



Management Information & KPIs: How and why to use information effectively in the Financial Services sector

Research White Paper

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Introduction

The problem

The FS sector is a famously rich source of data – but struggles to turn this into the key information that drives profitable business. Organisations also have difficulty in creating a set of KPIs that focus on the most important aspects of complex business operations, but that do so in a way that is simple to understand and can be easily used to measure performance.

Purpose

The purpose of this Research White Paper is to explain:

- The most effective way to build a Management Information function
- How to build Key Performance Indicators that monitor and control business performance
- How to make sure that MI and KPIs are used properly by the business

Approach

The approach has involved:

- Collation of detailed information about the way that MI and KPIs are approached and used within financial services organisations, based on a combination of original research and extensive client work across numerous countries
- Identification of key success criteria
- Utilisation of anonymous case studies
- Presentation of actionable insights, offering financial services companies the opportunity to see how the recommendations would apply specifically to an organisation like their own

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The commercial importance of Management Information and KPIs

The production of Management Information and its use in building effective KPIs is central to effective performance in the FS sector...

Commentators from other industry sectors often have the same comments to make about financial services: how can a business sector that is so rich in the production of consumer data, that possesses such complicated accounting systems, that is so heavily regulated, be so consistently poor at dealing with factual information? Why do FS companies have such a limited appetite to really understand their customer base, their competitors, and their own sources of profit? Why are so many of their investment decisions and strategic plans based on incomplete information? And why do their businesses tend to be pulling in several different directions at once, without a single set of performance data to create a coherent business plan?

Management Information provides focus, efficiency and consistency. Of course, during periods of economic and market growth organisations can and do grow successfully without strong MI. But the downturn has exposed numerous FS organisations who were simply following strategies that ‘seemed’ correct, or who had begun copying their competitors without taking a closer look.

The lack of proper information meant that they were not only following the wrong path – they were not watching closely enough to realise when their performance started to become affected. While many harsh lessons have been drawn from recent economic events, therefore, none is more important than the critical need for organisations to create, consult and use solid information sources.

The simple questions MI should answer

While management information is a hugely complex area, its purpose is extremely simple. It allows the business to answer basic questions about its direction and its value. It is important to create a broad range of MI areas, but they should all be linked to a few simple themes. In operational terms, the MI should be telling the business:

- How effective are we being? (Are we hitting our targets?)
- How efficiently are we using the business’ resources? (Are we functioning properly?)

In commercial terms, MI should be telling a business:

- What do we know about our target customers?
- What is the profitability of our business?
- What is the return on investment from our activity?

Key Performance Indicators take the MI and turn it into measurements that indicate how well the organisation is performing. They also keep the many parts of the organisation on one unified track. KPIs that are correctly built should be answering one simple, overall question: How is the business performing against its goals or targets? KPIs do this by showing all the many elements that, cumulatively, create success for the organisation. The secret to effective KPI activity is, first, in choosing the most effective measurements; and secondly in using them to create and reinforce a coherent strategy that runs through the many different parts of the business.

Obstacles in creating an information-led business

In practice, it is not simply the difficulty in managing complex information that is the reason why organisations fail to make proper progress with MI and KPIs. There are five common reasons why FS organisations struggle with information management:

5 common reasons why firms struggle with MI and KPIs

- Lack of strategic appetite for ‘facts’ (particularly when these challenge established views and strategies)
- Lack of consistency in the approach to information-gathering and analysis, due to changes in personnel, budget or methodology
- Lack of agreement on the quality of data or analysis
- Lack of confidence in using the information to create change or challenge historic strategies
- Lack of agreement that certain parts of the business will need to change the way they operate

These are the main threats to effective MI and KPI activity, and each situation is discussed in detail in the sections below. However, the fact that there are so many significant obstacles is precisely because the information has the potential to change the way the business operates. In simple terms, if MI was not such a powerful tool, organisations would not spend so much time investing in it, worrying about it, and – in too many cases – trying to prevent it from being developed and implemented for fear of what it exposes.

The start point for effective management information is therefore a recognition that the MI team sits at the centre of strategic and financial debate. For many firms this