Business Resilience Toolkit

Metrics

Presented by Jane Arnott, General Manager,
Consulting and Business Services

Transcript:

Are your financial reports giving you enough information to manage your organisation effectively?

In this video, we're going to have a look at how you can develop financial and non financial metrics to track how your organisation is going, and to spot any warning signs early on.

Hello, I'm Jane Arnott and I'm the General Manager for Consulting at Community Business Bureau.

The right metrics will depend on your organisation and your strategy. The set up and sophistication of your systems will determine how easy it is to measure and report them.

Chances are you're already looking at some of the common financial measures, such as your actual revenue, expenditure and your profit or surplus, against the targets defined by your budget. You may also be keeping an eye on your cash position – or working capital - so you can be sure you have adequate access to funds to meet your obligations.

These are the basic essentials, but they'll only tell you what your position is, after it's happened. They are lag indicators. Your basic financial reports won't tell you why something is happening, or give you early warning of things going wrong, so it's worth going into more detail with your metrics and developing some lead indicators, that provide information that you can act on before something becomes an issue.

Let's have a quick look at the balanced scorecard. The balanced scorecard was developed by Robert Kaplan and David Norton as a means of measuring organisational performance. A balanced scorecard will consider financial performance, but it goes further to include a range of other targets and measures of business performance. A typical balanced scorecard will also include:

- Customers and stakeholders: this could include areas such as customer satisfaction and retention
- Internal processes: for example your process efficiency and quality
- And organisational capacity, which looks at your people and culture, as well as infrastructure, technology etc.

You can adapt these areas to better suit your organisation – based on your strategic objectives, your performance drivers, and your risks. For example not for profits may want to include specific measures in relation to social impact.

The key is to understand what are the things that contribute to good performance for your organisation, then you can start designing metrics that work for you.

Let's work through an example, for a fee for service provider – it could be in disability or aged care – where the customer chooses what services they buy and who they buy them from.

Your financial metrics will tell you your revenue, your costs and profitability. You could break this down further into profitability per service or per customer. If you're a high value, low volume service, you might be working intensively with a small number of customers. Intensive work is likely to be costly, so it will be important that you generate financial value from each customer. In this case you might look at profitability per customer, so you're considering both the revenue from the customer and the cost of providing the service. Alternatively, if you offer a high volume, low value service, you'll need to make sure that you are delivering a lot of service, so you might want to look more at service volumes, or profitability per session or unit of service.

From a customer perspective, if your customers are happy, they are likely to stay with you, and potentially buy more services from you, or recommend you to their friends. If they are unhappy, they'll start looking elsewhere. Measuring and reporting on customer satisfaction and retention will help you to predict whether your revenues are likely to stay the same, increase or fall. If your customers are unhappy, you need to start digging deeper to understand why.

The other areas of your balanced scorecard may help you to understand why customers are unhappy.

Engaged employees generally deliver better quality customer service, so indicators of employee engagement can be a lead indicator for customer satisfaction. When I was working in a previous role, we could see a direct connection between our employee engagement survey and our customer satisfaction results. When employee engagement went up, so did customer satisfaction, and when engagement went down, customers were less satisfied.

Employee engagement surveys aren't the only way to measure employee engagement. Staff turnover and unplanned absences are also good indicators of engagement – and they directly impact on customers, and financial performance, in terms of recruitment costs and maybe agency costs for covering dropped shifts.

Monitoring your internal processes will also provide you with lead indicators. Internal processes are also closely linked to your financial performance, customer satisfaction and employee engagement. Inefficient or inaccurate processes directly impact on employees and customers. For example, we worked with a client to map their intake process for new clients. Clients were passed between departments, with their information inputted into different systems. This resulted in additional work for staff, created a longer process to move a client from inquiry to accessing the service, and created a risk of clients' details being recorded incorrectly. If this sounds like your organisation, you could look at introducing some targets and measures around timelines for particular processes, or data accuracy.

To help you to identify what needs to be on your balanced scorecard, and what you need to measure as lead indicators:

- Understand what you're trying to achieve in terms of strategic objectives and consider some of the indicators that might show you how you're tracking towards your goals
- Have a look at your business to understand how different aspects of your operations, infrastructure and people interrelate. Process mapping can be really useful here – this will help you to identify some of the critical aspects to get right to build performance and resilience

- Review your risk register – what might send you off course, and what are the early indicators that something is going wrong

You might end up with a really long list. You can ask yourself a couple of key questions, to help you focus in on the most important areas:

1. Does this activity reported in this indicator have a positive – or negative – impact on another part of the business; on our strategy; our social impact or our performance?
2. Can we act on the information from this indicator?

You might also consider how feasible it is for you to collect and report this information. With modern, digital systems, you can have some high quality, real time reporting at your finger tips, but for information outside these systems, it's not always easy to collect the necessary data for reporting. Where your systems don't support your chosen indicators, consider whether the benefit of having the information outweighs the costs, or hassle factor, in collecting or reporting it.

Working through these questions will enable you to develop your key performance indicators. Understanding what good looks like will enable you to establish some targets.

When setting targets, context is important. One of our clients was measuring the number of scheduled client services that were cancelled at short notice due to staff unplanned absence. The numbers were rising alarmingly. But the business was also growing significantly. Changing from the number of cancelled services as an absolute figure, to the percentage of services that were cancelled, provided a much more reliable target, and tracking over time allowed the organisation to see if they were maintaining customer service levels with growth. Looking at month to month figures will give you a good indication of whether things are headed in the right direction - or could ring some alarm bells. If your work is very seasonal – comparing to the same month in previous years can be very helpful.

As you can see, there's probably no end to the things you can measure. Working through the balanced scorecard approach will help you to focus in and develop some key performance indicators and targets for what is really important to your organisation's performance, and concentrating in the lead – rather than lag - indicators will give you actionable information.

Related video to watch next: Financial ratios.