Chapter 11

Organisational Success:
Explaining the Role of Key Intangible Performance Indicators (KIPs)

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ABSTRACT

Organisational success has become the focus of a growing body of research in the field. In this chapter, the authors argue that although Key Performance Indicators (KPIs) are useful for tracking tangible performance drivers, KPIs cannot adequately measure intangible performance drivers. They suggest that Key Intangible Performance Indicators (KIPs) are often the essential characteristic that drives the success of organisations. Top management should incorporate both KPIs and KIPs into success strategy in order to generate a complete picture of the overall performance of organisations. Evidently, there is a significant shift of emphasis from measuring tangible to intangible performance measures. Drawing from the Resource-Based View (RBV), superior performance is attributed to superior resources, and this helps explain why organisations should unlock the full potential of tangible and intangible resources and capabilities in attaining sustainable competitive advantage. In the face of globalisation, organisations need to transform themselves to be highly competitive in order 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. The authors fill a gap in the resource-based literature by identifying four critical KIPs that influence the success of organisations, and they are leadership, innovation, reputation, and employee satisfaction.

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Organisational Success

INTRODUCTION

This paper investigates the significant role of Key Intangible Performance indicators (KIPs) in organisational success. While much research has been done on identifying Key Performance Indicators (KPIs) in making organisation a success, we lack an understanding of the importance of KIPs in explaining organisational 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. In Lönnqvist (2002)’s critical success factors framework, a distinction is made between financial and non-financial factors, and tangible and intangible factors and depicts them into four quadrants as shown in Table 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 (Bounfour, 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). Along with the increasing awareness of the role of KIPs in recent decades, we intend 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)

Table 1. Classification of common success factors (Lönnqvist, 2002)

<table>
<thead>
<tr>
<th>Success Factors</th>
<th>Financial</th>
<th>Non-Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Success Factors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible</td>
<td>● Economic growth.</td>
<td>● Delivery time.</td>
</tr>
<tr>
<td></td>
<td>● Liquidity.</td>
<td>● Quality of products.</td>
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<td></td>
<td>● Product/service costs.</td>
<td>● Production volume.</td>
</tr>
<tr>
<td></td>
<td>● Profitability.</td>
<td>● Productivity.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Stock turn time.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Service volume.</td>
</tr>
<tr>
<td>Intangible</td>
<td>● Brand value.</td>
<td>● Competencies.</td>
</tr>
<tr>
<td></td>
<td>● Goodwill.</td>
<td>● Customer satisfaction.</td>
</tr>
<tr>
<td></td>
<td>● Value of immaterial properties.</td>
<td>● Customer retention.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Innovation.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● Motivation.</td>
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<tr>
<td></td>
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<td>● Personnel satisfaction.</td>
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