

## Key Performance Indicators (KPIs): both financial and non-financial

### Public sector governance

KPIs are measures, preferably quantifiable, that focus on the achievement of outcomes critical to the current and future success of an organisation. Once an organisation has analysed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. KPIs therefore need to be open to independent measurement and verification, and accuracy is important.

An effective and accountable public sector requires clarity as to its objectives, to enhance the activities of government agencies and departments and to improve the delivery of goods, services and programs. When the public sector is arranging the provision of services through third parties, the management of complex collaborative relationships with private contractors, regulated industries, not-for-profit agencies, and other levels of government for the effective implementation of public policy also needs to be measured.

It is **good governance** for an agency to articulate its key results areas, whether these are set by agreement with the Minister or board or are contained in a service charter, and whether these are financial (for example, reporting against funding obligations) or non-financial. Key results areas may not always be quantifiable. Qualitative outcomes may be difficult to measure. However, governments will be seeking to gain stakeholder understanding of the achievement of public policy through reporting against key results areas.

Public sector agencies should:

- establish both long and short-term KPIs (as a first step, clarify whether KPIs are imposed [legislation] or determined by the agency)
- cascade throughout the organisation knowledge and understanding of the legislative or other prescribed requirements for KPIs of the agency and the accountability for their achievement
- determine whether there is other legislation, apart from the enabling legislation, against which it needs

to report (for example, anti-discrimination legislation, freedom of information legislation).

- clarify the purpose of the KPIs.

### Purpose

A public sector agency needs to clarify if its KPIs are internal or will be made available to the public. In each case, the purpose of a KPI must be meaningful and relevant to both the organisation and its stakeholders, as the primary purpose of KPIs is accountability. To this end, KPIs need to be expressed clearly and concisely, and in a manner that can be understood. As the term suggests, KPIs should be higher-level markers of performance in key results areas. Too many KPIs can defeat the purpose of measuring progress towards the goals of the agency.

A primary purpose of KPIs is accountability for the achievement of strategic objectives and improving performance. Some agencies have specific statutory objectives and the KPIs need to align with those. They are often linked to individual performance agreements in order to cascade accountability through the organisation. Performance against agreed goals is then reported back up through the organisation.

It is **good governance** for an agency to ask itself whether its KPIs are useful. It is also **good governance** for an agency to clarify what the KPIs are intended to measure, and whether what is being measured is aligned with the strategic objectives of the organisation. For example, are they intended to be a measure of progress against any of the following?

- fulfilment of legislative KPIs
- reporting to the board on organisational performance
- reporting to stakeholders in the annual report
- reporting to the Minister on implementation of a Ministerial direction to undertake a program
- fulfilling an agreement between the agency and the Head of a department

- fulfilment of a CEO and/or senior executive performance
- management reporting, or
- fulfilling a performance agreement on socially responsible outcomes.

## External review

External review of KPIs and performance against them is common, and can be either undertaken formally or informally. Formal review of KPIs may either take the form of an inquiry by Parliament or Parliamentary Committee or audit by the Auditor-General at either the Commonwealth or State level who may make a judgment on whether the KPIs are appropriate and capture meaningful information, or review by Head of a department. Informal review of the performance against KPIs may be undertaken by stakeholders themselves or by the media.

## Measurement

It is good governance for an agency to clarify how it will measure progress against KPIs and in what form progress can be measured.