KPIs Are the Key to Improve Operations

In a previous blog entry we outlined the importance of key performance indicators(KPIs) to gauge the success of your business. We typically use accounting KPIs to track financial progress for our clients.

KPIs are sometimes greatly misunderstood as a metric for business performance. There are sensible and valid reasons for measuring specific performance parameters, but the measurement itself is misunderstood. In the case of efficiency, for example, how do you measure the quality of effort? If you find the right metrics, then the measured results are reflected in improvement of business-critical functions such as customer satisfaction, service, responsiveness, and reduced costs.

Whatever metrics you choose, make sure they work together as part of a larger set of corporate objectives. Do the KPIs measure things that you really need to influence and control? Do the senior managers and staff understand the KPIs, how they are calculated, and why they are important to the company's success?

In the case of accounting, for example, the basic KPI metrics are cash, profit, and debt. Understanding where the company stands based on these three metrics will provide an immediate picture of how well the company is doing. To dig deeper, assess these indicators in more detail – cash flow, corporate liabilities, current assets, accounts receivables, days in aging, etc.

To use even more advanced accounting KPIs, assess relationship numbers or those variables that are interdependent on other operations within the organization. Relationship numbers include number of sales in the pipeline, billable efficiency, gross margin, and net margin.

You can break the accounting KPIs down even further by tracking strategic numbers that affect operations. For example, what about the return on investment for equipment purchases and leases? What is the ROI for investors? What about tax planning figures for the business as opposed to business planning numbers? Have you started to assemble and track the figures necessary to implement an exit strategy?

There also are forward-thinking numbers that affect operations. These are the "crystal ball" indicators that determine if your business is really on track for success against the market. Forward-thinking metrics typically include outside influencers, such as economic trends or business cycles.

As with all KPIs, set goals that make sense for the company. What is the relationship of the KPIs you are tracking to your operations and to one another? For example, how is the pipeline tied to predictions about new customers? How will those new customers affect gross income? Will new demands require a change in the number of employees? How will you assess billable efficiency based on evolving goals? And your KPIs need to adjust to changing business conditions. For example, a change in market conditions could affect strategy, or a change in the pipeline will affect gross income.

Overall, be certain your financial KPIs are consistent. Use the same metrics to develop an accurate picture over time. In addition, be sure to establish a regular timeline for measurement. We use the concept of the “rolling 12,” providing a rolling assessment of key performance indicators every month. Another important aspect is to establish milestones at key intervals, such as quarterly and annually. To make it easier to track trends and spot problems, use graphs to highlight trend lines. Be aware to correct course as needed and, overall, be patient. KPIs are designed to demonstrate performance over time, so give them the time necessary to demonstrate if your operation is on track for success.