

Two Faces of The Same Coin. Financial Ratios and Sector KPIs in Large Italian Companies

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ABSTRACT

Financial ratios such as Return on Assets (ROA), Return on Sales (ROS), and Return on Equity (ROE) are widely used to measure corporate financial performance. They enable benchmarking across sectors and support managerial decision-making. However, when evaluating performance at the functional, process, or activity level, financial ratios alone may prove insufficient, as they are broad in scope and heavily dependent on financial accounting processes.

Key Performance Indicators (KPIs) complement financial ratios by offering more granular insights at multiple organizational levels. Unlike financial ratios, KPIs are not standardized and can be tailored by companies to monitor critical business drivers and strategic objectives. KPIs frequently align with Critical Success Factors (CSFs) and strategic goals, serving as essential tools for managerial control.

Industries, such as railways, insurance, airlines, retail, and telecommunications, have long relied on sector-specific KPIs (e.g., cost per km, load factor, sales per square meter) for operational efficiency and strategic planning. This study examines whether financial ratios and sector KPIs serve as complementary performance measures by analyzing large Italian companies in industries where sector KPIs have a historical role.

By assessing ROA, ROS, and sector KPIs for selected firms from 2012 to 2013, we identified a strong correlation between financial performance and KPI rankings. Companies that performed well in sector KPIs also exhibited superior financial ratios, suggesting that sector KPIs could act as leading indicators of financial success over the medium term.

Keywords: KPI, financial performance, performance management, sector KPI