



# Key Performance Indicators

Competition amongst advocacy organisations, and the current economic environment has really started to force organisations of all sizes to become more 'business like' and to focus on performance and efficiency. **Mark Freeman**, Chief Executive, Charity Business discusses the value of using Key Performance Indicators (KPI's) for advocacy organisations both big and small.



So what are Key Performance Indicators (KPI's) and how are they developed? KPI's are designed to provide a series of measures against which internal managers and external stakeholders (whether it be grant funders, commissioners or other investors) can judge the organisation and how it is likely to perform over the medium and long term. Once an organization has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. Key Performance Indicators are those measurements.

## Determining KPI's

One problem with using KPI's is the confusion around what is, and is not to be included. It is tempting to include anything and everything that can be measured when determining an organisations KPI's. This can lead to de-

motivation of staff and management, and can make the whole exercise pointless.

A factor is only **Key** when it is of fundamental importance in delivering the aims and objectives of the charity, and is a make or break component in the success or failure of the organisation. For example, the level of staff turnover is an important operating ratio, but rarely one that is a make or break element in the success and failure of the organisation. Many small charities can and do operate on well below benchmark levels and still return satisfactory or above satisfactory results.

It is only relating to **Performance** when it can be clearly measured, quantified and easily influenced by the organisation. For example, changes in legislation may lead to more or less funding for the advocacy sector, but is this a direct result of the influence of

the charity?

The recent recession may mean that less people are donating, and sourcing funding is harder, but this is not something the organisations can influence. Income generation may be an important performance criteria – but targets must be set that can be measured.

It is only an **Indicator** if it provides leading information on future performance. A considerable amount of data within the organisation only has value for historical purposes – for example debtor and creditor length. By contrast details of new projects and services provide excellent leading edge information.

Obviously KPI's cannot operate in a vacuum. One cannot establish a KPI without a clear understanding of what is possible – so we have to be able to set upper and lower limits of the KPI in reference to the market and how

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the competition is performing (or in the absence of competition, a comparable measurement from a number of similar organisations).

This means that an understanding of benchmarks is essential to make KPI's useful (and specific to the organisation), as they put the level of current performance in context – both for start ups and established charities – though they are more important for the latter. Benchmarks also help in checking what other successful organisations see as crucial in building and maintaining competitive advantage.

As discussed on the 'More Than Numbers' course, which Charity Business runs in partnership with Action for Advocacy, KPI's are a great means of monitoring both non-financial and financial reporting. However, it can sometimes be a challenging exercise to determine what to use for measuring operations.

It is important to be aware that for each organisation they are more than likely to be different. The following are some KPI's that some organisations use:

- Turnover
- Surplus/Deficit
- Cash Burn Rate
- Number of staff to expenditure
- Churn rate of staff
- Ratio of staff to managers

- Grant dependency ratio

The development of KPI's is not a simple process that one does over coffee! It takes time and effort to get it right. The following are some hints as to how to start the process:

- Start with a blank sheet of paper;
- Then determine what are the main key drivers of your organisation;
- Who controls or understands these main key drivers;
- What data/information is available today;
- Who is the audience for the KPI's;
- Keep your information to one page, any more and you have not defined your requirements, as a guide you should have no more than 12 items.

### Staff Motivation

The KPI when properly developed should provide all staff with clear goals and objectives, coupled with an understanding of how they relate to the overall success of the organisation. Published internally and continually referred to, they will also strengthen shared values and create common goals.

However, the use of KPI's should be taken with care, especially in the charity sector

where the concept is relatively new, and likely to be misunderstood by some. A good or bad result does not necessarily mean that the project, or organisation as a whole is good or bad. What needs to be understood, and taken into consideration is how the KPI was developed, calculated and reported on as slight variations might change the result. Also the KPI needs to be looked at to how it supports the overall objectives, mission and aim of the organisation or what it does to ensure that these are going to be met.

We will be looking at the use of KPI's in more detail as part of the 'More Than Numbers' Course. This two day course is aimed at Service Managers or Trustees who supervise or line manage the people responsible for the organisation's finances. It is designed to help you support them in their role, have a better understanding of the work they do, and to make better use of the information you receive.

To book on the More Than Numbers or other A4A training visit  
[www.actionforadvocacy.org.uk](http://www.actionforadvocacy.org.uk)