

HOW TO SET UP KEY PERFORMANCE AREAS

By

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Once it has been decided to establish controls over a business, the question naturally arises, "Where does controlling begin?" Controlling must begin from the top of an organization since it is necessary to consider the business first from the standpoint of its total activities. When exercising control, top executives should guard against the tendency to concern themselves with details or parts of a total segment instead of with the segment as a whole.

The general manager must first think of his business as a whole, and determine what controlling is necessary. Working from the top down, he identifies the major areas in which controlling must be applied or the key performance areas. These are the aspects of the business in which performance must be satisfactory or the whole enterprise suffers.

In any business we have similar groups of related activities. One, for example, is the financial segment, having to do with the flow of money through the whole business. Another is operations, having to do with the production of goods or services. Another is the productivity of the business. Satisfactory performance in each one is vital to the life of the business. They are among the key performance areas over which general management must place controls.

What is a Key Performance Area

A key performance area is a natural grouping of activities that can be identified functionally throughout all processes carried on by a business enterprise, and in which performance must be satisfactory or the whole enterprise suffers. Every business should pick one or more area which is vital to efficient operation and carefully monitor its progress. The performance of this area can aid in the decision making duties of the manager. A listing of specific areas and an explanation of each follows.

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Financial Condition has to do with the flow and control of money in a business. It includes cost and expense relationships that determine the financial health of the enterprise. For the most part, standard accounting practices in connection with audits, profit and loss statements and operating statements constitute the general financial controls needed in a business. Because of dependence on professional accountants, many businessmen fail to make the kinds of special studies and to set up the kinds of indicators that they need. The old phrase, "Accounting should not be for accountants but for management," should be heeded more.

Operations deal with the fundamental processes carried out by the business, whether they be manufacturing, processing, providing a service, or some other type. The skill with which the executive combines ideas, processes materials, people, and equipment will determine his tenure in the business world. Key performance areas can be very useful to indicate how successful he is at meeting his responsibilities.

Market Position is the relationship between the portion of the market now being served by the enterprise and the total available market. It is a comparison of the enterprise's share of the market compared with the share of all competing enterprises. The feedback on market position should enable the businessman to know his competitive position and what volume gains are required in order to maintain a sound and healthy growth.

Productivity is the relationship between input of labor, capital, and equipment on one hand and, on the other hand, output in terms of return on capital and units produced or processed by equipment.

Service or Customer Relations encompass activities beyond providing the basic products or services of the business to the end that customers will continue to accept and use products or services of the business. Customers want essential service for whatever they purchase and careful control must be exercised here which could spell the difference between life and death to a business.

Ownership Relations involve the various activities required in promoting cooperation, understanding and support among the stockholders, co-owners, or membership of a business. Few businesses can be operated without giving attention to those people who have a proprietary interest in them. Anyone who has money invested in a business, regardless of the amount, is usually concerned about the effectiveness of the management in terms of achieving successful results.

Employee Relations and Development includes the methods and activities required to secure the dedication of employees to their jobs and their maximum growth. Included are such activities as education, training, counseling, coaching, and direct supervision. Because people are the main resource here, measurement levels are very hard to define and in the end each person's level of performance on the job determines the real measure of success of the business. The executive must be sensitive to the need for personal performance information and constantly seek to refine and improve it and be able to interpret it realistically. He must have some measures, even crude ones, of how he is doing in this area.

Public and Government Relations refers to the activities required to build and maintain public and government support for and belief in the right of the enterprise to do business. There are many forces in our political and social life that can help or hinder a business. Public and government acceptance and support will be needed by the firm at some time. The time to cultivate sound relationships with the public and government is before the business needs assistance or support.

The Integration of Management Effort: Even the smallest business is a complex unit requiring broad knowledge and considerable depth of understanding. The general manager cannot afford to be a hobbyist or pay so much attention to one phase of his business that other phases suffer. Most executives who are newly assigned to important positions agree that there is a need to "get on top of the job." Such comments usually imply the need for information on the key aspects of the job, information that is significant and timely enough to enable the executive to be reasonably secure in basing his decisions on it. In other words, he needs controls in all the key performance areas so that he can see the total picture and act effectively even though he may be highly skilled in only a part of the whole management field.