Government of **Western Australia**
Department of **Finance**
**Government Procurement**

# Key Performance Indicators

The regular monitoring of performance is necessary to help ensure outcomes are achieved and value for money is realised. The use of Key Performance Indicators (KPIs) is one of the more conventional ways of monitoring performance of the contract and suppliers.

## What are KPIs?

KPIs are a set of agreed measures or metrics used to define and evaluate the critical success factors in a contract (a measure to determine how well something is being done). The results of these measures can be analysed and compared to identify trends over the life of the contract or examined at certain points in time.

## Developing SMART KPIs

To be a useful mechanism for measuring performance, KPIs should be clearly defined, measurable and meaningful. One of the most common acronyms for developing suitable KPIs is to make sure they are 'SMART', meaning that they are:

- **Specific** - Clear and concise to avoid any misinterpretation of what is to be achieved.

- **Measureable** - Can be quantified and results can be compared to other data and able to show trends if measured over time. These measures should also give a consistent result, regardless of who is doing the calculation.

- **Achievable** - Practical, reasonable and credible given available resources and expected conditions.

- **Relevant** - Informative and useful to stakeholders, having regard to the context in which the entity operates (i.e. need to measure what is important to the success of the contract).

- **Timed** - Specifies a timeframe for achievement and measurement.

The acronym 'SMARTER' is also used, referring to the development of performance measures which are also **ethical** (fair and transparent) and **recorded** (documented).

## Considerations when developing KPIs

When developing KPIs it is important to consider the following:

- Can the KPIs be objectively assessed and compared. Do they give consistent results? Can they be used to identify issues and/or trends?

- Are the KPIs clear, unambiguous and understood by all parties?

- Are the KPIs useful? Do they only assess what is necessary to determine contract and contractor performance, rather than what is easy to measure?

- Are there the right amount of KPIs in comparison to the value, term, complexity and risks of the contract (i.e. are there too many or not enough)? Is the information collected at the right time or right intervals?

- Do the KPIs identify and encourage performance improvement over the life of the contract?

- Is there a process to periodically review the KPIs to ensure the ongoing suitability and relevance?

- Is there the capability and capacity to collect, understand and interpret the results of any data collected? Should consideration be given to using an independent third party or technical expert to collect and analyse the performance data?

## Feedback

Whilst ongoing monitoring of performance is a key component to contract management, to be successful, it should always happen in conjunction with the provision of regular feedback. Providing positive and constructive feedback as well as addressing any problems promptly and efficiently will assist in developing and maintaining a good relationship between the parties. Feedback can be formal or informal, however, the development and implementation of a formal communication strategy may be beneficial for complex, high risk, strategic or panel contracts.

## Case Study – worked example of KPIs in a Request

Please note that the following example only focuses on identifying and monitoring a couple of KPIs for one part of a much wider service requirement i.e. Courier Services. In developing the Request document, it is important to determine:

- what are the key deliverables or outcomes to be achieved from the contract; and

- what measures will be used to determine and evidence whether those deliverables or outcomes are being achieved to the required standard.

One crucial element for the Courier Services contract is a priority order service for urgent deliveries (Priority Orders). Priority Orders need to be picked up from Head Office within 30 minutes of the order being placed and delivered to the specified destination within an hour of being picked up.

**Example of the KPIs included in the Request document**

| Ref # | KPI Title | Service Level | KPI Target | Compliance Minimum |
|-------|-----------|---------------|------------|--------------------|
| 01 | Timeliness of courier Priority Order pickup Mon - Fri (9am - 4pm) | Pickup from Head Office to be within 30 min of the Priority Order being placed | Collect Priority Order within the timeframe 100% of the time | Min 95% |
| 02 | Timeliness of courier Priority Order delivery Mon - Fri (9am - 4pm) | Delivery to destination to be within 1 hour after the Priority Order being picked up from Head Office | Deliver Priority Order within the timeframe 100% of the time | Min 95% |

**Example of the data that will be required to analyse performance**

To determine whether the performance levels specified in the contract are being met, data is required.

For the above KPIs the necessary data is:

- type of order;
- the time the order is placed from Head Office;
- the time the order is picked up from Head Office;
- the time the order is delivered to the destination; and
- the reason why an order did not meet a specified timeline (when applicable).

The data needs to be collected and reported on, therefore the Request document will need to specify the data collection, reporting and feedback requirements.

**Example of the reporting requirements included in the Request document**

Priority Orders Report – A report detailing all Priority Orders must be provided to the contract manager no later than the 5th day of each month (with the data from the previous month). The report format is outlined on the following page. An issue log report outlining any non-compliant pickups will also need to be provided.

**Report table format example – Priority Orders for (month/year)**

*Table - Priority orders placed*

| Ref # | Date/ Time | Placed By | Received By |
|-------|-----------|-----------|-------------|
|  |  |  |  |

*Table - Priority orders collected*

| Ref # | Date/ Time | Courier # | Con Note # |
|-------|-----------|-----------|------------|
|  |  |  |  |

*Table - Priority orders delivered*

| Ref # | Date/ Time | Received By | All Timelines met (Y/N) |
|-------|-----------|-------------|------------------------|
|       |           |             |                        |

*Table - Report format – Priority Orders Issue Log for (month/year)*

| Ref # | Date | Pickup time in excess of 30 min | Delivery time greater than 1 hour after pickup | Reason for non - compliance (evidence may be attached if needed) |
|-------|------|--------------------------------|-----------------------------------------------|------------------------------------------------------------------|
|       |      |                                |                                               |                                                                  |

**Example of the meeting requirements included in the Request document**

Meetings – As a minimum, a contract management meeting will be held every quarter to discuss and provide feedback on the operation and performance of the contract. In addition, any concerns of non-compliance and/or issues with the operation and performance of the contract will be discussed as and when required.

**Example of how this information is used to monitor performance**

As part of this contract management responsibility, the contract manager is to monitor the KPIs and the contractor is to provide the required reports. The process can be stepped out as per the following:

- Up to the 5th day of the month the contractor would send to the contract manager the reports for the previous month. The contract manager would follow up with the contractor if the reports were not received on time and any issues would be discussed, resolved and documented.

- The contract manager would receive the reports, check that they are in the correct format and complete.

- The contract manager would analyse the data and note any trends and/or issues. This includes reviewing the reasons for any non-compliant pickups. If required, identified trends and/or issues may need to be escalated and discussed internally.

- If required, the contract manager may also contact the contractor to discuss any non-compliance concerns, and where necessary, agree on a resolution. The concerns, discussions and solutions would be documented. Any 'as and when' non-compliance and/or issues that are discussed should also be documented.

- At the end of each quarter a formal contract management meeting would be scheduled and the agenda for the meeting sent out to the relevant parties (one of the agenda items would be Priority Orders).

- The scheduled meeting would be held discussing all agenda items (including the KPIs for Priority Orders, instances of non-compliance and feedback on performance

with reference to the KPI data and contract documents where necessary). Minutes would be taken.

- The meeting minutes documenting the discussions and required actions from the meeting would be circulated to attendees. If a meeting was not being held for the quarter then the reason why would be documented for future reference.

- It is important that any non-compliance, issue and/or required actions are discussed, resolved and/ or completed in a timely manner. Positive and/or constructive feedback should be provided as/when required.

- The report data, documented issues and solutions, meeting minutes and any feedback provided should all be used together to monitor the performance of the contract and the contractor.

- The above information would also be used when conducting a formal contract review prior to considering exercising any extension option available under the contract as well as when a final review is conducted prior to the expiry of the contract. The reviews should help in determining the overall performance of the contract and contractor as well as summarising any lessons learnt for consideration in the establishment of a future contract.

## Conclusion

The example highlights that the use of KPIs requires more effort than just the development and inclusion in the Request document. Thought needs to be applied to making sure that they are not only clear and useful, but also how and what data will be collected, how the data will be analysed, how the results will be used and how the results will be fed back to the contractor to ensure that the use of KPIs is a meaningful method of monitoring performance.

## What resources are available?

Resources available that may assist in determining Key Performance Indicators can be found in the following Finance web pages:

I Manage a Contract - Resources

- Planning for Contract Management - Information sheet

- Monitoring Performance - Information sheet

- Supplier Performance Management Framework

Goods and Services Templates and Guides

- Risk Workbook - Template