A Modern CFO's Guide to Finding the Right KPIs

How to develop strategic KPIs that drive business performance
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Knowledge is power

Successful CFO’s don’t make decisions based on feelings—their decisions are based on data and facts. Traditionally, this data comes from reports. But as the landscape of finance is changing, and the finance group is under greater scrutiny to cut costs, grow revenue, and maintain control in an increasingly uncertain time, inefficient processes, like report creation, are in the spotlight.

Key Performance Indicators, also known as KPIs, are a fantastic way to help businesses, and especially CFOs, show value beyond traditional reports. The problem is that most CFOs either don’t measure KPIs today, or aren’t confident that the KPIs they do measure are correct. And this type of uncertainty can have a direct effect on business decisions.

So how do you fix this? This ebook will explore the anatomy of a good KPI, how reports are different than KPIs, and help you create an action plan to move you from an organization of reporting to an organization that drives business performance with KPIs.
Key Performance Indicators Present INFORMATION POWERFULLY

Some companies have a hard enough time creating the right reports. Why would they need KPIs?

KPIs are a window into what’s important and valuable to the business. An easy analogy is the dashboard in your car. At any given moment, there could be thousands of things happening in your vehicle. But your dashboard shows you what actually matters to you at that specific point in time. As a driver, you need to know how fast you are going, how much gas you have, and if any major malfunctions are happening—not 10 minutes ago, but right now. You use what you see on your dashboard to make smart decisions on the road.

Just like your car, there could be hundreds of performance indicators in a traditional report. But unless you know exactly what you are looking for, data you find in reports is just information, not value insights that can help you drive performance.

As a CFO, you are responsible for having a finger on the pulse of the organization and supplying the whole business the insights they need. KPIs can help you do this effectively. So how do you go about finding the right ones?

WHAT’S A KPI?
A set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals.
- investopedia.com
In order to make sure you are choosing the right KPI, you have to first understand your own corporate strategy. Of course any dynamic business can have a strategy that changes over time, but knowing your overall strategic goals is crucial.

As a rule of thumb, you should limit your strategic goals to about 5 or 6. This forces people during the strategic planning process to identify the important, critical goals. This gives your business a clear understanding of the future and makes it seem less overwhelming to achieve.

A KPI should always measure data and information that correlates to your business strategy. When you’re driving your car, your strategy is to safely go from point A to point B. To accomplish this successfully, you know that you need to make sure you have fuel, a car engine that is running, and that you are moving safely. In this example, a KPI tied to your strategy would be the gas gauge. You can’t get from point A to point B without sufficient fuel!

In business terms, if your business strategy was to increase your company’s value, then you may want to tie “revenue growth” into a KPI.
KPIs must be measurable

By definition, the purpose of a KPI is to measure the performance of a business in a clear way. KPIs must have a measurable foundation, and be quantitative in nature. Qualitative measures are just too subjective. As a good test, ask yourself, could everyone in the organization read this KPI and see the exact same results without room for interpretive error?

For example, when you are running low on gas, your gas gauge doesn’t say “you have some gas left”. Instead, it says, you are in the RED for remaining fuel. Or, you have 20 miles until your car will stop. There is just no ambiguity around it – you are low, and you better get yourself to a gas station and do something about it! This leads us to the third attribute.

KPIs must be actionable

A good KPI will always have a threshold or a target. Think about it. If it is genuinely a “key” performance indicator, then everyone should be able to look at it and see whether the company is below, on target, or above the goal. In fact, KPIs should be important enough that a poor result will trigger action in the business.

Let’s say your KPI is “opportunity to sales ratio”. What exactly are you going to do when you see that this KPI is lower than it was last month? Your action might be a change in policy, researching the cause of the issue, or even an incentive program to generate a particular response.

Back to the car analogy, speedometers often have a marker to indicate if you are speeding. Even without a speedometer, the speed limit sign on the road is your target. If you are over the speed limit, your action would be to slow down.
1. Keep it Simple

As mentioned above, your KPIs should be tied directly to your business strategy. And since you want to have just a few solid, focused strategic goals in your organization, you will want to have just a few solid, focused KPIs. Of course, the number will vary depending on your unique business, but generally sticking to 4-10 KPIs is a good range.

2. Be unique

Many CFOs will make the mistake of googling “commonly used KPIs” and using what they find as their KPI strategy. Not all common KPIs will be useful for your business. Monitoring KPIs that have no tie to overall strategy won’t provide the value you are looking for. KPIs must be based on your business’ strategy and the KPIs that illustrate your business’ performance. You can start with a “commonly used KPIs” list but be sure to pick and choose only the ones relevant to you.

3. Don’t Settle

The three pieces that make up a KPI are important. If your KPI doesn’t meet all three criteria (tied to business strategy, measurable, and actionable), then keep looking. There must not be any confusion about what the KPI is, where the data is coming from, and what is classified as a good or bad result.
Focus on business units
Of course your business unit strategy will depend on what is being measured. But generally speaking, you will want to report business units with disparate functions, like retail versus services, separately.

Avoid limitations
If you have to make assumptions or limitations in the data for your KPI, make sure you are explaining this alongside that KPI. Naturally, the more you can avoid these, the better.

Don’t settle
KPIs bring data together from all parts of your business. Depending on your focus, you may need to integrate information from critical business systems, like your ERP and CRM, and even custom systems as well.

Bernard Marr’s top 25 KPIs
Measuring & Understanding Your...

CUSTOMERS
- NPS
- Customer profitability Score
- Customer Retention Rate
- Conversion Rate

INTERNAL PROCESSES
- Capacity utilization rate (CUR)
- Project schedule variance (PSV)
- Project cost variance (PCV)
- Earned value metric
- Order fulfillment cycle time
- Delivery in full, on time
- Quality index
- Process downtime level

FINANCIAL PERFORMANCE
- Revenue Growth Rate
- Net profit
- Net profit margin
- Gross profit margin
- Operating profit margin
- ROI
- Cash conversion cycle (CCC)

EMPLOYEES
- Staff advocacy score
- Employee engagement level
- Absenteeism Bradford factor
- Human capital value added
- 360 degree feedback score

*Any assumptions made in measuring performance should be explained so that readers can reach an informed view of judgments made by management*

– pwc.com
WE HAVE REPORTS. ISN'T THIS GOOD ENOUGH?

As a finance professional, you know that reports do serve an important part of the business.

You work to protect the vital assets of the company, ensure compliance, and close the books accurately, and all of this cannot be done properly without reports.

Reports help you run the business smoothly. But now, with more demands put on your department, and more pressure on you, the CFO, smooth operation is not always enough. What KPIs do is help you transition from running things smoothly, to running things at high octane levels.

Reports typically look backwards. They tell you what happened in the past. The past can be this morning, it can be yesterday, or last month. They give you the operational data you need, but they are lacking insights that can help drive strategy forward.

"The problem is that most managers are struggling to understand and identify the vital few management metrics and instead collect and report a vast amount of everything that is easy to measure" – Bernard Marr
CHALLENGES WITH REPORTS

As mentioned before, there could be hundreds of performance indicators living in on single report. But when you go searching for performance indicators in a report instead of identifying your select KPIs beforehand and monitoring them specifically, you run into two major challenges:

1. Reports are overwhelming

Reports hold a lot of information. It makes it very difficult to stay focused on what really matters. Often times, someone will look at a report and their eyes will go right to the sum total line. They know what they want to see, but just don’t have a way to articulate that need in terms of a KPI.

2. Reports are incomplete

Reports don’t show your goals, or evaluate how you are performing against those goals. They don’t carry insights or foresights to help you make a business decision or deliver pertinent, actionable information to other departments.

Reports serve a purpose for finance and the business as a whole. However, when it comes to measuring performance, it’s important to move beyond just reporting and adopt a KPI strategy so you can make decisions, and understand what’s going on in your business, much faster and with much more clarity.
To transition successfully from reports to KPIs, interview your users to get to the KPIs that they need. People who ask to see a report know deep down what it is they are really looking for. The trick is the get them to be able to articulate it for you.
As a modern finance professional, you are always looking for extra time and resources in the day. Your end goal is to be able to continually add strategic value to your company.

As the role of finance changes, and more is expected and demanded of you and your team, outdated, inefficient processes have come into the spotlight. Reporting is great, but is it really the best way to manage your KPIs?

You have a lot of valuable resources in the company. Managers across the whole business will know deep down what it is they want to measure, and what a good and a bad result looks like. The trick is finding a way to get that information out of their heads and into your KPI strategy.

For more details on measuring what matters, visit gohubble.com/financial-analytics

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