

Chapter 16

Key Intangible Performance Indicators (KIPs) for Organisational Success: The Literature Review

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ABSTRACT

The paper reviews the concept and trend of Key Intangible Performance indicators (KIPs) for organisational success. Although KPIs are useful for tracking tangible performance drivers, KPIs cannot adequately measure intangible performance drivers. Therefore, organisations need to look for KIPs (which measure intangible drivers) in order to generate a complete picture of overall performance of organisations. Evidently, there is a significant shift of emphasis from measuring tangible to intangible performance measures in order to tap the full potential of intangible resources. It makes logical sense for organisations to unlock the intangible values for achieving and sustaining competitive advantage. In the face of globalisation, organisations need to transform themselves into highly competitive organisations to stay ahead of competition and at the forefront of their industries. The development and application of KIPs will be a strategic move to provide further insights and an impetus for continual improvement. From the literature review conducted, it is found that there are many diverse KIPs drivers which impact organisational success. And the most important drivers identified in this paper are leadership, innovation, company image and reputation, and employee satisfaction.

INTRODUCTION

This paper investigates the significant impact of Key Intangible Performance indicators (KIPs) on organisational success. It is a fact that both Key Performance Indicators (KPIs) and Key Intangible Performance Indicators (KIPs) measures play pivotal roles in making organisation a success.

The main difference between KPIs and KIPs lies in the definition of tangible performance drivers for the former and intangible performance measures for the latter. This is in line with definition made by Lönnqvist (2002) who categorises critical success factors into financial and non-financial and tangible and intangible and depicts them into four quadrants as shown in Figure 1.

In fact, KPIs are more widespread even though organisation’s intangible assets may easily represent more than 75 percent of its values (Kaplan & Norton, 2004). Spitzer (2007a) highlights that while intangible assets account for as much as 80 percent of some companies’ market value, almost no intangibles ever appear in a company’s financial reports—at least not as anything other than an expense. Therefore, it is crucial for organisations to unlock the value of these assets to enhance its competitive advantage. At present, there is now

a shift from measuring tangible to intangible assets (Boundoufr, 2003). Indeed, more companies are realising that knowledge assets, rather than physical assets, are the indicators that should be measured and included for a successful and profitable future (Margareta, 1999; Tony, 2001). Investors will be best served if all assets – both tangible and intangible - are measured and reported, even if the value of some intangibles can only be communicated through indicators (Litan, 2000). Therefore, this study intends to fill this gap on intangible measurement indicators and work toward the development and application of the KIPs in the public or private sectors.

BACKGROUND

KPIs are defined as the measures of non financial and tangible achievement that can be attributed to an individual, team, or department. KPIs are constructed using the SMART (Specific, Measurable, Attainable, Reliable, and Time -based) principles of objective setting, and are developed as part of a performance management system (Arash & Mahbod, 2007).

Figure 1. Classification of common success factors (adapted from Lönnqvist, 2002)

| | | Success Factor | |
|-----------------------|------------|--|--|
| | | Financial | Non-Financial |
| Success Factor | Tangible | <ul style="list-style-type: none"> • Economic growth • Liquidity • Product t/service costs • profitability | <ul style="list-style-type: none"> • Delivery time • Quality of product • Production volume • Productivity • Stock turn time • Service volume |
| | Intangible | <ul style="list-style-type: none"> • Brand value • Goodwill • Value of immaterial properties | <ul style="list-style-type: none"> • Competencies • Customs satisfaction • Customer retention • Innovation • Motivation • Personnel satisfaction |

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