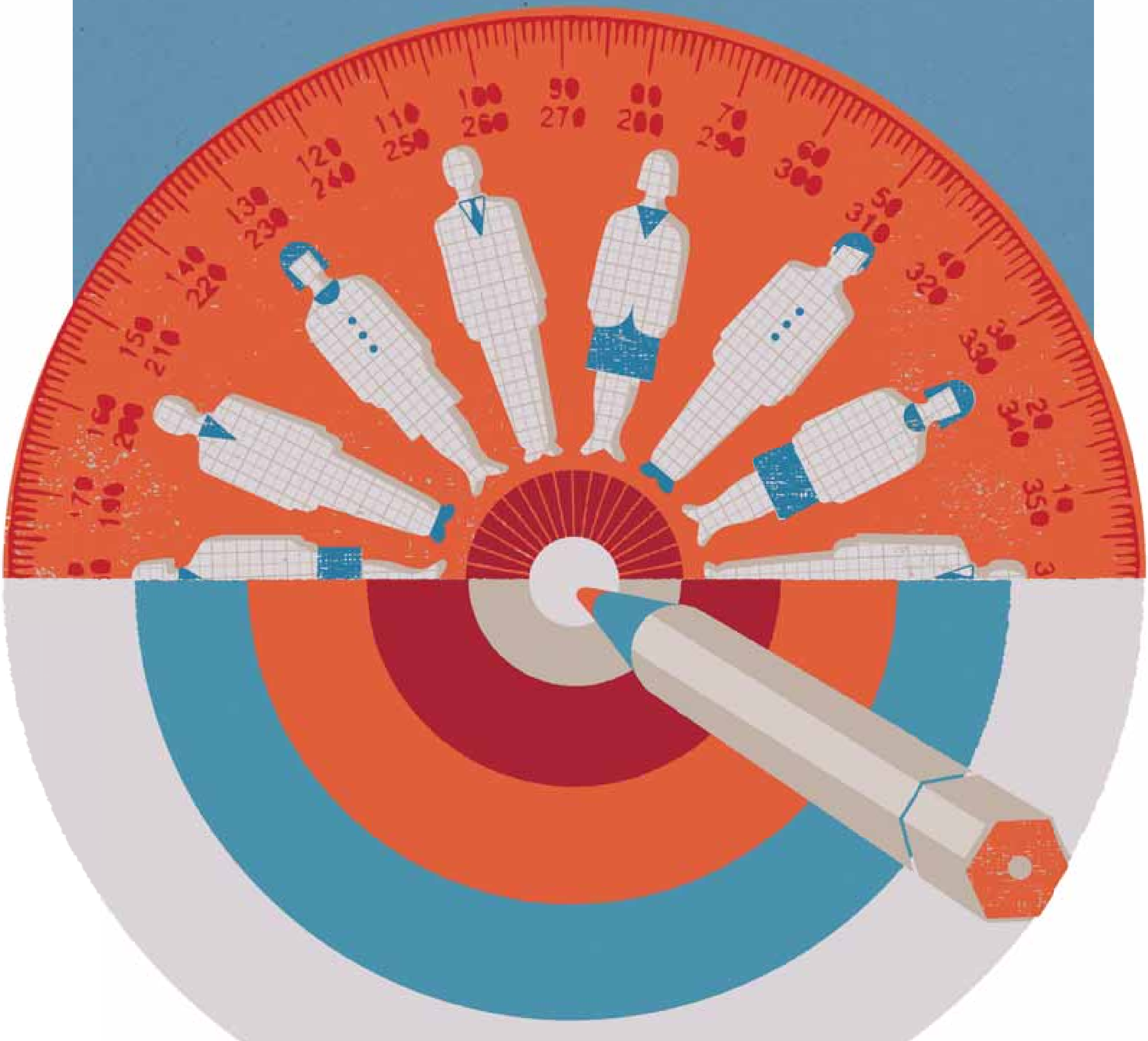
EMBRACE THE METRIC SYSTEM

With crucial KPIs buried deep in every business, finance professionals speak to Lauren Razavi about how they harness their company's hidden depths for success



Monitoring success and tracking business development is most easily assisted by one thing: key performance indicators (KPIs). And there are few areas in any organisation that are better suited to utilising KPIs that contribute to overall business growth than the finance function.

Careful definition of ongoing operational goals is essential if, for example, a manufacturing company wants to repeatedly achieve zero defects in a product or if a digital service provider seeks to reap five-star customer satisfaction ratings. But with the right KPIs selected, it's possible to shed new light on the inner workings of a business - and create effective plans to make greater use of resources.

A company's KPI success can focus on progress towards strategic goals or instead focus on wider themes, such as health and safety, employee wellbeing and environmental impact. The foundation to choosing the right KPIs, however, is understanding your organisation's goals.

According to research by PwC, every one of the companies in the FTSE 350 makes the effort to identify their KPIs, although many targets are by no means universally considered to be the correct ones, the same research revealing that FTSE 100 companies have an average of six financial KPIs on top of three non-financial KPIs.

MAKING THE MOST OF INDICATORS

The nine KPIs that FTSE 100 companies typically use may be too many. According to David Parmenter, widely regarded as one of the world's leading gurus on KPIs and a regular contributor to *Business & Management*, any more than a handful is excessive. Parmenter prefers that organisations focus on a very few KPIs with the other targets being PIs (ie, performance indicators that are not "key", but are still vital to the organisation).

A big problem that many organisations face is the successful implementation of both PIs and KPIs. Parmenter offers some simple tips to ensure success (see box).

Being able to adjust a company's strategies and procedures often depends on understanding the wider marketplace trends. Without these insights, those at the top will find it much more difficult to make meaningful decisions about their company's future.

Rob Kelly is a financial director at Marriott and Kelly, an accountancy firm that regularly helps smaller businesses identify and implement KPIs to gain in-depth insights about their companies.

> **"The purpose of KPIs is more to do with keeping an eye on what's going on from day-to-day than being purely focused on growth for growth's sake"**

A QUICK GUIDE TO KPI SUCCESS

To be effective, KPIs have to meet the following criteria:

- Are non financial
- Can be measured frequently
- Must be acted on by the CEO and other senior leaders
- Clearly indicate what action is required by staff
- Tie responsibility down to a team or group of connected teams
- Have a significant impact, affecting more than one critical success factor
- Encourage appropriate action and only a small "dark side"

The most common reasons KPIs fail:

- Too random
- Prepared with little expertise
- They signify nothing
- Based on a mix of operational and governance measures
- Not linked to critical success factors
- Too many, too late

SOURCE: DAVID PARMENTER

"Developing KPIs does drive growth," he says. "But the purpose of KPIs is more to do with keeping an eye on what's going on from day-to-day than being purely focused on growth for growth's sake. Paying attention to KPIs - often on a daily basis - means there are no nasty surprises when you get to the end of the month or year."

STAYING AGILE FOR KPI SUCCESS

KPIs must be reviewed and adapted regularly to stay useful and relevant. But assessing an individual KPI doesn't mean you should stop paying attention to the bigger picture. In fact, it's just as important to keep an eye on the broader context as it is to look at any individual department or goal. A good example of this might be the UK train network. Train operators highlight punctuality as one of their KPIs and will deliberately cancel trains or miss stations out en route in order to ensure compliance with the lateness target. This achieves the KPI at the cost of customer satisfaction.

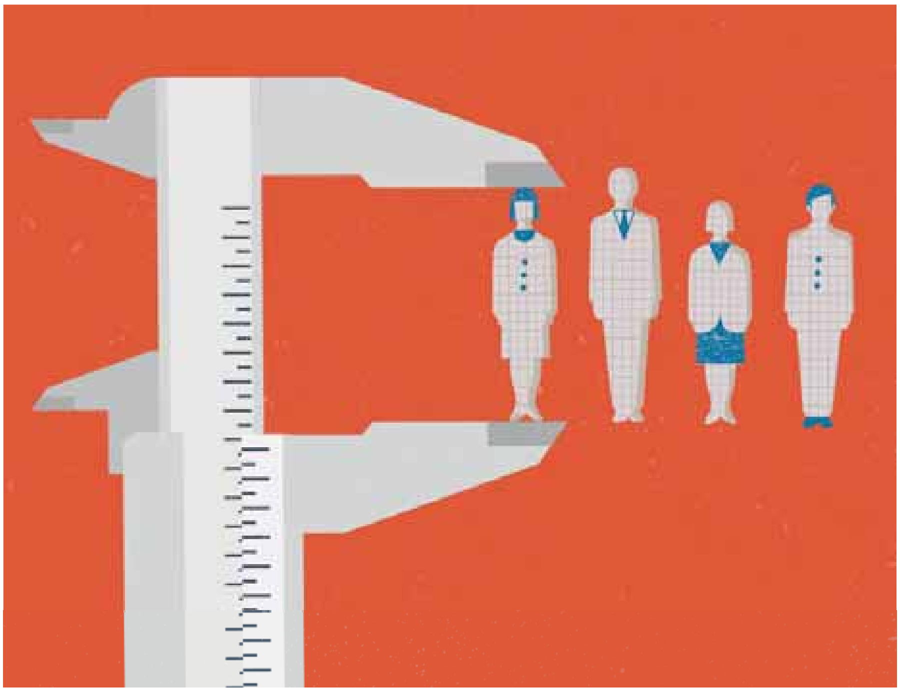
David Biggs, chief financial officer at technology company Pusher, knows this all too well. His firm creates developer tools to help programmers use less code and release apps more quickly. Since he joined the company three years ago, Biggs has worked hard to create an effective strategy around KPIs and he believes they are just as important to growth and success as they are to understanding the business.

Biggs says: "When I joined, Pusher had a product that was making money; we knew it made money and we knew it was growing. But we didn't really know where that growth or our new customers were coming from - and whether or not the advertising, marketing and sales activity we were doing was working."

Biggs and his team began by measuring basic KPIs, such as monthly targets and revenue growth, and then built their strategy further based on what they were learning. The detailed knowledge and increased awareness around what was happening in the business - and which challenges they needed to overcome as a priority - had a positive overall impact for the company. But he advises businesses to stay focused and resist changing core KPIs too often.

"When we release new products or new versions of things, we still keep our main business performance indicators the same, but we segment them off and treat individual new revenue streams with their own KPIs," says Biggs. "The fundamental levers of the business don't change, so the indicators don't change either. For example, we have revenue as

OTTO STEININGER/IKON



"For those on the finance side, there's huge value in knowing how to use the systems and get the most relevant data out"

one of our KPIs, but the growth rate we're trying to achieve might change. In this instance, the KPI stays the same but the metric you're measuring has changed."

As part of its KPI strategy, Pusher also tracks commercial spend carefully - so it examines not only achievements, but what it took to get there. This approach can unearth a lot of useful business information.

"We can grow our business from 50,000 to 100,000 users in one month, but whether or not we pay £5,000 to do it or £50,000 to do it is incredibly important," Biggs explains. "In our business, we need to closely monitor how much we're spending to achieve top-line growth, revenue growth and user growth. Those areas might have their own KPIs, but looking at the goals collectively and against commercial spend is crucial too."

NO KPI IS AN ISLAND

When it comes to understanding and measuring business growth and success, it's important to remember that KPIs don't exist in a vacuum.

Different departments will have different priorities and ambitions. Sales might be concerned about customer satisfaction while marketing may want to measure its success in terms of creative output or the number of views its content receives.

Finance professionals are very well-positioned to take this kind of bird's-eye view of the business. Segmenting performance indicators from different business areas and thinking about them as separate measures may actually be a major disadvantage for organisations. The best-constructed KPI strategies for growth take a broad view of measuring performance and make an effort to ensure that common goals are embraced and utilised.

"Everything is connected in a business, which means that all the different performance indicators work together," Kelly explains. "For those on the finance side, there's huge value in knowing how to use the systems and get the most relevant data out. In a manufacturing business, for example, customer service affects how much production is needed - and the operations side and the factory unit have to be aware of what manufacturing have on-site at any given time. KPIs from a finance perspective can really bring these concerns together and route the best way forward."

Biggs agrees, adding that this interconnectedness is applicable across all industries and functions. Tying KPIs into departmental goals can be beneficial all round.

Ultimately, measurement is an essential part of understanding a business and its potential. Key performance indicators have been at the forefront of this for more than three decades now - and they will undoubtedly remain so for years to come. ●

HOW TO IMPLEMENT A KPI STRATEGY

David Parmenter, widely regarded as "the King of KPIs", is clear that to be effective a KPI strategy has to be taken as seriously as any major change initiative and suggests the following five-stage process to implementing KPIs:

1. Get the CEO, senior leadership team, management and staff committed to the change.
2. Up-skill your in-house resources to manage the KPI project.
3. Ascertain the key aspects that need to be done well day-to-day, including operational critical success factors.
4. Determine the measures that will work best in your organisation.
5. Get the measures to drive performance.