What is the optimal number of KPIs per professional?

Operational and tactical dashboards: differences and similarities

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What is the optimal number of KPIs per professional?

Operational and tactical dashboards: differences and similarities

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Abstract

Once a firm has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. As such, Key Performance Indicators (KPIs) enable professionals to measure performance against those targets objectively. However, there are many different KPIs, which they differ depending on the organization. The challenge is to find the right level KPI’s for effective measurement and management. Initially, this article provides useful notes about the number of KPIs that any professional should be responsible for. Alongside the business efforts to measure performance and examine whether their strategies have been achieved, operational and tactical dashboards have become a critical addition to planning and decision-making toolbox. Thus, this paper also provides the differences between the use of operational and tactical performance dashboards, as well as the common ground between those two.

Keywords: Performance Measurement System, Key Performance Indicators, Dashboards, Operational and Tactical Dashboards
How many KPIs in a management measurement system should any professional be responsible for?

Does the traditional span of control policies and practices apply here?

Today, more and more professionals express interest in using Key Performance Indicators (KPIs) to measure performance against their business objectives, their daily operational goals, and additionally, to support their longer term strategic endeavors. Higdon (2012) describes KPIs as the performance metrics which provide objective determination of success in terms of progress towards strategic goals. The importance of KPIs to business functions was anticipated even before the financial crisis. For example, Lind et al. (2007) identified that the choice of a KPI and the manner in which it is implemented determines the success of the treasury function.

In order to build business for the long term and to improve performance, the decision making process should be based upon discrete KPIs relative to industry benchmarks, which would appear to deliver a more accurate measure of market value (Nugent, 2003). Within this backdrop, although the application of systems to achieve these objectives are difficult and expensive to implement (Johnston et al., 2002), it becomes fundamental to design and refine KPIs that are critical to the firm. However, as Eckerson (2006) highlights, it is rather complicated to do this as long as effective metrics is often more of an art than a science. To avoid falling prey to analysis paralysis¹, managers should not try to design the perfect metric, but rather apply it in practice once it is about 80 percent complete.

The basic question or issues surrounding the use of KPI measures is to determine the right amount needed for effective performance management. However, in real world, it is rather complicated to determine an ideal fixed number, due to the attaching human attributes in handling and managing the array of KPIs (Sammut, 2012). Miller (1956) suggested the emblematic ‘seven, plus or minus two’, while Champagne (2011) considered the magic number of KPI’s to be about 20-30. Generally, there is no hard and fast rule,

¹ Analysis paralysis is the condition where people become so caught up in planning that they can't bring themselves to actually act on their plans.
and probably no “right answer”. Actually, the right balance can be achieved when the organization is able to define the desired end points, to maintain a balanced set of management perspectives and to design effective KPIs that support them. KPIs should be enough to reflect business focus and priority, but they have to be eliminated when they are at the point at which they create breakdowns and confusion.

The decision-making culture of organizations has been spectacularly altered during the last decade. The traditional span of control policies has given its position to numerous tools for decision analysis that run on ordinary PCs, laptops and tablets. These make it easier for human decision makers to structure a decision problem, and help visualize the effects of possible outcomes. However, not only humans are decision makers. Research made by Younes (1998) has proved that such computerized tools for decision analysis can be used effectively by intelligent agents. For example, organizations like NASA are seriously investigating the possibility of making space probes more autonomous giving them richer decision making capabilities and responsibilities, instead of maintaining a ground crew who would be in charge to continually tracking theirs progress (Wooldridge, 2002).

As such, firms are obliged to reshape theirs structure in order to fit continuously innovative information technology, following the radical change in fundamental business procedures (Gurbaxani & Whang, 1991). In fact, a contemporary business acts more effectively when it relies on a defined, homogeneous and regulated structure rather when it depends on leaderships and personalities (DuMoulin, 2007).

**How are operational and tactical dashboards different and how are they similar?**

The after-crisis business environment requires from organizations to disengage from the perception to rely on the experience of the personality of a strong leader, and to adopt the use of performance dashboards that convert the company’s strategy into objectives, metrics, initiatives, and tasks (Eckerson, 2012). While

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2 An intelligent agent is a software agent that exhibits some form of artificial intelligence that assists the user and will act on their behalf, in performing non-repetitive computer-related tasks.
professional and companies seek to better understand their customers and manage a diverse line of services and products, the managers should have the ability to differentiate between performance dashboards (Eckerson, 2006), choosing the right one each time. For instance, a commercial oriented dashboard will differ from a production oriented one. The two main dashboard applications, operational and tactical ones, should become a critical addition to planning and decision-making toolbox as the proper use of each can bring great benefits into business.

Operational dashboards are used by professionals who need a quick update on the current status of their operations, so as to make right time decisions in a given business area (Chitale, 2012). In addition, operational dashboards emphasize in monitoring functions, as to enable front-line workers and supervisors to track core operational processes. For example, store managers need to monitor inventory to avoid stock outs.

On the other hand, tactical dashboards emphasize analytical functionality, as to help managers and analysts track and analyze departmental activities, processes, and projects (Eckerson, 2006). Moreover, tactical dashboards are used as a tool for measuring the progress of a project or activity and have the target audience who are mostly the midlevel management. For example, the International Truck and Engine Corporation$^3$, uses a tactical dashboard to give financial managers greater visibility into operations and help close their financial books faster at the end of each month (Eckerson, 2006). An enlightening example regarding both dashboards, could be in a manufacturing department where tactical dashboards could be used for setting regular quality review meetings, while the operational dashboards could be used to compare actual and target rate of returns as a monthly value.

Although the differentiated nature of dashboards, given that they focus on different organizational players, the common ground of operational and tactical dashboards could provide a competitive edge which can lead the firm positioning itself ahead of its peers in the marketplace. As Sammut (2012) refers, this may

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$^3$ International Truck and Engine is a leading producer of mid-range diesel engines, medium trucks, heavy trucks, severe service vehicles, bus chassis and a provider of parts and service sold under the International brand.
be the key to drive the firm to unchartered territory of modern business by tapping and combining human and technological resources to their combined optima.

Furthermore, many frameworks of both operational and tactical dashboards are quite similar. For example, the users in both cases are managers, specialists and other professionals. Similar to tactical dashboards, the narrow scope of operational dashboards dictates more detailed information with strong analytical functionality to perform root-cause analysis on the displayed data (Rasmussen, Bansal & Chen, 2009). Last, both dashboards give emphasis into monitoring business units and providing information about business activities.

In more common parlance, interconnecting tactical and operational dashboards in lieu of separating them, expedites the firm towards correct decision-making by analyzing information both horizontally as well as vertically (Bishop & Arora, 2008). The recent financial crisis in conjunction with the market complexity has shown that a modern manager should lie jointly at the tactical and operational levels in order to monitor, manage and analyze every aspect of the firm. Such a combined absorption within the overall corporate strategy framework would protect firm from hazardous situations and would precipitate the firm towards correct decision-making.
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