

# Measuring Up: The Weight of Non-Financial KPIs in Determining Corporate Performance



# EXECUTIVE SUMMARY

“Not everything that counts can be counted, and not everything that can be counted counts.”  
—Albert Einstein

CFOs know this axiom to be truer than any other executive in an organization. To accurately measure and forecast corporate performance, they must skillfully manage information and data from across the business—identifying it, gathering it, and analyzing it in a way that will inform strategic decision-making. This is leading to a data deluge that not only impacts the amount of data CFOs and their teams manage but the type of data that they manage. And it is also changing how they understand and interact with their organizations and teams.

Gone are the days of simply calculating and reporting financial numbers. Rather, the office of finance must also account for the more meaningful metrics that typically drive the financials. It's no longer enough to know the dollars and cents. CFOs must also know the business drivers behind the financials and their potential to impact the company's future. But that knowledge requires both business understanding—a skill that many CFOs identify as the one skill missing from their teams—and more efficient business processes.<sup>1</sup>



76% of CFOs report that their finance teams are tracking non-financial KPIs

<sup>1</sup> According to CFO Indicator Q2 2016 Report



## EXECUTIVE SUMMARY

As CFOs work to infuse themselves and their teams with greater business acumen through greater collaboration and integration with other parts of the organization, they are also introducing new, non-financial key performance indicators (KPIs), seeking to more accurately track, measure, and forecast future performance. According to this quarter's global survey of 306 CFOs, more than three-quarters of CFOs report they are tracking non-financial KPIs, and over half expect these metrics to comprise up to 30% of their KPIs in two years.

Yet, while the data shows that CFOs expect non-financial KPIs to comprise a growing percentage of their performance metrics, figuring out exactly which non-financial metrics to track could prove challenging. Nearly half of CFOs have previously reported that finance and other departments aren't aligned on key metrics,<sup>2</sup> and the introduction of more KPIs, particularly the inherently more subjective non-financial KPIs, could only serve to aggravate the problem.

As key leaders of strategy and primary owners of data in their organizations, CFOs are in the best position to drive the process of defining and identifying the non-financial KPIs that will best lend themselves to accurately forecasting future corporate performance.

Our Q3 2016 CFO Indicator report looks at the growing impact of non-financial KPIs in measuring corporate performance; why CFOs and their teams should lead the effort to define these important KPIs; and how business processes and skillsets must change to accommodate these new non-financial metrics. Read on to learn more.

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<sup>2</sup> According to CFO Indicator Q4 2015 Report



# NON-FINANCIAL KPIS INCREASINGLY WEIGH IN THE BALANCE

Experts often advise that less is more when it comes to KPIs, and CFOs are listening. According to our survey, nearly half of finance teams (47%) today track 10 metrics or less, and 36% track from 11-25.

While a company's size and complexity likely impact the number of metrics tracked, there are a few constants. Most CFOs (76%) are tracking non-financial KPIs. Moreover, they expect those metrics to comprise a growing percentage of their performance tracking in the future, seeming to underscore the big picture value that these metrics bring to forecasting.

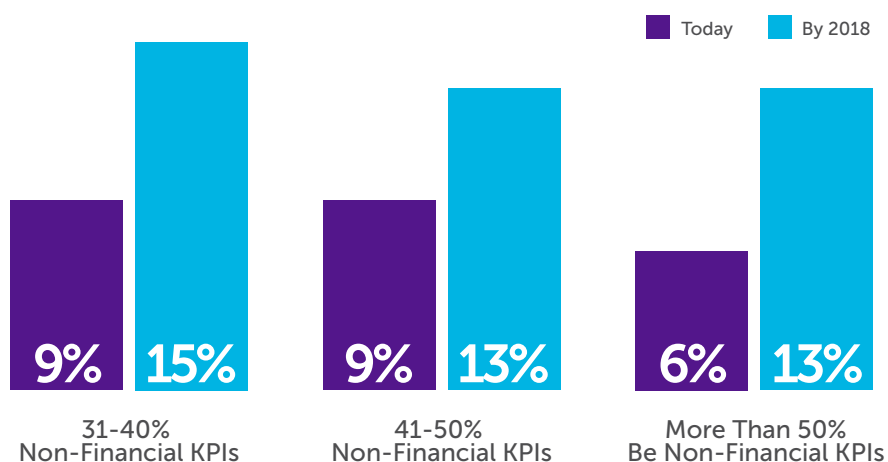
Our study reveals that while non-financial metrics comprised just 10% of KPIs two years ago, CFOs expect that number to reach up to 30% on average two years from now. In fact, nearly half (41%) of CFOs expect non-financial KPIs to comprise over 30% or more of their metrics by 2018.

<sup>3</sup> CFO Indicator Q3 2015

Along with the rise in non-financial KPI tracking comes the need for increased access to the operational data that resides in functions outside of finance. CEOs regularly ask their CFOs for such things as human resource, sales, and productivity data, and this is impacting the number of source systems that CFOs must manage (5.2 today as compared to 4.8 in Q3 2015<sup>3</sup>). There is also a rising number of CFOs who fall into the highest category of source system management, with 12% percent managing 10 or more source systems, up from 8% just a year ago.

As CFOs seek to define and track more non-financial KPIs, their access to and management of non-financial data will increase. To efficiently gather and accurately track that data, organizations will need to break through existing data silos and more closely collaborate with other parts of the business. When they do, they are likely to feel even more confident in how they track their performance. Nearly 80% of companies that report having effective metrics also have finance teams that track non-financial KPIs.

## What Percentage of Your KPIs are Non-Financial?



41% of CFOs Expect Nearly One-Third or More of Their KPIs to Be Non-Financial By 2018.

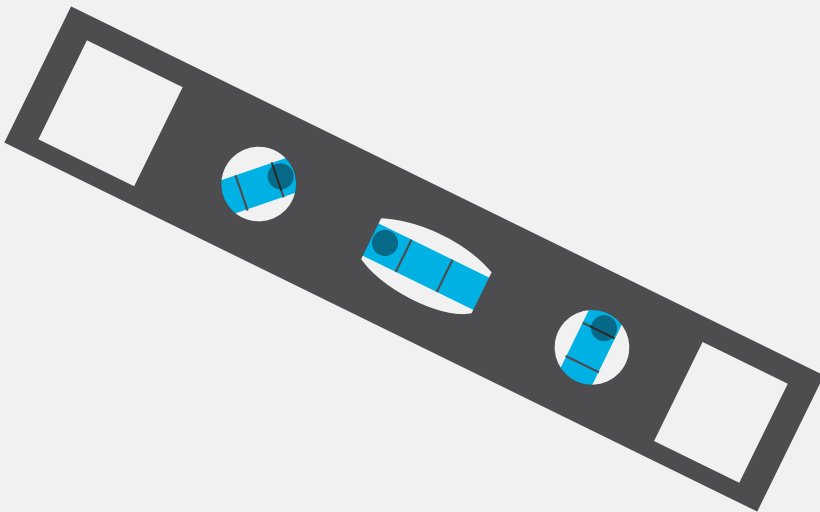


# SELECTING THE RIGHT NON-FINANCIAL KPIs

As united as CFOs are in their opinions that KPI tracking will include a larger percentage of non-financial KPIs, they are divided when it comes to what the most significant non-financial metrics should be. In only a few cases (6%) did CFOs cite customer-oriented metrics as the most significant non-financial KPI they track. Headcount, customer satisfaction, safety, and customer count were among the many diverse metrics referenced as the most important, but the close tie of non-financial KPIs to a company's specific strategies and goals—and to each individual company's business—likely drives broad variances in the definition of non-financial KPIs.

Certainly, organizations find great difficulty in defining non-financial KPIs. And even though several frameworks have been developed to guide them in determining exactly which non-financial KPIs to track, there are challenges. According to [Harvard Business Review \(HBR\)](#), the frameworks' own inventors say that companies must dig deeper into the business to determine the activities that will impact the high level metrics defined by their methodologies.<sup>4</sup>

HBR also asserts, however, that non-financial metrics are open to much greater manipulation and bias, and that factors such as laziness and even personal agendas have the potential to negatively impact the effectiveness of non-financial KPIs.



Nearly half (46%)  
of CFOs report that  
finance and other  
departments aren't  
aligned on key metrics

<sup>4</sup> Christopher D. Ittner and David F. Larcker, Harvard Business Review: "Coming up Short on Nonfinancial Performance Measurement," November, 2003

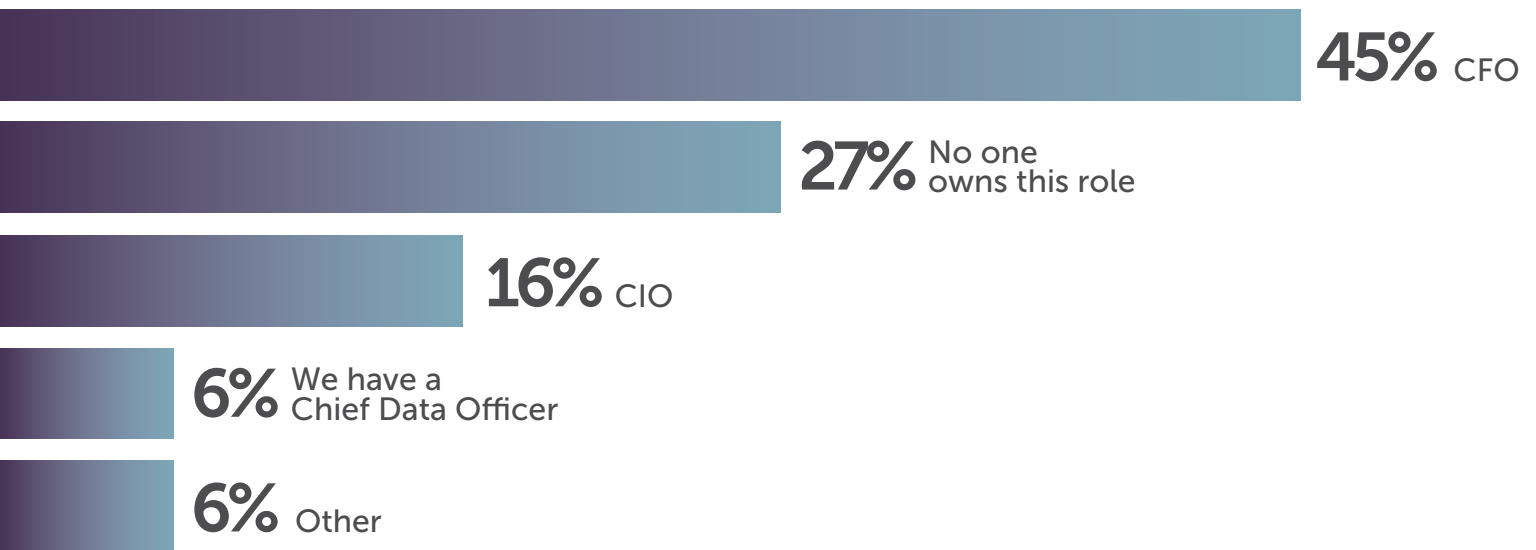


## SELECTING THE RIGHT NON-FINANCIAL KPIs

CFOs, as strategic guides to the business, will need to lead the complex effort of defining non-financial KPIs. And the CFOs we surveyed believe they are up to the task. Nearly half of CFOs (45%) responded that they currently act in the role of chief data officer, with only 16% citing the CIO holding that role. To be effective in identifying the drivers for

their business, they will need to collaborate with key stakeholders to ensure all are marching toward common performance objectives and integrating non-financial KPIs as part of that performance. They will also need to be objective leaders who manage the potential introduction of bias into non-financial KPI tracking.

### Who is the Acting Chief Data Officer in Your Company?



In addition to being strategic leaders, 45% of CFOs are also acting in the role of chief data officer, putting them in the best position to own the definition of non-financial KPIs.



# A FINE BALANCE OF TIME, SKILLS, AND TECHNOLOGY

Aside from owning and driving the tracking of non-financial KPIs, CFOs will also need to free up time so that their teams can become more strategic. Digging deeper into the business requires collaboration and improved access to data, as well as time for analysis. Many CFOs say this is time that their teams simply don't have. Nearly half of CFOs report that their teams are working up to 50 hours per week, yet continue to lack the time required to perform strategic tasks.<sup>5</sup> And 79% of CFOs say lack of time also presents their biggest collaboration challenge.<sup>6</sup>

To bridge the gap, organizations will need technologies that shorten the time it takes for data gathering and enable users to drill down and deeply analyze their data. When asked what FP&A teams could do to become more effective, CFOs cited both analytics and collaboration skills, according to our CFO Indicator Q2 Report. They also said they are looking to better technology to enable strategic analysis and decision-making. By carefully balancing time, skills, and technology implementation, CFOs can ensure their teams are tracking the right non-financial metrics and truly understanding which aspect of those metrics has the greatest impact on their results.



CFOs (79%) say  
lack of time  
presents the biggest  
collaboration challenge

<sup>5</sup> CFO Indicator Q2 2016

<sup>6</sup> CFO Indicator Q4 2015



# THE WEIGHT OF DATA WILL CRUSH TRADITIONAL APPROACHES

Even if CFOs see their KPIs as effective today, there appears to be a desire to fine-tune their performance measurement by increasing the number of non-financial KPIs they track in the future. As the number of KPIs expands, the need for access to data across the business grows in importance and appears to impact the number of source systems that CFOs manage.

When asked about their primary budgeting and planning tool, CFOs continue to cite spreadsheets as their primary platform (68%), though the popularity of spreadsheets declines as the number of source systems increases. Our survey reveals that 24% of CFOs using tools other than spreadsheets (on-premises, cloud and custom) are managing data from 10 or more source systems, compared to just 8% of those using spreadsheets. In addition, nearly half (47%) of spreadsheet users manage three or fewer source systems.

The number of source systems also appears to impact whether CFOs view their KPIs as effective. Surprisingly, organizations reporting effective metrics for measuring corporate performance had fewer source systems, with 48% managing just one to three. With the average number of source systems on the rise, how will spreadsheet users keep up and at the same time ensure their KPIs remain effective?

CFOs will need to evaluate their tools to ensure they can keep up with rising volumes of data, expanded non-financial KPI measurement, and more source systems. They will also need to gain better and faster access to data across the organization. And finally, they will need tools that enable them to rapidly analyze and visualize that data, glean the insights needed to create a solid, long-term plan.



12% of CFOs are managing 10 or more source systems, up from 8% just a year ago





# FINAL THOUGHTS

As company's look to more deeply analyze the business drivers most impacting their financials, non-financial KPIs will increasingly become a larger part of the mix, providing the more comprehensive view that business leaders seek. To ensure their organizations are analyzing the right metrics, CFOs and their teams will need to act as objective and strategic decision makers, carefully balancing the views of all key stakeholders and rallying them to drive toward common performance goals.

Beyond that, however, finance teams will need to fundamentally change key business processes—including data gathering and analysis; cross-functional collaboration; and training. With the right mix of technologies that free up time and enable deep visualization and analysis of metrics, CFOs and their teams can lead the complex effort of adding the non-financial KPIs that lead to greater accuracy in forecasting an organization's future.

## About the Survey

The Adaptive Insights CFO Indicator Report reveals what is top of mind for CFOs, as well as unveils key attributes that define the strategic CFO. An [infographic](#) is also available, as well as [blogs](#) that highlight key findings and takeaways. This report surveyed 306 chief financial officers across the globe online over a period of 14 days ending October 12, 2016.

For additional insights, read results from the previous CFO Indicator surveys:

[Peak Ascent: How FP&A Can Guide CFOs to Great Heights \(Q2 2016\)](#)

[Big Data, Better Vision: The Agile CFO \(Q1 2016\)](#)

[Collaborative Finance Organizations \(Q4 2015\)](#)

[Strategic CFOs Break Down Silos to Harness the Power of Data \(Q3 2015\)](#)



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