Improving management reporting using non-financial KPIs

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2. Issues with Metrics
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4. Developing a Framework
5. Linking Non-Financial KPI reporting to financial outcomes (Case Study)
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Different views

“If you can’t measure it, you can’t control it, and if you can’t control it, you can’t manage it.”

“Not everything that counts can be counted, and not everything that can be counted counts.”

(Albert Einstein)

“What you measure is what you get.”

“When you can measure what you are speaking about and express it in numbers, you know something about it”

(Lord Kelvin)
1. Performance Metrics
The KPI dilemma

- The proliferation of Key Performance Indicators (KPIs) as common currency in organisational language is often an indication of management’s obsession with ‘metrics mania’. Organisations are drowning in ‘measurement swamp’

- The issue is that not all KPIs are equal in importance or critical in nature to an organisation. However the excessive use of the term KPI often implies the converse

- There is deep misunderstanding about their role and how they should be used

- They often drive behaviour that does not achieve the desired outcomes
KPIs – what do we mean?

A set of metrics that focus on those aspects of organisational performance that are most critical to the current and future success of the organisation

- Performance measures or an organisation’s Critical Success Factors (CSFs)
- Measure the processes that support the achievement or realisation of CSFs of the organisation
- Whilst CSFs are spelled out in the organisations business plan and they do not change frequently
- The processes and strategies supporting the CSFs can change frequency
- KPIs must satisfy management’s need
KPIs should

- Make strategic objectives clear
- Focus on core processes
  - Focus on critical variables
- Signal where the performance is headed
- Identify which critical factors warrant attention
- Be used as a basis for reward
Differentiating PIs and KPIs

Performance Indicators

Measures that focus on a certain aspect of performance
- Lower level
- Operational
- Many measures

Key Performance Indicators

Measures that are critical to identifying success
- Higher level
- Strategic
- Fewer Measures
As soon as measures are used as means of control, the people being measured begin to manage the measures rather than the performance.

What and how you measure determine people’s behaviour

- Change measures – change behaviour (good or bad)
When executives are surveyed about their frustrations, it’s common that they can not get their organisation to execute to shifts in their strategy.

Employee inertia governed by inappropriate measures.
FALSE ALARMS

- Focusing on areas that do little to improve or have good consequences for the organisation
  - (Typically associated with cost-based measurements)

GAPS

- Failing to use the right measures, resulting in something important being neglected
  - (Often associated with non-financial measures)
Effective KPIs

✓ Non-financial
✓ Measured frequently
✓ Actioned by Senior Management
✓ Linkage of metric understanding to corrective action required
✓ Aligns responsibility to individual/team
✓ Impacts on the critical success factors
✓ Impacts on other performance measures
Effective KPIs - 2

✓ Supportive and consistent with an organisation:
  ✓ Goals/ actions/ people & culture / key success factors

✓ Strategically relevant

✓ Ease of implementation – not too complex

✓ Driven by the customer/user

✓ Appropriate to the organisation level and promotes cooperation both horizontally and vertically throughout the organisation

✓ Appropriate to the external environment
Effective KPIs - 3

✓ Realistic
✓ Directed to factors that matter & make a difference
✓ Linked to activity so a clear relationship exists between cause and effect
✓ Focussed more on managing resources and inputs, not simply costs
✓ Committed to providing action oriented feedback
✓ Supportive of individual and organisational learning
✓ Promotes continuous and perpetual improvement
2. Issues with Metrics
Problems

- Too much data
- Measures are short-term focused
- Lack of detail
- Poor or no alignment
- Drive the wrong performance
- Behaviour vs. accomplishment
- Encourage competition – discourages team work
- Isolating KPIs leads to a lack of focus and direction
Identifying appropriate KPIs

- When you put a $ sign on a measure, you have already converted it into a result indicator.
  - e.g. sales are the result of upstream activities to generate the sale

- Non-financial indicators should be monitored 24/7 or weekly at the minimum

- Lead vs. Lag indicators – clouds the issue
Dumb KPIs

- Not improvement / actioned oriented
- Non-aligned with strategy
- Focus on the past performance
- Functional focus
- Static – does not change in alignment with business dynamics
Dumb KPIs - 2

- Quantitative in nature
- Isolated / silo based
- Control focus
- Poor communicators
Case study – ‘chicken efficiency’

Background
- Fast food chicken franchise chain
- Waste % factor key to store profitability

Objective
- KPI that promotes and rewards minimal waste % to improve profitability

Results
- Wastage %
- Sales

Profitability reduced
Smart KPIs

- Integrate financial & non-financial measures
- Shifts from measuring the what to explaining why simultaneously
- Links measures to a key action driver
- Are powerful behavioral tools
- Qualitative measure more than quantitative
- Becomes indices rather than strict measures
Focus is on improvement of a given area / function etc.

- Monitors progress toward achieving business objectives
  - Corrects weaknesses in work or processes
  - Recognises early warning signals
  - Responds to changing environments
  - Has clearly defined accountabilities
Developing relationships

In key to developing SMART KPIs is to develop a relationship between the cause (key action driver) and the effect (result / measure)

<table>
<thead>
<tr>
<th>Effect</th>
<th>What</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause</td>
<td>Why</td>
</tr>
</tbody>
</table>

The process is not precise ...but gives an explanation into the behaviour as to the cause of the what (result). It links qualitative with quantitative measures (financials & non-financials)
We develop a relationship that the more phone calls we make chasing up debtors the more positive impact it will have on our DSO measure

- Cause = No. of calls made
- Measure = DSO

So our relationship can now be expressed as:

\[
\frac{\text{DSO}}{\text{No. of calls}} = \text{Index measure}
\]
Improving management reporting using non-financial KPIs

Application - 2

Month 1 – 60 days
Month 2 – 65 days
Month 3 – 70 days
Month 4 – 75 days

What does this mean?
What is causing the deteriorating situation?
<table>
<thead>
<tr>
<th>Result</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month 1 – .10</td>
<td>The measure now tells us that the deteriorating DSO is the result of not making as many calls in the 4th month (approx. 400) as in the 1st month (approx. 600 calls).</td>
</tr>
<tr>
<td>Month 2 – .13</td>
<td>The key now is to investigate why this is occurred and do something about it</td>
</tr>
<tr>
<td>Month 3 – .155</td>
<td></td>
</tr>
<tr>
<td>Month 4 – .187</td>
<td></td>
</tr>
</tbody>
</table>
3. Improving Non-Financial Reporting
What non-financial KPIs to use?

The types of non-financial measures available are only limited by your thinking

- Can be used for any application
- Allows for greater use of qualitative factors
- The critical issue is to use those that are most appropriate to your organisation in ensuring it achieves its strategic objectives
- Fewer is better than more
- Should tell you what action needs to take place
- Develop a KPI data base to control their use
- Measure to learn and improve
- Choose the right measures
- See measurement as patterns, trends and abnormalities
- Provide external reality checks
The right KPIs

- Objective and measurable
- Agreed upon by all parties
- Focused on the most important things
- Related to strategic goals
- Well communicated throughout the organisation
- Foster improvement
- Provide comparative and competitive data
- Reward and recognise good performance
- Focus on the long-term viability of the organisation
Example - Hotel

Hierarchy of services

Service functions
- Guest services
- Sales /Reservations
- Banquets/food/beverages
- Facilities

Service Groupings
- Concierge
- Operator
- Housekeeping
- Guest relations

Individual Services
- Wake-up calls
- Calling assistance
- Messages

Quality Measures
- Guest called on time
- Use of guest name when taking requests
Sales Competition (Retail Race)
4. Developing a Framework
### Emerging performance measurement system

<table>
<thead>
<tr>
<th>Focus / Area</th>
<th>Traditional</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale</td>
<td>Departmental</td>
<td>Enterprise wide</td>
</tr>
<tr>
<td>Focus</td>
<td>Historical</td>
<td>Timely</td>
</tr>
<tr>
<td>Decisions</td>
<td>Strategic &amp; Tactical</td>
<td>Strategic, Tactical &amp; Operational</td>
</tr>
<tr>
<td>Users</td>
<td>Analysts</td>
<td>Everyone</td>
</tr>
<tr>
<td>Orientation</td>
<td>Reactive</td>
<td>Proactive</td>
</tr>
<tr>
<td>Output</td>
<td>Strategic Analysis</td>
<td>Strategic Action</td>
</tr>
<tr>
<td>Process</td>
<td>Open-ended</td>
<td>Closed Loop</td>
</tr>
<tr>
<td>Measures</td>
<td>KPIs</td>
<td>Metrics</td>
</tr>
<tr>
<td>Views</td>
<td>Generic</td>
<td>Personalised</td>
</tr>
<tr>
<td>Visuals</td>
<td>Tables / Charts</td>
<td>Dashboards / Scorecards</td>
</tr>
<tr>
<td>Collaboration</td>
<td>Informal</td>
<td>Built-in</td>
</tr>
<tr>
<td>Interaction</td>
<td>Pull (ad hoc query)</td>
<td>Push (alerts)</td>
</tr>
<tr>
<td>Analysis</td>
<td>Trends</td>
<td>Exceptions</td>
</tr>
<tr>
<td>Data</td>
<td>Numeric only</td>
<td>Numeric, Text etc.</td>
</tr>
</tbody>
</table>
Improving management reporting using non-financial KPIs

BPMS framework

Strategy

Strategy Plans
Strategy Maps

Plans, Budgets & Scenarios
Projects / Initiatives

Forecasts & Models
Actions

Scorecards
Reports / Analysis
Alerts

Execution

Improving management reporting using non-financial KPIs
Characteristics of an effective measurement system

- Fewer is better – focus on key variables
- Linked to factors needed for success - key business drivers
- Mix of past, present and future
- Focus around the needs of customers, shareholders and other key stakeholders
- Should start at the top and flow down
Characteristics of an effective measurement system - 2

- Multiple indices
- Be flexible – change to reflect organisational environmental shifts
- Targets/goals based on research rather than arbitrary numbers
Key Steps

1. Guiding Documents
   - Mission
   - Vision
   - Values
2. Situational analysis
3. Definition of key success factors and business fundamentals
4. Macro performance measures
   - Measurement categories
5. Measurement plan
6. Data collection instruments and procedures
Improving management reporting using non-financial KPIs

KPI Linkage

- Strategy
  - Balanced Scorecard
  - Objectives/Measures/Milestones
  - Strategic Program/Actions (cost, benefits, KPI, milestones)

Management Process

Main actions & KPIs

Actions and KPIs

Business Idea

Target Data

Gap Analysis

Rolling Forecasts

Improving management reporting using non-financial KPIs
1. **Key Result Indicators (KRI)**s – are the key outcomes of performance used by senior management to determine the success of their strategies in achieving organisational goals.

2. **Key Performance Indicators (KPI)**s – are the measures that focus on those aspects of organisational performance that are most critical for the current and future success. They are commonly used throughout an organisation at varying levels (e.g. individual, functional, divisional etc.).

3. **Performance Indicators (PI)**s – are detailed operational / housekeeping measures that support and underpin KPIs. Extensively used throughout an organisation in different forms at different levels and linked more to individual and functional activities.
How many is enough?

- KRI – 5 or less
- KPI – 10 or less
- PIs – Range of 50 to 70
How many is enough – 2?

In determining how many measures to use, remember less is more as too many measures will tend to:

- Dilute focus
- Promote undesirable organisational behaviour
- Blur alignment of strategic objectives
- Create unnecessary reporting and administrative overhead
5. Linking Non-Financial KPI Reporting to Financial Outcomes
The financial & non-financial relationship

The Revenue Growth Strategy
“Improve stability by broadening the sources of revenue from current customers.”

Financial Perspective
- Broaden Revenue Mix
- Improve Returns

Customer Perspective
- Increase Customer Confidence in Our Source

Internal Perspective
- Understand Customer Segments
- Develop New Products
- Cross-sell the Product Line
- Shift to Appropriate Channel
- Minimise Problems
- Provide Rapid Response

The Productivity Strategy
“Improve operating efficiency by shifting customers to more cost-effective channels of distribution.”

Learning and Growth Perspective
- Increase Employee Productivity
- Develop Strategic Skills
- Access to Strategic Information
- Align Personal Goals

(Source: Kaplan & Norton: “The Balanced Scorecard”)
Case Study

- Details provided on the screen

- Focus: Links KPI reporting to an improvement plan that is quantifiable in $
6. Concluding Comments
Concluding comments

- There is no magical non-financial KPIs – it’s what’s appropriate to organisations in delivering on their strategic objectives.

- The key is to have fewer KPIs with greater alignment and linkage to strategic objectives and outcomes.

- Effective non-financial KPIs will:
  - Focus on the now and the future
  - Enable people to understand
  - Encourage the right behavior

- KPIs allow people to assess where they are and how their performance might be improved, the real value comes from the action that follows from them.
THANK YOU

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