



KPIs Help Organizations Measure Their Performance

Release: September 21, 2011

Whalen clients came to the firm's September workshop looking for strategies to measure their performance, and they weren't disappointed.

In a 75-minute, fast-paced presentation Director Bruce Berry and Accounting Department Staff Manager Steve Wenzlick showed how the use of Key Performance Indicators (KPIs) can help an organization focus on its success.

KPIs help define and measure progress toward organizational goals, Berry explained. Once an organization has analyzed its mission, identified its stakeholders and defined its goals, it needs a way to measure progress toward those goals. Key Performance Indicators are those measurements.

They are quantifiable measurements that reflect the critical success factors of an organization and will differ depending on the organization, Berry said.

A business may have as one of its KPIs the percentage of its income that comes from return customers. A KPI for a social service organization might be number of clients assisted during the year.

Whatever KPIs are selected, they must be key to the organization's success, and they must be measurable. They should also be controllable, realistic and attainable, relevant and timely.

How does a company choose the KPIs for its organization? Berry said the key is having a clear understanding of the organization and what drives the economic engine of the company. Look at both financial and non-financial areas. Ask the important questions – who, what, where, when, how and why. For example, what areas are holding us back?

Berry said that KPIs can be tracked with other mechanisms in your organization and by how your business is structured. There may be different KPIs in each department and different metrics for employees.

While companies could probably come up with hundreds of KPIs, the key is to determine those that drive your business and make you successful, he advised.

Wenzlick, who specializes in financial analyses, showed how the firm can help a client develop a customized financial analysis report that gives the company information management needs to compare its annual business performance to comparable businesses within the company's industry.

The analysis can help a client determine if its business strategy is competitive within its industry and pinpoint the company's strengths and weaknesses.

It also enables the company to benchmark its performance over time, chart its progress, analyze its business performance more effectively and make more informed decisions about the company's direction.

"Industry comparisons allow you to see where there are variances and determine what is driving these numbers," Wenzlick explained. "Depending on your business, it might be okay for a ratio to be below or above the industry benchmark. You must look at the ratios

in comparison to your industry and then ask what the ratio means to you and why.” (See definition of common ratios below.)

The firm uses data from the Risk Management Association in working with clients and generally three to five years of client and industry data are analyzed.

Berry recommended that companies develop a scorecard that visually presents the KPIs and enables management to track progress toward goals and identify and correct negative trends. “The scorecard measures efficiencies and enables management to make more informed choices,” he explained.

He advised that the scorecard be no more than two pages. “Too many items on the scorecard and it loses its effectiveness,” he said.

Berry emphasized that the scorecard doesn’t replace traditional financial reports, but highlights areas of the company where performance deviates from expectations.

It’s important to make sure there is the “looking forward” component in your KPIs. The scorecard should have historical, current and projected elements, he added.

Under financial KPIs, a scorecard for a retailer might address gross profits, actual versus breakeven sales, net income, total customers and units sold per customer and the percentage of sales increase compared to projected sales increase.

Non-financial KPIs might include customer satisfaction measures or on-time deliveries.

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