

Module 1

Section F: Performance Monitoring and KPIs

Term

Balanced scorecard

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A list of financial and operational measurements used to evaluate organizational or supply chain performance. Dimensions might include customer perspective, business process perspective, financial perspective, and innovation and learning perspectives. It formally connects overall objectives, strategies, and measurements. Each dimension has goals and measurements.

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Cash conversion cycle

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1) In retailing, the length of time between the sale of products and the cash payments for a company's resources. 2) In manufacturing, the length of time from the purchase of raw materials to the collection of accounts receivable from customers for the sale of products or services.

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Cash-to-cash cycle time

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An indicator of how efficiently a company manages its assets to improve cash flow. Calculated as inventory days plus accounts receivable days minus accounts payable days. See: cash conversion cycle.

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Cost center

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The smallest segment of an organization, typically a department, for which costs are collected and formally reported. The criteria in defining [this] are that the cost be significant and that the area of responsibility be clearly defined. [It] is not necessarily identical to a work center; normally, [this] encompasses more than one work center, but this may not always be the case.

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Current ratio

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Current assets divided by current liabilities.

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Global measurements

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Measurements used to judge the performance of the system as a whole.

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Inventory turnover

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The number of times that an inventory cycles, or “turns over,” during the year. A frequently used method to compute inventory turnover is to divide the annual cost of sales by the average inventory level. For example, an annual cost of sales of \$21 million divided by an average inventory of \$3 million means that inventory turned over seven times. Syn.: inventory turns, turnover. See: inventory velocity.

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Key performance indicator (KPI)

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1) A financial or nonfinancial measure that is used to define and assess progress toward specific organizational goals and that typically is tied to an organization’s strategy and business stakeholders. Should not be contradictory to other departmental or strategic business unit performance measures. 2) A metric used to measure the overall performance or state of affairs. SCOR level 1 metrics are an example.

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Labor standard

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Under normal conditions, the quantity of worker minutes necessary to finish a product or process.

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Local measures

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The set of measurements that relates to a resource, operation, process, or part and usually has low correlation to global organization measures. Examples are errors per printed page, departmental efficiency, and volume discounts.

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Net operating cash flow

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In finance management, the difference between cash inflow and cash outflow for a given period. It is found by taking the change in net operating profit after taxes and adding the change in depreciation then subtracting the increase in net working capital requirements.

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Operational performance measurements

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1) In traditional management, performance measurements related to machine, worker, or department efficiency or utilization. These performance measurements are usually poorly correlated with organizational performance. 2) In theory of constraints, performance measurements that link causally to organizational performance measurements. Throughput, inventory, and operating expense are examples. See: global performance measurements, local performance measurements, strategic performance measurements.

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Performance measurement system

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A system for collecting, measuring, and comparing a measure to a standard for a specific criterion for an operation, item, good, service, business, etc. [It] consists of a criterion, a standard, and a measure. Syn.: metrics. See: performance criterion, performance measure, performance standard.

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Quality control

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The process of measuring quality conformance by comparing the actual with a standard for the characteristic and taking corrective actions on the difference. See: quality assurance/control.

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Quick asset ratio

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A measure of a firm's financial stability. It is defined as (current assets minus inventory) divided by current liabilities. A value greater than 1 is desirable. Syn.: quick ratio, acid test, acid test ratio.

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SCOR metrics

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In SCOR, metrics measure the ability of processes to achieve the strategic objectives associated with performance attributes. SCOR recognizes three levels of predefined metrics: Level 1 metrics are diagnostics for the overall health of the supply chain. Level 2 metrics serve as diagnostics for the level 1 metrics. Level 3 metrics serve as diagnostics for level 2 metrics.

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Standard

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1) An established norm against which measurements are compared. 2) An established norm of productivity defined in terms of units of output per set time (units/hour) or in standard time (minutes per unit). 3) The time allowed to perform a specific job including quantity of work to be produced. See: standard time.

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Strategic performance measurements

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Measurements that relate to the long-term goals of a business. Examples include profitability, market share, growth, and productivity. See: global performance measurements, operational performance measurements.

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Supply Chain Operations Reference (SCOR) model

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A process reference model developed by the Supply Chain Council and endorsed by the Association for Supply Chain Management (ASCM) as the standard cross-industry diagnostic tool for supply chain management. [It] describes the business activities associated with satisfying a customer's demand, which include plan, source, make, deliver, return, and enable. Use of [this] includes analyzing the current state of a company's processes and goals, quantifying operational performance, and comparing company performance to benchmark data. [It] has developed a set of metrics for supply chain performance, and ASCM members have formed industry groups to collect best practices information that companies can use to evaluate their supply chain performance.

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Tactical plan

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The set of functional plans (e.g., production plan, sales plan, marketing plan) synchronizing activities across functions that specify production levels, capacity levels, staffing levels, funding levels, and so on, for achieving the intermediate goals and objectives to support the organization's strategic plan. See: aggregate planning, operational plan, production planning, sales and operations planning, strategic plan, tactical planning.

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Total factor productivity

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A measure of productivity (of a department, plant, strategic business unit, firm, etc.) that combines the individual productivities of all its resources, including labor, capital, energy, material, and equipment. These [individual... productivities] are often combined by weighting each according to its monetary value and then adding them. For example, if material accounts for 40 percent of the total cost of sales, labor 10 percent of the total cost of sales, and other resources 60 percent, [this] = .4 (material productivity) + .1 (labor productivity) + .6 (other resource productivity).