day work that everyone is doing with strategy
- Prioritize projects, products, and services
- Measure and monitor progress towards strategic targets

The Balanced Scorecard, referred to as the BSC, is a framework to implement and manage strategy. It links a vision to strategic objectives, measures, targets, and initiatives. It balances financial measures with performance measures and objectives related to all other parts of the organization. It is a business performance management tool.

It was originally published by Dr. Robert Kaplan and Dr. David Norton as a paper in 1992. And then formally as a book in 1996. Both the paper and the book led to its widespread success. It is interesting to note that although Kaplan and Norton published the first paper, they were anomalously referenced in a work by Art Schneiderman who is believed to be the balanced scorecard creator.

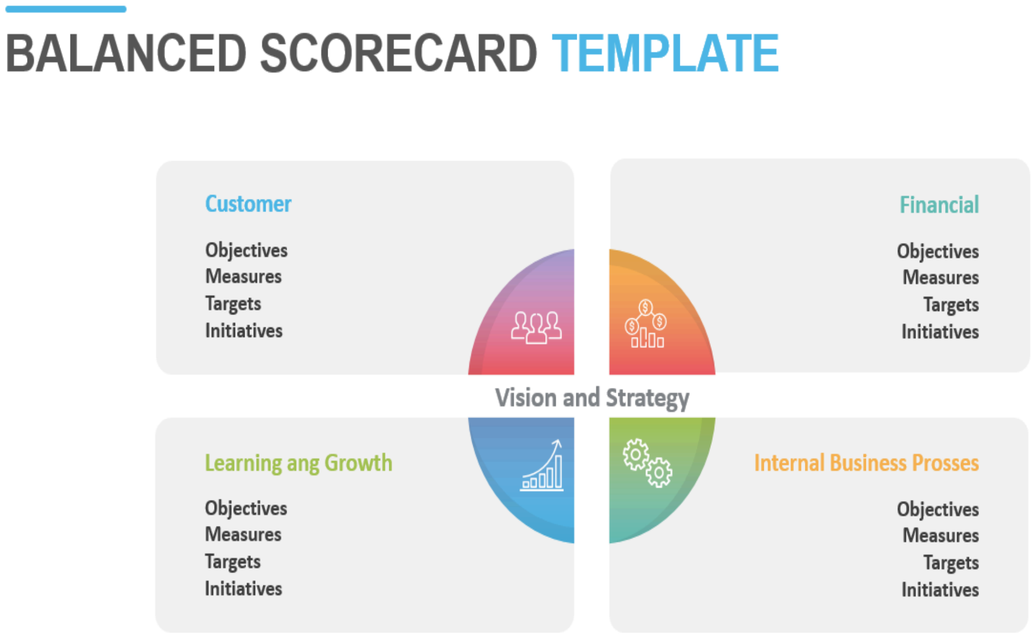
The BSC is not just a scorecard, it is a methodology. It starts by identifying a small number of financial and non-financial objectives related to strategic priorities. It then looks at measures, setting targets for the measures and finally action plan (often called initiatives). It is in this latter stage where the approach differs from other strategic methodologies. It forces an organization to think about how objectives can be measured and only then identifies projects to drive the objectives. This avoids creating costly projects that have no impact on the strategy.

The ‘balance’ is brought about by a focus on financial and non-financial objectives that are attributed to four areas of an organization. These are the Perspectives. They are: Financial, Customer, Internal Processes and Organizational Capacity.

The name “balanced scorecard” comes from the idea of looking at strategic measures in addition to traditional financial measures to get a more “balanced” view of performance. The concept of balanced scorecard has evolved beyond the simple use of perspectives and it is now a holistic system for managing strategy. A key benefit of using a disciplined framework is that it gives organizations a way to “connect the dots” between the various components of strategic planning and management, meaning that there will be a visible connection between the projects and programs that people are working on, the measurements being used to track success (KPIs), the strategic objectives the organization is trying to accomplish, and the mission, vision, and strategy of the organization.

The BSC suggests that we examine an organization from four different perspectives to help develop objectives, measures (KPIs), targets, and initiatives relative to those views. Those 4 perspectives are:

- Financial (or Stewardship): views an organization's financial performance and the use of financial resources
- Customer/Stakeholder: views organizational performance from the perspective of the customer or key stakeholders the organization is designed to serve
- Internal Process: views the quality and efficiency of an organization's performance related to the product, services, or other key business processes
- Organizational Capacity (or Learning & Growth): views human capital, infrastructure, technology, culture, and other capacities that are key to breakthrough performance



4 Mission & Vision statements:

Mission statement shows the company's business objectives and how they can achieve those objectives, what are the steps involved in fulfilling those objectives. While the vision statement depicts the future position of the company and what the company focuses on tomorrow.

5 What is a key performance indicator (KPI)?

A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively a company is achieving key business objectives (mission). Organizations use KPIs to evaluate their success at reaching targets. They demonstrate how effectively a company is achieving key business objectives, and they can span across industries, departments or individual tasks.

KPIs are evaluated over a specified time period, and are compared against past performance metrics or acceptable norms.

5.1 Why are KPIs important in Balance Score Card:

KPIs is the key element in Balance score card, without establishing and tracking proper key performance indicators, companies would be left in the dark about their performance. According to the Balance score card, KPIs must be set according to four main perspectives and that is financial, customer, internal process and organizational capacity. With KPIs in place you can set appropriate goals, develop strategies to reach them and evaluate your progress, and eventually have a historical record of your business performance in accordance with balance score card.

5.2 What makes a KPI effective?

Now that we know KPI stands for key performance indicator it is only as valuable as the action it inspires. Too often, organizations blindly adopt industry-recognized KPIs and then wonder why that KPI doesn't reflect their own business and fails to affect any positive change. One of the most important, but often overlooked, aspects of KPIs is that they are a form of communication. As such, they abide by the same rules and best-practices as any other form of communication. Succinct, clear and relevant information is much more likely to be absorbed and acted upon.

In terms of developing a strategy for formulating KPIs, your team should start with the basics and understand what your organizational objectives are, how you plan on achieving them, and who can act on this information. This should be an iterative process that involves feedback from analysts, department heads and managers. As this process continues, you will gain a better understanding of which business processes need to be measured with a KPI dashboard and with whom that information should be shared.

5.3 Steps for defining KPIs

- What is your desired outcome?
- Why does this outcome matter?
- How are you going to measure progress?
- How can you influence the outcome?
- Who is responsible for the business outcome?
- How will you know you’ve achieved your outcome?
- How often will you review progress towards the outcome?

5.4 What is a SMART KPI?

One way to evaluate the relevance of a performance indicator is to use the SMART criteria. The letters are typically taken to stand for Specific, Measurable, Attainable, Relevant, Time-bound. In other words:

- Is your objective Specific?
- Can you Measure progress towards that goal?
- Is the goal realistically Attainable?
- How Relevant is the goal to your organization?
- What is the Time-frame for achieving this goal?

6 Benefits of KPIs

- Allow users, managers and companies to measure and manage targets and goals.
- Use Simple KPI to track project performance and report to project shareholders.
- Keep the right people within an organization kept up-to-date with business KPI performance.
- Intuitive snapshot of performance against goals.
- Collate all KPI data conveniently in one place – no need for over complex, unreliable spread sheets.
- Supports multi-site / locations / departments for a view of the whole organization.
- Transparency of performance at all levels.
- Online access anytime.
- Track the impact of initiatives.
- Easily measure individual, department and office contributions – accurately, clearly and objectively.
- Translate vision and strategy.
- Highlight organizational weakness and set KPIs to improve performance.
- A single concise management tool for operational performance.
- Gain a competitive advantage.

7 Challenges for KPI setting and monitoring:

7.1 Selection of KPI:

One of the biggest challenges with regard to KPIs is its selection. With so many diverse KPIs to choose from, some are so similar that it is difficult to identify the difference, many a times choosing a broad set of KPIs seems to be the easiest route. In the end, maybe that selection becomes the problem. So one has to carefully assess their goals and set specific KPIs based on those goals. Also, avoid setting too many. If you go a little KPI crazy, employees will become overwhelmed and confused, and instead of hitting their targets it will become burden for them and in the end none of the goals will be met.

7.2 Measurement:

According to Balance score card the four areas must be included in measurement that are financial, customer, internal process and organizational. KPIs require accurate data. Once you’ve set a KPI, you need to be able to measure it. So, for measurement you need to have a correct formula for it. After all, if you don’t know what improvement is required, how can you implement a strategy to improve? One of the biggest roadblocks here is inaccurate or outdated data. This often comes as a result of a decentralized system. By automating the collection and merging of data, as well as simplifying the receiving process, one can be sure that the data which you are using to measure your success is both precise and timely.

7.3 Communication is key:

Often companies set generic KPIs, sometimes based on careful analysis, sometimes not, but employees fail to adhere to them or simply ignore them altogether. Often this comes down to a lack of communication. Employees are aware that they have benchmarks, and what they are, but simply don’t know why they need to meet them. Clear communication among peers and within hierarchy of the organization for a better understanding of how those benchmarks impact the company as a whole can make a big difference.

7.4 KPI without action plan:

When companies set KPIs, start monitoring and collecting data, but mere collecting data will not serve the purpose until you have a concrete action plan, it includes the remedies and steps involving do able actions, you can divide those steps into monetary, non-monetary and into smaller steps and prioritize them according to the necessity. Without action plan the KPIs would only be mere a stack of data.

8 Conclusion:

Balance score card has been strongly linked with company's mission and vision statement, if a small business wants to foster, it must have to develop a strong mission and vision statement, KPIs based on balance score card will provide you strategic objectives the organization is trying to accomplish. The 'balance' is brought about by a focus on financial and non-financial objectives that are attributed to four areas of an organization. They are: Financial, Customer, Internal Processes and Organizational Capacity.

If you want to get maximum benefit out of the KPI system, you have to first correctly select the KPI, then the measurement of that KPI must be accurate, communication within the organization about the results attained by KPIs is the key and last but not the least the action plan derived from those results must be practical and easy to perform.