GrowCFO Quests

KPI Dashboard

GrowCFO QUESTS

KPI Dashboard

Quest Objective:

Elevate your data-driven decision-making by building a live dashboard that puts your KPI metrics right at your fingertips.

Quest Brief

In this month's quest, you will learn how to identify the metrics that should be on your KPI dashboard. You will:

- Learn about the 8 criteria of successful performance measurement.
- Clarify your strategic objectives and define the goals you want to achieve.
- Identify what drives the achievement of those goals.
- Understand which of those drivers matter and which don't.
- Create a balanced view of performance.

Workshop Dates

Quest Briefing: 18 September 2023
Using the KPI Digital Toolkit: 25 September 2023
Going deeper into KPIs and Final Debrief: 2 October 2023

Quest task 1 – Build a Model

We take a single business objective, define the key result that is required, and then determine what drives success:

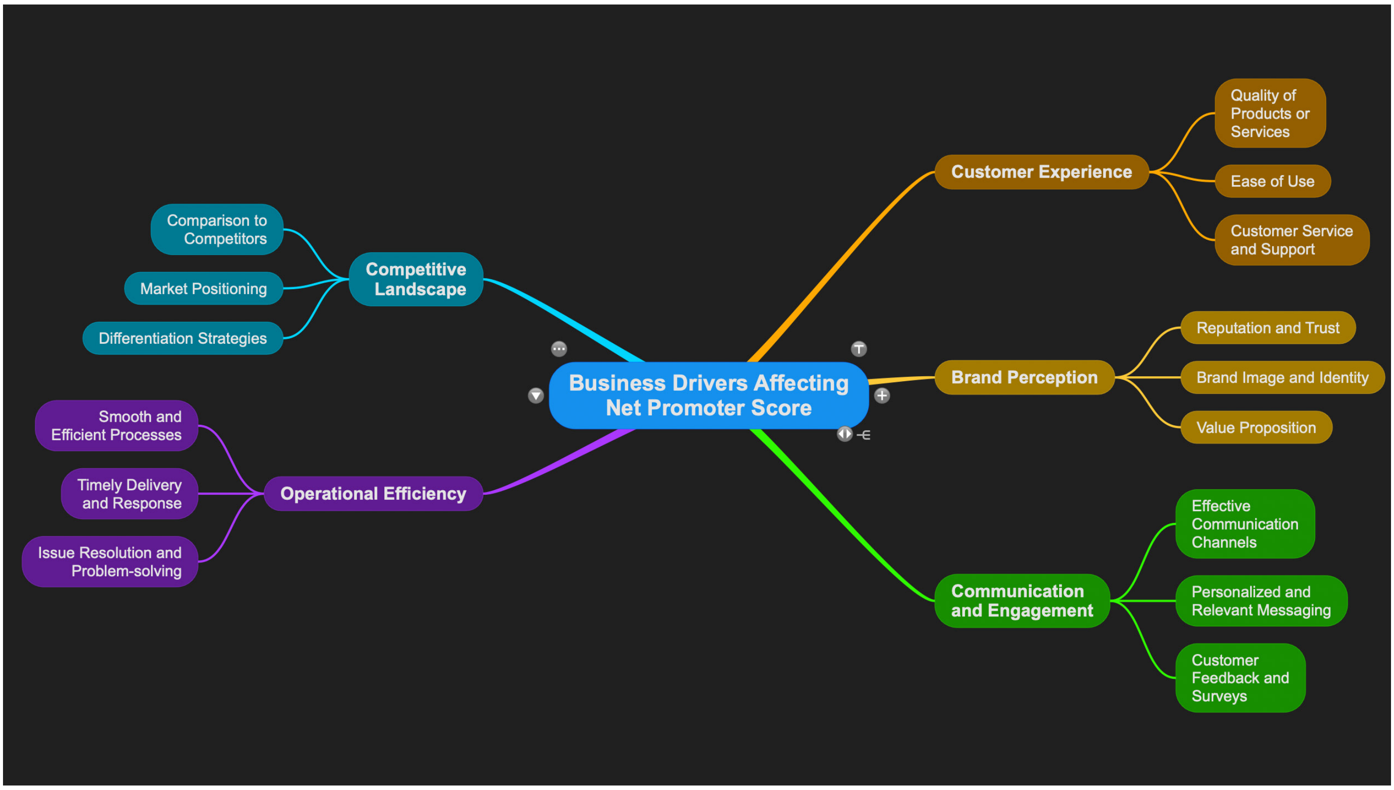
a) What is your objective?
b) How will you know you have achieved it?
c) What do you need more of / less of to do this?

Select a business objective and analyse it in a similar way to the example below:

Example

Let's assume one of your business objectives is to have very satisfied customers who are your greatest advocates. You will know you have achieved this by achieving a Net Promoter Score (NPS) of 9.

What are the business drivers behind NPS, the things you need to have more or less of?



Quest task 2 – Identify the most important drivers

What will make the most impact?

Some drivers will have more impact on your overall objective than others. Assess each driver you identified and rank it High, Medium or Low. If there is more (or less) of this driver, what difference will it make to the overall result you aim for?

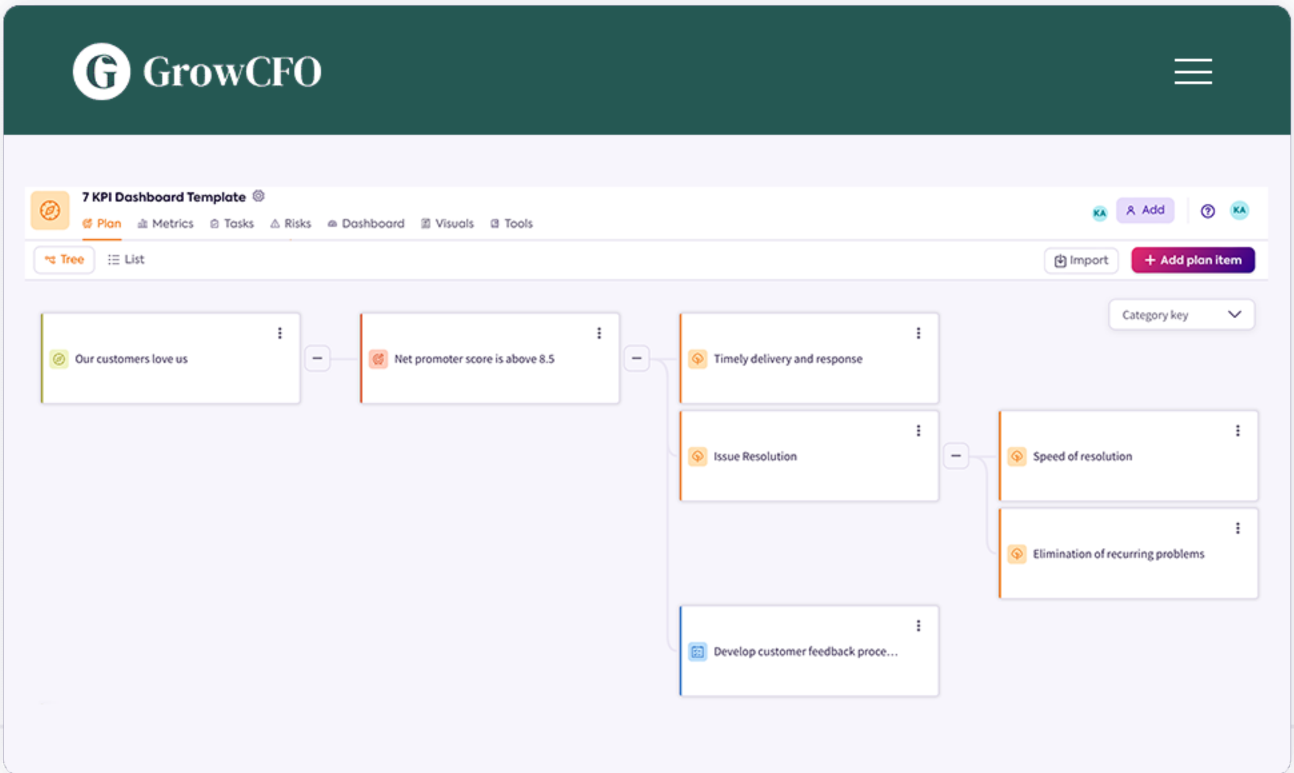
What can you influence?

Only some of these drivers are in your complete control. Assess each driver and rank it High, Medium or Low based on your ability to have more (or less) of it.

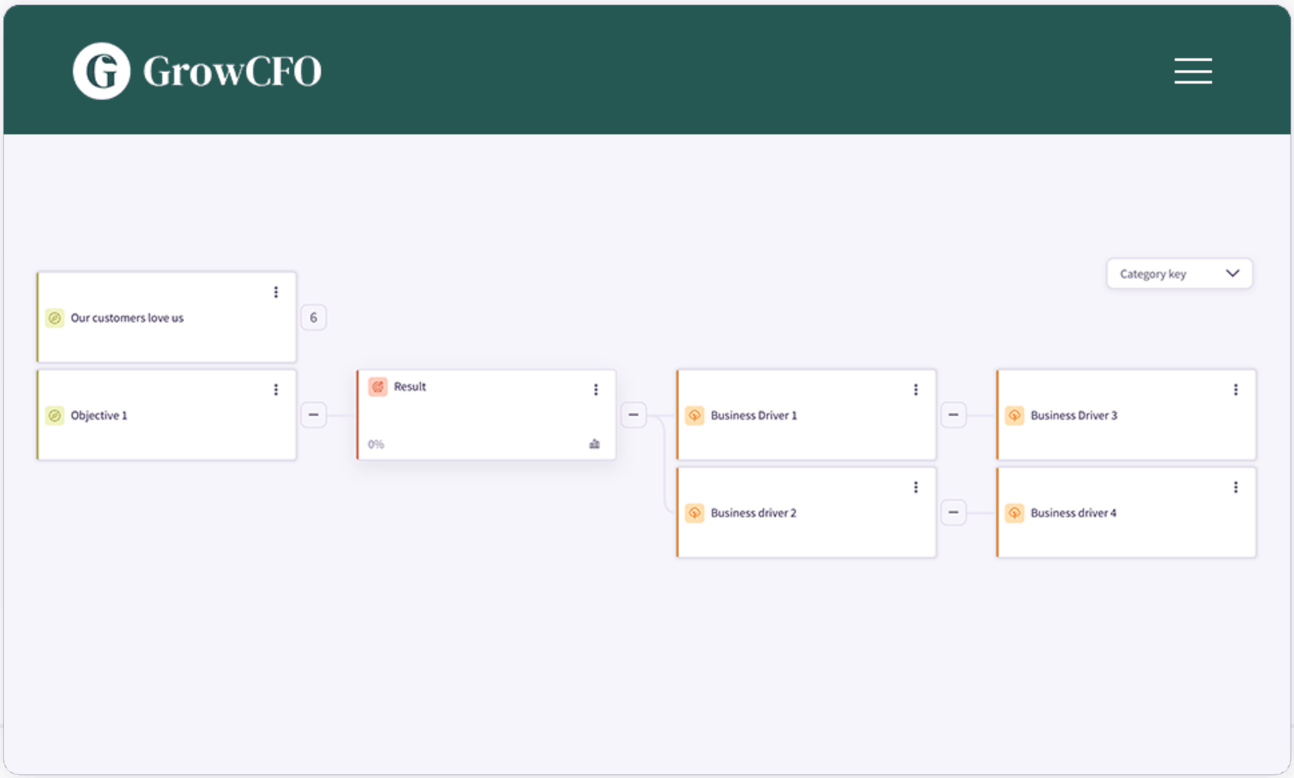
Make a short list of the "High / High" drivers. The things that have a big impact and that you can control. These will be the basis for the KPIs you will measure.

Add the objective and its key drivers to the KPI Dashboard digital toolkit.

The NPS example might look like this, having selected a shortlist.



And a proforma you can use



Quest task 3 – Turn drivers into measures.

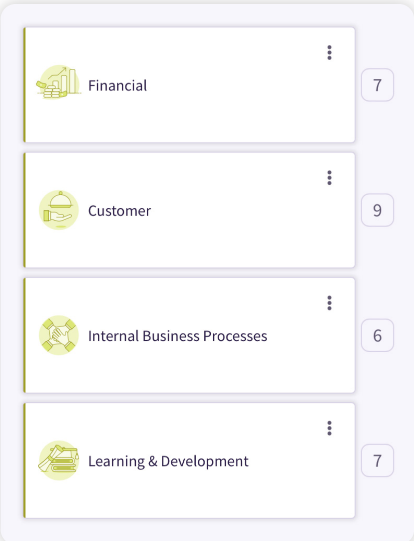
Can you measure it? If so, then answer the following:

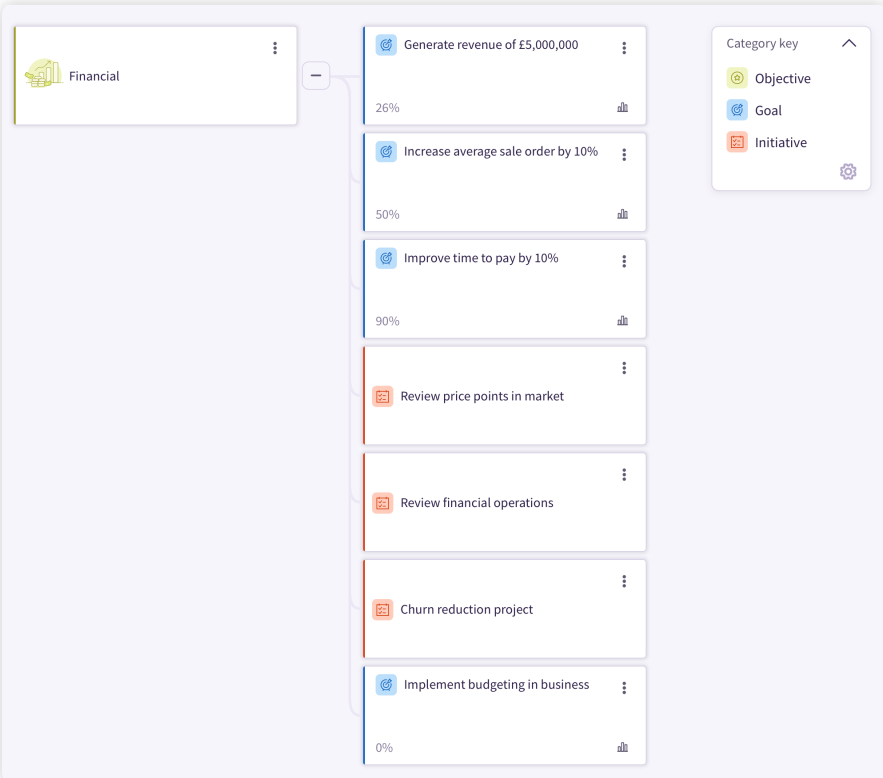
- Write a detailed definition (or formula) for the measure.
- Where does the data come from?
- Can you baseline current performance?
- Are you able to set targets? How much by when?
- How frequently will you measure it?
- Who is responsible for measurement?
- Who is accountable for the performance against the target?

Beyond the Quest

You can continue the quest task so that rather than a single objective, you have covered all your business objectives, identified the business drivers behind each of them and have them all within the digital toolkit.

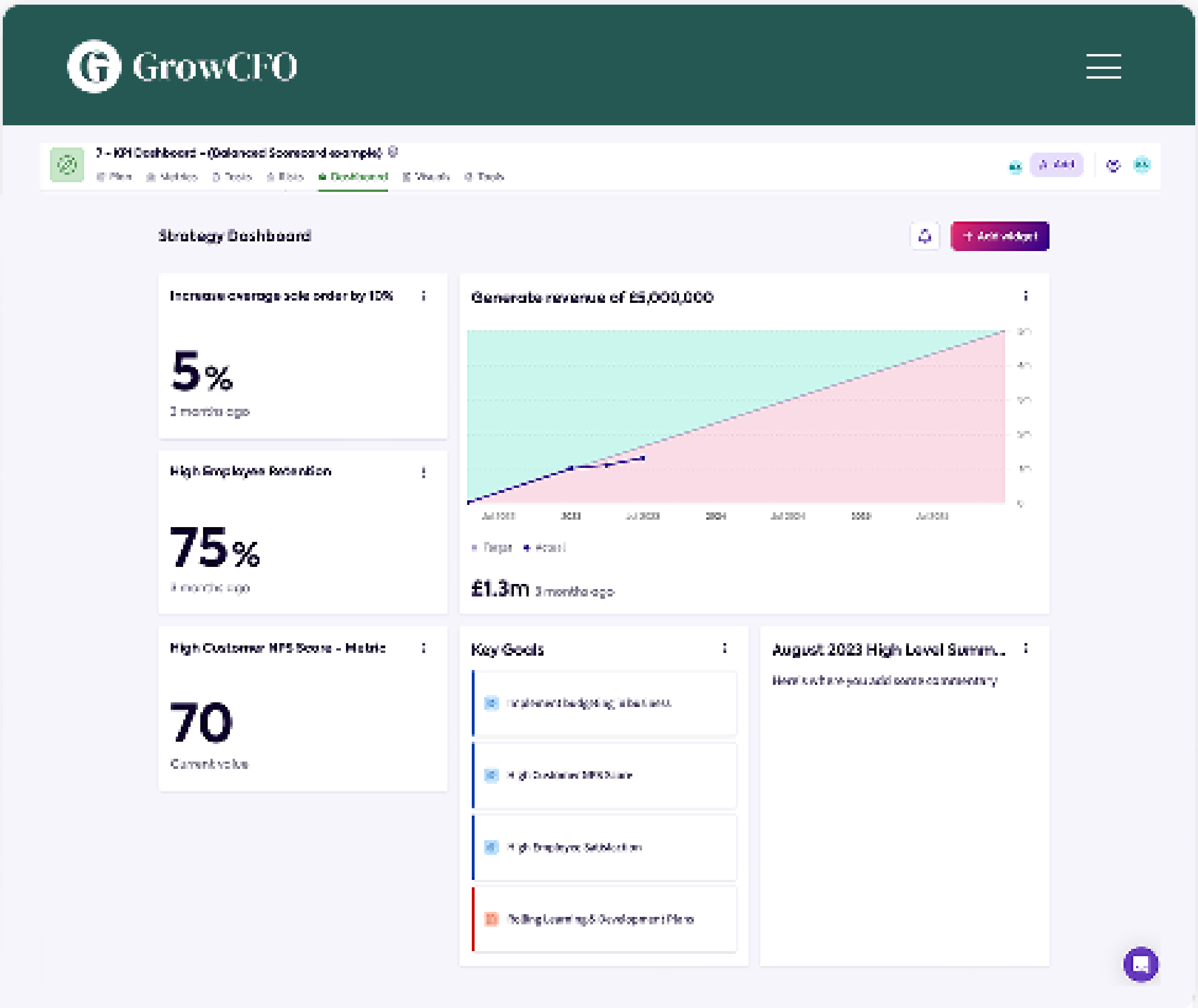
You can set up the plan in several different ways. You can continue to follow a format based on objectives, key results and the business drivers behind those results, or you can use a format such as the balanced scorecard in the example below.





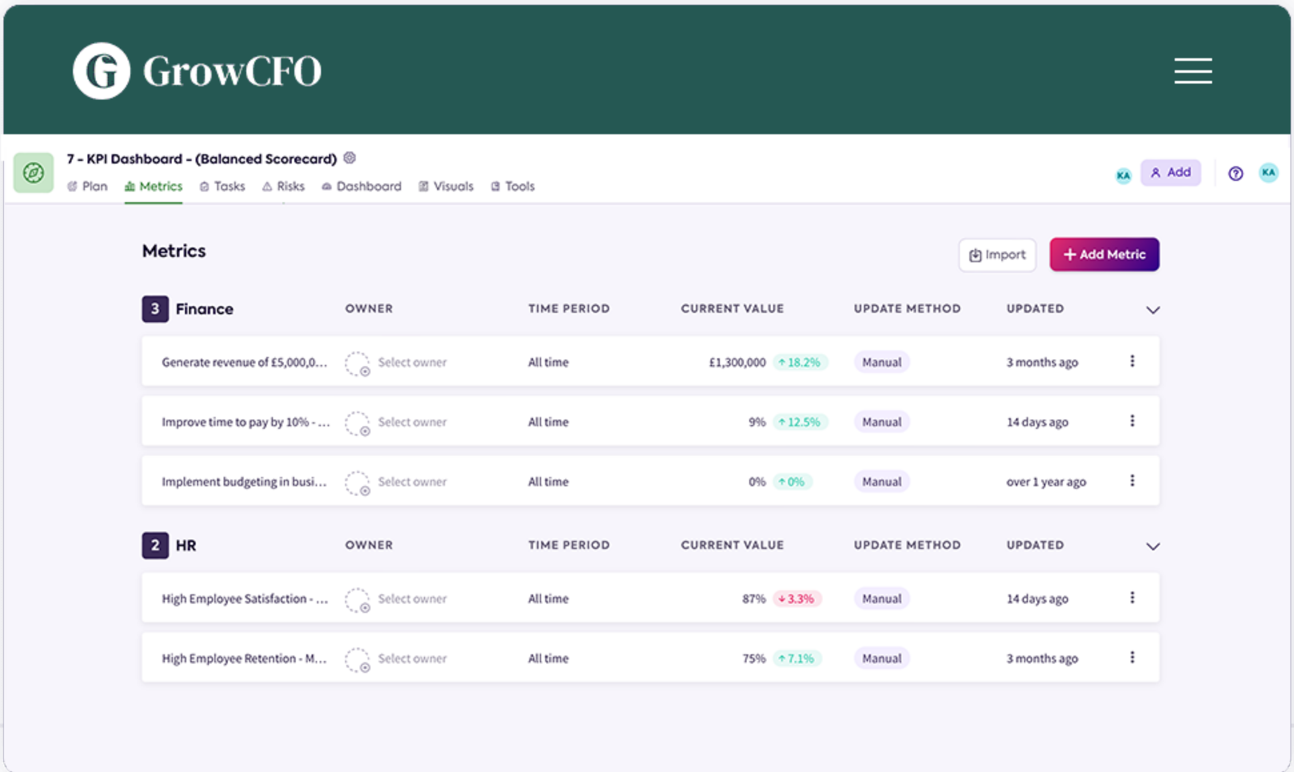
Building a Dashboard in the Digital Toolkit

Each item in the plan can have a metric attached to it. The Dashboard tab in the KPI Dashboard toolkit provides a place to display the KPIs associated with the

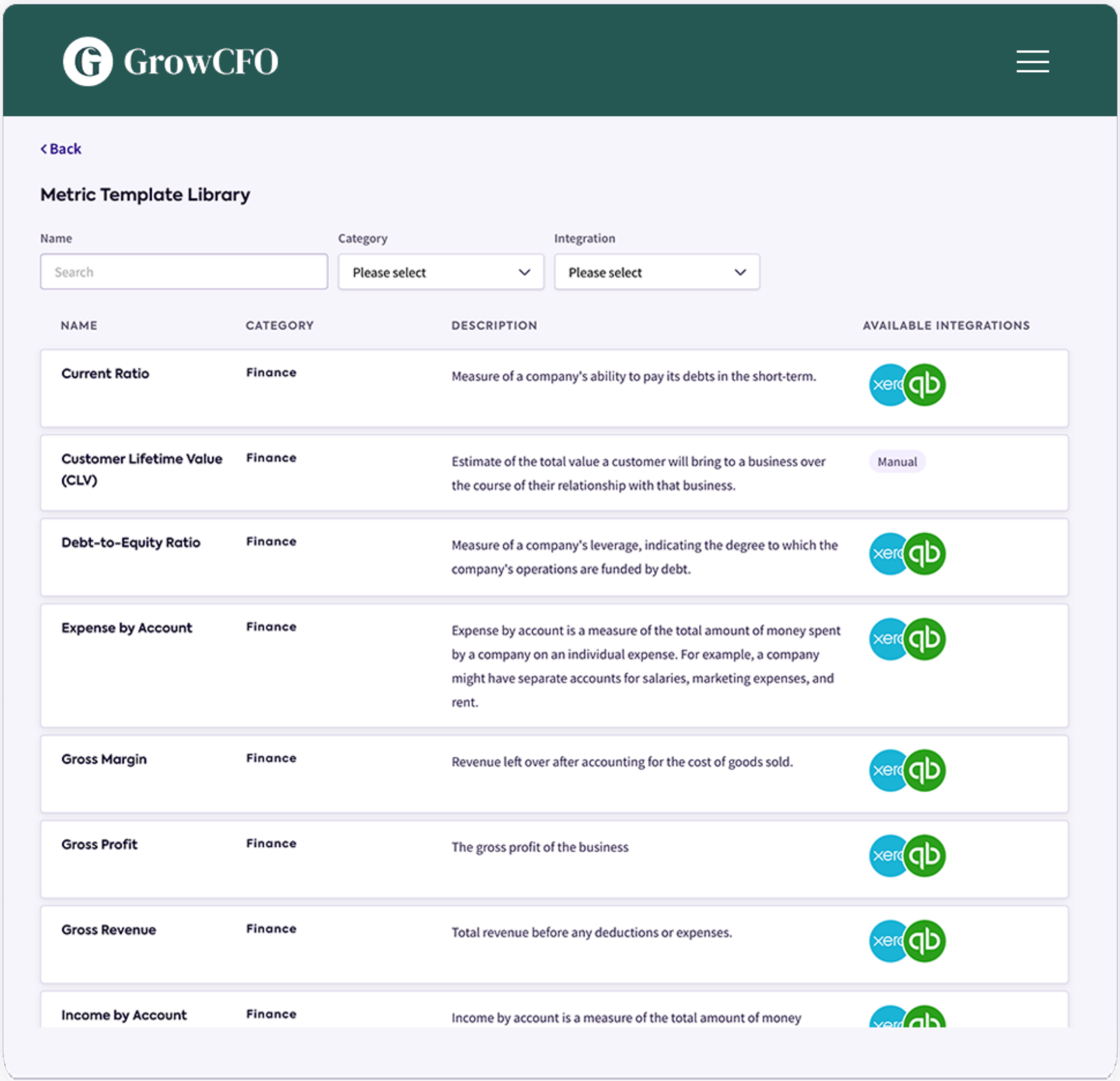


The dashboard allows you to create and display widgets. Widgets can display metrics, critical tasks, significant risks, progress against plan items, or text for commentary. This allows you to customise the dashboard to suit your needs.

You can define the metrics on the metrics tab in the toolkit.



You can choose metrics from pre-defined templates or define them yourself



Annex 1 Eight Criteria of Successful Performance Measures

1) Linking Strategy to Value: Navigating KPIs, OKRs, and Performance Indicators

In the ever-evolving business management landscape, bridging the gap between strategy and value creation is paramount. Organisations formulate intricate strategies to achieve their long-term goals, but these strategies can only bear fruit when accompanied by effective measurement techniques. This is where Key Performance Indicators (KPIs), Objectives and Key Results (OKRs), and performance indicators come into play. However, it's not just about measuring outcomes; understanding the nuances of each metric is essential for driving success.

Strategic KPIs vs Operational KPIs

KPIs are compasses that guide an organisation's progress towards its strategic objectives. These indicators are categorised into two broad types: strategic KPIs and operational KPIs.

Strategic KPIs are high-level metrics that align with an organisation's overall goals. They provide a holistic view of performance, typically measured over longer periods. For instance, a strategic KPI for a software company might be "Market Share Increase by X% over the next two years." These KPIs are instrumental in tracking the success of the company's strategic initiatives.

On the other hand, operational KPIs zoom in on the day-to-day activities that contribute to achieving strategic KPIs. These are more focused metrics that provide insights into operational efficiency and effectiveness. For the software company, an operational KPI could be "Average Resolution Time for Customer Support Tickets." Operational KPIs help monitor the immediate actions that shape the larger strategic picture.

OKRs: Bridging Aspirations and Execution

Objectives and Key Results (OKRs) have gained significant popularity as a method to link strategic intent with tangible outcomes. OKRs provide a framework for setting ambitious objectives and defining specific, measurable key results that denote success.

Objectives encapsulate the organisation's aspirations. They are qualitative, inspirational, and often ambitious statements of intent. For instance, an objective could be "Become a Leader in Sustainable Packaging Solutions."

Key Results, on the other hand, are concrete, quantifiable outcomes that mark progress towards achieving the objective. For the sustainable packaging company, a key result might be “Reduce Plastic Usage by 30% through Innovative Materials.” OKRs create alignment throughout the organization by breaking down lofty goals into actionable steps and measurable results.

Performance Indicators: Balancing Inputs and Outcomes

While outcomes-focused metrics are essential, they don’t always provide the full picture. Performance indicators encompass leading and lagging metrics, offering insights into the inputs and processes that drive outcomes.

A leading performance indicator is a predictive metric that gauges activities or factors contributing to future success. For example, a leading indicator for a retail store’s sales performance could be “Number of Footfall Engagements in a Week.” This metric anticipates potential sales by analysing customer engagement.

A lagging performance indicator, conversely, reflects historical performance. In the retail store context, a lagging indicator would be “Monthly Sales Revenue.” This metric informs about past success but doesn’t offer actionable insights.

Measuring More than Just Outcomes

While outcomes are undeniably crucial, focusing solely on them can lead to a myopic view of an organisation’s performance. Measuring inputs, processes, and leading indicators helps identify bottlenecks, inefficiencies, and opportunities for improvement long before outcomes are realized.

Moreover, an overemphasis on outcomes might discourage risk-taking and innovation. When failure to achieve a specific outcome is perceived as a failure overall, employees might become hesitant to experiment with new approaches. In contrast, a balanced approach to measuring performance acknowledges that even failed attempts can yield valuable insights.

The synergy between strategy and value is fuelled by well-defined KPIs, strategic alignment through OKRs, and a holistic approach to measuring performance indicators. Organizations must grasp the distinction between strategic and operational KPIs, harness the power of OKRs to bridge strategy and execution, and appreciate the significance of performance indicators beyond mere outcomes. By doing so, businesses can measure their progress and shape their path towards enduring success.

2) The Crucial Connection: Why Your KPIs Must Impact Performance

In the dynamic landscape of modern business, pursuing success is not merely a matter of setting goals – it's about crafting a strategy that propels these aspirations into reality. KPIs are central to this strategy, the compasses that guide an organisation's journey towards its objectives. However, not all KPIs are created equal; KPIs must directly impact performance to drive meaningful progress

The Ripple Effect: The Power of Significant KPI Changes

Imagine steering a ship towards a distant destination. Small adjustments to the rudder may lead to slight shifts in direction, but the significant turns alter the course. Similarly, KPIs are the navigational tools determining whether an organisation is on track to reach its goals. However, the magnitude of change in a KPI's value doesn't always translate linearly to the overall outcome.

Consider a retail company aiming to increase its customer satisfaction scores. If a minor change in its KPI – such as a slight improvement in average response time to customer inquiries – results in only a fractional uptick in customer satisfaction, the impact might be negligible. On the other hand, a more substantial improvement, like enhancing the quality of customer interactions, could lead to a remarkable leap in customer satisfaction levels. Therefore, it's not just about monitoring KPIs; it's about focusing on those that can bring about transformative changes.

Ranking Impact: The High, Medium, Low Hierarchy

In a world of limited resources and boundless aspirations, prioritisation is a cornerstone of effective decision-making. The same principle applies when selecting KPIs. Tracking every metric is not practical or efficient, especially when not all metrics contribute equally to achieving overarching goals. This is where ranking KPIs based on their impact becomes invaluable.

The "High, Medium, Low" hierarchy is a KPI selection guideline. This approach involves categorising KPIs into three tiers based on their potential impact on performance. High-impact KPIs wield the most significant influence on outcomes and are, therefore the primary focus. Medium-impact KPIs contribute, but to a lesser extent, while Low-impact KPIs, although still valuable for specific insights, have a minimal impact on the overall goals.

Imagine an e-commerce platform aiming to enhance conversion rates. While many metrics contribute to this objective – such as website traffic, product page views, and checkout abandonment rates – it's the "High" impact metrics that deserve the lion's share of attention. For instance, monitoring the percentage of visitors who successfully complete a purchase ("Conversion Rate") might have a far more pronounced effect on achieving the overarching goal compared to tracking minor fluctuations in website traffic.

Maximising Resources and Efforts

Time, effort, and resources are finite commodities in any organization. Devoting these precious assets to tracking KPIs that have a marginal influence on performance can be counterproductive. By honing in on KPIs that wield substantial impact, an organisation can maximise its ability to allocate resources where they matter most.

Moreover, focusing on high-impact KPIs fosters a sense of clarity and direction. Employees understand where to channel their energies, making their efforts more purposeful and aligned with the organisation's vision. This sense of purpose can galvanise teams, resulting in heightened motivation and a stronger collective drive to succeed.

KPIs are not just numbers on a dashboard; they are the critical dials that gauge an organisation's progress towards its goals. However, not all KPIs are created equal, and it's imperative to select those that hold the potential to generate transformative changes. By prioritizing high-impact KPIs and recognising that the magnitude of change in a KPI's value can significantly influence the overall outcome, organisations can chart a course towards sustained success. Through this strategic approach to KPI selection, businesses can navigate the complexities of modern markets with greater efficiency, focus, and the power to impact performance where it truly matters.

3) The Power of Influence: Why Your Ability to Impact KPIs Matters

In the intricate dance of business management, Key Performance Indicators (KPIs) play the role of choreographers, guiding an organization towards its goals. However, it's not enough to merely observe KPIs; the ability to influence them holds immense importance. Understanding the extent of your influence and focusing on high-influence KPIs can be a game-changer. In this article, we delve into the reasons behind the significance of your influence on KPIs and explore the value of prioritising high-influence measures.

A Spectrum of Influence: Can you move the lever?

Consider KPIs as levers you can push or pull to steer your organisation's trajectory. Yet, not all levers are created equal. Some KPIs respond more readily to your actions, while others might seem stubbornly immune to your efforts. Evaluating the extent of your influence over a KPI is crucial because it provides insight into how your actions can affect the outcomes you desire.

For instance, imagine a marketing team aiming to increase website traffic. If your team's actions – such as optimising content for search engines, running targeted ad campaigns, and leveraging social media – directly and significantly impact driving traffic, then your influence is substantial. On the other hand, if external factors like market trends or competitors largely dictate traffic levels, your influence might be limited.

Ranking Influence: The High, Medium, Low Spectrum

Amidst the myriad of tasks vying for attention, allocating resources effectively is a perpetual challenge. This is where ranking KPIs based on their influence comes into play. By classifying KPIs into tiers – High, Medium, and Low influence – you can direct your efforts towards measures that respond most positively to your actions.

High-influence KPIs are the ones that your actions can directly shape and mould. These KPIs are strongly tied to your efforts, and the changes you implement are likely to generate significant shifts in outcomes. Prioritising high-influence KPIs enables you to optimise your efforts for maximum impact.

Continuing with the marketing team example, if your team's actions on social media, content optimisation, and advertising campaigns have a pronounced impact on driving website traffic, then "Website Traffic" becomes a high-influence KPI. Focusing on this KPI ensures that your efforts yield the desired results.

Leveraging Resources for Maximum Effect

Efficiency is the hallmark of successful organizations. Just as a sailor trims sails to harness the wind's power, businesses must allocate resources judiciously to harness the power of influence. Concentrating on high-influence KPIs optimises resource allocation by directing efforts that are most likely to yield substantial results.

Moreover, a focus on influencing high-priority KPIs fosters a sense of empowerment and ownership. Team members understand that their actions directly shape outcomes, instilling a sense of accountability and motivation.

KPIs are not passive observers of business performance; they are mirrors that reflect the outcomes of your actions. Recognising your ability to influence KPIs and understanding the extent of that influence can lead to strategic decisions that steer your organisation towards its goals. By ranking KPI influence and honing in on high-influence measures, you amplify your ability to make a tangible impact. This strategic approach to influence empowers you to wield your resources, efforts, and skills with precision, ensuring that your actions resonate where they matter most. As you navigate the complex business currents, remember that your influence over KPIs can drive success.

4) Achieving Clarity: The Need for a Balanced Set of Organizational Metrics

In the intricate landscape of modern business, success is not a one-dimensional pursuit. A balanced and comprehensive view of performance is crucial to navigating the complexities and intricacies of the corporate world. This need is met by a set of metrics that spans the entire organisation, embraces leading and lagging indicators, incorporates financial and non-financial perspectives, and balances subjective and objective measures. This article explores the imperative for such a holistic set of metrics and its impact on effective decision-making.

A Holistic View: Spanning the Whole Organization

In a symphony, every instrument contributes to the harmonious whole. Similarly, every department and function in an organisation contributes to the overall success. A well-rounded set of metrics should span the entire organisation, capturing the performance of various departments and teams. This panoramic view allows leaders to understand the interdependencies and spot potential areas of improvement or alignment.

From marketing to operations, sales to customer service, a comprehensive set of metrics provides insight into the health and vitality of each facet. This understanding is vital for strategic decision-making, as it prevents tunnel vision and fosters collaboration across the organisation.

Leading and Lagging: Balancing Present and Future

The past and the future are inextricably linked in the world of business. Leading indicators illuminate the path ahead, allowing organisations to anticipate trends and take proactive measures. Lagging indicators, on the other hand, offer a retrospective view, showcasing the results of past actions.

Balancing both types of indicators in a metrics set provides a well-rounded perspective. Leading indicators might include metrics like customer engagement, which hint at future customer satisfaction levels. Lagging indicators, such as quarterly revenue, provide a clear picture of how well strategies have translated into results. This combination equips decision-makers with the ability to adjust course when necessary while evaluating past decisions' efficacy.

Financial and Non-Financial: Beyond the Balance Sheet

The heartbeat of any business is often measured by financial metrics – the bottom line, revenues, and profits. However, focusing solely on financial metrics can obscure essential non-financial aspects of performance. Customer satisfaction, employee engagement, environmental sustainability, and innovation are vital dimensions that don't always find expression on a balance sheet.

Incorporating both financial and non-financial metrics in the set provides a more holistic understanding of an organization's health. A company with strong financials but low employee satisfaction might face retention challenges in the long run. A comprehensive metrics framework ensures that these nuanced aspects are not overlooked.

Subjective and Objective: The Human Element

Numbers don't tell the whole story; the human element matters, too. Subjective metrics, often captured through surveys and feedback, gauge perceptions, attitudes, and sentiments. Objective metrics, on the other hand, deal with tangible, quantifiable data.

Subjective metrics, like employee morale or customer satisfaction, offer insight into the emotional pulse of the organisation. They reflect the experiences and perceptions of the people who drive the business forward. Integrating subjective and objective metrics provides a more comprehensive understanding of the organisational ecosystem.

A balanced set of organisational metrics is akin to a multi-faceted prism that refracts light in various directions, revealing a spectrum of insights. It goes beyond the numbers, encompassing the whole organisation, looking forward and backwards, embracing financial and non-financial dimensions, and acknowledging both subjective and objective realities.

By considering these diverse perspectives, leaders comprehensively understand their organisation's health and performance. In a world where decisions are often complex and multifaceted, a balanced metrics framework offers the clarity to make informed, strategic choices that drive sustained success.

5) The Art of Focus: Why Limiting KPIs is Key to Success

In the bustling business realm, data pours in from every corner – sales figures, customer satisfaction scores, website traffic analytics, and more. Amid this deluge of information, the concept of "less is more" is crucial to KPIs. Limiting the number of KPIs you measure to a small, manageable set is a strategy that can enhance clarity, decision-making, and organisational effectiveness. This article explores the reasons behind this practice and its impact on achieving success.

Clarity Amid Complexity

Imagine walking into a room filled with a hundred different objects and being asked to focus on a single one. The task becomes overwhelming, and your attention scatters. Similarly, in the world of KPIs, a surplus of metrics can lead to confusion and diffusion of focus. Limiting the number of KPIs ensures that the organisation's attention is directed towards what truly matters.

A concise set of KPIs acts as a compass, guiding everyone's efforts towards the most critical objectives. It fosters a shared understanding of priorities and minimises the risk of being drowned in a sea of data.

Quality over Quantity

The adage "jack of all trades, master of none" rings true in the context of KPIs. An excessive number of KPIs can lead to a surface-level understanding of performance, preventing deep insights into what's driving success or hindering progress. Focusing on a small set of carefully chosen KPIs allows you to dig deeper, analyse trends, and extract meaningful patterns that inform strategy.

Consider a marketing team aiming to improve customer engagement. Tracking many metrics, such as website visits, social media likes, email open rates, and click-through rates, might be overwhelming. However, selecting key engagement-related metrics and studying them closely can yield more actionable insights. This allows the team to make informed adjustments and optimisations, leading to substantial improvements.

Enhanced Decision-Making

In the fast-paced business landscape, decisions need to be swift and strategic. A concise set of KPIs facilitates quicker decision-making by providing a clear picture of performance. When leaders and teams have limited KPIs to monitor, they can quickly identify trends, address challenges, and seize opportunities without being bogged down by data overload.

Furthermore, with a focused KPI set, discussions and meetings become more purposeful. Conversations revolve around the metrics that matter most, eliminating unnecessary noise and tangential discussions.

Maintaining Relevance

Business environments are dynamic, and what's relevant today might not be relevant tomorrow. A compact set of KPIs ensures that the metrics you're measuring remain aligned with your organisation's evolving goals and priorities. Regularly reassessing and refining your KPIs prevents stagnation and ensures that you're measuring what truly impacts your success.

Limiting the number of KPIs you measure is a strategic choice that fosters clarity, quality, and agility. In a world overflowing with data, a focused set of metrics acts as a beacon, guiding your organisation towards its objectives. By distilling the metrics down to what's most essential, you're simplifying the complexity and enhancing your ability to make informed decisions, respond to changes, and ultimately drive success.

6) Baseline performance and set appropriate targets

Baselining current performance and setting targets and tolerances for KPIs are crucial steps in effective performance management and goal achievement. These steps provide a reference point, a sense of direction, and a mechanism for monitoring progress. Let's delve into why these practices are essential:

Understanding the Starting Point

Imagine embarking on a journey without knowing where you currently stand. Tracking progress and assessing whether you're moving in the right direction would be challenging. Baseline performance provides that starting point. It's a snapshot of your current state, offering insights into how well your organisation is performing before any changes or interventions are made.

By establishing a baseline for KPIs, you clearly understand your organisation's strengths, weaknesses, and areas that require improvement. This information is essential for setting realistic targets and designing strategies to enhance performance.

Setting Clear Targets

Targets are like lighthouses guiding a ship through stormy seas. They provide a clear destination to strive for, ensuring that efforts are focused and purposeful. Setting KPIs targets defines the desired performance level that aligns with organisational objectives.

These targets create a shared sense of purpose throughout the organisation. They motivate employees and teams by giving them a clear goal to work towards. Targets also help leaders assess the feasibility of their strategies and initiatives. If the gap between current performance and the desired target is too vast, it might be an indicator that adjustments are needed in the strategy or resources allocated.

Measuring Progress and Success

Targets are not merely destinations; they're milestones on the journey. They provide a yardstick against which progress can be measured. By regularly comparing actual performance against the set targets, organisations can gauge how well they're tracking towards their goals.

Targets also enable organisations to celebrate successes. When a team achieves a target, their efforts have borne fruit. Acknowledging these achievements boosts morale and reinforces the connection between individual efforts and organisational success.

Defining Tolerances

In the realm of performance management, not everything goes according to plan. Market dynamics, external factors, and unexpected challenges can influence outcomes. This is where tolerances come into play. Tolerances are the acceptable range of variation around the target.

Setting tolerances recognises the reality that not all deviations from targets are equal. Some variations might be within an acceptable range, while others require immediate attention. Tolerances help organisations distinguish between minor fluctuations that are part of the usual ebb and flow of business and significant deviations that warrant corrective actions.

Adaptation and Continuous Improvement

Performance management is not a static process. It's a cycle of planning, execution, measurement, and adaptation. Baseline performance, targets, and tolerances facilitate this cycle by providing data-driven insights. If performance consistently falls outside acceptable tolerances, it signals the need for strategies, processes, or resource allocation adjustments. This continuous improvement approach ensures that the organisation remains agile and responsive to changing conditions.

Baselining, setting targets, and defining tolerances for KPIs lay the foundation for effective performance management. They provide clarity, direction, and a mechanism for monitoring progress. By understanding where you're starting from, where you're aiming to go, and how much deviation is acceptable, you equip your organisation with the tools to navigate the journey towards success.

7) The Power of Alignment: Cascading KPI Measurement Through the Organization

In the intricate tapestry of an organisation, the thread of success is woven through every level, department, and team. The practice of cascading KPIs becomes indispensable to ensure that this tapestry is coherent and aligned. An organisation achieves alignment, empowerment, accountability, and strategic clarity by measuring the right things at the right levels. In this article, we delve into the importance of cascading KPI measurement and its impact on achieving organisational goals.

Translating Strategy into Action

Think of an organisation as a symphony orchestra, each section playing a distinct role. To create harmonious music, every musician must follow the conductor's lead. Similarly, cascading KPIs ensure that the organisation's strategic intent trickles down to each level, ensuring everyone is moving in the same direction.

Cascading KPIs transform abstract strategic goals into tangible actions. Individuals can see how their efforts contribute to the big picture when the overarching goal is translated into specific KPIs at different levels – from executive leadership to frontline teams. This connection cultivates a sense of purpose and ownership.

Fostering Empowerment and Accountability

Imagine playing a game without keeping score – the incentive to win would diminish. Similarly, employees might lose sight of their progress and impact without measuring performance. Cascading KPIs instil a sense of accountability by creating a scoreboard that quantifies success.

When individuals have visibility into their own KPIs and how they relate to team and organisational objectives, they're empowered to take ownership of their work. This empowerment fuels a sense of pride, engagement, and the drive to continuously improve.

Strategic Clarity and Decision-Making

It's easy to lose sight of the bigger picture in a labyrinth of tasks and projects. Cascading KPIs provide a beacon that illuminates the strategic path. By aligning KPIs with strategic objectives at different levels, decision-makers can assess whether actions align with the broader goals.

Moreover, cascading KPIs enable agile decision-making. When teams can access real-time KPI data, they can quickly adjust strategies and tactics based on changing circumstances. This adaptability is essential in the dynamic business landscape.

The Right Things at the Right Level

Imagine a chef preparing a multi-course meal. Each dish requires specific ingredients and techniques. Similarly, different levels of the organisation require different KPIs to measure what's relevant to their scope of influence.

Strategic KPIs at the executive level might focus on high-level outcomes like revenue growth, while operational teams might track efficiency-related KPIs such as process cycle times. By measuring the right things at the right level, you ensure that individuals can directly influence and impact the KPIs they're accountable for.

Cascading KPI measurement through the organisation is the art of strategic alignment, empowerment, and accountability. It bridges the gap between strategy and execution, ensuring everyone contributes to the overarching objectives. Organisations foster a culture of purpose, clarity, and collaboration by translating strategic goals into tangible KPIs at different levels. The practice empowers individuals, guides decision-making, and creates a coherent, dynamic, and successful organisation primed to achieve its goals.

8) KPI Communication is a two way process

Communication is often likened to a bridge that connects individuals, teams, and entire organisations. Regarding KPIs, this communication isn't a one-way street; it's a dynamic, two-way process that involves disseminating information and receiving insights, feedback, and context. Let's explore why communication of KPIs is a two-way process and the benefits it brings.

Shared Understanding and Context

KPIs are not just numbers; they represent the pulse of an organisation's performance. Leaders can provide context and clarity by engaging in two-way communication about KPIs. They can explain the significance of each metric, how it aligns with strategic objectives, and why it matters to the organisation's success. Conversely, employees and teams can provide insights about their work that might impact the interpretation of KPIs. This shared understanding prevents misinterpretation, confusion, and the potential for misguided actions

Feedback Loop for Improvement

Imagine sending a message without knowing whether it was received or understood. Similarly, communicating KPIs without soliciting feedback can limit the potential for improvement. Two-way communication allows employees and teams to share their perspectives, concerns, and suggestions related to KPIs. This feedback loop can refine how KPIs are defined, measured, and used. For instance, if a team believes that a particular KPI doesn't accurately reflect their performance, this feedback can lead to a more accurate metric that drives better decision-making.

Alignment and Engagement

Effective communication is a cornerstone of alignment. Organisations ensure that employees understand their role in achieving strategic goals by engaging in two-way communication about KPIs. This alignment fosters a sense of purpose and ownership, motivating individuals to work towards shared objectives. Additionally, when employees know their voices are heard and their insights matter, they're more likely to be engaged and invested in their work.

Navigating Changes and Challenges

The business landscape is ever-evolving, and KPIs might need to adapt accordingly. In a two-way communication process, teams can provide valuable insights about shifts in the market, changing customer preferences, or internal challenges that impact KPIs. This information empowers leadership to make informed adjustments to KPIs, ensuring they remain relevant and reflect the organization's reality.

Empowerment and Ownership

Communication isn't just about broadcasting information; it's about empowering individuals with the knowledge they need to excel. By engaging employees in conversations about KPIs, leaders empower them to take ownership of their performance. When teams have a voice in shaping the KPIs that measure their success, they're more likely to be invested in achieving those metrics.

Continuous Improvement Culture

In a two-way communication process, the organisation creates a culture of continuous improvement. Teams can discuss their challenges in achieving KPIs and collaborate on solutions. This culture fosters innovation, experimentation, and a proactive approach to overcoming obstacles.

Communication of KPIs isn't a monologue; it's a dialogue that thrives on engagement, feedback and shared understanding. This two-way process ensures that KPIs are not just numbers on a dashboard but strategic tools that drive alignment, engagement, improvement, and, ultimately, the organisation's success.

Exercise 1 – Segment your business

Which business activities do you need to Stop, and which activities should Continue?
Establishing a list of things you want to Stop, Start or Continue is fundamental to any strategic cost reduction.

A process to examine your revenue streams, segment them and decide which segments (products, customers or geographies) to Stop and Continue is contained in the digital toolkit for this quest (Revenue Segmentation Framework)

The Revenue Segmentation framework will allow you to examine the different segments of your business and identify those that have the least potential. This may form the basis of the things the business will stop doing in the future and help you identify the “bad “ costs that need to be removed.

One of the objectives of the cost reduction may be to remove the direct and support costs relating to revenue streams you are stopping in order to make sure things you continue are properly funded and there are funds available for new things you want to start.

Exercise 2 – Complete the cost reduction tool

There’s a cost reduction tool included within the digital toolkit for this quest you can use to analyse your costs, indicate whether a cost is important, and set initial targets for cost reduction. Alternatively, you can use your own Excel spreadsheets.
Costs will need to be categorised as “good” or “bad” and the focus of your cost reduction placed on removing or reducing the “bad” costs.
When you work with your business team to remove cost, you will need to clearly define a “good” cost and a “bad” cost.

“Good” costs will have a strong justification behind them. Generally, these include:

- Direct costs that are focused on delivering the strategic objectives of the business
- Support costs that indirectly support the strategic objectives
- Costs that are fundamental to running the business. You have to spend this money in order to operate and comply with statutory requirements

“Bad” costs are those you might want to minimize:

- Direct costs that are linked to products and services that aren’t part of your strategic objectives
- Support costs that don’t add value to the business and are not essential
- Luxury costs (e.g. first-class travel) where the same business result could be achieved for substantially less money

The extent to which you might define certain costs as “bad” depends on how much you need to save. Changing some discretionary costs such as travel or training, or even cancelling.

Allocate a cost owner to every line of analysis. Somebody, ideally outside of the finance team who has responsibility for the level of spend and any initiatives to reduce it.

Look for quick wins. Where are there obvious and easy-to-implement savings available?

Other Exercises you might undertake:

Activity analysis: Analyse people’s time to support your segmentation analysis or to understand the level of support required for particular customers or products. This will help you determine profitability and understand the bottom 20%.

Procurement review: Analyse your organisation’s spending. Can you buy things more effectively?

7 Wastes lean workshops: These are a powerful way of getting folk around the business to identify improvements, there’s a huge correlation between waste and cost.

Run a Zero-Based Budget: Work with the business to build a new budget bottom up, justifying every cost.

Annexe: How would you roll this out across your business?

Step 1 – Who do you need on board?

You can rarely deliver a cost reduction by yourself; it's generally a team effort and it needs a combination of resources from the finance team and the wider business. Consider having the following in your inner circle:

1. **Finance Business Partners:** Members of your finance team who can work directly alongside other people in the business to support them in identifying cost savings, updating budgets to reflect savings targets and monitoring the activities necessary to remove cost.
2. **Human Resources:** Often cost reduction also means headcount reduction. An HR advisor on the team can make sure this part of a cost reduction is handled properly
3. **Communications professional:** Sometimes communication isn't the finance leader's strong point, and there will be some important messages to deliver. make sure you have the right help to do this.
4. **Key business managers:** One or two individuals from each area where you need to remove cost and who have a deep understanding of business operations and will be able to help find new and better ways to do things.

Step 2 – Create a burning platform

Cost reduction will need people to change. Change won't happen unless there is a burning platform. Make sure that the core team understand why the cost reduction is necessary and can communicate this to the rest of the business.

Creating a burning platform for business change involves setting and communicating clear objectives, communicating the need for transformation, and creating a sense of urgency.

1. **Share Objectives:** Establishing specific goals for the desired outcome is essential for driving ambitious change. Make sure that these objectives are measurable, achievable, and relevant to the business.
2. **Communicate:** Explain why the transformation is necessary and how it will benefit the business in terms of efficiency, cost savings, improved customer experience etc.
3. **Create Urgency:** Ensure that an element of urgency is communicated throughout the organization by expressing that inaction or failure to act could lead to damaging consequences such as lost market share or decreased profitability.
4. **Lead by Example:** Demonstrate your commitment to the transformation by committing to it yourself and encouraging others to do the same. Support employees through this process by providing resources and guidance where necessary.

Step 3 – Define what needs to be done

Engage the core team in working sessions to discuss your objectives and expand on your initial proposals. The core team can help you put flesh on the bones of your basic objectives and the core team are responsible for generating many of the ideas. They will be bought into the cost reduction process and will help you take the important messages to the wider business

While the finance team does the bookkeeping, processes the expenditure, and reports the numbers it is generally not responsible for spending the money in the first place.
Some costs will have clear owners, people who are responsible for them. For others, it might be less clear. An essential step in a successful cost reduction is making sure there's an owner for every cost and that owner is accountable for any expenditure.

It's likely in a larger organisation that many cost owners will be outside your core project team.

Step 4 – Build your new budget

CFOs must build new budgets during a cost reduction programme by communicating with cost owners, gathering the numbers, and challenging responses. This process is essential for CFOs to ensure their organisations can cut costs while maintaining operational effectiveness.

Engage with the right people, make it clear what needs to happen.

What? Why? and by When?

Provide detailed instructions, help and guidance, and give as much support and training as you can. Make it as easy as possible for people to generate ideas, identify savings and provide you with some initial numbers.

The initial round may not give the full result you need, but it will have people on the right page and engaged in the process.

Good and bad costs

Establish which costs are good and bad so you can give people clear guidelines.
Consider which costs:

- Are fundamental to keeping the business operating
- Directly support your core products and services
- Are fundamental to your business strategy

These costs will generally be good, but you may ask people to find more effective ways of doing things. Other costs that don't fall in these categories will be prime candidates for removal unless cost owners can provide a strong business case for spending the money.

Challenge the numbers

You need to close the gap between your target cost reduction and the savings already identified.
It's time to challenge the numbers a bit harder! Or a lot harder depending on the size of the gap.

Confirm the new budget

Once people have agreed that savings can be made then make sure these are reflected in budgets that you can use to monitor expenditures going forward. You then need to ensure that the savings people have agreed to are realized.

Step 5 – Manage the budget

The success of a cost reduction programme depends on careful budget management. To do this, CFOs must be able to effectively manage budgets. This involves monitoring cost reduction initiatives to ensure that they are progressing as planned; creating systems for reporting progress on each initiative; and holding cost owners accountable to ensure that budget targets are met.

You and your team will need to monitor progress. Agreeing to remove costs and doing so in practice are two completely different things.

Finance business partners and other finance team members who support the wider business should be working alongside cost owners, by being a critical friend and helping to keep them on course.

Make sure you have a cost reporting system in place that allows you to provide the right information to cost owners and show progress against the budget.

Ensure cost owners are held accountable

CFOs must take special care to ensure that cost owners are held accountable for their decisions in order to achieve the desired savings targets. It is important that you have confidence in the cost savings figures presented to you, and that a culture of accountability is maintained throughout the organization.

You should proactively engage in budget management across all departments. This includes setting clear parameters around allowances, implementing effective performance monitoring systems, and conducting regular reviews with stakeholders to ensure progress against targets. Additionally, you should ensure that all cost owners are aware of their responsibilities and the impact their decisions have on the overall budget.

It is also important to create a culture of transparency throughout your organization. This involves providing regular updates on budget performance and highlighting potential risks or challenges. Furthermore, you must be willing to provide support and resources to cost owners to ensure they can meet their objectives.