KPI's

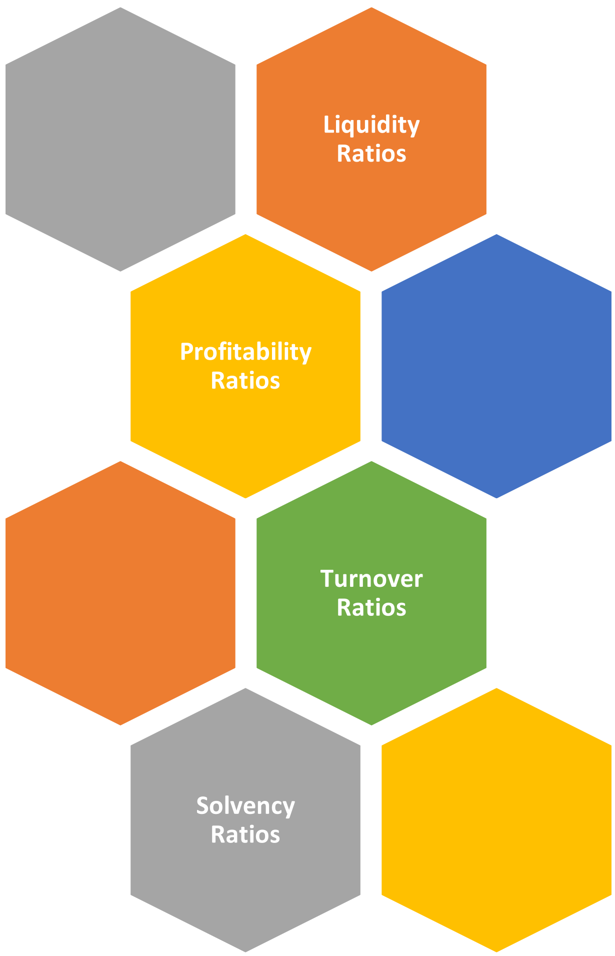
Key performance indicators (KPIs) refer to a set of quantifiable measurements used to gauge a company's overall long-term performance. KPIs specifically help determine a company's strategic, financial, and operational achievements, especially compared to those of other businesses within the same sector.

Key Takeaways

- Key performance indicators (KPIs) measure a company's success versus a set of targets, objectives, or industry peers.
- KPIs can be financial, including net profit (or the bottom line, gross profit margin), revenues minus certain expenses, or the current ratio (liquidity and cash availability).
- Customer-focused KPIs generally center on per-customer efficiency, customer satisfaction, and customer retention.
- Process-focused KPIs aim to measure and monitor operational performance across the organization.
- Generally speaking, businesses measure and track KPIs through business analytics software and reporting tools.

1- Financial Performance Indicators:

Financial metrics may be drawn from a company's financial statements. However, internal management may find it more useful to analyze different numbers that are more specific to analyzing the problems or aspects of the company management wants to analyze. For example, a company may leverage variable costing to recalculate certain account balances for internal analysis only. Examples of financial KPIs include:



- **Liquidity Ratios:**

  (i.e. current ratio which divides current assets by current liabilities): These types of KPIs measure how well a company will management short-term debt obligations based on the short-term assets it has on hand.

- **Profitability Ratios**

  (i.e. net profit margin): These types of KPIs measure how well a company is performing in generating sales while keeping expenses low.

- **Solvency Ratios**

  (i.e. total debt to total assets ratio): These types of KPIs measure the long-term financial health of a company by measuring how well a company will be able to pay long-term debt.

- **Turnover Ratios**

  (i.e. inventory turnover): These types of KPIs measure how quickly a company is able to perform a certain task. For example, inventory turnover measure how quickly a company can convert an item from inventory to a sale. Companies strive to increase turnover of activity to generate faster churn of spending cash to later recover that cash through revenue.

2- Human Resources Indicators:

- **Absence rate**

Unscheduled absence rate (Absence days/FTE) is a key HR metrics to measure absenteeism. It tracks the percentage of workers who are absent during a given period. This metric also provides a benchmark over time: absence levels can differ from month to month, but over longer periods of time you want the rates to be relatively low and stable. Growing absence rates could indicate a worsening work climate, increased stress in the workplace, or a flu epidemic. An absence rate of about 1 to 2% is normal (because almost everybody is ill a few days per year).

- **Overtime expense**

People don't mind working overtime every now and again. However, when overtime goes through the roof, you can expect your absence rates to follow. Excessive overtime, especially for longer periods of time (e.g. audit season for accountancy firms), also drives turnover. Consistently high levels of overtime can be fixed relatively easy by hiring additional employees.

- **Training expenses per employee**

A common metric is training expenses per employee. This metric is helpful in tracking development costs. It also helps HR to make smarter investments in developing personnel. HR is coming around to the fact that day-long training courses are both expensive and inadequate in providing the continuous learning experience sought by employees. Investing the available budget in continuous learning experiences will lead to a much more effective training program for employees.

- **Employee happiness**

Employee happiness (also measured as employee satisfaction) is more often recognized as a valuable HR metric. Happy employees are productive employees, they are committed to the organization and don't mind working overtime when necessary. Employee happiness is related to commitment to the organization, and commitment to the job. Low employee happiness in certain parts of the organization can be an indicator of conflict or work stress.