***Chapter 10 Summary Question Solutions***

1. Definitions:
   1. Key Performance Indicators: A Key Performance Indicator (KPI) can be defined as a measure or a set of data that allows a business to determine whether it is meeting its business objectives.
   2. Efficiency: Efficiency is about the way the business uses its available resources to achieve its objectives. It is the ability to provide a service or produce something without wasting materials, time or energy, and without loss of quality
   3. Effectiveness: Effectiveness is the degree to which a business achieves its stated objectives. It is the ability of a business strategy to achieve an intended or expected outcome.
2. It is important for a business to monitor its performance so that it can determine whether it is achieving its objectives or not. And so that it can gather together information that can be used to make future decisions on how to manage the business. For example, a business may hope to improve its performance over time. In order to determine whether performance is indeed improving or deteriorating, a business must monitor its performance by gathering information on different aspects of performance (number of sales, revenue, expenses, etc.) and then comparing this information over different time periods. By doing so, a business can indeed determine whether it is meeting its objective of increasing performance. The information that has been gathered can provide useful insights into where the business should focus its efforts to improve further in the future.
3. Businesses use KPIs and other data as tools to measure progress. Businesses use a variety of measures to determine whether they are meeting their business objectives. Any KPI or data source that is used must be relevant, valid, reliable and able to deliver valuable information. KPIs must be comparative – show changes over time in the business, and used as benchmarks to compare performance with other businesses in the industry.
4. KPIs in different businesses:
   1. A medical centre
      1. Number of patients seen per hour – Measures how efficiently a Doctor listens to the patient, diagnoses the patient and provides advice.
      2. Doctor turnover per year – Measures how many employees permanently leave the centre per year. May indicate underlying issues with doctor stress, or negative corporate culture.
      3. Mandatory reports on doctor errors – Measures mistakes reported by employees. May highlight training needs of staff members.
   2. A gym
      1. Number of new members signed up per month – Reflects how successfully sales staff ‘sell’ the gym to prospective members.
      2. Member utilisation – Measures the proportion of members that actually use the gym. This could reflect how well the gym meets the needs of the members.
      3. Percentage of market share (in the suburb or city) – Measures the performance of the gym compared to other gyms in the area.
   3. A mobile phone store
      1. Number of new customer contracts signed per month – Reflects how successfully sales staff ‘sell’ the phone contracts to prospective customers that enter the store.
      2. Number of customer complaints – Measures how the customers judge the service (including after sale) offered by the store.
      3. Net profit figures – Measures the profit of the store - the difference between revenue and expenses.
5. Business objectives and performance are linked. Before the start of each financial year, businesses set a range of financial and non-financial goals at each level of the organisation. Periodically, businesses measure their performance using KPIs and other data. This kind of review tells a business how their performance is tracking relative to their objectives. A business may determine that they are meeting, exceeding or not yet meeting their objectives. Businesses then make decisions on the basis of their review. Strategies may be changed in the hope of meeting or exceeding their objectives by the end of the financial year.
6. Important KPI’s for a restaurant:
   1. Number of customer complaints: Customer satisfaction is incredibly important in the restaurant business, and it relies on two things – good food and good service. Customers readily complain if either are not up to scratch. Therefore, a restaurant should carefully monitor customer complaints, take note of the cause for complaint and take action where they can to reduce future complaints.
   2. Level of staff turnover: Restaurants rely on wait staff to be the ‘face’ of the business. Their skill in greeting and attending to customers’ needs is incredibly important in a customer’s overall experience. A high level of staff turnover may indicate dissatisfied staff or a poor corporate culture, both of which are likely to be reflected in poor customer service, which will result in unhappy customers, and complaints. Therefore, a restaurant should closely monitor its turnover and put in place strategies to maintain a happy, skilled and experienced workforce.
7. Performance measurement is a complex issue. KPIs and other data can be used effectively to measure performance and to make decisions about future business strategy. Managers who use KPIs effectively look at a wide range of indictors. They ensure that each data source is relevant, valid, reliable, and able to deliver valuable information. They look at indicators over time, to examine patterns and trends in the data. They delve behind the statistics to determine the causes behind the numbers. Only then, do they use the information to make decisions about future strategy. This approach ensures that the manager uncovers the right story behind the numbers, and consequently implements the right strategy. This rigorous approach is necessary because KPIs can be confusing and complex to analyse. Without the right knowledge and skill, managers may make inappropriate business decisions. When examined in isolation, individual KPIs can present an inaccurate picture of overall performance which may lead managers to make poor business decisions. For example, net profit measures the difference between revenue and expenses. Revenue and expenses are driven by different factors. A change in net profit over time can reflect changes in ***either*** revenue, or expenses or both. It is important to examine the story behind the KPI in order to make the right business decision.
8. Businesses should regularly collect, check and monitor KPIs in order to determine whether they are meeting, exceeding or not yet meeting their business objectives. KPIs can help a business to identify where their strengths and challenges are. This is important for planning and maximising business performance in the future.