



“Mirror, Mirror on the Wall, How Is Procurement Performing?”

NANCY CLINTON - October 29, 2015 12:03 AM |

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We are pleased to publish this post from Sigi Osagie, a leading expert on effectiveness in Procurement & Supply Chain Management. He is author of the highly-acclaimed book Procurement Mojo – Strengthening the Function and Raising Its Profile and can be

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Contemplating what true Procurement success means is a valuable exercise. It may force some of us to recalibrate our conventional notions of what ‘performance’ accomplishment entails. The ‘key performance indicators’ (KPIs) we commonly adopt are exactly what the phrase infers: they signify what we view as the key dimensions of performance and the measures we use to establish how well we are doing.

As shocking as it sounds, some Procurement functions don’t even measure their performance. And for those that do, the principal KPIs typically concern financial benefits and regulation or governance – for example, cost savings or PPV; Procurement ROI; spend-under-management; and supplier performance. But where are the measures that indicate how well we are doing with building the competences of our people who do the work?

What about the measures that tell us whether or not we are succeeding in serving our internal customers robustly, thus feeding a positive perception of Procurement and its value-add?

And which measures tell us whether or not Procurement is appropriately aligned to the corporate agenda?

Take a look at the KPIs of your own Procurement department; if you had to establish your ‘dream Procurement function’ would these be your choice of performance measures to tell you how flawless it is?

Performance measures should indicate actual performance relative to the vision or goals pursued. So Procurement KPIs should incorporate the function’s performance responsibilities and its obligations to

enterprise priorities, and balance operational and strategic perspectives. Crucially, these requirements must be met beforehand when [setting functional goals](#).

The link between objectives and performance measurement is fundamental. It's pointless setting goals against which you can't measure progress. And it's senseless setting goals against which you can track performance but failing to do so effectively; perhaps because your KPIs are inappropriate.

The term 'KPI' is grossly overused. Everything that can be measured is now a "KPI", whether or not the measurement is indeed a key one. And we seem to have forgotten the wisdom in the statement often attributed to Einstein: "Not everything that matters can be measured and not everything that can be measured matters."

Do you measure what truly matters, or what is conventional or easy-to-measure?

Good KPIs are like a mirror that tells no lies – they should give you an accurate reflection of how you're performing. But they can only be effective if they are appropriate.

Your KPIs should reveal the 'organisational health' of your Procurement function and how well you are doing in the most important dimensions of performance. Focus on the few vital measures that illustrate functional contribution, capability and growth. These may vary from organisation to organisation, as the key focus of each Procurement function will depend on its goals, which must relate to enterprise priorities.

Taking a balanced approach ensures the Procurement function doesn't miss vital feedback in all the key dimensions of its organisational existence. Your KPIs should provide a view of Procurement's status and progress from several perspectives, helping to ascertain the answers to crucial questions like:

- How well are we doing with regard to contribution to enterprise success?
- How do our internal customers see us, and how well are we meeting their needs?
- How robust and efficient are our internal and external infrastructure, including our people capability and our supply base?
- In which aspects of our organisational existence must we improve?
- How can we continue to grow our capabilities and improve our value-add to the enterprise, its customers and our employees?

I reiterate the need for balance because many Procurement people still think 'performance' is solely about delivering "cost savings." An overriding focus on purely financial or short-term performance will definitely not lead you to your Procurement mojo.

There can be no definitive one-size-fits-all set of measures. However, effective Procurement performance measurement must imbibe considerations in non-financial areas such as talent and bench strength, internal customer satisfaction and risk mitigation. Whatever KPIs you choose, remember that good performance measures don't automatically give you performance success.

People often mistake 'performance measurement' for 'performance management' – two separate things. There is a hidden fallacy in the common interpretation of the notion that “what gets measured gets done.” Measuring performance, per se, will not give you performance success. Managing performance will. But you can't manage performance without measuring it. Success comes from the appropriateness of the objectives and performance measures, what we do about what the KPIs tell us, and how effective we are in our ensuing actions.

As you digest these points in your mind, remember that **people are the heartbeat behind your performance outcomes** – it is people who create performance, good or bad, including those who define Procurement objectives and KPIs that may or may not be appropriate.

