KPI’s That Every CFO & President Should Track & Understand

Jan M. Haas, Senior Partner
www.cfocolleague.com
jan@cfocolleague.com
267-278-4650
Overview: It’s understood – the CFO is the institutional numbers person.

But all numbers aren’t created equal.

What are the right key performance indicators (KPIs) that should be on the institutional dashboard?

Why should they be carefully tracked and analyzed?
Agenda

• Key Performance Indicators (KPIs) – what are they?
• Choosing the right KPI’s – what they are and why?
• Listening to the right numbers – interpretation matters.
• Sharing vital intel – with whom, when, and how?
Key Performance Indicators (KPIs) – what are they?
Key Performance Indicators (KPIs)

Why Select Key Performance Indicators?

- Track, measure, and analyze use of resources to achieve the institution’s mission
- Quantify status, sources, and uses of resources
- Benchmark institutional performance
- Tools for understanding and measuring success
- Focus planning on institution’s financial profile in relation to vision and mission
Key Performance Indicators (KPIs)

Lagging indicators assess the current state of business

Leading indicators predict future conditions
Key Performance Indicators (KPIs)

**Leading Indicators**
- Focus on the future situation of the economy
- Tend to change before a change in the economy
- Accuracy cannot be guaranteed
- Monitored to predict any future movements in the markets
- Input-oriented
- Hard to measure

**Lagging Indicators**
- Focus on the past movements of the economy
- Tend to change after a change
- Accuracy can be relied upon
- Monitored after movements in the market
- Output-oriented
- Easier to measure
## Institution

### Revenue
- Tuition/Fees
- Endowment
- Gifts
- Auxiliary

### Expense
- Instructional
- Academic
- Student Services
- Institutional

## Resource Acquisition

- Tuition
- Development
- Government Aid

## Resource Allocation

- Physical Plant
- Assets & Reserves
- Faculty & Staff

## Students

- Enrollment
- Student Profile
- Retention

### Questions
- Are resources sufficient and flexible enough to support the mission?
- Are we deploying our resources effectively?
- How well are we managing our resources?
- Are we attracting and keeping the type of students we want?
How well are we acquiring the resources needed?

How well are we managing our resources?

Are we deploying our resources effectively?

Are resources sufficient and flexible enough to support the mission?

Are we attracting and keeping the type of students we want?
Choosing the right KPI’s – what they are and why?
Choosing the right KPIs

“There is a difference between numbers and numbers that matter.”

The Right KPIs
The Right KPIs

• Clarify the mission and the business process by which you achieve the mission

• Measure those things most relevant to the success of your mission

• Present information relevant to level of responsibility

• Answers questions being asked

• Accurate and timely
The Right KPIs

4 Ways Higher Education Can Make the Most of Their KPIs

- Set goals and targets
- Plan and measure strategically
- Assemble the right team
- Automate the process
The Right KPIs – CFI & DOE FRS

**Composite Financial Index (CFI)**
- Primary Reserve
- Net Income
- Return on Net Assets
- Viability

**Department of Education Financial Responsibility Score (DOE FRS)**
- Primary Reserve
- Equity
- Net Income
<table>
<thead>
<tr>
<th>RATIO</th>
<th>Actual 2021-22</th>
<th>Projected</th>
<th>Forecast</th>
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<tbody>
<tr>
<td>Primary Reserve Ratio:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expendable Net Assets</td>
<td>0.311</td>
<td>0.224</td>
<td>0.219</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>0.133</td>
<td></td>
<td></td>
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<tr>
<td>Net Income Ratio:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in unrestricted net assets</td>
<td>0.007</td>
<td>0.034</td>
<td>-0.031</td>
</tr>
<tr>
<td>Total unrestricted income</td>
<td>0.007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Net Assets Ratio:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>0.062</td>
<td>0.055</td>
<td>0.013</td>
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<tr>
<td>Total net assets</td>
<td>0.020</td>
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<tr>
<td>Viability Ratio</td>
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<td></td>
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<tr>
<td>Expendable Net Assets</td>
<td>0.617</td>
<td>0.451</td>
<td>0.333</td>
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<tr>
<td>Long-Term Debt</td>
<td>0.417</td>
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<tr>
<td>Liquidity Ratio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Liquidity</td>
<td>175%</td>
<td>170%</td>
<td>132%</td>
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<tr>
<td>Long-term indebtedness</td>
<td></td>
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<tr>
<td>Debt Service Coverage Ratio</td>
<td></td>
<td></td>
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<tr>
<td>Net Revenues</td>
<td>1.93</td>
<td>2.09</td>
<td>0.96</td>
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<td>Maximum annual debt service</td>
<td></td>
<td></td>
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<tr>
<td>CFI</td>
<td>2.1</td>
<td>2.0</td>
<td>0.6</td>
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<tr>
<td>DOE</td>
<td>2.7</td>
<td>2.9</td>
<td>2.4</td>
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The Right KPIs – CFI & DOE FRS

- **Primary Reserve**: Expendable Net Assets, Total Expenses
- **Equity**: Modified Net Assets, Modified Assets
- **Net Income**: Change in Net Assets without Donor Restriction, Total Unrestricted Revenue
“Perhaps the greatest mistake I’ve seen executives make is to confuse expectations with inspection. ............ But, alas, too often the executive does not understand that people do what you inspect, not what you expect. Execution is all about translating strategies into action programs and measuring their results. It’s detailed, it’s complicated and it requires deep understanding of where the institution is today and how far away it is from where it needs to go. Proper execution involves building measurable targets and holding people accountable to them.”
Listening to the right numbers – interpretation matters.
Listening to the right numbers

Managers have a critical role to play in the beginning and end of the process, framing the question, and analyzing the results.
Listening to the right numbers

Six questions that managers should ask to push back on their analysts’ conclusions.

1. What was the source of your data?
2. How well does the sample data represent the population?
3. Does your data distribution include outliers?
4. What assumptions are behind your analysis?
5. Why did you decide on that analytical approach?
6. How likely is it that the independent variables are causing the changes in the dependent variable?

<table>
<thead>
<tr>
<th></th>
<th>College A</th>
<th>College B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>54%</td>
<td>40%</td>
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<tr>
<td>Less: Institutional Aid</td>
<td>$8,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>Net Tuition Revenue (NTR)</td>
<td>$12,000</td>
<td>$12,000</td>
</tr>
</tbody>
</table>
Listening to the right numbers

**Benchmarking**

- Measuring certain characteristics
- Establishing that which is worthy of emulation
- Creating a process to accomplish desired outcomes
- Higher education must seek new benchmarks
Listening to the right numbers
Sharing vital intel – with whom, when, and how?
Sharing Vital Intel

MAY MEETING
• Faculty Salaries
• Staff Salaries

MARCH MEETING
• Student Placement Data
• Satisfaction Survey Results

OCTOBER MEETING
• Student Enrollment
• Student Quality
• Student Diversity
• Faculty/Staff Diversity
• Retention

DECEMBER MEETING
• Strategic Indicators
• Financial Ratios
Sharing Vital Intel

DESIGN PRINCIPLES

- Use graphic display
- Tell a story
- Spotlight key information
- Avoid jargon and “budget speak.”
- Provide a comparative context
Sharing Vital Intel

Anticipate the Board’s Questions

- Are we measuring the right indicators to define the path to success?
- Does it matter to the mission? (resource allocation)
- Are the results sustainable? (cost model)
- Is it cost-effective? (cost model)
- Is the proposed practice truly superior to the current method, program, or policy?
Create Leadership Team “Buy-In”

Tell a Story

1. The Anatomy of a Story: 22 Steps to Becoming a Master Storyteller by John Truby
2. Resonate: Present Visual Stories that Transform Audiences by Nancy Duarte
3. Long Story Short: The Only Storytelling Guide You’ll Ever Need by Margot Leitman
4. The Storytelling Method: Steps To Maximize a Simple Story and Make It Powerful, Inspiring, and Unforgettable by Matt Morris
6. Story Trumps Structure: How to Write Unforgettable Fiction by Breaking the Rules by Steven James
7. Made to Stick: Why Some Ideas Survive and Others Die by Chip and Dan Heath
8. Bird by Bird: Some Instructions on Writing and Life by Anne Lamott
9. Big Magic: Creative Living Beyond Fear by Elizabeth Gilbert
Free!

- COMP4cast® and instructions
- Program Development Analysis
- Thirty (30) Benchmarks

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KPI’s That Every CFO & President Should Track & Understand

Thank you!

Call (267) 278-4650

Email jan@cfocolleague.com

www.cfocolleague.com