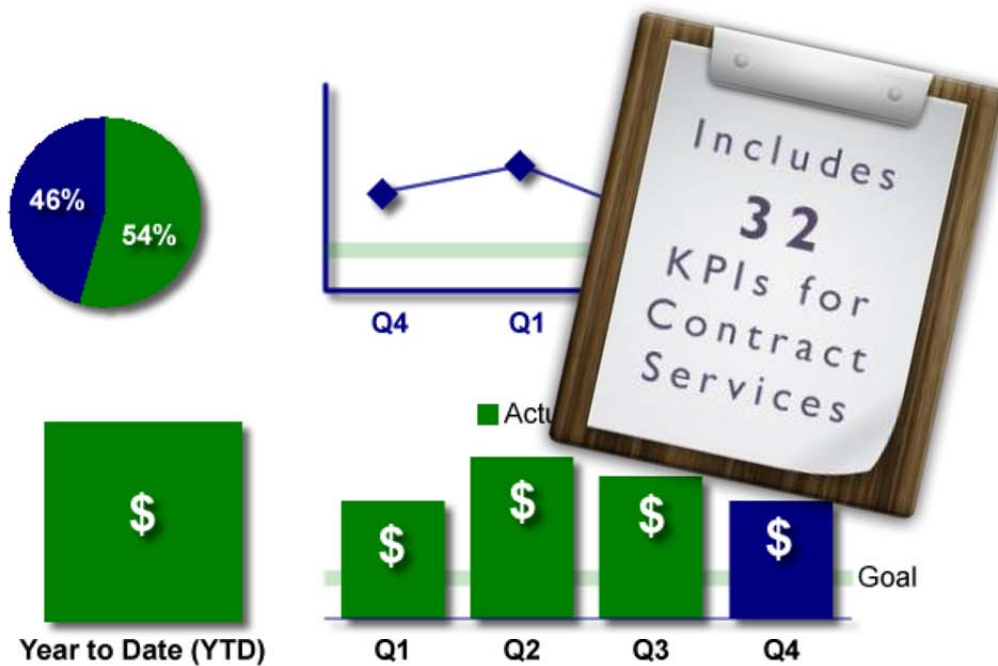


KPIs in Service

Using Key Performance Indicators to Optimize Contract Services



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INTRODUCTION

The KPIs (Key Performance Indicators) and their uses discussed in this ebook are from outsourced facility services. However, KPIs are adaptable to all services and should be a part of any service management program.

Also, we're using the term "customer" to include Procurement, the retained organization overseeing an outsourced service, and end-users.

With that said, KPIs are used for high dollar service contracts that typically attract lots of executive eyeballs.

Customers are always thinking, if not asking, "Am I receiving what I've paid for?"

It's a legitimate question. You can't hold services in your hand, they're different every time, and they're performed in front of customers over and over again. The slippery nature of service puts doubt in customers' minds.

KPIs make service real. They tangibilize service in a way customers understand - in numbers.

Without KPIs, the only service number customers have is price. And they can't determine value from that alone.

KPIs, in their basic usage, are simply a vendor management tool. They show customers that services were performed and value received.

However, sophisticated customers use KPIs to achieve high-value strategic objectives. With these customers, contractors approach KPIs differently.

In this ebook we'll take a look at KPIs and their usage, and provide a list of 32 KPIs.

Regards,



Chris Arlen, President, Service Performance

KPIs DEFINED

KPIs can be defined as

"...the vital few metrics that indicate progress towards strategic objectives - where metrics include the numerical measurement, measuring process and frequency."

Although there are many useful metrics for facility services, it's the vital few that are worth the time and effort.

Consider this, in older Boeing 747s, if all the instrumentation were taken out of the cockpit and laid end-to-end it would stretch over 27 feet in length.

Pilots couldn't pay attention to all those dials and displays all the time. Instead, they viewed six key indicators. If something appeared out of order, pilots checked the other instruments corresponding to that key indicator.

Now, aircraft cockpits use digital displays to show key information, which can be adjusted to display additional flight information as needed.

The same is true for KPIs as it is for 747 instrumentation. It's the vital few rather than the useful many - that's the "key" in KPIs.

KPIs WITH STRATEGIC OBJECTIVES

KPIs connect service performance with progress towards customers' strategic objectives. They belong in an improvement hierarchy that includes customers':

- **Future-state objectives** - that are related to:
- **Specific goals** - that can be achieved with:
- **Critical Success Factors** - that are initiatives to achieve goals, where:
- **KPIs** - monitor & measure performance towards achievement of goals

Here's a simplistic example:

- *Future-state objective: Safe workplace*
- *Specific goal: Reduce OSHA Recordable rate from 7.09 to 5.5 by 2009*
- *Critical Success Factors: Safety awareness training, safety risk analysis, safety incentive program*
- *KPI: OSHA Recordables Incident Rate*

Customers using KPIs towards strategic objectives are data-driven and routinely work on large business goals.

Consider the Six Sigma quality measurement process baked into GE, or HP's measuring contractors' performance in TQRDCE (Technology, Quality, Responsiveness, Delivery, Cost, and Environment).

These companies connect KPIs to strategic organizational objectives. That's the way they work, and so must their contractors.

KPIs, when used in this context, are an important part of an organization's strategic food chain. However, KPIs are also used in a more basic manner.

KPIs AS VENDOR MANAGEMENT TOOL

Contractors are more likely to see KPIs used as a vendor management tool than for strategic purposes.

As a vendor management tool, KPIs are a matter of perspective. Here the customer isn't looking to achieve larger, strategic objectives. They're using KPIs to view contract compliance and measure value received.

KPIs are essential in performance-based contracts, where customers put a portion of contractors' profit at risk. The amount of payment is based on contractors' performance as measured by KPIs.

KPIs IN ACTION

As you've probably guessed, KPIs aren't as simple as they first appear.

They're impossible to corral into standard categories. One customer may place the KPI "percentage compliance to service level agreements" in a Quality category, another customer puts it in a Responsiveness category.

Other KPI considerations include:

MEASURING CONTRACTOR PERFORMANCE, NOT SERVICE

Some KPIs measure a contractor's performance only, missing the service's impact on the facility and its end-users.

An example is using contractors' invoice accuracy as a KPI. It doesn't affect the cleanliness or security of a facility, but it's a pain to customers who have to spend extra time sorting out errors.

These vendor management KPIs can be as important to customers as those measuring service. And smart contractors treat them accordingly.

KPI OUTCOMES OUTSIDE CONTRACTORS' CONTROL

The outcomes of some KPIs are not 100% controllable by the contractor. Sometimes this is due to man-made or natural disasters, the randomness of human nature, or customers' policies that adversely affect outcomes.

Whatever the reason, it's important to identify this lack of control over the KPIs. This is especially true with performance-based contracts, where a portion of profit is paid based on KPI measurements.

For example, using the number of security incidents as a KPI. The problem is security incidents can never be eliminated. They can be mitigated, but they never go away entirely.

Additionally, a customer's company policy may prohibit searching end-users' bags and backpacks. This policy increases the potential for more incidents than if the security contractor used best practices and searched questionable items.

When a performance-based contract is tied to KPIs outside their control, experienced contractors pay attention and negotiate more controllable KPIs.

BENCHMARKING KPIs INSIDE & OUT

Benchmarking using KPIs enables performance comparison to customers' own historical data and/or industry benchmarks.

However, when benchmarking to industry peers, it's critical to normalize data for significant differences.

For example, janitorial benchmarks might be adjusted for different densities in customers' office space, instead of a one-to-one productivity rate comparison.

In security, factors such as closed or open perimeters (fences and gates vs. campus setting) affect comparisons of security incident rates between customers.

WHO MEASURES? CONTRACTOR OR CUSTOMER


Some KPIs require customer authorization, and/or may touch politically sensitive customer issues. These can be obstacles to pro-active contractors who seek to unburden their customers from KPI measurement.

Not all customers give contractors free reign to ask end-users' opinions on service.

For example, satisfaction metrics are important KPIs. However, some questions created by contractors, without customer guidance, may inadvertently aggravate end-users.

Additionally, if customers are already measuring end-users' satisfaction, they won't want the contractor to annoy end-users by asking similar information.

There can also be an issue with outsourcing in customers' companies. Some customers are comfortable with their end-users seeing the contractor's brand on surveys and uniforms.



KPIs in Service

Other customers require a wholly transparent relationship. One where the contractor is seen as part of the customer's company and there's no outside brand references.

The final answer to who measures, as always, is to work with customers and meet their KPI needs while respecting their position and company culture.

SELECTING KPIs

Although customers have the final say of which KPIs to use, contractors can help with their choice. Useful KPIs can be presented to customers as recommendations in the contractor's proposal.

After contract award, but before service starts, contractors can research the practicality of their KPI recommendations. They can then provide an assessment to help customers select realistic and productive KPIs. Research areas can include:

- *Availability of data*
- *Ease of collection*
- *Potential disturbances or interactions with end-users*

KPIs should be defined explicitly, or contractors may be accused of marketing smoke and mirrors. KPI components can include:

- **Metric Category:** *Defining categories before figuring out individual KPIs helps you choose KPIs for important business areas, such as: Cost, Quality, Safety, etc.*
- **Metric Name:** *Providing a, unique, descriptive name helps avoid confusion between similar sounding KPIs*
- **Unit of Measure:** *Name what you're counting, i.e. square feet, hours, incidents, etc.*
- **Calculation:** *The formula used to calculate values of the metric, i.e. (square feet / hours worked), or (# of responses in compliance / # responses non-compliant)*
- **Measurement Frequency:** *i.e. weekly, monthly, quarterly, etc.*
- **Measurement Procedure:** *i.e. manual tallying of complaints, or online digital tracking of requests, or however you capture data*
- **Weight:** *You may want to weight KPIs individually, or by category based on their importance, such as responsiveness may not be as critical as cost, and therefore weighted less important*
- **Target Value:** *Numerical goal for reporting period, can be either an industry benchmark, better than past, best possible value (i.e. 100 out of 100)*
- **Threshold:** *Can be current numerical starting point, minimum acceptable bottom line, or indicating deficiency*

SUMMARY

- *KPIs are metrics that indicate progress towards strategic objectives - where metrics include the numerical measurement, frequency and measuring process*
- *KPIs are the "vital few", not the "useful many", they're the "key" ones*
- *KPIs are commonly used as a vendor management tool for contract compliance & value measurement*
- *Sophisticated customers use KPIs towards strategic business objectives*
- *Some KPIs measure contractor performance, not service*
- *Some KPIs can be outside contractors' control*
- *Performance-based contracts use some form of KPIs*

32 KPIS FOR CONTRACT SERVICES

The following KPIs are common for outsourced facility services, but can be adapted to most service contracts. The term “customer” includes Procurement, the retained organization overseeing an outsourced service, and end-users.

- *The following KPIs are grouped within categories*
- *Frequencies & data collection processes vary widely*
- *Mix, match & mash up KPIs to fit your needs*
- *Automate data collection where possible*

Category	KPI	Notes
Financial	Cost Avoidance	<p>Cost avoidance is for unbudgeted expenses (differs from cost savings that are savings against budgeted expenses).</p> <p>Dollars avoided as a result of:</p> <ul style="list-style-type: none"> • Re-engineering scope • Productivity enhancements • Quality improvements • Technology initiatives
	Cost per Unit of Measure	<p>Annual or monthly contract costs divided by an appropriate unit of measure. KPI can be a dollar amount per:</p> <ul style="list-style-type: none"> • Square foot • Customer headcount • Contractor headcount • Any numerical facility denominator <p>Can be effected by density of end-users at facility, see page 14, Density in Service category.</p>

Category	KPI	Notes
Financial	Invoice Accuracy	<ul style="list-style-type: none"> • Number of errors per billing period • % of errors in contract & non-contract (project) work
	Variance: Budget to Actual	% difference between budgeted and actual expense, per month / quarter / year.
	Cost Savings	<p>Cost savings are dollars saved from budgeted expenses. Typically generated from: Re-engineering scope</p> <ul style="list-style-type: none"> • Productivity enhancements • Quality improvements • Technology initiatives <p>Contractor incentives to produce cost savings may include:</p> <ul style="list-style-type: none"> • Higher profit % from reduced scope • Longer contract term, avoids contractor rebid • More guaranteed non-contract work, typically at higher profit %
	Invoice Timeliness	% of invoices submitted within agreed upon due dates, typically an agreed number of days after the billing period has closed.
Green	Energy Reductions	<ul style="list-style-type: none"> • KWH, dollars savings & % reduction comparing this period (month/quarter/year) to the prior period
	Janitorial Recycle Volume	<ul style="list-style-type: none"> • Percentage of Recycled Materials vs. Non-Recyclable • Diversion rate in tonnage

Category	KPI	Notes
People	Retention: Contractor Employees	Percentage of retained contractor employees during reporting period. Goals should be less than 100% as there are positive reasons to change out employees, such as removing poor performers.
People	Tenure: Contractor Employees	<p>Distribution of employees by length of tenure with contractor's company. Tenure groups vary by service industry.</p> <p>% of employees per tenure grouping:</p> <ul style="list-style-type: none"> • <1 yr. • 1-3 yrs. • 3-5 yrs. • >5 yrs.
	Turnover: Contractor Employees	<p>% of contractor employees leaving site per time period (quarterly, annually). Three potential Turnover KPIs: Total, Voluntary and Involuntary. Number of employees is the total # of employees for that time period, which includes terminated & active.</p> <ul style="list-style-type: none"> • Total Turnover: $\# \text{ total terminations} / (\# \text{ employees} - \# \text{ new positions added})$ • Voluntary Turnover: Use only voluntary quits for total termination in above formula. • Involuntary Turnover: Use only involuntary (disciplinary actions, etc.) quits for total terminations in above formula. <p>Goals should be less than 100% for Total Turnover as there are positive reasons to change out employees, such as removing poor performers.</p>
	Turnover: Contractor Employees per Position	% of contractor employees filling positions per time period (quarterly, annually).

Category	KPI	Notes
Quality	Complaints/ Requests/ Commendations	<p>It's important to distinguish a "complaint" from a "request" as what may sound like a complaint could be end-users' expecting service/frequency that's out of scope.</p> <p>Commendations are praise from end-users, sent via letters or emails. End-users need coaxing to praise contractor's employees when they receive excellent service.</p> <p>Requests may or may not create a Work Order, see page 15 in Service category</p>
	Improvement Recommendations & Initiatives	<ul style="list-style-type: none"> • Number of contractor recommended improvements; regardless if they're implemented by customer (part of a contractor's value is as a pro-active source of ideas). • Dollar Value of estimated Cost Savings/Avoidance from recommended improvements. • Number of contractor improvements implemented by customer. • Dollar Value of actual Cost Savings/Avoidance from implemented improvements
	Quality Audits	<p>Percentage compliance to audit schedule.</p> <p>Number of deficiencies per audit</p>
	Quality Inspections	<p>Percentage inspection scores, total and by area. Inspections can be grouped by the inspecting party, whether contractor, customer, or joint inspections.</p>
	Satisfaction: Contract Contacts	<p>Satisfaction surveys of customer manager(s) of contracted service. Expressed as percentage of highest possible scores.</p>
	Satisfaction: Contractor Employees	<p>Satisfaction surveys of contractors' employees. Expressed as percentage of highest possible scores.</p>

Category	KPI	Notes
Quality	Satisfaction: End-Users	Satisfaction surveys of end-users. Expressed as percentage of highest possible scores.
		<p>Integrate contractor's survey with business owner's pre-existing survey questionnaire and process.</p> <p>Sample size large enough for statistically valid data, surveyed annually, or on Work Order/Project completion</p>
Safety	Days Away from Work	Number of days contractors' employees missed due to workplace injuries
	Days Away Restrictions & Transfer	Number of days contractors' employees are on work restricted duty assignments due to workplace injuries
	Injury Frequency Rate	Number of accepted injury claims per 100 Full-Time Equivalents.
	OSHA Recordable Incidents	Number of recordable incidents x 200k(total annual hours for 100 FTEs) / total hours worked during that period
Service	Density	KPI showing density of end-users in facility environment. Expressed as headcount per square footage, building, or
	Facility Scheduled Uptime	In a production, or manufacturing environment, percentage of time serviced area is online as scheduled.
	Janitorial Productivity Rate	<p>1,000s square feet per hour cleaned/worked. When comparing to external benchmark, clearly determine which activities are included or excluded, such as:</p> <ul style="list-style-type: none"> • Supervision time • Floors • Periodics • Restrooms • Trash/Recycle runs

Category	KPI	Notes
Service	Work Orders	Number of work orders by type, and/or customer categories.
	Security Incidents	Number of security incidents grouped by type.
	Service Level Agreement (SLA) Compliance	<p>For janitorial service, SLAs can cover:</p> <ul style="list-style-type: none"> • % of Non-contract (Periodic) cleaning tasks completed on schedule • % of Work Orders (non-contract work) responded to within contracted timelines • % of post Work Order customer satisfaction scores above contracted threshold <p>For security contractors, this can cover:</p> <ul style="list-style-type: none"> • % of compliance to agreed upon response times to incidents, per tier level—measured from receipt of call to on-site arrival—incidents categorized into tier levels with differing response times
	Service Requests	<p>Number of non-contract service requests, by category where appropriate.</p> <p>For janitorial, this may include requests for spill cleanups, flood cleanup, etc.</p> <p>For security, this may include escorts, Security Assisted Terminations, auto jump starts, etc.</p>
Training	Testing Success	Percentage of 1 st time passing scores on tests. Typically, retakes of tests are allowed.
	Training Compliance	<p>Percentage compliance of training courses completed to contracted or regulatory schedule.</p> <p>Median test scores and percentage of tests completed with 100% to total taken.</p>

ABOUT THE AUTHOR: CHRIS ARLEN

Chris Arlen started Service Performance in 1996 and has worked with a number of high-profile end-users, such as Microsoft, Yahoo!, Sony Pictures Entertainment and Aetna, as well as most of the top security and janitorial firms in North America.

Chris gained his professional experience from over 26 years in service industries, and has a Masters Degree in Management.

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