

Managing company performance

Is the picture in focus? **By Rosemary Rehner**

Today's technologically advanced environment has made it easy for us to generate an abundance of financial and non-financial data. So easy that business leaders have piles of information to guide them in managing a successful business.

More is better, right? Not really.

The overabundance of information can be overwhelming and can result in wasted time, effort and money. The lack of focus on the data and important measures often create inaccurate analysis and response to changes and trends.

Purge those piles and determine which financial and non-financial information you really need to measure, monitor and circulate throughout your organization. Who needs the photo album of available information when you can have an in-focus snapshot? A *valuable snapshot* is a readily available tool that helps you enhance your business performance. It should be easy to maintain, if it only uses the key measures to determine how well your company is performing. Relevance is the key.

As a starting point in determining the content of your snapshot, determine your key strategic driver. For example, certain companies are driven by maintenance or reduction of costs. Other businesses are focused on research and development of new and unique products. And others are focused on excellent customer service. Once you identify your key strategic driver, select the measures, financial ratios or crucial performance indicators. They should be aligned with that driver and provide pertinent historical results, which can help indicate future performance.

To demonstrate this point, an organization whose focus is on highly specialized products, that are not available widely in the market, might focus less on measures such as production cycle time and cost per unit. Rather, they would include measures such as research and development, and spending as compared to budget or new product development statistics (e.g., number of products being developed, stage of development and estimated time to market). Requested product options or new product ideas from customers are also important to this organization.

In developing the key measures and ratios to be included in the snapshot, it is critical to involve the operations personnel, business managers and other employees on the front



line. Involve your managers in developing the measures, establishing goals and setting a timetable. This empowers them to take the necessary actions to reach the desired performance results. Further, it is important to educate employees on key metrics, organization objectives and goals. Link individual goals to the achievement of the goals of the organization. This helps individuals to see their role in the success of the organization.

When you establish targets and goals for the organization, keep in mind that the cost to achieve the perfect metric could outweigh the benefit to the bottom line. For example, the effort to reduce days sales outstanding from 45 days to the "ideal" 30 days could upset customers and result in the loss of business. The loss of customers *may* outweigh the benefits of collecting cash 15 days earlier. However, reducing days sales outstanding to 35 days could result in improved cash flow without upsetting customers.

Limit the number of measures monitored in your snapshot to five or six financial and non-financial measures. Eliminate ratios and measures from the snapshot that are not aligned with the strategic objectives. This eliminates the "I Spy Effect," of having so much data to analyze that finding the true subject is a challenge. The extra data results in wasted time to either appropriately analyze each measure or results in inaction as the subtle, yet important, changes in key measures are overlooked.

Customizing snapshots by management level

and function has tremendous value. Each executive's snapshot is relevant to his or her function. More importantly, their snapshot includes measures that are meaningful and measures they can impact.

Regardless of the size of your business or the industry in which you operate, there is one thing that every snapshot must have in order to be successful. A schedule. Establish a schedule and assign responsibility for completion and distribution. Prepare and distribute your snapshot in a consistent and timely manner. Assistance from your information technology staff can be incredibly helpful. They may be able to set up a program that automatically generates the reports and delivers it in time for management's actions to make a difference.

Lastly, don't be afraid to change the measures if they are not providing meaningful insight into operations. Sometimes a few "tweaks" to a snapshot take it from a nice picture to a work of art.



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