2014

Controller as business manager

James Lindell

Expanding controller value within organisations

A variety of forces are changing the landscape of internal controllership beyond traditional controllership roles and responsibilities. *Controller as Business Manager* is written for finance and accounting managers to help them understand and apply a critical set of financial and business management skill sets to enhance controller services within your organisation. Industry expert Jim Lindell will lead you through the strategies and thought processes that address key areas, such as risk, communications, planning and profitability.

About the author

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To my wife Milli and
Elysse, Korbin and Pierce

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Jim is a member of the folk music group “Deep Pool”, coach of a boys’ high school rugby club, and still plays “old boys” rugby.

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INTRODUCTION

EXPANDING CONTROLLER VALUE

Welcome to *Controller as Business Manager*. The objectives of this text are to help controllers:

1. Identify the role they play within their organisation.
2. Analyse the controller's role beyond traditional accounting.
3. Utilise tools that can enhance services delivered beyond traditional accounting services.
4. Create a vision for the role that controllers would like to have within their organisations.

In this opening section, we will identify the various forces that are altering the demands placed on controllers. We will briefly examine the history of accounting and how it has evolved over thousands of years. Next, we will identify the path a controller can strive for to move from traditional accounting services to becoming an almost irreplaceable business partner to the organisation.

FACTORS CURRENTLY INFLUENCING CONTROLLERS

A confluence of factors has forever changed the role of controller. Among those factors are:

1. The advancement in technology:
    a. Speed
    b. Power
    c. Mobility
    d. Connectivity
    e. Cloud
2. Social connectivity
    a. Social media
    b. Social business

3. Demand for information:
    a. 24/7
4. Analysis of outcomes—specifically forecasts and predictions
5. Availability of data
    a. Transformation of data into knowledge
    b. Big data
6. Interaction with global business partners
    a. Global competition
    b. Global vendors and customers
    c. Global uncertainty
    d. Outsourcing
7. Interaction with governmental entities
    a. More compliance
8. The recent impact of the Great Recession and its ongoing role in the current economy
    a. Uncertainty
    b. Underfunded pensions
    c. Lack of jobs
    d. Low interest environment
9. Aging of workforce
    a. Effect of the various generations on business culture and performance
10. Changing views of government
    a. Dissatisfaction with politicians
    b. Concern for changing healthcare plans

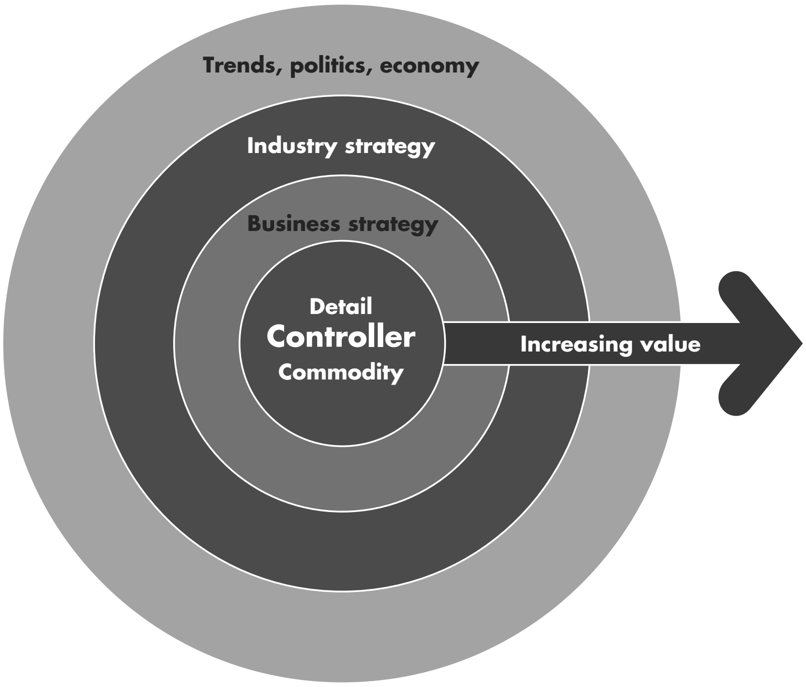
To meet these ever-changing demands, controllers must view themselves in a different light. In "The DNA of a CFO", an Ernst & Young (E&Y) partner stated the following:

> Traditional finance skills of analysis, reporting and control are in demand outside of the finance function and the job of the CFO is broadening far beyond its technical heartland into a role that is much more "strategic"—in the broadest sense of the word. Leading CFOs are overturning outmoded perceptions of finance as "business prevention units" and reposition the function as an enabling partner to the business. The acid test is the extent to which Business Partners consult them for advice on key aspects of strategy.[1]

THE PATH FROM CONTROLLER TO BUSINESS PARTNER

In this section, let us examine the controller value proposition as it currently exists with traditional accounting and how the role can expand to add greater value, significance, and prospective analysis to the organisation. To understand the migration from controller to business partner, consider the following image:

Figure 0-1: Expanding Controller Value



First Circle—Detail-Oriented Controller

At the very centre of figure 0-1, the word "Controller" appears. Above the word controller is the word "detail", and below the word controller is the word "commodity". The traditional role of the controller involves preparation of financial statements, recording transactions, payment of bills, receipt of cash, and other general accounting and clerical functions. Practically, these functions are of a commodity nature. Consider the full definition of commodity and its applicability to the controller role. A commodity is:

1. An economic good: as
    a. A product of agriculture or mining
    b. An article of commerce especially when delivered for shipment (commodities futures)
    c. A mass-produced unspecialised product (commodity chemicals, commodity memory chips)
2. A thing, an entity
    a. Something useful or valued <that valuable commodity patience>; also: thing, entity
    b. Convenience, advantage
3. Obsolete: quantity, lot
4. A good or service whose wide availability typically leads to smaller profit margins and diminishes the importance of factors (as brand name) other than price
5. One that is subject to ready exchange or exploitation within a market (stars as individuals and as commodities of the film industry—*Film Quarterly*)[2]

It is interesting to consider the descriptions as each relates to the services controllers perform.

- Mass-produced—accounting reports
- Something useful—hopefully valued by management
- Obsolete—a situation controllers would like to avoid
- Diminishes the importance of factors…other than price—increasing controller value can result in higher demand in price (salary)
- Ready to exchange or exploit—unless differentiated from other controller candidates, the current controller is fungible

What do these descriptions suggest for controllers? Controllers must ensure that they provide a useful and valued service.

If their skills are not continuously upgraded, controllers run the risk of becoming obsolete. This situation has been seen many times by the author. Baby Boom controllers who were fearful of the technology boom did not always keep pace with technology changes and upgrades that altered their business practices. It is not uncommon for some accountants to solve a problem with pencil and columnar paper as opposed to employing easier, and more efficient technological tools.

Consider the definition of commodity as "a good or service whose wide availability typically leads to smaller profit margins and diminishes the importance of factors…." In other words, the traditional, detail-oriented controller's services are easily overlooked because they are seen as interchangeable rather than providing a strategic or competitive advantage.

When there is no differentiation between the current controller and traditional controller practices, controllers are only seen as overhead that should be minimised. The result of this perception is that a detail-oriented controller function can be outsourced or replaced fairly easily. The typical controller who limits his or her services to a traditional role can be replaced in three to four months. If your company's industry is more specialised, and the controller function is more complex (such as insurance or government), the time to recruit for the position can increase, but typically only by a month or two.

Second Circle—Controller and Business Strategy

Moving outward from the innermost concentric circle, note that the second circle is labelled "Business Strategy". The first step for the controller to move outside of traditional roles is to understand the business strategy of the organisation. To accomplish this move, the controller must focus on the following:

- Servant leadership (discussed in the first chapter).
- Becoming involved in the operations of the business.
- Participating in the strategic planning sessions for the company. The controller's role at planning sessions determines if he or she reinforces stereotypes (bean counter) or migrates to strategic discussions.

Third Circle—Industry Strategy

The next concentric circle is identified as industry strategy. The controller can identify what is happening in his or her respective industry and develop an understanding of how this information impacts the organisation's vision and operations. For example, upon hearing that a large retailer, such as Wal-Mart, is entering its market, a smaller retailer will be able to identify the impact to the company. Many readers will say that the impact is obvious and is understood by the management team. However, the controller's real skillset includes his or her ability to identify recognisable **and** unrecognisable competitors. This skill can even be so well developed that the controller is aware of businesses that are not current competitors yet, but that could become competitors.

Fourth Circle—Trends, Politics, Economy

The final circle is identified with the following words: trends, political, economic. At this level, the controller can take information that reaches beyond the industry in which he or she competes and gleans understanding from specific events or trends. In addition, the controller can apply the new information to understand the impact on the business and future vision.

CONTRAST DETAILED CONTROLLER WITH BUSINESS PARTNER

Consider the entire image of figure 0-1. It is possible to compare and contrast the detailed controller with the business partner who can interpret what is happening on global, political or economic fronts. It is obvious to see that these are two different skillsets for two types of controllers. It was suggested earlier that a detailed controller could be replaced within a very short time frame—three to six months. When a controller operates as a strategic partner to the management team, the time to replace that person lengthens. It is much more difficult to replace the understanding and interpretation that a strategic business partner brings to the management team. For example, if the controller is operating in the first circle and a consultant was called in to help identify costs to cut, the consultant may suggest to the CEO to outsource the controller or accounting function. On the other hand, if the controller is operating at the strategic business partner level, the CEO may dislike the cost of the position, but the CEO will also admit that it would be difficult to replace the existing person with all of his or her understanding and insights.

Therefore, as we progress through the text, the challenge for each controller is to understand where he or she falls on the spectrum from detailed commodity to strategic partner. Select the items from the text which contribute to increased service to your management team or create higher levels of understanding relating to the business, industry, or global environment in which your business operates. There is an easy way to see if you are progressing along this spectrum (other than salary increases—which may be misleading). Next time one of the management team members introduces you in public, listen for the following words, "This is Jill (or John), our controller, but don't be fooled by the accounting background. She (or he) is much more of a business person".

SURVEY OF WHAT CEOS WANT FROM CONTROLLERS AND CFOS

It is easy as support department leaders to "slip inside" our own accounting world and determine what is wrong with every other department except accounting. There is that danger, too, when considering the role that controllers should play and limiting the conversation just to our peer group. Let us consider what a group of CEOs decided about the attributes and competencies of the ideal CFO. The advice and comments in the following list come from a roundtable discussion conducted by the Singapore CFO Institute.[3]

- Really understand the business
  - "I think the CFO of a smaller business needs to really understand the business itself as different businesses have different peculiarities".
  - "Understand the uniqueness of the business; do not simply just look at source documents to generate the outcomes of performance".
- Keep on learning
  - "Keep on learning and be very involved in the company's operations, because that's really the key for a CFO aspiring to be a CEO".
- Communicate with the CEO
  - "Communicate with the CEO and tell him that you're there to equip him with whatever knowledge that you think he needs to run the business more effectively".
- Be up-to-date and business oriented
  - "The environment changes very fast these days; regulations, law, technology; so I think it's important for the CFO to be very up-to-date, and secondly he must be really business oriented".
- Think positively and constructively
  - "Don't give 1,001 reasons why it cannot be done".
  - (Singapore CFO Institute Comment) This sentiment was also reflected in ACCA's recent China roundtables. Participants felt that CFOs should be open minded and be willing to find ways to solve problems, rather than just throwing up the regulatory roadblocks they encounter: 'CFOs often say, "You cannot do this, you cannot do that". However, a CEO's job is to make decisions.'

THEMES AND STRUCTURE OF THIS BOOK

We were taught the difference between form and substance in the earliest college accounting courses. It is imperative that controllers move from emphasising accounting substance over form to emphasising business partner substance over form.

Substance over form from the accounting perspective is the concept that the information shown in the financial statements and accompanying disclosures of business should reflect the underlying realities of accounting transactions, rather than the legal form in which they appear. The key point of the concept is that a transaction should not be recorded in such a manner as to hide the true intent of the transaction.

Substance over form is a particular concern under generally accepted accounting principles (GAAP), since GAAP is largely rules-based, and so creates specific hurdles that must be achieved in order to record the transaction in a certain way.[4]

In this text, we expand on substance over form from a business partner perspective as it relates to traditional duties versus big picture duties. The controller who only focuses on traditional aspects of the job is focusing on core or form duties. The controller who wants to grow and provide additional value will focus on the substance or big picture of the organisation.

Looking at the big picture is another focus of this text. Accountants have been the brunt of many jokes emphasising accuracy or meaningfulness. Controllers must display that they can move beyond the arcane science of accounting and apply their knowledge and understanding to the larger strategic, industry, and global issues.

Servant leadership is another theme this text will explore. The controller must focus on serving operations, sales, or marketing. These efforts will result in other managers recognising the value of the controller and accounting staff. Adoption of the servant leadership philosophy will be one of the quickest ways to be recognised as a business partner.

Turning data into knowledge and management expertise are other recurring themes. Controllers must master technical tools to bring greater insight into the vast ocean of accounting (and non-accounting) data.

Controllers have typically achieved their positions through the exhibition of technical skills. As they move up the corporate ladder, controllers must become masters of management theory, staff management, communication skills, and other essential skills.

The text will cover the following topics, specifically emphasising the broader role and implications of the tools and techniques shared.

- Chapter 1: Defines the business partner role, discusses servant leadership and contrasts the differences between leadership and management.
- Chapter 2: Introduces the "origin of value" and how value can be driven through the "Planning Continuum". This chapter will also discuss the value of vision, mission, and values within the organisation.
- Chapter 3: Reviews in-depth business and strategic planning processes within a business based on the Planning Continuum introduced in chapter 2. It will also include discussions about the impact of corporate culture and the need for alignment through all levels of the organisation.
- Chapter 4: Emphasises significant tools that controllers must be aware of to discharge their duties beyond the basic financial statements and accounting reports. This chapter will cover:
    - Lean management techniques for the business and the accounting department
    - Best practices—these practices complement the preceding lean concepts
    - Transforming data into knowledge—utilising other public data to gain insights into business cycles and business trends
- Chapter 5: Examines ethical leadership in organisations. This chapter will outline the role of a business partner in promoting and maintaining an ethical culture.

- Chapter 6: Reviews importance of employees. A successful business partner will ensure that employees are recognised for their true value to the organisation. This chapter will cover:
  - Recruiting, retaining, and developing employees
  - The need for employee personality profiling and various examples
- Chapter 7: Outlines the responsibilities for leading HR and IT. Controllers recognise that they have demands in many different directions. The ability to wear multiple hats is necessary for any business partner. This chapter will discuss a business partner's duties in the following areas:
  - HR
  - IT
- Chapter 8: Discusses the role a controller has in project and change management. A business partner who cannot facilitate change management within his or her staff or business will not be successful and move the business forward.
- Chapter 9: Examines controller communication skills. A recent study by Ernst & Young highlighted the skill most CFOs wanted to develop. It was communication skills. This section will discuss daily communication and listening skills, the ability to persuade others, and business partner presentation skills.
- Chapter 10: The tenth chapter will address how the business partner meets the needs of CEO, board members, and chief experience officers (CXOs). The ability to "manage up" is crucial. Also, it is necessary to be able to recognise the variety of agendas that are present in top management and board meetings.
- Chapter 11: The final chapter will summarise the previous information with specific recommendations on how controllers can successfully fulfil their traditional role and most importantly, their expanded business partner role.

Endnotes

1 "The DNA of the CFO: An EY Study of What Makes a Chief Financial Officer". Ernst & Young. Accessed January 5, 2014. www.ey.com/GL/en/Issues/Managing-finance/The-DNA-of-the-CFO--an-Ernst---Young-study-of-what-makes-a-chief-financial-officer.

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1

CONTROLLER VERSUS BUSINESS MANAGER

CONTROLLER VS. BUSINESS MANAGER

The purpose of this book is to illustrate the evolution of a controller to a business manager (partner). This chapter will define the business manager role, discuss servant leadership, and contrast the differences between leadership and management. Let us begin with examining the purpose of each role.

The Role of Controller

A controller is a person who has the responsibility for all accounting-related activities within a firm. In most organisations, the controller is the top managerial and financial accountant. The controller supervises the accounting department and assists management in interpreting and utilising managerial accounting information. The firm's chief financial officer (CFO) may distribute some of the financial management duties between the controller and a treasurer. Functions of the controller include:

- Financial accounting—the preparation of financial statements
- Cost accounting—the preparation of the firm's operating budgets
- Taxes—the preparation of reports that the firm must file with various local, state, and federal agencies
- Data processing—of corporate accounting and payroll activities. Also called "comptroller"[1]

The Role of Business Manager

A business manager is a person who drives the work of others in order to run a business efficiently and make a profit. He or she should have working knowledge of the following areas, and may be a specialist in one or more: sales, marketing, and public relations; research, operations analysis, data processing, mathematics, statistics, and economics; production; finance; accounting, auditing, tax, and budgeting; purchasing; and personnel. Other technical areas in which a business manager may have expertise are: law, science, and computer programming.

The role of business manager may grow out of the business owner's desire to delegate non-strategic tasks. For a time, the business manager may share duties with the owner. As the owner gains trust in the business manager, additional delegation will occur. Ideally, the business manager and the owner work synergistically to ensure that the operations of the business run successfully. In time, the owner may migrate from operational areas to strategic areas of the business.[2]

CONTRAST CONTROLLER WITH BUSINESS MANAGER

Box 1-1 contrasts the two roles. Note that the descriptions align with our chart in the introduction. The business manager will operate at a higher strategic level. This necessitates that the successful controller understands the demands of being a business manager and the increased overall strategic, managerial, and technical knowledge, is required.

Box 1-2 contrasts the roles in relation to the Planning Continuum which is presented in the subsequent chapter in figure 2-2.

Box 1-1: Responsibilities

RESPONSIBILITIES AND DUTIES	CONTROLLER	BUSINESS MANAGER
Goals	Setting, monitoring, reporting financial goals for the organisation (could be charged with specific departmental goals)	Setting, achieving, monitoring strategic goals (which could included financial goals)
Operations	Support servant to operational leaders	Responsible for operation results
Industry Knowledge—including competitor knowledge	May possess	Must possess
Sales support	Support servant to sales and marketing	May be leading sales and marketing functions
Ancillary functions—IT, HR, facilities	May oversee functions	Will include these functions and additional operation departments
Internal controls	Create, implement, monitor	Oversight, endorse, support
Manage individuals	Like minded financial employees	Larger employee base and typically more diverse with different needs
Train individuals	Typically financial/process training	Increased number of training skillsets to be addressed

Box 1-2: Descriptions

DESCRIPTION	TRANSACTIONAL	FINANCIAL CONTROLLER	BUSINESS MANAGER
Dreams	No role	Provide financial impacts based on questions asked	Active participant in brainstorming and critical discussions about future directions
Vision/Mission	No role	Creates Accounting Department mission statement	Has input
Business Plan	No role	Provides financial impacts based on questions asked	Active participant in brainstorming and critical discussions about future directions
Strategic Plan	No role	Provides data on established goals	Participates in creation, monitoring, evaluation, and course correction of strategic goals
Marketing	No role	Reacts to requests from Marketing	Utilises servant leadership and considered proactive resource for Marketing
Product/service development	No role	Reacts to requests from Marketing	Utilises servant leadership and considered proactive resource for Marketing
Sales	Sales reporting/taxes	Reacts to requests from Sales	Utilises servant leadership and considered proactive resource for Sales. Invests time to learn sales proces—even rides with Sales staff—may also be charged with overall Sales leadership

Continued on p. 14

DESCRIPTION	TRANSACTIONAL	FINANCIAL CONTROLLER	BUSINESS MANAGER
Operations	Inventory/Production reports	Analysis as requested from operational staff	Utilises servant leadership and is considered proactive resource for Operations. Invests time to learn operations. Occasionally works in plant or specific services. May also be charged with overall leadership of Operations.
Administration			
Accounting	Transaction creation	Financial reports, compliance, controls	All of the financial controller duties, but brings meaning to numbers. Predictive, future-oriented.
HR	Payroll transactions/ benefits	Analysis of benefit plan costs	Strategic HR that complements
IT	Simple use of spreadsheets. Input to financial software	Create of spreadsheets and understanding of financial software	Understands that IT is a tool for strategic, transactional and innovative procedures
Contingency	No role other than recordkeeper	Concerned with backup of financial systems	Concerned with overall risks to entire organisation including operations, tragedies, or loss of customers.
Succession	No role	Concerned with crosstraining	Concerned with all key levels—recruitment, retention, and development
Traditional Risk Management	Transactions and recordkeeping	Understands and recommends traditional internal controls. Reliance on external experts to help evaluate other insurance needs	Includes financial controller tasks, but also utilises "form over substance" for efective risk management.

SERVANT LEADERSHIP

The success of any controller or business manager will depend on the individual's use of servant leadership techniques.

When controllers only think in terms of financial results, they set themselves up for disappointment and frustration. They see the world through balance sheets, income statements, and cashflow statements. They have difficulty understanding why sales or operational staff can't see the same picture. It is even possible that the controller has more education and business acumen than either the operations or sales staff. As a result, the controller is confused when he or she is not included in strategic discussions about the organisation. The answer is simple, although many refuse to accept it. The controller must become a "servant" of operations (sales, marketing, R&D, and other key areas.), and seek to meet the needs of others. When operations (such as sales) needs are met, the following occur:

- The controller is seen as a business manager.
- Operations invites the controller and his or her support staff into the decision process and seeks their counsel.
- Senior management sees the value in the controller's input; therefore, the controller is invited into the decision making process.
- Controller requests for additional resources (equipment and staff) are accepted more readily as operations now views the controller (and respective staff) as a contributing and important part of the process.

There is an important insight to this section as it is applied to other service departments, specifically Human Resources (HR) and Information Technology (IT). HR and IT professionals struggle with the lack of input that they have in the strategic direction of the company. Their argument often goes something like this: "Our area (HR or IT) is so important to the business that they must include us in the strategic planning efforts". Unfortunately, their departments are often omitted. Why? It is because they have not learned the secret of servant leadership. To modify a famous quote first written by St. Francis and then modified by Stephen Covey, "Seek first to be a servant, then the leadership will follow".

The phrase "servant leadership" was coined by Robert K. Greenleaf in "The Servant as Leader", an essay that he first published in 1970. In that essay, he said:

> The servant-leader is servant first… It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. That person is sharply different from one who is leader first; perhaps because of the need to assuage an unusual power drive or to acquire material possessions… The leader-first and the servant-first are two extreme types. Between them, there are shadings and blends that are part of the infinite variety of human nature.
>
> The difference manifests itself in the care taken by the servant - first to ensure that other people's highest priority needs are being served. The best test, and difficult to administer, is: Do those served grow as persons? Do they, while being served, become healthier, wiser, freer, more autonomous, more likely themselves to become servants? And, what is the effect on the least privileged in society? Will they benefit or at least not be further deprived?[3]

Principles of Servant Leadership

To become successful in practising servant leadership, where should a controller begin? The following list of principles has been adapted from Greenleaf's original writings by Larry Spears, CEO of the Greenleaf Center.[4] Greenleaf views these characteristics as being critical to the development of servant-leaders.

1. *Listening.* Traditionally, leaders have been valued for their communication and decision making skills. Servant-leaders must reinforce these important skills by making a deep commitment to listening intently to others. Servant-leaders seek to identify and clarify the will of the group. They seek to listen receptively to what is being said (and not said). Listening also encompasses getting in touch with one's inner voice, and seeking to understand what one's body, spirit, and mind is communicating.
2. *Empathy.* Servant-leaders strive to understand and empathise with others. People need to be accepted and recognised for their special and unique spirits. One must assume the good intentions of co-workers and not reject them as people, even when forced to reject their behaviour or performance.
3. *Healing.* Learning to heal is a powerful force for transformation and integration. One of the great strengths of servant-leadership is the potential for healing oneself and others. In "The Servant as Leader", Greenleaf writes, "There is something subtle communicated to one who is being served and led if implicit in the compact is the understanding that the search for wholeness is something that they have".
4. *Awareness.* General awareness, and especially self-awareness, strengthens the servant-leader. Making a commitment to foster awareness can be scary—one never knows what one may discover! As Greenleaf observed, "Awareness is not a giver of solace—it's just the opposite. They are not seekers of solace. They have their own inner security".
5. *Persuasion.* Servant-leaders rely on persuasion, rather than positional authority in making decisions. Servant-leaders seek to convince others, rather than coerce compliance. This particular element offers one of the clearest distinctions between the traditional authoritarian model and that of servant-leadership. The servant-leader is effective at building consensus within groups.
6. *Conceptualisation.* Servant-leaders seek to nurture their abilities to "dream great dreams". The ability to look at a problem (or an organisation) from a conceptualising perspective means that one must think beyond day-to-day realities. Servant-leaders must seek a delicate balance between conceptualisation and day-to-day focus.
7. *Foresight.* Foresight is a characteristic that enables servant-leaders to understand lessons from the past, the realities of the present, and the likely consequence of a decision in the future. It is deeply rooted in the intuitive mind.
8. *Stewardship.* Robert Greenleaf's view of all institutions was one in which CEOs, staff, directors, and trustees all play significant roles in holding their institutions in trust for the great good of society.
9. *Commitment to the Growth of People.* Servant-leaders believe that people have an intrinsic value beyond their tangible contributions as workers. As such, servant-leaders are deeply committed to the personal, professional, and spiritual growth of every person within the organisation.
10. *Building Community.* Servant-leaders are aware that the shift from local communities to large institutions as the primary shaper of human lives has changed our perceptions and caused a sense of loss. Servant-leaders seek to identify a means for building community amongst those who work within a given institution.

Consider your organisation. Which support department leaders are entrusted with additional responsibilities? Do they demonstrate the principles of servant leadership even if they are unaware of the concept? Consider support department leaders who are not involved with the strategic planning efforts of the organisation. Do they demonstrate characteristics that are not in harmony with servant leadership principles? Finally, consider your performance and interactions with other key departments (such as operations or sales). Do those leaders seek you out and ask for your counsel?

Brewer wrote the following poem on Servant Leadership. Consider your role. Which lines represent behaviours you demonstrate? Which lines point out behaviours that you can improve?

The Paradoxes of Being a "Servant-Leader" Poems[5]

Strong enough to be weak
Successful enough to fail
Busy enough to make time
Wise enough to say "I don't know"
Serious enough to laugh
Rich enough to be poor
Right enough to say "I'm wrong"
Compassionate enough to discipline
Mature enough to be childlike
Important enough to be last
Planned enough to be spontaneous
Controlled enough to be flexible
Free enough to endure captivity
Knowledgeable enough to ask questions
Loving enough to be angry
Great enough to be anonymous
Responsible enough to play
Assured enough to be rejected
Victorious enough to lose
Industrious enough to relax
Leading enough to serve

MANAGING VERSUS LEADING

The last section of this chapter will examine management versus leadership. Many traditional controller functions can be described as management processes. When the controller moves farther out on the Expanding Controller Value diagram as described in the Introduction, he or she also moves from management to leadership endeavours. Consider the following comparison as shown in box 1-3.

Box 1-3: Leadership Versus Management

LEADERSHIP PRODUCES CHANGE AND MOVEMENT	**MANAGEMENT** PRODUCES ORDER AND CONSISTENCY
1. Establishes direction • Creates a vision • Clarifies the big picture • Sets strategies 2. Aligns people • Communicates goals • Seeks commitment • Builds teams, coalitions, and alliances 3. Motivates and inspires • Energises • Empowers subordinates and colleagues • Satisfies unmet needs	1. Planning and budgeting • Establishes agendas • Sets timetables • Allocates resources 2. Organising and staffing • Provides structure • Makes job placements • Establishes rules and procedures 3. Controlling and problem solving • Develops incentives • Generates creative solutions • Takes corrective action

Source: Peter G. Northouse, *Leadership: Theory and Practice*. Fourth Edition. Thousand Oaks, CA: SAGE publications, 2007, p. 10.

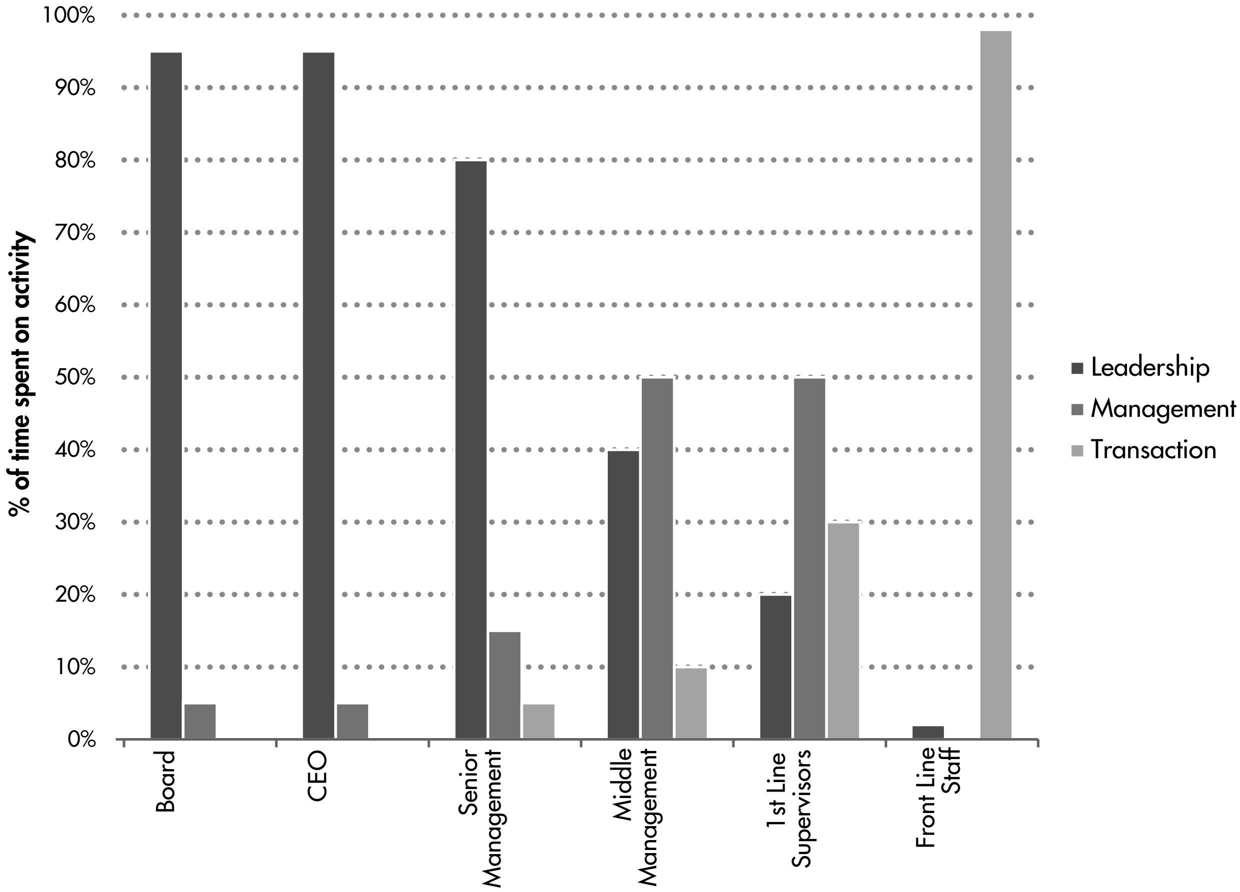
The main aspects of leadership deal with the direction of the organisation. Establishing the direction is the primary job of leadership. We shall examine the planning and vision process in a subsequent chapter. After the direction is established, everyone must be united to "pull" in the same direction, striving toward the alignment of people, resources, and direction. Finally, leadership must inspire the workforce to move down the directed path in harmony.

Management, on the other hand, takes the established direction and allocates resources to achieve the strategy. It is responsible for making sure that the proper people are in place. It also monitors the activity of the resources and makes daily corrections.

It is relatively easy for the controller to understand if he or she is operating in a managing or leading role. The descriptions given earlier are also generalised. There could be times when a manager is acting as a leader or a leader is acting as a manager. A good example of this concept would be when the controller recommends that the business purchase a new ERP system (leadership). The implementation of the system would be managing. On the other hand, if the CEO wants a new ERP system (leadership) and instructs the controller to research, then the controller is managing.

Another characteristic of leadership is the time spent on the visioning phase. Examine figure 1-1; note that it illustrates the allocation of time spent in 1) leadership activities and management activities or 2) transactional type activities for major categories of employees or stakeholders.

Figure 1-1: Recommended Time Allocations by Category for Employee Category



It is easy to see that the higher up a person is in the organisation, there is an increase in the amount of time the person must devote to leadership (or as it implies, strategic responsibilities). Moving from the top level to a lower level, the amount of time spent on leadership drops drastically. Some people will question why frontline staff could even have two percent of their time attributable to leadership areas. Frontline staff will become involved when top leadership invites them into strategic areas. For example, all levels of the business can provide input into the strategic planning process, which can be done in a variety of ways without spending a lot of time. However, the inclusion of the frontline staff in the planning process can be helpful for them to accept more ownership in the strategic plan. As noted earlier, the major difference between leading and managing is that leaders establish the direction of the business and managers allocate resources to accomplish the strategic direction that has been dictated to them. Keep in mind that leaders will almost always have some component of managing. So although managers should always have a component of their job that relates to leadership, it may be impossible to achieve if the manager cannot move beyond day-to-day activities of the organisation.

Box 1-4 demonstrates how various positions can impact leadership, management or transactional situations. The illustration displays example comments that the respective person in the accounting department could make during a conversation about changing the existing accounting system.

Box 1-4: Example of Leadership, Management and Transactions Comments

TYPE	POSITION	COMMENT
Leadership	CFO	"We need a new accounting system. Please research how many systems we should consider".
Management	Controller	"I researched the universe and there are eight potential systems to look at".
Leadership	Controller	"However, there are some tweaks we could make to our current system to make it meet our needs".
Leadership	CFO	"Thanks, but let us move away from the current system to a more flexible system".
Management	Controller	"Accounting supervisor, please request information on these eight systems".
Transaction	Accounting Supervisor	"Providers, please send me more information".
Management	Controller	"Accounting staff, please list the feature that you would like to see in a new system".
Leadership	Accounting Staff	"This would be a great time to create an e-commerce system!"
Management	CFO	"Good suggestion, let's build that into the requirements analysis".
Leadership	CFO	"I want the new system implemented by the beginning of next year".
Management	Controller	"I will put together a Gant chart".

Note that the first comment from the CFO depicts the visionary statement of needing a new system. The controller comments on potential systems based on the CFO's directive. Note that the controller also enters a leadership level when he or she suggests that there is an alternative to selecting a new system. The act of suggesting a different vision is a leadership role. Next the CFO politely refuses to change the vision, and the controller switches back to the managerial role by beginning the process to select a new system. Also note farther down in the box, the accounting staff suggests integrating the e-commerce opportunity with the new system. This suggestion is welcomed, and the project has a new requirement. The suggestion of including the e-commerce component also is indicative of the accounting staff's leadership role as the suggestion alters the original vision. Therefore, it is fairly easy to determine the level at which the employee is functioning. If the function creates, modifies or alters the vision, it is leadership. If the function allocates, manages or monitors resources, it is management. If the function deals with transactions or detail, then it is transactional. All levels are necessary for the proper measure.

Position does not necessarily indicate the level at which a person is working. However, if the person is not astute to understand the implications, he or she can spend too much time working in areas that are not part of his or her responsibility. This behaviour results in micromanagement when leaders do not let their managers discharge their specific managerial duties. It affects managers and supervisors in the same fashion when they accept upward delegation and complete the work of their clerks or front line staff.

(Author's note—as evidenced in many AICPA seminars, CPAs typically have difficulty with delegating work to subordinates. In the same manner, CPAs are all too willing to accept work delegated "up" the hierarchy. Unknowingly, the CPA completes the task in an inefficient manner because he or she is unwilling to invest the time to instruct staff so they can complete the work themselves.)

Endnotes

1 "Controller". *Investopedia*. Accessed January 19, 2014. www.investopedia.com/terms/c/controller.asp.

2 "Business Manager". *Wikipedia*. Accessed January 19, 2014. en.wikipedia.org/wiki/Business_manager.

3 Greenleaf, Robert. "What Is Servant Leadership?" *Greenleaf Center for Servant Leadership*. Accessed January 19, 2014. https://greenleaf.org/what-is-servant-leadership/.

4 Spears, Larry C. "Practicing Servant-Leadership". *Leader to Leader*. 34 (Fall 2004) 7-11.

5 Poem by Brewer as cited in Hansel, Tim. *Holy Sweat!* Dallas, TX: W Publishing Group, 1989, p. 29.

2

ORIGIN OF VALUE AND PLANNING CONTINUUM

THE OVERALL PLANNING MODEL

In this chapter, we will begin with the concept of the "origin of value". Then we will introduce the "planning continuum" and illustrate concepts that include vision, mission, and values of the business.

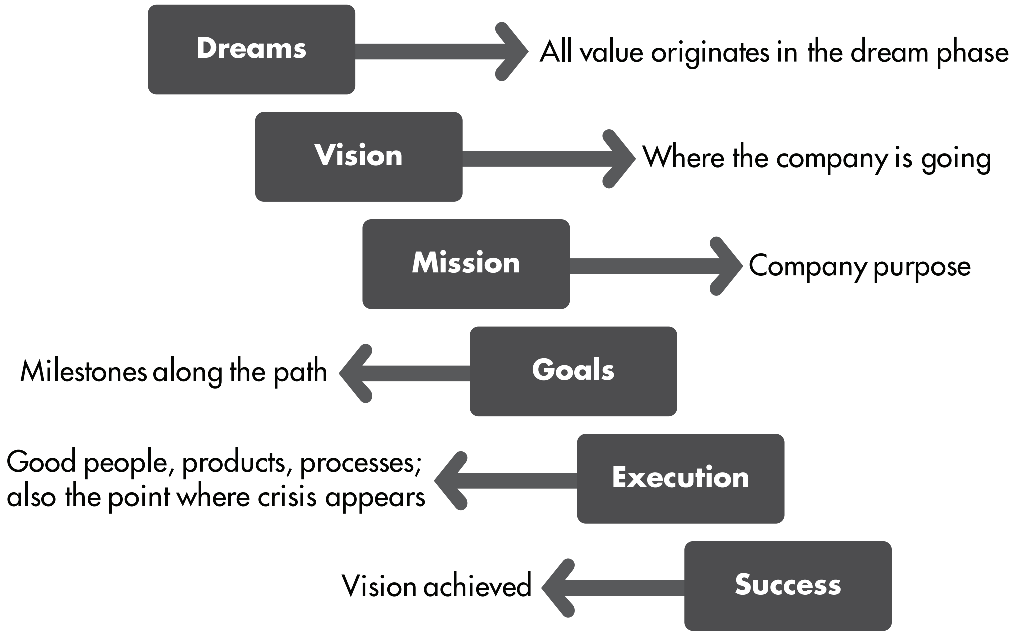
Controllers must understand the origin of value as it is the foundation for the strategic planning process. When leading seminars for the AICPA, this author has asked attendees to describe where value comes from in their organisations.

Typical responses that come from a class are:

- Cash flow
- Good products
- Great customers
- Dedicated employees
- Research and development
- Earnings
- Competitive advantage
- Innovative processes

The differences between creating value and sustaining value can be confusing to controllers because of the difference between creating value and sustaining value. In most of the items listed above as class responses, the value is sustaining as opposed to originating. Only the "innovative processes" and "research and development" create new value, whereas, the other items sustain existing components of value. We will explore in detail each of the items identified in figure 2-1, but suffice it to say all value begins from one place and one place only. It originates in the dream phase for all organisations.

Figure 2-1: Where Does Value Originate?



DREAMS

Where does profitability really originate? Many businesses are caught up in the day-to-day struggles of producing products or delivering services. When they are thus occupied, it may be difficult for them to look at the big picture. Companies may only be focused on how to increase gross margin by one or two percent, or how they can reduce their expenses by $5,000. Therefore, to begin our journey and understanding of the overall picture of profitability, we need to back up to the beginning of any business. For any organisation, for-profit or not-for-profit, profitability begins with a dream. It may begin with:

- Two people talking over coffee at a restaurant.
- Two people on the golf course discussing new business ventures.
- Two businesses discussing the way they can create a joint venture.

These conversations give life to dreams. These dreams are the seeds of the future business. These dreams, even in their infancy, represent the future value of the organisation.

Take a moment to consider your own organisation. Your business has value. It may be a combination of earnings, assets, and goodwill. However, where did this value come from? It is possible that the business is decades old and generates significant profits in operations. However, that was not always the case. Where did the first concept for the business take place? How did the founder come up with the overall concept of the company? Was it a dream, or an opportunity that somebody identified? The initial dream may have been modified incrementally as the business evolved. However, the incremental changes are refinements of the initial dream. When companies make significant paradigm switches in the way they do business, they are the results of new dreams.

Each person has most likely dreamed of owning his or her own business. Pretend that you are interested in starting a small business. What business would that be?

As simple as it may seem, this process can be the seed that can generate significant future value and lead to the creation of a new organisation. In addition to the start of a new business, this dreaming process is also necessary for companies to break out of their day-to-day operations and jump the traditional business cycle S-curve. For this reason, many strategic planning processes endeavour to bring outside facilitators in to help the management team identify new opportunities for growth or expansion.

Consider some of the companies in the following table that have changed from their traditional products or services. What has been the impact on the organisation?

COMPANY	ORIGINAL SERVICE	CURRENT OR EXPANDED SERVICE
Disney	Cartoons	Entertainment parks, movies
Virgin	Record store	Commercial space travel
Apple	Computer	Phones, iPods, tablets
IBM	Office Machines	Computing
Fed Ex	Logistics	Retail shipping, copying locations
UPS	Logistics	Inventory management
Blockbuster	VHS & Beta video rentals	Movie distribution (on demand)

Take a moment to reflect on how your business can change its existing service or product into a new service or product. What product or service do you envision?

The Value and Purpose of Dreams and the Relationship to Planning

The dream phase is going to be an integral part of the strategic planning phase. Unfortunately, the ability to be creative is more easily said than done. McKinsey Consulting commented on the planning process and the generation of new ideas:

> … The extraordinary reality is that few executives think this time-consuming process pays off, and many CEOs complain that their strategic-planning process yields few new ideas and is often fraught with politics.[1]

If we want the planning process to be more successful and the business to generate more profit, then time must be invested in developing dreams for the organisation. This time investment is especially true in fostering and supporting research and development functions within an organisation.

New dreams and innovative ideas can be captured as part of the SWOT exercise, which will be explained later in the text. Will management have problems implementing the dream process? Depending on the culture of the company, some teams will see this as silly or a waste of time. A company whose culture dismisses such processes will not be one in which people are inclined to make significant out-of-the-box improvements or jumps in their business model. Significant innovative leaps will most likely occur due to serendipity—not management leadership.

Throughout this section, we are going to use a themed example to illustrate some of these techniques for your planning process.

Example: Part 1—Restaurant Dream

Bob and Bill (B&B) have an idea that they have been discussing. They want to create a themed restaurant. They both are Harley Davidson riders and believe they have a vision for a successful restaurant.

What is a name for this restaurant?
Hal's Harley Hamburgers.

What is a simple dream for a restaurant?
Motorcycle theme. Greasy, but delicious hamburgers in a friendly, comfortable environment.

What is a complex dream for a restaurant?
Hal's will be so successful that B&B will franchise the restaurants across the U.S.

VISION

Once the dream process has been completed, a vision will be developed that provides a broad direction of where the business would like to go. The vision also becomes a driving force in providing direction to stakeholders, shareholders, senior management, and other employees. The vision does not tell you how you are going to reach your destination, but it does identify the destination. Consider the following questions your management team should evaluate regarding the organisation's vision at every planning retreat.

- How would you create a vision?
- How would you make a vision come alive in an organisation?
- What is a simple vision?
- What is a complex vision?

Example: Part 2—Restaurant Vision

Create a simple vision statement for the restaurant.
B&B will create a Harley-themed restaurant that will be in every major city in the state of Wisconsin.

Create a complex vision statement for the restaurant.
B&B will have a Hal's Harley Hamburgers in each of the 50 states.

MISSION

- Does your business have a mission statement?
- If so, could you say it from memory?
- What is your impression about the mission statement?
- What does your senior management feel about the mission statement?
- Where do you think mission statements work best?

When a business creates its initial business plan, it will usually create a mission statement. Every time the business embarks upon its strategic planning process, it should also take time to review its mission statement. Unfortunately, one of the major drawbacks to mission statements is that many management teams do not believe that the mission statement adds value to the business plan. This perspective ignores the mission statement as one of the most powerful tools to inspire and influence employees within an organisation. Without the inspiration or guidance, profitability will suffer.

A mission statement is a formal short written statement of the purpose of a business or organisation. The mission statement should guide the actions of the organisation, spell out its overall goal, provide a sense of direction, and guide decision making. It provides “the framework or context within which the company’s strategies are formulated”.[2]

Throughout the United States, this author has asked participants in AICPA seminars: 1) Does your business have a mission statement? 2) Can you repeat it verbatim? Typically less than 10 percent of all attendees’ businesses will have mission statements. Less than two percent of the attendees can repeat their mission statement verbatim. In almost all cases, people respond with a statement similar to the following, “Well I’m not sure what the mission statement is verbatim, but it kind of goes like this”.

Not-for-profit businesses, for the most part, have figured out how to use mission statements to generate passion and commitment within their organisations. For-profit companies need to utilise the mission statement and integrate it in their cultures. Mission statements should be:

- Short
- Simple to remember
- Inspirational
- Posted throughout the organisation for all to see

The author has experienced and seen how mission statements have driven employees to take action to develop profitability of the organisation. The business ***must*** struggle to create a powerful mission statement that not only becomes integrated into the business culture but that also becomes a force in decision making and business direction.

How Do You Make a Mission Statement Come Alive in an Organisation?

Alyson Ball of BoardWorks, LLC wrote an article entitled “7 Ways to Make your Mission Statement Come Alive”. The article was directed at not-for-profit businesses but is appropriate to all businesses that want to develop profitability and performance. Her seven best practices for mission statements are:

1. Revisit the mission statement annually (including board and key staff members).
2. Discussion of the mission statement should be a prominent part of all board and staff orientations.
3. The mission statement should be on all literature, on the web site, and posted in the workplace.
4. Start every board and staff meeting with a two or three minute “Mission Story”. Someone tells a story about a client or customer they have met or how the business strengthened the community.
5. The mission statement should be written on all board and staff agendas.
6. The mission statement should be on all board and committee minutes.
7. All staff, board, and volunteers should know the mission by heart. They should be asked to use the mission statement when they tell everyone they know about the business and the good work they are doing.[3]

What is an example of a simple mission statement? “The mission of Catholic Charities is to provide service to people in need, to advocate for justice in social structures, and to call the entire church and other people of good will to do the same”.[4]

What is a complex mission statement? “The Jeremiah Program, a broad-based collaborative community initiative, assists low-income mothers and their children to help themselves complete their education and achieve economic self-sufficiency through empowerment skills, access to affordable housing, child development services, health care, support services, and meaningful employment. The Jeremiah Program mothers and children develop positive self-esteem and clarify their values on which to build a successful life”.[5]

Example: Part 3—Restaurant Mission

Create a simple mission statement for the restaurant.
Greasy, delicious, burgers without guilt!

Create a complex mission statement for the restaurant.
Hal’s Harley Hamburgers prepares fresh burgers daily in a motorcycle friendly environment that respects the diversity and uniqueness of those dedicated to the Harley traditions.

GOALS

Goals help create direction and inspiration. The goal-setting process should originate within the strategic planning process. If a department or section of the business does not have a major goal that is obvious in the strategic plan, then the goals of the department or the division should support the existing goals within the major plan. Without the creation of the goal, along with the communication of the goal, management is hindering the department or division's ability to generate profits. The following short story illustrates the power of sharing goals even with someone who is very young.

> The author's son was steering a pontoon boat on the lake. The boy was very young and had difficulty steering. As he gripped the wheel tightly, he would over-steer in one direction and then back towards the other. As a result, the boat would weave back and forth. The author said to his son, "Can you see that dock on the other side of lake?" The son replied, "Dad, do you mean the white dock?" So the author replied, "Yes". The author also asked his son, "Do you think you could hit that dock with the boat?" The son's eyes lit up, and he exclaimed, "YES!"
>
> What do you think happened to the course of the boat? You were correct if you guessed that the boat headed off in a straight line towards the dock. The intriguing piece to the author was that he was communicating with his six-year-old son who understood the direction he was to go. Even more important was the reality that the boat was speeding off towards the white dock. Then the author had a reflection on the world of business. He wondered how many people within businesses that are doing their daily jobs have no idea where the "white dock" is in their organization. He also wondered what would happen if all employees knew which direction they were heading and that they had the power (and responsibility) to help influence the overall direction and results of the company.[6]

Reflect on your business today and the strategic planning and goal process used. Consider the following questions:

- Are the goals meaningful?
- Are they addressing areas that are different from your organisation's efforts?
- Are there goals that appear lacking based on the efforts of the company?
- Does your business monitor its goals on a regular basis (quarterly at a minimum?)

EXECUTION

The execution stage is where everything should come together. The dreams created the vision and the mission gave the underlying principles of how the vision would be accomplished. Specific goals were established that would (if achieved) help fulfil the vision. The execution is where all of these items come together, and the actual work is performed. At the beginning of this chapter, we discussed that all value originates with dreams. We also listed characteristics of successful dreams, such as good people, good products, and good customers. When these characteristics are executed correctly, they will appear in the execution phase. However, something else, that is very interesting, may transpire in the execution stage.

If a business is in crisis mode, the dysfunction will show up in the execution stage. When crisis manifests, it will show up in comments such as, "If we could only hold the books open for another day, or if we could only ship an extra day this month". Therefore, crisis events can be identified by "if only" types of statements.

SUCCESS

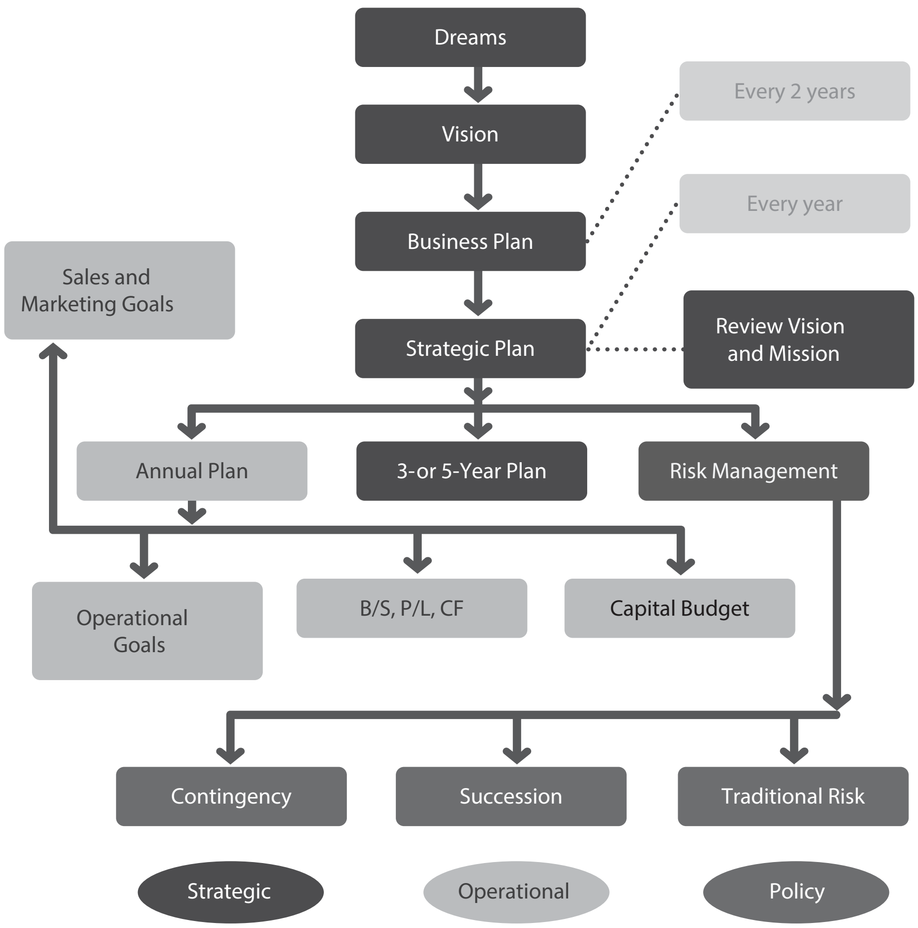
Assuming that everything has gone well, the success stage occurs when the goals are achieved. If the business has accomplished stated goals that fulfilled the mission and vision, then it will be in alignment with the original dream. In a perfect world, the achievement of the goals ends the short-term cycle. Moving forward, the business would repeat the planning process and create the next series of goals.

THE PLANNING CONTINUUM

Next, we will examine how the previous items fit the complete planning continuum.

The following discussion will outline a planning continuum as shown in figure 2-2. This outline will be the basis for most of the remaining chapters of this book. This continuum is also a handy reference tool. If someone has never been a participant in the planning process for an organisation, this figure alone will outline the integral pieces for the planning process.

Figure 2-2: The Planning Continuum



Source: Thorsten Consulting Group.

Dreams

As we saw in the value discussion, all value originates in the dream phase.

Vision

The dream is formulated into a vision of what the business would like to accomplish in the long term. The vision is the destiny of the organisation.

The Business Plan

When the dreams and visions are combined, they are brought to life through the preparation of the business plan. Note from figure 2-2 that a business plan should be prepared and reviewed every two years. If a business is a calendar-year company, it should evaluate its business plan in April and then subsequently two years later. The business plan will be examined in detail in chapter 3.

The Strategic Plan

The strategic plan begins with a review of the vision and the mission. This step is glossed over too frequently by organisations. The vision and mission represent the heartbeat and the blood pressure of the organisation. Therefore, at the start of a strategic plan the very first question to be asked is, "Do we still support the vision and mission of the organisation?" Assuming that the answer is yes, management can then proceed with creating the strategic plan. If the vision or mission is questioned, then the business should re-evaluate its overall business model prior to doing any strategic planning. When should the strategic plan be prepared? Let us assume that the business has a calendar-year-end. Other than regulatory requirements, there is no need for the strategic plan to be put together any earlier than October of the current year. World-class best practices for budgeting typically suggest that the budget preparation is less than 60 days. Therefore, a strategic plan can be started in October or November of the preceding year.

The Annual Plan

As the business starts on the detailed strategic plan (sometimes referred to as the annual plan), one of the first things to create are the sales and marketing goals. These goals should set the targets for overall revenue and main customer activity for the next year. Once all of the sales goals have been agreed upon, a marketing plan should also be prepared. The sales and marketing plan will be covered in chapter 5.

After the sales and marketing goals are finished, the operational goals should be established. It is foolish to have operational goals without knowing the quantity or the volume of sales that are planned in the upcoming year. The operational plan will cover all goals and objectives for detailed operations.

Now that a foundation is established that includes: 1) sales and marketing goals that are supported by 2) operational goals, then 3) the preliminary budget (profit and loss statement), balance sheet, and cash flow statement (capital expenditures) can be created. It is easy to identify a business that does not have a complete understanding of the planning continuum. This lack of understanding typically shows up when the business begins its annual planning process by requesting budgets from the various departments or divisions. It is painfully obvious (as you look at the continuum) that when a business starts with budget requests, it is starting in the middle of the planning process. Unfortunately, these planning processes become a rote exercise, as opposed to a tool that can drive the value of an organisation. If this is how your business is functioning, then management is doing a disservice to your organisation.

Three- to Five-Year Plan

Due to the speed of technology change, longer-term plans have not been as valuable to an organisation. Unless a business is tying up significant dollars for contracts or capital expenditures that will have a long useful life (say one to two decades), the three- to five-year plan may not seem necessary. However, the author likes to have three- to five-year plans whenever constraints are involved. For instance, if you have a $10,000,000 business that is anticipating growing to $20,000,000 dollars in the next two years, there could be a very strong chance that you will need to expand your plant facilities. If you have to expand the plant, it may mean that you need to change your lending agreement with your bank, or you might need to raise additional funds, or need to bring on different partners. Items that will affect the overall constraints of the business are excellent candidates for three- to five-year plans. Therefore, if you are going to use the three- to five-year plan, prepare the plan at a high level and identify where the constraints may be broken.

Risk Management

There are three sections that fall under risk management. The first is traditional risk management. This area is reserved for items such as traditional property and casualty insurance and other insurance programmes. The second part of risk management is the succession plan. The succession plan is necessary for determining who will take over in an emergency. In addition, it will provide direction for the business to develop other managers to take over the reins of leadership. The third part of risk management is contingency planning. Contingency planning is essentially due to the risks that a business faces on a day-to-day basis. These risks can be anything from a financial crisis to an emergency crisis (such as fire, natural or manmade threats). Each of these sections will be discussed in more detail.

Vacation Metaphor for Planning

Now that we have set up the planning continuum, let us take a simple example using a vacation metaphor to illustrate the steps in the continuum. (**Note:** The bold letters in the following section are to help the attendee identify with the planning continuum image.)

The Overall Planning Metaphor—A family is taking a canoe trip to the Boundary Waters region on the border between Minnesota and Ontario.

The Dream—Spend time with the family in a peaceful, recreational, outdoor setting.

The Vision—Go to the Boundary Waters.

The Mission—"Have fun, relax, and enjoy one another's company".

How would **the business plan** be conceived? The head of the family would utilise the dream and vision to create interest amongst family members to spend their vacation in the Boundary Waters. The family's head may need a "sales tool" to convince other family members to invest their time in a vacation. This tool would also contain assumptions about the benefits of the adventure to the family.

The strategic plan would outline the steps necessary to achieve the vision. Timetable, resources, itinerary, and duties will be determined and assigned.

Next would be the establishment of the key result areas (KRAs), which would be:

1. Fun
2. Relaxing
3. Enjoyment
4. Logistics
5. Finances (brochures, selection of outfitter, finances, transportation, passports)

What are the **goals** that, if achieved, will fulfil the vision?

What are the **sales goals**? In this case none, unless money had to be raised (think of high school band fundraisers for the marching trip to participate in the holiday parades).

What are the operational goals?

- Supplies—purchased
- Canoe and Tent—checked and repaired
- Car—checked and repaired
- Itinerary—specific events to achieve fun, enjoyment, and relaxation

What is the **operating budget**? Expenses on trip.

What is the **capital budget**? Car engine replacement.

How will the expenses be paid? Savings, loans, credit cards, and traveller's cheques.

What is the **contingency plan**? Wisconsin Dells, no vacation, postpone a year, emergency supplies in case someone gets hurt.

What is the **succession plan**? On the trip, what if we get separated?

What is the **insurance plan**? Health insurance up-to-date, life insurance up to date, out of network coverage in case of an accident.

What is the **R&D plan**? What fish are in the lake, what wildlife are in the woods, and what activities do vacationers engage in while at the Boundary Waters?

What is the **technology plan**? Fishing gear—lightweight raingear, ropes to haul food up in trees from bears. GPS so you do not get lost.

Now the author realises that the vacation metaphor is very simplified. However, many businesses make plans where employees cannot grasp the overall plan and its ramifications. When you translate a complex process (such as a complete strategic plan) into small, manageable pieces, it becomes easier to understand your business and train your employees.

IDENTIFYING THE BUSINESS MODEL

In addition to the planning process, it is necessary that a business identifies the business model that it needs to be successful. Some companies experience difficulty operating because the business model selected does not agree with the business culture or processes currently in place. The business model will outline the characteristics of the business as well as identify the way that the business is going to make money. Typically a business model has five elements:

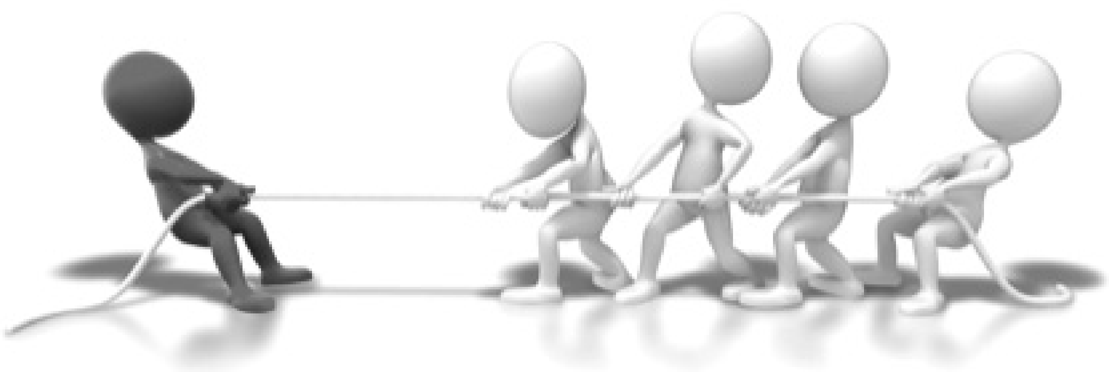
- Who are the customers?
- What is the service or product?
- How will the product or service generate money?
- How is the product or service differentiated from competitor's products or services?
- How will the product or service be manufactured?

There are many different models that can be created. Here are examples of potential models:

- **The consulting model**—A business that sells specific products or services to open a door with the customer so the business can obtain significant consulting services. Many software companies will sell their proprietary software at a low level just to obtain a larger consulting contract.
- **The step or pyramid model**—A business that offers a variety of similar products or services at graduated profit levels. For example, a guitar manufacturer can have a number of different models that vary depending on the quality of the materials and the quality of the assembly. The manufacturer will try to get someone interested by encouraging him or her to purchase a lower-level guitar initially. As the person becomes a more experienced musician, perhaps he or she will purchase a more expensive guitar within the manufacturer's family of guitars.
- **The component or add-in model**—A business that sells an original product in order to obtain future business for related components or supplies for the original model. For example, consider Lexmark printers: Lexmark printers were basically the same price as buying an ink cartridge. Lexmark wanted to do everything it could to obtain the ink supply business, as opposed to just selling printers. Another example is battery manufacturers that sell inexpensive flashlights. The battery manufacturer's goal is for the consumer to purchase more batteries. Therefore, if you have more flashlights you will purchase more batteries. Another good example of this model would be video game units (Xbox or Wii, for example). Significant profit is made on the sale of the software games that are utilised by the specific hardware as opposed to profits on the units themselves.
- **The advertising model**—A business that gives away free information or services in order to expose the reader or listener to advertisements. Consider the current Internet sensation Pandora.com. A listener hears free music of his or her favourite groups or favourite genre. However, after a number of songs have played, Pandora will insert several commercials. The listener must listen to the commercials to access additional free songs.
- **The multi-representative model**—A business or representative that represents multiple product lines or sellers to buyers. This model is similar to a manufacturer's rep who sells many different product lines, or it could be representative of an independent insurance agent who represents many different insurance companies to an individual.

- **Timing to market model**—A business that considers the timing for entering a market. There are a number of alternatives.
  - The business can be a pioneer that relies heavily on research and development costs. This model should generate higher prices and higher margins.
  - The business can choose to be second to market and capitalise on growth strategies that mean lower prices and lower profitability. It should also mean less investment in R&D as the pioneer model has already learned (and paid for) the learning mistakes.
  - The business can be a commodity-type model that competes on economies of scale. Economies and efficiencies will allow the business to charge less for their product than anyone else. Therefore, they can make a profit with larger volumes and lower margins.
- **The new paradigm model**—A business that develops a "brand-new gee-whiz" product that no one else has. Examples of these industries are breakthrough drugs or breakthrough cinematic movies.
- **The synergistic profit model**—A business that creates a theme or character that can be leveraged in many different ways. For example, cartoon characters that become the genesis of theme parks such as Disney World; or comic characters from Marvel or DC comics (Superman, Batman, Spiderman or Ironman) that become movie franchises. A small creation can have a much larger life in areas such as licensing, merchandising, movies, and theme parks.
- **The entrepreneurial model**—A business that is typified by small entrepreneurs that create a product or service for a niche market. Typically these markets will not be competitors to the major national companies. Examples are the small music groups that play in local bars and clubs. Another example is a small CPA practitioner that prepares tax returns in a small community for a specialised market in which larger firms would have no interest.
- **The giveaway or lure model**—A business that is willing to give away a specific product or service as an enticement or incentive for the customer to continue to use its product or service. An example is free consulting that a firm provides to get its foot in the door of a customer with whom it wants to do business. Another example is free software given away that will bring someone into the brand or get him or her locked into the software. If the customer needs additional services, he or she will buy upgraded versions.

CREATING VALUE THROUGH STRATEGIC ALIGNMENT



In this section, we're going to examine several tools to help the controller or CFO create value for the organisation. These tools will emphasise alignment, culture, and strategic issues. A business that is aligned can significantly develop its value. The cartoon at the beginning of this section depicts a tug-o-war and is an apt analogy for what we are trying to achieve with alignment. If one person is not pulling in the same direction with the same intensity, it can disturb the entire tug-o-war team. It is the same in business. When one department, one manager, one leader acts:

- entitled,
- unethical,
- arrogant,
- demonstrative, or
- demeaning,

the end result is that the business is operating out of alignment, and it will be felt in other areas of the organisation.

One of the key roles of a controller or CFO is a strategic partner. Previous studies of CEOs and boards of directors have indicated that the CFO should become more strategic. In this section, we will discuss how a business can increase its value by creating better strategic alignment of all of its resources in the organisation.

Let us briefly revisit the value origination hypothesis from earlier in this chapter. All value originates in only one place for a company. That position is unique ideas, dreams, or research and development. Remember the quote by Walt Disney, "If you can dream it, you can do it!" The same holds true for corporations. All current value of the business generated from an original idea or thought. That idea was fashioned into a vision. To make the vision a reality, the business would take the vision and create a roadmap in the planning process. Depending on the timeframes involved, it might be a business plan or strategic plan. Part of the process would be to create a mission for the business with specific tactics, objectives, and goals. The goals can be measured to evaluate the progress toward achieving the vision. If everything is done appropriately, the actual operations of the business will create products and services that will become positive cash flow and value for the company. New value is created when a business comes up with major new ideas such as:

- New products
- Acquisition of another company
- New markets

New value can also be created on an incremental scale when a business uses the following:

- Continuous process improvement
- Adoption of lean management techniques
- Creation of waste reduction programmes

The value can also be created serendipitously. These events occur as a result of happy coincidences that were not planned. Some famous examples of serendipity are:

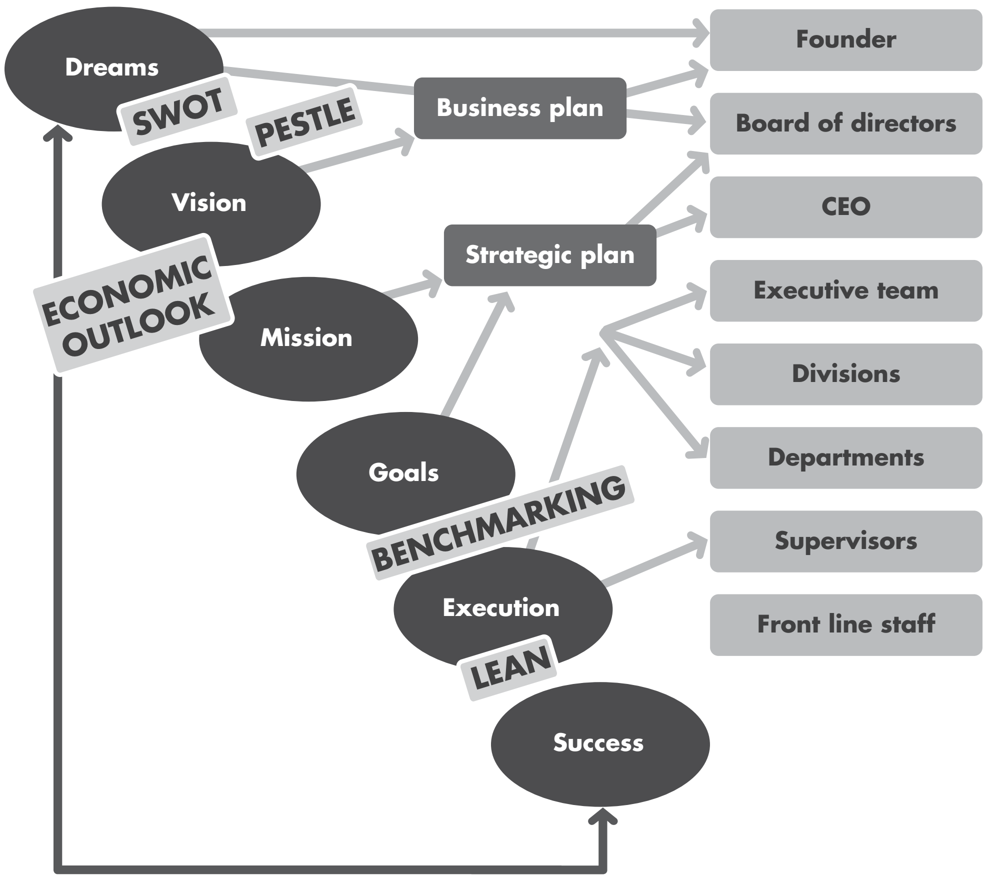
- *Vulcanisation of rubber.* Charles Goodyear accidentally left a piece of rubber mixture with sulphur on a hot plate, and produced vulcanised rubber.

- *The microwave oven.* While testing a magnetron for radar sets at Raytheon, Percy Spencer noticed that a peanut candy bar in his pocket had melted when exposed to radar waves.
- *Post-It Notes.* An inventor got fed up with bits of paper falling out of his hymnal that marked the song selections. He realised that he could he use a unique non-permanent glue his business had invented to hold the bits of paper in place in the hymn book.
- *Vaseline.* A chemist working for an oil business noticed that the oil-workers would rub an excretion from the pipes onto their scratches. Unbelievably, the wounds would heal. The chemist took some home, and Vaseline Petroleum Jelly was born.
- *Velcro.* While taking outside walks, a Swiss engineer became annoyed when burr plants caught and attached to the fabric of his trousers. He examined one and found the burr was made up of hook-like parts. It took him ten years to develop Velcro. The product became popular when the space programme began using it.[7]

Value becomes generated for the organisation in various ways. However, **no value** can be generated without the initial event described—an idea or dream.

The "value flow chart" from chapter 2 has been expanded in figure 2-3 to identify how different staffing levels of the business relate to achieving goals and objectives, operational efficiencies, and management of programmes.

Figure 2-3: The Real Value Chain



Source: © 2011. Thorsten Consulting Group, Inc.

The most effective businesses that create the most value have achieved alignment. From the first-level employees, to the management team, to the board of directors, and, finally, to the shareholders, all have the same objectives. The business will be the most successful when everyone is working on the same goals. Evidence of this can be seen in our culture by the various sayings or idioms that illustrate when a successful team has harmony or disharmony. Among those sayings are:

- Harmony:
  - I'm preaching to the choir.
  - Pulling in the same direction.
  - We are on the same wavelength.
- Disharmony:
  - We are not all singing from the same hymnal.
  - Is everyone on the same page?

The closer the alignment of all levels of the organisation, the greater the chance of achieving the desired vision.

What are some signs that a business is out of alignment and not working to create higher shareholder value?

- There's a hesitancy to change. Change poses a threat and upsets the status quo. Refer to figure 2-1. Real value is only generated from the initial ideas and the implementation of those ideas. The very nature of creating value for the business will result in a change. A business that is afraid of change will have a very difficult time creating alignment.
- The business overstates the trust that it has in the strategic planning process. The business may have a planning process and even have a strategic plan. However, the plan is not followed or reinforced. It is not used as a tool to help guide the business but merely as an exercise in executive management futility.
- The business does not establish goals or metrics that drive employee behaviour.
- Managers struggle and interpret the strategic direction based on their perception of senior management's wishes. As a result, managers are regularly working at cross purposes with other managers or departments.
- Quite often the business can be characterised as working in silos or within territorial bounds. A business must not be held back by petty desires, such as managers building their own kingdoms within the organisation.
- Managers might be more concerned with having a large budget or large workforce. They believe that a larger budget or workforce signifies that they have a greater standing within the organisation. This thought process will not yield to cross department or cross divisional teams. The managers will be hesitant to listen to more effective methods of performing specific functions or processes.
- The work environment might be characterised as political or inappropriately competitive. Managers make decisions not based on strategic shareholder value, but based on selfish political opinions or the need to position themselves against other managers or departments within the organisation.
- Communication is not face to face or easily managed. Communication takes a formal approach where employees document everything out of the fear that they will be blamed for an event or action. Employees spend a great amount of time documenting processes and agreements just to protect their own positions.

- There is a lack of respect throughout the organisation. Lower level departments and lower level managers may not respect top management. In addition, the alternative scenario may apply where top management may not believe that lower levels apply themselves or understand their job responsibilities.
- The act of change is merely hyperbole. The business appears to be in favour of change; however, change does not occur because management kills new ideas with committees and approval processes. This may even be the unspoken management procedure to route a change to a committee knowing specifically that the change will never make it out of the committee (sounds similar to certain bills that never leave committee in our government.)
- Another key characteristic of a business suffering strategic misalignment is that managers may not have the financial or managerial acumen to run the organisation. Their ability to prioritise and deal with critical issues may be suspect. In addition, there may be significant difficulty in understanding financial implications of the existing structure, as well as, potential future structures.

A business that pursues strategic alignment will find that the business runs much smoother than a nonaligned company. Let's consider some of the benefits of a business that focuses on and improves strategic alignment.

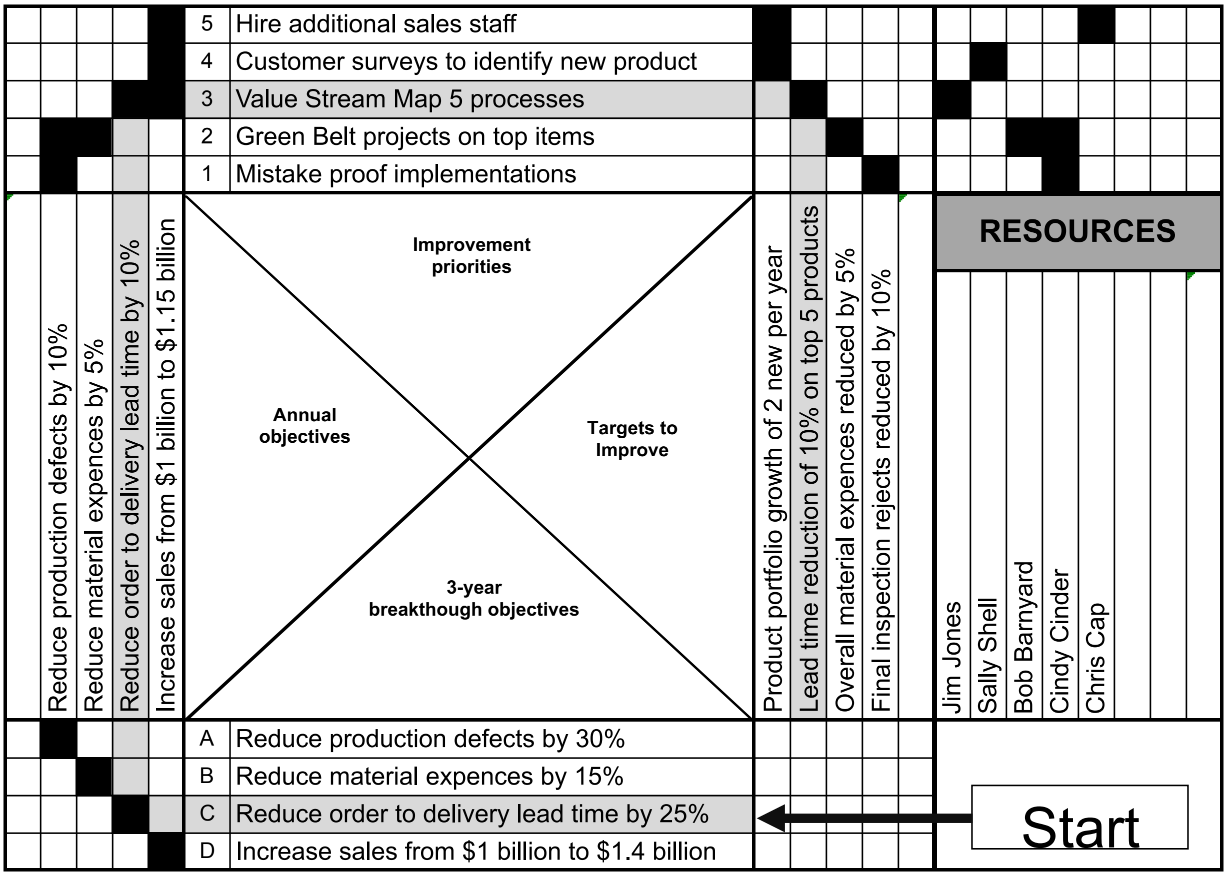
- Everyone understands what the top priorities are for the organisation.
- Communication is improved through transmission of priorities, as well as follow-up reviews to ensure those objectives are achieved.
- Any deviations from plan can be highlighted quickly and dealt with in a timely manner.
- Resources will be better controlled as the ability to work on projects that do not support the strategic plan can be identified and managed.
- Everyone should be able to see how their job duties tie into the corporate goals.
- When strategic alignment also encompasses compensation, employees can be incentivised to achieve desired results. Studies have shown that alignment of executive compensation, board compensation, and stockholder return will result in a better overall return for the organisation. In essence, the shareholders, the board, and the management team all want the same results. Therefore, it is much easier to employ resources for the appropriate function. A proactive business ensures that all levels of the business have their compensation tied to the same methodology so that everyone is pulling in the same direction.
- Companies that are aligned will utilise their resources in activities that generate the greatest positive impact for the organisation.
- An effective strategic alignment process requires siloed departments to work together in the most efficient ways, including cross department or cross division.
- An aligned business makes better use of its resources to identify and eliminate redundant processes.
- A perfectly aligned business has only one culture. The business that fosters multiple cultures will create an environment that makes alignment extremely difficult, if not impossible.
- As a result of alignment, the total time to complete any objective should be reduced. This means that the alignment can yield quicker time to market for new products, quicker production cycles, better inventory management, or better cash management.
- A business that is aligned has a faster reaction time. One simple example is when departments meet at the beginning of the day for 10 to 15 minutes to discuss priorities for the day. All understand the top priorities and focus their resources accordingly.

- In an aligned company, the priorities from top management are communicated regularly and clearly. Communication reinforces what is to be accomplished by the company. In addition, it reinforces the strategic vision to workers and what their role is to accomplish that vision.

There are several different tools that businesses can use to create greater alignment within their organisations. Your business may have used the balanced scorecard, EVA (economic value added), and other tools. In the following section, we're going to discuss a tool that has its genesis in lean management techniques. The tool was very popular several decades ago and has shown resurgence with many businesses over the last several years. The tool is known as Hoshin Kanri, and has also been referred to as the X-Matrix.

Look at figure 2-4. In the centre of the image you can clearly see the "X" drawn across the major cell.

Figure 2-4: Policy Deployment—X Matrix



Source: Progressive Edge. http://progressivedge.com/files/Policy_Deployment_X_matrix2.xls

In the lower quadrant of the X-matrix, the section is entitled "Three-Year Breakthrough Objectives". This area can be thought of as a long-term vision for the specific project that is to be achieved. It can be used at either the highest business level or can be used at the lower levels of the business to manage departments or specific projects. Once the three-year breakthrough objective is determined, the left side quadrant must be identified in terms of the annual objectives. For example, the quadrant titled "Three-Year Breakthrough Objective" lists four items:

A. Reduce production defects by 30%
B. Reduce material expenses by 15%
C. Reduce order to delivery lead time by 25%
D. Increase sales from $1 billion to $1.4 billion

Consider the third objective (reduce order to deliver lead time by 25 percent). The team would need to focus on the annual objectives that would be necessary to achieve this goal by the end of three years. By achieving this goal, the long term objective would be met. Note that the boxes are linked in shaded, which establishes the linkages among the items. Look on the left hand side and connect the third year objective with the same shaded column. See that the annual objective is "reduce order to deliver lead time by 10 percent". The X matrix recognises the long term goal of 25 percent; however, it would be unrealistic for us to achieve that within one year. Therefore, the one year goal is set at an achievable level of 10 percent. Continue to follow the quadrant around clockwise. The top of the X-matrix "Improvement Priorities" indicates that it is necessary to execute five value mapping processes. The team will use lean techniques to value stream map five processes and identify the value added. This process will result in the identification of non-value added steps that can be eliminated. The elimination of the steps will achieve the one year target. This, in turn, keeps the team within its three year timeframe. The far right side of the quadrant helps to determine specific targets to obtain. In this example, the team plans to find ways to reduce lead time by 10 percent for the five different processes. In summary, to reduce order to delivery lead time by 25 percent in three years, it is necessary to achieve a reduction in the first year order to delivery lead time of 10 percent. We will do this by value stream mapping five processes and identifying ways to reduce order to lead time in those five processes by 10 percent. On its face, the process seems fairly simple.

The secret that makes the X-matrix process successful is the second X-matrix, which is for the next level of management. It is not shown here in this text. However, it follows the same concept we discussed earlier with the information moving to greater detail to execute the objectives. It is important to realise that the subsequent X-matrices break down the top level matrix into finer detail. In theory, all employees' X-matrices when connected support the achievement of strategic goals. What makes this tool so powerful is that each of the X-matrices can be quickly reviewed to determine if someone is on or off target or if he or she needs additional resources. In addition, the top manager can look at all charts and know that employees are working on the appropriate items—in essence achieving alignment.

As an alternative to an additional X-matrix, the action plan in figure 2-5 can be used to identify the detailed steps that are required. This format will accomplish the same result.

Note at the top of the action plan the improvement priority is listed as "item 3—value stream map 10 processes". It identifies the owner of the action plan as well as the team members. It also provides a brief background for existing team members. Note the relation to the annual objective. By tracking and taking action to develop the processes, the team will reduce the time it takes from receipt of order to the delivery of product. This will in turn result in increased sales with customers becoming increasingly satisfied with the quick response times. This tool provides excellent information for those involved with the project and helps them understand the purpose of their actions.

In the action plan, note that some of the action steps involve Kaizen events. Kaizen is a lean management technique, and it will be discussed in a later part of this text.

Figure 2-5: Action Plan

Improvement Priority: 3 - Value Stream Map 10 Processes	**Management Owner:** Bob the Boss	**Date Created:** Dec. 12, 2005
Team: Jim, Bill, Jill, Cindy, Wendy		**Next Review:** Feb. 13, 2006

Background: Being new to Value Stream Mapping, we expect there to be many new things learned as we map the processes and make the improvements. We will utilize the experience of a Consultant during our first year of mapping our processes.

Relation to Annual Objective: By mapping the processes and taking action to improve the processes, we will reduced the time it takes from reciept of order to the delivery of product. This will in turn result in increased sales when the customers become increasingly satisfied with our quick response times.

Timeline — = Original Plan x = Complete — 2006

Status — Red, Yellow, Green (Actual and Predicted)

Action Step/ Kaizen Events	Owner	Deliverable	Planned Complete Date	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Status
1 - Identify top 10 products to be mapped	Jim	Top 10 identified and communicated	01/31/06	X												
2 - Assign leaders to each product to be mapped	Jim	Leaders aware of their products	02/03/06													
3 - Lean training to all VSM Leaders	Frank	Consultant delivers training	02/15/06													
4a - VSM kaizen for product A	Jill	Mapped and on the wall	02/22/06													
4b - Complete actions to achieve 30% reduction in overall leadtime	Jill	Validated results	04/02/06													
5a - VSM kaizen for product B	Cindy	Mapped and on the wall	03/15/06													
5b - Complete actions to achieve 10% reduction in overall leadtime	Cindy	Validated results	05/12/06													
6a - VSM kaizent for product C	Wendy	Mapped and on the wall	06/02/06													
6b - Complete actions toachieve 28% reduction in overall leadtime	Wendy	Validated results	10/14/06													
7a - VSM kaizen for product D	Bill	Mapped and on the wall	07/14/06													
7b - Complete actions to achieve 12% reduction in overall leadtime	Bill	Validated results	07/30/06													
8a - VSM kaizen for product E	Jim	Mapped and on the wall	08/16/06													
8b - Complete actions to achieve 8% reduction in overall leadtime	Jim	Validated results	12/12/06													

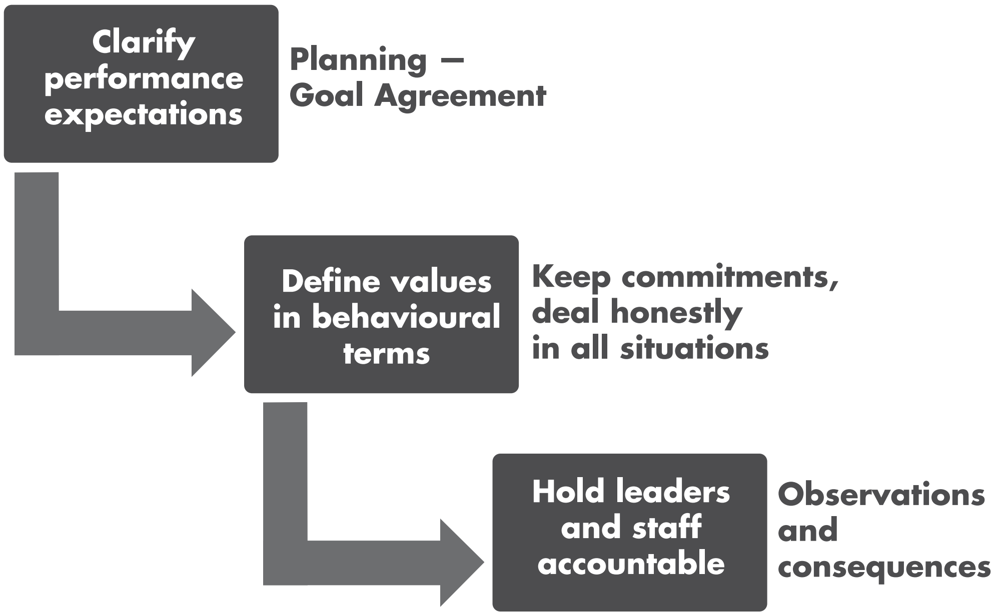
Source: Progressive Edge. http://progressivedge.com/files/Policy_Deployment_X_matrix2.xls

DRIVING VALUE THROUGH AN ALIGNED CULTURE[8]

In "Creating a High Performance Values Aligned Culture", Chris Edmonds of Ken Blanchard Associates discusses the necessity of business leaders focusing on three integrated steps, which are illustrated in figure 2-6:

1. Clarify performance expectations
2. Define values in behavioural terms
3. Hold leaders and staff accountable

Figure 2-6: Creating a High Performance, Values-Aligned Culture



Clarify Performance Expectations

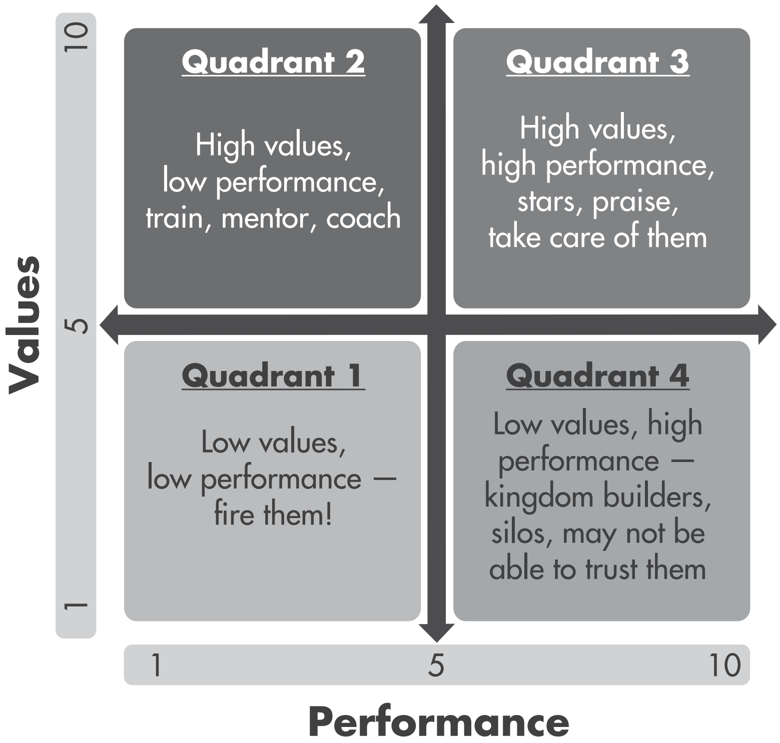
Leaders can clarify performance expectations through formal planning and informal discussions. The critical outcome is for everyone to agree on standards for key goals.

One method of creating clarification is by use of a Performance Values Matrix.

The model is a simple X-Y graph with the vertical axis representing "performance" and the horizontal axis representing the "values match". The quadrants represent the four possible combinations of high or low performance and high or low values match.

The performance value matrix helps enforce a culture where key values of the business are contrasted with specific performance of individuals. Consider the four-quadrant matrix called "The Culture Grid" in figure 2-7.

Figure 2-7: Performance Values Matrix



This approach is widely used to analyse the full spectrum of combinations of value and performance. Note that the Y axis lists the word values. Think of these as the values of the business or they may even be the values of a specific department or division. The X axis shows the word performance. Notice that on both axis, levels of assessment range from low (1) to high (10).

Beginning in Quadrant 1, if an employee has low values and low performance, the business should terminate the individual. The effort to increase the employee's performance will be significant and it may be nearly impossible to change the low response to values.

Quadrant 2 is for individuals who have very high values. They understand the vision of the company, the mission of the company, and the stated values, and exhibit them in their daily work life. The only issue with these people is that they are not producing at an acceptable level for their particular position. Many people in this quadrant might be younger or relatively new employees to the organisation. These individuals should be invested in with training, coaching, or mentoring to help bring their performances up to acceptable levels.

Quadrant 3 is the easiest quadrant to understand because those in this quadrant are the star performers. They understand the vision, the mission, and the values of the organisation. They go above and beyond the required effort, and perform highly on all tasks. The danger with these employees is that the business may burn them out. In addition, these are employees who must be recognised for all of their contributions to the organisation. If not recognised and rewarded, the lack of attention may drive these employees to leave the business of their own accord.

Quadrant 4 is interesting. These individuals historically have had outstanding performance. However, a person in this quadrant may have the following characteristics:

- a kingdom builder
- creates departments that are silos
- does not want to play by the rules of the business
- has character flaws involving integrity or ethics

If we can modify an individual's behaviour, there is a chance that he or she can become a long-term valued employee. If there is not sufficient evidence that such a person can be changed, then it is best to sever the relationship with that employee.

Another use of the Culture Grid is to have the employee place a dot on the chart where he or she believes he or she is currently performing. Then have the supervisor place a dot on the chart where he or she believes the employee is performing. Connect the two dots with a bright coloured pen (red if disciplinary action will be the outcome, blue if suggestions for improvement will be forthcoming.) The difference between the dots is one of perception, but it can be used for the supervisor to indicate where he or she wants the employee to improve (or implied termination if improvement is not made.)

Define Values in Behavioural Terms

Blanchard dissuades companies from elaborate purpose and values statements. He recommends straightforward declarations of purpose with values defined in behavioural terms, which enable values metrics to be established.[9]

To make your business values actionable, follow these steps to define your values in behavioural terms.

1. For each value, brainstorm demonstrable potential behaviours
2. Choose three to five behaviours per value. It is important that each behaviour is:
   a. Observable.
   b. Measurable.
   c. Relevant to everyone.
3. For each behaviour, define three key measures: “exceeds standard”, “meets standard”, and “needs improvement”.

Example:

- Brainstormed value: Ethical. *We will be ethical in all our dealings with customers, suppliers, stakeholders and shareholders.*
- Behaviours: *Our name and reputation are of immeasurable value. We will honour the contractual commitments that we make even when we have made a mistake. We will not lie or be dishonest to our stakeholders just to cover up our mistakes.*
- Key Measures: *These behaviours will then be scored on a scale with measures of “exceeds, meets, or needs improvement”.*
  - Test these measurements with key players and stakeholders.
  - Monitor performance. Survey the entire business twice each year and publish the results. Remember, “What gets measured gets done!”

Hold Leaders and Staff Accountable

Many businesses struggle to hold leaders, managers, and staff members accountable for performance or values. Two ways that leaders can develop accountability in their businesses are:

- Proactive observation: Seek information about your team members' performance on that expectation.
- Consequence management: Apply the appropriate consequences. If they are doing what they committed to, praise, encourage, and reward team members. If they are not performing as they committed, engage them in appropriate conversations to understand why progress has not been made.

This author likes to use a three-question approach to help staff learn and grow, especially when there has been a problem or some action that needs correction.

1. What happened?
2. What did we learn?
3. What will we do differently?

Getting Started with Your Own Culture Transformation

1. The senior leadership team must demonstrate a commitment to the long-term process.
2. Values must be defined in behavioural terms.
3. Accountability for delivering promised performance and demonstrating valued behaviours is paramount. Consequences must be swift and consistent. Positive consequences for meeting performance and values expectations must be described and demonstrated. Praise and encourage the performance and values you desire. Negative consequences must be applied when performance is below standards or valued behaviours are not demonstrated. You must not tolerate undesirable behaviour from an employee at any level.
4. It is vital that all staff buy into every phase of the culture transformation.
5. One step at a time. Find a manageable scope for the change initiative.

Endnotes

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3

CORPORATE CULTURE AND BUSINESS PLANS

CORPORATE CULTURE AND PLANNING

This chapter and the next will examine the role of corporate culture, business and strategic plans, and the relationship between culture and planning. To begin, consider your response to the following questions as they relate to your business.

- What planning process do you have in place?
- Is your planning process simple or is it complex?
- If you have worked for multiple businesses in your career, is your current planning method similar or dissimilar to the previous organisations?
- If you had the opportunity to change any aspect of your current planning process, what would it be?
- How would you describe your corporate culture (formal, informal, strict, lax, inflexible, or flexible)?
- How does your culture affect the planning process?

Now let us consider a couple of tools to help understand how to approach the planning process for the organisation. The first tool is a simplified approach. Circle the number on each scale that relates to your business in figure 3-1. Following figure 3-1 are some examples of scores. There is no right answer; just an indication of your perception of various characteristics in your organisation.

Figure 3-1: Simple Planning Assessment

	Complex planning process may be necessary			
High	10	10	10	10
	9	9	9	9
	8	8	8	8
	7	7	7	7
	6	6	6	6
	5	5	5	5
	4	4	4	4
	3	3	3	3
	2	2	2	2
Low	1	1	1	1
	Simple planning process may be adequate			
	Current time in meetings	Policy and procedure	Opportunistic (low) and regimented (high)	Board Personality

Current time in meetings—If your management team holds regular meetings that last at least a half day and can spend eight hours focused on one topic, choose a number close to 10. If your management team never meets and cannot be interrupted because they are too busy for meetings, choose a lower number.

Policy and Procedure—If your business follows established policy and procedure at all times, choose a number close to 10. For example, if policy and procedure are not followed rigidly and are more like guidelines to your organisation, choose a lower number.

Opportunistic/Regimented—If your business sticks to the plan regardless of the opportunity, choose a number closer to 10. If your business abandons previous plans for a new opportunity (and does so on a regular basis), choose a lower number.

Board Personality—If your board prefers highly detailed reports or action plans, choose a number close to 10. If your board is more casual and less bureaucratic, choose a lower number.

After you have made your circles, connect the dots. Does your business come closer to a simple or complex organisation? What do you think is the impact on the planning process to be selected?

Next, let us consider the following 15-question survey tool in box 3-1 (developed by Debra Woog McGinty and Nicole C. Moss) as an assessment of your corporate culture.

Box 3-1: What is Your Corporate Culture?

Corporate culture is a complex subject. Analysing your company's culture can help you create a plan to develop it.

This 15-question survey has been developed to serve as a starting point for your analysis.

Answer each true or false question according to what is true most of the time. So answer based on how your business actually acts, not how you would like it to be.

True or False Questions:

_______ 1. I know how my projects contribute to the success or failure of our organisation.

_______ 2. Management makes a lot of announcements to employees.

_______ 3. I have colleagues from a wide variety of professional and personal backgrounds.

_______ 4. In this organisation, people who are not ready to be promoted after a certain length of time are generally encouraged to leave.

_______ 5. Departments or teams compete with each other for the organisation's resources.

_______ 6. When people are not getting along here, it is a long time before we address the issue directly.

_______ 7. When it's time for me to learn a new skill, training is readily available at no cost to me.

_______ 8. When the boss tells us to "Jump!" we ask, "How high?"

_______ 9. It takes a long time for this business to address customer concerns.

_______ 10. Many employees expect to work at this business for their whole careers.

_______ 11. Senior management says the door is always open, and they mean it.

_______ 12. It is fun to work here.

_______ 13. We have three or fewer layers of management.

_______ 14. We have performance reviews less than once a year.

_______ 15. Compensation and benefits are relatively low here.

Count your "True" responses in each third of the quiz (questions 1-5, 6-10, and 11-15). The section in which you have answered "True" the most times corresponds to the culture type your business most closely matches. If you have the same number of "True" responses in more than one section, your culture matches this combination of types. In the next section, you will find a list of primary advantages and potential pitfalls of each one.

For questions 1-5:

If you had the most "True" responses in this set of questions, your business has a

Deliberative/Traditional Culture

Advantages:

- This culture tends to be intellectual and thoughtful.
- People in this business often consider issues carefully prior to making a change.
- The business likely has many formal systems, yet forms and reforms teams flexibly in accordance with immediate client needs.
- This cultural type regularly hires groups of new employees, generating a valuable flow of diverse talent with fresh perspectives.
- Senior management communicates frequently to employees.

Pitfalls:

- Although plenty of communication usually flows from the top of this organisational type, management often does not indicate interest in feedback from all levels. Beyond making announcements from management, ask for regular feedback, so you don't miss critical information or valuable innovations from your staff.
- Be careful that your business does not discuss a change for so long that you miss important opportunities to change for the better.
- Be aware of the cultural implications of fostering competition within the company. Internal competition may create resentment that drives costly turnover.

For questions 6-10:

If you had the most "True" responses in this set of questions, your business has an

Established Stable Culture

Advantages:

- This business has most likely been around for a long time or is a family business. These businesses tend to have solid institutional memories, so they are likely not to waste resources by repeatedly "reinventing the wheel".
- This business has processes in place to address most situations.
- Organisations of this type tend to cultivate employees by encouraging development through mentoring programmes or formal training opportunities.
- This culture type is known for compensating its people relatively well.

Pitfalls:

- Typically this business struggles to handle conflict well, often becoming either conflict avoiding or "command and control". If your business tends to be conflict avoiding, it may be time to address those problems that are out of hand, or that have been out of hand in the past.

- "Command and control" style leadership may yield feelings of disconnectedness amongst employees. Consider assessing employee morale immediately.
- Overall, this culture type tends to be wary of turnover, so take a careful look at your business and consider whether it's holding on to people who might best be let go.
- While established systems can be a positive sign of organisational health, ensure your processes are focused toward addressing customer needs in a timely matter. If your processes impede rapid resolution of customer problems, rework them right away.

For questions 11-15:

If you had the most "True" responses in this set of questions, your business has an

Urgent Seat of the Pants Culture

Advantages:

- This culture type features a positive work environment, with tight bonds amongst employees.
- It is likely that an aspect of your organisation's mission includes responding to a crisis. People care deeply about the firm's mission and work hard to achieve the organisation's goals.
- Employees who frequently hurry to beat the clock can create great results in a short time, provided that quality is a strong value in your organisation.
- These businesses tend to have a flat structure that fosters communication and collaboration amongst employees and speeds the decision-making process.

Pitfalls:

- **Caution:** Minimum rewards (both tangible and intangible) and minimum feedback are common to this culture type. Rewards and recognition are important not only to generate loyalty but also to foster collaboration.
- The constant rush to get things done quickly can lead to burnout and increase the ever-present danger of losing talent.
- Although this culture generally features frequent upward communication and grassroots change, top-down communication tends to be inadequate. In addition to staying accessible, take time to share important messages and expectations with your entire staff to keep them motivated and moving in the right direction.
- Making decisions under intense time pressure may lead to a reduction in the quality of your products or services.

Is your culture type consistent with your expectations? If so, you probably have a good handle on how your business behaves, its primary cultural drivers, and how to make improvements where necessary.

Is your type different from what you thought it would be? If so, you might have an unrealistic perception of your company's character and values. Take a closer look at your answers above, and use the questions themselves as a guide to shifting your organisation's behaviours toward becoming the culture you would like to see.

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What culture best described your organisation? Look at the figure 3-2 diagram to see how the planning approach relates to your specific culture.

Figure 3-2: The Planning Approach as It Relates to Culture

CORPORATE CULTURE AND ITS RELATION TO STRATEGIC PLANNING

Using the insights gained on corporate culture, the successful implementation of the strategic planning will be designed based on those insights. If the planning process is created without any consideration for the way that a business conducts its normal operations, there is a good chance that the plan will be unsuccessful. There are many different ways to view corporate cultures. In addition to the cultural assessment above, we will consider the model proposed by Charles Handy that outlines four types of corporate cultures. The four cultures have been labelled as:

- Power
- Role
- Task
- People

The power culture occurs when the authority to run a business is vested in one or several key employees. Many times the power culture shows up in a family business that is dominated by one key individual. The power culture can also show up when there is a founder or another key employee who is, in essence, a charismatic leader for the organisation. An easy way to spot the power culture is when employees identify themselves with the key person of the company, as opposed to the business name.

The role culture is synonymous with bureaucracy. The business takes its identity and its operational stance by following rules or procedures. In these organisations, it is more important to follow the rules, as opposed to deviating from the rules. This culture can be very difficult for creative or independent people because they prefer a significant amount of freedom in the way they perform their job responsibilities.

The task culture is applicable to the professional or consulting firms that direct employees to work together for specific projects or assignments. The culture is centred on technical skills and capabilities, as opposed to either the bureaucracy or the dominant employee structure. Employees in the task culture tend to identify themselves as technical specialists, as opposed to being affiliated with a specific firm or company.

The people culture, as its name implies, is more concerned with the personal worth of each employee, as well as cooperation amongst team members. The emphasis of the culture is on consensus and building agreement. In today's environment, many companies strive for a people culture company. Current management philosophy idolises the ability for employees to work in successful team settings. People cultures also typically dislike bureaucratic practices. In addition, this culture is more concerned with relationships and meeting the needs of their customers.

No business is a thoroughbred culture. The larger the organisation, the easier it is to find different subcultures at work, depending on the leadership styles of person managers. However, it is important to note that the more varied cultures that exist within one organisation, the greater the dysfunction in achieving objectives.

Therefore, it is necessary that the management team recognises the culture at all levels within the organisation. As mentioned previously, the following groups, people, or processes can create different cultures:

- Board of directors
- Policies and procedures
- CEO
- Senior management
- Divisions
- Departments

An astute management team will recognise the influence of each of the above groups or processes and assess the impact on the strategic planning process.

If we were to consider these four cultures on a spectrum and relate them to the evolution of business, it might follow this pattern: a brand new culture that is started by an entrepreneur can easily be viewed as a power or an entrepreneur-dominated business. This perception is easy to understand because the success of a start-up business is typically going to be squarely on the shoulders of the entrepreneur. If the business is a success and it grows, it will likely take one of two paths. The first path has other family members becoming part of the business. In essence, this reinforces the dominant power culture model to other employees. A multi-generational business that still has active family members in it would probably fall into this category. The alternative route can break off into two additional paths: the business grows so quickly that it outstrips the dominant personality or at some point the dominant personality (possibly even the family's subsequent generations) realise that they are no longer capable of running the business and they bring in the hired professional executives.

If the business remains as a multi-generational business, then it will typically remain in the power corporate culture. If the business grows so that professional management is needed, one of the first areas the professional management team addresses is the lack of policy and procedure. The emphasis on policy and procedure is driven to develop quality and consistency with all products that the business delivers. This movement to the policy and procedure emphasis transforms the power culture into a role culture. Now it becomes very important for employees to follow rules and regulations. You could even make an example that switching from a power culture to the role culture would be similar to bringing a sheriff into a Wild West town. The sheriff would tame the wild culture and the town would become more civilised. Many people overlook that the desire to introduce rules and regulations can also greatly inhibit the very essence that allowed the business to grow in the first place.

The task culture can be seen in professional service firms such as CPAs, attorneys, engineering, and architectural firms. Keep in mind, however, that most task cultures begin their existence (out of necessity) with a power culture first. The power culture is based on a dominant entrepreneur, who was also a professional, which wanted to have his or her own firm. As the firm evolves and more professionals join, the firm will utilise the task culture for many of its processes; however, until an ownership change takes place where the dominant entrepreneur influence is reduced to that of any other key employee, a professional firm will have a dual culture. They will use a task-like culture for many day-to-day processes and a power or dominant culture for strategic decisions.

As all of the cultures evolve, the hope is that businesses move into the person culture or team environment. This transition is desired, as the emphasis is on meeting the needs of the customer. As a result of this desire, problems associated with dominant employees or bureaucratic practices take a backseat to the needs of serving the customer. Decisions are made on a consensus basis and, in theory, every employee participates.

It should be noted that there is a time when cultures are forced to move from their existing form to a different cultural form out of necessity. In the last couple of years, we have seen this happen in many businesses as a response to the Great Recession. Team cultures and consensus management had to take a backseat to a dictatorial or power culture to make drastic changes. For many companies, this required a movement back to the dominant or power culture. It was necessary because companies needed to downsize, causing significant staff cuts to be made. It is not easy to make those changes in a consensus mode. It would be appropriate to use the word dictatorial when the culture must survive through difficult times. However, once the crisis is over, a business must depart from the dictatorial culture and swiftly return to its previous culture. If it has not been clear to the employees why the culture changed, as well as the need to change back, management must educate the workforce. Management must resist the urge to stay in dictatorial mode and return to team or consensus building.

Now let us take the cultural information and compare it to the strategic planning process. The level of interest and patience that management will afford to the strategic planning process is directly related to the corporate culture a business has.

Power or dominant cultures believe one key person drives the company. As such, many of the operating decisions will always be deferred to the dominant individual. This action can foster crisis management or making decisions on the fly. This culture may view strategic planning as an evil necessity. The culture may downplay the significance of strategic planning because all significant changes or adaptations of the business have always come about as a result of the key dominant person. That person will believe that the plan is not typically necessary because he or she will always step in and do whatever is right. As a result, his or her patience for the planning process, as well as his or her patience to follow the plan, may be minimal. There will be a willingness to deviate from the plan because he or she knows what is best for the organisation, and does not want to be handicapped by any prescribed plan that is six to 12 months old. In this case, the simplest, most efficient strategic planning process could easily be the best for the organisation. *Remember, even though it is good practice to create a strategic plan, it becomes irrelevant if the management team is not going to follow it.* As in Lean Cultures, give the customer (the management team) what they want. If the dominant or key person in the power culture is not going to embrace the plan, do not waste your time creating it. The only sensible alternative is to make the plan simple and high-level so that it gives a general direction.

The role culture, which is steeped in rules and regulations, will love a full-blown planning process. In many cases the planning process for the role culture may be exceedingly cumbersome, exceedingly detailed, and steeped in monitoring and compliance. It is easy for the role culture to miss the forest through the trees because they will invest more into the process than into the strategic meaning behind the process. Therefore, the role culture will want to spend a significant amount of time planning the strategic planning process. They will find themselves arguing about the minutest details because they will be looking at the plan from a legalistic viewpoint rather than an opportunistic one.

The task culture, if moved beyond the dominant or key person of influence, will approach the planning process in an efficient, business like and professional manner. There will be an emphasis on strategic direction and specific goals. In addition, there will probably be an interest in benchmarking so they can better measure their performance as well as that of competitors.

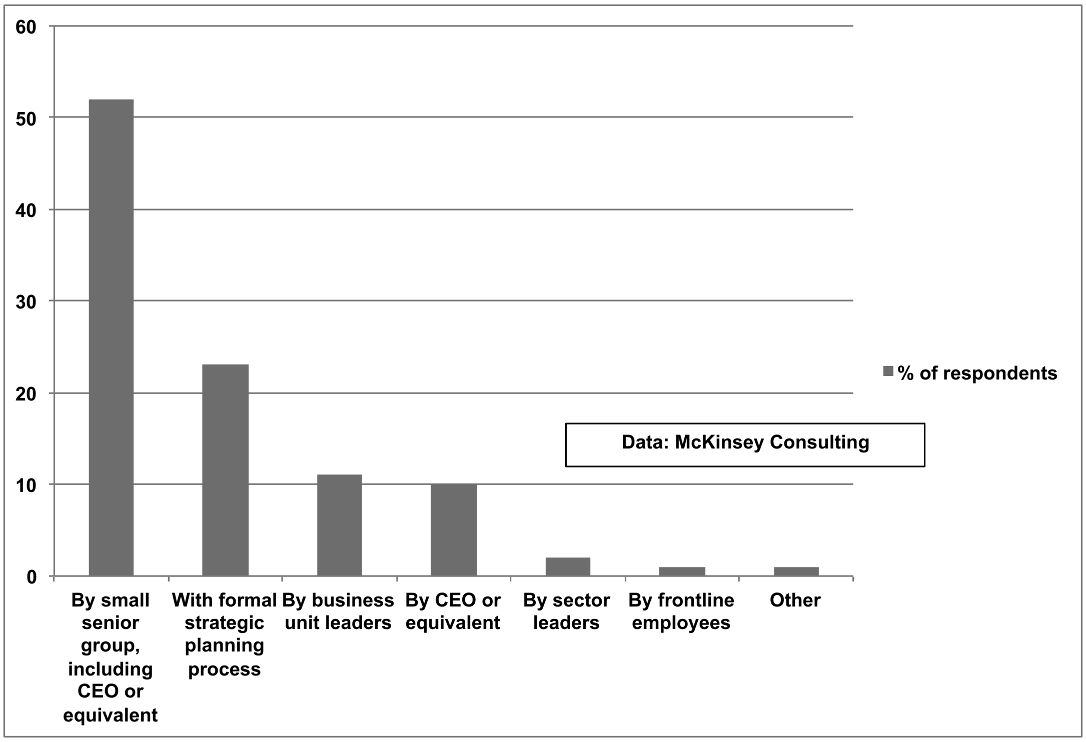
The person culture will be emphasising consensus and teamwork. This culture will be interested in a fairly complex planning process so long as it is efficient. The process must honour the input of many team members so that consensus can be achieved by all key constituents. It will be necessary to keep teams focused on meeting the customer's needs. There may be a significant reduction of interest in planning processes that are not directed to meet its customer focus. This planning process should be professional and efficient.

Remember that the overall cultures are an outgrowth of the individual profiles that are part of the team. Just as any good team is made up of a diverse group of members, these four cultures will have a mixture of diverse individuals on the teams. It would be foolish to ignore the unique person profiles of members while doing the planning for the organisation. For example, if an extremely creative person who hates bureaucracy is working in a structure that by nature is a role or bureaucratic culture, the plan must be able to address the person needs as well as the overall business needs. If there is no linkage between the two, the planning process, as well as the overall plan, can fail miserably.

MCKINSEY STUDY—STRATEGIC PLANNING

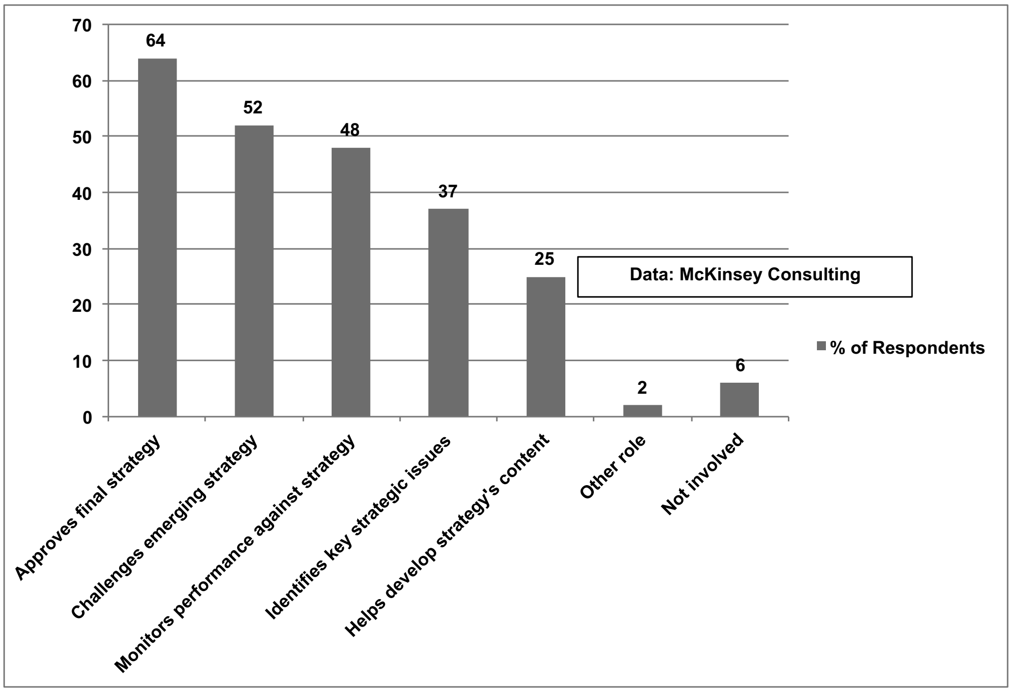
McKinsey Consulting prepared a study of strategic planning processes in 2006 that included 796 responses from a worldwide panel of executives. Their study revealed significant findings and implications for our use of the strategic planning process. The data in all charts in the following section came from the July/Aug 2006 *McKinsey Quarterly Survey of Business Executives*.

Figure 3-3: How Are Strategic Decisions Made in Your Company?



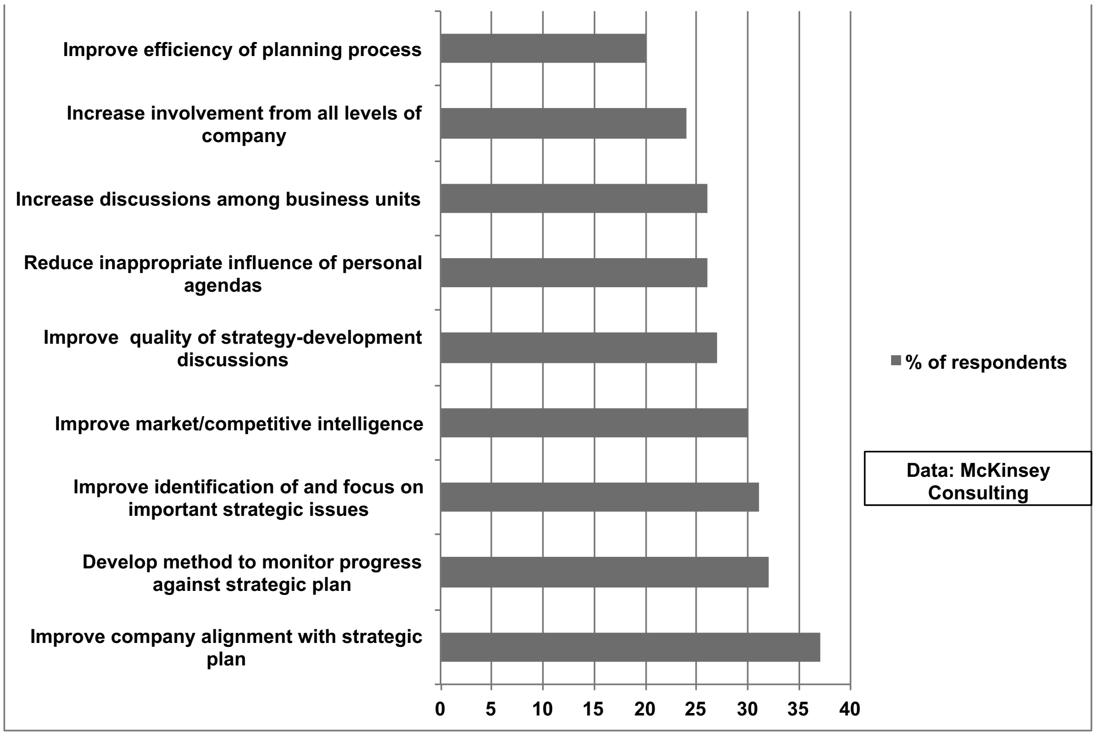
Note that strategy is driven by top management. This is no surprise. However, only 23 percent of the respondents are utilising a formal strategic planning process. This exhibits a disconnection between using a formal planning process and just making day-to-day decisions to run a business. The study revealed those businesses utilising the formal process were more satisfied with the overall strategic decision process.

Figure 3-4: Board's Role in the Strategic Planning Process



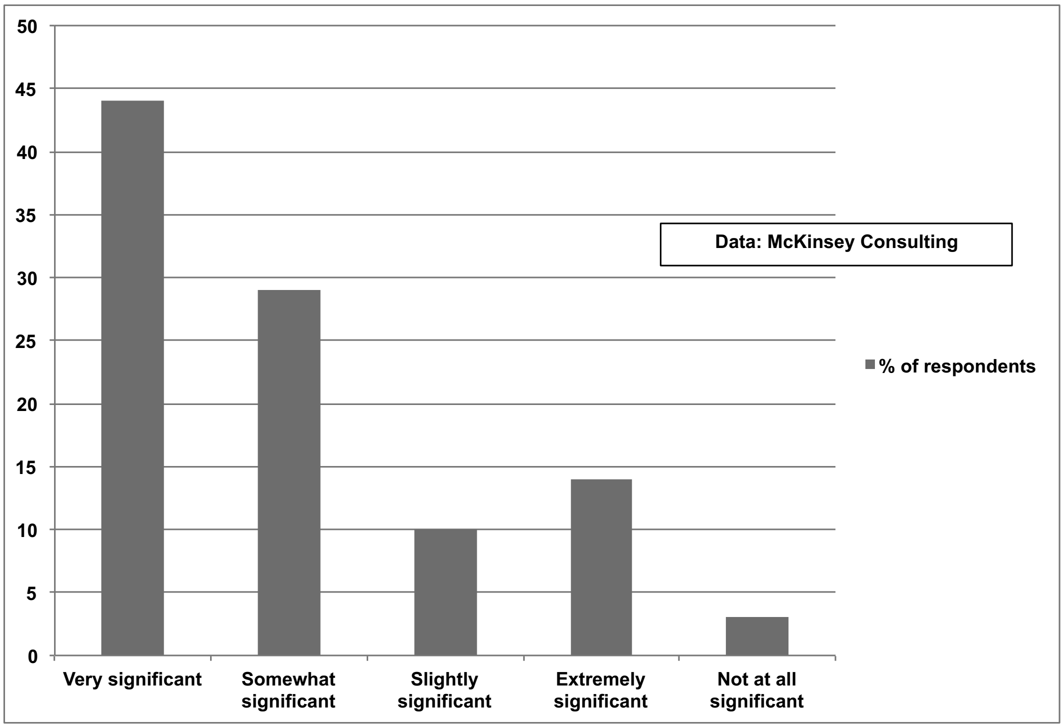
For most organisations, the role of the board of directors is to approve the final strategy of the organisation. As part of that approval, there is the expectation that the board will challenge the specific strategies chosen by the management team. In addition, it is the expectation that the board will manage and monitor actual performance as compared to the strategic plan.

Figure 3-5: What Would You Change in Your Strategic Planning Process?



When given the choice of how to develop the strategic planning process of an organisation, 37 percent of the respondents would like to see stronger alignment with a strategic plan. Stern/Stewart conducted a study on which companies were most successful. One of their key findings supports this first point. The more aligned the boards of directors and senior management were with the shareholders, the greater the financial success of the company. This lack of alignment is a second concern whereby companies want a better process to monitor actual results against the plan. Thirty-one percent of the respondents would like businesses to do a better job identifying the real strategic issues that confront the organisation.

Figure 3-6: The Role That Strategic Planning Process Plays in Developing Your Company's Strategy



In figure 3-6, at least 44 percent of respondents stated the strategic planning process is not considered "very or extremely" significant. It was not stated in the McKinsey study, but the author believes this finding most likely relates to the differences in culture.

Figure 3-7: What Characteristics Define Your Company's Formal Strategic Planning?

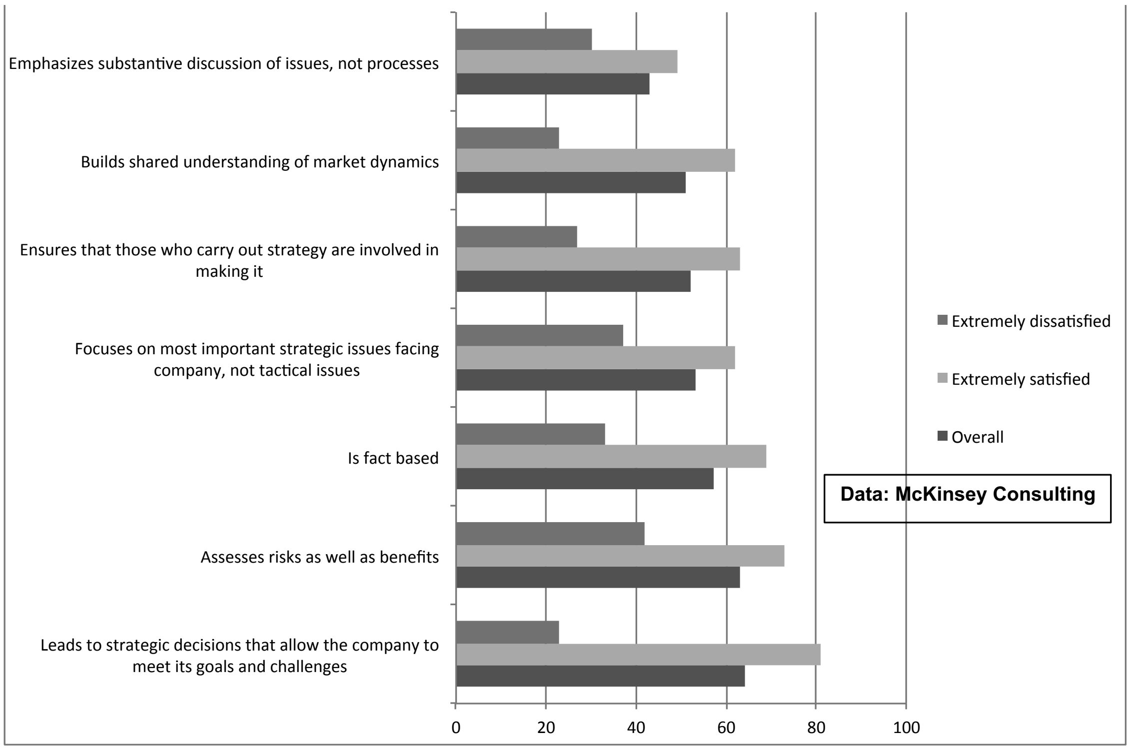


Figure 3-7 shows interesting information: the level of dissatisfaction is significant. If a business is looking for team buy-in involving the planning process and related goals, it will be difficult when people are dissatisfied with the process.

There are some key planning techniques that are utilised to uncover relevant issues. We will discuss strengths, weaknesses, opportunities, and threats (SWOT) later. However, note that in figure 3-7, only 63 percent of the respondents were satisfied with the risk analysis. If a business is planning and fails to address all the risks, it is leaving the business exposed.

If creativity is not being fostered, then the opportunities portion of the SWOT analysis is not being addressed adequately.

The respondents felt that the employees responsible for executing the strategy were not involved with creating a strategy. The lack of input from the executing employee can result in an unachievable strategy.

Figure 3-8: Describe the Discussions That Take Place During the Strategic Planning Process

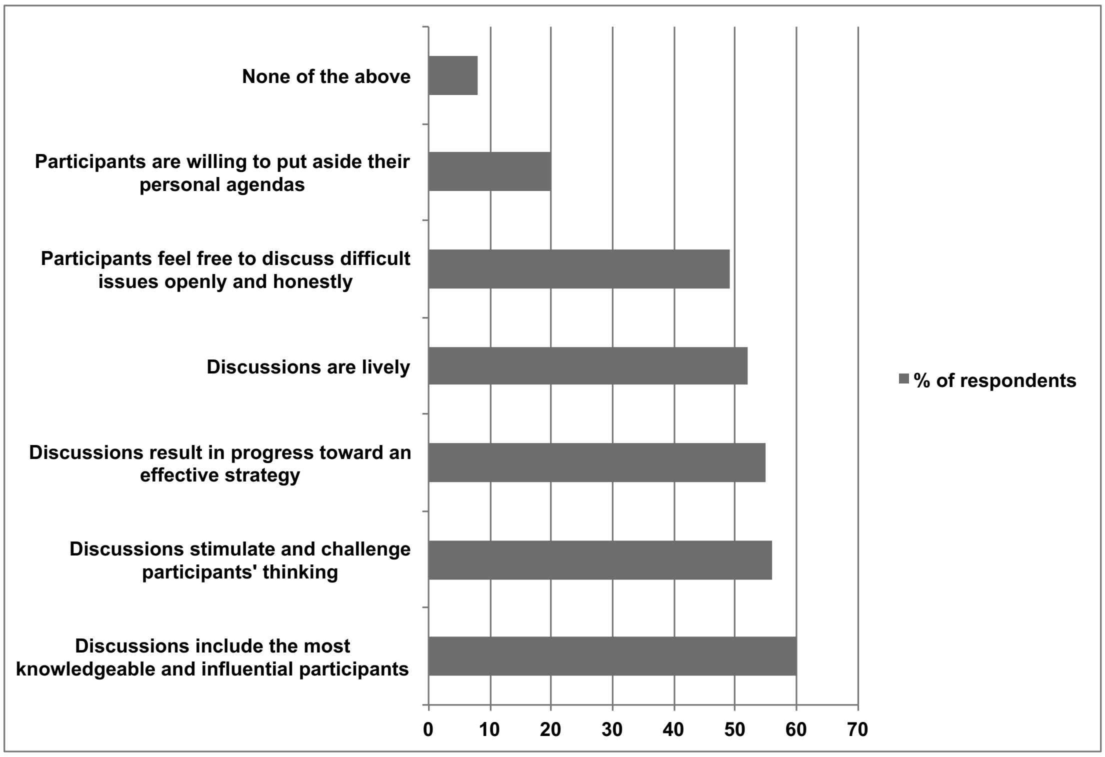


Figure 3-8 highlights two responses that require explanation. The first response was that only 49 percent of respondents felt their business addressed the difficult issues in an open and honest manner. Many executive teams struggle with being open and honest. Some use colloquialisms such as “the camel in the tent” or “the elephant in the room” to describe some teams’ refusal to talk about very real issues. If you talk to the management teams, they typically all know the issue is there, and they all realise that no one is willing to talk about it. It is imperative for businesses to be successful in the planning process to address all issues. If the issues are not addressed, there is a good chance the business could be in jeopardy.

Twenty percent of respondents felt people were not able to put aside their personal agendas. Success of any team depends on the concept of shared fate. If people understand the only way the business can be successful is for all of them to be successful, teamwork will increase. However, when a person realises the greater reward is to excel within his or her own world, most people will choose self-interest above the group's needs. Typically, situations arise when compensation plans or bonus plans do not reflect the real accomplishments that the management team wants to achieve.

THE BUSINESS PLAN

Introduction

A business plan is one of the most overlooked and misunderstood planning tools in today's business environment. Typically, the business plan has been used to obtain financing for a business or a special project. Obtaining financing is a practical use of the business plan; however, the value in a business plan is far greater than obtaining financing. In this section, we will explore what the business plan is, how to prepare it, and what are some traditional pitfalls that accompany preparation of a business plan.

The Business Plan

The creation of the business plan has its origin in the dream phase discussed previously. The dream is translated into a vision, and the combination of these two concepts takes the form of a business plan. The business plan will outline all key items required to have a successful venture.

Consider your business for a moment.

- Does your business have a business plan?
- If so, why was it prepared?
- How often is it reviewed and revised?
- Do you feel it is an important part of your company's culture and philosophy?

What is the difference between a business plan and strategic plan? A business plan helps to identify and refine the vision of the organisation. It sets out the broad parameters of how the vision will be achieved over the long term. The strategic plan breaks out the steps over the short term to propel the business along the path to achieve the vision. Strategic plans will be covered in depth in the next chapter.

What Are the Benefits of Using a Business Plan?

The benefits of having a business plan include the following:

- Clarifies the vision.
- Helps to determine if there is an adequate market for the organisation's product or service.
- Assess if the product, service, or venture is financially viable.
- Enlists financial support from investors and lenders.
- Identifies target market and target customers.
- Identifies who the competitors are.

- Defines corporate objectives and programmes.
- Develops operational strategies.
- Pinpoint the strengths, weaknesses, opportunities, and threats that apply to the product, service, or venture.

Considering the Audience for a Business Plan

When writing a business plan, it is extremely important to consider the audience to whom the business plan is addressed. To increase the chance of success, matching the appropriate information with the correct audience is essential. Some of the typical audiences for the business plan have been:

- Investors
- Financing resources
- Employees
- Customers
- Suppliers
- Other partners

Investors

Business plans are often prepared to raise funds from investors. Investors can be venture capitalists, angel investors, or relatives. They are interested in understanding the product or service that is to be offered. They will want to know:

- Why the product or service will be successful.
- What financial return they will receive.
- When they will receive the return of their initial investment.

Has the business plan been prepared to raise funds? Is the audience the typical venture capitalist? Remember that the VC will only spend a very short time looking at your plan. Keep the following questions in mind:

- How unique is this business plan?
- Are there existing industries that can be used as benchmarks to compare to the business plan?
- How much money is the person proposing the plan looking for, and what is he or she willing to give up in exchange for that money?
- How much money or risk does the person have who is proposing a business plan?
- If the VC contributes, how will the funds be used?
- Do the future projections look reasonable?
- What is the business's current and future valuation of the business if the projections hold true?
- Has the writer of the business plan identified areas where the plan might fail?
- Are proponents of the business plan credible, believable, and inspiring?
- Has a member on the management team successfully gone through a business start-up or fundraising process?

- What is the chemistry of the team?
- How long has the team worked together?
- What is the unique value of the product or service the team is offering?
- If a product does not come to market, how will customers' needs be met?
- Does the plan contain an honest and realistic description of the competition?
- Could a change in technology render this product or service obsolete?

Financing Resources

Banks and other types of money managers will be interested in business plans as potential sources for loans. Depending on the stage of the business plan, as well as the nature of the plan proposed, a financing resource may be interested in lending funds that will return a higher interest yield commensurate with the risk. Financing resources will be first and foremost interested in the return of the loan. They will then be interested in plans that have increased risk to justify a higher lending rate, but they will not typically be interested in riskier projects that make them more of an investor than a lender.

Employees

Business plans can be used as an excellent tool for recruiting new employees. If a business is in start-up phase, it may not have the resources to pay employees adequately. The prospective employees must be sold on future prospects of the organisation. Therefore, the business plan must lay out a course that justifies the reason a candidate should abandon his or her current employment for the possibility of greater wages in a fast-growing company. These potential employees may be interested in compensation plans that include items such as stock options that will reward the employee for a riskier employment situation.

Customers

Customers are always interested in improving the relationship with their suppliers. A stronger relationship may result in efficiencies and synergies that can increase profitability of the customer's operation. It may be advantageous to share the organisation's business plan with specific customers to bring the two businesses closer together.

Suppliers

Suppliers are always interested in improving relationships with their customers. If a supplier sees that support of a customer may significantly increase the customer's business, the supplier may be more interested in helping a customer with different financial terms or arrangements. The supplier hopes the customer can grow its business significantly so the supplier will benefit by increased sales to the customer. A customer in financial distress may need more terms or concessions from its supplier. The sharing of the business plan may be a very important step for the supplier to evaluate the creditworthiness of the customer.

Other Partners

A business plan can be used to generate interest amongst potential partners, subcontractors, and joint venture relationships.

It is important for the business plan author to know the specific interest of the audience. In a perfect world, a well written business plan will address all of the interested parties' concerns. In practical terms, however, if the business plan is written for just one party, there may be more emphasis on that participant's specific interests.

BUSINESS PLAN OUTLINE

This section will break down a detailed business plan outline. This outline and details could be used as a guide to complete your own organisation's business plan.

Unfortunately, many people create a business plan only to obtain financing for the project. Once the project has been completed, or the funding has been obtained, the business plan is relegated to the bookshelves. Since the business plan is limited only to obtaining financing, it is often not used as a strategic tool to help drive the business. The business plan should have a life of its own, and should be reviewed and updated every two years. The business plan is separate from the strategic plan, and should be helpful in sharing the business vision with key stakeholders and employees. There are many outlines available for business plans, and most have similar components. To see many different versions, visit www.google.com and search for "business plan" plus outline. An example of a business plan outline follows:

Cover Sheet

Authors/preparers do not spend enough time considering the proper use of a cover sheet. The preparer must remember that readers of business plans have limited time available to read and critique plans and may receive many different business plans to review. Therefore, if the reader has to spend any time locating a person's name or contact information, it will cause frustration on his or her part. The preparer must make a business plan reader friendlier; for example, the reader should be able to find key contact information on the front cover of the plan. At a minimum the cover should identify the following:

- The business and the document
- The location and telephone numbers of the business or where principals can be reached
- Author

Table of Contents

It is easy to dismiss preparation of a table of contents. Recall your own experiences in reading a table of contents. Sometimes there is so much information that it dissuades you from reading further. Sometimes there is so little information you wonder if there is any quality in the following pages. There must be a proper balance that outlines the document and creates interest for the reader. Do not overlook the selection of section title headings to generate interest or foreshadowing! For example, consider a section heading that is one of the following:

- Financial Section
- Outstanding Financial Return

Which section would you rather read?

Executive Summary

Insightful brevity is the key to writing an executive summary. The executive summary is no longer than two pages. The executive summary has been described as the most influential part of the business plan. An informed reader will first focus on the executive summary to determine if there is any merit to continue reading the remainder of the plan. The executive summary must generate interest for the reader, and it must answer the reader's basic questions. The summary helps the reader understand why the business is uniquely able to solve a customer's underlying problem. The executive summary must create foreshadowing to pique the reader's curiosity. Have you have ever read the cover of a fiction book where an authority claimed the novel was a "page turner?" In essence, the writer must generate the same intrigue for the reader of the business plan.

One of the reasons the executive summary is described as the most difficult component of the plan is that it must be written last and bring the various sections together in a cohesive manner.

Another key item in the executive summary is the explanation of the exit strategy for investors. Anybody who gets involved with the business will be interested in knowing how his or her money will be returned. Any plan that does not describe the exit strategy and payback process will be rejected.

- *Business Concept*—Describe the business model including specific products or services the business will provide. It is important to explain these products or services at a level that will be understood by the average reader. Many times entrepreneurs or management teams forget users of the business plan cannot see the vision or the potential for the business model.
- *Company*—Provide a brief description of the business and how it was started.
- *Market Potential*—Describe the market potential for the products or services being offered. Make reference to market studies that are provided in appendices or are available for the reader to look at as separate resource documents. The plan must convey the message that a valid market exists for the product or service.
- *Management Team*—Describe the key members of the management team. A brief reference to pertinent backgrounds, experiences, and credentials is also helpful.
- *Distinct Competencies*—List the distinct competencies of the organisation. These competencies should eventually lead to a competitive advantage in the marketplace.
- *Required Funding and its Use*—The reader of the business plan will be interested in the request for funding and the capital requirements of the organisation. In addition, the reader will also expect a detailed description of how the funding will be used. Any funding that is used for questionable purposes will detract from the overall proposal.
- *Exit Strategy*—A related part of the funding requirements is how and when an investor will receive his or her original investment and return. Therefore, the business plan must delineate the expected strategy of how a business will transition in the future. Investors and business will be interested in participating for timeframes of between five to seven years. Some companies want returns in a timeframe as short as three years.

Company Description

- *Mission Statement*—Earlier, we discussed the importance of a mission statement. The mission statement should be included as part of the business plan. It is imperative that people presenting a business plan memorise the mission statement. If questioned about the mission statement, they must be passionate about it. One of the dangers of having an outside consultant prepare the business plan is the likely inclusion of a mission statement for the business that the management team does not either fully accept or have memorised. When the reader reviews the business plan, he or she may ask management to discuss it more fully. If the management does not show ownership and passion, the reader may not believe they understand their own business plan.

- *Summary of Activity to Date*—Describe the activity for the business to date. This gives the reader a sense of the action steps that have been taken to advance the business as well as existing momentum. Readers will view the business with momentum in a different light than companies still on the drawing board.
- *Current Stage of Development*—Define the current stage of development. Is the product or service in a prototype phase? Are there required approvals necessary prior to the product or service entering the marketplace? Are there significant technological hurdles that must be overcome before the product can be released?
- *Competencies*—This section expands on the general competencies listed in the executive summary. These competencies will be the strengths of the business that will allow it to catapult ahead of its competitors. The competencies will be unique to the management team, or this section may address specific areas such as research and development, proprietary technology, or service applications.
- *Product or Service*—This section will give a detailed description of the product or service. List the unique characteristics of the product or service and how it will be differentiated from the rest of the market. It will be important to define future innovations or generations of the product. Investors will not be interested in a product that only has one phase or limited life. By showing future phases or evolutions of the product, the reader understands that the business has the potential to go forward on a continuing basis.

Example: Part 4—Restaurant Product Description

Based on the Hal's Harley Hamburgers example from the previous chapter, what products will be offered in the market? Consider the following examples:

- **What will be your signature food item?**
  100 percent all beef fresh patties at least 1/3 pound in size.
- **What are the characteristics of your typical customer?**
  Owner of a Harley Davidson motorcycle. Informal dress—related to motorcycle culture. Usually travels with other enthusiasts. Age—may tend towards the middle-aged riders.

- *Benefits to the Customer*—When selling products, many companies make the mistake of selling the attributes of their product as opposed to the benefits to the customer. In the long run, the customer is only interested in the benefits that he or she will receive from the product. Include a list of benefits that the reader can expect from the product or service.
- *Differences from Current Offerings*—The author must demonstrate that the product or services being offered are different from current market offerings. The offerings can have a variety of differences such as lower cost, higher quality, and more useful features.
- *Objectives*—In this section, it is necessary to list the measurable objectives for the organisation. This information should not be taken lightly as any investor in a business plan will use the same objectives as criteria to evaluate how well the business is doing. List the milestones that will identify when the business achieves its objectives.
- *Keys to Success*—Include necessary steps for the project to be successful. Try to boil down the keys to success to a manageable number. No investor is going to be interested in a project that has 100 different keys to

success. The investor will feel that the project is too large or there are too many hurdles to overcome. If the keys to success are a manageable number, the investor will believe that the success of the project is manageable.

- *Location and Facilities*—Describe the location as well as the quality of the facilities. Include the logic of the relationship of the facilities to the target market area. Be sure to understand the relationship between location and target market. For example, some manufacturing facilities have determined that one plant can service a 300-mile radius area due to logistic support. Once the market goes beyond the 300-mile range, another plant is necessary. If the reader understands this concept and the author does not, it will reduce the credibility of the plan.

Industry Analysis

- *Entry Barriers*—Describe the barriers to enter a particular industry. This is necessary from several perspectives: 1) to demonstrate that management understands what it will take to get into business, 2) are the barriers sufficiently high so that a competitor cannot move in and steal the business, and 3) do the barriers to entry create a competitive advantage for you to be in that business.
- *Supply and Distribution*—Where will your business obtain raw materials or labour to produce your products and services? Is there a ready supply of both raw materials and labour? Are there multiple suppliers of raw material as well as multiple avenues to obtain qualified competent personnel? On the distribution side, is the business located in an area that is advantageous for easy distribution of the product? For example, if you are shipping very heavy products, are you near railroad tracks to make the transportation process easier? Are there major trucking companies that routinely work your geographic area or will you have to pay a premium to have transportation services? Depending on your product, do you have the distribution channels to get your product out to the market? Great products or services can flounder because the appropriate distribution channel has not been set up.
- *Technological Factors*—What are the technological factors that impact your products or services? Is the delivery of your products or services dependent on technology that is not tested? Have you created a competitive advantage by having a unique innovation of some aspect of technology? Will technology change so rapidly that your product or service becomes obsolete? In the last example, consider how travel agencies have been drastically affected by the advent of the Internet and self-ticketing.
- *Seasonality*—Are your products or services subject to seasonality concerns? For example, are you a boat dealer in the northern half of the United States? Are you a CPA firm that is heavily reliant on tax preparation services? Are you an apple orchard that has one harvest season per year? A business that has seasonality issues will have numerous concerns and constraints that will need to be described in the business plan. For example, seasonal companies will have to talk about reduced volume levels, cash flow constraints, and possibly alternate products or services to be produced during off-season times.
- *Economic Influences*—What are the current economic influences that could impact the market for your products or services? Consider the economic recession of 2008 and 2009 and forward. It has significantly impaired the ability to sell products. If your business produces products that are installed in new residential construction, there must be a detailed analysis of the housing industry. On the other hand, if your business is mainly remodelling, the same hard economic times may turn out to be good for your company. Other examples of economic influences and change are the underlying commodity costs that can drastically impact the overall cost for your product or service.

- *Regulatory Issues*—What new regulations or current regulations impact the delivery of your products or services? In recent history, we have issues such as cap and trade, healthcare reform, potential shortfalls in Social Security and Medicare, and a potential tax on Internet usage. All of these regulations influence the way your product is delivered and received in the marketplace. Be sure to include the relationship between your product and the specific regulatory issue in the business plan.

Market Analysis

- *Market Size and Growth*—Identify the size and growth rate of the market. An investor is not going to be interested if the market is not growing. For example, standalone scanners for PCs were necessary tools in prior years. However, manufacturers are currently bundling scanners with printers, so the days of the standalone scanner may be numbered. As a result, a new standalone scanner without some significant technological advantage may be doomed before it ever reaches the shelves.
- *Market Trends*—Summarise the current market trends. For example, the advent of cloud computing will change many business markets and the way that personal households and businesses obtain and use computer software. One potential outcome of the cloud computing approach is that almost all software will reside on the Internet as opposed to personal PCs controlled by a corporation or consumer. This suggests that corporations may be able to be downgrade or purchase inexpensive computers. It also signals downward pressure on PC producers.
- *Market Segments*—Determine which market segments your business will participate in. Will they be high-end or low end market segments? Will they be price sensitive or price insensitive?
- *Targeted Segments*—Will there be specific segments within markets your business will pursue?
- *Customer Characteristics*—What are the characteristics of the customers in your market? Be sure to consider impacts of recent economic events. For example, if you are targeting consumers, how has the recession impacted their ability to purchase your product? Let us assume that you are a manufacturer of speedboats. Will the pressure on the consumer caused by loss of jobs, increased housing costs, or increased finance or credit card costs result in increased or decreased sales?
- *Customer Needs*—Does the customer need your product? There are certain consumable items that the customer absolutely needs. The more dependent the customer is on your particular product, the stronger the relationship will be for achieving estimated sales. If the customer does not need your product, the relationship will be not as strong. For example, during the recession, consumers looked at ways to reduce their cell phone bills, television viewing bills, and automobile expenses.
- *Purchasing Decision Process*—What is the purchasing decision process like for the customer? Will that decision process take a great deal of time or very little time? A complex service or product offering will require a longer decision-making timeframe for the customer. A higher cost of your product or service can also increase the time the customer requires to make a decision. The advent of technology can impact the purchasing decision. For example, many customers shop for vehicles in an entirely different fashion than they did in years past due to the Internet.
- *Product Positioning*—How will you position your product in the market? Will you compete on price? Will you compete on quality? Will you portray your product as a high-end product or as a commodity? Where will you sell your product? Will you go straight to the consumer? Will you use distributors? Will you offer the product over the Internet? Each of these items and the way the product is positioned will impact the overall success of the organisation.

Example: Part 5—Restaurant Market

Describe the market in which the restaurant competes. Answer the following questions for your restaurant:

- **How will you position your product in the market?**
  As a deluxe burger that will be higher priced and tastes better than other hamburger restaurants.
- **Summarise the current market trends.**
  There is a current health trend that may be a negative for red meat. During the recession, there was a significant drop off in motorcycle sales. Will other motorcycle brand riders be offended by the HD brand and avoid coming in? Due to the recession, people are budget conscious—high-cost burgers may not sell well.

Competition

- *Profiles of Primary Competitors*—In the business plan, list the top five primary competitors to your company.
- *Competitors' Products, Services, and Market Share*—Research and compile competitors' products and services and relative market share.
- *Competitive Evaluation of Product*—Obtain a competitive evaluation of competing products. It may be important to have an objective person or consultant evaluate the competitor's product. Your employees may be too biased to recognise the threat that a competitor's product or service creates.
- *Distinct Competitive Advantage*—Determine what advantages your competitor has over you. If a competitor is selling a similar product for $1.00 less than your cost, then that competitor has a competitive edge for some unknown reason. This advantage must be understood and carefully analysed, not ignored.
- *Competitive Weaknesses*—What is a competitive weakness? Where does your product excel over the competitor's? The answer to this question determines how you leverage your strengths.
- *Future Competitors*—Where could future competitors come from? Many people do not recognise the potential for competitors to come out of previously non-competitive environments.

Example: Part 6—Restaurant Competitors

What advantages do you have over your competitors?
Freshness, unique brand, and fast, friendly service.

What advantages do your competitors have over you?
Price, appeal to a wider range of customers, national chain support.

Understanding your competition is a key point in any business plan. Having the ability to show you understand how the competition is a threat to your success, as well as strengths and weaknesses of the competitor, is essential. A business plan that does not include an assessment of the competition will raise serious concerns as to its viability. Consider including the following areas in your business plan to demonstrate that you understand the competition:

- Use of mystery shoppers
- The use of Google alerts to garner competitive intelligence
- SWOT analysis of the competitors
- Discussion with your suppliers (information gathered from trucking companies that might service both you and the competitor, other individuals who may work in the same business environment as you and your competitor), bankers, attorneys, and CPAs.
- Information that your employees may already know
- Information disclosed on competitors' web sites
- Information disclosed in general on the Internet (message boards, Twitter accounts, or LinkedIn accounts, for example)
- Information from your customers
- Description of competitors' marketing strategies
- Competitive intelligence data you are gathering

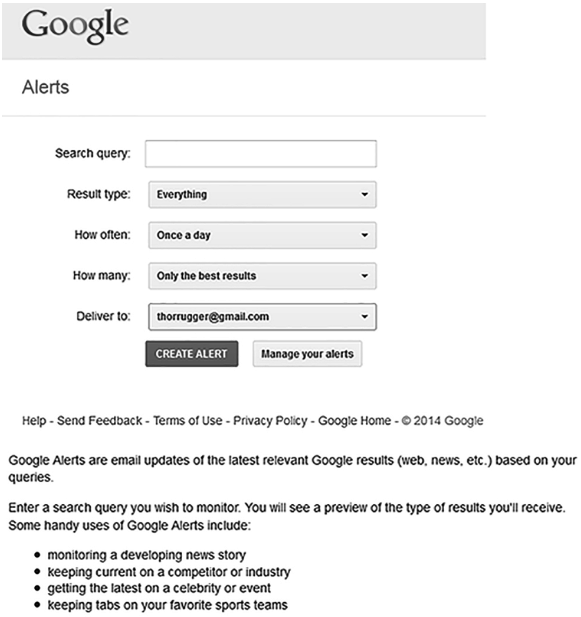
The Use of Mystery Shoppers

To better understand the competition, use mystery shoppers who review competitors' offerings. The shoppers can give first-hand experience as to quality, customer service, or business environment. This also establishes credibility in the eyes of the reader.

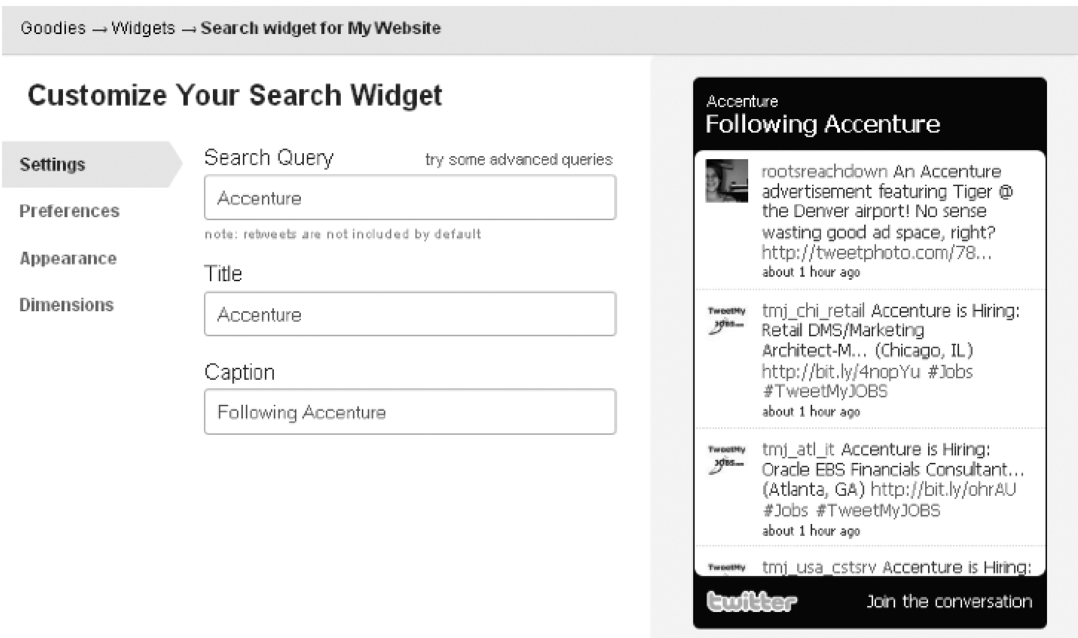
Google Alerts

Every business should establish Google alerts on its competitors. The process to establish a Google alerts is as follows:

1. Sign in to Google alerts.
2. Identify the search terms (competitor's name) that you want to track. (For example, the author has alerts set up for his name, his firm, and specific consulting services that he is interested in.)
3. Determine the areas to search from the web, newsgroups, video, and blogs.
4. Determine the frequency that you want the results to be sent to you via email (the author gets alerts daily.)
5. Select up to 10 or 50 emails in any given email.
6. Add your email address, and you are ready to go.



With the advent of social media, do not discount the power of Twitter and the information that can be obtained from setting up simple trend scans. It is possible to set up your own scan on Twitter accounts. Remember when Tiger Woods was in the news for his extra-marital affairs? Also recall that Accenture used Tiger as a spokesperson. When the news of the affairs was announced, I created the widget as seen below. The alert was for Accenture. The image showed that Accenture was hiring. In addition, it also showed the Tiger Woods fiasco. Either piece of information is helpful as a competitor.



SWOT Analysis of Competitors

In a full-blown competitor analysis, identify at least the top five competitors. The management team can go through a SWOT analysis for each of them. Any weaknesses or threats that are identified during the SWOT analysis can be specific opportunities for your product offer or service. In addition, any strengths or opportunities that the competitor has over your product or services will need to have some form of defensive action taken by your organisation.

Anecdotal Intelligence Gathering

Try to gather additional competitive intelligence from your suppliers. Consider gathering information from trucking companies that might service both you and the competitor. Obviously the business must be sensitive to issues of confidentiality; however, be assured that your competitors are asking your suppliers and freight companies the same questions about you.

These inquiries should also be made of your professional partners: bankers, attorneys, or CPAs. Too often business teams forget to discuss the general business environment with their close business partners. The bankers, CPAs, and attorneys may know significant information and be willing to share if only your team would ask. All of your business team should be reminded that they are responsible for gathering competitive information from a variety of sources. To make this practice part of the culture, there should be regular discussions about this strategy during management meetings.

Do not forget to make similar inquiries of your employees. Employees know a lot of information about other competitors. Many times the only reason that the information is not provided to the management team is that they did not ask for it. The information may be withheld because the management team has not been appreciative when employees have previously shared information. There is the chance that the management team has dismissed the employees as being irrelevant. When this situation occurs, be assured that management will not get any information from their employees on their competitors.

Competitors' Web Sites and the Internet

Organisations still have the habit (and capability) of releasing too much information over the Internet. As part of your competitive intelligence programme, competitors' web sites should be reviewed regularly. This may be accomplished by setting up the Google alerts and Twitter search mentioned in a prior paragraph.

Additional information may be found on Internet message boards, Twitter accounts, LinkedIn accounts, or Facebook. Due to the evolving nature of the Internet and social media, there is an excellent chance that critical competitor information may be shared via one of the new social media techniques.

Competitive Information From Your Customers

Your customers are also being approached by your competitors. Ask your customers what they are seeing from your competitors. Since they are looking out for their organisation, they will most likely share it in a way that positions them to obtain better service or better prices from you. Either way, it brings key information into play that should be a component of your business plan.

Description of Competitors' Marketing Strategies

How are your competitors going to market? What is their strategy? These questions could establish benchmarks to which you can compare your business. You may believe their approach is wrong. It does not matter; however, the information allows your management team to create a defensive strategy or offensive strategy based on the actions of your competitors. Highlighting these will show the reader that your business plan is based on credible information.

What other tools does your business use to gather competitive intelligence?

Marketing and Sales

- *Products Offered*—In this part of the business plan, the business will outline the different products or services that it will offer to the market.
- *Pricing*—This section includes a discussion of the pricing strategy. The plan should address areas such as identifying the product as a commodity item or luxury item. As part of this discussion, it should also address the consumers' opinions of the product and relative importance to their business.
- *Distribution*—How will the product be distributed throughout the market? Will the business use distributors, sales representatives, or will it have its own network of warehouses throughout the specific market? This section should also talk about the reasons that support the chosen methodology for going to market. Also to be addressed is how the product fits into the distributor or sales representative's portfolio.
- *Promotion*—What promotional strategies are going to be used? Will there be special incentives? Will there be Internet marketing campaigns? Will target areas be blanketed with media or brochures?
- *Advertising and Publicity*—What advertising and publicity will the products or services require? The purposes and usage of advertising will depend on whether the business is trying to create market awareness or just generate sales.
- *Trade Shows*—Will trade shows be used as a vehicle to promote the products and services? During the great recession, many trade show events were drastically reduced in size. Some were even cancelled. If the plan is to use the trade shows as a promotion vehicle, there should be a discussion about current trade show participation and the state of the economy. This example shows how the business plan must be current. The approach that the business takes may be different during boom times, as opposed to recessionary times.
- *Partnerships*—It may be beneficial for the products and services to be marketed in conjunction with another organisation. If partnerships or joint ventures are part of the offering process, include a detailed description that outlines the relationship and contractual obligations.
- *Discounts and Incentives*—Does the business use discounts or incentives to move the product or services? During recessionary times, it may be necessary to offer more discounts or incentives to get the products sold. Once the economy has moved out of the recession, the need for discounts and incentives decrease. The decision to use discounts and incentives will be a function of where the product is placed within the market. For example, if the product is unique among the competitive offerings, discounts or incentives may be unnecessary.
- *Sales Force*—Describe the sales force model to sell the products or services. There are many different strategies that can be employed for your sales force approach. Consider how the traditional sales force and the requirements for a traditional sales force have changed as a result of the new economy. For example, many individuals who shop at Best Buy retail stores already know what products and models they are going to buy. As a result of this knowledge, it is unnecessary to have a sales representative work with many of the customers. This may mean that the traditional number of sales force members required on the sales floor can be reduced. We can also see the same concept applied to the purchase of automobiles. (It may be possible to reduce the total number of salespersons compared to traditional approaches.)
- *Sales Forecasts*—The plan should include sales forecasts for the products and services. The financial plan will have specific details that translate units sold into the financial impact. However, in this section of the

plan, it is a good idea to identify what the sales business is anticipating as well as the assumptions that underlie those estimates. The author worked with a business where the estimate of sales and market share ownership was so ridiculous that the forecasts became nonsensical. It also made the strategic discussions move in a totally different direction. Ensure the forecast is supportable and reasonable, especially to an outside objective person.

Operations

- *Product Development*—Describe the process for product development. This explanation will include how new products will be initiated, developed, approved, and monitored for timely development. It should also include a general description of how the product development will create future enhancements or versions of the product or service.
- *Development Team*—Describe the individuals on the development team. View this section from the perspective of an outside reader. He or she will be looking for team members who have had prior experience, technical expertise, and adequate supervision. The supervision must include both the technological knowledge as well as the skills of project management.
- *Development Costs*—Include a description and estimate of the cost to develop a product or service. Again, it is critical to perform this analysis from the perspective of an outside reader. If the development costs are not within an anticipated or expected range (which is typically associated with prior development cost benchmarks), the reader may not believe the author's estimates.
- *Development Risks*—It is necessary to list the risks in the development phase. Any Pollyannaish approach to this subject can immediately cause a reader to believe that the product or service will be impossible to deliver. Consider all the risks that could impact technological development, raw material supply, availability of human expertise, length of time to develop, and normal speed of development in that industry.
- *Manufacturing (if applicable)*—Describe the manufacturing operations that are necessary to bring the product or service to market. Describe how the planned manufacturing compares to current industry standards. If a technologically old style of manufacturing is chosen, be sure to emphasise the logic, as opposed to using more advanced and more expensive manufacturing processes.
- *Production Processes*—What production processes are going to be involved? Is there heat treatment? Is there annealing? Is there cutting? Is there welding? Is there polishing? Is the product dependent on a new process that has not been tried in your industry? The author was involved with a food processing plant that manufactured hamburgers and other meat products. The business planned on producing cubed beef. The machine that they had selected had never been used in the industry and had only been used in the cheese industry. Assumptions regarding the output of the cheese-cutting machine had to be questioned to see if it could provide the same output with a different product and a different consistency.
- *Production Equipment*—As in the prior paragraph, what production equipment is going to be used to make the product? Is it capital-intensive? Are there used machines on the market that could reduce cost? Are machines being assembled or part of a manufacturing line where the same technology has been used before?
- *Quality Assurance*—Will quality assurance programmes be implemented? Will the business be ISO certified? Will it implement Six Sigma? Will the business implement lean manufacturing processes?

- *Administration*—What administration services are necessary to support the production process? Is it possible to outsource any of the given services? What are benchmarks for other businesses that use similar services?
- *Key Suppliers*—Describe the key suppliers to the business. Are there multiple suppliers or will you be relying on only one or two suppliers? Is the product that is supplied to you a commodity or is it unique? Given the current economic situation, what is the financial position of the suppliers?
- *Product/Service Delivery*—How will you deliver this product? If it is a physical product, will it be delivered via small vehicles, medium-sized box vehicles, railroads, or by sea? If you are delivering a service, is it delivered in person, via video conference, or via DSL line (such as Internet support or technical support)?
- *Customer Service and Support*—How will you provide quality service and support to your customers? Will you have full-time customer service representatives administering phone banks? Will you contract with CSRs throughout the country to operate out of their homes? Will you outsource the customer service function to other countries such as India? Will you create self-help desks through which customers can access manuals and frequently-asked question databases on their own?
- *Human Resource Plan*—What is the human resource plan? How many employees are needed for different levels of service for the organisation? A well thought-out growth plan that highlights the trigger points for adding new people will be well received. Are you bringing the right people on board your company? If you are not familiar with Jim Collins book *Good to Great*, it is a must-read for the finance and accounting department. One of the necessary points of the book is getting the right people on the bus. If the business plan does not address how to bring the right people on board, it may easily be dismissed as unrealistic. Be certain that the human resource planning includes issues such as compensation, bonuses, and incentives. A brief commentary on the benefits to be provided will be helpful when benefits, such as health care, are an integral part of hiring new staff.
- *Facilities*—What facilities are necessary to operate? Will you acquire a facility that has extra capacity initially or will you try to use a facility that is inadequate in size and plan to move to a larger facility based on growth of the company? Also, include a description of the location of the facility. If the facility is going to be owned outside of the corporation presented in this plan, details should also be presented. For example, if it is owned by the person central to the business plan, a potential investor will be interested in the related-party payment.

Management and Organisation

- *Management Team*—It is critical that the business plan describes the management team. Every important function of the management team must be identified. It is acceptable if not all of the positions are currently filled. It is important that the author convey to the reader that key functions are identified, understood, and will be filled when the time is appropriate.
- *Open Positions*—If the business has open slots, the management team can approach those in a couple of different ways. One way is to list existing staff in more than one position for the starting phase. This is acceptable for the business at its inception; however, the point at which a different person will be added must be clearly delineated. The plan can outline criteria to be achieved that will trigger the hiring of a new person. Another approach is to list individuals who have agreed to be part of the team once the funding commitments are in place. Another approach is to include a list of contractors and consultants who have agreed to be on an advisory committee or who will work part-time until the business gets launched. Many times, these consultants will become full-time employees at a later date.

- *Board of Directors*—To help sell the business plan, there must be a credible board of directors associated with the organisation. The author has seen business plans in which family members made up the entire board of directors. In one case, the Treasurer/CFO was a brother-in-law of the CEO. His only credential was that he was a math teacher. It made perfect sense to the author of the plan. However, this person was unable to see that an outside investor would look at this board appointment and dismiss it as anything other than nepotism. (Author's note: It is also important when raising money with a business plan to not have a member of the board of directors cash out once the funding is received. A board member may see the influx of funds as the time to recognize his or her reward from contributing to the company. However, investors may be very interested in continuing the relationships of all individuals who have helped make the company viable. No investor wants to put money into a business just to have it paid out.)
- *Key Personnel*—Who are the company's key personnel? You may have already listed them as part of the management team or part of the ownership of the organisation, but there may be another level of employees who are necessary to the success of the company. These are the individuals who should be disclosed in the business plan. Be sure to highlight why the business is dependent upon these individuals. It may be necessary to disclose how these persons are being compensated. If a key employee has not been addressed, an investor will see this omission as a potential weakness of the plan.
- *Organisational Chart*—An organisational chart is very helpful to illustrate the positions and reporting relationships within an organisation. The traditional organisational chart that many corporations use is the historic command and control chart. During a business start-up, there are many open positions. The traditional business chart may not be useful. It may be more appropriate to use a different chart such as the Olympic rings symbol or a star shape. The interlocked rings or points in the star can be used to show specific functions even if people are not hired to fill the positions. This will allow the writer to demonstrate that he or she understands the functions that must be included to make the business successful. A reader may discount the plan if the author has not included all of the necessary functions.

Capitalisation and Structure

- *Legal Structure of Business*—Outline the anticipated legal structure of the organisation. Is it going to be a corporation, a partnership, a joint venture, or S Corp.?
- *Present Equity Positions*—Define for the reader what the current equity stakes are within the organisation. Any person investing in a business plan will want to know the existing percentages prior to his or her involvement with the company. Could the percentages be used as a negotiating tool against individuals? Absolutely.
- *Deal Structure*—Define the anticipated deal structure. Outline the financial requirements to be obtained from investors or creditors as well as their related ownership or interest rates. If any of the owners are also getting additional funds through the process, ensure it is outlined here.
- *Exit Strategy*—Detail the expected exit strategy for all parties. Any investor will want to see his or her return within five to seven years of the investment. You will also see there are different expected returns based on when someone invests in the company. Investors who entered earlier into the business, when there was the greatest risk, will anticipate having the highest return on their money.

Development and Milestones

- *Financing Commitments*—A successful start-up must have capital to fund the start of the operation. It will be important to determine specific timeframes when financing commitments must be met. Depending on the purpose of the business plan (start-up or an existing company), financing commitment timeframes can be different. The important lesson to remember is that a business in start-up has a reduced negotiating position. A venture capitalist may withhold funding; thus, the start-up business is held hostage. Try to position yourself so the venture capital business cannot call the important shots.
- *Product Development Milestones*—Product development is necessary to the success of an organisation. For the major products that are part of the business plan, project management must be implemented whereby milestones and related dates are established and managed.
- *Prototype*—This section describes the development phase for the prototype. Many times, prototypes will need specific approvals, such as certifications from agencies like Underwriters Laboratories. The prototype may be waiting for specific components that are specially designed for it. Each of the sub-processes must be mapped out and managed as well.
- *Testing*—Certain products will require testing to be sure they are successful. Do not underestimate the time required to check that the product works as designed. It is important to get to market in time; however, it is just as critical to enter the market with a product that functions properly. If a product is not functioning as advertised, a business may weaken customer relations much more profoundly than with a premature product launch. This can lead to disastrous results for the product line and eventually for the company.
- *Launch*—Establish the date for the product launch. Since the launch must be coordinated with promotions and advertising, do everything you can to ensure that the launch comes off as promised. A business that displays products at a trade show and does not deliver on a production model will hurt its image with customers.
- *Signing of Significant Contracts*—Identify contracts that are necessary to be completed as part of the business. State the steps that will be required to initiate, negotiate, and review each agreement. This is an area where it would be easy to underestimate the time required to complete—especially in the negotiation phase.
- *Achievement of Breakeven Performance*—Any investor or creditor will be interested in the timeframe for a new product or a new business to achieve breakeven status. Unfortunately, this is sometimes an area where games are played. The author has seen realistic and honest estimates of start-up plans that showed negative cash flows in the initial years. Financial institutions refused to enter the deal because of the longer-term payback. When the business plan was changed, another financial institution was willing to back the project. The author is not suggesting that preparers of business plans be dishonest or unethical in regards to their projections. This section is a warning that if the plan does not stand on its own fairly quickly, investors may not be interested in it. This suggests that the preparers revisit their assumptions to make the project feasible.
- *Expansion*—All investors in the business are interested in growth. A well-constructed plan should include expansion possibilities for the organisation. Ensure that the possibilities do not appear overwhelming. Sometimes the entrepreneur is so excited about the many avenues that can be taken for his or her new product and he or she lists all of the potential expansion plans. Experienced investors and lenders will consider all of the opportunities and be concerned that the management team will lose focus and not be

able to accomplish the original targets. Therefore, when including expansion plans, assure investors that the initial plans are the most important issues and that follow-up plans will not detract from the original targets.

- *Additional Funding*—Almost every plan presented to investors or creditors winds up falling short of its financial targets. Typically, entrepreneurs underestimate the capital needs for their businesses. Experienced investors know this, expect this, and are set to negotiate when the entrepreneur comes back for additional funding six to 12 months later. Often, the investor will contribute more funds for a much larger percentage of the business.
- *Subsequent Product Generations*—Investors do not want to get involved with a business that can be described as a one-trick pony. This means that the business only has its initial plan, and it cannot see future generations of profitable products. That is why it is imperative for an entrepreneur who is the writer of the business plan to show the evolution of products or services and subsequent profitability.
- *Any Other Significant Milestones*—If there are any other significant milestones, map them out at this stage.

Risks and Contingencies

This section of the business plan will delineate risks and threats to the business. As part of the actual business planning process, the management team should have gone through the traditional SWOT analysis to identify strengths, weaknesses, opportunities, and threats. The areas related to the threats and weaknesses are items that will be included in this section of the business plan. In some cases, people recommend not including this information in the business plan itself. However, the author has found it helpful for the following purpose: by ensuring that the management team has looked at all threats and weaknesses they are better prepared to discuss how to mitigate or eliminate them. In addition, the management team does not want defend their business plan when a reader or investor questions threats or weaknesses that they did not understand or explore. If the reader presents a threat or weakness and the management team did not think about it, the reader may conclude there are other threats and weaknesses that the management team did not consider. The goal is to answer nine out of ten questions that a reader may have about threats or weaknesses. If this can be done in the document, the reader will feel much better about the appropriateness and thoroughness of the plan. As a result, he or she will be more likely to invest and not suggest that the management team go back and analyse the plan some more. The plan author should consider including:

- Effect of increased competition
- Loss of a key employee
- Suppliers' failure to meet deadlines
- Regulatory changes
- Change in business conditions
- Technological change or obsolescence

Financial Projections

- Assumptions behind projections
- Financial statements (balance sheet, income statement, cash flow statement)
- Breakeven analysis

- Key ratio projections (quick ratio, current ratio, D/E, D/A, ROE, ROA, EBITDA, or Altman Z-Score)
- Financial resources
- Financial strategy

Appendices (Optional)

- Management resumes
- Competitive analysis, market studies
- Sales projections
- Any other supporting documents

When creating a business plan, there are many questions to consider. The goal is to answer all of the reader's potential questions within the document. If this is done, the product will be more credible. See Appendix A at the end of this book for a list of questions to help the preparer of a business plan.

BUSINESS PLAN PITFALLS

Where do business plans fail? Unfortunately, many business plans do not live up to their expectations and do not yield the expected benefits to the organisation. There are many reasons why this occurs. Consider the following:

- The business plan is only written to receive funding.
- A consultant writes the business plan.
- The business is unwilling to spend the required time to create a business plan.
- The business does not match its corporate culture with the same level as its business planning.
- The business operates in crisis mode and therefore ignores the planning process.
- The plan is not shared with all levels of the organisation.
- Lower-level employees had no input into the plan.
- All employees do not know how their current positions relate to the business plan.
- The business does not recognise the power of a vision or mission statement.
- The business has hidden problems that no one is willing to discuss.
- The business is unwilling to accept that its business model may be out of date and in jeopardy.
- Hockey stick projections.
- Underestimating competition.
- Underestimating start-up expenses.
- Overestimating sales volume ramp up.

- Lack of consistency and plan.
- Lack of objective reviewer.
- Owner of the business plan is too enthusiastic about derivative possibilities.
- Unsupported market share estimates.
- Lack of visual charts and diagrams.
- Credibility of board of directors.
- Uncontrolled spending and start-up.
- Failure to review and include ratios and trend analysis.

The Business Plan Is Only Written to Receive Funding

The first time many business owners get involved with a business plan is to obtain financing. An entrepreneur will come up with a great idea. He realises that he does not have adequate capital to pursue the idea and then visits his bank to ask for money. All banks desire to tell their customers they can help them with their financing needs. Consequently, a banker does not like to be in the position of saying no to a loan request. When the entrepreneur asks the banker for money, the banker may respond in the following fashion, "Mr. Entrepreneur, I like your idea. It is very interesting; can you show me your business plan?" The entrepreneur will ask, "What is a business plan?" The banker will explain the process and then suggest that the entrepreneur go back and prepare a business plan or hire a consultant to assist in the preparation of the plan. Once the plan has been written, and the entrepreneur returns to the banker, the only question that the entrepreneur has is, "Do I get a loan?" Assuming that the banker grants the loan, a business plan will most likely end up on the shelf, never to be looked at again.

The Business Plan Is Written by a Consultant

Continuing from the preceding example, a management team sometimes utilises an external consultant to write the plan. If the consultant is not enmeshed with the management team, the plan becomes the creative idea of the consultant and not management. As a result, management does not take the proper ownership. The author has witnessed business owners meeting with their banks and utilising business plans prepared by external consultants. In each case, the banker questioned the owner of the business about specific sections in the plan. Unfortunately, the owner disavowed all knowledge of the plan, even commenting that the section in the plan was incorrect. As a consequence, the banker lost all faith in the plan, and the owner lost credibility with the banker.

The Business Is Unwilling to Spend the Required Time to Create the Business Plan

Many management teams are enamoured with the process of running a business. The investment of time to plan instead of producing is not appealing to them. The management team will have difficulty concentrating on things such as dreams, opportunities, or traditional SWOT analysis.

The Business Does Not Match Its Corporate Culture With the Same Level of Business Planning

This concept is somewhat related to the prior problem. Some corporate cultures are based on flexibility and being opportunistic. Other cultures are based on strong planning and adherence to processes, procedures, and rules and regulations. If a business believes being opportunistic is critical for its success, it will find the process of business planning too restrictive for its culture. At the other extreme is a culture in which management believes a detailed planning process is an absolute necessity. In such a culture, leadership might value policy and procedure over innovation. This business may be so strict that creativity and flexibility are frowned upon and looked at as threats to completion of a traditional strategic plan.

The Business Operates in Crisis Mode and Therefore Ignores the Planning Process

Some businesses prefer to work in crisis mode. They may tell you that they do not want to work in crisis mode, but their style suggests otherwise. If a business spends too much time working in this mode, it will never pay attention to the strategic plan.

The Plan Is Not Shared With All Levels of the Organisation

Some companies are frightened of sharing detailed plans with their employees. The same fear is extended to financial results or strategic directions. As a result, employees do not have the opportunity to understand the link between their jobs and duties to the overall objectives of the organisation.

Lower Level Employees Had No Input Into the Business Plan

When all levels of employees are consulted for input, their ownership in the plan increases. Failure to engage all employees in either the business or strategic planning process will short-change the overall effectiveness of the plan.

The Business Does Not Recognise the Power of a Vision or a Mission Statement

Typically not-for-profit businesses create and utilise both the vision and mission statement as a regular part of their business model. Many for-profit businesses do not value or utilise a vision or mission statement. This is evidenced when management teams are interviewed and asked to share their vision or mission. They are not sure of the exact words so they paraphrase it. When the leaders of the business do not know the vision or mission by heart, it is very difficult for them to inspire employees to achieve the vision or the mission.

Employees Do Not Know How Their Positions Relate to the Business Plan

To ensure that the business plan is executed as desired, each employee must know specifically how his or her job supports the overall strategic directives and goals of the organisation. When this is made clear, it is much easier for employees to function and align their efforts with the overall goals of the corporation.

The Business Has Hidden Issues That No One Is Willing to Discuss

When a plan is made whereby key constituents do not agree with the overall goals and objectives, there is a problem. However, many times the problem is such that no one is willing to discuss it at the management table. The business goes on its merry way pretending that everyone is on the same page. If the plan succeeds, then it is pure luck. If there are issues or disagreements that are not being aired as part of the process, it may be an excellent time to use a facilitator to help in the planning process. The other approach that may be helpful is employing specific tools to bring the issues out into the open. If it is a contentious issue, the use of a facilitator may be essential.

The Business Is Unwilling to Accept That Its Business Model Is Out of Date or May Be in Jeopardy

This problem typically rises when a business has experienced past success. As market share starts to evaporate or price pressure starts to make the environment more difficult, management may be too soft to make the necessary changes. The management team may have become so comfortable that it seems easier to do nothing and accept lower performance, as opposed to dealing with the problem. This will show up in business plans that create goals that will never be achieved or acceptance of easy to achieve goals.

Hockey Stick Projections

Many businesses suffer from the disease of optimism in the preparation of financial projections for the business or strategic plan. It is almost comical when a business that has slow but consistent growth (three to five percent per year) shows projections with annual increases of 25 to 50 percent per year. The comical part is that the management team believes these are realistic numbers. Without a signed contract or some form of agreement that establishes a phenomenal increase in volume, most readers will discount the sizeable increases or at worst will not believe them at all.

Underestimating Competition

Another clue that a business plan is lacking in critical thought is the presence of a claim that the business's product or service is so unique that there is no competition. It is rare in our current economy that no alternative or competitive product is available. Ensure the management team or the author of the business plan does his or her due diligence to identify competitive or alternative products and services to the business plan offering.

Underestimating Start-up Expenses

When a management team puts together projections for a new component of a business plan, most of the projections are built with traditional spreadsheet tools and spreadsheet mindsets. This means that people may show start-up costs in even and consistent usage. This is typically farther from the truth because there is flexibility and variability in the actual incurrence of start-up expenses. In addition, most companies (because of generic average estimates) underestimate the actual costs. This could result in a shortage of working capital during the start-up phase.

Overestimating Sales Volume Ramp Up

This problem is similar to the preceding problem except it is on the sales volume side of the equation. Business plan preparers assume there will be an even ramp-up of sales volume, which rarely occurs. These averages rarely meet actual demand. In many cases, demand in the ramp-up stage is much lower than expected. Without the presence of a signed agreement, sales may be overestimated. The result of lower sales volume may cause reduced cash flow. The reduced cash flow can impact the borrowing needs of the company. This is one of the reasons investors expect the management team to come back and ask for more funds. When a business comes back and asks for more funds, the investors may take advantage of the management team. Since their estimates of sales were understated, the investors may play hardball and force them to give up significant ownership percentages in compensation for the second- or third-tier funding.

Lack of Consistency in the Plan

Once the business plan is completed, it is necessary that someone be charged with the task of reading the entire plan and making sure that all sections within the plan are consistent and in harmony. The credibility of the plan will be ruined immediately if financial sales volumes, profitability numbers, employee head counts, or marketing volumes are not in agreement with different sections of the report.

Lack of Objective Reviewer

When the business plan is finished, it is a good idea to hire an objective reviewer of the entire plan. This person should have a business background and understand how business plans are put together. Most importantly, he or she must understand how businesses make money. This reviewer should be able to understand the concepts of the plan and critique the feasibility as an outside, objective third party. The review process will provide a trial run of the business plan prior to it being released to investors or funders.

Owner of Business Plan Is Too Enthusiastic About Derivative Possibilities

This issue is both dangerous and beneficial to a business plan. No investor will be interested in a plan that has only one phase. The investor will be looking for the derivative possibilities in future phases of the plan. However, the enthusiasm for the plan (product or service) and all its possibilities must be muted so the entrepreneur does not give the impression of having a lack of focus. Therefore, derivatives must be shown, but they must not overtake the main premise of the business product or the service offerings.

Market Share Estimates That Have No Support

When the business plan is put together, it is very easy to be excited about the potential market that exists. This excitement can lead to false beliefs in terms of the acquisition of market share. The best way to ensure that the marketing plan is realistic is to have it supported by marketing studies that are believable to a third party.

Lack of Visual Charts and Diagrams

Never forget the adage that a picture is worth 1,000 words. Nobody wants to read through a 50-page business plan that is nothing but text. Everything from the executive summary to the appendices should include pictures or diagrams that can quickly illustrate the important points of the discussion. The inclusion of pictures and charts improves the reader's understanding. In addition, it makes the review of the business plan more enjoyable.

Credibility of Board of Directors

In describing the board of directors, ensure that the board members will be viewed positively by people reading the plan. Nepotism will be discerned immediately and could be a problem from the third-party's viewpoint. Members of the board who do not have related and significant business experience will be discounted immediately, and will create additional questions for the reader of the business plan. In selecting members of the board, ask your bankers, attorneys, CPAs, or professional CEO groups for recommendations. Also, remember that prior to inviting anyone on the board, use a regular interview and hiring process. Some additional thoughts to consider for board members are:

1. Pay the board of directors for their efforts
2. Tie their compensation to profitability results of the business
3. Establish term limits for board members so they can be rotated periodically. Board members who have been associated with the business for a long period of time lose their objectivity.

Uncontrolled Spending and Start-up

The financial projections for a business plan should show start-up costs with specific phased-in levels. This will tell investors or funders that the management team will not indiscriminately spend the money once they have it. It immediately establishes some credibility that the management team will be good stewards of any investments or loans that they receive on behalf of the business.

Failure to Review and Include Ratios and Trend Analysis

As a component of the financial projections for the business plan, traditional accounting ratios should be included as part of the analysis. One of the main reasons for including the ratios is for the benefit of the management team assembling the business plan. Sometimes the financial projections look so wonderful that nobody critiques them seriously. When the ratios are analysed as part of the financial projections, sometimes the lack of reasonableness will be easier to spot because the ratios are so far out of the norm. If the business plan is part of an established industry, the ratios can also be compared to industry standards or benchmarks. If helpful, the benchmark statistics can even be included as additional information in the business plan. This again establishes reasonableness of the plan and documents to the readers that the management team is aware of industry standards that should be applicable to the product or service offering. Ratios that should be included are:

- Current ratio
- Days sales outstanding
- Inventory turnover
- Days in accounts payable
- Ratios that are typically requested for covenant analysis
- Z-scores

THE ONE-PAGE BUSINESS PLAN

As we mentioned in the overview, the first part of the chapter deals with the complex planning process. Now we will consider the simplified one-page business plan. The management team will focus on the elements they believe are most important. Hence, the suggestions that follow may be amended or revised based on the needs of the organisation.

- *Step 1*—Create a vision for the organisation. Outline a compelling picture of where the business is going to be.
- *Step 2*—Construct a simple mission statement that has passion and can be remembered by everyone. Simple is better. Too many businesses include too much information in their mission statement. Allow employees some leeway to interpret what the mission means to them.
- *Step 3*—Convince the management team to spend at least a half day developing a SWOT analysis. The SWOT analysis will be the groundwork for creating the foundation of the plan. Another simple process that could be used here is the Start/Stop technique, which is going to be covered in a later chapter.
- *Step 4*—Establish simple sales and marketing goals based on the SWOT analysis. List the major operational goals that are necessary. These goals will support the steps above.
- *Step 5*—Create a simple financial statement with easy-to-monitor financial goals: revenue, volumes, profitability, and one or two key ratios.
- *Step 6*—Ask your management team, "Where could you fail?" and then add specific controls or processes to mitigate the major weaknesses.
- *Step 7*—Every quarter, review your progress on the plan and make course corrections where necessary. If the management is becoming more comfortable with the process, consider expanding the planning steps with other items from the entire chapter.

4

STRATEGIC PLANS

A strategic plan is determining which tactics to employ to obtain new resources, allocate old resources and to achieve the stated vision. In its simplest form, a strategic plan answers the following questions:

1. Where are we?
2. Where do we want to be?
3. How will we get there?

THE DIFFERENCE BETWEEN A BUSINESS PLAN AND A STRATEGIC PLAN

The business plan involves the overall direction and vision of the organisation. It is the foundation of the organisation. The strategic plan deals with the shorter-term tactics that move the business along the path of fulfilling its vision.

BENEFITS OF STRATEGIC PLANNING

- The foremost benefit is increased focus of the business and employees. Used correctly, the strategic plan should galvanise all individuals into common action.
- It should create an agreement on business priorities.
- Strategic planning creates an opportunity for management to step back from the business and use proactive skills to increase enterprise value as opposed to reactive skills to manage crises.
- With strategic planning, the business has the opportunity to examine itself critically so that it can concentrate on things it does well and fix things that need improving.
- The strategic planning process allows the matching of capital and human resources with financial resources.
- It fosters a sense of preparedness as well as faith in the leadership.
- Integrated properly within, the business will afford middle-management employees opportunities to increase their skill levels and rise to higher levels in the organisation.

- Similar to the preceding point, strategic planning allows strategic thinking training for individuals.
- The planning process should also create monitoring tools so that course corrections can be made on a timely basis, thereby ensuring that the business can fulfil its strategy, meet its goals, and eventually fulfil its vision.

BASIC OVERVIEW OF VARIOUS STRATEGIC PLANNING MODELS[1]

(**Note:** The following section was authored by Carter McNamara who is a non-profit expert in the planning arena. Although this section will refer to non-profits, the process is identical for for-profit organisations. The author of this course has been involved in strategic planning processes for both for-profit and non-profit organisations. With that experience, he knows that this outline is applicable to both types of organisations.)

There is no one perfect strategic planning model for each organisation. Each business develops its own style and model of strategic planning, often by selecting a model and modifying it as it goes along in developing its own planning process. The following models provide a range of alternatives from which businesses might select an approach and begin to develop their own strategic planning processes. Note that a business might choose to integrate the models, for example by using a scenario model to identify strategic issues and goals creatively, and then an issues-based model to strategise carefully to address the issues and reach the goals.

The following models include "basic" strategic planning, issue-based (or goal-based), alignment, scenario, and organic planning.

Model One—"Basic" Strategic Planning

This very basic process is typically followed by businesses that are extremely small, busy, and have not done much strategic planning before. The process might be implemented in year one of the non-profit to get a sense of how planning is conducted, and then embellished in later years with more planning phases and activities to ensure well-rounded direction for the non-profit. Planning is usually carried out by top-level management. The basic strategic planning process includes the following:

1. *Identify your purpose (mission statement)*—This statement describes why your business exists; in other words, its basic purpose. The statement should describe what client needs are intended to be met and with what services; the communities are sometimes mentioned. The top-level management should develop and agree on the mission statement. The statements will change somewhat over the years.
2. *Select the goal your business must reach if it is to accomplish your mission*—Goals are general statements about what you need to accomplish to meet your purpose, or mission, and address major issues facing the organisation.
3. *Identify specific approaches or strategies that must be implemented to reach each goal*—The strategies are often what change the most as the business eventually conducts more robust strategic planning, particularly by more closely examining the external and internal environments of the organisation.

4. *Identify specific action plans to implement each strategy*—These are the specific activities that each major function (for example, department) must undertake to ensure it is effectively implementing each strategy. Objectives should be clearly worded to the extent that people can assess if the objectives have been met or not. Ideally, the top management develops specific committees that each have a work plan, or set of objectives.
5. *Monitor and update the plan*—Planners regularly reflect on the extent to which the goals are being met and whether action plans are being implemented. Perhaps the most important indicator of success of the business is positive feedback from the organisation's customers.

Model Two—Issue-Based (or Goal-Based) Planning

Organisations that begin with the "basic" planning approach described earlier often evolve to using this more comprehensive and more effective planning. The following is a rather straightforward view of this planning process.

(Note that a business may not do all of the following activities every year.)

1. External/internal assessment to identify "SWOT" (Strengths and Weaknesses and Opportunities and Threats)
2. Strategic analysis to identify and prioritise major issues or goals
3. Design major strategies (or programmes) to address issues or goals
4. Design or update vision, mission, and values (some businesses may do this first in planning)
5. Establish action plans (objectives, resource needs, roles, and duties for implementation)
6. Record issues, goals, strategies or programmes, updated mission, and vision, and action plans in a strategic plan document, and attach SWOT
7. Develop the yearly operating plan document (from year one of the multi-year strategic plan)
8. Develop and authorise budget for year one (allocation of funds needed to fund year one)
9. Conduct the organisation's year-one operations
10. Monitor, review, evaluate, and update strategic plan document

Model Three—Alignment Model

The overall purpose of the model is to ensure strong alignment among the organisation's mission and its resources to effectively operate the organisation. This model is useful for businesses that need to fine-tune strategies or find out why they are not working. A business might also choose this model if it is experiencing a large number of issues around internal efficiencies. Overall steps include the following:

1. The planning group outlines the organisation's mission, programmes, resources, and needed support.
2. Identify what is working well and what needs adjustment.
3. Identify how these adjustments should be made.
4. Include the adjustments as strategies in the strategic plan.

Model Four—Scenario Planning

This approach might be used in conjunction with other models to ensure planners undertake strategic thinking. The model may be useful, particularly in identifying strategic issues and goals.

1. Select several external forces and imagine related changes which might influence the organisation, such as change in regulations or demographic changes. Scanning the newspaper for key headlines often suggests potential changes that might affect the organisation.
2. For each change in a force, discuss three different future organisational scenarios (including best case, worst case, and reasonable case) which might arise with the business as a result of each change. Reviewing the worst-case scenario often provokes strong motivation to change the organisation.
3. Suggest what the business might do, or potential strategies, in each of the three scenarios to respond to each change.
4. Planners soon detect common considerations or strategies that must be addressed to respond to possible external changes.
5. Select the most likely external changes to affect the organisation, for example over the next three to five years, and identify the most reasonable strategies the business can undertake to respond to the change.

Model Five—"Organic" (or Self-Organising) Planning

Traditional strategic planning processes are sometimes considered "mechanistic" or "linear" because they are rather general-to-specific or cause-and-effect in nature. For example, the processes often begin by conducting a broad assessment of the external and internal environments of the organisation, conducting a strategic analysis (SWOT analysis), narrowing down to identifying and prioritising issues, and then developing specific strategies to address the specific issues.

Another view of planning is similar to the development of an organism, or an "organic", self-organising process. Certain cultures, such as Native American Indians, might prefer unfolding and naturalistic "organic" planning processes more than the traditional mechanistic, linear processes. Self-organising requires continual reference to common values, dialoguing around these values, and continued shared reflection around the system's current processes. General steps include the following:

1. Clarify and articulate the organisation's cultural values. Use dialogue and storyboarding techniques.
2. Articulate the group's vision for the organisation. Use dialogue and storyboarding techniques.
3. On an ongoing basis, such as once every quarter, dialogue about what processes are needed to arrive at the vision and what the group is going to do now about those processes.
4. Continually remind yourself and others that this naturalistic planning is never really "over with", and that, rather, the group needs to learn to conduct its own values clarification, dialogue or reflection, and process updates.
5. Be very, very patient.
6. Focus more on learning and less on method.
7. Ask the group to reflect on how the business will portray its strategic plans to stakeholders and others, who often expect the "mechanistic, linear" plan formats.

COMPARISON OF NEW PLANNING TO OLD PLANNING

The speed of everything has continued to increase. As a result, the strategic planning process has also changed. Box 4-1 compares or contrasts how planning has changed in recent years.

Box 4-1: Planning Concepts and Terminologies

TRADITIONAL STRATEGIC PLANNING	NEW STYLE STRATEGIC PLANNING
The future is an extension of the past. Things won't change very much.	The future is full of uncertainty and surprise. Some things will stay the same, but many will change dramatically.
Strategic planning is a periodic activity. Once every five years we invest time and money to develop a plan.	Planning is a continuous activity. We constantly collect information about challenges and resources and adjust our plans to succeed.
A small number of strategic variables (like the budget) give us a picture of the past, present, and future.	The future is shaped by many different factors. Responsible planning takes many possibilities, issues, and concerns into account.
The activities of planning and implementation are separate. Strategic and tactical planning are distinct and require two different approaches.	Adapting to the future requires both strategy and tactics. Planning and implementation are closely coupled, or neither will be successful.
Strategic planning requires a set of specific tools. If you aren't an expert in the tools, then you can't plan effectively.	Many effective tools are available, from focus groups to brainstorming to operational audits. Tools should be selected to match your challenges, resources, and capabilities.
Either strategic planning must begin at the top and flow down through the business *or* strategic planning must begin with broad-based involvement and move up through the organisation.	Incorporate multiple perspectives by involving key constituents throughout the process. Everyone should be informed, but different groups have different roles depending on the stability of the environment, the organisation's readiness, and the maturity of the planning process.

STRATEGIC PLANNING RESOURCES

There are many different tools that a business can use to help in the business planning and strategic planning process. Let us consider some of them:

- Software programs
- Web sites
- Government resources

- External consultants
- Coaches or facilitators

Software Programs

There are many templates available to aid in the preparation of business and strategic plans. Programs such as *Business Plan Pro* and *Biz Plan Builder Professional* offer sample business plans, guidance, and templates to help build your business plan. Free business planning templates are also available on the Internet.

Web Sites

There are Web sites dedicated to business planning and strategic planning as well as blogs that cover the subject. Googling "business planning websites" returns over 84.6 million results. Determine your specific interest and establish a "Google alert" for the latest information.

Government Resources

The United States government provides valuable resources through the Small Business Administration web site. This site provides business planning guidance as well as information on how to start up a new business. It also outlines information on doing business with the government. (www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/how-write-business-plan)

The Service Corps of Retired Executives (SCORE) is a national association dedicated to helping small business owners form and grow their businesses. Headquartered in Herndon, Virginia and Washington D.C., SCORE has 364 chapters in the United States as well as in U.S territories. SCORE is a partner of the U.S. Small Business Administration (SBA).

External Consultants

There are numerous consultants available for helping with the business or strategic plan:

- Attorneys specialising in business planning.
- Consultants who specialise exclusively in business and strategic planning. These consultants typically are interested in establishing ongoing relationships that involve leading the organisation's planning retreat, as well as quarterly meetings to follow the progress of the plan.
- Public relations consultants who help to write and assemble the entire business plan. However when using a public relations person or a professional writer to put or pull the plan together, it is imperative that an operational person assist him or her and review all the material to ensure that the final product represents the business.

Coaches or Facilitators

Coaches or facilitators can be hired to help the planning process from a couple of different perspectives. If your business has a strong management team, it may only need a coach or mentor to shepherd the leader of the team through the planning process. Companies can lead their own planning process, providing the following characteristics are present in the management team:

- Open minded,
- Visionary,
- Ability to challenge paradigms,
- Facilitation skills, and
- Knowledge of strategic planning tools.

If the business has all these skills but has difficulty working through team meetings or coming to consensus, the facilitator may be an ideal person to help move discussions along to a fruitful conclusion. The facilitator may not need an in-depth knowledge of the business—just an in-depth knowledge of helping people manage discussions.

HOW ARE DEPARTMENTAL GOALS INFLUENCED BY STRATEGIC GOALS?

Departmental goals must support the organisation's strategic goals. Department leaders make a serious mistake when they create their departments' goals prior to understanding the overall goals for the organisation. Once a department understands the overall goals, it can then create departmental goals that support the overall strategic goals and supplement the strategic goals.

The business wants to ensure that departments work together in harmony as opposed to competing against one another. If one department is unwilling to help another department and uses its departmental goals as an excuse, there is a significant dysfunction that must be addressed and corrected.

TOOLS THAT ARE AVAILABLE TO AID THE STRATEGIC PLANNING PROCESS

There are a variety of tools that can be used to help make the strategic planning process successful. The selection of the tools will depend on the emphasis of the planning, the corporate culture, and the existing environment, as well as factors. The following are some of the many tools to consider:

- Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis
- Political, Economic, Social and Technological (PEST) analysis
- Scenario planning
- Competitive analysis
- Goals grid
- Focus groups
- Situation—Target—Path (STP) Method or Model

- Gap analysis
- Start and Stop
- Plus Delta
- Balanced Scorecard
- Force Field Analysis
- Mind Mapping
- The 5 Whys

SWOT Analysis

The SWOT analysis is one of the most common tools used for strategic planning. The letter S stands for strengths the letter W stands weaknesses, the letter O represents opportunities, and the letter T stands for threats. A management team will create its SWOT analysis typically in one of two ways. The first method is that key team members receive a pre-strategy meeting homework assignment where they are asked to list all of the strengths, weaknesses, opportunities, and threats and then submit that information to the team leader or a facilitator. When the full team gets together for the retreat, all of the previously gathered SWOT analysis is summarised on flipcharts or presentation software. Next, the team processes the lists to determine which items in the SWOT analysis are the most important ones upon which to focus. The second method is developed at the strategic planning retreat. Teams will spend time brainstorming each of the four categories and then processing the information together. The best approach will depend on the group, as well as the time dedicated to the exercise. If the retreat is going to be short, it is wise to have people prepare the SWOT exercise prior to getting together. Figure 4-1 illustrates examples that could come from a SWOT planning session.

Figure 4-1: SWOT

Do not ignore human learning needs when obtaining this information. Many management team members have participated in SWOT analyses for years. When they hear that they will participate in another, they may be less than enthused. The author has learned a simple trick whereby just changing the question and omitting the SWOT acronym reengages even very experienced staff members. Consider using the following four questions instead:

1. At what do we excel and how could we capitalise on it?
2. Where is our boat (the business) "leaking water" and what could cause it to sink?

3. If you were (Einstein, Jobs, Gates, Patton, or Picasso, pick one or several) how would you direct this company? (**Note:** individuals may have trouble with opportunities; however, most people will adopt a false identity, even if they do not know the true identity, based on their perceptions of the individual. They will then think in a different fashion than they typically do.)
4. We read in the paper—ten years from now—that our business "closed its doors for business". How did it happen?

PEST Analysis

PEST analysis is a strategic approach to analysing the macro-environment.

- PEST analysis is used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the business has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential, and direction for operations.[2]
- PEST can also, like SWOT analysis and Porter's Five Forces model,[3] be used to review a strategy or position, direction of the company, a marketing proposition, or idea. Completing a PEST analysis is easy, and is a good exercise for workshop sessions. PEST analysis also works well in brainstorming meetings. Use PEST analysis for business and strategic planning, marketing planning, business and product development, and research reports. You can also use PEST analysis exercises for team building games. PEST analysis is similar to SWOT analysis; it's simple, quick, and uses four key perspectives. As PEST factors are essentially external, completing a PEST analysis is helpful prior to completing a SWOT analysis.[4]

The letter P stands for political. The letter E stands for economic. The letter S stands for social and the letter T stands for technology. The management team, typically led by a facilitator, would explore these four areas in regards to the business environment and impact on the company, and the products or the services that they deliver.

- **Political**—Under the political section, the team could consider the impact of environmental regulations. Most recently, we had the potential cap and trade legislation as an example. They could also concern themselves with things like tax policies, employment laws, employment taxes, or other governmental regulations.
- **Economic**—Under the economic category, they could consider the effect on the business of areas such as interest rates or financial lending policies (especially as we look at the current recession). They could also consider areas such as taxation, foreign exchange rates, and stages of the business cycle (again, this would be very appropriate for the current economy).
- **Social**—Using the social category, the business might address issues such as demographics, social mobility, lifestyle changes, education, and health issues.
- **Technology**—With regard to the technology area, the business could be concerned with new inventions, technological obsolescence, use of energy, changes in the Internet, changes in mobile technology, or the very recent change in social media.
- In European countries, they have even expanded PEST to include two additional letters L and E (as shown in figure 4-2) which stand for:
  - L—Legal environment
  - E—Environmental issues.

Figure 4-2: PESTLE Analysis

POLITICAL	1-3 YEARS	5-10 YEARS	SOCIAL	1-3 YEARS	5-10 YEARS	LEGAL	1-3 YEARS	5-10 YEARS
Current legislation			Lifestyle trends			Changes in legislation		
Proposed legislation			Demographics			Litigation issues		
Regulatory agencies			Consumer attitudes			Court rulings		
Government			Buying patterns			Advocacy groups		
Lobbying groups			Ethnic issues					
Wars			Religious issues					
International Governments			Advertising					
			Fashion and role models					
			Ethical issues					

ECONOMIC	1-3 YEARS	5-10 YEARS	TECHNOLOGICAL	1-3 YEARS	5-10 YEARS	ENVIRONMENTAL	1-3 YEARS	5-10 YEARS
Local economy			Research investments			Legislation		
National economy			Replacement technologies			Advocacy groups		
Global economy			Information trends			Recent events		
Taxation			Communication trends					
Business cycle			Legislation					
Industry trends			IP issues					
Interest rates			Innovation trends					
			Manufacturing Capacity					

Scenario Planning

Scenario planning is a process whereby the management team identifies three to four different scenarios that could occur during the next business cycle. For each scenario that is identified, the management team will list all of the key assumptions or implications that apply to that scenario. Since nobody has a crystal ball, a wise approach is to take common threads in each scenario and use them as key planning points. For example, let us assume that a company's business model is heavily dependent on research and development. One major way that the research and development function is kept current is by constant recruitment of PhDs. For each of the scenarios it may be more important to hire the best talent as opposed to any other factor (including the recession). Therefore, the business will continue to hire the PhDs because the research and development function is their critical competency and strength. As a result, the strategic planning process will identify one of the key goals as the continued hiring of PhDs.

Competitive Analysis

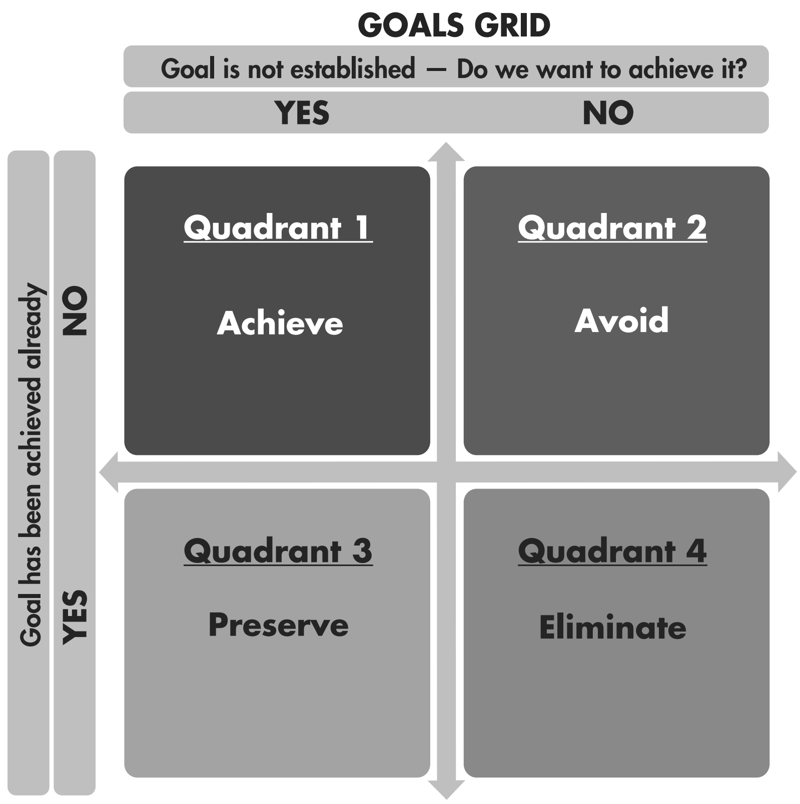
The competitive analysis process describes your competitors and their positions. The main emphasis for competitor analysis would be to focus on their weaknesses. Once the weaknesses have been identified, the planning process helps to find ways to exploit those weaknesses with your business strengths. Consider the on-going battle between AT&T and Verizon regarding cell phone coverage. Verizon believed that its coverage across the nation was much better than AT&T's. Verizon's ad campaign tried to exploit its position by illustrating coverage differences with maps of the United States. The commercial shows individuals trying to recognise coloured charts. The first charts were difficult to recognise. The latter charts were easily recognisable as maps of the United States.

In other "coverage battles", AT&T has responded with its perspective on the coverage areas and why it believes that it offers better coverage than Verizon. This battle has even been carried out through the legal system.

Goals Grid

A goals grid is a relatively simple technique to identify desired and achieved goals. It also helps the business decide on how to preserve, achieve, or eliminate goals. The Goals Grid as shown in figure 4-3 is a box with a four-quadrant matrix.

Figure 4-3: Goals Grid



Classify goals according to two dimensions using a yes or no system. Each goal falls within one of the boxes, depending on the answers to the following questions:

1. What do you want that you don't have? (Achieve)
2. What do you want that you already have? (Preserve)
3. What don't you have that you don't want? (Avoid)
4. What do you have now that you don't want? (Eliminate)

Thus, identifying where goals exist allows the business to take action. If a goal falls into Q1, then the business determines the action plan to achieve the goal. If the goal falls into Q2, it is neither a reality nor would the business like to have it as a reality. It is important to ensure the business wastes no time or resources on this area. The author has seen this many times when companies continue to pursue joint ventures or acquisitions that they have already decided are not in their best interest. If the goal falls into Q3, the business already has it achieved but needs to take action to preserve it. This could mean an upgrade of facilities, machines, or employees just to maintain the existing position. When the goal falls into Q4, the business has it achieved but does not want to maintain it. In this case, the business should determine the most expeditious and efficient manner in which to remove this capability.

Fred Nickols summarised the Goals Grid by stating that its purpose is intended to help you answer the following questions:

1. What are we really up to here?
2. Do we have all the bases covered?
3. What are we overlooking?
4. Have we adequately thought this thing through?
5. How do our various goals and objectives relate to one another?
6. What do the patterns tell us about our willingness to risk, to change?
7. Are we in conflict with others?[5]

Focus Groups

Focus groups can be assembled to get insight on specific areas of your business as well as insight on competitors' businesses. In many ways, the focus group can provide similar answers in a SWOT analysis. The results of the focus group can drive the planning for your company.

STP Method

The STP (situation target path) method is very similar to the simple strategic plan approach with which this chapter began. It involves the business defining its current state, which is considered the *situation*. The *target* is the result, goal, or vision the business would like to achieve. And the *path* is the map of how to get to the target. The situation is the current position of the company.

- *Situation*—Where are we now?
- *Target*—Where do we want to be?
- *Path*—How do we get there?

Gap Analysis

Gap analysis is determining where your business is, and then comparing it to where you want to be. Gap analysis can be used for several different concepts. You can compare your business to a competitor company, establish what the gap is, and then determine how you can close or eliminate the gap. You can do a gap analysis for specific products, for employees, or for distribution chains. The main emphasis is a comparison of where you are to another benchmark and then deciding how to close that gap.

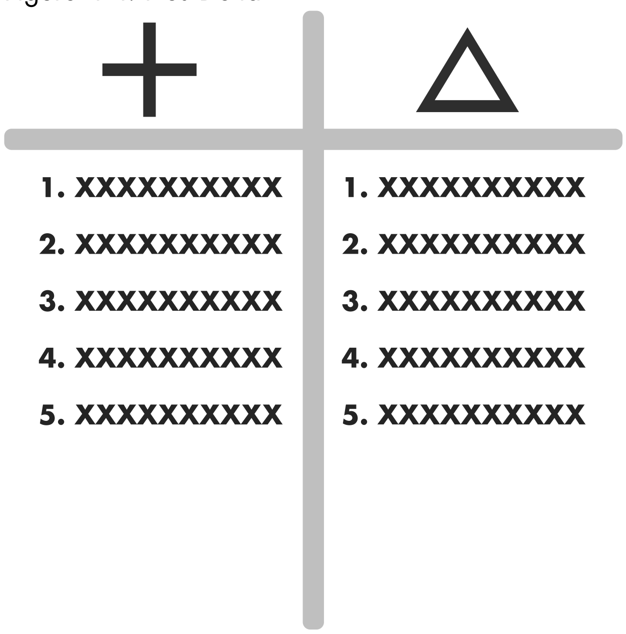
Start and Stop

The start and stop method is an interesting tool and is ideal if you are in a simple planning mode. Sometimes people get hung up on the concepts of the SWOT analysis or other technical terms. The beauty of start and stop is that it has two simple questions. The first question is, “What should we start doing that we are not doing right now? This affords a management team the opportunity to brainstorm and generate ideas of how to change and develop the company. The second question asked is, “What should we stop doing?” This method allows the management team to critique their organisation, their processes, or management techniques that need to be changed. If the team agrees to stop some process, then it should be eliminated as quickly as possible. This exercise can be done easily on a flipchart. If there is a concern that one person is dominating the discussion, have participants complete post-it notes and place them on the flipchart.

Plus Delta

Plus Delta is an interesting way to get valuable information from individuals. It allows people to focus on areas that are going well and focus on aspects that need to be changed. This method allows people to make suggestions without forcing people to go into critical examination of the organisation. This procedure is not to eliminate the need for the business to examine itself critically; it is more of a technique to avoid the blame and negative discussions that are not healthy for the company. This process has people identify what is really going well: what they like about the organisation, its products, or its people. This approach is not to be confused with a feel-good exercise; it is a way of identifying the strengths of the organisation. The Delta concept comes from the Greek letter meaning change. During the facilitation process, the leader simply asks, “What would they like to change?” In some aspects, it is similar to the “stop” process in the preceding example. This author has witnessed the Delta exercise many times and people typically rally around constructive thoughts as opposed to negative criticism.

Figure 4-4: Plus Delta



Balanced Scorecard

The Balanced Scorecard was made famous by David Norton and Robert Kaplan. They had the concern that companies were being driven too much by financial results. As a result, management's focus was exclusively on short-term earnings, which resulted in ignoring other important pieces of the business. Norton and Kaplan said companies would do better in the long run if they had a more balanced approach to their objectives. They advocated creating a scorecard with four different categories that a business would monitor.

In this section, we introduce the concept of key result areas. Key result areas are specific sections of the business that an organisation wants to focus on such as improved quality, foreign expansion, and new product development. In many ways, the balanced scorecard subsections could be considered the same as key result areas (KRAs). The balanced scorecard approach is that a business would take these four major KRAs and establish specific goals within each category. Then, actual performance would be compared with the established goals. Finally, the management team grades themselves on how well they achieved the specific goals in each of the categories. Norton and Kaplan believed that a business that achieved well in all four categories of the balanced scorecard would most likely increase the overall value of the company.

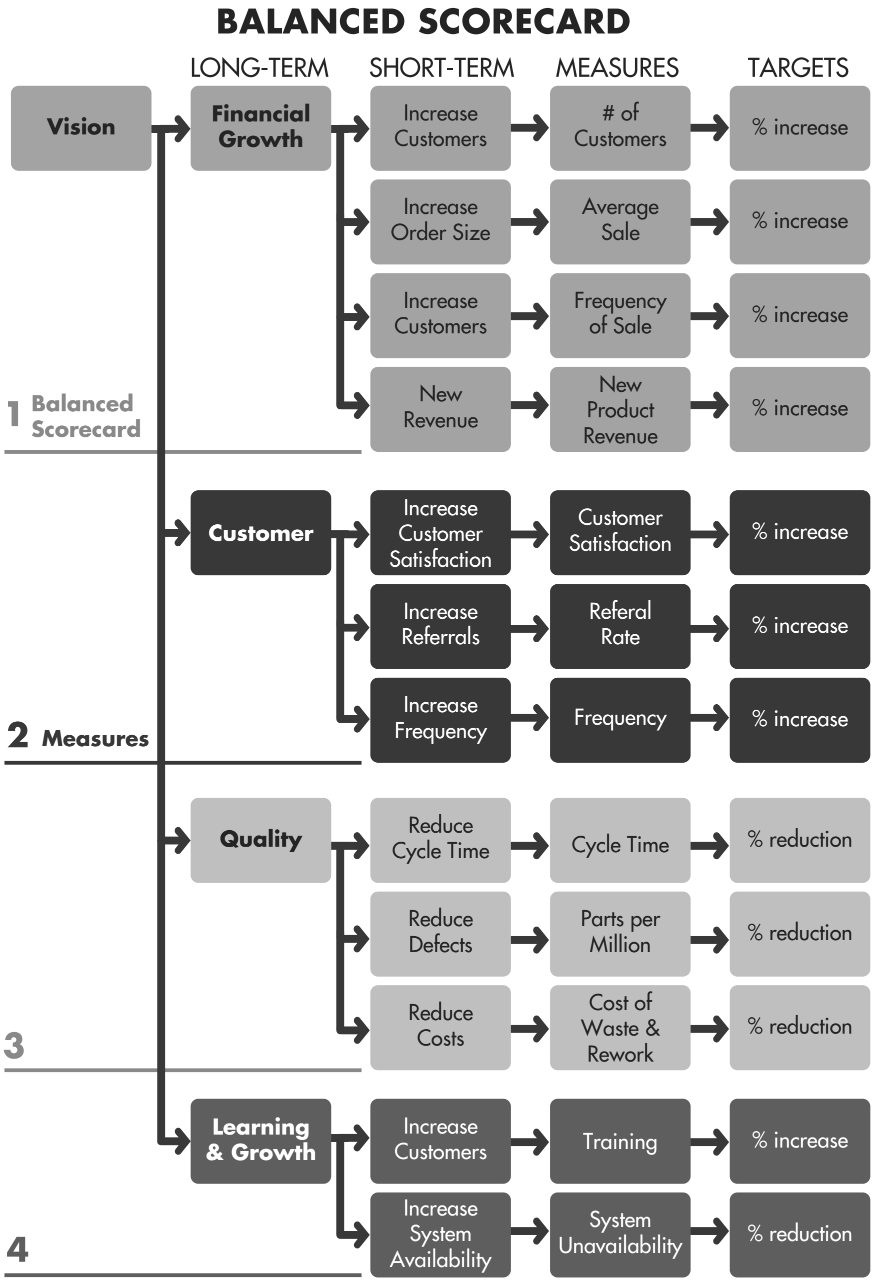
The balanced scorecard would be applied as follows:

1. Establish dream.
2. Establish vision and mission.
3. Create at least four major areas (Key Result Areas).
4. Create personal goals (3–5) within each KRA.
5. Track performance against each goal.
6. Assess success of accomplishing KRA by developing a "grade" for the KRA.
7. Repeat process.

Figure 4-5a: Example of a Balanced Scorecard

Source: www.trumpuniversity.com/business-briefings/lib/resources/images/graphs/ balanced_scorecard.gif

Figure 4-5b: Example of a Balanced Scorecard



Source: www.qimacros.com/qiwizard/balanced-scorecard.html

Force Field Analysis

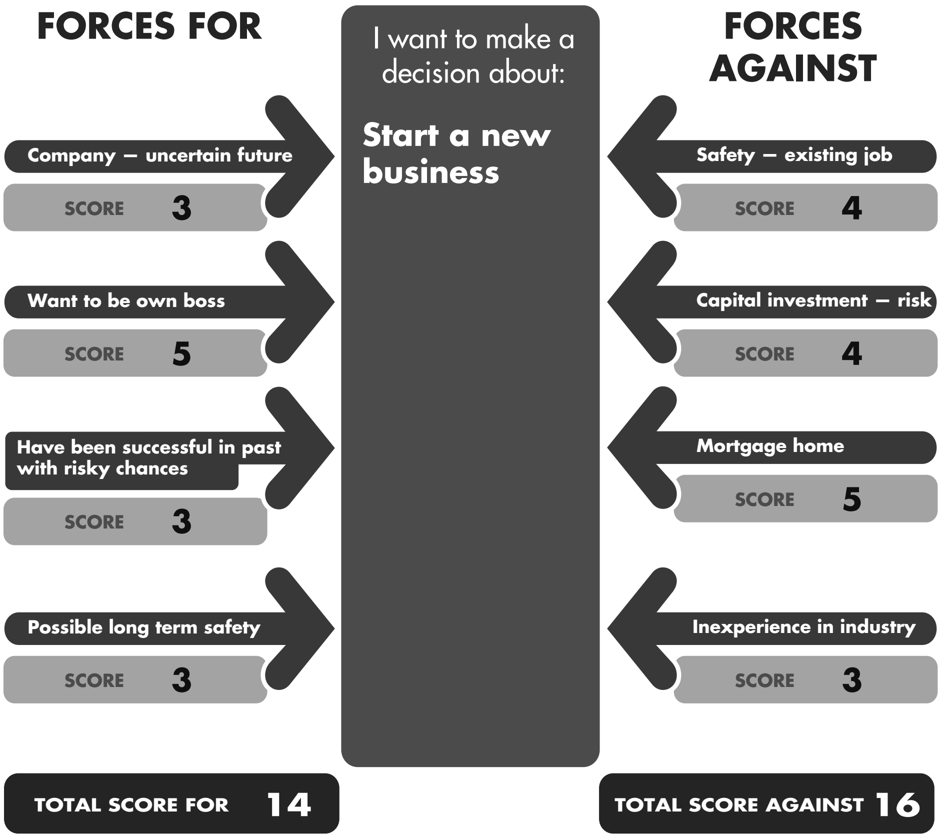
Force Field Analysis was developed by Lewin (1951) and is widely used in decision-making, particularly in planning and implementing change. It provides the big picture for a specific issue and identifies the forces that drive for change as well as forces that are against change.

Force Field Analysis works best in a small group of about six to eight people. The analysis can be processed using flipchart paper or PowerPoint technology. The steps are as follows:

- *Step 1*—Determine the area of change to be discussed.
- *Step 2*—List all of the forces in support of the change in the left column.
- *Step 3*—List all of the forces against the change in the right column.
- *Step 4*—Score the forces according to their magnitude, ranging from 1 (weak) to 5 (strong). The score may not balance well on either side.

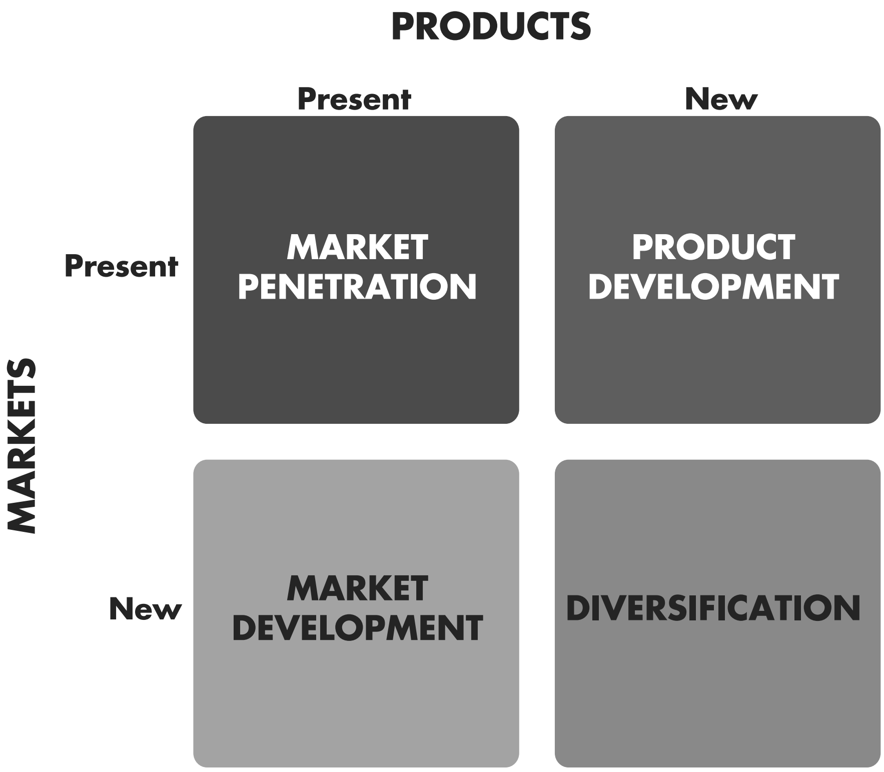
The exercise should generate rich discussion, debate, and dialogue. Findings and insights will develop regarding concerns, problems, and solutions. The objective is to find ways to reduce the restraining forces and to capitalise on the driving forces.

Figure 4-6: Force Field Analysis



Product-Market Growth Matrix

Figure 4-7: Ansoff Product-Market Growth Matrix



Source: http://en.wikipedia.org/wiki/Product-Market_Growth_Matrix

The Ansoff Product-Market Growth Matrix is a marketing tool created by Igor Ansoff and first published in his article "Strategies for Diversification" in the *Harvard Business Review* (1957). The matrix allows marketers to consider ways to grow the business via existing or new products in existing or new markets; there are four possible product-market combinations. This matrix helps companies decide what course of action should be taken given current performance. The matrix consists of four strategies:

- *Market penetration (existing markets, existing products)*—Market penetration occurs when a business enters or penetrates a market with current products. The best way to achieve this is by gaining competitors' customers (part of their market share). Attract non-users to your product by the use of advertising or promotions. Market penetration is the least risky way for a business to grow.
- *Product development (existing markets, new products)*—A firm with a market for its current products might embark on a strategy of developing other products catering to the same market (although these new products need not be new to the market; the point is that the product is new to the company). For example, McDonalds is always within the fast-food industry, but frequently markets new burgers. When a firm creates new products, it can gain new customers for these products. Hence, new product development can be a crucial business development strategy for firms to stay competitive.
- *Market development (new markets, existing products)*—An established product can be targeted toward a different customer segment to increase revenue. For example, Lucozade was first marketed for sick children and then rebranded to target athletes. This is a good example of developing a new market for an

existing product. Again, the market need not be new in itself. The point is that the market is new to the company.

- *Diversification (new markets, new products)*—Virgin Cola, Virgin Megastores, Virgin Airlines, and Virgin Telecommunications are examples of new products created by the Virgin Group of UK, to leverage the Virgin brand. This resulted in the business entering new markets where it had no presence before.

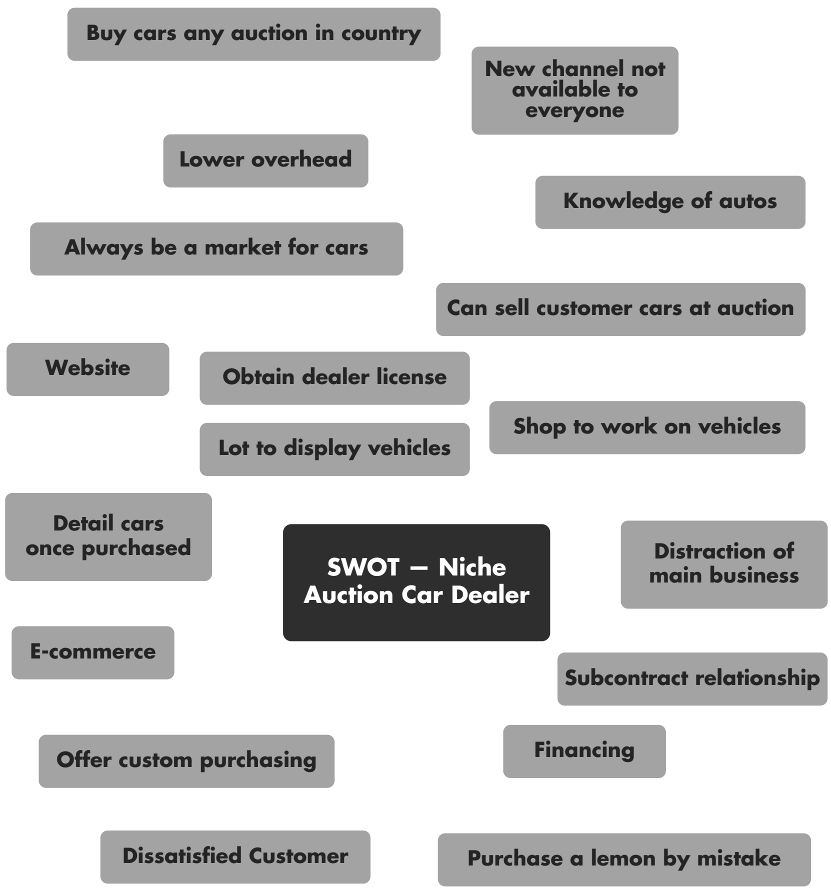
The matrix illustrates, in particular, that the more the element of risk increases, the further the strategy moves away from known quantities (existing product and market.) Thus, product development (requiring, in effect, a new product) and market extension (a new market) typically involve greater risk than "penetration" (existing product and existing market), and diversification (new product and new market) carries the greatest risk of all. In his original work,[6] which did not use the matrix form, Igor Ansoff stressed that the diversification strategy stood apart from the other three.

While the latter is usually followed with the same technical, financial, and merchandising resources that are used for the original product line, diversification usually requires new skills, new techniques, and new facilities. As a result, it almost invariably leads to physical and organisational changes in the structure of the business, which represent a distinct break with past business experience.

For this reason, most marketing activity revolves around penetration.

Mind Mapping

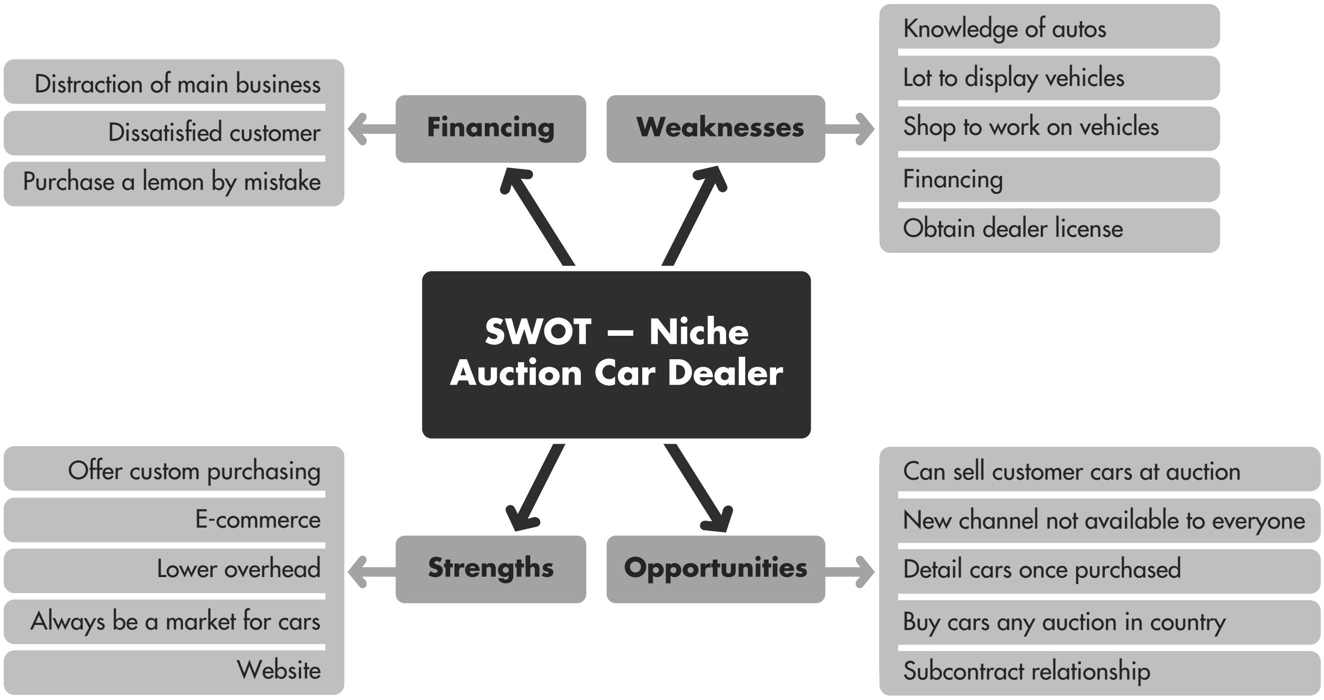
Figure 4-8: Mind Map



Mind mapping is unstructured brainstorming. It can be done by a person or group. It is an excellent tool to process issues during strategic planning sessions. To begin, write the central theme in the middle of a blank piece of paper. With no limitations, enter any and all thoughts that come to mind regarding the theme. Like brainstorming, this is no criticism of any idea at this stage. The map in figure 4-8 illustrates this concept for a small business that wants to establish an auto dealer's license to purchase cars at auctions throughout the country. The cars will be marketed to select customers (typically, those interested in foreign vehicles).

In figure 4-9, the information from figure 4-8 has been regrouped based on strengths, weaknesses, opportunities, and threats. This approach can be used for any processing that a management team will need to analyse. It is applicable through all levels of business and strategic planning.

Figure 4-9: SWOT Mind Map



The detailed plan can now be put together based on these outlines. The four titles for the SWOT were added to the image, and then each of the items was dragged to the appropriate category. Once the mind map is complete, it is easy to create a plan. The raw information has been turned into knowledge. These two diagrams were created using *Mindjet Mind Manager* software, which the author recommends. There is also another free software package called *FreeMind*, which is unrelated to Mindjet and runs on Java. Go to Google and search for "mind mapping software" to see a wide variety of commercial and free packages.

The 5 Whys

The 5 Whys is a question-asking technique to determine cause-effect relationships of a particular problem. Many times the apparent cause of the issue is only a surface problem. The questioner drills deeper into the cause by constantly asking, "Why?" In this way, more information is revealed about the true underlying issue.

The following example illustrates the "5 Why" process:

- The CEO wants to increase sales (the problem).
- 1st Why?—Companies with larger sales have a greater value.
- 2nd Why?—If the business has a greater value, the CEO will demonstrate that he has been successful.
- 3rd Why?—If the CEO is successful, he will prove to his father and grandfather that he has done a good job with the business that was entrusted to him.
- 4th Why?—It is important for the CEO to prove that he has accomplished something.

- 5th Why?—He is afraid that people look at him as if he did not deserve to be in this position, and he is only there because he is a family member (root cause).

Many times the "Why" questions go beyond the 5th level. Remember to continue asking why until there are no more answers. At that point, you will be at the root cause. The secret is to encourage the "questioner" to avoid assumptions and premature conclusions. If the "why" question is not asked enough, the solution may not address the root problem.

The technique was originally developed by Sakichi Toyoda and was later used by Toyota Motor Corporation during the evolution of its manufacturing methodologies.

HOW TO CONDUCT STRATEGIC PLANNING FOR YOUR COMPANY

The first step in leading a strategic planning session for a business is to determine how serious and committed the management team is to the strategic planning process. Many times management will overstate their belief in the planning process. It may be helpful in the beginning to ask the management team what their experience has been with strategic planning in previous years. Has it been successful? Where has the process failed? If you determine that the business has tried unsuccessfully to create a strategic plan in previous years, focus your analysis on what change will make the process successful this year. If the business is not willing to make it successful, then either abandon the process or spend as little time possible on planning.

Assuming that the team is committed to the strategic planning process, the next step would be to assess the culture of the business to determine which planning process and model would. There is a cultural assessment questionnaire within the text, as well as a description of different planning models. Align the corporate culture with the model selected. For example, if the corporate culture is opportunistic, it will be difficult to follow a detailed plan. An opportunistic culture will eject a plan if a more viable option appears. If you selected a simplified planning process instead of a detailed process, the odds are that the strategic planning process would fail.

Determine where the board of directors will participate in the planning process. If the board's only function is to receive the planning report from the CEO, then its involvement is limited. However, the author has found it best to be proactive with the board. To avoid surprises at the board level, the CEO should ask board members if they have specific questions prior to the start of the planning process. It does not matter if their concerns are insignificant. If you and your team address these items in the planning process and then share them with the board, you will help increase the perceived quality of the strategic plan.

If the board would like to be involved more, then the author suggests one of two approaches:

1. Conduct a short planning session with the board: Use abbreviated SWOT analysis with the board members. Since the board is valued at the strategic level, their input should be restricted to the strategic level.
2. Send the board members a letter or e-mail inviting them to provide their input into the process and share their concerns. Include a SWOT tool they can complete. Assimilate the board's input into the work performed by the management team. Give specific feedback to the board members on how their input was processed and the implications of their input.

How much time should be invested in the planning process? The range varies based on the team, the size of the organisation, and the culture. Ideally, the management team should set aside time in a retreat setting. It can take anywhere from 1 to 3 days depending on the criteria already mentioned. If the management team does not want to set aside enough time to process issues and concerns, then preliminary homework must be assigned.

For the preliminary work, send a questionnaire to all management team members asking them to list the company's perceived strengths, weaknesses, opportunities, and threats. You may want to ask a couple of far-reaching questions to prompt the management team's thought process. For example, the author has used the following questions in his own engagements:

- If you were reading the paper ten years from now and this company has gone out of business, why did it fail?
- What are we currently doing well that we should leverage or expand?
- What should we stop doing?

When the team gathers for a planning retreat, the first item on the agenda is for everyone to become comfortable with the process. The author has used simple activities like icebreakers and commentaries. In addition, explain the processes you plan to use to put everybody at the same level. The author will also have prepared summaries of the homework the management team has completed. The summaries should speed up the processing time. For example, if all the team members have completed a SWOT analysis, the facilitator should transfer the information to flipchart pages. You can process this information by allowing the team members to vote on the most important items on the list, thus shortening the amount of processing time necessary at the meeting. The team can focus on the issues voted upon and complete the process at a quicker pace.

After the SWOT analysis is complete, the facilitator will ask the management team to select the major areas upon which they want to focus for the next one, three, and five years. Based on the key areas outlined (refer to the balanced scorecard discussion), the facilitator will ask the team members to create specific goals. Each of the goals must fulfil the "SMART" requirements. SMART is an acronym, which represents the following:

- S stands for specific
- M stands for measurable
- A stands for achievable
- R stands for realistic
- T stands for time bound

If the goals created for the plan do not meet the SMART criteria, those goals will not be beneficial for the organisation. Once everybody has agreed upon the plan, transfer it to a written document. This is the point where many businesses fail. They file the document away and then only refer to it at the end of the year. In some cases, they might ignore it entirely. To ensure the strategic plan is successful, the team must review it no less frequently than on a quarterly basis. Every quarter, the management team must review and grade their progress on the plan. If they are not on target, they need to determine the steps needed to get back on course, such as obtaining additional resources.

ONE-PAGE STRATEGIC PLAN

There are many approaches to a simplified plan. Many examples of one-page plans are available on the Internet. Presenting the plan on one page is not nearly as critical as trying to keep the process simple. Some consultants use a one-page plan but require the planning team do a lot of work to create the plan. In essence, the brevity is only on the written document as opposed to the process. We will consider the overall process and try to make it easier to use.

It is interesting to note there is even a level of discussion of strategic planning that is more simplified. Some companies want a level of planning that is even less than a simple planning stage. They have specific interests that they want addressed and nothing more. The author likes to refer to this as "strategic discussions". Again, if we are meeting the needs of the management and they do not wish to invest in the planning process, then a "strategic discussion" might be in their best interest.

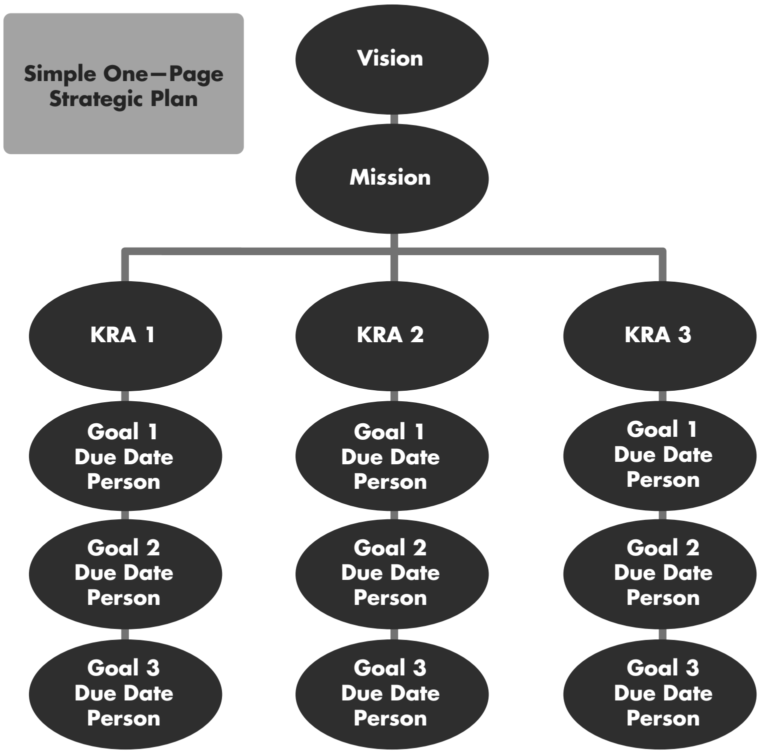
To create a one-page strategic plan, consider the following:

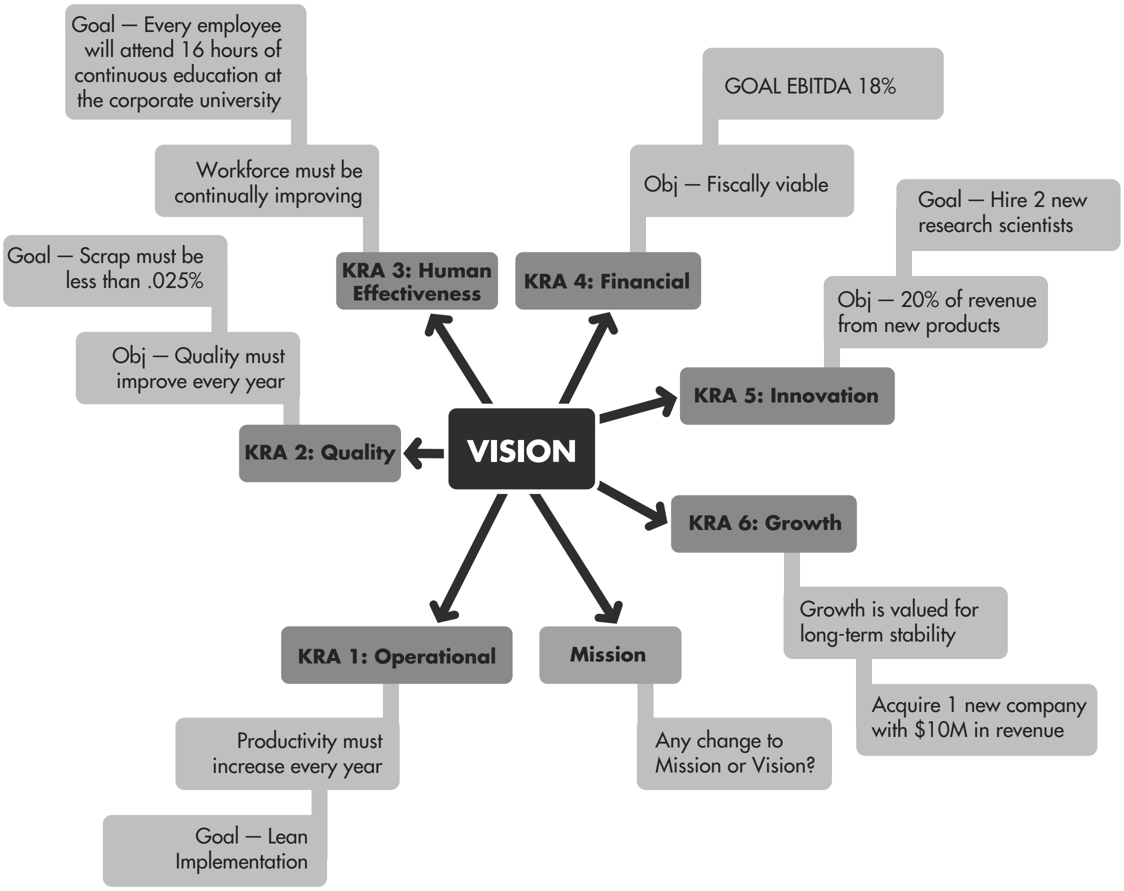
1. Discuss with management what they would like to accomplish:
    - *a.* Strategic discussion
    - *b.* Simple plan
    - *c.* Complex plan
2. Assuming that they want a simple plan:
    - *a.* Identify who will be part of the planning process
    - *b.* Determine if there is a board and if there is any expectation of board involvement beyond approving the management submitted plan.
3. Review the mission and the vision:
    - *a.* Are they still acceptable or do they need revision?
        - (1) If they need revision, are they willing to spend the time?
            - (a) If not, do an abbreviated mission and vision and revisit the following year.
4. Determine logistics of retreat meeting:
    - *a.* If retreat is less than a half-day, initiate homework assignment
    - *b.* If retreat is one to three days, decide if homework is necessary
5. Send homework:
    - *a.* SWOT analysis—with alternative questions listed previously
6. Have homework returned and summarise:
    - *a.* Flipcharts or PowerPoint

7. Hold retreat:
   a. Begin with icebreaker
   b. Explain planning process—including review and monitoring process
   c. Process SWOT info
      (1) Arrange by theme
      (2) Prioritise
   d. Have each member create suggested goals for major themes
      (1) Post the suggested goals (by theme) on a flipchart. Review the suggestions and follow with the participants voting on the goals.
   e. Use a one-page chart. Create a blank chart that is available for the start of the planning retreat. (See sample charts in figure 4-10.)

      For each goal
      (1) Identify if any resources are necessary
      (2) Identify due date for goal
      (3) Assign person responsible to implement and report on progress
8. Choose quarterly dates for follow-up to evaluate progress on plan.
9. Two weeks prior to each quarterly review, send an email to all members to remind them of the meeting and have them prepare their status reports. (This trick does miracles to keep the plan on track. It is helpful to send an email 45 days into each quarter to remind people of planning and progress dates.)
10. Review status:
    a. Are the goals on target?
    b. Do the goals need to be revised?
    c. Are additional resources necessary to accomplish the goal?

Figure 4-10: Two Simple Plan Flowcharts





In addition to the tools above, appendix B contains resources to aid in your company's strategic planning process. The tools are: 1) a board readiness assessment, 2) a generic strategic plan outline, and 3) a questionnaire that identifies information needed in the strategic planning process.

Chapter 3 and 4 completes the overall planning process. Chapter 5 begins identifying management topics/skills which a controller should be familiar with to provide services beyond the traditional commodity controller services. Three significant areas that will be introduced in chapter 5 are: lean management techniques, best practices and turning data into knowledge.

Endnotes

1 Written by Carter McNamara, MBA, PhD, Authenticity Consulting, LLC. Copyright 1997–2006. Adapted from *The Field Guide to Non-profit Strategic Planning and Facilitation*. Third Edition. Authenticity Consulting, 2007. Reproduced with permission.

2 "PEST Analysis". *Wikipedia*. Accessed February 3, 2014. http://en.wikipedia.org/wiki/PEST_analysis.

3 A model introduced in 1979 by Michael Porter and used by companies for industry analysis and corporate strategy development. The five forces include competition, supplier strength, customer power, the potential for new companies joining the industry, and the threat of substitute products. Read more at www.businessdictionary.com/definition/Porter-s-5-forces.html#ixzz38JC4gcZ1.

4 www.practical-entrepreneurship.com/resources/marketing/172_pest_analysis.pdf

5 Nickols, Fred. "The Goals Grid: A Tool for Clarifying Goals & Objectives". 2003. www.wirtschaft.fh-dortmund.de/eurompm/bilbao/goals_grid.pdf.

6 Ansoff, I., "Strategies for Diversification". *Harvard Business Review*, Vol. 35 Issue 5, Sep-Oct 1957, pp.113-124.

5

LEAN MANAGEMENT, BEST PRACTICES, AND TURNING DATA INTO KNOWLEDGE

INTRODUCTION

Although the emphasis of this book is not on specific accounting processes, there are significant tools that controllers must understand to discharge their duties properly beyond the basic financial statements and accounting reports. To add value to a business, a controller who operates as a business manager should bring the following into the business:

- Lean management techniques for the business and the accounting department
- Best practices that complement the preceding lean concepts
- Transforming data into knowledge—utilising other public data to gain insights into business cycles and business trends

LEAN MANAGEMENT

One of the more interesting trends to influence profitability is lean management techniques. Lean concepts evolved from the Toyota Production System and are still part of the manufacturing environments to this day. Accounting has only become interested in lean techniques over the last decade. A controller who desires an efficient accounting department will master lean and adopt its philosophies to daily operations. Lean is based on two main principles:

1. Do only what the customer values
2. Relentless identification and elimination of waste

Lean first entered businesses on the manufacturing floor. Second, it migrated to service organisations. Third, it was introduced to the back-office functions, including accounting transactions and processes.

LEAN MANUFACTURING OVERVIEW AND BENEFITS

What is lean manufacturing? Lean manufacturing is a team-based systematic approach to: 1) meet the needs of the customer, and 2) identify and eliminate wasteful or non-value-adding activities within the manufacturing environment. Lean manufacturing is a new way of thinking, and it should be considered much more than a series of programmes or techniques. It becomes a whole system approach to create a new operating philosophy, which focuses on eliminating all non-value adding activities from order entry to receipt of payment.

When lean is successfully implemented through effective planning and implementation, the following will occur:

1. Reduce lead time
2. Reduce work in process
3. Improve quality
4. Improve flexibility
5. Reduce transactions
6. Simplify scheduling
7. Enhance communications
8. Reduce costs
9. Improve on-time deliveries
10. Increase sales
11. Improve space utilisation

Some of the major lean concepts that a business will learn are:

1. 5S
2. Visual controls
3. Kaizen
4. Value streams
5. Pull
6. Mistake proofing
7. Quick changeover
8. Six Sigma
9. Theory of Constraints

Let us consider each of these areas of emphasis:

5S

The 5S system is a common-sense approach to improvement within a facility or manufacturing plant that focuses on organisation, cleanliness and standardisation to develop profitability, efficiency, service and safety. The basis of a 5S system is not very complicated.

5S represents:

- Sort: Clear the work area—A work area should only have the items needed to perform the tasks in the area. All other items should be cleared (sorted out) from the work area.
- Set in Order: Designate locations—Everything in the work area should have a place and everything should be in its place.
- Shine: Cleanliness and workplace appearance—Not only should the work area be clear; it should also be clean. Cleanliness involves housekeeping efforts, improving the appearance of the work area, and even more importantly, preventive housekeeping—keeping the work area from getting dirty, rather than just cleaning it up after it becomes dirty.

- Standardise: Create procedures to do things the same way—Everyone in the work area and the business must be involved in the 5S effort, creating best practices and then getting everyone to “copy” those best practices the same way, everywhere, and every time. Work area layouts and storage techniques should be standardised wherever possible.
- Sustain: Ingrain the 5S system into the culture—It is difficult to keep a 5S effort, or any improvement effort for that matter, going. The 5S system involves a culture change. So to achieve a culture change, it has to be ingrained into the business—by everyone at all levels in the organisation.[1]

Considering these terms, it is easy to see how the system can be viewed as common sense. Everyone would agree on the need for 5S items; yet, a review of many businesses would likely show poor compliance. 5S does not cost very much; however, implementing 5S will develop profits, quality, and safety. The 5S system will affect the business in the following areas:

- Reducing wasted time and materials
- Improving daily or shift start-up times
- Reducing maintenance and downtime
- Improving efficiency and productivity
- Improving employee morale
- Simplifying the work environment

All businesses (manufacturing, service, for profit, not for profit, educational, health) can benefit from using the 5S system in the development of the product or service, in the back-office, or the transactional functions of the organisation.

Visual Controls

Visual controls are documented methods and procedures. They include easy-to-follow visual cues, which should be triggers for subsequent actions to be taken. A common example is the standardised work chart. Associates and managers can use visual controls to see the status of a particular job and determine if abnormalities exist. Visual controls allow workers to see if items are not in the correct place. As a result, workers can correct the situation through inspection by visual control.

Standardised work charts are extremely effective visual management tools. The use of these charts will result in improvements in safety, quality, and efficiency while improving cost effectiveness. In order to create work charts, workers need to document the elements of each task in the basic work order. This should include equipment or tools used, work sequences, standard in-process stock, takt time, cycle times, safety cautions, or quality checks.

Value Streams

A value stream provides an integrated description of how a product passes through all stages of production. This process establishes value for each section of the value stream. The value stream looks like a flowchart that outlines all steps in the process or product’s life. This can be applied to service processes (even back-office) as well as manufacturing.

Pull

Pull is a method of moving inventory through the production process. Traditional manufacturing utilises batch processing. Batches are planned based on specific lot sizes. In the pull process, nothing moves forward until it is "called for" by the customer or the next processing step. In a pull system, an item that is sold immediately generates an order to produce another. This system is often compared to the grocery store process, where items are replaced on the shelves as they are used. Therefore, only the most current material is being processed. Pull production results in eliminating wasteful inventory build-ups. Pull production also employs elements of just-in-time delivery, one-piece flow, and other methods.

Mistake Proofing

Mistake proofing devices, also known as "Pokayoke" (po-kay-okey) are used to prevent defects from passing on to the next process. This approach is an improvement over traditional quality approaches, which examine products for defects at the end of the assembly line. Mistake proofing requires that process quality checks are built into the operations, and the equipment has appropriate sensors to detect errors and stop the process. Mistake proofing is combined with other lean tools to ensure that 100 percent quality is built into the process and product.

Quick Changeover[2]

One of the biggest wastes of resources is machine downtime. Downtime is created when production lines need to be adapted or adjusted to run a different product. The ability to change rapidly from one product to another is the key to success for many companies. As customer lead times are continually shortened and product mixes become more complex, the ability to change over rapidly and easily is a competitive advantage. Fortunately, there are powerful quick-change techniques that can be applied to any operation in a manufacturing setting. (Note: In service industries, quick changeover can be applied to different staffing patterns.) The process to achieve quick changeover is:

1. Identification of total changeover time into two categories:
    - Internal changeover time—During this interval of time, the productive process must stop, or no set-up could be made. Real and proper changeover time begins when the current lot process finishes and ends when the next lot process produces the first defect-free item. Throughout this time, no value is added to products. There are two main components to internal changeover time:
        - o Replacement activities: In manufacturing, these include stripping previous process ancillary tools (moulds, dies, plates, guides, or rollers) and fitting the next process's corresponding tools. There are several time-consuming bolting and un-bolting operations to be done, and moving activities, such as lifting, lowering, or removing.

          The goal is to minimise these activities' duration by applying a number of dedicated techniques to eliminate bolts, nuts, and other fasteners, replace traditional fasteners with faster-action fasteners, or streamline the unfastening and fastening activities.

    - Adjustment activities: Centring, precision positioning (for instance, moulds and dies), measuring, calibrating, or fine-tuning. These activities ensure the correct quality standards of the output product. These steps are time consuming and require knowledge, abilities, and experience.
  - External changeover time—The interval of time while processing (of previous and next lot) during which change-over related activities (like transport or preparation) are implemented by personnel (fitters, workers, operators, and others). Part of this time may elapse before internal changeover time and part after it.
2. In the second step, quick changeover looks for wasteful activities (unnecessary, redundant activities that need not be there to begin with) and eliminates them.
3. The third step is a drastic reduction in time duration of the necessary internal activities.
4. The fourth and final step is streamlining the necessary external activities.

Quick changeover is very simple concept: eliminate the need for any adjustment, by inventing ways of doing it once and forever with a permanent solution. This concept eliminates the need for any adjustment or any particular knowledge, skill, or experience. The target is to enable any operator with some decent industrial skill to "precision-replace" or "precision-set", without any need for measuring, calibrating, and checking.

Six Sigma

Six Sigma was developed during the 1980s as a highly structured programme for improving business and manufacturing processes. It is a process to develop quality using specific methods and analytic tools. Six Sigma is a statistical measure of quality: 3.4 defects per million or 99.99966 percent good quality. Although zero defects is the goal, as a measure, Six Sigma will drive a firm toward achieving higher levels of customer satisfaction and reducing operational costs. This robust, continuous improvement strategy and process include cultural methodologies such as total quality management (TQM), process control strategies such as statistical process control (SPC), and other important statistical tools. It uses a structured systems approach for problem solving, and strongly links initial improvement goal targets to bottom-line results.

Theory of Constraints

The theory of constraints (TOC) is a philosophy of management and improvement originally developed by Eliyahu M. Goldratt and introduced in his book, *The Goal*. Its basis is the fact that, like a chain with its weakest link, in any complex system at any point in time, there is most often only one aspect of that system that is limiting its ability to achieve more of its goal. The constraint must be identified and the whole system must be managed with it in mind so that the system can attain significant improvement.[3]

LEAN CONCEPTS

To get a better handle on lean concepts, we will drill down deeper into some of the major concepts. We will examine the following topics:

1. Value stream and value stream mapping
2. Pull manufacturing
3. Kanban
4. One piece flow manufacturing

Value Streams and Value Stream Mapping

The value stream concept is integral to the lean framework. Only by understanding value as perceived by the customer can a company:

1. Focus on value added activities or services
2. Minimise non-value added activities that must take place due to regulatory, for example
3. Eliminate all other non-value activities

The value stream provides an integrated description of how a product passes through all stages of production. In this context, integrated means that both material and information flows are considered.

Value stream mapping is a necessary lean technique to visualise enterprise value streams and continuously develop them.[4] It offers a series of advantages and enables unlocking tremendous potential of your processes.

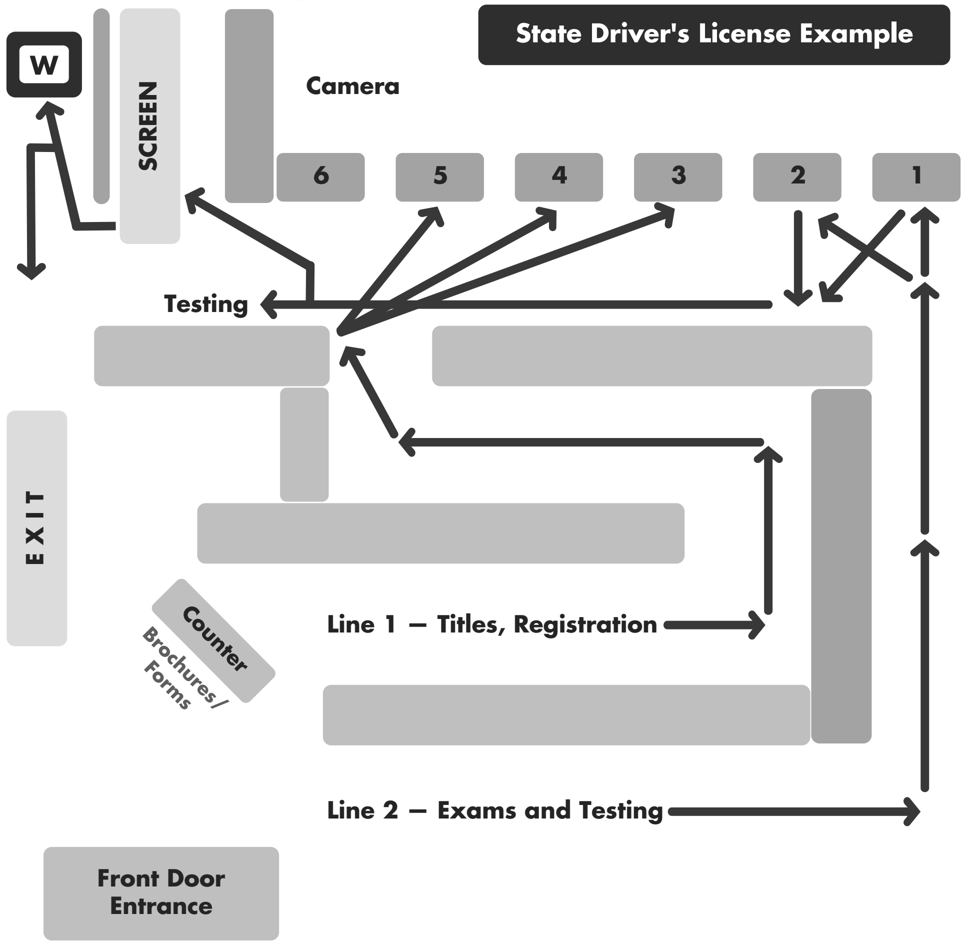
Value stream mapping is an easy, fast, and goal-oriented method. Drawing the current state of the value stream is done directly in the workplace. A future-state model is designed for each current-state map of the value stream, highlighting opportunities for continuous improvement.

Value stream mapping yields benefits such as:

1. Improved communication: Everyone will understand more clearly the overall value stream and related components
2. Improved project execution: Value stream maps change constantly. As electronic files, they are easy to store, different versions can be created, and those versions can be distributed and consolidated.
3. Faster and more realistic assessment: Mean values are no longer adequate to describe scattered parameters.
4. Simplified comparison of alternative solutions: The map allows easier comparison of alternatives, especially as components relate to objective measurements.

Let us consider the scenario depicted in figure 5-1.

Figure 5-1: Driving Licence Office Example



Pretend that you have been charged with value mapping the flow of customers through the driving office. You diagram the office as shown in figure 5-1 and learn the following:

1. Customers enter through the front door.
2. The first fixture a customer sees is a counter with many different brochures and forms. There are no instructions at this point. Each customer serves him- or herself, and there is no representative at the counter.
3. The customer then selects either Line 1 or Line 2.
4. Each line has a sign hanging from the ceiling that identifies the purpose of the line. Both of the signs have the following note at the bottom of the sign: "This office does not accept credit or debit cards".
5. If the lines are full of customers, it will take approximately 40 minutes for customers to move all the way through either line.
6. Line 2 customers will be served by Clerks 1 and 2. They have neither the training nor the authority to serve customers from Line 1. When a customer approaches, he or she will have his or her eyes tested, and will take a test to reveal his or her knowledge about road signs and their meanings. Customers applying for the first-time licence will move from Clerk 1 or Clerk 2 to the testing area. From the testing area, they will go back to Clerk 3, 4, or 5 for the results and temporary licence.

7. The customers in Line 2 who only need eye exams will move from Clerks 1 and 2 to the "screen". They will be photographed, and they will move to the waiting area "W". Once their licences are processed and printed, they will move to Clerk 6, pick up their licences, and leave.
8. Customers in Line 1 will be served by Clerks 3, 4, or 5. Clerk 2 will not be able to assist anyone from Line 1 even if there is an opening.
9. If a customer does not have the correct information, he or she will not find out until he or she meets with one of the clerks. Unfortunately, the customer's issue cannot be resolved. The customer must go back home, retrieve the key information, and restart the entire process.
10. At the end of the day, clerks start closing their windows without letting customers know if they will be served or sent home. Customers in line will suffer uncertainty, not knowing if they have to come back another day.

Someone preparing a value stream map should ask the following questions:

1. What are the value points to the customers?
   Taking the tests
   Getting their licences
   Resolving any outstanding issues
2. From the perspective of the customer—what items add no value?
   Waiting in line
   Waiting on Clerks 1 and 2, who are not trained to service customers in Line 1
3. What are your recommendations to make the flow and process more customer-friendly? Consider these:
   - Put a clerk at the front counter to ensure the customer has the appropriate information before wasting time in line.
   - Install HDTVs with current news programmes so the waiting time appears to go quicker.
   - Train Clerks 1 and 2 to handle customers from Line 1.

Pull Manufacturing

Pull production is another method of eliminating wasteful inventory build-ups. In a pull system, an item that is sold or completed immediately generates an order to produce another item. This process is often compared to the grocery store, where items are replaced on the shelves as they are used. Pull production also employs elements of just-in-time delivery or one-piece flow.

The traditional process of U.S. manufacturing was "push" production. Companies would create large production runs to achieve economies of scale, which would result in large amounts of inventory.

The pull concept is in harmony with just in time (JIT) concepts. JIT is a business philosophy that focuses on reducing time and cost and eliminating poor quality within manufacturing and non-manufacturing processes. The elimination of poor quality or time- or money-wasting items is accomplished by producing what is necessary to meet immediate demands. This process is known as short-cycle or lean manufacturing. Let us compare traditional methodologies of production with JIT methodologies as shown in box 5-1.

Box 5-1: Traditional vs. JIT methodologies of production

TRADITIONAL MANUFACTURING	JUST-IN-TIME MANUFACTURING
Increases inventory to protect against process problems	Reduces inventory and reduces lead time
Increases lead time as a buffer against uncertainty	Reduces setup time
Disregards setup time as an improvement priority	Recognises setup as an improvement opportunity
Emphasises product-oriented layout	Emphasises process-oriented layout
Emphasises work of individuals following manager instructions	Emphasises team-oriented employee involvement
Emphasises push manufacturing	Emphasises pull manufacturing
Tolerates defects	Emphasises zero defects

A significant benefit of JIT is the reduction of the inventory levels. If inventory levels can be reduced, problems that have been covered up will appear, such as:

- Poor quality
- Unreliable suppliers
- Machine breakdowns
- Untrained employees

Demand or pull purchasing is not limited to the manufacturing industry. Although it has its roots in the JIT and Kanban philosophies, the concept can be applied to retail locations, with the point of consumer purchase becoming the trigger for replenishment up through the supply chain. Also, non-manufacturing businesses that use capital equipment might use demand-pull models to monitor and respond to wear, usage, and supply replenishment. Imagine a commercial fleet of vehicles or airplanes being constantly monitored for fuel consumption. As fuel is consumed, more is automatically purchased.[5]

Benefits of Pull

Organisations that utilise the pull concept have realised a number of benefits including:

- inventory reductions
- labour cost savings
- more efficient processes (purchasing and supply management)

Consider the example of a large equipment manufacturer that must coordinate the activities of suppliers, manufacturing locations, dealer locations, and final customers. Demand-driven procurement systems could be used so that final product sales are pulled through the supply chain. Dealer orders would always match what is in assembly in a build-to-order model system, which could also be used for automatic replenishment of components within service facilities. Ideally, as orders are entered electronically, assembly line orders are automatically produced, and the person component demand is determined. This information is then electronically transmitted to suppliers, who pull accordingly. The demand-pull system helps to maximise material velocity, which minimises the amount of redundancies in the process. Manufacturing based on demand also means that businesses do not have to the reconfigure product to meet specialised needs of customers. Demand-based manufacturing improves the quality and ultimately provides a great deal of customer satisfaction.[6]

Challenges of Pull

What concerns will a business encounter when it moves to a Pull manufacturing philosophy?

1. The fear of losing control
   a. Minimal human intervention
   b. Suppliers and other Business Partners have access to key and confidential information
2. The fear of inadequate information systems
   a. Can the system adapt to handle this new process or is it too tightly integrated to prior manufacturing processes?
3. The fear of integration with all members of the supply chain
   a. Technology integration
   b. Cost of new technology
   c. Capability of staff to handle new technology
4. The environment must be relatively steady and have robust demand. They need to have some predictable degree of volume. Many businesses have found success with demand-pull concepts, but have come to realise that they cannot be used for every assembly line.

Kanban

Kanban is often seen as a central element of lean manufacturing and is widely used as a pull signalling system. Kanban is a Japanese word that stands for Kan-card, Ban-signal. The Kanban system should provide “visual signals” that communicate the need to “pull” inventory into the process.

Kanban is not a scheduling system; rather, it is a production control system. As previously described, a pull production system controls the flow of work through the factory by only releasing materials into production as the customer demands them, or only when they are needed. A push system, on the other hand, would release material into production as customer orders are processed, and material becomes available, MRP (material requirement planning or manufacturing resource planning) systems are usually push systems.[7]

The Kanban cards or the “two bin system” is not a new concept. The two bin system was used in the UK long before Japanese manufacturing methodologies started to become popular in the 1970s. One of the main benefits of Kanban is that the system is easy to understand, simple to visualise and comparatively easy to set-up. Kanban systems are commonly used within the automotive industry where there are stable demand and flow. Any industry with a stable manufacturing environment will benefit from a Kanban system.

Let us consider an actual example of Kanban. A manufacturing cell assembles a product. Each product requires a special metal housing. The housings are delivered to the cell by a forklift. Alongside the spot where the housings are delivered is a large whiteboard, which can be seen from a long distance in the plant. It takes the cell approximately 15 minutes to assemble the product at which point, a new metal housing is required to start again. When one of the workers selects the last housing, the worker places a large red piece of paper over the white board. Due to the visibility of the board, the red square can be seen from a great distance. This red square alerts the forklift driver to deliver another pallet of metal housings. The posting of the signal depends on the speed of the assembly or the length of time to replenish. Therefore, the signal becomes the release order and authority to begin production or order a specified number of new metal housings to fill the requirement.

Unfortunately, there will be times when production must be expedited, or an emergency arises. Kanban allows for rush jobs to be carried out. If a job is to be rushed through production, then it has to be given priority in some way or another. The job can be prioritised with different coloured Kanban cards (such as blue.) This blue signal becomes the authorisation to perform all necessary operations on this cell or process before any other work is begun or continued.

The following rules help control Kanban:

- A Kanban signal is only issued when the material being used has been exhausted.
- If the Kanban signal has not been given, no parts should be issued or authorised.
- Only good parts are issued. Damaged materials and parts are caught earlier in the process.
- There should be no overproduction. If there is, Kanban is not functioning in theory.
- Components are only manufactured in the order in which the Kanban cards are received (unless emergency signals as referred to earlier are issued).
- Components are only manufactured or issued in the number specified by the Kanban.
- The number of Kanban cards should be reduced over time and the problems that are encountered by doing this should be tackled as they are exposed.[8]

Kanban is a very simple and effective production control system that can be easily introduced in many production environments. Proper use of a “pull” system is often seen as a large step towards achieving true JIT production.

One Piece Flow Manufacturing

Traditional U.S. manufacturing included batch processing, long production lines, and other processes. One-piece manufacturing is going to challenge old paradigms of how to produce goods.

One-piece flow refers to the concept of moving one work piece at a time between operations within a work cell. One-piece flow items are moved to the next process step one piece at a time. Each step will complete its operation just before the next process needs it. In essence, all production is performed on one unit prior to moving it forward in the process.

Why should one piece flow be adapted and what are the benefits?

- The main benefit of one-piece flow is that it keeps WIP (Work in process) to its lowest possible level. One-piece flow will eliminate excess inventory and will have only one part loss if rejects occur compared to complete batch rejects in a batch build system.
- One-piece flow will result in much shorter lead times. It will increase operator efficiency by assisting them to handle continuously changing demands. The operator can quickly change the production to a different

but similar assembly without unnecessary WIP inventory.

- Defective raw materials and production will be detected much quicker. In addition, because the problem is identified, it will lead to a process correction quickly.
- One-piece flow should prevent unnecessary backups in the system, as the pull system will not push big batches into inventory.
- Capital requirements are lower as it does not have to be tied up in unneeded inventory for large batches.
- Workstation design will be at a minimum size due to having to house only one part at a time.
- One-piece flow will encourage work balance, better quality and improved efficiency.

One-piece flow works well in an environment where work cells are designed for efficient use and flexibility. Once the production starts up, the line can be setup on the fly, following the first production step. This partially assembled part will be passed on to the next production step for further assembly. The next step, however, cannot be performed until the first step is completed. Therefore, the ability to react quickly and make adjustments is a key benefit (and requirement) to this approach.

STANDARD WORK AND TAKT TIME

Standard work is agreed-upon work procedures that combine people, materials, and machines to maintain quality, efficiency, safety, and predictability. Work is described precisely in terms of cycle time; work in process, sequence, takt time, layout, and the inventory needed to conduct the activity. Standard work begins as an improvement baseline and evolves into a reliable method. It establishes the best practices and sequence steps to maximise performance and minimise waste.[9]

Takt Time

"Takt" is the German word for the baton that an orchestra conductor uses to regulate the speed, beat or timing at which musicians play. Therefore, takt time is "beat time", "rate time", or "heart beat". Lean production uses takt time as the rate at which a completed product is finished. If you have a takt time of two minutes, that means every two minutes a complete product, assembly, or machine is produced off the line.[10]

The customers' buying rate establishes takt time. It is the rate at which the customer buys your product.

It is difficult to predict when and how much a customer will buy. However, if customer demand falls for an extended period then takt time should change. In other words, if you are producing at a takt time of one every two minutes and the customer's demand falls to a rate of one every three minutes, then your takt time should increase to three minutes, and production staffing should be set accordingly.

If the customers buy more, then takt time will decrease, and takt time would be lowered to produce more products in a shorter amount of time. If the customer buys more than your two-minute takt time produces, then takt time would be lowered to match the sell rate and increase staffing accordingly.

Producing to takt time with optimal staffing is the ideal spot. At that point, the right amount of people produces the product within the established takt time.

Imbalances in takt time, especially in older facilities, drive security inventories and buffer space. If you manage such a facility, one step on the lean journey is to monitor summed takt time in order to move toward preventive (rather than reactive) quality measures. That is, if you can detect, contain, and correct the problem within Takt + Buffer Time (Summed Takt) then you have taken a step toward error proofing. This formula is no substitute for continuously improving a balanced takt time (thereby eliminating security inventory or buffering); rather, it is the first step, which you can institute quickly and economically, and which will help the people begin to "see" lean.

PRODUCTION SMOOTHING

Remember that one of the variables to help Kanban work effectively was a stable, robust demand. Since some variability occurs, Toyota decided to modify the demand with a method of production scheduling that, over time, takes the fluctuation of customer demand out of manufacturing. This process is called production smoothing and means that the business would produce every part, every day.

To quote Yasuhiro Monden from the Toyota Production System,

> The smoothing of production is the most important condition for production by Kanban and for minimizing idle time in regard to manpower, equipment, and work-in-process. Production smoothing is the cornerstone of the Toyota Production System.[11]

The design behind this smoothing system was to level load production to the rate of demand by creating an inventory buffer and replenishing that buffer using a levelled schedule, pull replenishment, and the smallest lot sizes possible. This provides stability for upstream operations and keeps waste to a minimum while supporting customer demand variability.

The benefits of production smoothing and stable demand are:

- Reduced lead times (which increases agility)
- Increased scheduler productivity
- Increased inventory turns
- Reduced overtime (for instance, from missed pitches)
- Reduced premium freight costs (inbound and outbound)
- More consistent customer service (approaching 100 percent on-time delivery)
- Higher utilisation of assets and capital (by higher throughput)
- Reduced raw materials costs in negotiated supplier contracts
- Increased shipments per labour hour
- Sustained continuous improvement

KAIZEN

Kaizen means “continuous improvement”. A Kaizen blitz (blitz = lightning fast) is an intensive and focused approach to process improvement. This continuous improvement methodology combines lean manufacturing tools such as the 5S system of workplace business and standardisation, cells, pull/Kanban, set-up reduction, and line balancing. Each tool incorporates team empowerment, brainstorming, and problem solving to make improvements rapidly to a specific product or process.

The word Kaizen itself is derived from two different Japanese words, *Kai*, which means to change or modify, and *Zen*, which means to improve. The two words together mean gradual, orderly, and continuous improvement. The interesting fact is that there is no word equivalent to Kaizen in the English language.

The history of Kaizen goes back to the 1950s when Toyota first implemented quality circles (checks) within the production process itself. In doing so, quality was inspected at every stage of production rather than checking the completed product for defects. Taiichi Ohno, former executive vice president of Toyota Motors and distinguished graduate of Nagoya Institute of Technology, pioneered the development of Toyota’s unique production system, commonly referred to as the Toyota Production System, which is now used throughout the world.[12]

How does a business begin the journey of implementing Kaizen?

- Discard conventionally fixed ideas.
- Think of possible solutions (without limitations).
- Question current practices (“it is our policy” or “we have to” are unacceptable reasons to maintain the status quo).
- Do not seek perfection. Do it right away, even if only for 50 percent of the target.
- If you make a mistake, correct it immediately.
- Do not spend money for Kaizen; use your wisdom.
- Wisdom emerges in the face of adversity.
- Seek the cause of the issue.
- Seek the wisdom of the group as opposed to the wisdom of one.
- Kaizen ideas are limitless.

A business begins the Kaizen journey by focusing on a specific product or process. This focus is known as a “Kaizen event”. The timeframe for the event is going to be short. Begin with simple processes to build success quickly. An event that is too large may cause failure and distrust in the Kaizen process. A business should obtain immediate improvements in its process and will most likely highlight other improvement opportunities for further Kaizen events. The Kaizen event will provide your business with immediately tangible results and motivation for ongoing continuous improvement within your company.

What are the benefits of a Kaizen event?

- Immediate results
- Involvement of the workforce

- Visual and action-oriented
- Kaizen process methodology can be used on an ongoing basis
- Fosters communication
- Creative versus capital investments
- People think from business perspective
- Smooth implementation due to TEAM concept

Let us consider what a one-week process might look like on a day-by-day basis.[13]

1. Day 1—The first day is spent on a quick review of lean concepts and strategy. All of the individuals involved will be instructed in lean concepts. A map of the current process is developed to determine the path of parts or raw materials.
2. Day 2—Training continues. Team members, using a stopwatch, do time studies and collect data on how long each part of the process takes. A work sampling is conducted to determine which steps add value, and which do not. For example, how much time is spent drilling a hole in the part versus carrying it? Team goals are written on Day 2 and an opportunity chart is compiled.
3. Day 3—The opportunity chart is completed, and solutions are developed to address key issues. A floor plan is created. Equipment is moved where necessary to create a better flow.
4. Day 4—Improvements are finished, and operators are trained on new processes. Production using the new methods begins. Another work sampling is done, and measurements are taken.
5. Day 5—A 5S or visual workplace activity makes sure the workplace is well organised and tools, cabinets, and storage areas are labelled. Standard operating procedures are updated. A summary report is prepared for upper management. It includes team goals, floor plan before and after, key results, and savings.

When a business begins a Kaizen blitz, it must be prepared to deal with specific roadblocks. All of these roadblocks can be traced back to two major areas: leadership and employee empowerment. In addition to these two major areas, roadblocks will also occur in the training, culture, supervision, unions, and informational areas.

Typical roadblocks to organisational quality improvement include the following:

- *Unclear goals:* Initiatives are often undertaken without setting realistic or measurable objectives. Without clear, shared goals, it is difficult to plan implementation, track progress, change direction if necessary, document results, recognise, or reward contributors or modify behaviour where people are not contributing. Unfortunately, because of unclear goals, too many initiatives are perceived as "programmes of the month" rather than longstanding changes in a firm's business practices.
- *Unassertive leadership:* In order for organisational change to be effective, management needs to be committed to implementation. Just as individuals reject change due to fear of the unknown, organisational improvements require clear management vision and direction, as well as tenacious support, for effective implementation.
- *Ineffective management processes:* Without effective management processes (for example, quality, performance management, and financial processes, or information and feedback systems), no organisational improvement can be sustained for the long term.

- *Negative climate:* No initiative can succeed in a hostile or overly negative climate. Without cooperation, trust, and everyone's willingness to consider new ideas, businesses cannot achieve long-term improvement.
- *Inappropriate structure:* If a business is not structured effectively, improvement can be difficult, if not impossible. Excessive layers of management, systemic redundancies, turf battles, or overly bureaucratic reporting policies can dramatically reduce—or in some cases, destroy—the results of improvement initiatives.
- *Unbalanced power:* The only way company-wide improvements can prosper is if there is equal input and representation from all parts of the business in the design, planning, implementation, and assessment of an improvement initiative. If one department or another part of a business has too much influence over the effort, it will typically fall short on results, either due to a drop-off in commitment or lack of support from the other areas.
- *Undeveloped individuals:* The best-planned initiatives can only succeed if all the players have the necessary skills to make them happen. Team skills, technical skills, and other job skills are necessary in order for change to be implemented effectively.
- *Ineffective teamwork:* Long-term improvement requires more than clear goals, effective structure, equal representation, and highly skilled employees. If people cannot work together, or if business units are not organised for effective teamwork, success will often be compromised.

WASTE IDENTIFICATION

The second key principle of lean introduced on the first page of this chapter is the "relentless identification and elimination of waste". Based on that premise—consider your organisation:

1. In what areas are you currently wasting resources?
2. Are any positions in the company unnecessary?
3. Are there any processes that seem redundant?

Lean is based on the relentless reduction of waste. There are seven major categories of waste:

1. Inventory—although accounting treats inventory as a current asset, in lean philosophy, inventory means waste. Inventory causes overhead, space costs, obsolescence, damage, or financing costs.
2. Overproduction—results in inventory which based on item 1, is identified as waste.
3. Defects—any defect causes scrap or rework, which is additional unnecessary costs.
4. Waiting—all instances that extend the process result in waste.
5. Extra processing—if the production process or services provided are unneeded, the company incurs unnecessary costs.
6. Motion—extra motion that is not valued by the customer adds additional, unnecessary costs.
7. Transportation—traditional plants require product movement by forklifts and hand-trucks, which do not add value to the product. Movement of office files or office papers also adds no value to the process.

OFFICE LEAN MANAGEMENT

To move the lean effort into the accounting department and other back-office functions, consider investigating the following areas:

- Inventory reduction
- Lead time reduction of critical processes
- Motion & space losses
- Retrieval time reduction
- Equalising the work load
- Improving office efficiency by eliminating the time lost on information retrieval by achieving zero breakdowns of office equipment, like telephone and fax lines[14]

A business that implements lean in the office can expect to have the following benefits:

1. Involvement of all people in support functions for focusing on better plant performance
2. Better utilised work area
3. Reduce repetitive work
4. Reduced inventory levels in all parts of the supply chain
5. Reduced administrative costs
6. Reduced inventory carrying cost
7. Reduction in number of files
8. Reduction of overhead costs (to include costs of non-production or non-capital equipment)
9. Productivity of people in support functions
10. Reduction in breakdown of office equipment
11. Reduction of customer complaints due to logistics
12. Reduction in expenses due to emergency dispatches or purchases
13. Reduced manpower
14. Clean and pleasant work environment

LEAN OFFICE APPROACH[15]

The steps to be followed for lean office implementation mirror the same steps used for the plant. Lean office utilises these basic lean tools:

- Office value stream mapping
- Office waste identification and elimination
- Standardised work for the office

- Spaghetti diagramming
- Visioning
- Paradigm changing
- Project implementation planning
- Kaizen improvement

Follow these steps to begin the lean office implementation:

1. Begin with education and training of the basic tenants of lean.
2. Begin the analysis with value stream mapping.

   It is common for a Kaizen event to follow the value stream analysis. Kaizen efforts will focus on optimising one product flow, or value stream, at a time. In an office Kaizen, there are many small, intersecting value streams rather than clear "product flows". Although some transactional office processes are similar to mass production, some information processing is comparable to custom or job shop manufacturing. Interject some light-heartedness by identifying some absurd processes that everyone recognises as redundant. For example, if you study cumbersome documents that travel from hand to hand all around the company, have people guess how far the document travels.

   There are multiple flows of customer demands and needs across each desk, service person, and computer which must be identified and mapped out. Specific actions to remember:

   a. Map the information processing workflow

   b. Identify internal and external customers

   c. Define the value that each transaction creates in the customer's terms

   d. Determine or assign the quality, labour, and inventory costs

3. Make fact-based decisions.

   The challenge with lean office is that often businesses do not collect good data on information transaction processes. Compared to manufacturing, much of the information flow is hard to see or practically invisible. Compared to manufacturing, it may be harder to collect data by watching, timing, and measuring the operations. Much of the information flow is not visible because it happens electronically, and many types of information transactions are seen only infrequently. These actions must be taken:

   a. Define "knowledge" work versus "transactional" work

   b. Create Pareto analyses of volume and frequencies of the types of work

   c. Identify similarities in process flow using process matrixes

   d. Group services and transactions into process families whenever possible

   e. Define "units of customer demand" and develop takt times

4. Make the process visible

   Although we have removed physical walls from many factories and retail environments, office areas have high cubicle walls, which prevent smooth, defect-free information flow.

Specific actions:

a. Use value stream mapping to understand the high-level connections of workflow and information

b. Use mapping to track the detailed movement of information and tasks between individuals and departments

c. Walk through the process and see what is actually happening

d. Put status boards and performance metrics up in the office areas and use these areas for daily stand-up meetings

5. Focus on the process, not the person

   Improvement is change, and change is difficult for people. This is especially so when it is "knowledge work" such as engineering. The focus of waste elimination activity must always remain on the process, not the person, in order to make change less confrontational. However, in many cases for office and administrative processes the person is the process.

   Specific actions:

   a. Provide training and develop understanding of lean principles

   b. Keep the process owners involved at all stages of lean implementation

   c. Create a blame-free environment so that person mistakes are not hidden

6. Tear down the walls!

   This step is perhaps the most difficult for many businesses implementing lean in the office. The resistance will come not only from the people who are used to having 100 square feet of personal space in their cubicle, but from the managers who feel entitled to their large offices. These entitlements are at a tremendous cost to the business as well as the effectiveness of the individuals working there.

   Specific actions:

   a. Remove cubicle walls

   b. Make "work cells" specific to the types of jobs that flow through the area

   c. Create "open room" project areas where teams can co-locate to work on projects, communicate, and make project status visible

   d. Establish one or more "quiet zones" where people can go when they need to concentrate for short periods of time

   e. Reduce scheduled meetings in conference rooms and replace with multiple daily "ad hoc" meetings

Implementing a Lean Programme in Your Business[16]

Every business will create its own unique journey. However, the following outline will help move the business in the correct direction.

- Step 1: Lean awareness training. Develop an understanding of what lean manufacturing is, and why lean principles should be practiced at the company.
- Step 2: Assessment. Determine high-impact improvement areas and prioritise subsequent activities. In addition, an assessment provides a snapshot or benchmark of current conditions.

- Step 3: Lean implementation training. Provide the tools and detailed understanding necessary for a team to analyse and know how to design improvements (cellular or set-up reduction, for example.) This step is usually linked to step 4, "Implementation", and delivered Just-In-Time training followed by immediate action and application.
- Step 4: Implementation. The team analyses, designs, and implements improvements.
- Step 5: Continuous improvement.

Best Practice Checklist

Two ways to become leaner as described are:

1. Value stream mapping and finding or eliminating non-value activities
2. Process tools to identify wasteful activities

An impatient business that would like to find areas to develop can skip the process analysis and jump straight to the Best Practice comparison. The concept behind this process is that a business that can adopt best practices and immediately switch its process will pick up significant lean benefits. This is not to say that a formal analysis is not valuable. It is to say that if you can find obvious items in the checklist in box 5-2 that you can implement quickly—do so!

Box 5-2: Lean Best Practices Checklist

GENERAL BEST PRACTICES	ACCOUNTS PAYABLE BEST PRACTICES
1. Avoid over-auditing of internal audits	1. Audit expense reports
2. Complete all internal audit work papers in the field	2. Automate expense reporting
3. Consolidate all accounting functions	3. Automate payments for repetitive invoicing
4. Continually review key process cycles	4. Automate three-way matching
5. Create a contract terms database	5. Automate value-added tax analysis
6. Create an ongoing training programme for all accounting personnel	6. Centralise the accounts payable function
7. Create an on-line internal audit library	7. Create direct purchase interfaces to suppliers
8. Create an on-line tax policy listing	8. Create on-line purchasing catalogue
9. Create a policy and procedure manual	9. Digitise accounts payable documents
10. Create computer-based training movies	10. Directly enter receipts into computer
11. Implement cross-training for mission-critical activities	11. Eliminate manual checks
12. Implement process-centring	12. Fax transmission of accounts payable documents
13. Issue activity calendars to all accounting positions	13. Have suppliers include their supplier numbers on invoices
	14. Internet-based monitoring of credit card purchases

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GENERAL BEST PRACTICES	ACCOUNTS PAYABLE BEST PRACTICES
14. Outsource tax form preparation 15. Outsource the internal audit function 16. Post the policies and procedures manual on the business Intranet site 17. Scan data with modified palm computing platform 18. Scan fingerprints at user workstations 19. Schedule internal audits based on risk 20. Sell the shared services centre 21. Switch to a limited usage application service provider 22. Switch to an application service provider 23. Switch to on-line reporting 24. Track function measurements 25. Use balanced scorecard reporting	15. Issue standard account code list 16. Link corporate travel policies to an automated expense reporting system 17. Link supplier requests to the accounts payable database 18. Outsource the accounts payable function 19. Pay based on receiving approval only 20. Receive billings through electronic data interchange 21. Reduce required approvals 22. Request that suppliers enter all invoices through a website 23. Shift incoming billings to an EDI data-entry supplier 24. Shrink the supplier base 25. Substitute petty cash for checks 26. Substitute wire transfers for checks 27. Transmit expense reports by e-mail 28. Use blanket purchase orders 29. Use procurement cards 30. Use signature stamp
BILLING BEST PRACTICES	**BUDGETING BEST PRACTICES**
1. Add carrier route codes to billing addresses 2. Automatically check errors during invoice data entry 3. Computerise the shipping log 4. Delivery person creates the invoice 5. Delivery person delivers the invoice 6. Early billing of recurring invoices 7. Eliminate month-end statements 8. Issue electronic invoices through the Internet 9. Issue single, summarised invoices each period 10. Offer customers secure Internet payment option	1. Automatically link the budget to purchase orders 2. Budget by groups of staff positions 3. Clearly define all assumptions 4. Clearly define all capacity levels 5. Create a summarised budget model for use by upper management 6. Establish project ranking criteria 7. Establish the upper limit of available funding 8. Identify step-costing change points 9. Include a working capital analysis 10. Issue a budget procedure and timetable

(continued)

BILLING BEST PRACTICES	BUDGETING BEST PRACTICES
11. Print separate invoices for each line item 12. Reduce number of parts in multi-part invoices 13. Replace inter-company invoicing with operating transactions 14. Track exceptions between the shipping log and invoice register 15. Transmit transmissions via electronic data interchange 16. Use automated bank account deductions	11. Link to performance measurements and rewards 12. Reduce the number of accounts 13. Simplify the budget model 14. Store budget information in a central database 15. Use activity-based budgeting 16. Use flex budgeting (use cost drivers) 17. Use on-line budget updating 18. Use video conferencing for budget updating
CASH MANAGEMENT BEST PRACTICES	**COLLECTIONS BEST PRACTICE**
1. Area-concentration banking 2. Consolidate bank accounts 3. Controlled disbursements 4. Electronic funds transfer 5. Lockbox collections 6. On-line access to bank account information 7. Positive pay system 8. Proliferate petty-cash boxes 9. Utilise an investment policy 10. Zero-balance accounts	1. Access to customer assets database 2. Access to customer orders database 3. Automatic bankruptcy notification 4. Automatic fax of overdue invoices 5. Automatic issuance of dunning letters 6. Collection call database 7. Collection call stratification 8. Customer order exception tracking 9. Grant percentage discounts for early payment 10. Immediate review of unapplied cash 11. Linkage to comprehensive collections software package 12. Lockbox collections 13. Outsource collections 14. Pre-approved customer credit 15. Pricing structure simplification 16. Standardised credit level determination system 17. Write off small balances with no approval
COMMISSIONS BEST PRACTICES	**COSTING BEST PRACTICES**
1. Automatically calculate commissions in the computer system 2. Calculate final commissions from actual data 3. Construct a standard commission terms table 4. Include commission payments in payroll payments 5. Lengthen the interval between commission payments	1. Audit bills of material 2. Audit labour routings 3. Eliminate high-leverage overhead allocation bases 4. Eliminate labour variance reporting 5. Follow a schedule of inventory obsolescence reviews

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COMMISSIONS BEST PRACTICES	COSTING BEST PRACTICES
6. Only pay commissions from cash received 7. Periodically audit commissions paid 8. Periodically issue a summary of commission rates 9. Post commission payments on the business Intranet 10. Show potential commissions on cash register 11. Simplify the commission structure	6. Implement activity-based costing 7. Implement target costing 8. Limit access to unit of measure changes 9. Review cost trends 10. Review material scrap levels 11. Revise traditional cost accounting reports
FILING BEST PRACTICES	**FINANCE BEST PRACTICES**
1. Add digital signatures to electronic documents 2. Adopt a document-destruction policy 3. Archive cancelled checks on CD-ROM 4. Archive computer files 5. Document imaging 6. Eliminate attaching back-up materials to checks for signing 7. Eliminate reports 8. Eliminate stored paper documents if already in computer 9. Extend time before computer records are purged 10. Extend use of existing computer database 11. Improve computer system reliability 12. Move records off-site 13. Reduce number of form copies to file	1. Access bank account information on the Internet 2. Automatic 401(k) plan enrolment 3. Avoid delays in check posting 4. Centralise foreign exchange management 5. Consolidate insurance policies 6. Grant employees immediate 401(k) eligibility 7. Install a treasury workstation 8. Negotiate faster deposited check availability 9. Optimise cash management decisions through the Internet 10. Use Internet-based cash flow analysis software 11. Use Internet-based options pricing services 12. Use Internet-based risk measurement services 13. Use Internet-based technical analysis services 14. Use Internet-based treasury management services 15. Use web broadcasting for public reporting
FINANCIAL STATEMENTS BEST PRACTICES	**GENERAL LEDGER BEST PRACTICES**
1. Assign closing responsibilities 2. Automate recurring journal entries 3. Automate the cut-off 4. Avoid the bank reconciliation 5. Complete allocation bases in advance 6. Conduct daily review of the financial statements 7. Conduct transaction training 8. Continually review wait times	1. Construct automated interfaces to software that summarises into the general ledger 2. Create general ledger drill-down capability 3. Eliminate small-balance accounts 4. Modify account code structure for storage of ABC information 5. Overlay the general ledger with a consolidation and reporting package 6. Reduce the chart of accounts

(continued)

FINANCIAL STATEMENTS BEST PRACTICES	GENERAL LEDGER BEST PRACTICES
9. Convert serial activities to parallel ones 10. Create a closing schedule 11. Defer routine work 12. Document the process 13. Eliminate multiple approvals 14. Eliminate small accruals 15. Move operating data to other reports 16. Post financial statements in an Excel Pivot Table on the Internet 17. Reduce investigation levels 18. Restrict the level of reporting 19. Restrict the use of journal entries 20. Train the staff in closing procedures 21. Use cycle counting to avoid month-end counts 22. Use internal audits to locate transaction problems in advance 23. Use standard journal entry forms 24. Write financial statement footnotes in advance	7. Restrict use of journal entries 8. Subsidiaries update their own data in the central general ledger 9. Use automated error-checking 10. Use data warehouse for report distribution 11. Use forms or rates data warehouse for automated tax filings 12. Use identical chart of accounts for subsidiaries 13. Use the general ledger as a data warehouse

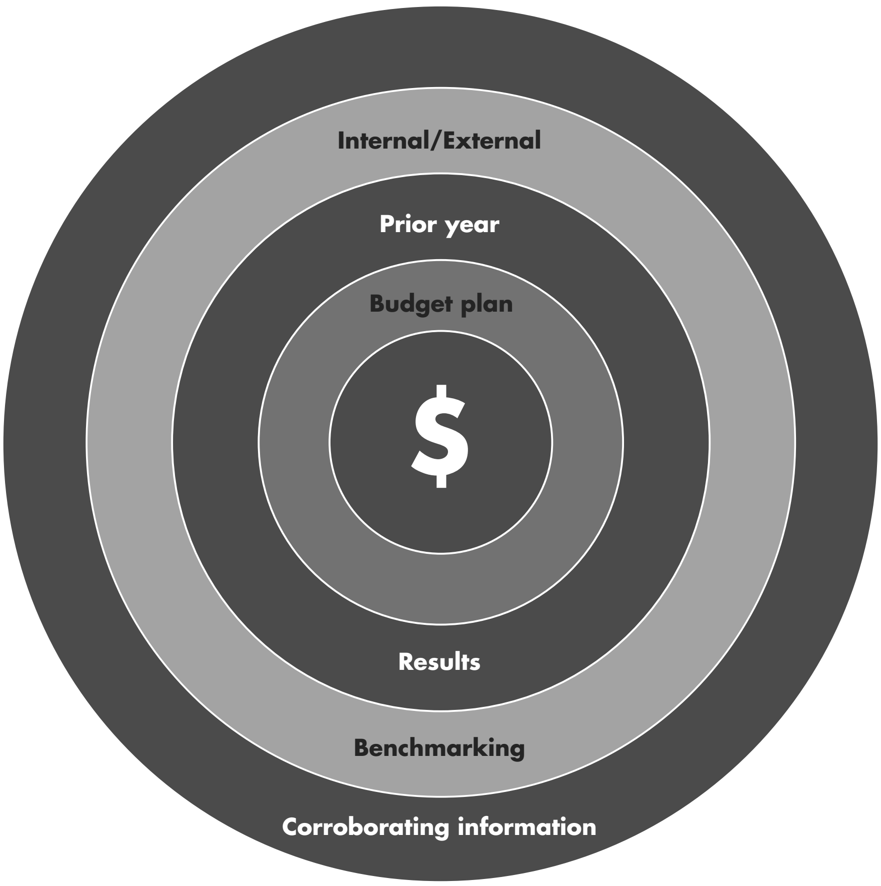
INVENTORY BEST PRACTICES	PAYROLL BEST PRACTICES
1. Audit all inventory transactions 2. Audit bills of material 3. Compare recorded inventory activity to on-hand inventories 4. Eliminate the physical count process 5. Eliminate the receiving function 6. Eliminate the warehouse 7. Lock down the warehouse area 8. Modify the bills of material based on actual scrap levels 9. Move inventory to floor stock 10. Review inventory returned to the warehouse 11. Segregate customer-owned inventory 12. Streamline the physical count process 13. Track inventory accuracy 14. Verify that all receipts are entered in the computer at once	1. Automate fax-back of payroll forms 2. Automate vacation accruals 3. Avoid job costing through the payroll system 4. Consolidate payroll systems 5. Disallow pre-payments 6. Eliminate personal leave days 7. Give employees direct access to deduction data 8. Link payroll changes to employee events 9. Link the 401(k) plan to the payroll system 10. Link the payroll and human resources databases 11. Minimise payroll cycles 12. Outsource the payroll function 13. Prohibit deductions for employee purchases 14. Send remittances as e-mail messages 15. Switch to salaried positions 16. Use bar-coded time clocks 17. Use biometric time clocks 18. Use direct deposit 19. Use honour system to track vacation and sick time 20. Use web-based payroll outsourcing

TURNING DATA INTO KNOWLEDGE

Companies do not take the time to understand their current financial positions. Let us begin with an analogy: You open the front door of your house, step out on the porch and look at the thermometer. The thermometer shows that it is 55°. What does the 55° mean? To some people, 55° might mean that is very cold. To others, it might mean that it is a January thaw. Unfortunately, the 55° has no context without knowing where the individual lives, what time of year it is and what the expectant weather pattern is. We could bring in other metrics such as the dew point or barometric pressure. This may be additional meaningless information to many individuals. This simple example mirrors our current financial systems and financial reporting. Accounting departments generate all types of accounting information in addition to income statement numbers, balance sheet numbers or cash flow numbers. Much of the information that we create is not understood due to its complexity or due to the lack of context for the numbers presented. It is the accountant's job as preparer and supplier of financial information to bring the appropriate information to the management team and put it in its proper context. In this light, it may be more appropriate for us to provide simpler information in a better context. That context might take the form of additional management information such as key performance indicators, units of service and operational productivity numbers that provide insight into the overall organisation performance.

Consider figure 5-2.

Figure 5-2: Giving Context to Financial Information



At the centre of figure 5-2 is the dollar sign. The dollar sign represents the multiple types of financial information that the accounting department creates and shares. Imagine going into a management meeting and telling everybody that sales for the month was $12,210,000. Similar to the preceding temperature example, the $12,210,000 has no context and is meaningless. If the accountant can reframe the $12.2 million in relation to the budget or plan, then it provides a framework of understanding. For example, if the budget had been $11.9 million and the sales were $12.2 million, the management team will have a sense of achieving its goal. They may wonder what customers or products were responsible for the additional $300,000 of revenue. This additional framework begins to put the sales number into context. When an organisation has unrealistic targets or budgets, the variances create a different type of context, usually negative for the department that was responsible for the results. It can lead the management team to misinterpret the information.

As we move out to the next ring of the chart, we move from the context of budget / plan to context based on prior year results. Assume that the $12.2 million in sales was generated because of the addition of one major customer that doubled the business over the prior year. Therefore, the prior year results would have showed approximately $6 million dollars in revenue. Even though the company over-achieved its budget by $300,000, in comparison to the prior year, a greater variance discusses how the revenue was doubled. Both of the categories are necessary to understand the growth in revenue adequately.

In the next circle, the organisation can start analysing information with the aid of benchmarking. As we have seen in this chapter, there are many types of benchmarking in which a company can engage. However, the benchmarking process allows the company to determine how it compares to other organisations. Benchmarking can be used internally to compare departments or divisions in the same organisation. It could also be used to benchmark organisations in the same industry or in non-related industries. Management teams often understand the techniques or improvements available in their industry. Some great insights can be obtained from analysing unrelated industries. For example, what is the typical DSO for airlines, movie theatres or hotels? Typically, the DSO is almost non-existent as customers pay up front for the services. It may not be practical for your company, however, the concept of finding different ways to require deposits, advances, or prepayments may be worth discussing.

The last circle represents corroborating information. Corroborating information will be obtained from a variety of sources. The information should support the financial results or provide context to the financial results that has not been derived through the first four circles. If the information does not support your previous conclusions, then it suggests one of the following:

1. The external information is not related and should not be relied upon.
2. The information is related, and it is an indicator that your organisation is on the appropriate track.
3. The information is related, and your organisation is not moving in a favourable direction or toward a relationship to the corroborating information and hence a course correction is necessary.

ALMANAC OF BUSINESS AND INDUSTRIAL FINANCIAL RATIOS

The following pages show excerpts from the 2009 edition of the *Almanac of Business and Industrial Financial Ratios*.[17] The almanac lists 24 key financial ratios for 180 industries based on IRS data. Although the information is based on IRS data, it is still very helpful.

Table 5-1 shows the industry data based on asset size of the larger wood products companies. Table 5-1 also show all companies in the industry whether they had a net income or net loss table 5-2 shows companies in the wood product industry that only have net income. The business can use this data as a benchmark tool and identify ratio characteristics of successful companies.

The author of this text created interpolated tables. If we have the complete universe of information (table 5-1) and separate identifying data (table 5-2) for companies that make money, we can create the data that represents companies in the wood product industry that lose money (interpolated table 5-3.)

Note that the almanac is broken down by business asset size. This allows the user to choose the companies most appropriate to their size. The almanac summarises many ratios that can be helpful as comparisons. In addition, it highlights major income and expense categories that can be used as comparable benchmarks.

It is interesting to see the overall performance of different size companies. After reviewing the almanac, a reader will see that greater size does not always mean greater efficiency and profitability. Many companies will get an insight as to "how big" they should grow before they start becoming inefficient or that the additional growth (capital resources, human resources) is not worth the additional risk.

The author recommends that every serious accounting or finance person should visit www.amazon.com or www.alibris.com and obtain the *Almanac* when the book is one to two years after publication. A new book will cost approximately $200.00. Buying a copy that is one to two years old may only run $15–$25. The trends will still be useful for comparison to the reader's company.

Table 5-1: Wood Products—Entire Universe of Companies

			Asset Size – $ in Thousands		
		Total	**100000–250000**	**250000–500000**	**500000–2500000**
Entities (# in table)		14326	34	12	14
Net Sales	**2**	108,389,808	7,518,649	6,688,965	34,164,044
Interest	**3**	831,768	27,722	29,559	736,402
Rents	**4**	44,689	3,978	2,838	4,987
Royalties	**5**	42,981	8,170	141	32,500
Other Portfolio Income	**6**	1,564,996	13,648	23,990	1,211,962
Other Receipts	**7**	1,049,059	71,605	232,016	337,439
Total Receipts	**8**	111,923,301	7,643,772	6,977,509	36,487,334
Average Total Receipts	**9**	7,813	224,817	581,459	2,606,238
Operating Costs/Operating Income (%)					
Cost of Operations	**10**	74.4	78.5	76.0	75.2
Salaries and Wages	**11**	5.9	4.5	5.4	5.8
Taxes Paid	**12**	1.7	1.2	1.4	1.1
Interest Paid	**13**	2.4	1.7	1.1	5.3
Depreciation	**14**	1.8	2.7	2.1	1.1
Amortization and Depletion	**15**	0.6	0.2	0.6	1.4

Continued on p. 140

		Total	Asset Size – $ in Thousands 100000–250000	250000–500000	500000–2500000
Pensions and Other Deferred Comp.	**16**	0.5	0.2	1.0	0.9
Employee Benefits	**17**	1.1	0.6	1.0	1.1
Advertising	**18**	0.6	0.7	0.9	0.8
Other Expenses	**19**	7.2	6.4	8.0	5.6
Officers' Compensation	**20**	1.9	0.8	0.4	1.2
Operating Margin	**21**	2.1	2.4	2.1	0.3
Operating Margin Before Officers' Comp.	**22**	3.9	3.2	2.5	1.5
Net Receivables	**23**	2,338	23,916	48,543	1,939,807
Inventories	**24**	724	23,820	44,129	196,474
Net Property, Plant and Equipment	**25**	1,951	54,275	107,052	1,240,468
Total Assets	**26**	10,161	144,135	328,297	7,981,074
Notes and Loans Payable	**27**	2,027	55,151	56,824	1,242,918
All Other Liabilities	**28**	3,566	33,971	83,580	3,114,689
Net Worth	**29**	4,568	55,012	187,894	3,623,466
Selected Financial Ratios (Times to 1)					
Current Ratio	**30**	1.1	1.8	1.8	0.9
Quick Ratio	**31**	0.8	1.0	0.8	0.8
Net Sales to Working Capital	**32**	25.2	7.5	8.4	•
Coverage Ratio	**33**	3.3	3.4	6.9	2.4
Total Asset Turnover	**34**	0.7	1.5	1.7	0.3
Inventory Turnover	**35**	7.8	7.3	9.6	9.3
Receivables Turnover	**36**	5.2	11.0	15.2	2.3
Total Liabilities to Net Worth	**37**	1.2	1.6	0.7	1.2
Current Assets to Working Capital	**38**	12.3	2.2	2.2	•
Current Liabilities to Working Capital	**39**	11.3	1.2	1.2	•
Working Capital to Net Sales	**40**	0.0	0.1	0.1	•
Inventory to Working Capital	**41**	2.5	0.8	0.8	•
Total Receipts to Cash Flow	**42**	9.3	10.9	7.7	8.6
Cost of Goods to Cash Flow	**43**	6.9	8.5	5.8	6.4
Cash Flow to Total Debt	**44**	0.1	0.2	0.5	0.1
Selected Financial Factors (in Percentages)					
Debt Ratio	**45**	55.0	61.8	42.8	54.6
Return on Total Assets	**46**	5.8	8.8	12.6	3.9
Return on Equity Before Income Taxes	**47**	9.0	16.2	18.8	5.0
Return on Equity After Income Taxes	**48**	7.8	12.7	15.7	4.1
Profit Margin (Before Income Tax)	**49**	5.4	4.0	6.3	7.4
Profit Margin (After Income Tax)	**50**	4.7	3.2	5.3	6.1

Table 5-2: Wood Products—Companies with Net Income

		Total	100000–250000	250000–500000	500000–2500000
			Asset Size – Thousand of $		
Entities		9961	26	9	11
Net Sales	**2**	92,421,415	6,364,715	5,243,987	31,307,408
Interest	**3**	818,541	26,576	28,907	732,577
Rents	**4**	39,187	3,630	2,838	4,987
Royalties	**5**	38,866	4,586	141	32,500
Other Portfolio Income	**6**	1,500,277	10,602	23,975	1,191,756
Other Receipts	**7**	912,188	65,316	225,912	262,879
Total Receipts	**8**	95,730,474	6,475,425	5,525,760	33,532,107
Average Total Receipts	**9**	9,611	249,055	613,973	3,048,373
Operating Costs/Operating Income (%)					
Cost of Operations	**10**	73.6	77.4	76.4	75.0
Salaries and Wages	**11**	5.8	4.9	4.2	6.0
Taxes Paid	**12**	1.6	1.3	1.6	1.1
Interest Paid	**13**	2.4	1.4	0.7	5.5
Depreciation	**14**	1.6	2.1	1.6	1.0
Amortization and Depletion	**15**	0.6	0.2	0.6	1.5
Pensions and Other Deferred Comp.	**16**	0.6	0.2	1.2	1.0
Employee Benefits	**17**	1.0	0.6	0.9	1.0
Advertising	**18**	0.6	0.7	0.8	0.9
Other Expenses	**19**	6.8	6.7	8.0	5.0
Officers' Compensation	**20**	1.9	0.9	0.4	1.2
Operating Margin	**21**	3.5	3.6	3.6	0.8
Operating Margin Before Officers' Comp.	**22**	5.4	4.5	4.0	2.0
Net Receivables	**23**	3,231	27,556	51,258	2,436,892
Inventories	**24**	835	24,147	43,106	226,619
Net Property, Plant and Equipment	**25**	2,469	49,344	102,210	1,514,092
Total Assets	**26**	13,589	147,249	327,113	9,882,164
Notes and Loans Payable	**27**	2,369	49,510	47,206	1,459,072
All Other Liabilities	**28**	4,900	36,658	95,695	3,883,940
Net Worth	**29**	6,320	61,081	184,213	4,539,152
Selected Financial Ratios (Times to 1)					
Current Ratio	**30**	1.1	1.9	1.7	0.9
Quick Ratio	**31**	0.8	1.2	0.8	0.7
Net Sales to Working Capital	**32**	37.1	7.2	9.5	•
Coverage Ratio	**33**	4.0	4.7	13.4	2.5

Continued on p. 142

		Asset Size – Thousand of $			
		Total	**100000–250000**	**250000–500000**	**500000–2500000**
Total Asset Turnover	**34**	0.7	1.7	1.8	0.3
Inventory Turnover	**35**	8.2	7.8	10.3	9.4
Receivables Turnover	**36**	4.8	11.2	14.7	2.1
Total Liabilities to Net Worth	**37**	1.2	1.4	0.8	1.2
Current Assets to Working Capital	**38**	19.3	2.1	2.5	•
Current Liabilities to Working Capital	**39**	18.3	1.1	1.5	•
Working Capital to Net Sales	**40**	0.0	0.1	0.1	•
Inventory to Working Capital	**41**	3.4	0.6	0.8	•
Total Receipts to Cash Flow	**42**	8.2	9.4	6.3	8.3
Cost of Goods to Cash Flow	**43**	6.1	7.3	4.8	6.2
Cash Flow to Total Debt	**44**	0.2	0.3	0.6	0.1
Selected Financial Factors (in Percentages)					
Debt Ratio	**45**	53.5	58.5	43.7	54.1
Return on Total Assets	**46**	6.6	11.3	17.2	4.0
Return on Equity Before Income Taxes	**47**	10.6	21.4	28.2	5.2
Return on Equity After Income Taxes	**48**	9.3	17.3	24.1	4.3
Profit Margin (Before Income Tax)	**49**	7.2	5.3	8.9	8.3
Profit Margin (After Income Tax)	**50**	6.4	4.3	7.6	6.9

Table 5-3: Interpolated Companies with Loss

		Asset Size – Thousand of $			
		Total	**100000–250000**	**250000–500000**	**500000–2500000**
Entities		0	0	0	0
Net Sales	**2**	15,968,393	1,153,934	1,444,978	2,856,636
Interest	**3**	13,227	1,146	652	3,825
Rents	**4**	5,502	348	0	0
Royalties	**5**	4,115	3,584	0	0
Other Portfolio Income	**6**	64,719	3,046	15	20,206
Other Receipts	**7**	136,871	6,289	6,104	74,560
Total Receipts	**8**	16,192,827	1,168,347	1,451,749	2,955,227
Average Total Receipts	**9**	3,710	146,044	483,917	985,076
Operating Costs/Operating Income (%)					
Cost of Operations	**10**	76.2	82.1	74.8	75.9
Salaries and Wages	**11**	6.1	3.2	9.0	5.1
Taxes Paid	**12**	1.9	0.9	0.8	1.1
Interest Paid	**13**	2.4	2.7	2.3	4.6

		Total	Asset Size – Thousand of $ 100000–250000	250000–500000	500000–2500000
Depreciation	**14**	2.3	4.7	3.6	1.5
Amortization and Depletion	**15**	0.6	0.2	0.6	1.0
Pensions and Other Deferred Comp.	**16**	0.3	0.2	0.4	0.5
Employee Benefits	**17**	1.3	0.6	1.3	1.5
Advertising	**18**	0.6	0.7	1.2	0.4
Other Expenses	**19**	8.1	5.4	8.0	7.8
Officers' Compensation	**20**	1.9	0.5	0.4	1.2
Operating Margin	**21**	–1.1	–1.5	–2.4	–1.5
Operating Margin Before Officers' Comp.	**22**	0.5	–1.0	–2.0	–0.3
Net Receivables	**23**	300	12,086	40,398	117,162
Inventories	**24**	471	22,757	47,198	85,942
Net Property, Plant and Equipment	**25**	769	70,301	121,578	237,180
Total Assets	**26**	2,338	134,015	331,849	1,010,411
Notes and Loans Payable	**27**	1,247	73,484	85,678	450,353
All Other Liabilities	**28**	522	25,238	47,235	294,102
Net Worth	**29**	570	35,288	198,937	265,951
Selected Financial Ratios (Times to 1)					
Current Ratio	**30**	1.1	1.5	2.1	0.9
Quick Ratio	**31**	0.8	0.4	0.8	1.2
Net Sales to Working Capital	**32**	–2.0	8.5	5.1	•
Coverage Ratio	**33**	1.7	–0.8	–12.6	2.0
Total Asset Turnover	**34**	0.7	0.9	1.4	0.3
Inventory Turnover	**35**	6.9	5.7	7.5	8.9
Receivables Turnover	**36**	6.1	10.4	16.7	3.0
Total Liabilities to Net Worth	**37**	1.2	2.3	0.4	1.2
Current Assets to Working Capital	**38**	–3.7	2.5	1.3	•
Current Liabilities to Working Capital	**39**	–4.7	1.5	0.3	•
Working Capital to Net Sales	**40**	0.0	0.1	0.1	•
Inventory to Working Capital	**41**	0.4	1.5	0.8	•
Total Receipts to Cash Flow	**42**	11.8	15.8	11.9	9.7
Cost of Goods to Cash Flow	**43**	8.7	12.4	8.8	7.1
Cash Flow to Total Debt	**44**	–0.1	–0.1	0.2	0.1
Selected Financial Factors (in Percentages)					
Debt Ratio	**45**	58.4	72.5	40.1	56.4
Return on Total Assets	**46**	4.0	0.7	–1.2	3.5
Return on Equity Before Income Taxes	**47**	5.3	–0.7	–9.4	4.3

Continued on p. 144

	Asset Size – Thousand of $				
		Total	**100000–250000**	**250000–500000**	**500000–2500000**
Return on Equity After Income Taxes	**48**	4.4	–2.3	–9.5	3.4
Profit Margin (Before Income Tax)	**49**	1.3	–0.2	–1.5	4.1
Profit Margin (After Income Tax)	**50**	0.8	–0.4	–1.6	3.2

ALTMAN'S Z-SCORE: A BANKRUPTCY PREDICTOR

In this section, we will discuss the use of one metric to understand the overall organisation. Before we share this metric let us look at an example the author shares with attendees in the seminars. He states, "I have been blessed with high blood pressure". The question to the audience is, "If you knew that your blood pressure readings were 160 over 120, what would you do? The class will laugh and suggest the following in no particular order:

- Go to the doctor
- Take blood pressure medicine
- Exercise more
- Change your diet
- Meditate
- Ensure your will is prepared

What is interesting about this exercise is that given a relatively small amount of information (such as the blood pressure reading), people begin to prescribe steps to develop the author's overall health. Contrast this to the business world. We have a similar situation. We have companies that have financial diagnostic tools and financial results and yet most controllers are unable to make sense of the numbers when compared and contrasted with other companies.

This concept becomes clearer when each reader considers his or her organisation's financial health. Some of the following words may come to mind (depending on your company's particular situation):

- Strong
- Healthy
- Shaky
- Cashflow challenged
- Leveraged
- In trouble
- Growing revenue

Compare your mental comments to this list. Do terms such as profitable, good cashflow, strong working capital or debt free appear? We have been trapped by descriptive words that can have various meanings. In fact, our businesses have lacked the ability to compare companies or understand the health of companies on an objective basis. This is where the Z-Score comes into play. The Altman Z-score provides improved significant information on the business as compared to the descriptive terms in the previous exercise.

The Altman's Z-score was created to be used as a predictor of bankruptcy. For our purposes, the author is not interested in using it as a predictor of bankruptcy but as an overall indicator of the company's financial health, just as the blood pressure was an example of personal health. If we can track your Z-score on a regular basis, it will give us clues into the financial position. The understanding will develop results in descriptive action steps that we need to take to develop our financial position. Let us look at the background of the Altman's z-score.

In 1968, Dr. Robert E. Altman performed a study on a number of companies that had gone into bankruptcy. He input key financial statistics into a regression software package. The software then determined a formula that was statistically significant. This formula then became the basis for predicting the likelihood of a business going into bankruptcy.

Again, for this discussion, we are not interested in the Altman Z-Score as a bankruptcy indicator but as a "financial health" indicator for the company. If the Z-Score is tracked on a monthly basis, it becomes a tool to analyse the business as well as a tool to compare to other companies. There are several varieties of the Z-score. In addition, the Z-Score has 4–5 components (depending on which model is used). Each of the components can be evaluated as a metric separately. The resulting Z-Score combines profitability and financial position information to create an all-encompassing value. These values can be evaluated against the Z-Score scale from Altman's study.

Z-Score Model 1

The formula for the most commonly used public model Z-score is:

X1 = Working Capital/Total Assets

X2 = Retained Earnings/Total Assets

X3 = Earnings before Interest and Taxes (EBIT)/Total Assets

X4 = Market Value of Equity/Book Value of Debt

X5 = Sales/Total Assets

$$Z = (1.2 \times X1) + (1.4 \times X2) + (3.3 \times X3) + (0.6 \times X4)+(0.999 \times X5)$$

After the Z-Score is calculated, it can be compared to table 5-4:

Table 5-4: Z-score and Probability of Bankruptcy (Not Likely to High)

Z-SCORE	PROBABILITY OF BANKRUPTCY
< 1.8	Very high
1.8–2.99	Not indicative of bankruptcy
> 3.0	Not likely

Before we examine additional Z-Score models, we will wrap several tools together to demonstrate how the information can be used. The following tools will be used in this exercise:

- Data from Louisiana Pacific (SEC Information)
- Actual Z-Score Calculation
- Almanac for Financial and Industrial Ratios

The first calculations of the Z-Score will be based on data from the Almanac of Financial and Industrial Ratios for companies listed under the heading of Wood Product Manufacturing. We will use information from the tables and make some assumptions to calculate Z-Scores for all companies (with income or loss) with asset sizes greater than $100M. The summary data is shown in table 5-5.

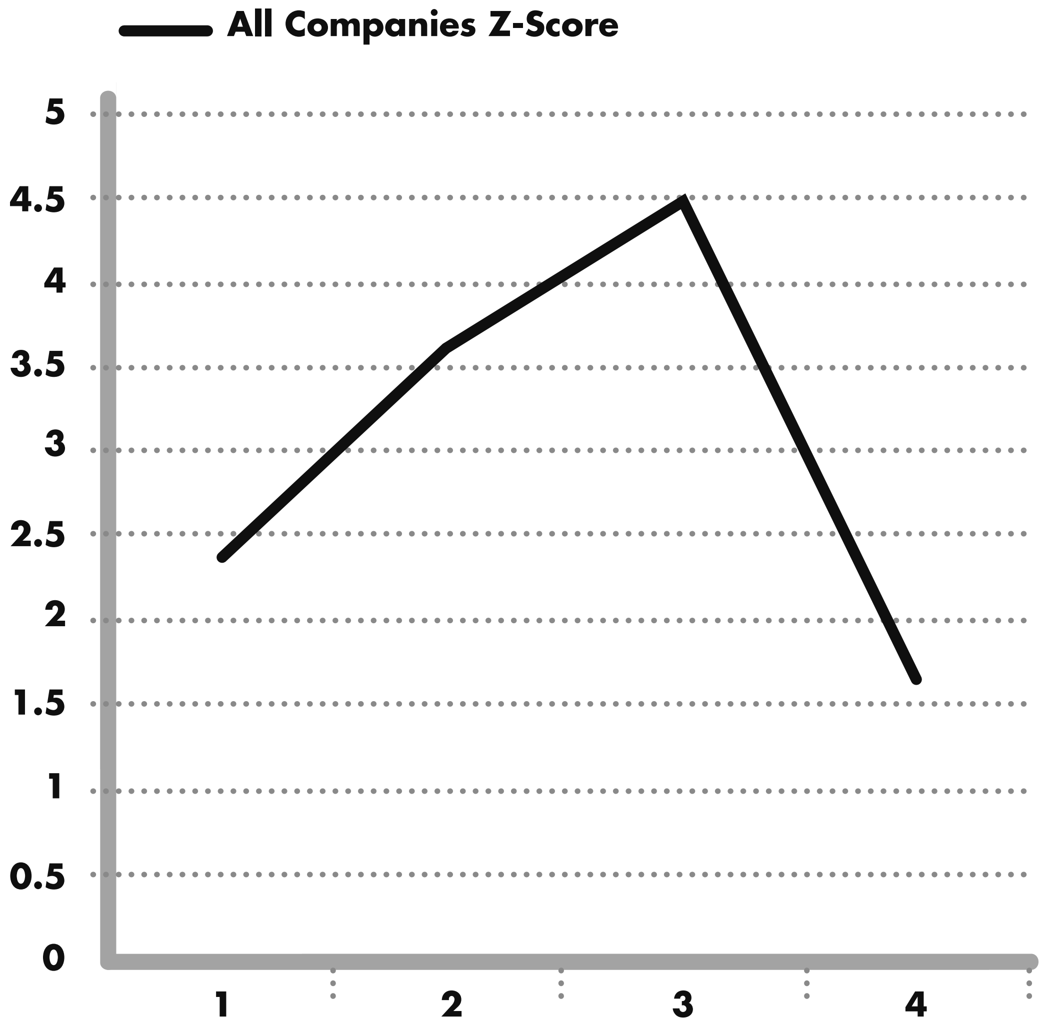
Table 5-5: Z-Score Calculation for All Companies

	ASSET SIZES IN 000s			
	TOTAL	100000–250000	250000–500000	500000–25000000
WORKING CAPITAL	304	21236	41422	–233179
RETAINED EARNINGS	4568	55012	187894	3623466
EBIT	351.585	9217.497	18606.69	145949.3
MV OF EQUITY	8000	171081	374000	5082959
SALES	7813	224817	581459	2606238
TOTAL ASSETS	10161	144135	328297	7981074

	ASSET SIZES IN 000s			
	TOTAL	100000–250000	250000–500000	500000–25000000
BOOK VALUE OF DEBT	5593	89122	142404	4357607
Z-SCORE	2.405841	3.632159	4.484864	1.686997

The Z-Score data is presented in figure 5-3.

Figure 5-3: Z-Score for All Companies

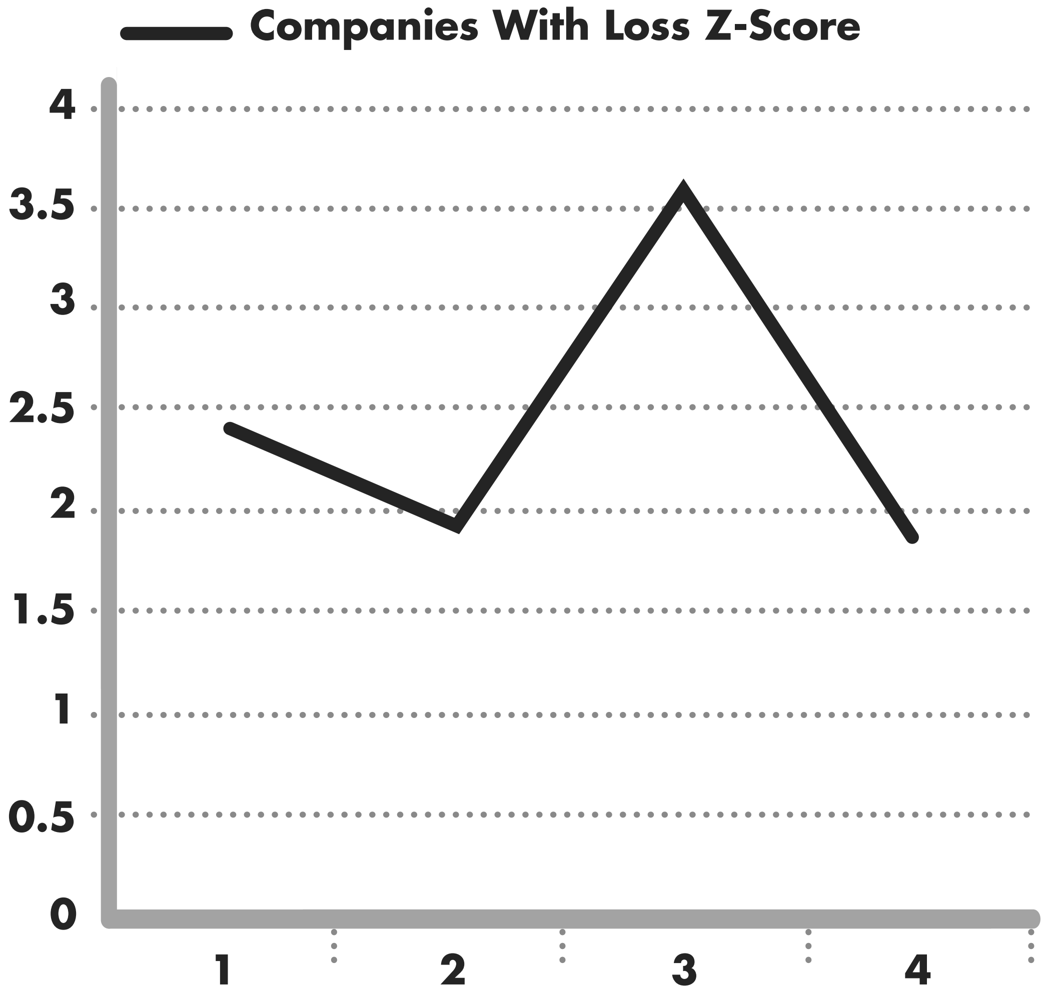


The second calculations of the Z-Score will come from the *Almanac of Financial and Industrial Ratios* for companies listed under the heading "Wood Product Manufacturing". We will use information from the tables and make some assumptions to calculate Z-Scores for all companies (with a net loss) with asset sizes greater than $100M. The summary data follows in table 5-6 and figure 5-4.

Table 5-6: Z-Score Calculation for Companies with Net Loss

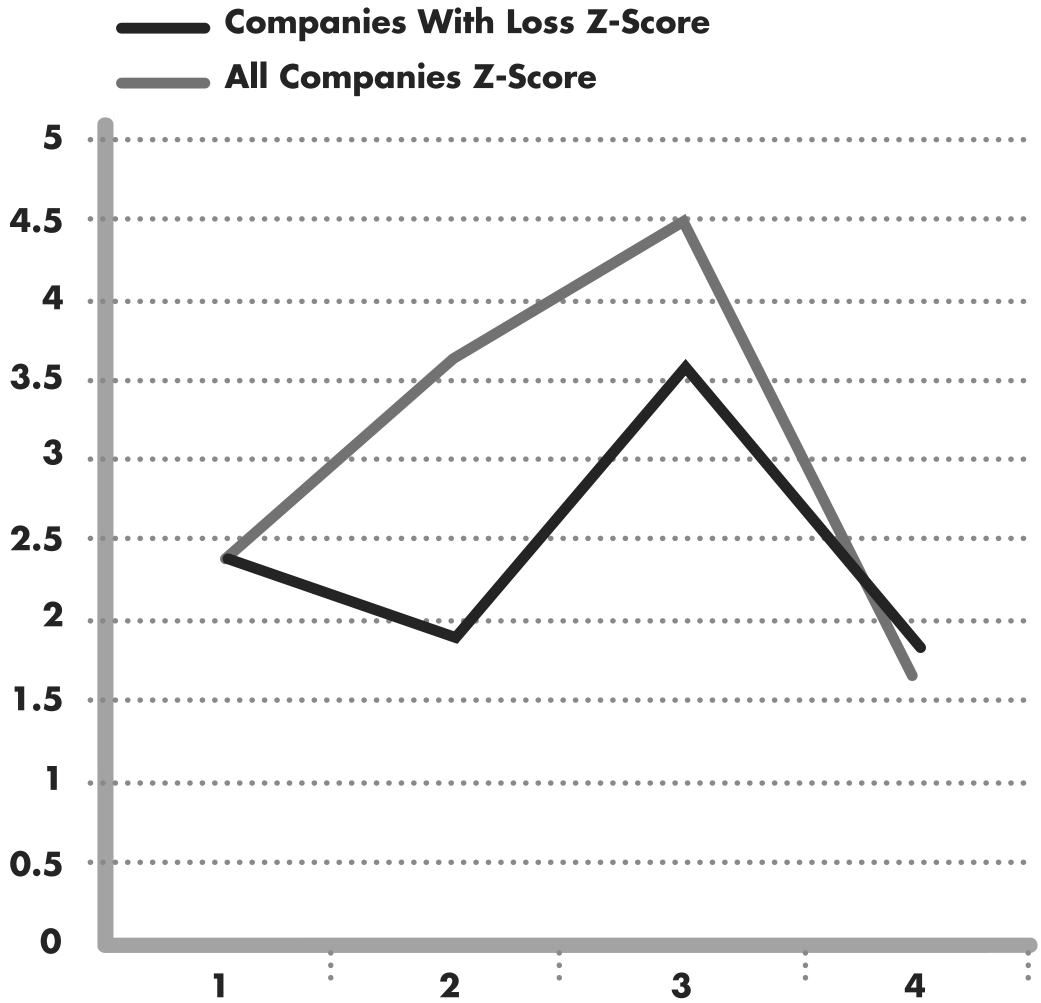
	ASSET SIZES IN 000s			
	TOTAL	100000–250000	250000–500000	500000–25000000
WORKING CAPITAL	111	11743	46496	–33896
RETAINED EARNINGS	570	35288	198937	265951
EBIT	48.217	1752.516	–483.917	30537.36
MV OF EQUITY	1050	52808	250000	571324.6
SALES	3709	146043	483917	985076
TOTAL ASSETS	2338	134015	331849	1010411
BOOK VALUE OF DEBT	1769	98722	132913	744455
Z-SCORE	2.407291	1.926554	3.587939	1.862389

Figure 5-4: Z-Score for Companies with Net Loss



Now we can compare the two trend lines in the following graph and see how the Z-Score is impacted by companies that lose money (figure 5-5). If we were to graph out the Z-Score for companies that made money, the line would be above the total universe line. The benefit of performing this analysis is that it provides insight into overall industry standards and benchmarks that can then be used to create financial goals for your company.

Figure 5-5: Comparison of Z-Scores



Next, we will calculate the estimated Z-Score for Louisiana Pacific. See the details in table 5-7. The author used an estimate of market value to make the analysis comparable to the Almanac's data. The other data comes from the 31 December 2009 financial statements as summarised on finance.yahoo.com.

Table 5-7: Z-Score Calculation for Louisiana Pacific

WORKING CAPITAL	531900
RETAINED EARNINGS	1249500
EBIT	115800
MV OF EQUITY	2407500
SALES	1054700
TOTAL ASSETS	2247400
BOOK VALUE OF DEBT	997900
Z-SCORE =	(1.2*X1) + (1.4*X2) + (3.3*X3) + (0.6*X4) + (0.999*X5)
	3.148779

In this example, LPX has a Z-score of 3.14. Based on the table, there is no indication of any financial trouble. However, the business can now track the Z-Score, compare it on a monthly or quarterly basis, and contrast it to industry Z-Scores calculated from the Almanac.

Z-Score Model 2

We can use the same approach for private companies by modifying the regression formula as well as eliminating the market value of equity section.

> A. [(Current Assets – Current Liabilities) / Total Assets] × 6.56 = _________.
>
> B. (Retained Earnings / Total Assets) × 3.26 = _________.
>
> C. (Earnings before Interest & Taxes / Total Assets) × 6.72 = __________.
>
> D. (Equity / Total Liabilities) x 1.05 = ________.
>
> The sum of (A + B + C + D) equals your Z-score.

Then see where your score falls on table 5-8.

Table 5-8: Z-score Not Imminent to Imminent Bankruptcy Probability

Z-SCORE	PROBABILITY OF BANKRUPTCY
0–1.09	Imminent
1.10–2.60	Questionable
2.60+	Not Imminent

Z-Score Model 3

There is also a 3rd Z-Score model for private manufacturing models.

> X1 = (Current Assets – Current Liabilities) / Total Assets
>
> X2 = Retained Earnings / Total Assets
>
> X3 = Earnings before Interest and Taxes / Total Assets
>
> X4 = Book Value of Equity / Total Liabilities
>
> X5 = Sales / Total Assets
>
> $Z = (0.717 \times X1) + (0.847 \times X2) + (3.107 \times X3) + (0.420 \times X4) + (0.998 \times X5)$

Then see where you score falls on table 5-9.

Table 5-9: Z-score Probability of Bankruptcy Zones

Z-SCORE	PROBABILITY OF BANKRUPTCY
< 1.23	"Distress" Zone
1.23–2.9	"Grey" Zone
> 2.9	"Safe" Zone

How can you adopt this formula to your company? At a minimum, use the Z-score on a monthly basis and create a trend analysis for your company. It can also be used in benchmarking exercises. Be sure to include the Z-score as one of your on-going key financial ratios or indicators. A consistent decrease in your Z score is a strong warning signal that corrective action is required. Ideally, senior management will avoid being complacent and take the warning seriously. The Z-score can become a training tool with senior management to make everyone aware of key statistics that influence your company's success.

If your business is a Sub S, track your Z-score prior to year-end distributions and after the distribution. If your business is an NPO, replace the retained earnings data with Net Assets. The author has found that NPO's can also use the Z-Score as a tracking tool. If used for bankruptcy analysis, the author estimates that the scales should be multiplied by .75. He determined this by review of failed NPO's on the GuideStar website.

PUBLICLY TRADED DATA

Finance Yahoo Comparable Data

When trying to gain insight on specific industries, go to publicly traded data. For much of this chapter, data illustrated Louisiana Pacific Corporation (LPX). We used public information and compared it to other information such as *The Almanac of Financial and Industrial Ratios* and to the Federal Reserve's Industrial Production numbers. Box 5-3 shares more about LPX and provides the annual financial statements.

Box 5-3: The Crystal Ball Effect

> Louisiana-Pacific Corporation, together with its subsidiaries, engages in manufacturing and distributing building products for new home construction, repair and remodelling, manufactured housing, and light industrial and commercial construction. The business operates in three segments: Oriented Strand Board, Siding, and Engineered Wood Products. The Oriented Strand Board segment provides structural panel products, such as plywood, including roof decking, sidewall sheathing, and floor underlayment. The Siding segment offers SmartSide siding products and related accessories, including wood-based sidings, trim, soffit, and fascia, and Canexel siding and accessory products comprising pre-finished lap, panel, and trim products. The Engineered Wood Products segment offers I-joists, laminated veneer lumber, laminated strand lumber, and other related products for residential and commercial flooring and roofing systems, headers and beams, and other structural applications. In addition, the business provides decorative moulding, cellulose insulation, and timber and timberlands. The business offers its products to retail home centres, manufactured housing producers, distributors, wholesalers, and building materials dealers in North America, South America, Asia, and Europe. The business was founded in 1972 and is headquartered in Nashville, Tennessee.

INCOME STATEMENT

(All numbers in thousands)

Period Ending	**31-Dec-09**	**31-Dec-08**	**31-Dec-07**
Total Revenue	**1,054,700**	**1,376,200**	**1,704,900**
Cost of Revenue	994,500	1,404,800	1,667,600
Gross Profit	**60,200**	**–28,600**	**37,300**
Operating Expenses			
Research Development	—	—	—
Selling General and Administrative	116,000	141,800	139,000
Non-Recurring	—	372,800	56,800
Others	80,000	100,400	107,900
Total Operating Expenses	—	—	—
Operating Income or Loss	**–133,300**	**–643,600**	**–266,400**
Income From Continuing Operations			
Total Other Income/Expenses Net	38,000	–60,600	31,100
Earnings Before Interest and Taxes	–169,400	–704,200	–235,300
Interest Expense	—	49,100	35,300
Income Before Tax	–169,400	–753,300	–270,600
Income Tax Expense	–63,400	–202,000	–133,400
Minority Interest	900	200	—
Net Income From Continuing Ops	–117,000	–565,100	–155,300
Non-Recurring Events			
Discontinued Operations	–5,300	–13,700	–24,600
Extraordinary Items	—	—	—
Effect of Accounting Changes	—	—	—
Other Items	—	—	—
Net Income	**–121,400**	**–578,800**	**–179,900**
Preferred Stock and Other Adjustments	—	—	—
Net Income Applicable to Common Shares	**($121,400)**	**($578,800)**	**($179,900)**

BALANCE SHEET

(All numbers in thousands)

Period Ending	31-Dec-09	31-Dec-08	31-Dec-07
Assets			
Current Assets			
Cash and Cash Equivalents	394,100	97,700	352,100
Short Term Investments	—	21,400	180,100
Net Receivables	229,000	183,300	318,000
Inventory	140,400	187,300	212,100
Other Current Assets	75,300	13,000	13,600
Total Current Assets	**838,800**	**502,700**	**1,075,900**
Long Term Investments	328,000	444,800	593,300
Property Plant and Equipment	964,500	1,129,900	1,140,900
Goodwill	—	—	273,500
Intangible Assets	3,000	4,100	16,500
Accumulated Amortization	—	—	—
Other Assets	93,400	107,200	129,200
Deferred Long Term Asset Charges	19,700	—	—
Total Assets	**2,247,400**	**2,188,700**	**3,229,300**
Liabilities			
Current Liabilities			
Accounts Payable	122,800	126,200	226,500
Short/Current Long Term Debt	174,100	29,700	246,300
Other Current Liabilities	10,000	10,000	15,800
Total Current Liabilities	**306,900**	**165,900**	**488,600**
Long Term Debt	337,600	472,600	485,800
Other Liabilities	168,000	161,300	95,400
Deferred Long Term Liability Charges	164,300	187,900	340,000
Minority Interest	21,100	18,700	—
Negative Goodwill	—	—	—
Total Liabilities	**997,900**	**1,006,400**	**1,409,800**

Stockholders' Equity			
Misc Stocks Options Warrants	—	—	—
Redeemable Preferred Stock	—	—	—
Preferred Stock	—	—	—
Common Stock	139,700	116,900	116,900
Retained Earnings	898,100	1,019,500	1,630,100
Treasury Stock	–286,100	–297,300	–302,000
Capital Surplus	562,400	441,300	439,000
Other Stockholder Equity	–64,600	–98,100	–64,500
Total Stockholder Equity	**1,249,500**	**1,182,300**	**1,819,500**
Net Tangible Assets	**$1,246,500**	**$1,178,200**	**$1,529,500**

Source: http://finance.yahoo.com/q/pr?s=LPX+Profile

Economic Analysis—American Association of Railroads

Another useful tool is the Weekly Railroad Traffic Report from the American Railroad Association. This report is made available on Thursday of every week for the preceding week's activity. Consider the following report for the week ended December 18, 2010 shown in table 5-10.

Table 5-10: Weekly Traffic of Major US Railroads

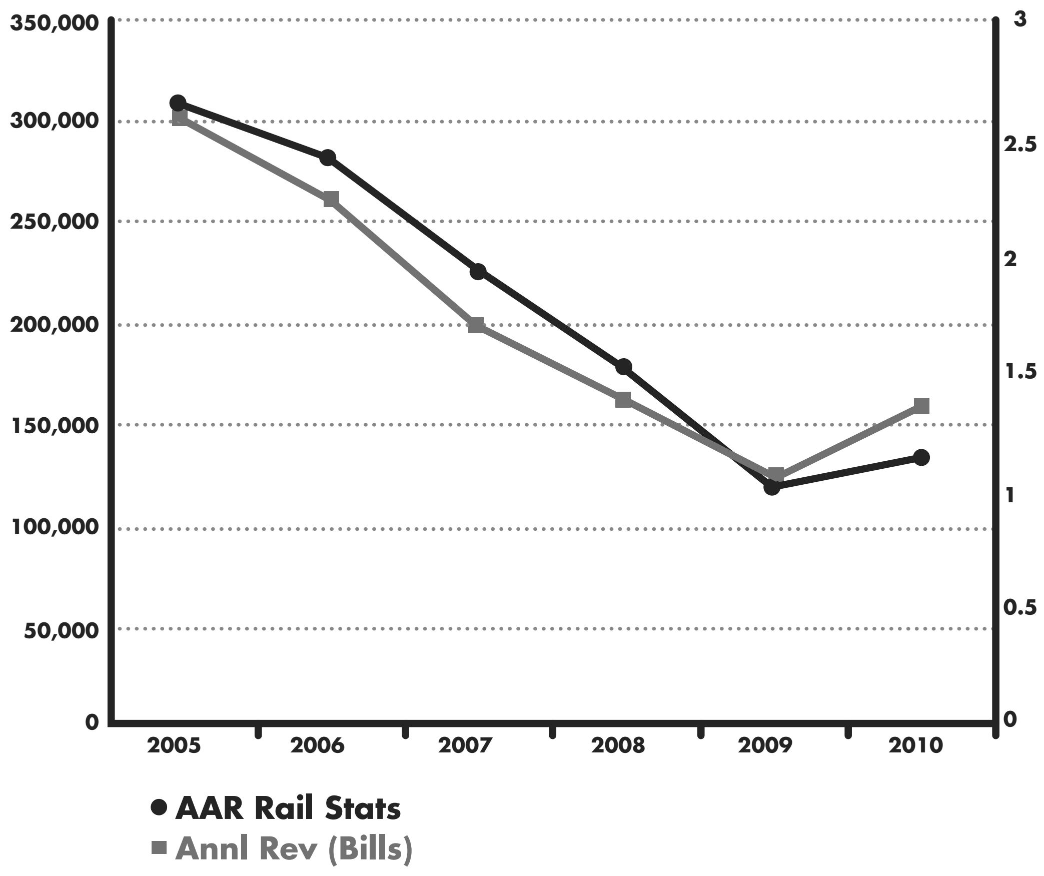
	Traffic Originated					
	Week 50 Ending December 18, 2010			Cumulative, 50 Weeks Ending December 18, 2010		
	2010	2009	Change	2010	2009	Change
Carloads Originated						
1. Grain	24,475	23,769	3.0%	1,109,959	1,004,832	10.5%
2. Farm Products, Ex. Grain	1,156	789	46.5	46,564	40,496	15.0
3. Metallic Ores	5,169	5,334	–3.1	312,707	165,065	89.4
4. Coal	120,440	124,168	–3.0	6,499,526	6,450,487	0.8
5. Crushed Stone, Sand & Gravel	13,425	12,887	4.2	839,771	747,094	12.4
6. Nonmetallic Minerals	3,470	4,604	–24.6	245,919	235,056	4.6
7. Grain Mill Products	7,985	8,736	–8.6	419,553	410,257	2.3
8. Food & Kindred Products	8,317	7,870	5.7	398,071	388,649	2.4
9. Primary Forest Products	1,443	1,609	–10.3	81,219	77,485	4.8
10. Lumber & Wood Products	2,444	2,115	15.6	127,484	115,827	10.1
11. Pulp, Paper & Allied Products	5,634	5,316	6.0	285,948	282,762	1.1
12. Chemicals	28,468	26,410	7.8	1,442,307	1,318,125	9.4
13. Petroleum Products	5,760	5,532	4.1	283,681	268,618	5.6
14. Stone, Clay & Glass Products	6,038	5,274	14.5	347,199	321,727	7.9
15. Coke	3,052	2,725	12.0	170,061	138,264	23.0
16. Metals & Products	9,234	7,896	16.9	456,355	313,273	45.7
17. Motor Vehicles & Equipment	12,582	15,160	–17.0	613,277	522,025	17.5
18. Waste & Scrap Materials	7,644	7,801	–2.0	398,840	351,230	13.6
19. All Other Carloads	4,973	3,672	35.4	245,516	236,218	3.9
Total	**271,709**	**271,667**	**0.0%**	**14,323,957**	**13,387,490**	**7.0%**
Intermodal Units Originated						
Trailers	38,330	36,427	5.2%	1,653,824	1,596,671	3.6%
Containers	181,857	173,332	4.9	9,284,369	7,988,697	16.2
Total	**220,187**	**209,759**	**5.0%**	**10,938,193**	**9,585,368**	**14.1%**
Estimated Ton-Miles (Billions)						
Estimated Ton-Miles (Billions)	31.0	30.5	1.6%	1,588.4	1,468.2	8.2%

This weekly report shows carloads originated as well as intermodal traffic. Note that the items moved are major commodities and significant products of specific industries (automotive). Weekly information can be charted, reviewed and compared to your industry for trend insights.

This data can provide further understanding of LPX results and the movement of lumber on the rail system. Look at Line 10 on the report. It represents Carloads of Lumber originated. The author was curious about the relationship between the weekly lumber and the revenue levels for Louisiana Pacific. Note that line 10 shows data for the current week and compares this amount to the same period for the prior year. It compares the same information on a year to date basis. The author accessed the year-end rail reports and extracted the carloads for lumber (see figure 5-6.)

This information was compared to the Annual Revenue for LPX as reported in their public reports. Look at the two lines in figure 5-6. The visual correlation at first is obvious. The initial conclusion is that it may be reasonable to use the rail report as a trend indicator for revenue and other projections.

Figure 5-6: AAR Annual Rail Lumber Carloads Versus LPX Annual Revenue



Economic Analysis—Federal Reserve Industrial Production and Capacity

In this section, information provided by the Federal Reserve can be used an indicator to determine the business cycle of the industry. Once the position in the business cycle is known, specific management practices can be engaged to develop overall results. This is critical as the wrong approach implemented in an incorrect cycle can seriously hurt a company. For example, we will use different approaches depending on the respective cycle: recovery, peak, recession and trough. In table 5-11, the top section is the actual data from the Federal Reserve G17 monthly data. The IPN stands for Industrial Production Non-Adjusted (raw data). Note that the data is in columns by year. The rows represent the months of the year. The author has transposed this for the purpose of this example. The actual data comes by years in rows.

To calculate the business trend number, we sum the first 3 months (90.4951 + 94.421 + 95.6691 = 280.5852). The total is reflected in the middle of table 5-11 entitled STEP 1 Rolling Sum of 3 months. This same addition step is reflected through table 5-11. It is shown so the reader can recreate at a later point in time.

The next step (2) is to divide the three-month sum into the same calculation for one year earlier. See the calculation in table 5-11: 294.55 / 280.58 = 1.049.

Table 5-11: Wood Products IPN G17 Raw Data

Wood Products IPN – G-17 (Raw Data)												
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
90.4951	95.2055	98.0996	86.4531	90.6715	90.8964	94.1892	99.3326	107.4303	95.0744	87.9488	65.0363	64.5435
94.421	99.3168	101.3379	88.4815	93.0012	93.7588	97.4111	100.4335	108.7852	97.5126	88.5591	67.1523	64.9116
95.6691	100.0355	103.6529	92.3452	96.7017	94.3291	98.0447	101.0654	110.4194	101.6991	90.0579	67.0284	68.3608
97.8448	102.3032	104.7429	93.0642	98.6095	95.955	100.225	104.2424	110.1871	101.766	91.1577	66.879	73.0513
96.5937	102.7997	102.4525	94.5132	97.7641	95.4609	100.0689	103.3431	109.8159	103.2551	90.1405	67.3343	73.8748
100.8137	106.2357	104.808	99.3732	102.8031	100.0288	102.4773	107.7885	112.5309	108.3955	92.5777	72.2088	73.9859
95.6308	99.5262	97.5105	92.1478	95.8755	95.9705	99.3256	103.7851	108.2327	103.3486	88.4906	69.3069	70.0382
101.3338	103.0633	100.8775	98.2706	100.7425	99.7501	102.6571	106.6028	109.6391	104.6116	89.89	72.6996	71.7885
99.649	101.9736	101.2043	98.7016	99.5326	99.7345	99.8543	109.6577	107.1487	101.6149	86.1298	70.5852	69.0801
102.7354	104.6093	99.5989	96.2866	100.1782	101.5714	104.0485	116.3935	102.9697	99.806	81.7678	69.6359	70.1323
98.0292	100.003	93.7867	91.7321	93.5873	98.7938	97.9394	111.4651	97.5225	93.2871	76.1119	66.8125	68.222
93.8587	95.024	86.6347	88.3148	88.706	91.8182	93.0269	105.4732	96.2967	89.629	66.693	63.6012	

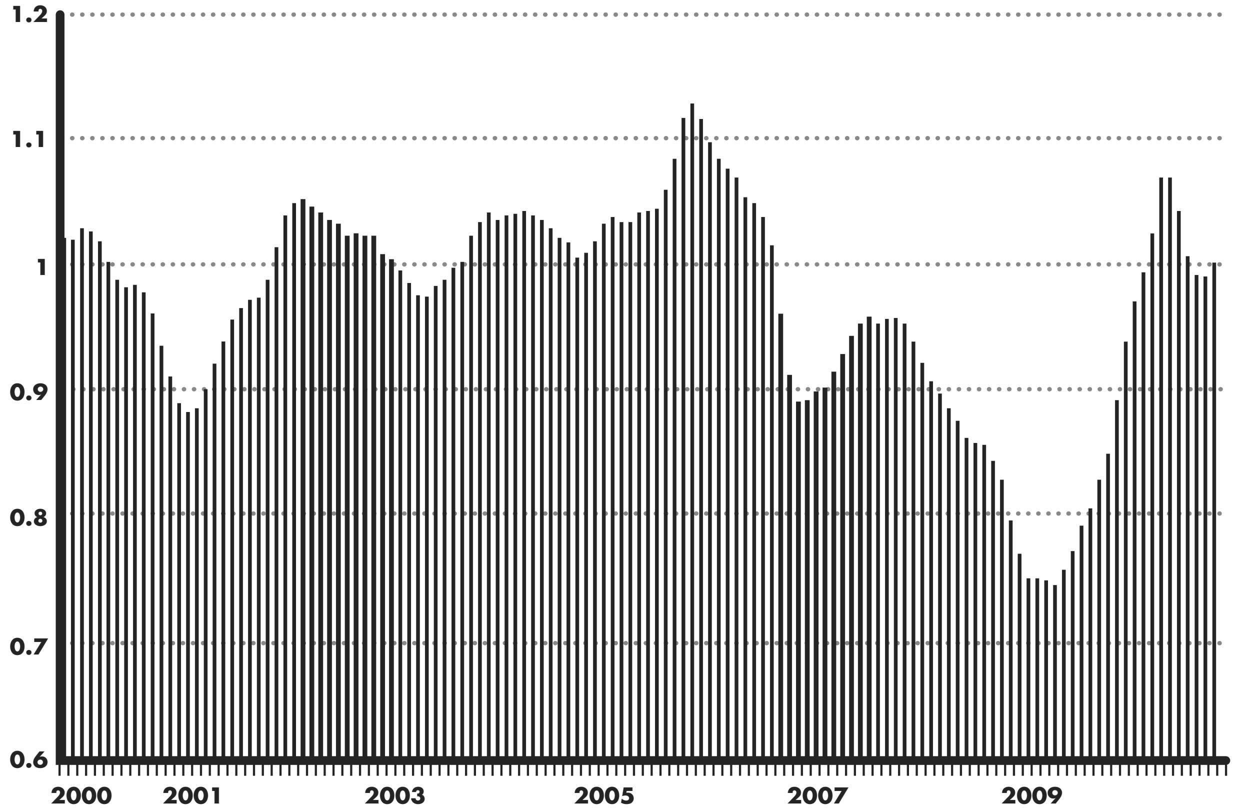
Step 1 – Rolling sum of 3 months												
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	287.0934	293.1266	266.8745	270.7184	273.1897	284.8012	290.2989	324.3686	288.8936	270.8649	207.8412	194.9572
	288.381	294.4615	261.5693	271.9875	273.3612	283.4185	292.793	321.6887	288.8837	266.1369	198.8816	193.0563
280.5852	294.5578	303.0904	267.2798	280.3744	278.9843	289.645	300.8315	326.6349	294.2861	266.5658	199.217	197.8159
287.9349	301.6555	309.7337	273.8909	288.3124	284.0429	295.6808	305.7413	329.3917	300.9777	269.7747	201.0597	206.3237
290.1076	305.1384	310.8483	279.9226	293.0753	285.745	298.3386	308.6509	330.4224	306.7202	271.3561	201.2417	215.2869
295.2522	311.3386	312.0034	286.9506	299.1767	291.4447	302.7712	315.374	332.5339	313.4166	273.8759	206.4221	220.912
293.0382	308.5616	304.771	286.0342	296.4427	291.4602	301.8718	314.9167	330.5795	314.9992	271.2088	208.85	217.8989
297.7783	308.8252	303.196	289.7916	299.4211	295.7494	304.46	318.1764	330.4027	316.3557	270.9583	214.2153	215.8126
296.6136	304.5631	299.5923	289.12	296.1506	295.4551	301.837	320.0456	325.0205	309.5751	264.5104	212.5917	210.9068
303.7182	309.6462	301.6807	293.2588	300.4533	301.056	306.5599	332.654	319.7575	306.0325	257.7876	212.9207	211.0009
300.4136	306.5859	294.5899	286.7203	293.2981	300.0997	301.8422	337.5163	307.6409	294.708	244.0095	207.0336	207.4344
294.6233	299.6363	280.0203	276.3335	282.4715	292.1834	295.0148	333.3318	296.7889	282.7221	224.5727	200.0496	138.3543

Step 2 – Current rolling 3 month sum divided by prior year's rolling 3 month sum												
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
		1.021015	0.910441	1.014403	1.009129	1.042503	1.019304	1.117361	0.890634	0.937594	0.767324	0.93801
		1.021085	0.888297	1.03983	1.005051	1.036791	1.033077	1.09869	0.898023	0.92126	0.747291	0.97071
	1.049798	1.028967	0.881848	1.048992	0.995042	1.038213	1.038621	1.085774	0.900963	0.905805	0.747346	0.992967
	1.047652	1.02678	0.884279	1.052654	0.985191	1.040972	1.034025	1.077354	0.913738	0.896328	0.745287	1.026181
	1.051811	1.018712	0.900512	1.046987	0.974988	1.044073	1.034566	1.070538	0.928267	0.884702	0.741615	1.069793
	1.054484	1.002135	0.919703	1.042607	0.974156	1.038863	1.041625	1.054411	0.94251	0.87384	0.753707	1.070195
	1.052974	0.987715	0.938522	1.036389	0.983192	1.035722	1.043213	1.049736	0.95287	0.860983	0.770071	1.043327
	1.037098	0.981772	0.95579	1.033229	0.987737	1.029453	1.045052	1.038426	0.957485	0.856499	0.790584	1.007457
	1.026801	0.983679	0.965045	1.024317	0.997652	1.0216	1.060326	1.015544	0.952479	0.85443	0.803718	0.992074
	1.019518	0.974275	0.972083	1.024533	1.002006	1.018282	1.085119	0.961231	0.957077	0.842354	0.825954	0.990983
	1.020546	0.960872	0.973286	1.022942	1.02319	1.005806	1.118188	0.911485	0.957961	0.82797	0.848465	1.001936
	1.017015	0.934534	0.986834	1.022212	1.034382	1.00969	1.129882	0.890371	0.952603	0.794323	0.890801	

Once the calculations are complete, the data is posted from Step 2 to a graph. See figure 5-7. Anytime the graph has a positive slope, we are heading in the right direction (for sales!). If the graph has a negative slope then, it means that the current 3 month average results are less than the average results for a similar period 12 months prior. The management team should be striving for 1) positive slopes and 2) numbers in excess of 1.0. If the sum of the current 3 months divided by the sum of the same period 12 months prior is in excess of 1.0 then the business is growing.

Note: the concept of 3/12 charts can be used for many different items in addition to sales such as headcount, cost of sales, units of production, or specific expenses.

Figure 5-7: IPS Wood Product 3/12 Rate of Change



Economic Analysis—Federal Reserve Data

The Federal Reserve provides an extensive amount of data on industry production, capacity and utilisation. We have used that source in this chapter. Now, take a look at the actual data that the Federal Reserve provides. The following two tables include data for two industries: Wood Production and Paper. The data is broken down by IPS (seasonally adjusted data) and IPN (unadjusted, raw data). Both series have been tracked. The source of the information is www.federalreserve.gov/releases/g17/ipdisk/alltables.txt.

Table 5-12: Wood Production

IPN.G321: Wood Product NAICS=321

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
90.4951	95.2055	98.0996	86.4531	90.6715	90.8964	94.1892	99.3326	107.4303	95.0744	87.9488	65.0363	64.5435
94.421	99.3168	101.3379	88.4815	93.0012	93.7588	97.4111	100.4335	108.7852	97.5126	88.5591	67.1523	64.9116
95.6691	100.0355	103.6529	92.3452	96.7017	94.3291	98.0447	101.0654	110.4194	101.6991	90.0579	67.0284	68.3608
97.8448	102.3032	104.7429	93.0642	98.6095	95.955	100.225	104.2424	110.1871	101.766	91.1577	66.879	73.0513
96.5937	102.7997	102.4525	94.5132	97.7641	95.4609	100.0689	103.3431	109.8159	103.2551	90.1405	67.3343	73.8748
100.8137	106.2357	104.808	99.3732	102.8031	100.0288	102.4773	107.7885	112.5309	108.3955	92.5777	72.2088	73.9859
95.6308	99.5262	97.5105	92.1478	95.8755	95.9705	99.3256	103.7851	108.2327	103.3486	88.4906	69.3069	70.0382
101.3338	103.0633	100.8775	98.2706	100.7425	99.7501	102.6571	106.6028	109.6391	104.6116	89.89	72.6996	71.7885
99.649	101.9736	101.2043	98.7016	99.5326	99.7345	99.8543	109.6577	107.1487	101.6149	86.1298	70.5852	69.0801
102.7354	104.6093	99.5989	96.2866	100.1782	101.5714	104.0485	116.3935	102.9697	99.806	81.7678	69.6359	70.1323
98.0292	100.003	93.7867	91.7321	93.5873	98.7938	97.9394	111.4651	97.5225	93.2871	76.1119	66.8125	68.222
93.8587	95.024	86.6347	88.3148	88.706	91.8182	93.0269	105.4732	96.2967	89.629	66.693	63.6012	

IPS.G321: Wood Product NAICS=321

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
95.4755	100.3701	103.3718	90.9651	95.6363	95.7839	98.9542	104.6746	113.6587	100.7685	93.9167	69.628	69.1851
96.1438	100.9048	103.2621	90.7586	95.4724	95.6345	98.8397	102.3042	111.8877	100.8764	92.0834	69.6156	67.1786
95.6074	99.7362	103.5792	92.4015	97.4689	94.6607	98.0889	101.9681	111.0366	102.3814	91.1826	67.3873	68.5634
96.5529	100.3947	103.1419	92.5334	97.0358	94.7873	99.3884	102.4331	109.6201	101.5353	90.0805	66.7574	72.315
95.662	101.8562	101.6525	93.6689	96.923	94.7997	99.6168	102.8639	108.8623	102.1348	89.0942	66.4508	72.8052
96.1115	101.258	99.6814	94.3745	98.0829	95.5293	97.9027	102.8073	106.8651	102.7882	87.8838	68.4324	69.9262
96.9158	101.0816	98.9599	93.2956	96.6537	96.7263	99.3503	103.4206	107.0726	102.0304	87.3706	68.0216	68.7113
97.6941	99.4987	97.3131	94.6027	97.1318	96.2927	99.3883	103.0642	105.3739	100.1259	85.9	69.0982	68.1937
97.0824	99.2453	98.2952	95.4773	96.4473	96.7168	97.3087	106.8554	104.1975	98.6228	83.5226	68.943	66.9861
98.7094	100.9567	96.3588	92.8667	96.6029	97.7908	100.2759	112.0186	99.7591	96.9416	79.7359	67.7844	68.4265
99.3284	101.7521	95.9054	93.6985	95.5906	100.6667	100.1525	113.8327	99.9116	95.7907	77.621	68.0997	69.5506
101.7911	103.0413	93.1852	95.0413	95.1275	98.6789	100.0017	113.3403	102.7331	96.0038	71.1333	68.0618	

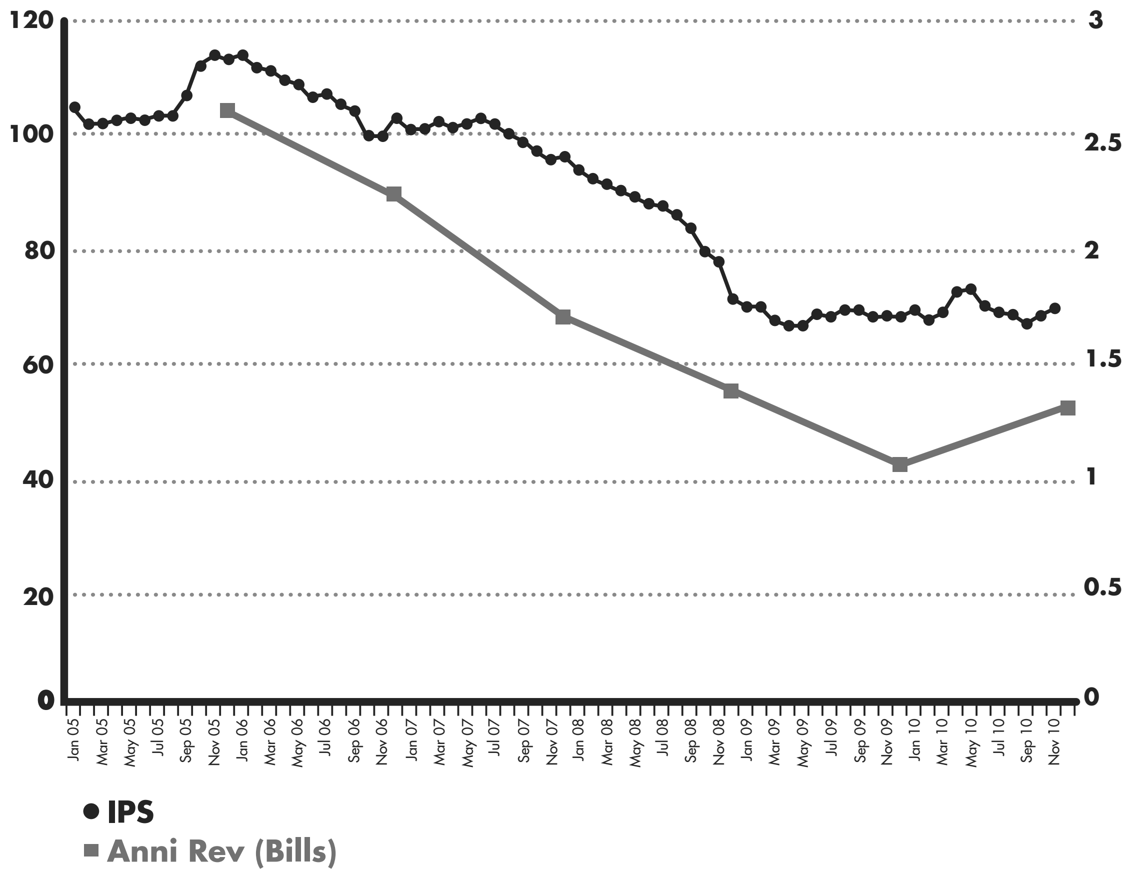
Table 5-13: Paper

IPN.G322: Paper NAICS=322												
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
110.003	111.3871	111.0749	104.0021	99.5966	103.3208	99.1395	102.7195	101.6951	99.3409	100.114	83.2167	85.7885
111.8569	113.4094	112.2784	106.5144	101.2368	102.3514	100.5768	103.7216	100.2642	101.0896	98.884	86.6837	88.0021
110.0174	112.2868	110.9737	101.7629	99.114	102.9508	99.413	102.9981	99.317	100.9072	99.3691	83.3191	89.4809
110.4896	111.2319	111.8681	104.2579	104.0964	101.8572	102.0534	103.1878	99.3099	101.2807	99.2866	81.3899	88.6796
107.8327	107.3038	106.3204	99.4634	101.3888	99.0119	100.0758	98.2825	96.7275	98.1425	97.9498	82.3428	87.4503
111.5671	111.4187	110.6909	100.8937	103.9121	101.3346	102.6862	101.5767	100.7793	100.7521	99.6172	87.0942	91.3124
110.4842	108.9886	105.5215	99.9695	103.419	99.7497	102.662	99.3904	98.6533	100.5315	97.3511	85.623	89.7356
111.3647	111.0404	105.7946	102.1971	104.9987	99.7653	102.1561	99.4011	99.4944	100.1722	98.0635	88.0383	89.7575
109.742	110.7601	105.4683	103.1765	105.6125	100.0487	102.4576	99.7054	100.3786	100.0906	95.1088	87.4997	89.8842
112.493	113.1207	109.5723	104.4651	107.7678	101.2017	105.4037	103.6804	101.8093	100.8135	91.2815	86.3232	88.2618
106.6868	109.9423	104.2516	99.0327	104.2112	98.2384	100.6682	98.2367	98.2445	98.5523	86.5664	87.2334	87.7724
106.1846	107.6027	99.7774	94.6391	99.0837	95.1802	97.1344	96.1372	98.7587	98.3268	80.5781	83.7738	

IPS.G322: Paper NAICS=322												
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
109.5785	111.1149	110.9507	104.036	99.7377	103.4354	99.3428	102.8737	102.0481	99.9879	101.2852	84.4665	87.2279
109.8677	111.4318	110.3956	105.008	99.9574	101.1948	99.5589	102.9051	99.6893	100.8333	98.9096	86.8527	88.2627
109.5007	111.7879	110.5398	101.4984	99.5728	102.617	98.9605	103.2477	98.7807	100.5317	99.8995	83.1448	89.2653
109.3909	109.8631	110.4387	102.8916	102.0314	100.6627	101.0381	101.6245	98.8298	101.0463	98.5307	81.4149	88.6979
110.1132	109.5941	108.6033	101.4615	103.258	100.7492	101.9124	100.1362	98.551	99.9	99.7127	83.638	88.7959
110.4694	110.4403	109.8782	100.1275	103.0881	100.3508	101.5139	100.2299	99.1609	98.854	97.6122	85.1551	89.232
111.2847	109.7985	106.2785	100.4997	103.8253	100.008	102.7904	99.3069	98.341	100.031	96.6851	84.9111	88.8963
110.5778	110.2494	105.1336	101.6126	104.4508	99.3738	101.8699	99.0761	98.8356	99.0801	96.6112	86.5343	88.1082
109.6478	110.6781	105.2127	102.818	105.0637	99.4699	101.7911	98.924	99.3419	98.7316	93.6319	85.9662	88.2713
110.001	110.1999	106.4514	101.3442	104.6607	98.2522	102.5854	101.168	99.7433	99.0939	90.1874	85.3644	87.3481
107.9958	111.2039	105.3775	99.9581	105.1157	99.2911	101.8448	99.5523	99.5546	99.8415	87.5229	88.154	88.6851
110.2946	112.1306	104.3317	99.1188	103.6733	99.6057	101.2185	99.9927	102.5555	102.0686	83.5816	86.9355	

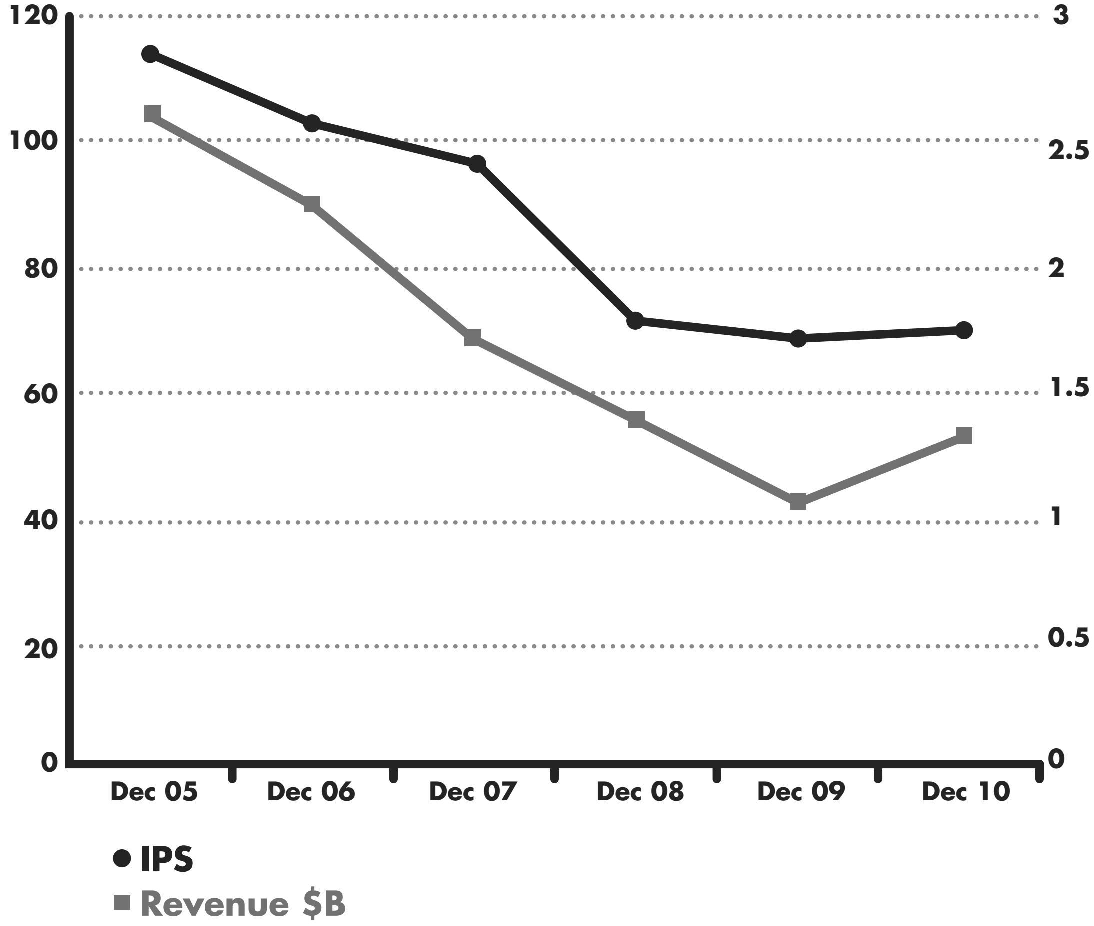
We have already shown how the railroad data corresponds with the annual revenue of LPX. Next we shall look at how the Federal Reserve data relates to the revenue of LPX, as well. Figure 5-8 charts Wood Product IPS compared to annual revenue for LPX. By visual analysis alone, it appears that the trend lines are related.

Figure 5-8: Wood Product IPS G-17 Compared to LPX Annual Revenue



In figure 5-9, we have simplified this analysis and used year-end data to compare to the annual revenue of LPX. The visual correlation is obvious.

Figure 5-9: IPS versus Revenue at Year End



CORRELATION ANALYSIS

The first comparisons of the data on IPS and revenue as shown in figure 5-8 and figure 5-9 suggested a visual correlation between the data series. Is it possible to achieve more confidence than "it appears correlated?" It most certainly can be done with a simple tool in Excel.

We are interested to see if the Industrial Production Seasonally Adjusted December reading is correlated to the annual revenue of Louisiana Pacific. If so, it may be possible for us to use the IPS number as a tool to predict future trends for LPX.

The data is input into Excel and the formula for correlation is used = Correl (array1, array2) formula. The resulting correlation will range from –1 to +1. A reading approaching +1 indicates a strong positive linear relationship. A reading approaching –1 indicates a strong negative linear relationship.

Table 5-14: Correlation Example

	C	D	E
	Y/E	**IPS**	**Sales $B**
5	Dec 05	113.3403	2.6
6	Dec 06	102.7331	2.24
7	Dec 07	96.0038	1.7
8	Dec 08	71.1333	1.38
9	Dec 09	68.0618	1.05
10	Dec 10	69.5506	1.3
	CORREL(D5:D10, E5:10) = 0.962077		

In our example, the correlation value 0.962. This indicates that the sets are positively correlated (as the value of one goes up, the value of the other also increases). It is important to remember that data can be correlated but not related. For example, the stock market may follow a similar line to that of the wins or losses of a professional sports team.

RATIO ANALYSIS

Financial Ratios

Financial ratios are relationships between financial numbers as of a specific point in time, typically obtained from the organisation's financial statements. The ratios can be interpreted to provide insight and understanding of an organisation's liquidity, solvency, asset management, profitability and payout policies. There are five major categories of ratios:

- Short-term solvency or liquidity ratios
- Asset management or turnover ratios
- Long-term solvency or financial leverage ratios
- Profitability/expense ratios
- Dividend or payout policy ratios

Liquidity Ratios

Liquidity ratios indicate an organisation's ability to meet current obligations with various current assets.

The liquidity or current ratio is calculated by dividing the current liabilities into the current assets:

$$\text{Current (Liquidity) Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The current ratio is probably one of the best known but often underutilised ratios. If a company falls below a 1.0 ratio, the company will most likely have difficulty paying creditors over the coming year. This chapter also highlights the use of the *Almanac of Business and Financial Industrial* ratios to add further meaning to current ratio analysis. For example, the *Almanac* can identify current ratios by industry and organisation asset size as well as contrast current ratios by organisation profitability.

One major implication of being a current asset is that it can be liquidised or converted into cash in the normal course of business (for example, accounts receivable collected or inventory sold).

Due to the potential difficulty of converting inventory accounts receivable (and then cash), there is a secondary ratio called the "Quick Ratio". This ratio represents the components of the current ratio without including inventory. If a company's current assets contain a large amount of inventory, the quick ratio might be significantly low because the organisation is inventory-dependent. As a result, the organisation could be in jeopardy of having liquidity problems if the inventory is not sold.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Another ratio that the author likes to use is "Days Cash on Hand". This represents the number of days of cash expenses that the company can cover should some serious business interruption occur in the business.

$$\text{Days of Cash} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Available LOC}}{\text{Average Daily Cash Expenses}}$$

Note: the reason that A/R is excluded is due to the potential of customers withholding payment during times of great stress on your organisation.

Asset Turnover Ratios

Asset turnover ratios indicate the speed at which specific asset accounts (A/R and inventory) "turn over" during the year. The quicker the turnover, the faster an organisation is collecting or utilising its assets. Most management teams will discuss A/R and inventory "turns". Accounts receivable turnover is calculated as follows:

$$\text{Receivables Turnover} = \frac{\text{Annual Credit Sales}}{\text{Accounts Receivable}}$$

The A/R turnover might also be expressed in terms of Days Sales Outstanding and is calculated as follows:

$$\text{Day Sales Outstanding} = \frac{\text{Accounts Receivable}}{(\text{Annual Credit Sales} \div 365)}$$

The Days Sales Outstanding can be compared to the terms offered to the organisation's customers. Whenever the DSO is greater than the invoice terms offered, the organisation is extending credit to the customer. Unfortunately, this is typically done without realising that credit is being extended.

Inventory turnover is calculated in a similar fashion. The organisation should strive to turn the inventory as quickly as possible. Increased turnover will result in lower carrying costs. To reduce inventory costs and increase inventory turnover, the organisation should adopt lean management techniques.

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Inventory turnover can also be shown as number of days of inventory on hand as follows:

$$\text{Inventory Period} = \frac{\text{Average Inventory}}{(\text{Annual Cost of Goods Sold} \div 365)}$$

Or it can be written as:

$$\text{Inventory Period} = \frac{365}{\text{Inventory Turnover}}$$

Financial Leverage Ratios

Financial leverage ratios indicate to what degree an organisation relies on borrowed money. Familiar terms such as: 100% financing, no money down, and so on are used to indicate highly leveraged organisations.

One of the most common leverage ratios is the *debt ratio* and it is calculated as follows:

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

When the debt ratio is close to 1.0, the organisation has very little equity and is highly leveraged.

Another ratio, *debt-to-equity* displays the reliance that an organisation has on outside equity versus retained equity:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

It is a good practice to track both ratios. If the organisation has debt covenants with the bank, these ratios may be part of the covenants. A bank's covenants may also require the interest coverage ratio. This ratio identifies how well the firm's earnings will cover interest payments. The ratio is calculated as follows:

$$\text{Interest Coverage} = \frac{\text{Earnings Before Interest and Taxes}}{\text{Interest Charges}}$$

Profitability Ratios

Profitability ratios are used to demonstrate the organisation's capacity to generate profits. The most common profitability ratio is the Gross Profit Margin and it is calculated as:

$$\text{Gross Profit Margin} = \frac{(\text{Sales} - \text{Cost of Goods Sold})}{\text{Sales}}$$

Another profitability ratio, *return on assets*, measures profitability earned from the total investment in the organisation assets and is calculated as follows:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on equity measures the net income of the business as a percentage of shareholder equity retained in the business.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder Equity}}$$

Dividend Payout Ratio

The Dividend Payout Ratio is simply the percentage of Net Income that is distributed as dividends to shareholders. When a company has the opportunity for high growth, it may forego dividend distribution to allow reinvestment of earnings. A stable company without major growth plans may use dividends as a tool to return more of the organisation's net income to the shareholders. The Dividend Payout Ratio is calculated as follows:

$$\text{Dividend Payout Ratio} = \frac{\text{Dividends}}{\text{Net Income}}$$

Use and Limitations of Financial Ratios[18]

Attention should be given to the following issues when using financial ratios:

- A reference point is needed. To be meaningful, most ratios must be compared to historical values of the same firm, the firm's forecasts, or ratios of similar firms.
- Most ratios by themselves are not highly meaningful. They should be viewed as indicators, with several of them combined to paint a picture of the firm's situation.
- Year-end values may not be representative. Certain account balances that are used to calculate ratios may increase or decrease at the end of the accounting period because of seasonal factors. Such changes may distort the value of the ratio. Average values should be used when they are available.

Ratios are subject to the limitations of accounting methods. Different accounting choices may result in significantly different ratio values.

See table 5-15 for examples of ratio calculations.

Table 5-15: Ratio Calculation Examples

HISTORICAL INFO.	2004	2003	2002
Balance Sheet Current Assets			
Cash and Cash Equivalents	$24,555	$18,759	$37,865
A/R	$8,868,585	$5,973,270	$4,281,113
Inventories	$12,189,453	$8,059,658	$8,140,933
Prepaids	$769,137	$471,130	$351,724
Deferred Tax Asset	$328,388	$340,241	$369,544
Prepaid Income Tax	$458,455	$15,459	
Total	$22,638,573	$14,878,517	$13,181,179
PP&E			
Cost	$5,503,998	$3,636,706	$2,726,340
A/D	($2,005,858)	($1,566,538)	($1,333,479)
Net	$3,498,140	$2,070,168	$1,392,861

Continued on p. 172

HISTORICAL INFO.	2004	2003	2002
Other Assets			
N/R	$ 307,362	$ 75,055	$ 75,105
N/R related Parties	$ 31,878	$ 30,000	
Goodwill	$ 593,581		
Non-compete	$ 229,168		
Deferred Tax Asset			
Total	$ 1,161,989	$ 105,055	$ 75,105
Total Assets	$ 27,298,702	$ 17,053,740	$ 14,649,145
Current Liabilities			
Notes Payable	$ 12,372,373	$ 7,448,824	$ 5,116,721
Current Maturities LT	$ 103,950	$ 64,621	$ 263,394
Current Mat. Lease	$ 302,994	$ 223,980	
Current Mat. Non-compete	$ 83,333		
Inventory Financing	$ 2,902,500	$ 2,204,000	
A/P	$ 7,452,766	$ 3,920,335	$ 3,593,901
Accrued Expenses	$ 778,238	$ 655,038	$ 525,350
I/T Payable	$ 1,169	$ 0	$ 289,581
Total Current Liabilities	$ 23,997,323	$ 14,516,798	$ 9,788,947
Long-Term Liabilities			
LT Debt Less Current Portion	$ 920,807	$ 470,663	$ 3,786,299
LT Cap Lease	$ 627,229	$ 198,406	
Loan Payable Officer	$ 166,667	$ 0	$ 90,421
Deferred Tax Liability	$ 279,105	$ 264,118	$ 198,526
Total LT Liabilities	$ 1,993,808	$ 933,187	$ 4,075,246
Total Liabilities	$ 25,991,131	$ 15,449,985	$ 13,864,193
Stockholders' Equity	$ 1,307,571	$ 1,603,755	$ 784,952
Total Liabilities and SE	$ 27,298,702	$ 17,053,740	$ 14,649,145
Income Statement			
Net Sales	$ 52,303,796	$ 42,968,365	$ 36,357,629
Cost of Sales	$ 35,970,743	$ 28,741,607	$ 24,354,499
Gross Profit	$ 16,333,053	$ 14,226,758	$ 12,003,130

HISTORICAL INFO.	2004	2003	2002
Operating Expenses			
Warehouse and Delivery	$ 9,119,596	$ 7,302,721	$ 6,598,107
SG&A	$ 6,800,045	$ 5,039,278	$ 3,945,540
Total Operating Expenses	$ 15,919,641	$ 12,341,999	$ 10,543,647
Operating Income	$ 413,412	$ 1,884,759	$ 1,459,483
Other Income/Expense			
Interest Income	$ 3,512	$ 0	$ 589
Interest Expense	($ 1,099,094)	($ 779,790)	($ 827,051)
Misc. Income	$ 396,882	$ 423,167	$ 344,557
Inventory Obsolescence			
Officers Bonus			
Net Other	($ 698,700)	($ 356,623)	($ 481,905)
Income Before Building & Tax	($ 285,288)	$ 1,528,136	$ 977,578
Extraordinary Item Ext. Debt Gain on Building			$ 109,458
Income before tax	($ 285,288)	$ 1,528,136	$ 1,087,036
Provision for Tax	$ 10,896	$ 709,333	$ 430,144
Net Income	($ 296,184)	$ 818,803	$ 656,892
Current Ratio	0.94	1.02	1.35
Quick Ratio	0.37	0.41	0.44
Cash Ratio	0.00102	0.00129	0.00387
Receivables Turnover	5.90	7.19	8.49
Average Days A/R	61.89	50.74	42.98
Inventory Turnover	3.55	3.55	3.24
Inventory Period	102.74	102.87	112.68
Debt Ratio	0.95	0.91	0.95
Debt to Equity	19.88	9.63	17.66
Interest Coverage	–0.26	1.96	1.31
Gross Profit %	31.23%	33.11%	33.01%
Return on Assets	–1.08%	4.80%	4.48%
Return on Equity	–22.65%	51.06%	83.69%
Factor 1	–0.33	0.14	1.52

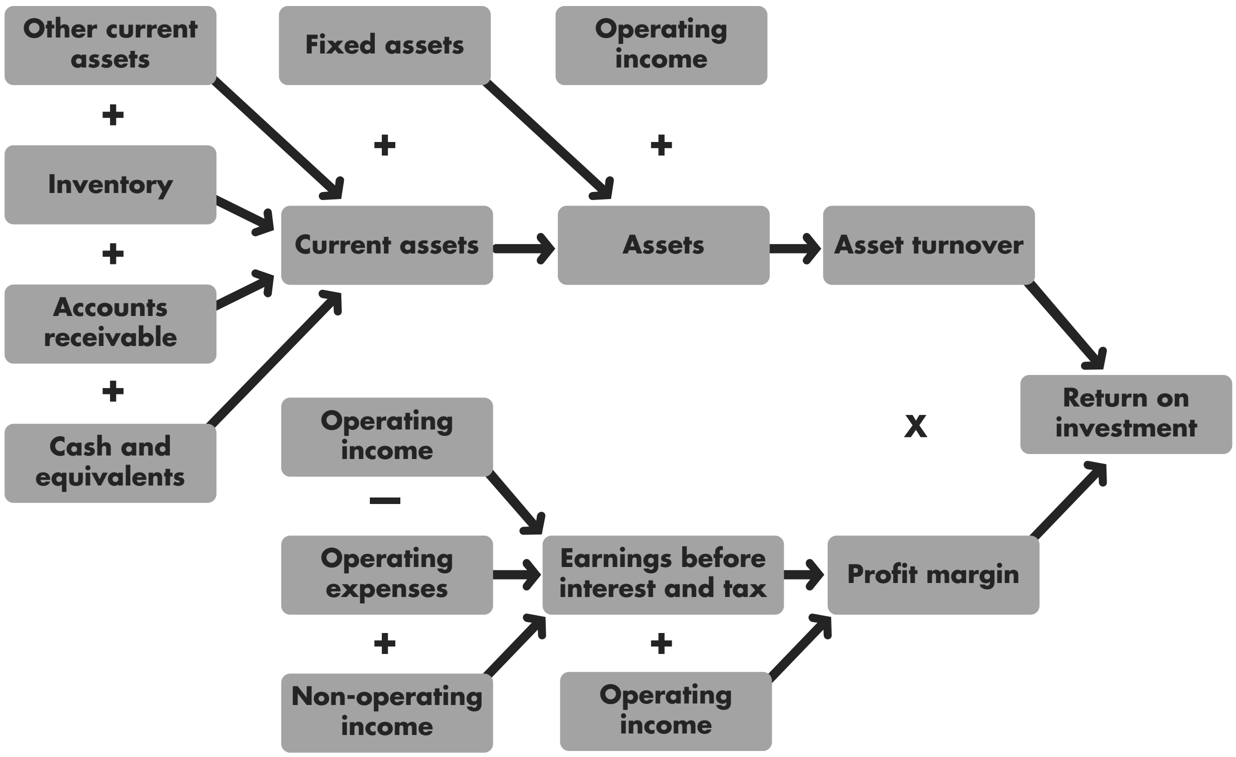
Continued on p. 174

HISTORICAL INFO.	2004	2003	2002
Factor 2	0.16	0.31	0.17
Factor 3	0.20	0.91	0.88
Factor 4	0.05	0.11	0.06
Z-Score	0.08	1.46	2.63

DUPONT CALCULATION

Many individuals are not familiar with a tool called the DuPont model. It is helpful to consider this model in broad terms as it applies to the financial results of the entire organisation. This model was established many years ago but still has practical value. The DuPont model can be thought of as a return on investment model. The reason we consider it is that, through the model, we can see the interaction of revenue and expenses as well as capital and working capital decisions and their role in profitability. In figure 5-10, note that the return on investments is a function of the profit margin as multiplied by asset turnover. In essence, it is the relationship between profitability from the financial statements and assets employed (assuming all assets on the records are utilised) to generate those profits. Also, note that the assets employed play a significant role in profitability analysis. It is easy to focus on income statement profitability issues and ignore balance sheet impacts on profitability. The return on investment is both a function of net income and assets employed.

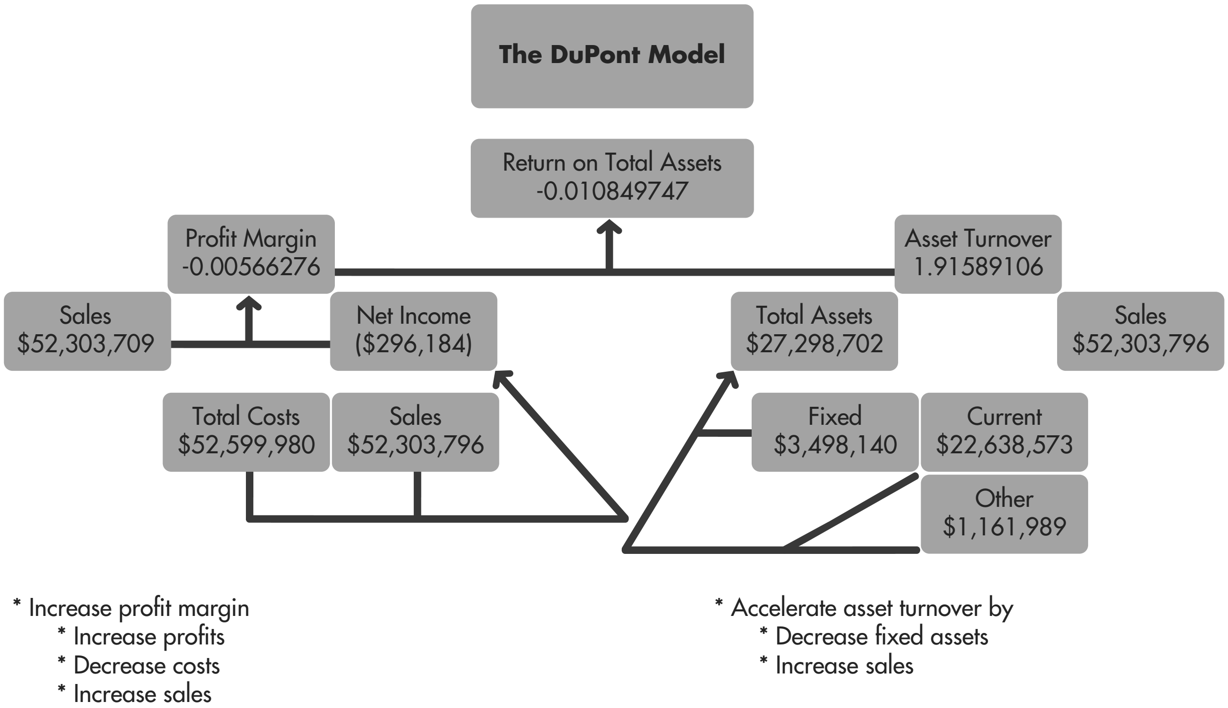
Figure 5-10: DuPont Model



Source: "File:DuPontModelEng.svg". *Wikimedia.* Accessed February 16, 2014. http://commons.wikimedia.org/wiki/File:DuPontModelEng.svg.

Now let us look at the DuPont Model with the financial numbers from table 5-14 to see how they would fit into its structure.

Figure 5-11: DuPont Model with Financial Numbers



SUMMARY COMMENTS

The preceding financial analysis using business and financial ratios and norms provides a way to assess a firm's strengths and weaknesses. Using data from the balance sheet and income statement, various ratios can be calculated. These ratios can then be compared to those of competing firms of varying sizes. This process can be enhanced by comparing the company's operating results with those of competitors or the industry as a whole will help to identify relative strengths and weaknesses. Comparing changes in a firm's ratios over time can highlight improvements in performance or problem areas needing attention.

For an additional resource to increase profitability, see the list of profit enhancers in appendix C of this book.

Endnotes

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6

ETHICAL LEADERSHIP

There is a dearth of ethical leadership in our organisations. Why should controllers concern themselves with ethical issues? Many ethical violations occur at levels or duties that the controller has no control over. Recall some of the recent accounting scandals and their impact on organisations, employees, shareholders, and stakeholders. Among those businesses were:

- HealthSouth Corp.
- Enron
- Peregrine Financial Group
- Tyco International
- WorldCom
- Bernard L. Madoff Investment Securities LLC
- Adelphia

Why should controllers be concerned? A controller must understand professional guidance, human behaviour, and overall risk to safeguard the organisation. A controller must be a proponent of ethical corporate and personal behaviour. In addition, he or she must exercise professional scepticism, unbiased judgment, and corrective actions when necessary. It is necessary to create policies and procedures that support an ethical culture. Maintaining the corporate conscience should be a key responsibility of the CEO and the board. Occasionally, the controller may need to pick up the ethical "leadership banner" when the CEO or board does not. Ethical behaviour must be expected of all shareholders, stakeholders, employees, customers, and vendors.

Controllers that are members of the AICPA are also subject to the *Code of Professional Conduct*.

THE COMMITTEE OF SPONSORING ORGANIZATIONS (COSO)

Where should the controller look for guidance on ethical issues? First, consider the guidance on internal controls and risk management. What is COSO and how can it help our organisations? From the COSO website:

> **Mission**
>
> The Committee of Sponsoring Organizations' (COSO) mission is to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control

and fraud deterrence designed to develop organizational performance and governance and to reduce the extent of fraud in organizations.

Vision

COSO's vision is to be a recognized thought leader in the global marketplace on the development of guidance in the areas of risk and control which enable good organizational governance and reduction of fraud.

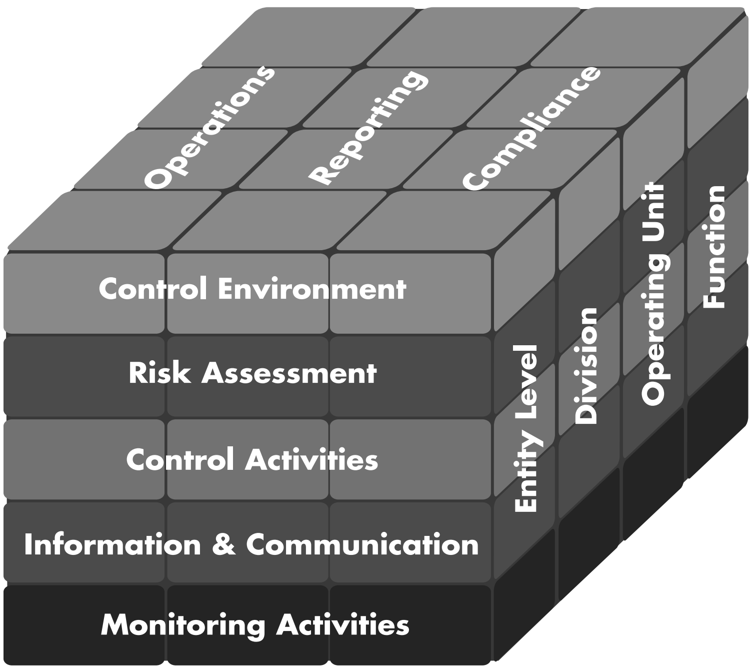
History

COSO was organized in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private-sector initiative that studied the causal factors that can lead to fraudulent financial reporting. It also developed recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions.

The National Commission was sponsored jointly by five major professional associations headquartered in the United States: the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), The Institute of Internal Auditors (IIA), and the National Association of Accountants (now the Institute of Management Accountants [IMA]). Wholly independent of each of the sponsoring organizations, the Commission included representatives from industry, public accounting, investment firms, and the New York Stock Exchange.[1]

COSO created a framework that is illustrated by the COSO cube as shown in figure 6-1.

Figure 6-1: The COSO Cube



COSO's key concepts regarding internal control are timeless. According to COSO, "Internal control is a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance".

The 2013 framework still provides for three categories of objectives; operations, reporting, and compliance. It still consists of five integrated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring activities. The framework continues to be adaptable to a given organisation's structure based on internal controls from an entity, divisional, operating unit, or functional level, such as for a shared services centre. Finally, the important role of management judgment in designing, implementing, and maintaining internal control, as well as assessing its effectiveness, is retained.

Relationship of COSO and Ethics

Let's take a closer look at the relationship of COSO and ethics. Micah Hallock summarised the relationship in the following article.

> The control environment is the level of control consciousness of the people who make up an organization. COSO calls the control environment "the foundation for all other components of internal control, providing discipline and structure." The control environment is the integrity and ethical values demonstrated by the people of an organization.
>
> The ethical environment of a business is, of course, influenced by the attitude shown by the board and senior management. If the board communicates that ethical behaviour is expected and is to be taken seriously, there is a greater chance that management and the employees will take it seriously, too.

Internal Control Principles

There are 17 principles of internal control. Here are the five main components of the framework that contain the 17 internal control principles.

Control Environment

1. Demonstrates commitment to integrity and ethics
2. Exercises oversight responsibility
3. Establishes structure, authority, and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

1. Specifies suitable objectives
2. Identifies and analyses risk
3. Assesses fraud risk
4. Identifies and analyses significant change

Control Activities

1. Selects and develops control activities
2. Selects and develops general controls over technology
3. Deploys through policies and procedures

Information and Communication

1. Uses relevant information
2. Communicates internally
3. Communicates externally

Monitoring

1. Conducts ongoing or separate evaluations
2. Evaluates and communicates deficiencies

Managing the Business Risk of Fraud: A Practical Guide

Managing the Business Risk of Fraud: A Practical Guide[2] was sponsored by The Institute of Internal Auditors, The American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners. In examining the fraud checklists, they clearly define ethical actions as a deterrent to fraudulent practices. Failures in ethics can easily lead to acts of fraud.

The following clauses, from the aforementioned text, are applicable to ethics. The focus was on business risk issues that were related to ethical lapses.

First let us look at the definition of fraud stated in *Managing the Business Risk of Fraud*.

> Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

All businesses are subject to fraud risks. Large frauds have led to the downfall of entire businesses (Enron, WorldCom), massive investment losses (Madoff, Peregrine), significant legal costs, prison time of key executives (Shilling, Ebbers, Sullivan, Madoff), and erosion of confidence in capital markets. Publicised fraudulent behaviour by key executives has negatively impacted the reputations, brands, and images of many businesses around the globe.

There are many regulations that outline management's responsibility for fraud risk management such as:

- U.S. Foreign Corrupt Practices Act of 1977 (FCPA)
- 1997 Business for Economic Co-operation and Development Anti-Bribery Convention
- U.S. Sarbanes-Oxley Act of 2002
- U.S. Federal Sentencing Guidelines

Reactions to recent corporate scandals have led the public and stakeholders to expect businesses to take a "no fraud tolerance" attitude. Good governance principles demand that an organisation's board of directors, or equivalent oversight body, ensure overall high ethical behaviour in the organisation, regardless of its status as public, private, government, or not-for-profit; its relative size; or its industry.

1. The board's role is critically important because historically most major frauds are perpetrated by senior management in collusion with other employees.
2. Organisation stakeholders have clearly raised expectations for ethical organisational behaviour. Meanwhile, regulators worldwide have increased criminal penalties that can be levied against businesses and individuals.
3. The board of directors should ensure that its own governance practices set the tone for fraud risk management. The board ensures that management implements policies that encourage ethical behaviour and allow for the reporting of observed unethical concerns from employees, customers, vendors, and other third parties.

4. There should be board assurance that business ethics are considered in hiring decisions, evaluations, promotions, and remuneration policies for employees. In addition, ethical practices should be established in all relationships with customers, vendors, and other business stakeholders.
5. Effective business ethics programs can serve as a foundation for preventing, detecting, and deterring fraudulent and criminal acts. An organisation's ethical treatment of employees, customers, vendors, and other partners will influence those receiving such treatment. Ethics programs create an environment where making the right decision is implicit.
6. Policies, job descriptions, charters, or delegations of authority should define roles and duties related to fraud risk management. In particular, the documentation should articulate who is responsible for the governance oversight of fraud control (the role and responsibility of the board of directors or designated committee of the board). Documentation should also reflect management's responsibility for the design and implementation of the fraud risk strategy, and how different segments of the business support fraud risk management. Fraud risk management will often be supported by risk management, compliance, general counsel, the ethics office, security, information technology (IT), and internal auditing, or their equivalents. The board of directors, audit committee, management, staff, and internal auditing all have key roles in an organisation's fraud risk management program.
7. The board has the responsibility to ensure that management designs effective fraud risk management documentation to encourage ethical behaviour and to empower employees, customers, and vendors to insist those standards are met every day.
8. The board should:
   a. Understand fraud risks.
   b. Maintain oversight of the fraud risk assessment by ensuring that fraud risk has been considered as part of the organisation's risk assessment and strategic plans. This responsibility should be addressed under a periodic agenda item at board meetings when general risks to the business are considered.
   c. Monitor management's reports on fraud risks, policies, and control activities, which include obtaining assurance that the controls are effective. The board should establish mechanisms to ensure it is receiving accurate and timely information from management, employees, internal and external auditors, and other stakeholders regarding potential fraud occurrences.
   d. Oversee the internal controls established by management.
   e. Set the appropriate tone at the top through the CEO job description, hiring, evaluation, and succession planning processes.
   f. Have the ability to retain and pay outside experts where needed.
   g. Provide external auditors with evidence regarding the board's active involvement and concern about fraud risk management.
9. In many organisations, one executive-level member of management is appointed to be responsible for fraud risk management and to report to the board periodically. This executive, a chief ethics officer for instance, is responsible for entity-level controls that establish the tone at the top and corporate culture. These expectations are often documented in the organisation's values or principles, code of conduct, and related policies; demonstrated through executive communications and behaviours; and included in training programs.
10. Internal auditing should also take an active role in support of the organisation's ethical culture. The importance a business attaches to its internal audit function is an indication of the organisation's commitment to effective internal control.

INTERNAL AUDIT

The internal audit charter, which is approved by the board or designated committee, should include internal auditing's roles and duties related to fraud. Specific internal audit roles in relation to fraud risk management could include:

- Initial or full investigation of suspected fraud
- Root cause analysis
- Control improvement recommendations
- Monitoring of a reporting or whistle-blower hotline
- Providing ethics training sessions

CHIEF ETHICS OFFICER

Some businesses centralise fraud risk management information under the chief ethics officer or within a framework used by internal auditing or the CFO. Others may have this information spread out across the business—for example, investigation standards and files in legal, hiring and training information in human resources, hotline information in internal auditing, and risk assessment in the enterprise risk management group—and will need to compile it to do an effective evaluation and to enable concise reporting to the board.

When designing fraud awareness programs, management should consider who should attend, frequency and length, cultural sensitivities, guidance on how to solve ethical dilemmas, and delivery methods.

FRAUD REPORTING PROCESS

Employees are an organisation's best asset in preventing, detecting, and deterring fraud. A business should promote fraud reporting resources to their employees. Common resources are:

- Fraud or ethics page on the organisation's Web site
- Ombudsman
- Whistle-blower hotline

An organisation's HR group is often responsible for developing and providing training on fraud risk management programs including the codes of conduct and ethics, what constitutes fraud, and what to do when fraud is suspected. The effectiveness of this training is dependent on mandatory attendance, periodic updates and refresher sessions.

To preserve the integrity of the whistle-blower process, it must provide a means of reporting suspected fraud that involves senior management, possibly reporting directly to the audit committee. A single case management system should be used to log all calls and follow-up. This case management system becomes the business wide tracking system to: facilitate management of the resolution process, testing by internal auditors, and oversight by the board or the audit committee as the board's designee. The board should approve protocols to ensure reported fraud-related issues are disseminated timely to appropriate parties, such as the ethics and compliance team, HR, the board or the audit committee, legal, and security. Distributing whistle-blower reports to these various parties ensures that no single person or functional area controls highly sensitive information, and it increases accountability.

Periodically, the whistle-blower process should be independently evaluated for effectiveness, including compliance with established protocols. Whistle-blower hotlines may not be legal or ethical, or may be subject to restrictions in some countries outside the United States.

MEASUREMENT

The business should establish measurement criteria to monitor and develop fraud detection. These measures should be provided to the board on an ongoing basis.

Measureable criteria include the number of

- Known fraud schemes committed against the organisation
- Fraud allegations received by the business that required investigation, and the status of those allegations
- Fraud investigations resolved
- Employees who have/have not signed the corporate ethics statement
- Employees who have/have not completed ethics training sponsored by the organisation
- Whistle-blower allegations received via the organisation's hotline
- Allegations that have been raised by other means
- Messages supporting ethical behaviour delivered to employees by executives
- Vendors who have/have not signed the organisation's ethical behaviour requirements
- Benchmarks with global fraud surveys, including the fraud experienced and average losses
- Customers who have signed the organisation's ethical behaviour requirements
- Fraud audits performed by internal auditors

SAMPLE CODE OF ETHICS POLICY STATEMENT

Code of Ethics and Business Conduct—ABC Co.

Policy

It is the policy of the business to provide our *Code of Ethics and Business Conduct*, which will serve as a guide to proper business conduct for all employees. We expect all employees to observe the highest standards of ethics and integrity in their conduct. This means following a basic code of ethical behaviour that includes:

Build Trust and Credibility

The success of our business is dependent on the trust and confidence we earn from our employees, customers, and shareholders. We gain credibility by adhering to our commitments, displaying honesty and integrity, and reaching business goals solely through honourable conduct.

When considering any action, it is wise to ask, will the action build trust and credibility for ABC Co.? Will it help create a working environment in which ABC Co. can succeed over the long term? Is the commitment I am making one with which I can follow through? The only way we will maximise trust and credibility is by answering "yes" to those questions and by working every day to build our trust and credibility.

Respect for the Person

We all deserve to work in an environment where we are treated with dignity and respect. ABC Co. is committed to creating such an environment because it brings out the full potential in each of us, which, in turn, contributes directly to our business success.

ABC Co. is an equal employment and affirmative action employer and is committed to providing a workplace that is free of discrimination of all types from abusive, offensive, or harassing behaviour. Any employee who feels he or she is experiencing harassment or discrimination should report the incident to his or her manager or to the human resources department.

Create a Culture of Open and Honest Communication

At ABC Co., everyone should feel comfortable to speak his or her mind, particularly with respect to ethics concerns. Managers have a responsibility to create an open and supportive environment where employees feel comfortable raising such questions. We all benefit tremendously when employees exercise their power to prevent mistakes or wrongdoing by asking the right questions at the right times.

ABC Co. will investigate all reported instances of questionable or unethical behaviour. In every instance where evidence of improper behaviour is found, the business will take appropriate action. We will not tolerate retaliation against employees who raise ethics concerns in good faith.

Set the Tone at the Top

Management has the added responsibility for demonstrating, through their actions, the importance of this code. In any business, ethical behaviour does not simply happen; it is the product of clear and direct communication of behavioural expectations, modelled from the top and demonstrated by example. Again, ultimately, our actions are what matters.

To make our code work, managers must be responsible for promptly addressing ethical questions or concerns raised by employees and for taking the appropriate steps to deal with such issues. Managers should not consider employees' ethics concerns as threats or challenges to their authority, but rather as another encouraged form of business communication. We want the ethics dialogue to become a natural part of daily work.

Uphold the Law

Our commitment to integrity begins with complying with laws, rules, and regulations where we do business. Further, each of us must have an understanding of the business policies, laws, rules, and regulations that apply to our specific roles. If we are unsure of whether a contemplated action is permitted by law or business policy, we should seek advice from the resource expert. We are responsible for preventing violations of law and for speaking up if we see possible violations.

Competition

We are dedicated to ethical, fair, and vigorous competition. We will sell ABC Co. products and services based on their merit, superior quality, functionality, and competitive pricing. We will make pricing and marketing decisions independent of our competitors. We will not offer or solicit improper payments or gratuities in connection with the purchase of goods or services for ABC Co. or the sale of its products or services, nor will we engage or assist in unlawful boycotts of particular customers.

Proprietary Information

It is important that we respect the property rights of others. We will not acquire or seek to acquire improper means of a competitor's trade secrets or other proprietary or confidential information. We will not engage in unauthorised use, copying, distribution, or alteration of software or other intellectual property.

Selective Disclosure

We will not selectively disclose (whether, in one-on-one or small discussions, meetings, presentations, proposals, or otherwise) any material non-public information with respect to ABC Co., its business operations, plans, financial condition, results of operations, or any development plan. We should be particularly vigilant when making presentations or proposals to customers to ensure that our presentations do not contain material non-public information.

Avoid Conflicts of Interest

We must avoid any relationship or activity that might impair, or even appear to impair, our ability to make objective and fair decisions when performing our jobs. At times, we may be faced with situations where the business actions we take on behalf of ABC Co. may conflict with our own personal or family interests because the course of action that is best for us personally may not also be the best course of action for ABC Co. We owe a duty to ABC Co. to advance its legitimate interests when the opportunity to do so arises. We must never use ABC Co. property or information for personal gain or take for ourselves any opportunity that is discovered through our position with ABC Co.

Determining whether a conflict of interest exists is not always easy to do. Employees with conflict of interest questions should seek advice from management. Before engaging in any activity, transaction, or relationship that might give rise to a conflict of interest, employees must seek review from their managers or the human resources department.

Accepting Business Courtesies

Most business courtesies offered to us in the course of our employment are offered because of our positions at ABC Co. We should not feel any entitlement to accept and keep business courtesies. Although we may not use our position to obtain business courtesies, and we must never ask for them, we may accept unsolicited business courtesies. Employees who award contracts or who can influence the allocation of business, who create specifications that result in the placement of business, or who participate in negotiation of contracts must be particularly careful to avoid actions that create the appearance of favouritism, or that may adversely affect the company's reputation for impartiality and fair dealing. The prudent course is to refuse a courtesy from a supplier when ABC Co. is involved in choosing or reconfirming a supplier, or under circumstances that would create an impression that offering courtesies is the way to obtain ABC Co.'s business.

Meals, Refreshments, Entertainment, and Gifts

We may accept occasional meals, refreshments, entertainment, gifts, and similar business courtesies that are customary and conform to reasonable ethical practices of the marketplace, provided that:

- They are not inappropriately lavish or excessive.
- The courtesies are not frequent and do not reflect a pattern of frequent acceptance of courtesies from the same person or entity.
- The courtesy does not create the appearance of an attempt to influence business decisions, such as accepting courtesies or entertainment from a supplier whose contract is expiring in the near future.
- The employee accepting the business courtesy would not feel uncomfortable discussing the courtesy with his or her manager or co-worker or having the courtesies known by the public.

Customary business entertainment is proper; however, impropriety results when the value or cost is such that it could be interpreted as affecting an otherwise objective business decision.

Employees with questions about accepting business courtesies should talk to their managers or the human resources department.

Offering Business Courtesies

Any employee who offers a business courtesy must assure that it cannot reasonably be interpreted as an attempt to gain an unfair business advantage or otherwise reflect negatively upon ABC Co. An employee may never use personal funds or resources to do something that cannot be done with business resources. Accounting for business courtesies must be done in accordance with approved business procedures.

Except for our government customers, for whom special rules apply, we may provide non-monetary gifts (business logo apparel or similar promotional items) to our customers. Further, management may approve other courtesies, including meals, refreshments or entertainment of reasonable value provided that:

- The practice does not violate any law or regulation or the standards of conduct of the recipient's organisation.
- The business courtesy is consistent with industry practice, is infrequent in nature and is not lavish.
- The business courtesy is properly reflected on the books and records of ABC Co.

Set Metrics and Report Results Accurately

Accurate Public Disclosures

We will make certain that all disclosures made in financial reports are full, fair, accurate, timely, and understandable. This obligation applies to all employees, including all financial executives, with any responsibility for the preparation for such reports, including drafting, reviewing, and signing or certifying the information contained therein. No business goal of any kind is ever an excuse for misrepresenting facts or falsifying records.

Employees should inform the vice president of human resources and compliance if they learn that information in any filing or public communication was untrue or misleading at the time it was made, or if subsequent information affects a similar future filing or public communication.

Corporate Recordkeeping

We create, retain, and dispose of our business records as part of our normal course of business in compliance with all ABC Co. policies and guidelines, as well as all regulatory and legal requirements.

All corporate records must be true, accurate, and complete, and business data must be entered promptly and accurately in our books, in accordance with ABC Co.'s and other applicable accounting principles.

We must not improperly influence, manipulate, or mislead any audit, nor interfere with any auditor engaged to perform an independent audit of ABC Co.'s books, records, processes, or internal controls.

Accountability

Each of us is responsible for knowing and adhering to the values and standards set forth in this code and for raising questions if we are uncertain about business policy. If we are concerned whether the standards are being met or are aware of violations of the code, we must contact the human resources department. We take seriously the standards set forth in the code, and violations are cause for disciplinary action up to and including termination of employment.

Integral to our business success is our protection of confidential business information, as well as non-public information entrusted to us by employees, customers and other Business Partners. Confidential and proprietary information includes such things as pricing and financial data, customer names/addresses or non-public information about other companies, including current or potential suppliers and vendors. We will not disclose confidential and non-public information without a valid business or legal purpose and proper authorisation.

Use of Business Resources

Company resources, including time, material, equipment and information, are provided for business use. Nonetheless, occasional personal use is permissible as long as it does not affect job performance or cause disruption to the workplace. Employees and those who represent ABC Co. are trusted to behave responsibly and use good judgment to conserve business resources. Managers are responsible for the resources assigned to their departments, and are empowered to resolve issues concerning their proper use.

Generally, we will not use business equipment such as computers, copiers, and fax machines in the conduct of an outside business or in support of any religious, political, or other outside daily activity. Solicitation of business employees by non-employees is prohibited at all times. Solicitation by an employee of another employee is prohibited, while either the person doing the soliciting or the person solicited is on working time and or business property. Distribution of materials by employees in work areas or on working time is prohibited.

In order to protect the interests of the ABC Co. network and our fellow employees, we reserve the right to monitor or review all data and information contained on an employee's company-issued computer or electronic device, the use of the Internet or ABC Co.'s intranet. We will not tolerate the use of business resources to create, access, store, print, solicit, or send any materials that are harassing, threatening, abusive, sexually explicit, or otherwise offensive or inappropriate.

Compliance

Compliance with these principles is a necessary element in our business success. Our compliance committee is responsible for ensuring these principles are communicated to, understood, and observed by all employees. Day-to-day responsibility is delegated to all management members who are responsible for implementing these principles, if necessary, by providing more detailed guidance. Assurance of compliance is monitored and reported each year. Compliance with the code is subject to review by the board and subject to audit review.

Employees are expected to bring to management's attention any breach or suspected breach of these principles. Provision has been made for employees to be able to report in confidence.

From time to time, employees will likely have questions as to how this code of ethics and business conduct apply in particular situations. We expect all employees with such questions to discuss the exact circumstances with our vice president of human resources and compliance. Should the vice president of human resources and compliance be uncertain about what actions should be taken to ensure compliance with this code of ethics and business conduct, he or she will obtain further guidance by consulting with the compliance committee.

AICPA *CODE OF PROFESSIONAL CONDUCT*

Individuals in the AICPA and private industry need to remember that controllers are subject to the *Code of Professional Conduct*. Consider the following guidelines from the AICPA.

Members in Business and Industry—Examples of Violations[3]

The AICPA requires that all members, including those in business and industry, adhere to the AICPA *Code of Professional Conduct* (code). It is imperative that members are knowledgeable of their duties under the code. The following list contains some fictitious fact patterns designed to show how the rules and related interpretations could be applied. They represent just a few examples of the many business and industry member violations that could occur. At times, some situations could result in more than one violation.

Rule 102—Integrity and Objectivity

Member Linda Chambers is a CPA and the chief financial officer for Brookings Incorporated. At the request of the external auditors, Linda signed the client representation letter stating, "There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices". Earlier that month, she had received an inquiry from the Securities and Exchange Commission (SEC) concerning the company's revenue recognition policy.

As a member, Linda has a responsibility to the company's external accountants. She is required to be candid in disclosing the communication received from the SEC. In addition, Linda may not sign documents containing materially false and misleading information. Linda could potentially be in violation of Rule 102 as supported by *Interpretation 102-1—Knowing misrepresentations in the preparation of financial statements or records,* and *Interpretation 102-3—Obligations of a member to his or her employer's external accountants*.

Rule 201—General Standards

The controller, member Dale Weinstein, CPA, of Brookings Incorporated, recorded a material sale of merchandise on the last day of the first quarter. Dale never received notification of the sales invoice or received any shipping documentation to ascertain that the sales transaction had actually occurred. Although this was a departure from business policy, Dale recorded the transaction.

Dale did not exercise due professional care and had a responsibility to obtain sufficient relevant data that would provide him with a reasonable basis for his conclusion. Dale could potentially be in violation of Rule 201—General standards of the AICPA *Code of Professional Conduct*.

Rule 203—Accounting Principles

In response to SEC inquiry, member John Sterling, the CEO of Brookings Incorporated, wrote, "The Company's financial statements are presented in conformity with generally accepted accounting principles, and I am not aware of any material misstatements". Earlier that morning, John had been present at a meeting with the company's external accountants discussing a material error in those same financial statements.

John cannot express, in written communication with the SEC, which the financial statements are in accordance with generally accepted accounting principles and are free of material errors when he knows that his statement is false. As a member, John could be potentially in violation of Rule 203—Accounting Principles of the AICPA *Code of Professional Conduct*.

Rule 501—Acts Discreditable

"I have been so busy with the company's initial public offering that I have failed to file my personal income tax returns for the last two years", said member Susan Allen.

Susan may not realise it, but she has a responsibility to comply with applicable federal, state, or local laws regarding the timely filing of her personal tax returns. She could now also be potentially in violation of Rule 501—Acts Discreditable as supported by *Interpretation 501-7 Failure to file tax return or pay tax liability*.

Endnotes

1 "About Us". COSO Committee of Sponsoring Organizations of the Treadway Commission. Accessed January 10, 2014. www.coso.org/aboutus.htm.

2 www.theiia.org/media/files/fraud-white-paper/fraud paper.pdf.

3 The examples in this section are reproduced from "AICPA—Business and Industry Members". Accessed February 6, 2014. www.aicpa.org/INTERESTAREAS/PROFESSIONALETHICS/RESOURCES/BUSINESSANDINDUSTRYMEMBERS/Pages/default.aspx. Legal Disclaimer—All persons and entities, in situations depicted, are fictitious, and any resemblance to any person living or dead or to any actual entity or situation is purely coincidental. This content is designed to provide illustrative information with respect to the subject matter covered. It does not establish standards or preferred practices. The material was prepared by AICPA staff and has not been considered or acted upon by senior technical committees or the AICPA board of directors and does not represent official opinion or position of the AICPA. It is provided with the understanding that the author and publisher are not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. The author and publisher make no representations, warranties or guarantees as to, and assume no responsibility for, the content or application of the material contained herein, and expressly disclaim all liability for any damages arising out of the use of, reference to, or reliance on such material. Copyright © 2014 by the American Institute of Certified Public Accountants, Inc.

7

EMPLOYEES

In corporate annual reports, CEOs will assert that the business's most important asset is its people. This is especially true when it comes to staff in the accounting department. The capabilities, production, quality, and cooperation will be a function of the people on staff. A successful business manager will ensure that employees are recognised for their true value to the organisation. The controller who does not take the time to master management of staff will be undermining his or her own operation.

This chapter will cover:

- Recruiting, retaining, and developing employees.
- The need for employee personality profiling and various examples.

WHAT DO EMPLOYEES WANT?

It is important that a controller understand the wants and needs of prospective and existing employees. Just as in lean philosophy, the "customer's perspective of value" must be known, the same is true when it comes to employees (internal customers.) So what do employees want? Ad depicted in figure 7-1, they want:

- Meaning
- Control
- Reward
- Recognition
- Balance

The author is a TEC Chair. He is a professional facilitator for two CEO groups in southeast Wisconsin. TEC is the largest peer group of CEOs in the world. Between TEC and his consulting practice, the author works with many different leaders in both for profit and not for profit organisations. One concern that owners often share about employees is that they wish the employees had more of an ownership approach to the business. The author then asks the CEO the following questions about the organisation.

Does the organisation:

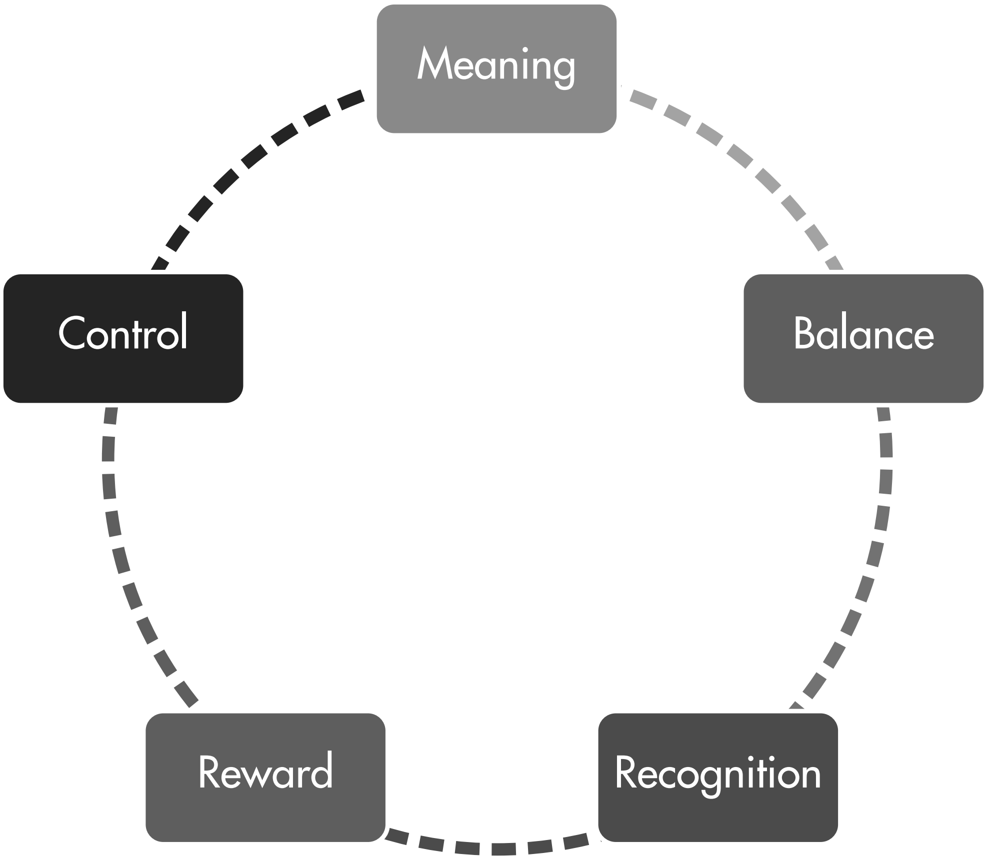
1. Pay employees as if they were owners?
2. Allow the employees to make significant decisions as to products, services, or customers?

3. Encourage employees to try new approaches even if there is a chance of losing money?
4. Trust employees to record their time as if they were owners?
5. Consult the employees about the strategic direction of the company?
6. Ensure that employees take vacation time and spend time with their respective families?

If you were getting slightly uncomfortable with the questions, then you begin to understand the wide valley that lies between desired behaviour and processes that defeat the ownership mentality.

To increase productivity, profits, and employee satisfaction, a business must understand and meet the needs and wants of the employee. Hopefully, we are heading out of the recession. If businesses have not gone out of their way to inspire, comfort, and educate employees during this time of difficulty, employees may be ready to bolt for the first reasonable employment offer that comes their way.

Figure 7-1: What Do Employees Want?



Meaning

1. Belief in purpose—employees that believe in the mission of the business already have a strong affinity to purpose. The reason not for profits can attract employees is that the not for profit is perceived as "doing good" for a specific community.

2. Belief in vision—regardless of the organisation, employees must believe that management is leading them somewhere. In the Bible, Moses led the Israelites in the desert for 40 years. Remember the statement: “Where there is no vision, the people perish”. As we exit the recession, employees are looking for management to “paint a picture” of how the business will flourish and how employees can reclaim lost wages and benefits.
3. Contributing to the benefit of mankind—This concept is strongly tied to the belief in purpose. However, there must also be a concept that the product achieves a greater good than just the customers it serves.

Control

1. Responsibility—is the act of completing the assigned tasks or project, for example, the manager that is charged with delivering the service or product in working order by the end of the 3rd month. Responsibility will involve achieving milestones or goals.
2. Authority—is the ability to initiate the project, or change the project.
3. Employees get frustrated when they do not have the authority or the responsibility to impact the product or service. If we want employees to act like owners, it is imperative they receive the correct level of responsibility or authority to accomplish what is expected of them. Great confusion is created when an employee is charged with the responsibility to achieve the target but does not have commensurate authority to see that the target can be met.

Reward

Pay and bonus by and of itself will not suffice in the long run without the other items listed in this section.

1. Pay—an employee must believe that he or she is receiving fair compensation for the services rendered. If the business touts they are #1 in the industry but its competitors are paying higher wages, employees will begin to mistrust their employers.
2. Bonus—bonuses need to meet the same standard of perceived fairness. Inexperienced managers will wrongly believe that a significant bonus can offset mistreatment incurred during the year. The bonus effect does not last very long. In some classes, the participants have suggested that as soon as the bonus is spent the effect is over.

There are many ways that a business can reward employees. Rewards can be:

- Formal
- Informal
- Special Achievement
- Team Achievement

Let us consider examples of each of these rewards as shown in box 7-1.

Box 7-1: Rewarding Employees

Formal Rewards

1. Salary increases. Do not tie salary increases to annual evaluations. Do not give "across the board" increases. Doing so will marginalise performance and demoralise high producers.
2. Bonuses. Do away with discretionary bonuses.
3. Incentives. Employees will focus what they do on how they get paid. If your business wants specific performance, then pay employees to achieve that performance.
4. Ownership plans
   a. Stock ownership. If you want employees to act like owners, make them owners.
   b. Shared profits. If you do not want to share actual ownership, make them "owners" in the profitability of the organisation.
   c. Phantom Stock. Phantom stock is a great tool to incentivise employees to act as owners and share in the growth of the business without giving up any legal ownership.
5. Anniversary rewards

Informal Rewards

1. Thank-you letters. Employees and others appreciate thank-you comments of all kinds so long as they are personalised, sincere, and speak to specific activities. Otherwise, these thank-you gestures will be seen as fake signs of appreciation.
2. Parking spots or special physical positions. Once special spots are given to employees, do not allow "non-winners" to use the special spots. Doing so will discredit the award and you as a manager.
3. Small gifts. Take the time to choose a gift that the other person will appreciate. A gift that seems purchased carelessly or hurriedly will have a negative effect upon the recipient.
4. Time off. If an employee is given time off, ensure that he or she does not have to make up the work from the day off!
5. Special event tickets. Not everyone appreciates the same special events. Some employees will prefer opera tickets over football tickets, for example. Also, free tickets to a losing team game may not be appreciated.
6. Company logo sportswear including hats, shirts, jackets, etc.
7. Gift certificates. A reward could be a certificate for dinner at a restaurant or a certificate to obtain merchandise that the employee values (perhaps from a corporate-sponsored award catalog.)
8. Attend a training course. Consider allowing the employee to choose a training course regardless if it is directly job related or not.
9. More challenging assignments.

Special Achievement

1. Monetary reward.
2. More responsibility.
3. Trip award. Let people know in advance what trip may be awarded.
4. Time off
5. Special recognition from Chairman. Ensure that the Chairman knows how to pronounce the employee's name. Nothing could be better than having the Chairman spend an hour with the employee.
6. Trip for employee and significant other or spouse.

Team Achievement

1. Group outing—dinner, play, or another activity. Before awarding the trip, run up a trial balloon to ensure the event is well received. The wrong event can backfire.
2. Monetary award to team to develop office setting or environment. With very few guidelines, let the team decide for itself how to spend the money.
3. Monetary award
4. Apparel with team achievement—limited distribution shirts. Ensure that only team members can obtain the shirt. If it becomes popular, have annual "series" of the shirts. In this way, people can always reflect on the achievement that the shirt represented.

As a final note, do not confuse drawings with job productivity. If a part of the job is to deliver special results that qualify a participant for a drawing, the person is not rewarded for his or her performance. In addition, it is then possible for someone to win the drawing with lesser involvement due to the nature of games of chance.

Recognition

There is no better way for management to show gratitude than sincere public appreciation for work well done. The effect can be prolonged if the remembered event can even be woven into the culture of the business and become a routinely shared "historical story".

Recognition ties to the overall purpose of business, reinforcing the purpose, the mission of the business is essential. If the reinforcement of an employee's act or service can be tied to the overall purpose, the event takes on greater importance to the organisation, person, and other employees.

Handwritten thank-you notes show that management took the time to recognise the significance of an employee. Consider sending a handwritten note to the family acknowledging a job well done. Employees are less apt to leave a business when encouraged and complimented on their success.

Balance

If an employee is having difficulties at home, he or she will bring the problem into the work setting. Therefore, the business should do its best to balance the work needs so that it is not creating strife at home that will eventually bounce back in the work setting.

People also need recreation such as hobbies. A burned out person is not helpful. Employees must have outside activities to re-energise themselves. An employee that never vacations is similar to a car that does not have its oil changed: an engine "seize up" is in the future.

RECRUIT, RETAIN, AND DEVELOP

To build a successful accounting team, the controller must hire, retain, and develop the best accounting employees. The steps for the controller or CFO to follow are:

1. *Determine staffing strategy for the future.* It is important that the controller be involved with the strategic planning phase of the business. The controller should determine the staffing levels necessary to execute the accounting department duties. In addition to the staffing levels number, the controller should determine the skill level for each person.
2. *Determine how to identify candidates.* The controller must select the various methods of recruiting individuals for current and future needs. As a consultant, the author is amazed at how many business leaders question how and where they should find good employees. That question and the process should be something that is dealt with when the business analyses a strategy. It should not be left to the moment when someone must be hired. However, keep several rules in mind when interviewing candidates. The first rule is to use experienced-based interviews. Candidates who describe how they reacted to problems or opportunities in the past will most likely act in a similar fashion in the future. Do not guess how employees will react. Find people that have accomplished that which you need. The second rule is to take advantage of personality profiles. In chapter 6, we discuss the use of the Culture Index. Profiles are not to be used to hire or fire individuals, but rather to gain greater insight into the individual.
3. *Develop leadership qualities.* Once you've made an investment in hiring an employee, think of that person as a valuable tool. If you do not maintain it, it will fall into a state of disrepair. A person in the accounting department should receive continuing professional education. They should receive special leadership training. Many times, the accounting CPE does not adequately train individuals to be leaders. Your staff should have training in understanding, supervising, and managing people. Understanding people's behaviour will go a long way to make an employee more successful in your organisation.
4. *Retain staff.* After investing time in developing a staff member, the last thing an employer wants is the staff member to join a competitor. Because then, of course, your competitor would reap all the benefits of the time and money that you invested into this employee. So compensation should be at a level that makes the employee feel he or she is being compensated fairly and compensated at least as well as his or her peers. When someone does not feel that he or she is compensated adequately, he or she fixates on this issue. Some unethical employees may find ways to take advantage of your organisation. In addition to compensation, people want to be recognised. A pat on the back, a handwritten thank-you note, a flattering report, and being mentioned in the business newsletter will go a long way to make a person feel worthwhile in his or her job. If you believe a person does not need expressions of gratitude and he or she

should just do his or her job, then consider spending time in a behavioural management training session. The work environment should be where a person wants to invest his or her time. Any of the following can affect the work environment and cause distractions:

- work setting
- office
- desk or chair
- the amount of light
- the neighbourhood

Life balance has become much more important to workers these days. Today, parents do not want to miss their children's extra-curricular activities. They also could care less that you never attended your children activities. This means that people should have the ability to work at home with telecommuting tools to accommodate their lifestyles. An employer who makes it easier on employees will create a better work environment, a better life balance, and happier, more productive employees.

5. *Inspire staff.* The controller must be inspirational. Remember, motivation is what each person creates for him- or herself; inspiration is what another person creates within you. Workers will be inspired if they have challenging work. They will be inspired if they feel that their jobs are making a difference in the community in which they live. They will be inspired if you take interest in their careers by being a coach and mentor. This means that the controller must be interested in a staff person's business and personal goals. The controller should not be frightened to engage staff to discuss succession and career plans. Recognise that the tenure at companies is very short as compared to past generations. The controller that helps his or her staff reach their goals will reap the benefits as will the company.

PERSONALITY PROFILES

Everyone agrees that quality staff members are wanted for an accounting department. In that light, how do incompetent and ill-mannered staff members become part of our organisations? Quite simply, we, as controllers, do not perform an adequate job of recruitment. This author has heard controllers state on too many occasions, "We do not have the time to find and interview candidates—it gets in the way of the job!" Recruiting and hiring are two of the most important tasks a controller performs. Jim Collins wrote, "Get the right person on the bus and in the right seat". Anything less exposes the accounting department to inadequate performance. One of the best ways to develop your hiring skill and quality of hires is to adapt personality profiling to your hiring process. Supplement traditional interviewing skills, which are based on behavioural questions, with personality profiles.

In this section, we will consider three different tools that can be implemented to better understand and qualify candidates:

- The Myers Briggs profile
- The Culture Index
- The Caliper

Prior to looking at the profiling tools, let's consider personality profiles from a historical perspective. The first recorded analysis of profiles dates back to the ancient Greeks. The early profiles identified four specific personality profiles. In modern day, we have come to know these four types with the following descriptive words:

- Driver
- Expressive
- Amiable
- Analytic

Box 7-2 shows a variety of personality profile products. Note that all of the different personality profiles can be aligned with the original four styles. Consultants have repackaged an old concept with new words. One of the values of looking at the box is that you become proficient and aware of one profile system. Then you can use that understanding in applying the same concepts to other named systems.

Box 7-2: Equivalents for the Four Personality Types

PROFILE	TYPE 1	TYPE 2	TYPE 3	TYPE 4
Merrill-Reid	Driver	Expressive	Amiable	Analytical
D.E.S.A.	Dominant	Expressive	Solid	Analytical
Hippocrates Greek Terms (370 BC)	Choleric	Sanguine	Phlegmatic	Melancholy
Western Astrology	Fire	Air	Water	Earth
"What's My Style?" (WMS)	Direct	Spirited	Considerate	Systematic
The P's	Powerful	Popular	Peaceful	Perfect
The S's	Self-propelled	Spirited	Solid	Systematic
The A's	Administrative	Active	Amiable	Analytical
LEAD Test	Leader	Expressor	Dependable	Analyst
ARRAY (Jonathan Knaupp)	Production	Connection	Status Quo	Harmony
Biblical Characters	Paul	Peter	Abraham	Moses
Geier	Dominance	Influencing	Competence	Steadiness

PROFILE	TYPE 1	TYPE 2	TYPE 3	TYPE 4
DiSC(r)	Dominance	Influencing of Others	Steadiness	Cautiousness/ Compliance
McCarthy/4MAT System	Common Sense	Dynamic	Innovative	Analytic
Merrill/Wilson	Driver	Expressive	Amiable	Analytic
Plato (340 BC)	Guardian	Artisan	Philosopher	Scientist
Kretschner (1920)	Melancholic	Hypomanic	Anesthetic	Hyperasthetic
Sprangler (1930)	Religious	Aesthetic	Theoretic	Economic
Fromm (1947)	Hoarding	Exploiting	Receptive	Marketing
Psycho-Geometrics (1978)	Triangle	Squiggle	Circle	Square/Rectangle
Type A or B	Type B Motivated	Type B Messy	Type A Casual	Type A Compulsive
PSI	Controller	Promoter	Supporter	Analyst
Reclaiming Youth at Risk	Mastery Achiever Power	Belonging Attached Significance	Generosity Altruistic Virtue	Independence Autonomous Competence
Enneagram	Adventurer Achiever	Helper Romantic	Peacemaker Observer	Asserter Perfectionist
Animals	Bear	Monkey	Dolphin	Owl
True Colors by Don Lowry	Green	Orange	Blue	Gold
Winnie-the-Pooh Characters	Rabbit	Tigger	Pooh	Eeyore
Charlie Brown Characters	Lucy	Snoopy	Charlie Brown	Linus
Jane Austen Novel Characters	Emma Woodhouse	Lydia Bennet	Elizabeth Bennet	Marianne Dashwood

(continued)

PROFILE	TYPE 1	TYPE 2	TYPE 3	TYPE 4
Comic Strip Characters	Jason	Snoopy	Cathy	Ziggy
Who Moved My Cheese? by Spencer Johnson	Sniff	Scurry	Haw	Hem
The Celestine Prophecy by James Redfield	Intimidator	Poor Me	Aloof	Interrogator
The Color Code by Taylor Hartman	Red	Yellow	White	Blue

Source: "Young Ladies Christian Fellowship". http://www.ylcf.org/you/personality-equivalents.htm. Reprinted with permission.

Merrill-Reid Descriptors

Even if your business is not interested in the profile tools to follow, insight to the Merrill-Reid descriptors can build your hiring and managing skills. Consider the following descriptions for each of the four major categories: Driver, Expressive, Amiable, and Analytical.

The following characteristics are only partial lists for each of the four profiles. In Appendix D of this book, the lists are expanded. If the reader is having difficulty picking him- or herself out of the abbreviated descriptions, please refer to Appendix D.

A Driver's characteristics include:

- Hardworking
- Energetic
- Does not avoid conflict
- Tendency to be brash and aggressive
- Knows what he or she wants and how to achieve it
- Cuts to the point; short and simple

An Expressive's characteristics include:

- Kind and enthusiastic
- Competitive
- Excellent story-teller
- Tendency to distort stories and ignore previous facts
- Great motivators, but may want to plan instead of do

The traits of an Amiable are:

- Quiet
- Sometimes seems indecisive
- Fascinated with art, music, and poetry
- Avoids conflict
- Adapts to situations easily
- Thin-skinned

Lastly, the characteristics of an Analytical are:

- Usually negative
- Highly observant
- Detail oriented
- Tendency to be extremely critical
- Forms decisions once every fact has been taken into account

Of all the personality types, one is not better than the other. All types complement each other and contribute to the end result. If there is a challenging task, it is important to involve all of the personality types to have a successful solution.

Take a moment and think about your management team. How would you classify each of the following individuals' personality types?

- CEO
- COO
- CIO
- VP-HR
- CFO
- VP-Sales

Based on your assessment of the individual profiles, what inferences can you make from these profiles about the way your team operates?

What inferences can you make about the team that you need to create to have a successful accounting department?

Merrill-Reid Implications for Working with Staff

The successful manager will utilise the personality types to better lead, coach, and discipline his or her staff. In addition, the types will also provide excellent insights into better ways of meeting the needs of the manager's boss. The key to understanding the other person's dominant style is to adapt your style to meet that person's needs. When the manager adapts his or her style and moves into the other person's style, the chance increases for successful communication, better teamwork, and enhanced profitability.

A manager can best meet the needs of each personality as follows:

- If the direct report is a Driver, the manager should be sincere and direct in all his or her communications.
- If the direct report is an Expressive, the manager should be friendly, open in communication, trusting, and empathic.
- If the direct report is Amiable, the manager should show confidence in the employee, and needs to be honest and trustworthy.
- If the direct report is Analytical, the manager should be knowledgeable and share information openly.

Conversely, a manager most likely will have difficulty in the following situations:

- If the direct report is a Driver, the manager should not give too much or too little direction. Without enough direction, the task may be too vague to be effective; too much direction keeps an employee from using his or her personal discretion.
- If the direct report is Expressive, the manager should not be closed-minded. This may suggest that the manager has only one way of doing things and is unwilling to discuss options.
- If the direct report is Amiable, the manager should strive to express personal concern for the employee. The Amiable will be upset if the manager does not show personal interest in him or her.
- If the direct report is Analytical, the manager should not give too much or too little information. The Analytical does not like to be told information he or she already knows or that is irrelevant to the task; at the same time, he or she does not want gaps in the information that the managers could have provided.

The astute manager should also be able to see the problem that may occur during a staff meeting. If the team has all different personality types, the messages, and processing of issues will be done from all participants' perspectives. Conversely, meeting everyone's needs will strain the patience of some participants. An appropriate balance must be achieved based on each person's profile.

PROFILE TOOLS

Myers-Briggs Profile

Now let's discuss the first profile tool which is the Myers-Briggs. The Myers-Briggs profile takes a detour from the four profiles listed earlier. Carl Jung, the noted psychologist, created the basic concepts of 16 profiles that later became known as the Myers-Briggs Profiles. Jung determined that individuals could be classified into the 16 profiles shown in box 7-3.

Box 7-3: Myers-Briggs Personality Types

ISTJ	INTJ	ESTJ	ENTJ
ISTP	INTP	ESTP	ENTP
ISFJ	INFJ	ESFJ	ENFJ
ISFP	INFP	ESFP	ENFP
I–Introvert, S–Sensing, T–Thinking, J–Judging, E–Extravert, N–I(N)tuitive, F–Feeling, P–Perception			

There are a number of resources for you to take your Myers-Briggs profile online. One resource that the author recommends is the free 72-question test at www.humanmetrics.com. Once a person has taken the 72-question exam, he or she will receive his or her four-letter profile. The profile is invaluable in many different ways. For example:

1. It can be used to understand how well your profile fits the career that you've selected or might select in the future.
2. It is easier to understand why staff members with different profiles do not work well together.
3. It can explain why different people have communication problems. Used correctly, it can create understanding and improved communication.
4. It can also be used to understand the needs of your boss.

The author also recommends that these profiles should be given to high school students and college students so they can have a better understanding of careers that will match up to their profiles. Studies have indicated that approximately 70 percent of all people do not enjoy going to work on any given day. The author believes this is due to employees working in jobs that do not complement their personalities. If we establish people on the right track at the start of their careers, the chances increase of them enjoying their jobs more, having greater career success, and having better lives.

Let's consider each of the 16 Myers-Briggs profile types and their characteristics.

Box 7-4: Myers Types and Characteristics[1]

ISTJ	ISTP
1. Serious	1. Quiet
2. Quiet	2. Reserved
3. Desires security and peaceful living	3. Interested in how and why things work
4. Thorough	4. Understands mechanical things
5. Responsible	5. Risk-taker who lives for the moment
6. Dependable	6. Enjoys extreme sports
7. Ability to concentrate	7. Uncomplicated desires
8. Supports traditions and establishments	8. Loyal
9. Well-organized	9. Not concerned with laws and rules
10. Hardworking	10. Detached
11. Works to accomplish goals	11. Analytical
12. Completes tasks	12. Likes to find solutions to practical problems
ISFJ	**ISFP**
1. Quiet	1. Quiet
2. Kind	2. Serious
3. Conscientious	3. Sensitive and kind
4. Good follow-through	4. Does not like conflict
5. Puts the needs of others above own needs	5. Loyal
6. Stable	6. Faithful
7. Practical	7. Appreciates beauty
8. Values security and traditions	8. Prefers following vs. leading
9. Understands observations about people	9. Flexible
10. Perceives others' feelings	10. Open-minded
11. Interested in serving others	11. Original
	12. Creative
	13. Enjoys the present

INFJ	INFP
1. Quietly forceful 2. Original 3. Sensitive 4. Perseveres with tasks 5. Intuitive about people 6. Concern for others' feelings 7. Well-developed value systems 8. Does the right thing 9. Individualistic	1. Quiet 2. Reflective 3. Idealistic 4. Interested in serving humanity 5. Well-developed value system 6. Extremely loyal 7. Adaptable 8. Laid-back 9. Talented writer 10. Mentally quick 11. Can see possibilities 12. Interested in understanding and helping people
INTJ	**INTP**
1. Independent 2. Original 3. Analytical 4. Determined 5. Can turn theories into plans of action 6. Highly values knowledge 7. Competent 8. Structure 9. Derives meaning from visions 10. Long-range thinker 11. Expects high standards of self and others 12. Natural leader 13. Will follow trusted existing leaders	1. Logical 2. Original 3. Creative thinker 4. Becomes excited about theories and ideas 5. Turns theories into clear understandings 6. Highly values knowledge 7. Competent 8. Quiet 9. Reserved 10. Hard to get to know 11. Individualistic

ESTP	ESTJ
1. Friendly	1. Practical
2. Adaptable	2. Traditional
3. Action-oriented	3. Organized
4. “Doer”—focused on immediate results	4. Athletic
5. Lives in the present	5. Not interested in theory unless there is a practical application
6. Risk-taker	6. Clear vision
7. Fast-paced lifestyle	7. Loyal
8. Impatient with others	8. Hard-working
9. Extremely loyal	9. Likes to be in charge
10. Not respectful of laws and rules	10. Capable of organizing and running activities
11. Great people skills	11. “Good citizen”—values security and peaceful living
ESFP	**ESFJ**
1. People-oriented	1. Warm-hearted
2. Fun-loving	2. Popular
3. Makes things fun for others	3. Conscientious
4. Lives in the present	4. Puts others first
5. Enjoys new experiences	5. Responsible
6. Dislikes theory and impersonal analysis	6. Dutiful
7. Interested in serving others	7. Values traditions and security
8. Well-developed common sense	8. Interested in serving others
9. Practical ability	9. Needs positive reinforcement
	10. Well-developed sense of space and function

ENFP	ENFJ
1. Enthusiastic 2. Idealistic 3. Creative 4. Able to do almost anything that interests them 5. Great people skills 6. Lives life according to inner values 7. Excited by new ideas 8. Bored with details 9. Open-minded 10. Flexible 11. Broad range of interests and abilities	1. Popular 2. Sensitive 3. Outstanding people skills 4. Externally focused 5. Concerned for how others think and feel 6. Dislikes being alone 7. Sees everything from the human angle 8. Dislikes impersonal analysis 9. Effective at managing people issues 10. Leads group discussions 11. Interested in serving 12. Places needs of others over their own needs
ENTP	**ENTJ**
1. Creative 2. Resourceful 3. Intellectually quick 4. Good at a broad range of things 5. Enjoys debating 6. May be into "one-up-manship" 7. Excited about new ideas and projects 8. Neglects the more routine aspects of life 9. Generally outspoken and assertive 10. Enjoys people and is stimulating company 11. Excellent ability to understand concepts and applies logic to find solutions	1. Assertive 2. Outspoken 3. Driven to lead 4. Understands difficult organizational problems 5. Creates solid solutions 6. Intelligent and well-informed 7. Excels at public speaking 8. Values knowledge and competence 9. Little patience with inefficiency or disorganization

Can you recognise yourself in any of these profiles?

Can you recognise anyone with whom you have had significant positive or negative interpersonal interactions? If so, why do you think the interactions occurred as they did?

The Caliper Profile

Another personality profile to consider using in your business is the Caliper.[2]

> The Caliper Profile is an assessment instrument for measuring an individual's characteristics, potential and motivation. This personality test, validated by more than four decades of research, measures over twenty-five personality traits that their consultants analyse in a variety of combinations to determine how someone will perform in a specific role.
>
> Their consultants can tell you how someone's natural traits will play out on the job. For example, is a candidate persuasive, does he or she have strong interpersonal skills, and can he or she handle rejection well? The caliper will identify if a person is a good problem solver, can be an effective coach, and can follow through and deliver on commitments.[3]

Figure 7-2 is a sample Caliper profile. It lists a variety of characteristics and is also compared to members in the same group. This analysis can be very helpful to spot where team members might be different from the rest of the team.

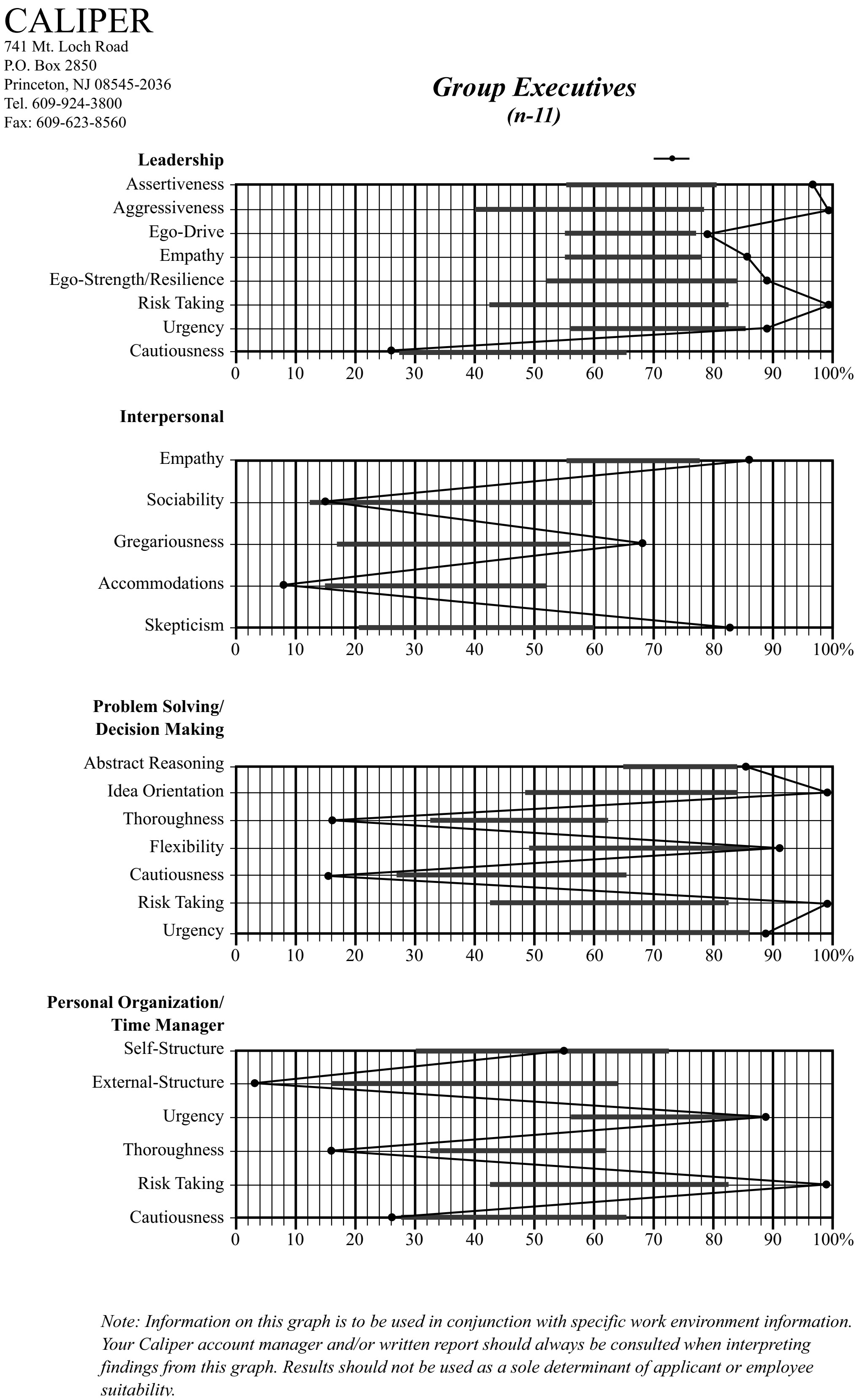
The profile has four major areas (each area has numerous categories.)

1. Leadership
2. Interpersonal
3. Problem solving and decision making
4. Personal business and time management

Each characteristic shows the group's range (light grey bar—without test taker) and the person score for the person who took the profile (single line with chart points.) The use of a tool such as the Caliper can:

1. Identify theoretical profiles or characteristics for recruiting purposes.
2. Identify strengths and weaknesses of a candidate to develop the interchange of information during the recruiting process.
3. Evaluate existing employees for promotion or reassignments (there are some people that "fit on the bus", but are just in the wrong seat.)
4. Help to develop training programs for a specific individual.
5. Help to determine how to maximise the job experience for both the employee and the employer (for example, on the profile in figure 7-2, the person rates very high in idea orientation. To place the person in a position where creativity was not desired would waste a valuable asset of the business and frustrate the employee.)

Figure 7-2: Sample Caliper Profile



Source: Caliper Corporation.

Culture Index

The strategic plan is worthless if there are not competent people to plan, execute, and monitor the plan. As a coach to CEOs, the author has seen the problems that companies encounter, which typically have their origins in people issues. If your business wants to be more successful it will ensure that it hires, develops, and retains the best possible employees. To aid in this process, we will consider a tool known as the "Culture Index", which the author has used with members of professional CEO groups and has found to be of great value.

Our business nomenclature has been forever changed by Jim Collin's quote from *Good to Great*: "Get the right people on the bus, the wrong people off the bus, and the right people in the right seats". However, this concept is necessary to build and operate successful organisations. Hiring the best or "right" person is an extremely difficult responsibility. There are two main reasons for this difficulty:

1. The propensity to hire someone who is not as talented as we are due to our insecurity
2. The subjective evaluation of potential candidates

It is worth noting that we have no way to record the cost of hiring the wrong person on our financial statements. Our mistakes are boiled down to anecdotal examples. Research suggests that the cost of hiring the wrong person is three times his or her annual salary.

The best way to overcome encountering problems is to use an objective tool. Tools, such as the Culture Index, come into play.

The Culture Index measures seven work-related traits that are inherent to all human beings, and they are common to all positions in all companies. Therefore, this allows the hiring managers or human capital decision makers to compare and contrast proper fit for the work or position set forth within the organisation.

These seven work-related traits define four major criteria:

1. Motivation: What drives a person? Some jobs require that person to be very self-confident and competitively driven where other jobs require a person to be a team player.
2. Thinking: How a person gathers information and goes through the decision making process. Some jobs require a person to be thorough and methodical while other jobs require a person to be very time sensitive and deadline oriented.
3. Behaviour: How a person does his or her job. Some jobs require a person to work alone while others need people to work in a team environment.
4. Interaction: How a person interacts with others. Some jobs require a person to be proactive and decisive while other jobs need someone who is deferential and accommodating.

Note: These traits have nothing to do with intelligence, knowledge, experience, or education, but they will define how you apply all of them.

It is necessary to remember that there are no right or wrong answers! There are simply right or wrong jobs or positions for people because their traits do not match what is required for ultimate performance and productivity in a specific job.

The Culture Index will measure the following seven areas:

1. Autonomy—A: freedom from control or influence of another or others. The ability to determine one's own direction.
2. Social-ability—B: the relative tendency or disposition to be sociable or associate with one's fellows
3. Pace—C: the speed at which one works either in detailed assignments or overall work style.
4. Conformity—D: acting according to certain accepted standards; compliance with formal rules.
5. Energy Units—EU: a metric that determines how much energy ("horsepower") a given person has to discharge daily tasks.
6. Ingenuity—I: a metric that quantifies Inventive skill or imagination; cleverness.
7. Logic—L: a metric that quantifies an individual's deductive reasoning capability.

How are these items measured? A person matches words based on his or her understanding of the meaning of the words. The matching process will ultimately result in a graphic display of the responses. These responses can then be evaluated to determine if a person is in the "right" position or not. It can also be extremely useful to companies attempting to place potential candidates in their organisations.

The first section, titled "Traits", is a summary of seven work-related characteristics. These traits assess who you are outside of work, or who you are when you are not modifying your behaviour to meet the needs of your surroundings. These seven work-related traits are inherent behaviours and are typically established by ages 8 to 12.

The Traits summary portion will help you and others understand how you make decisions, what your communication style is like, the pace of the work you engage in naturally and your inclination towards detail orientation or conformity.

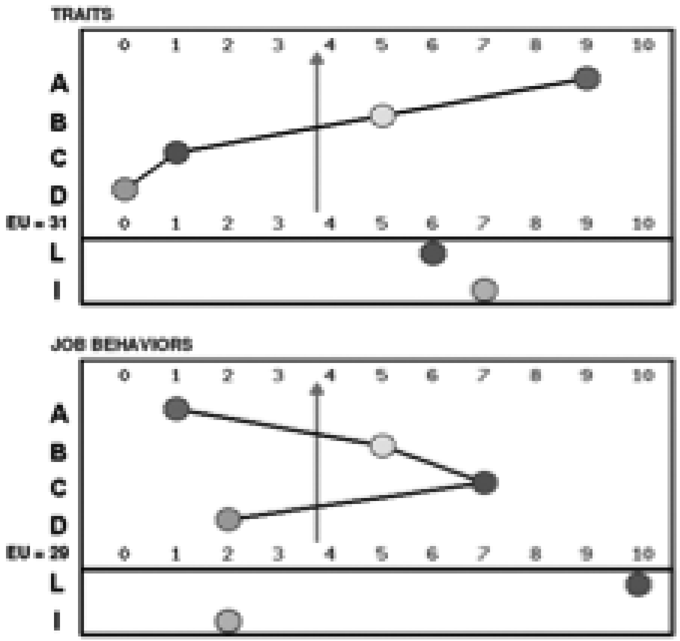
The second section of this report entitled, "Job Behaviours" is a summary of how you perceive you need to behave to meet the demands of your existing job. This summary may be helpful in assisting you and other people as to the cause or effect of stress or possible morale issues, if prevalent.

Because Culture Index is not a test, there is no pass or fail. The purpose of this instrument is to help supervisors and managers to understand themselves and their own management styles, and also understand the job from their perspectives.

Review figure 7-3. Note the categories and rankings.

1. This person likes to work independently and be autonomous.
2. This person enjoys the interaction with people on the job.
3. This person works at a very fast pace.

Figure 7-3: Culture Index Report



Source: Culture Index, Inc. Used with permission.

4. This person does not enjoy complying with rules and procedures.
5. This person would be best suited for a consultant position or work that involves a significant amount of autonomy.

Based on figure 7-4, which identifies 18 specific types of patterns of individuals, this pattern is best described as a Daredevil.

If you were assembling a team to work on a project, how could the identification of types be helpful to you? You can decide what the team needs to accomplish and then decide which profiles are best. For example, if the organisation needs to take drastic action to survive, it would select individuals that were high in "A"—autonomy. These individuals will make the difficult decisions. We might also consider selecting someone with a high "C" because he or she will work quickly. Let us consider the following real life example which illustrates how the Culture Index can be used to impact an organisation.

Practical Example of Culture Index

Less than two years ago, the CEO of ABC Manufacturing business moved quickly to put the "right people" (more leader type profiles) in senior management positions. Until then, this CEO felt she had to make all the decisions and felt a huge burden of making all critical decisions. Her senior management team had the following profiles (note: refer to the chart of profiles for all styles):

1. The VP of sales had a Debater profile.
2. The VP of manufacturing had an Administrator profile.
3. The director of maintenance had a Socializer profile.
4. The CFO had a Craftsman profile.
5. The VP of engineering had a Craftsman profile.

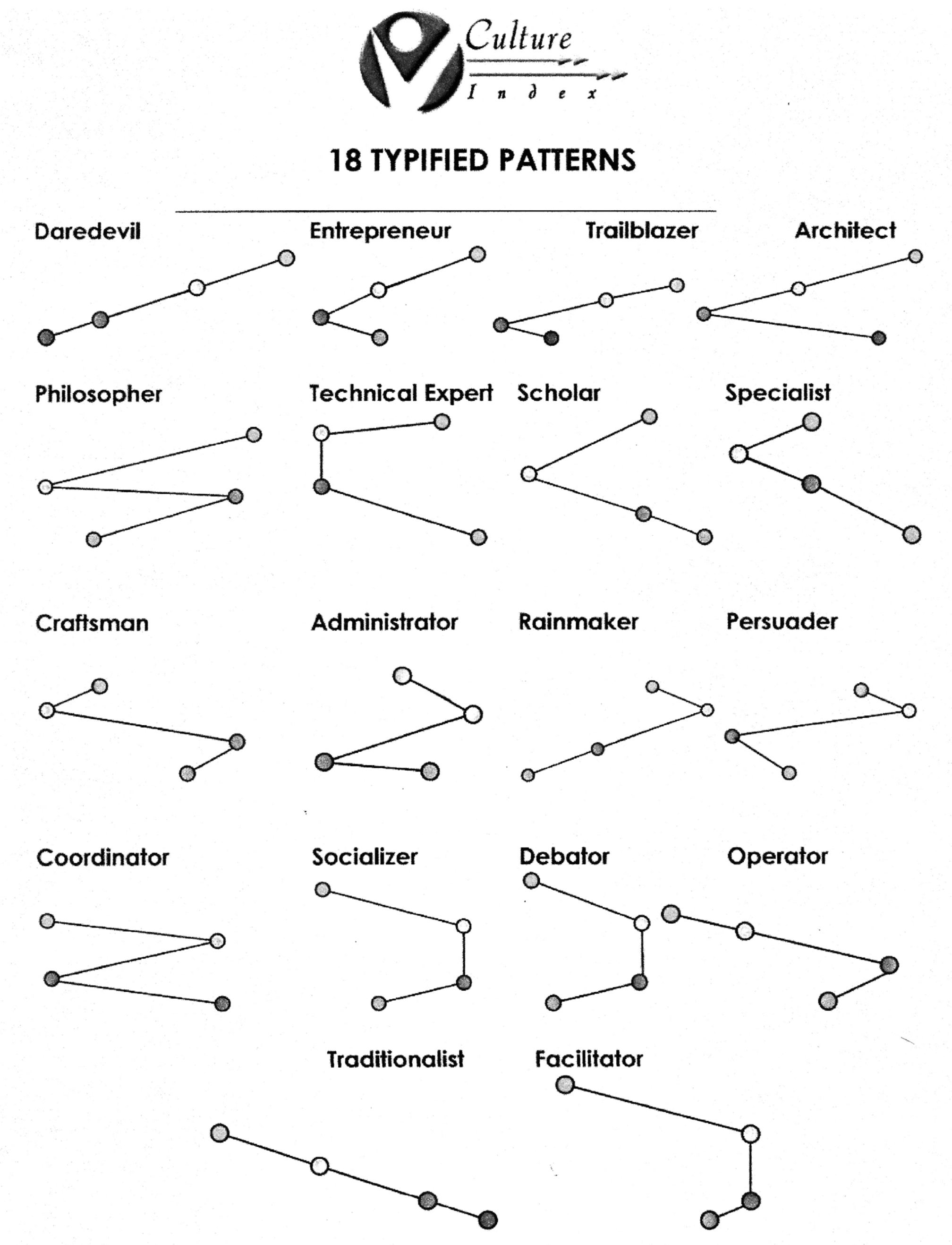
Based on the analysis and what the CEO wanted to accomplish, he or she made following changes:

1. The VP of sales was replaced by an Architect profile.
2. The VP of manufacturing and the director of maintenance were eliminated and replaced by one Architect profile. He is performing more efficiently than both people combined.
3. The CFO was replaced by a technical expert.
4. Although the VP of engineering was respected for his engineering expertise, he had a hard time leading and directing the work of others (in the profile he has a low "A"). His role has been reduced to more of an engineering lead as opposed to a VP level position. As a result, he is a much happier employee. In addition, a person with a "Trailblazer" profile has assumed leadership and departmental results are improving.

After making these changes in 2006, the CEO achieved the following results in 2007. The business budgeted a higher operating profit of 20 percent. The actual 2007 operating profit was in excess of 24 percent. This netted an additional $1.5mm net profit to the bottom line.

Note: The reader may wish to contact Tony Quartaro to learn more about the Culture Index service at tquartaro@cindexinc.com. The author of this book has no financial interest in the Culture Index.)

Figure 7-4: Culture Index



Source: Culture Index, Inc. Used with permission.

PERFORMANCE VALUES MATRIX

In addition to the above tools for understanding employees (and job candidates,) consider using the Performance Values Matrix discussed previously in chapter 2. The Performance Values Matrix is an excellent resource to improve performance of a direct report of the controller. The Performance Values Matrix can be used to evaluate performance, inspire improvement, recognise outstanding performance, and identify unacceptable employees.

Endnotes

1 BSM Consulting. "The Sixteen Personality Types—High-Level". Accessed February 6, 2014. www.personalitypage.com/high-level.html.

2 www.calipercorp.com/.

3 www.caliperonline.com/brochures_text/br_profile.asp.

8

OVERSIGHT OF HUMAN RESOURCES AND INFORMATION TECHNOLOGY

In recent years, several trends have occurred. Business owners have sought to 1) reduce costs and 2) leverage existing managerial talent. Today's controller has been in a unique position. Although not officially designated, controllers are often seen as the "right hand" person to the business owner, president, or CEO. This has happened for a couple of reasons. First, controllers speak "financial business" that a CEO understands. Second, controllers appreciate the need to control costs. As a result, CEOs have turned to the controller to oversee administrative functions such as HR and IT instead of hiring managers with specific professional capabilities.

The continual drumbeat from owners to "do more with less". will not subside. For the foreseeable future, controllers can expect to find more non-accounting functions added to their job descriptions. In the following text, the duties of a controller charged with the oversight of HR and IT will be explored.

We will consider:

- The role of strategic HR management
- Current trends in HR management
- The role of compensation management systems
- Questions to consider when outsourcing HR

THE FINANCE FUNCTION AND OVERSIGHT OF THE HUMAN RESOURCES FUNCTION

The role of the finance department has changed significantly. There is an increasing level of service expected from the finance department. Historically, the accounting department focused on traditional areas such as:

- Financial statements
- Transaction processing
- Monthly variance analysis
- Budget preparation
- Annual duties such as audit and tax

As companies have become leaner, they have demanded more from the accounting and finance function. The recurring theme is "do more with less". As it applies to the accounting department, the controller has been asked to pick up additional duties such as:

- Information technology oversight
- Facility oversight
- Human resources management
- Additional administrative services

A major theme of this book is the ability to spot and recognise trends and their impact upon the organisation. This skill is vital to moving from the traditional controller to the business partner. The ability to recognise trends is no different whether in accounting or HR. Consider some trends that are affecting the HR function.

Trends in Strategic Human Resource Management

Increasingly, human resource management professionals face issues of employee participation, human resource flow, performance management, reward systems and high commitment work systems in the context of globalisation. Older solutions and recipes that worked in a local context do not work in an international context. Cross-cultural issues play a major role here. Here are some of the major issues that HR professionals and top management involved in SHRM are grappling with in the first decade of the 21st century:

- Internationalisation of market integration
- Increased competition, which may not be local or even national through free market ideology
- Rapid technological change
- New concepts of line and general management
- Constantly changing ownership and resultant corporate climates
- Cross-cultural issues
- The economic gravity shifting from "developed" to "developing" countries[1]

Strategic HRM also reflects some of the main contemporary challenges faced by Human Resource Management:

- Aligning HR with core business strategy
- Demographic trends on employment and the labour market
- Integrating soft skills in HRD
- Knowledge management

The Society of Human Resource Managers also identified the 10 overall trends that HR professionals rated as most likely to have a major impact in the next five years, presented in box 8-1.

Box 8-1: Top Trends for 2013 and Beyond[2]

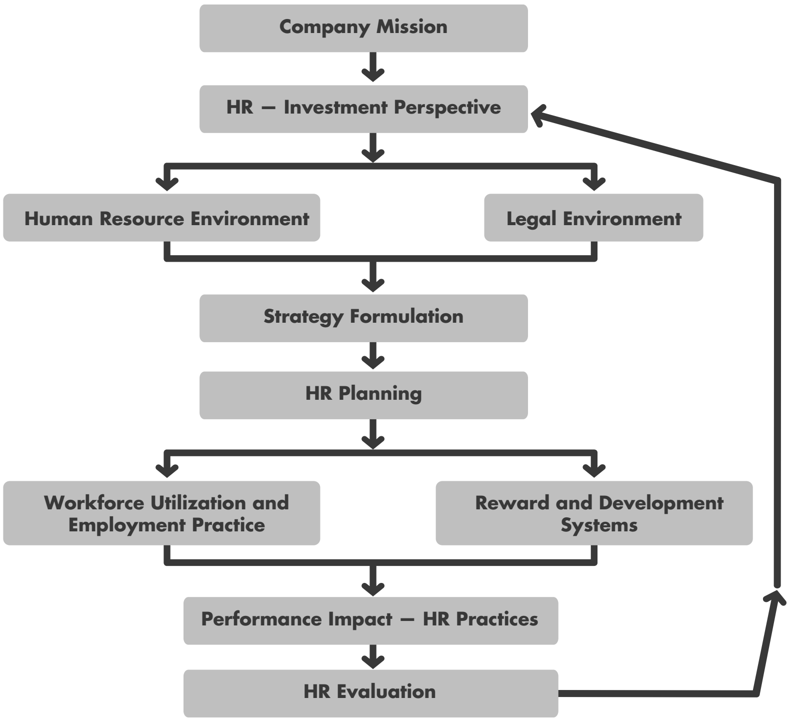
- Continuing high cost of employee health care coverage
- Implementation of health care legislation
- A shortage of skilled workers
- Large numbers of Baby Boomers leaving the workforce at around the same time
- Implications of the 2012 presidential and congressional elections
- Lack of science, technology, engineering and math graduates in the U.S. as compared with other countries
- Decline in employees' retirement savings
- Rise in fuel prices in the U.S. and globally
- Threat of a dip back into recession in the U.S.
- Greater economic uncertainty and market volatility

It is easy to realise the implications of these trends on the organisation's workforce. A strategic HR function will be addressing these issues in addition to the compliance and day-to-day processes.

OVERVIEW OF HUMAN RESOURCE MANAGEMENT

Let us look at the overall scope of Human Resources. Figure 8-1 is from the work of Charles Greer and his book "Strategic Human Resource Management".

Figure 8-1: Human Resources Overview



Source: Greer, Charles R. *Strategic Human Resource Management: A General Managerial Approach.* Second Edition. Englewood Cliffs, NJ: Prentice Hall, 2000.

Mission Statement

Strategic human resource management begins with the business mission statement. We addressed this business mission statement and overall planning process in Chapter 2. The mission should be the key statement that drives the actions and beliefs of the organisation. A strategic HR perspective has the belief that HR is an investment in the organisation. If a business does not believe that value is driven by its employees, then it is impossible for a business to have a strategic HR function. In that instance, employees are viewed as nothing more than "cogs in the machine".

Note: for some organisations, the strategy is to ignore all but a small group of employees. In essence, they are expendable. This author is not endorsing this concept, merely pointing out that a business may choose an unpopular strategy.

Environment and Trends

Once a business has developed the vision that HR is an investment, there are two main areas that they need to examine: 1) human resource environment and 2) demographic trends. Specific environment items to consider are:

- Technology and organisational structure
- Worker values and attitudinal trends
- Management trends (diversity, teams, outsourcing, open book management, TQM, reengineering)

Demographic trends to be considered are:

- Age of workforce (specifically baby boomer impact)
- Labour shortages
- Racial diversity
- Changing workforce complexion (male or female)
- Dual career couples

It is also necessary to be concerned with other trends such as:

- Telecommuting
- Relocation of work
- Temporary and part-time workers
- Globalisation of workforces

The legal environment, which is at the same level as Human Resource Environment on the flowchart, must be evaluated for items such as:

- Equal Employment Opportunity
    - Civil rights
    - Age discrimination
    - Sexual harassment
    - Hostile environment
    - E-mail or Internet
    - Disability discrimination
    - Religious discrimination
    - Sexual orientation
    - Compensation

- Hiring practices
- Safety

Strategy

The next step is to formulate the HR strategy. The strategy will outline the human resource organisation, employees, and policies that it desires to achieve. An outgrowth of the strategy formulation will be detailed human resource planning. The human resource planning will involve areas such as workforce utilisation and employment practices. In addition, it will be necessary to develop effective reward and development systems to ensure that a business inspires and develops the workforce so the business can achieve its strategic goals.

The business then determines the performance impact that it wants to measure. In Chapter 8 of Charles Greer's book, he lists seven management practices to consider:

1. Employment security
2. Selective hiring
3. Self-managed teams and decentralised decision making
4. Comparatively high compensation contingent on performance
5. Extensive training
6. Reduced status distinctions and barriers
7. Extensive sharing of financial and performance information

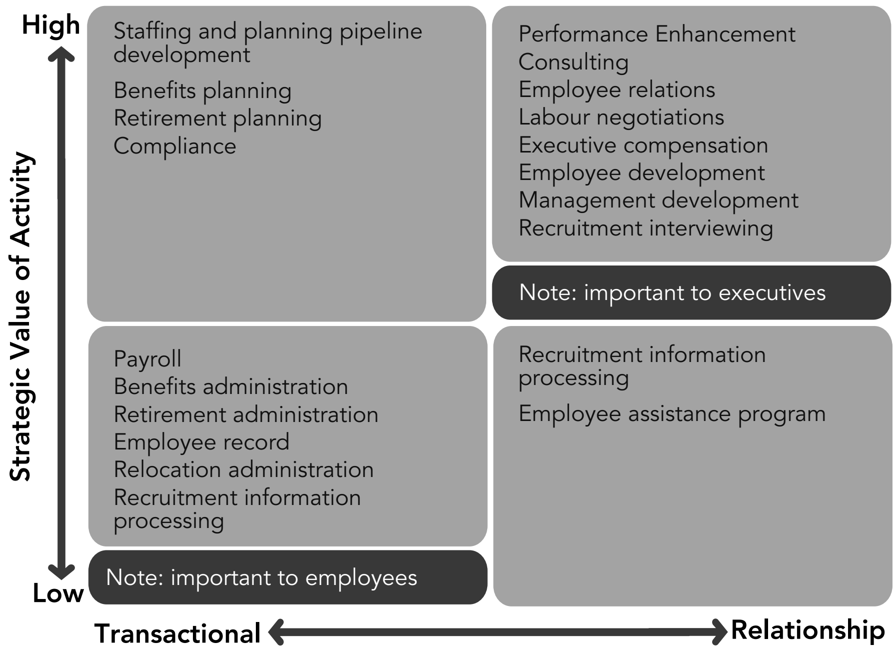
Evaluation

The final flowchart step is the overall evaluation of the strategic human resource process to determine if it is achieving the desired effect in the organisation. (Note: the evaluation of the HR function should include outsourcing. Some companies would get a better return on investment by outsourcing components or the entire HR function.)

Based on the previous outsourcing comment, look at the four-quadrant matrix in figure 8-2 and determine how the business views the various HR functions.

This may be difficult for many controllers and businesses

Figure 8-2: Strategic Typology of Human Resource Activities



Source: Greer, Charles R. *Strategic Human Resource Management: A General Managerial Approach.* Second Edition. Englewood Cliffs, NJ: Prentice Hall, 2000.

that have chosen to combine the human resource and accounting functions. The chart contrasts different functions from the Strategic Value of the Activity as compared to the Transactional (or Relationship) Value. The combination of the accounting and human resources departments may only focus on transactional HR as opposed to strategic HR due to a lack of resources (time and people.) A lower level controller specialises in transactional processing and may emphasise the activities that are low strategic value as opposed to high-value activities. This is not to say that one methodology is better than another. However, it is important for a business to recognise the functions that may be overlooked and the impact of not addressing the omissions.

It is also important to note how items in the lower left hand quadrant have low strategic value but are critical to the employee. For example, one great piece of advice that was given to the author early in his career was, “Don’t mess with an employee’s pay check!” Contrast the lower left quadrant to the upper right quadrant that displays high strategic value items that are important to the executives. Again, it is necessary to understand the entire HR function and its components.

Consider the duties associated with a human resources function. There has been an evolution in the HR field. Traditional HR management techniques have expanded so that businesses now view HR practices in relation to achieving strategic goals of the organisation. Strategic human resource management involves the alignment of traditional HR management techniques and practices with the overall strategic goals established by the management team. The alignment of the human resource efforts and the strategic goals should develop the chance of obtaining corporate goals. Traditional human resource management practices involve:

- Evaluation of staffing needs
- Sourcing of staff, both permanent and temporary
- Establishing job descriptions
- Evaluating staff performance
- Establishing pay levels that incentive compensation levels
- Creating at administering employee evaluation processes
- Interviewing future employees
- Hiring employees
- Terminating employees
- Training and development of employees
- Inspiring and maintaining morale
- Administering benefits
- Administering payroll

One of the major problems that controllers have with administrative functions is that they are already spread so thin that they do not have the resources to perform the functions. Therefore, the efforts to administer the HR function will focus on payroll, benefits and compliance processes. Since these areas are not the expertise of the controller, it is very possible that these processes will be performed at less desired levels.

At the strategic level, the main function that needs to be addressed is the supply of adequate staff. If there is not an adequate supply of qualified individuals, it will be difficult for a business to execute its strategic plan. The good news is that HR high-level strategy can be discussed, understood and administered with the management team to ensure that there will be enough employees to deliver the service or produce the product.

The busy controller, who does not have time to do anything more than transactional processing, will focus his or her staff on the following major areas:

- Payroll
- Benefits
- Compliance issues

It would not be surprising if the accounting staff hires an HR manager or another accountant to assist with tasks and processes.

Consider the remainder of HR practices as listed. It is easy to imagine how many of the items will not be completed due to a lack of priority as perceived on the part of the controllers department.

Let us examine each of these items in more detail and discuss how a resource-constrained accounting department can address each of these areas:

- Evaluation of staffing needs—it is necessary that a business review its staffing needs in relation to available staff in the marketplace. For example, as the country begins a very tepid recovery, the nations' unemployment levels are uncharacteristically high. Twelve to 18 months ago, there were many qualified employees for job openings across the country. It is becoming more apparent that people are available but they are not qualified or the most desirable candidates. Employees are the lifeblood of the organisation. If a business lowers its standards and hires inappropriate people, it decreases the effectiveness, the profitability, the morale, and overall success.
- Sourcing of staff (permanent and temporary)—the employment climate is changing also. Businesses must be more creative matching the needs of employees to the needs of employers. The traditional concept of a 40-hour work week and an 8-to-5 job has been altered significantly. Companies must be willing to explore part-time employment, temporary employment, long-term part-time, contractual employment, and consultant relationships.
- Establishing job descriptions—most financial managers do not value job descriptions or believe they are not helpful. This author recommends that each employee maintain an open document into which he or she enters all daily processes and procedures. For example, a corporate accountant, at the start of a process, opens a word document on a shared drive to which everyone in the accounting department has access. When the accountant prepares the monthly bank reconciliation, he or she will update the word document with all of the processes and procedures that the reconciliation required. If a business regularly uses this process to document its procedures and tasks, within a very short time (18 months) all of the tasks will be defined and documented. This information can be used to redraft job descriptions so they are meaningful.
- Evaluating staff performance—how should a business evaluate employee performance? Unfortunately, there are many CPAs (probably even some reading this book) who were not evaluated for the entire first year of their careers. This is unacceptable and an indictment against bad management practices. Consider that the average person in the public school system is evaluated hundreds if not thousands of times via homework assignments, quizzes, tests, and final grades for each of his or her classes. This person has received constant feedback on his or her performance up to his or her 22nd birthday. Then, he or she enters the work world. If he or she does not receive any feedback in his or her first year, he or she is confused. In the worst case, if there are performance problems, the accountant may not find out for over one year! Supervisors who fail to evaluate employees in this fashion should themselves be terminated.

Another evaluation principle is to not be critical with an evaluation; focus on the desired behaviours to get the job done. Consider your personal life. How many times did you relate positively to criticism? Some managers will suggest that they are able to offer constructive criticism. Very few supervisors can criticise constructively so that the employee gains a benefit from the discussion. Consider this example. Assume that an employee is responsible for entering all timecards in the system. He or she enters the data and misses two timecards. The consequences are obvious when upset employees are screaming and shouting at the accounting department because they did not get their checks. As supervisors, we can berate the accountant for not completing the process correctly, or we can take a different approach. Does the accountant already realise he or she made a mistake? Of course, the accountant is aware of the mistake. We would do more good for the employee, the organisation, and the processing of payroll checks by finding ways to ensure all timecards submitted. If the manager continuously reminds the accountant about the inclusion of all timecards in the system, eventually the employee will ensure that there is a process in place to account for all timecards (or it will be obvious that the accountant needs to be replaced.)

- Establishing pay levels and incentive compensation levels—it is necessary to establish base compensation levels, overtime compensation levels, and bonus levels, monitor, and implemented in an equitable fashion. Many of the difficulties within a business occur when compensation plans are not adequate or administered unfairly. This is especially true when employees feel that bonuses are distributed unfairly or unjustly. (Author's note: this is also a problem when there are discretionary bonuses. The author recommends that discretionary bonuses be eliminated and replaced with quantitative bonuses.)
- Interviewing future employees—the art of interviewing employees is a difficult one to master. Many individuals believe that they are good judges of character but that they have no adequate way to quantify or evaluate their perceived skill levels. Establish interview processes that are fair, discerning, and involve all team members. Refer to the "Employees" chapter and use of personality profiles for additional information.
- Hiring employees
- Terminating employees
- Training and development of employees—many businesses do not spend their resources to train and develop employees. However, the same businesses would spend significant money on the refurbishment or daily maintenance of the machine. It is sad that the capital resources are so much more valuable than the people that run the machines. The people need the same consideration. Businesses will claim that people are the greatest resource of the organisation. Do not forget that during the great recession, employees were the very first costs to be eliminated.
- Inspiring and maintaining morale—the entire business needs to inspire employees to achieve greater levels of performance and success. Japanese companies on average receive one new idea per employee per week. It would probably be a fair estimate that the controller only receives a handful of new suggestions from any employee for an entire year. Training tools and processes must be made available to inspire individuals to find ways to save money and expand revenue sources for the organisation.

Leveraging Lean Understanding in the HR Function

Controllers can use lean processes to make HR processes more efficient. Consider your business and the process that it uses to track the following:

- Vacation hours
- Multiple files

In August and September of 2010, Workscape surveyed and interviewed more than 300 senior HR and compensation leaders in businesses of different size, geography and industry. The results provide a good summary of the state of compensation-HR-payroll system integration in 2010.[4]

Compensation management and planning technology has evolved in much the same way as other talent management solutions in the past decade. The software platforms have become more powerful and more accessible. Traditional work-around systems such as spreadsheets and home-grown systems are declining due to the following:

- Web-based Software-as-a-Service (SaaS) offerings that save HR administrative time provide greater performance, more ease of use, shorter implementations, better security, improved error avoidance and simpler integration at lower costs
- Abundance of salary information online
- Emergence of more sophisticated talent management strategies

Fully integrated systems when compared to traditional methods can save labour hours and minimise mistakes making Compensation Management Systems affordable and preferable.

Unfortunately, the key findings from the Workscape research indicate a low level of CMS adoption and integration. While the majority of businesses are using Human Resource Information Systems (HRIS) or Enterprise Resource Planning (ERP) tools for recording employee information (as their system of record). Consider the following:

- Almost half are still using spreadsheets or even paper and pen (44.3 percent and 2 percent respectively) for making and planning compensation rewards.
- In most organisations, the HRIS and payroll systems are integrated, but only one-third have integrated HR, payroll and compensation systems.
- Many businesses (almost one-third) experience difficulty transferring data from their compensation planning processes to their payroll systems. About one-third believe their ability to control compensation management and payroll changes in a fiscal year is very loosely controlled or completely ad hoc. So slightly more (about 34 percent) report that their ability to transfer data from their HRIS to their compensation planning process still depends on a fully manual process. More than one-third of this group describes the process as “painful”.
- Not surprisingly, given these results, 15 percent of the survey respondents report that errors are either a problem or a big problem. Perhaps more interestingly, 71.5 percent of the small-to-mid-sized businesses in the survey (those with fewer than 10,000 employees), report that errors are either unmanageable or a big problem. This is compared to only 19 percent of businesses with greater than 10,000 employees, and just 14.5 percent of businesses of 20,000 employees or more. This suggests that larger organisations, which are using automated HRIS/Compensation Management Systems, are finding it easier to achieve a high level of process simplicity and accuracy. Smaller businesses in the survey are still mostly reliant on manual systems.
- There was clear evidence that compared to those that rely on spreadsheets, businesses that use automated compensation management systems demonstrated significantly better results across every measure of compensation management tested in the study. For example, they are more likely to have integrated HRIS, compensation, and payroll systems, and they experience greater ease of data transfer between the systems. They experience fewer errors and are able to quantify those errors. In addition, they are more likely to provide HR visibility into the process and offer employees self-service access to some components of compensation.

- Regardless of whether errors are a problem for them, more than two-thirds of businesses are unable to quantify the actual cost of errors from the award and payroll process.
- Despite the trend toward employee self-service, the majority of businesses surveyed (68 percent) report that their employees are not able to access all aspects of compensation in a self-service manner (either because they have decided not to grant such access or their compensation tools do not allow it).
- There was a notable weakness in the ability of companies to support items of high importance. Eighty-three percent rate HR, payroll, and compensation integration as either critical or highly important; yet, only 35.5 percent of respondents have completed that integration. Additionally, 92.9 percent of respondents said the accuracy in the compensation reward process paid through the payroll system is critical or highly important, but only 17.8 percent of respondents state they have tight control over year-round compensation decisions. So, less than one-third (32.7 percent) claimed to have visibility into their entire compensation process on demand.

> Our compensation systems errors are a significant problem. We are twenty separate companies, each having built its own system. Even today there's not a single system running compensation in this company. We are in the process of finding a single source. Currently, the systems do not interact; they do not feed from the same databases. Things get done on Excel spreadsheets or by hand. I oversee a bonus process that comes in on one system, and the data has to be hand transferred row-by-row—massive data. Imagine people sitting with rulers looking at printouts and transferring data.
>
> —Vice President of Compensation for a Fortune 500 scientific/engineering/technical applications company

(Note: The preceding section was excerpted from *The State of HR-Payroll-Compensation Integration: 2010* conducted by Workscape, an ADP Company)

Outsourcing the HR Function

A business that believes HR is not a core competency and wants to minimise the time spent on HR can outsource the function.

Some benefits of HR Outsourcing are:

- Access to HR specialists for only the time required
- Employees can access HR data online anytime, from anywhere.
- Reduce the risks that come with enhanced regulatory compliance by leaving it to the experts.
- As stated in the SHRM section—focus on strategic as opposed to mundane tasks.
- By using services such as SaaS, limit huge capital expenditures on purchases such as software while also reducing administrative costs.
- Because of these items, the HR function can develop its decision-making capabilities.

Box 8-2: HR Outsourcing Checklist[5]

If you are interested in outsourcing the HR function, consider the following questions to aid you in the decision process.

- How many employees are in your organisation?
- Will your business be in growth mode over the next five years?
- How quickly are you looking to transition to an HR-outsourcing arrangement?
- What have you budgeted for HR-outsourcing?
- How much control of private data are you comfortable relinquishing to a third-party provider?
- What examples of success in achieving savings, greater efficiency and strategic goals can the vendor provide?
- What is the vendor's track record with handling HR procedures and solutions?
- What resources can a vendor devote to ensuring your needs are met in the long term?
- What level of relevant experience does the vendor have?
- What resources does the vendor commit to keeping up with industry trends and legislative changes?
- Do you feel the vendor is a good fit with your working practices and culture?

HOW TO MANAGE THE IT FUNCTION SUCCESSFULLY

Recent trends show that the IT function is often being integrated into the accounting or controller departments. One of the main reasons this is occurring is that the accounting function is perceived as having a better understanding the overall strategic direction of the organisation. With this transfer of responsibility, executive management is empowering the business-oriented controller or CFO to align technological IT applications with the organisation's strategic goals. This transfer of responsibility further exasperates a long-running battle between IT and Accounting. IT has struggled for its own identity and place at the strategic planning table of the organisation. IT departments have felt very strongly that management does not afford them the proper respect, credibility, or input into the strategic direction of the organisation.

Consider the following quote:

> Finance executives are not shy in pointing the finger—straight at information technology—to explain what puts companies at risk for failing to reach objectives. Indeed fully 73% of respondents to a November survey commissioned by advisory firm KPMG International blamed finance technology and systems for just that.
>
> It is clear that the more than 400 global CFOs, finance directors and Controllers surveyed were exasperated with what they perceive to be the roadblocks that IT creates. As proof, more than half the U.S. respondents called IT systems "out of date and inflexible" and, therefore, offering the biggest barrier to "improving the effectiveness of the finance function".[6]

Because of a desire to exert more control over the IT function, the CIO function is being moved into the Accounting or Finance Department.

> According to new survey research from Gartner and Financial Executives Research Foundation (FERF), CFOs are "increasingly becoming the top technology investment decision maker in many organizations".
>
> The study revealed that 42 percent of businesses reported that their IT department (and, presumably, the CIO) reports to the CFO, 33 percent to the CEO, 16 percent to the COO, 2 percent to a chief administrative officer, and 7 percent to other officers. (This stands in marked contrast to *CIO* magazine's 2010 State of the CIO data, which found that 43 percent of CIOs report to CEOs, and just 19 percent report to CFOs.)

Let us review the overall strategic direction of the business and its relationship to the strategic direction for the IT department. The business first develops its vision. The business vision can be thought of by use of the following question, "What does the business want to achieve?" Next, the business creates a variety of strategies, which if accomplished, fulfils the vision. Strategies can come in all shapes and sizes. Strategies can involve areas such as:

- Specific markets to compete in,
- Geographic regions where the products or services will be sold,
- Pricing strategy for the products
- Research and development efforts
- Host of other areas

Specific tactics can be established for each strategic area. For a business to be successful, it must ensure that all stakeholders in the business (employees, management team, board of directors and shareholders) are aligned. When these groups are in aligned, the business will be focused on the key actions that translate strategies into the vision.

As the overall vision and strategies are developed, the IT department (regardless of reporting structure), must understand that its role is one of support. The IT department must connect overall strategy to information technology resources (and not vice versa). Unless the business is a technology driven company, IT is a support service just as human resources and accounting are support services. This implies that the nature of the IT department must be service towards the company's vision. This precludes the concept that the vision of the business should be IT driven. This is at the heart of the division between IT and Accounting departments. IT struggles with business goals that may not support acquiring the latest technology tools available. The executive management team struggles to have products and services that meet the customers' needs. If the management team emphasises products and services over information technology, the IT department might feel slighted in the process. Keep in mind that IT is not typically a core management skill of the executive team members. In some cases, the executive team may even be frightened of IT because they do not understand it. Consequently, the executive management team and the IT department may have trouble communicating. Management will then view requests for IT investments in a sceptical fashion. IT must focus on how the investment in IT services achieves the overall strategic direction. All investments must be communicated in ways that emphasise how top line revenue will increase, or expense items will be decreased. IT must yield efficiencies or increase revenue. When this evidence can be shown, management is more willing to learn how IT can be of service.

The integration of the IT department within accounting must identify how the IT services will support and leverage existing products and services. Without this linkage, the IT efforts will be viewed as unavoidable and just another piece of overhead.

ADDITIONAL IT DUTIES FOR THE CONTROLLER

What additional duties does the controller assume when IT moves into the accounting or finance department?

- Implementation of existing projects
- Vision for new projects
- Vision for department
- Management of IT Staff
  - Recruit
  - Retain
  - Develop
- Understanding of technology
- Acceptance of IT reputation within business (good or bad)
- Reduction of time available to spend on former responsibilities

If the controller is not perceived as effective or efficient with current responsibilities, the additional IT responsibility will most likely impact the negative perceptions that already exist.

Studies have shown that CFOs do not act as strategically as their boards of directors or management team would like them to act. According to the E&Y study—"What's Next for the CFO?"

> Globally, almost 1/3 (31%) of respondents to this survey agree that the CFO does not have enough understanding of the wider issues that businesses face.

If the CFO or controller is overwhelmed by the current amount of transactions or processes and not able to spend time on wider issues, additional duties (the IT department) will further reduce the ability of the CFO or controller to work on strategic issues. The daily demands for time continue to increase when the overall time available has not increased at all. In an attempt to meet all the demands, the CFOs or controllers attempt to manage their workloads with broader management techniques that only further dilute their focus on specific areas.

Consolidating IT into the accounting function creates new duties for the controller. Consider the additional duties that the controller or CFO must oversee as a result of integrating the IT department with the accounting department. To manage the IT department adequately, the controller or CFO must:

- Provide the vision and leadership for the department. The vision must support the overall business vision. The controller also must provide leadership for the IT staff. Therefore, it is incumbent upon the controller to understand complex information, technology and adequately discharge the IT duties (as viewed and judged by the IT staff.)
- Provide the tactical planning to achieve the IT strategies.
- Provide key communication between end-users throughout the business and the IT department. This also suggests that the IT department needs to survey its end-users to ensure that IT is meeting their needs.
- Unless the IT department has been outsourced, the controller must ensure that the back-office operations are adequately discharged on a daily basis. This involves daily maintenance of the systems including

backups. It involves maintaining and upgrading of equipment. It requires an understanding of electronic communication technologies.

- Understand and manage network infrastructure.
- Manage a variety of information technology projects such as voice technologies, imaging technologies and office automation technologies.
- Develop an understanding of a myriad of software platforms. It requires the controller to understand concepts and applications of alternatives such as best of breed, different operating systems (such as Linux,) and proprietary and open source software applications.
- The controller must develop or obtain adequate training programs for maintenance and development of IT staff.
- Understand security systems, threats to systems and disaster recovery plans.
- Manage and oversee multiple vendors that will support the IT structure. If the system is outsourced then the vendor oversight will be focused on the outsourced provider. If the system is not outsourced, then the controller will need to monitor hardware equipment issues, software issues, ISP performance, and oversee any software developers or project management information technology consultants.
- Communicate complex topics in simple terms to end-users.
- Create and monitor capital expenditures. This process should be a component of the IT budget.
- Understand the needs of a variety of constituents and be skilled in determining the most efficient way to meet needs.
- Establish policies and procedures for the administration of IT systems as well as the appropriate use of IT systems / hardware throughout the organisation. This includes the development and update of key system manuals and unique user manuals.
- Identify, recruit and retain competent, qualified staff.
- Create policies and procedures that include adequate disaster recovery plans related to information technology.

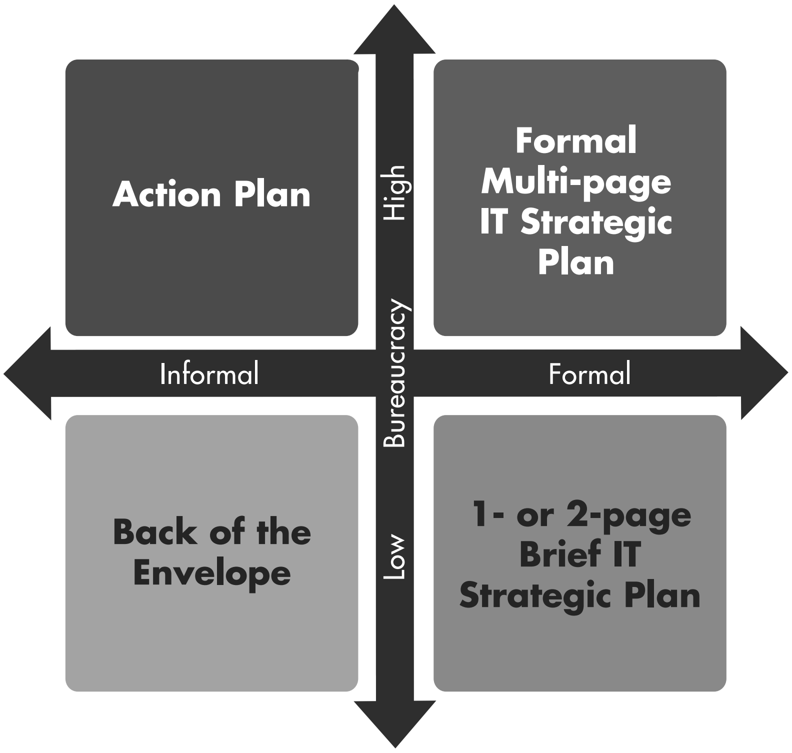
CREATING AN IT STRATEGIC PLAN

To be successful, a business must align its information technology strategic plan with the overall strategic plan of the organisation. The business establishes the overall vision, mission, business plan and strategic plan. Based on the goals of the overall plan, the IT department will create a department specific plan that supports the overall plan.

How much detail should an IT plan contain? The complexity of the information technology strategic plan will usually depend on the culture of the organisation. Consider the four-quadrant matrix in figure 8-3.

The matrix contrasts the formality of a strategic information technology plan with the overall bureaucratic culture of the organisation. A bureaucratic business will be comfortable with a formal information technology strategic plan. A business that is informal and has a low level of bureaucracy typically will not have as much patience for complex information in technology plan.

Figure 8-3: Complexity of the IT Strategic Plan



IT Strategic Plan Principles

Next, we will explore the IT formal strategic plan. Keep in mind your organisation's culture. If your organisation is expecting brevity, the IT plan can be completed on the back of an envelope. The planning tools should fit the culture—not the other way around! The same underlying concepts and principles apply to both formal and informal plans. It depends on the amount of detail and the level of project management.

The entire purpose of the strategic plan is to establish a course for IT investments to support the overall vision of the organisation. Technology should not be acquired for the sake of technology. It should be a well thought out investment based on the strategic vision of the overall organisation. In addition to supporting the organisation's vision, the strategic plan must create alignment between the IT department, the management team, and the end-users of the technology. When IT is not functioning to everyone's satisfaction, there is a breakdown in the communication or alignment process. Success will achieved be more readily if everyone:

- Understands how the technology supports the vision
- Agrees to the approach for implementation of technology
- Agrees to the overall capital and soft costs to be invested
- Is willing to make course corrections as necessary
- Consider the components in more detail

Information Technology Strategic Plan Outline

The following comments can be used as an outline for an IT strategic plan. It is not meant to be all inclusive. Individual businesses will have unique business characteristics which will dictate additions or deletions to this plan. (Note: this section utilises the USDA IT Strategic Plan as an example.)[7]

Executive Summary

The executive summary of the plan is the overview of the direction of information technology that supports the vision of the corporation. This section can include major goals or objectives of the IT department. It could also include major themes or key result areas (KRAs) of the IT department. Consider the following examples of KRAs.

1. Investing in its most important IT asset—its employees
2. Ensuring that financial investments in IT develop the results of programs within the organisation
3. Ensuring information is appropriately secure and protected
4. Identifying areas where optimisation or common solutions can be leveraged across the department
5. Ensuring that IT projects are delivered on time, within budget, and produce expected results and outcomes

The executive summary can also include overall goals for the IT department. Consider the following broad categories and related goals that come from the information technology strategic plan. If the business is a small business or even a non-governmental organisation, the same concepts will apply to their IT plan.

Summary of Goals by Category

IT Strategy and Business Alignment

- Continue the alignment between IT and overall organisation's strategic plan
- Position and utilise the enterprise architecture as a management and governance tool

IT Business and Skills

- Manage the IT workforce to ensure consistency in skill levels and service delivery
- Become a centre of excellence and employer of choice
- Emphasise customer-focused support
- Implement department efforts to streamline & reduce costs
- Close skill gaps

IT Management and Governance

- Support the tracking, measurement and management of performance, and tie performance with budget and investment decisions
- Better manage IT-related contracts to maximise value and performance
- Continue to develop IT portfolio management
- Develop effective and efficient IT reporting processes

Technology and Architecture

- Implement tools and processes to utilise the enterprise architecture
- Align infrastructure to support strategic business goals directly
- Sustain a robust information security management program
- Participate in information technology solutions that support the organisation's strategic goals

Introduction

The purpose of this section is to reinforce the alignment of the organisational goals with the information technology goals.

The scope of the plan is used to set boundaries for both IT and operational departments. Businesses often operate at cross-purposes. There can be an overlapping of resources as well as demands causing confusion at the department level. If the IT department attempts to assert its ownership over all IT corporate and departmental operations, it can be a source of frustration for expenditures, systems, decisions, or policies. Operational departments may not view IT as a resource but as a hindrance to their time and budget. The scope also establishes benchmarks that drive the information technology plan outcomes and specific time frames. This can be very helpful when a business is reactive as opposed to proactive. A reactive business may be willing to put IT programs on hold just to deal with the latest emergency of the day. A defined scope restrains IT departments that may exert "scope creep" when it has not been authorised by the management team.

Mission, Vision, and Guiding Principles

Mission

As covered at the start of the book, mission is a necessary part of the business. Some businesses allow the creation of multiple missions. There can be a mission for the business and then person missions for departments within the organisation. This author prefers only one mission for the entire organisation. Each department then must be able to state how its department fulfils the mission of the overall organisation. This analysis fosters further alignment within the company. There is a danger when departments create their own mission statements. There is a strong chance that the departmental mission statement will fall out of alignment with the overall mission for the organisation. Again, this author has seen companies fight bitter interdepartmental feuds because each department believed that it was fulfilling its mission, when in, fact the missions were contrary to the overall mission of the organisation.

Vision

The vision points to where the business wants to be in the future. It is necessary to foster alignment between the vision of the overall business and the vision of IT. The vision may stipulate where the business wants to be in terms of revenue size, employee science, or market size. If this is the case, then the IT department vision must be a subset of the visionary statements. For example, if the business is $50,000,000 in revenue and intends to grow to $75,000,000 within the next five years, the IT vision could be to revise or update the IT architecture that supports the growth of the business from $50,000,000 to $75,000,000 in revenue.

Guiding Principles

Guiding principles are a necessary component of any plan: management, project management, or acquisition of a business. The purpose of establishing principles is to create boundaries for a business to move forward on any given project. Think of the principles as the "gutters" on a bowling lane. The gutters ensure that the bowling ball does not leave the intended bowling lane. Business principles will do the same for IT purposes. Established principles will make it easier for IT to execute its plan as well as have end-users and management team members understand and accept the progress and steps performed by IT. Examples of guiding principles for an IT strategic plan are:

1. We will take advantage of cloud technology in all applications.
2. We will use open source software whenever possible.
3. We will be a Microsoft based environment.

4. We will maintain an overall IT cost to total cost ratio of two percent or less.
5. All IT equipment purchases will be based on competitive bids.
6. All mobile devices will only be android compatible.
7. All IT personnel will be centralised.
8. Our business will have a social business presence including Facebook, twitter, and a business blog.

It is important to note that these principles are not all inclusive. In addition, the statements are examples, not recommendations. For each item, the opposite position could be stated, and the principle would still be acceptable. For example, as opposed to saying we will be a Microsoft based environment, the principle might be stated as; "We will be a Linux-based operating environment". Alternatively, to "All mobile devices will only be Android compatible", the principle could be "We will only use Apple brand mobile devices".

The important message regarding principles is that it can establish boundaries to control how IT operates and does business. Again, if the management team and end-users understand these parameters and agree to them, there will be much more harmony and alignment between the IT department and other departments.

Strategic Goals

This section can be used to reiterate the organisation's strategic goals. Again, the purpose here is to emphasise that the overall business drives the strategy, which then dictates the IT strategy. This can also be used as we prepare the next section, which is the overview of IT goals. If an IT goal does not support one of the overall operational goals, then it should not be pursued.

Overview of IT Goals

In this section, we will introduce how IT goals will be identified, monitored and achieved. Each of the IT goals will tie back to the overall organisation's strategic goals so the alignment can be reinforced.

Performance Measures

In the performance measures section, include the benchmarks that we discuss in other parts of this chapter. IT benchmarks should be vetted and approved by the management team and end-users. The benchmarks enable identification of success as it relates to the information technology strategic plan. If the goals are accomplished within excepted measurements, the IT plan should have been successful.

Business and Skills Goals

In this section, we will discuss the overall competency level of the existing IT team. An earlier example suggested a revenue goal that increases from $50,000,000 to $75,000,000. This large growth also suggests that the IT skills and resources may need to change to keep step with a larger and more complex organisation.

Become a Center of Excellence and Employer of Choice

Some businesses have an IT department that is so restrictive and limiting that it may not be appealing to potential candidates. To make a comparison to the accounting world, this is similar to a CPA who hires into a controller position only to find out that it is a glorified accounting supervisor or bookkeeper. This business does not have interest in a strategic controller. The same aspects apply to the IT department. If the IT environment is not rewarding, enriching, or that further advances the skills or development of the employees, the business will not obtain the best employees. A business that does not have trained IT individuals will be at a competitive disadvantage.

Emphasise Customer-focused Support

This customer-focused support section could be deemed optional in a strategic plan. However, in trying to drive the concept of alignment, IT staff must understand that they are serving the end-users. The end-user may not be the traditional customer that we think of when selling a product. It may be an internal customer. Constant reminders, training, and interaction between the IT department and end-users will foster a better environment and result in successful implementations and management of information technology.

Implement Department Efforts to Streamline and Cut Costs

This could also be an optional part of the strategic plan. The benefit of inclusion is that more agreement, more alignment, and lower costs should be achieved if expense awareness increases. This is necessary for stewardship and fiscal responsibility. This can also be used to reinforce lean management techniques with the IT department. The manager of the IT department can reinforce with IT employees that its responsibility is to fulfil the strategic plan by streamlining and cutting costs wherever possible.

Close Skill Gaps

IT training and development involve two different applications. First, the controller must assess the skills of information technology professionals. Second, the controller must assess the skills of end-users as it relates to using information technology. To illustrate the latter point, this author has seen multiple occasions whereby accounting departments are inadequately trained to use Microsoft Excel. As a result, staff members waste time with redundant data entry. They also waste time with poor procedures and techniques when creating or revising spreadsheets.

Management and Governance Goals

Contract Management

The plan must establish parameters of how IT accesses, evaluates, and accepts external contracts. It may make more sense for a small IT staff to be outsourced as opposed to delivering the service in house. There also could be significant external contracts that provide person information technology applications.

Technology and Architecture Goals

Enterprise Architecture

The plan should contain a detailed discussion of the enterprise architecture. The purpose is to identify the architecture goals and technology as well as discuss options or alternatives. Many people outside of the IT department may not be interested in the technical information; however, this section of the plan justifies the architecture selection and allows the management team to buy into the recommended architecture.

Sustain a Robust Information Security Management Program

The plan must discuss security concerns and security violations. It is necessary that the strategic plan discuss how the data of the business will be protected. How could your business be affected? Consider recent releases of information that were illegally obtained by the WikiLeaks organisation. Confidential emails that were meant only for internal staff were illegally obtained by individuals associated with WikiLeaks and then released to the public at large. Some of the information was damaging to the respective business and in other cases, the information was damaging to the United States government. Without a doubt, there are emails and information that are exchanged on a daily basis within your business that should not be released to the public. A release of confidential information could be damaging to customer, vendor, or stakeholder relationships.

Backup Procedures

It may be surprising to see this in a strategic section; however, the author has experienced time and time again deficient backup procedures in many organisations. The section should discuss how information will be backed up, how often the information will be checked, and what procedures will be in place to ensure that systems can be restored at any point in time.

Cloud Computing

One of the key considerations for the controller managing the IT function is "How is cloud computing adapted to our computing environment?" Cloud computing dramatically changes the options available to administer software and systems. What is cloud computing? It is the process of utilising on-line servers that you neither control nor own in conjunction with software that you neither control nor own as a platform for conducting your business. There are two major avenues: PaaS and SaaS. PaaS is Platform as a Service—in essence renting the hardware from the "cloud" or internet. SaaS is Software as a Service—in essence renting software from the "cloud" or internet. No longer is the data processed and warehoused on servers that are located in an environmentally controlled room in our building.

What are the advantages and disadvantages of cloud computing? The advantages of cloud computing are numerous. Let's examine several of them:

1. *Reduced cost.* Prior to cloud computing many businesses needed an environmentally controlled room, dedicated servers, dedicated software, dedicated employees that knew how to administer the network and the software. With cloud computing, the only device needed is one connected to the Internet. In the long run, renting or leasing services (SaaS or PaaS) is cheaper because significant dollars are not tied up in capital and operating costs (IT overhead.)
2. *Cloud technology.* It is paid incrementally. The business only pays for the cloud computing it uses. Keep in mind that any business trying to make money (such as a cloud computing company) will pass on its costs through per unit charges to your organisation. However, the business does not need large capital expenditures or an as skilled IT staff as if running an internal IT department.
3. *Increased storage.* The data demands of a business continue to grow. It is possible that that the business will run out of Data Storage at some point. Online storage can simply be acquired by asking for additional storage and paying the requisite fee. There are many businesses right now whose business model is strictly to sell online storage to organisations. One example of this service is the business Carbide. Online storage companies increase the flexibility of your business, and their service is immediately available.
4. *Software maintenance.* IT personnel do not need to spend time maintaining software updates. At some point in your accounting career, you probably experienced the following scenario: it is 5:30 pm on a Friday afternoon and you need to finish month end reports to avoid coming into work on Saturday. All of a sudden, a note pops up on your computer screen from the IT department. It says, "Everyone must log off the system so that IT can perform system maintenance". This intrusion means that the accounting staff will have to come back to work on Saturday. One great benefit of cloud computing is that all of the software updates are now handled outside of the organisation. These updates typically do not interrupt your normal cycle as they have done in the past.
5. *Flexibility.* Cloud computing systems are very flexible. It is easy to add "software seats" or expanded modules.

6. *More mobility.* With the data available on the Internet, offsite workers no longer need to dial into the corporate system to get information. The mobile devices that they carry enable them to access information that they could not access before. Salespersons are presenting to potential customers with their iPads or tablets by accessing the business Internet. This also means that staff can access information any time of the day.
7. *Allows IT to shift focus.* Since many former in-house applications move to the cloud, IT personnel do not need to have the same level of expertise that they have had in prior years. They can focus on specific core software that is integral to the strategic success of your organisation.
8. *Increased collaboration.* Another benefit of the cloud computing is collaboration. Regardless of whether people use Google docs, Microsoft's sky drive, or "sharing tools" such as Dropbox, the ability to collaborate on documents with multiple people is much easier. The significance is that the increase in collaboration will result in more efficiency, quicker project completion, increased savings and increased quality.
9. *Increased user familiarity with software.* An oft forgotten advantage to cloud computing is that end-users have improved their skills by accessing programs and websites. Even software such as Facebook and Twitter help increase user familiarity. As a result, when people use on-line and collaborative software for the first time, the learning curve is much shorter.
10. *Common interface.* When learning new software, the end-user has to learn a unique interface. When someone is learning software through the cloud, he or she is using his or her browser (Firefox, Internet Explorer, or Chrome). This means that there will be greater familiarity with the interface, and the learning curve should be reduced.
11. *Quicker access to data.* Another benefit of working online is that end-users do not have to waste time downloading information. Depending on the speed at which a person accesses the Internet, a significantly sized file can take a while to download. The time lost when downloading is one of the forms of waste identified in lean techniques as "waiting time". Not having to download a file means that a person can be accessing, manipulating and creating information, as opposed to waiting for the data.
12. *Protected backups.* It is conceivable that the information stored in the cloud will be safer and will have less chance of being deleted or lost in a hard drive crash. Many businesses do not have an acceptable process to ensure backups. The only time that a business learns this lesson is when it has lost an entire hard disk drive. Putting the information in the cloud should help reduce the instances of lost or deleted information.

IT Trends That the Controller Should Monitor

Another demand on the time of the controller or CFO will be monitoring Information Technology trends. These trends will be important to ensure that the business IT efforts are up to date or at least aware of IT alternatives. There are many sources for the controller to monitor. Three sources to be followed are:

1. Gartner Research and Publications
2. AICPA Technology Trends
3. Deloitte Technology Trends

Gartner's survey[8] highlighted the 10 Top Business and Technology Priorities for 2012 as shown in box 8-3.

Box 8-3: Top 10 Business and Technology Priorities

TOP 10 BUSINESS PRIORITIES	TOP 10 TECHNOLOGY PRIORITIES
1. Increasing enterprise growth	1. Analytics and business intelligence
2. Attracting and retaining new customers	2. Mobile technologies
3. Reducing enterprise costs	3. Cloud computing (SaaS, IaaS, PaaS)
4. Creating new products and services (innovation)	4. Collaboration technologies (workflow)
5. Delivering operational results	5. Virtualisation
6. Improving efficiency	6. Legacy Modernisation
7. Improving profitability (margins)	7. IT Management
8. Attracting and retaining the workforce	8. CRM
9. Improving marketing and sales effectiveness	9. ERP Applications
10. Expanding into new markets and geographies	10. Security

Deloitte released its top technology trends for 2012 report entitled "Elevate IT for Digital Business".[9]

The Tech 2012 report identifies 10 trends broken down into two separate groups. The groups are disruptors and enablers. Disruptors are technologies that can create sustainable positive disruption in IT capabilities, business operations and sometimes even business models. While Enablers are technologies in which many CIOs have already invested time and effort, but which warrant another look this year because of new developments.

The five disruptors are:

1. Social business—Collaboration, communication, and content management between a business and its customers or stakeholders.
2. Gamification—Gamification is the process of adapting the enjoyable and entertaining world of gaming into business applications. Gamification can be used in areas such as training, strategic planning, alternative scenario analysis, or research and development.
3. Enterprise mobility unleashed—Increasing the effectiveness of users with mobile technology as they interact with existing systems, access information from the Internet, and enhance their personal productivity.
4. User empowerment—End-user expectations have increased through personal use of technology. As a result, end-user expectations are also increasing at the place of business.
5. Hyper-hybrid cloud—Relinquishing control of hardware and software to the "cloud".

The five enablers are:

1. Big data goes to work—The volumes of existing data are finally starting to be harvested by complex analytical programs that will turn that data into knowledge and a profitable competitive advantage.
2. Geospatial visualisation—As a result of devices that have GPS capability, businesses have a new way to aggregate and to parse corporate information. Information can be harvested from mobile devices such as cell phones; Geo-referenced sensor data from traffic sensors, it can also be taken from streams of

information from devices that have location awareness built into them to high such as Twitter, Facebook, or Foursquare. Hopefully, the additional data will result in new insights of data and more customer knowledge.

3. Digital identities—The tsunami of computer, technology, and software advances, created the need for individuals to create multiple digital identities with multiple user names and multiple passwords. One of the trends will be a movement toward one unique digital identity that can span multiple systems. You may have noticed some aspects of this approach when you have joined new Internet communities, and the community administrators have allowed you the option of signing on with either your Google or Facebook username or password.
4. Measured innovation—Measured innovation is the process that creates a focused approach in soliciting ideas. The emphasis is on improving the quality and depth of new ideas, as opposed to the general brainstorming approach that generates a high volume but low-quality ideas. The measured innovation approach dictates that the process will be more efficient and effective in producing high-quality ideas as opposed to generating volumes of low-quality ideas.
5. Outside in architecture—Outside vendors, partners, or suppliers have their information integrated seamlessly with your organisation's information. In this way, the end product will appear seamless as if it comes from only one system.

IT BENCHMARKING

With the strategic IT direction selected (and aligned with the overall corporate goals), benchmarks can be established. The IT benchmarks can be used as milestones, daily productivity tracking, or exception reporting. The goal is to enhance the overall efficiency of the information technology department.

Benchmarking can establish standards for the IT department. The standards can then be used to judge the effectiveness of current service levels, track the milestones for upgrading performance, and used as a means of education to convey the cost and effectiveness of IT operations.

It is important to remember that each business has unique characteristics. Even though there are unique characteristics, general trends and comparisons can be made. In addition, each business typically creates unique policies and procedures that will also impact its benchmarks. Understanding the culture of the organisation, which includes the organisation's values and desired level of customer service, is necessary for evaluating benchmarks. For example, will the cost of customer service be higher at a Nordstrom's or a Wal-Mart? It should be higher at Nordstrom's due to the high level of service.

Before the controller embarks on an information technology benchmarking project, the author recommends that the controller visit with key constituents of information technology processing. Ask those individuals to identify the key services or benchmarks that they demand from information technology. Acquiring the customer's evaluation criteria is helpful for portraying and evaluating the success of the information technology department. Too often, this author has seen a wide disparity between expectations of information technology professionals and end-users: They do not talk the same language nor understand one another. In some cases, the information technology professional provides outstanding service and outstanding quality at a very high cost. The end-user may fail to understand the relationship between high-quality information technology and the end cost. Thus, IT professionals feel that they do not receive support because the business does not invest in the latest technologies. The converse is true, as well. End-users may be frustrated because they believe that too many dollars are invested in the latest IT capabilities when they should have been reinvested in operations. Consider some of the following benchmarks that might come out of your discussions with the end-users.

1. Speed of system—It is disappointing when the computer operates slowly, or the information coming over the Internet appears to be extremely slow. It is necessary to understand processing speeds and transmission of data so that an agreement can be achieved between the end-users and the information technology professionals as to what is acceptable service levels. Lean techniques can also be applied to person computers. Sometimes the computers are so slow (due to age) that end-users have find ways to offset wasted time when the computer is processing information. For example, if workers are not putting computers into sleep mode at the end of the day, start-up of a "cold" system could easily take five minutes. This would be waiting time "waste" in the lean terminology.
2. IT as a percentage of revenue and as a percentage of the cost—The overall costs of the IT effort can be compared to either total revenue or total cost. Depending on the nature of the business one metric might be more appropriate than the other. If the sales of a business are highly tied to the use of information technology, it may be more beneficial to use IT as a percentage of revenue. However, if IT is a fixed cost in nature, it may be more appropriate to look at it as a percentage of overall costs. The decisive factor is to evaluate the cost using the overall total that is most relative to IT costs.
3. IT as a percentage of specific cost centres, divisions, or departments—Depending on the nature of the organisation, certain areas may require a much more intensive use of information technology. To allocate costs across the business with a simple allocation basis may be inappropriate. Allocations that do not recognise the corresponding IT effort may result in misleading information that will create a point of contention within your management team.
4. IT costs per user—Many IT departments will evaluate their effectiveness based on the overall IT cost per end-user. As businesses get larger there are more IT requirements for computer hardware, software applications and mobile devices, an overall blended rate of cost per user might be acceptable.
5. End-users to IT staff—Some smaller businesses may only have one person working on IT issues. Larger businesses may have large departments with tens if not hundreds of employees. One metric that may be helpful is how many IT users can be supported by one staff member. The other advantage to this metric is that it provides an indicator when new IT staff needs to be added.
6. IT staff to the number of PCs—A large business that has many different mobile phones, tablets, laptops, desktops and dumb terminals may need a specific amount of IT staff based on the number of computing access points.
7. Overall IT cost percentage—This is similar to the calculation that is referred to in the first metric; however, there is a management aspect that applies to this concept that is very important. Every business creates its own vocabulary. The vocabulary also becomes a way that costs are controlled in the organisation. A growing business that can set a cap for IT expenditures and continuously stay below the cap will be highly respected within the organisation. As credibility is gained within the organisation, trust and respect are earned. It would not be surprising to see IT elevated to a strategic level. Using appropriate influence, IT will have the opportunity to be part of strategic discussions that will determine the overall IT cost. When the IT department is trusted, operation's staff will endorse additional spending on IT projects providing they see the benefits and understand how the project supports the operations.

OPPORTUNITIES TO DEVELOP EFFICIENCIES WITHIN AN IT DEPARTMENT

All businesses have inefficiencies in their daily processes. The astute controller will leverage concepts such as lean management techniques, and apply those practices to the information technology services for the organisation.

If a business has an iterative information technology development process, there will be multiple shortcuts, home-grown systems, and inefficiencies built into the system. The technology might appear as if it has not been updated over the past years. The situation typically occurs when a business wants to keep costs as low as possible. In some ways, this methodology reinforces the philosophy that there isn't excess money to replace legacy systems. Unfortunately, the other message that is sent is that there are plenty of resources to work on inefficient or have redundant methods and processes. Therefore, it is necessary that the processes and procedures related to the IT system be evaluated to ensure that they are lean in nature.

Lean in an IT department is no different from any department. The main principles are still applicable. They are:

1. Only provide services that the customer is willing to pay for
2. Continuously pursue the relentless identification and elimination of waste

How can lean concepts be applied to your information technology processes? Consider using Lean Information Technology Service Management as discussed in the next section.

Lean IT Service Management

What is Lean Information Technology Service Management? It is a bottom-up approach to IT process improvement and incorporates major tenants of lean management along with a couple of new terms. The core concept of ITSM is providing higher quality services at a lower price. Lean ITSM has the following components:[10]

1. Lean ITSM: Provides enterprise business services and capabilities, aligned with the strategic objectives of the enterprise, reliably and at a low cost.
2. Value Stream Mapping: A technique used to identify material and information flow through the supply chain or a sequence of activities. Non-value-added time stands out in Value Stream Mapping, thus providing a clear view of opportunities for process improvement and transformation.
3. Value Stream Map: The transformed end-to-end process.
4. Action Plan: Describes how and when improvements are realised through the application of hybridised Lean problem-solving tools. Over time, the steps in the Action Plan become the basis for continuous process improvements.
5. Lean: A framework of best-practice approaches for evaluating and eliminating waste in operations.

To transform information technology practitioners into lean practices, a business should begin to look at areas in the IT environments that are wasteful. Consider the following questions and how they might be applicable to your organisation.

1. Is the application still being used and is it providing value? Applications that have been around for several years and that have had more than one employee responsible for the application typically have mutated in some manner or fashion. Employees may have added another form to aggregate data, or they have added another column in the spreadsheet for different purposes. The person that used to get the report no longer works at the company, but the report is still prepared.
2. Are there two applications that produce the same report? This happens due to ad-hoc reporting or spreadsheet programs that are created because end-users do not understand resources that are currently available.
3. Does it seem that the cost to operate and maintain existing software programs is disproportionate to the benefits received? Many times this manifests itself in a stand-alone program that has been used for one sole purpose. Realise that turnover is an opportunity to challenge the existing process. Anytime someone is replaced (who updated or maintained a reporting system), determine if that system or reporting process is still necessary.
4. Is the application or system that is being maintained technically obsolete? Many home-grown systems continue to live years beyond their practical lives. In addition, the business becomes hostage to the home-grown software. Typically the creator of the software is even the IT manager. Changing software is a threat to his or her job security. The developer may be resistant to new software applications that lessen the need for his or her services.
5. Is there a replacement commercial software package that can do the same process more efficiently? The author remembers two specific examples in his own career. He had the programming capability to create loan amortisation packages using basic programming techniques. When VisiCalc first came on the scene, he was reticent to use such an easy tool. He did not realise how VisiCalc was superior to his own skill set. In a similar fashion, this author also created Monte Carlo simulation analysis using Lotus spreadsheet tools. Only later did he find applications such as Crystal Ball and @Risk, which did the Monte Carlo simulation to a much higher degree. In both cases, the author was hesitant to use a commercial package, which would have been cheaper in total cost and better in overall productivity and solutions.
6. Is software currently being run that is inadequate to the size of the task? For example, QuickBooks is a wonderful accounting package. However, is it adequate to run a five billion dollar corporation? Many businesses use the wrong software for their operations. Alternatively, the business outgrows the software but is unwilling to change to a more appropriate package. This is similar to a person that uses a heavy tool to drive a nail, as opposed to using a hammer. The job gets done, but not in an efficient or timely manner.
7. Has the staff been trained to identify wasteful practices? Many individuals do the job as they have been trained. Unfortunately, the training is inadequate. It does not include transferring the requisite understanding. Many spreadsheets are created based on redundant data entry. Inventory your software packages to determine the number of times similar information is captured.

STAFFING THE IT POSITIONS AND OUTSOURCING

Staffing

One of the big challenges of administering the IT department is selecting the appropriate staff. It is difficult enough to find the right accounting person, let alone an IT person. We are also at a disadvantage. Controllers understand the accounting function and the demands on accounting staff. Many controllers do not understand the IT function or related staff demands. This increases the difficulty of making a successful hire. In fact, most IT people who report up through the accounting function are technically superior to the controller or the CFO in terms of IT knowledge, which is a significant problem. In some cases, the IT person will resent that he or she is reporting to someone who obviously knows much less than he or she does. The challenge then is how a controller manages an IT professional when he or she does not understand the profession or the typical IT profile.

When hiring IT key staff that will report to the controller, do the following:

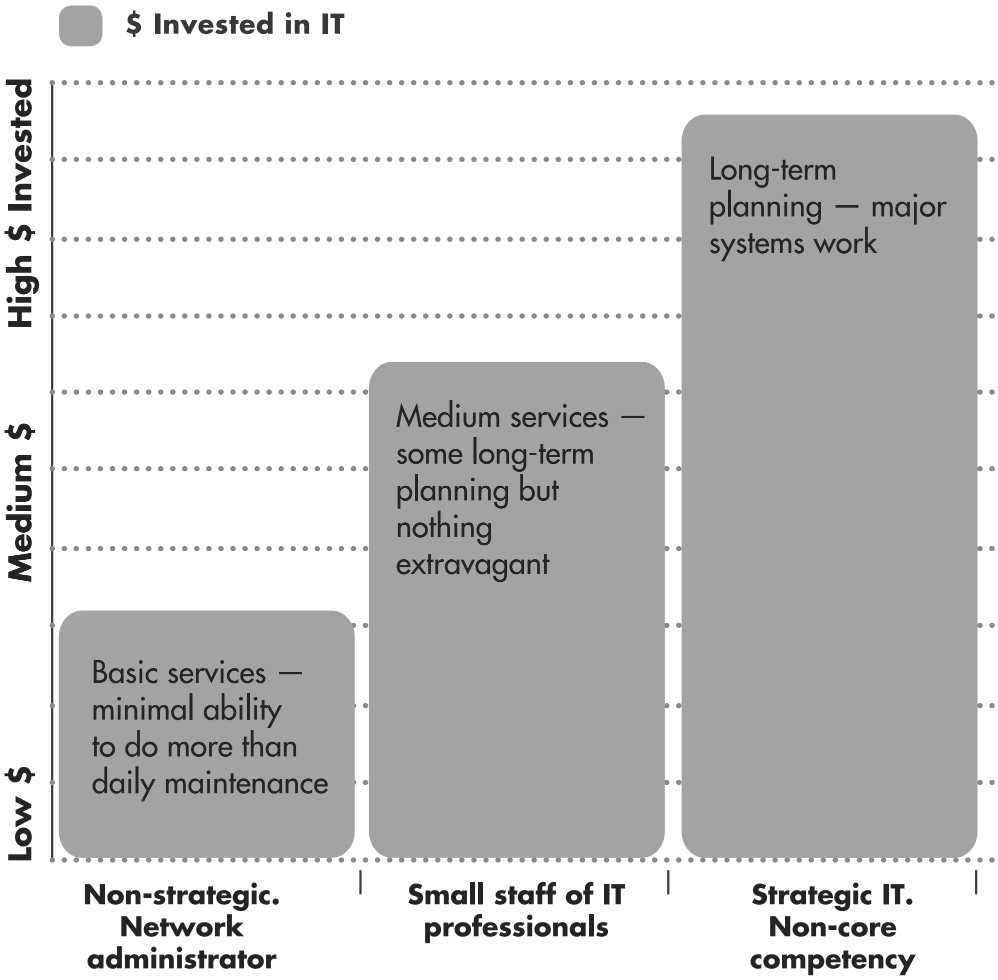
- Determine the needs of the position including experience level, software and hardware expertise, certification requirements.
- Source the candidates.
- Have all candidates do an employment screening process that includes some personality profile.
- Use behavioural screening examples.
- For team interviewing, include end-users who are not associated with an accounting department.
- Determine if the IT person has any concerns working for the accounting department or the controller.
- Hire a person with an on-boarding program.
- Regularly monitor and evaluate new employees. Determine new employees business, professional and personal goals. Create a development training tool to plan an individual's growth and education.
- Find an outside group that the IT person can join so he or she has access to other IT resources.

Outsourcing

Consider outsourcing the entire IT department. When analysing the overall strategy, is an internal IT function necessary to the core strategies of the organisation? If not, what would be the consequences if the entire function were outsourced? If IT is being moved under the direction of the controller or accounting, it is most likely not a core competency of your organisation. As such, it may be better served to outsource the function.

To help understand this better, consider figure 8-4. A business that wants to be at the strategic IT level, whether it is their core competency or not, will incur significant financial resources. If IT is viewed as a support service function, it will be viewed in a nonstrategic way. A business that has no dollars to invest in IT resources will try to minimise IT costs and offload the responsibility on accounting. If an accounting department absorbs the IT department, there will be additional demands on the limited accounting resources. In this case, the best course of action is to minimise expenses and consider outsourcing the function. Remember this will stretch the accounting department in multiple directions. The business will have a difficult time making IT enhancements unless it uses consultants or outsourced providers.

Figure 8-4: Investment in IT: In-house expertise versus Outsourcing



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9

PROJECT AND CHANGE MANAGEMENT

"One cannot manage change. One can only be ahead of it".—Peter Drucker

"It is a bad plan that admits of no modification".—Publilius Syrus

"If you do not change direction, you may end up where you are heading".—Lao Tzu

"I put a dollar in one of those change machines. Nothing changed".—George Carlin

The controller operating as a business manager will be responsible for leading change initiatives at multiple levels of the company. The changes can be as simple as utilising different accounting procedures, implementing significant systems and integrating acquired companies. A controller who cannot successfully lead or manage change will operate at the transactional level as opposed to the strategic. A business manager who cannot facilitate change management within their staff or business will not be able to move the business forward. This chapter will examine project and change management skills and their relation to the business manager.

OVERVIEW

The environment in which businesses compete is constantly changing. Consider the myriad of changes that are happening today:

1. Social media transforming into social business
2. Stressful global economic environment
3. Changing generations
4. Hiring new staff
5. Terminating staff
6. Downsizing of organisation
7. Rapid growth of the company
8. New software and hardware implementation
9. Regulatory changes
10. Promotions
11. New Equipment
12. Competitor changes

13. Change in banking relationships
14. New vendor and customer demands
15. Technology updates
16. Emotional and health issues of staff
17. New board members
18. Change of accounting firms
19. New policies and procedures
20. Change in strategic direction
21. Family business or ownership changes
22. Turbulent industry
23. Changes in the economy
24. Technological changes
25. Changes in the environment
26. Mergers, acquisitions, divestitures, and new products

What changes is your business experiencing? Are they micro or macro changes? Does your business flow with change or is it afraid of change? How do your employees react to change? Is the business mired in bureaucracy so that it is difficult to change?

It is imperative that all financial managers understand the basis of change management and how to implement and manage change within their organisation.

A business that is in need of change management may display the following characteristics:

- Depressed productivity
- Passive and active resistance to change by employees or management
- Confusion by employees about new purpose, goals and vision
- High management turnover
- High staff turnover
- Diminished morale
- Loss of identity of the business and its products or services

PRINCIPLES OF CHANGE MANAGEMENT

Let's begin with understanding some basic principles of change management. When applied properly, these principles will not only guide you through the change process, but they will ensure that you minimise the mistakes that can be made. The following principles came from "10 Principles of Change Management; by John Jones, DeAnne Aguirre, and Matthew Calderone.

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Address the “human side” systematically. Change will cause turmoil for employees. Change processes should be in a systematic manner. Avoid knee jerk reactions when change is necessary. All change must be handled consistently.

1. Start at the top. All change begins with senior management. When employees see senior management demonstrate change, it is easier for employees to buy in. This author has always recommended that the best way to lead is by example. Consider this illustration: A business is in a turnaround situation. The management team should be assigned lower or least popular jobs/ functions within the organisation. This action demonstrates that they are willing to “roll up their sleeves” (the best duty is to have the CEO clean out the restrooms as opposed to hiring a janitorial crew).
2. Involve every layer. All employees are involved in the change. If the employees feel they have had some input into the process, they will become more willing to follow and adhere to the change.
3. Make the formal case. It may be easy for top management to see the need for change. Usually this happens when management keeps important information such as financial information to themselves and do not share the information with other employees of the organisation. Management must share the major points for the need to change and establish a logical case for a change.
4. Create ownership. There is no better way to institute the change than to have employees (other than top management or ownership) identify the need for change. These individuals may become the champions for change. This makes it more believable for the rest of the employees.
5. Communicate the message. Management must continually emphasise and repeat the message of change. For example, when a business strives to obtain new customers, studies have shown that it may take as many as twelve touches or interactions to transform a prospective customer into an actual customer. This same concept is true as it relates to the change efforts in your organisation. Management must continually repeat their change message, emphasise the reasons that the change is necessary and outline the path of change, or the process will most likely fail.
6. Assess the cultural landscape. Each business or business has its own specific culture. It is foolish to implement change without understanding how the current culture will either accept or reject the proposed change. For example; a company’s culture is based on constant renewal, continual improvement, strong research and development efforts, it should implement change easily. On the other hand, consider a business that rarely changes, has minimal turnover or has not changed due to competitive forces. It will have a more difficult time with the change process.
7. Address culture explicitly. Management must first understand the business culture and then address how the change process will impact the culture (including policies and procedures). For example, let’s assume that a business has had a high level of customer service, and it prides itself on that level of service. It will be important that any change still maintains the high level of customer service. The real trick will be showing how different policies and procedures (which may appear in conflict with business culture) can maintain or develop customer service. Employees will need to be convinced how the change fits with the business culture and how the changes will support (or detract) from that culture. For example, Midwest Airlines was known for “the best care in the air”. The airline always served fresh chocolate chip cookies while en route. When Midwest was acquired by Republic, they made sure to continue handing out the chocolate chip cookies.
8. Prepare for the unexpected. Once the change begins, be assured that something will not go according to plan. This author has been involved in many information system projects. One of his tricks when implementing software is to guarantee absolute failure. Once the unexpected problem arose (and it always did), he claimed success at the failure event and then guaranteed that his team would go fix the problem. This process addressed the fear that most people have—will the IT project fail? By saying up

front that the project would fail recognised the employees' fear and also painted a vision of how the problem would be solved.

9. Speak to the individual. Leaders must remember to deal with the human or emotional side affected by the change. Employees want to know what is expected of them and how they will be measured. People commit many hours to their work life and as such need to be respected when it comes to change issues. Obviously this means understanding the soft skills of managing people. It also suggests that this is an area where Controllers need to be extremely careful because they have neither been trained to deal with these issues nor is it in the general personality the accountant.[1]

ASSESSING PERSON AND BUSINESS READINESS TO CHANGE

Change is dependent on the willingness and preparedness of a person or a business to change. Many times there are personal or cultural issues that will inhibit change from being successfully implemented. The following tool in box 9-1 determines if your employees and the business are ready to change.

Box 9-1: Making Change Happen One Person at a Time (Assessments)[2]

Read each the following statements and decide if it is true or false.

1. ___ A disproportionate amount of time is spent by employees complaining about what the business has done or not done for them.
2. ___ Promotion is based primarily on tenure.
3. ___ When a key job comes up, the emphasis on "Who is here" as opposed to "what do we need?" is pervasive.
4. ___ If work is not done, it goes to the next highest level; mediocrity is accepted or ignored.
5. ___ Real feedback is rare, and people are treated with kid gloves.
6. ___ Past practices drive employee behaviour much more than present practices or future needs.
7. ___ Issues are not addressed—a "conspiracy of politeness" dominates how people behave, though infighting and political games playing go on behind closed doors.
8. ___ There is little turnover, though everyone knows that certain individuals are poor performers.
9. ___ Technical specialists are commonly promoted into management positions and often block the energies and talents of those working under them.
10. ___ The mind-set for change, as well as the process, is limited. Change is considered in a department, as opposed to change beginning at the top.

Give yourself one point for each statement you marked true, and see where your business stands:

Score

0–3: Congratulations! Your business culture will probably respond well to change!

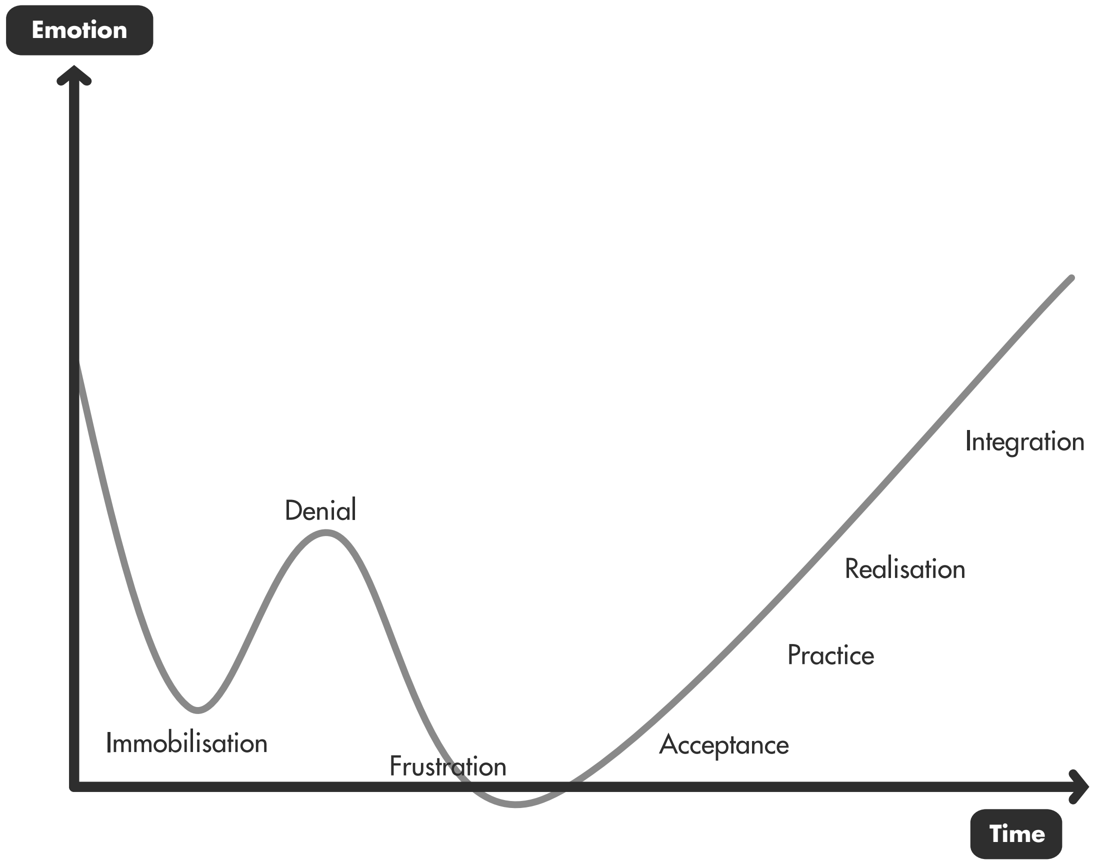
4–7: Caution: There is a 50-50 chance that individuals will resist change-focused development.

8–10: Beware: People will not be invested in, or energized by, your plan.

PHASES OF CHANGE

Now that you have assessed your culture's readiness to change, in this section we will consider the different phases of change (see figure 9-1) and what happens within each of these phases. Typically most people will go through each of these phases and react in similar ways as shown in box 9-2.

Figure 9-1: Phases of Change



1. **Immobilisation.** This is the moment of shock when we need time to absorb the change. We may not hear what people are saying to us and seem to "phase-out". In a big change, like bereavement, people can be in this stage for days. In lesser changes, it can last only a few seconds or minutes. This has also been referred to as the "anger" stage.
2. **Denial.** Here we act as if nothing has changed and carry on with life as normal. We may fear failure and tell ourselves that if we stay as we are things will not change. There may be an upturn in results at this stage as we begin to apply ourselves.
3. **Frustration.** This is where we realise that we have to change our behaviours, but are still struggling with how to do it. We realise that we have to adapt to new skills, knowledge and situations. We may turn on others at this stage and blame them for our situation. We may start to consider our fears and perceived losses at this stage.
4. **Acceptance.** At this stage, we start to let go of the past. We realise that we are going to have to accept the change and start to consider what we need to do to progress. We will consider what skills or knowledge

we have that will help us and look at ways to adapt these to our new situation. We may start to test out new ways of doing things here and can sometimes slip back into frustration as we may feel incompetent at times. We are now starting to move into our learning cycle.

5. **Practice.** Here we start to develop our new skills and begin to become competent. We start to make decisions about the best way to do things. As we appear more competent, other people may start to ask our advice.
6. **Realisation.** This is where we begin to develop. Now we understand what is required and how to progress. This is the 'Wow; I can do it!' stage. We become clear about our role in the change.
7. **Integration.** The change becomes routine at this stage. There is no comparison to the "old way". This is the "business as usual" stage, and we can feel comfortable and secure again.

Box 9-2: Observable Traits During Phases of Change

PHASE OF CHANGE	OBSERVABLE TRAITS
Immobilisation	• Total inaction • Unable to 'take in' information
Denial	• Rise in emotional state • Pretend nothing has changed and carry on as before
Frustration	• Emotional state drops • Begin to blame others and find excuses
Acceptance	• Emotional state begins to rise • Review skills and knowledge and start trying to adapt
Practice	• Emotional state continues to rise • Start to develop new skills and try new things
Realisation	• Emotional state restored • Display confidence and ability
Integration	• No longer aware of change • Sense of "security"

WHY PEOPLE RESIST CHANGE

Most people do not like to change. When confronted with change, fear and resistance appear. People fight against change because of the reasons that will next be discussed.

When a person's values are threatened, he or she may resist. It doesn't matter if the threat is real or perceived. It may arise from 1) understanding of the change, 2) misunderstanding the change or 3) being unaware of the change.

Resistance comes from the following:

- **Fear of the unknown.** Change implies uncertainty, and uncertainty is uncomfortable. Not knowing what may happen next often leads to heightened anxiety. By resisting change, we try to ignore that anxiety.
- **Fear of failure.** The change may require skill and abilities that may be beyond our perceived capabilities. There is resistance to trying a new approach as people fear they will not be able to adapt to the new skills and behaviour that will be required of them.
- **Disagreement with the need for change.** People may feel that the new direction is the wrong direction.
- **Losing something of value.** All people want to know how the change will affect them. If people believe they will wind up losing as a result of the change, they will resist. Always remember "WIFM"—What's in it for me?
- **Leaving a comfort zone.** People are afraid to go after what they want because it would force them to stretch their comfort zones.
- **False beliefs.** To put themselves at ease and avoid taking the risk, many people fool themselves into believing everything will all work out someday by itself.
- **Misunderstanding and lack of trust.** People resist change when they do not understand its implications and perceive that it might cost them much more than they gain. Such situations often occur when trust is lacking between the person initiating the change and the people involved.
- **Inertia.** All businesses suffer from inertia to some degree and try to maintain status quo.[3]

Examples of the unknown where people may resist change

"I know that you believe you understand what you think I said, I'm not sure you realize that what you heard is not what I meant".—Robert McCloskey

- Employees did not understand the underlying business need for change.
- Employees feared lay-offs as part of the change.
- Employees were concerned that they possessed skills for success in the future state.
- Individuals were comfortable with the status quo.
- Employees felt they were being required to do more with less, or do more for the same pay.

The Change Management Leadership Center produces annual "Best Practices in Change Management". These reports gather data from change management practitioners and business leaders from around the globe to share findings and examine what works and what doesn't. Some tactics for overcoming resistance from the "2005 Best Practices in Change Management" are outlined in the following list.

- **Problem.** There must be a recognised reason to change. The problem must be identified and accepted as a true problem.

- **Vision.** Employees want to know that management has a vision and how it will affect the new process, team and company. This vision helps everyone accept the change that addresses the recognised problem.
- **Action.** Breaking down the path to the vision overcomes this problem. The full path does not need to be defined. Knowing the next step provides enough confidence in the future to make it seem possible. The change process can even be iterative. Depending on the level of employee it may be wise to share the small steps as it relates only to them as opposed to sharing a large, all-encompassing plan.
- **Cost.** The pain of change must be perceived as lower than the pain that is being removed through change. Without significant pain, employees will never be able to understand why the change is necessary.
- **Involvement.** Involve employees in the planning, decision-making, and monitoring stages of the change strategy. This involvement should create employee support and reduce the element of surprise.
- **NO surprises.** It is important that you communicate your change program (as much of it as is possible) on a regular and timely basis. No one likes to be surprised.
- **Champions.** These individuals carry influence among other staff members; their ability to convince others of the merits of the desired change strategies is imperative. In the accounting department, it is helpful to have a champion that comes from outside the department. When accounting is a servant to the other departments, the accounting department will be able to achieve the goals of the customer as well as the goals of their department.
- **Education and Communication.** Training and constant communication need to become priorities for the organisation. It will require a significant investment of time which some people might not view as productive. However, without the investment of time to train and communicate the vision, change programs fail.
- **Participation and Involvement.** A shared fate will increase buy-in as well as concentrate efforts on the change objectives. Management must provide guidance and support through the change process.
- **Facilitation and Support.** There will be challenges. Facilitation and support are required for difficult times within the change process. There will be unhappy employees and processes that do not go well. The change management program that does not create a support net will seriously hurt the change management programs chance for success.

HOW TO COMMUNICATE CHANGE

Change theory tells us that humans prefer a predictable, stable world. Good communication is crucial for creating a safe, predictable climate for employees when implementing change. Reflect on the last time that you participated in a change that was communicated poorly. What was the effect of the poor communication?

Some things you can do to communicate change are:

1. Avoid surprises
2. Explain the reasons behind management changes
3. Ask for input with potential change
4. Try to increase consistency and predictability

5. Offer opportunities for employees to ask questions
6. Share forecasts, trends in advance with employees
7. Share financial results and impact on the company

One of the most common errors made by businesses communicating change is that they "tell" people what the change is and how they should go about implementing it.

People need to understand the reasoning behind change in order to understand why the change is required and what their role in the change process is. They also need the opportunity to be heard and the opportunity to suggest ideas how change should be implemented. It is critical to the success of the change that people feel involved from the very start including the initial communication.

In order to communicate change effectively, it is useful to follow a simple procedure, which is outlined here.

- State clearly what the change is
- Explain why the change is happening and what impact it is likely to have
- Discuss the change and answer questions and concerns
- Explain the key actions that need to be taken and the milestones ahead
- Set a date for the next communication

Words We Use

Characteristics of people, as it relates to change, have similarities. Consider the following groupings, which are also depicted in figure 9-2.

Sameness: Want their world to stay the same; dislike change and may refuse to adapt. They may accept a change after ten years only instigate after fifteen to twenty-five years. These people notice what is: *the same, identical, what they have in common; perceive things as not changed, traditional, classic and stable*.

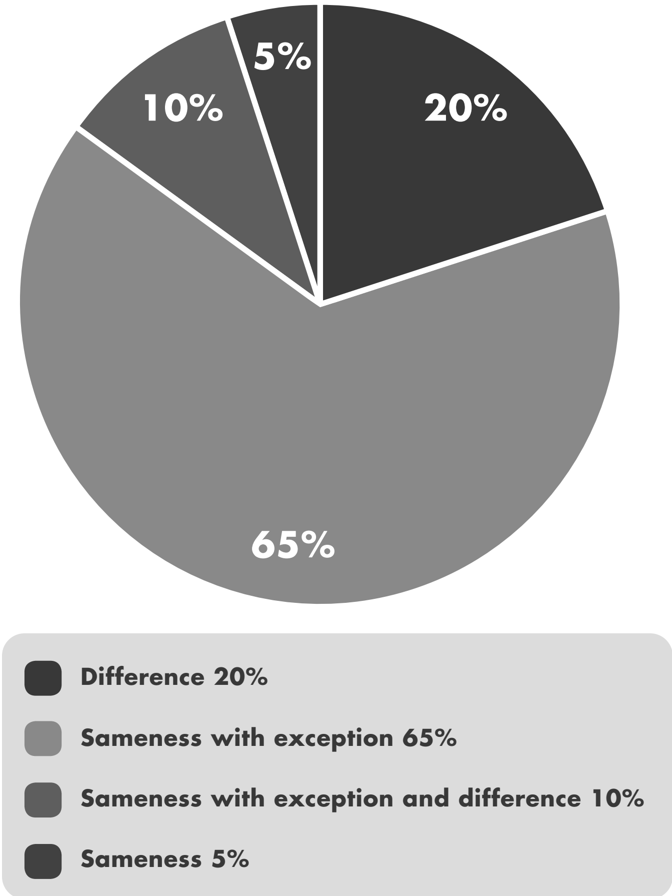
Sameness with Exception: Like situations to "evolve slowly" over time; need change every five to seven years would accept an annual change. They are often resistant to a major change. These people notice what is: *better or worse, more or less; they make comparisons and focus on the trip more than arriving at a destination*.

Difference: Love change; want it to be constant and major; like change to be revolutionary and want it every one to two years. They will resist stable situations. These people notice what is: *different, new, transformed, unique, focus on the destination and ignore the trip.*

Sameness with Exception and Difference: These people will be comfortable with both evolution and revolution. They like to change every three years and use both "sameness with exception and difference" language.[4]

How can we use this information?

Figure 9-2: Words for Change



Source: Adapted from Grahame Morgan Watson, "The Communicating Enneagram #5; Motivation Traits and RHETI Distribution". Accessed February 12, 2014. www.metame.co.uk/the-communicating-enneagram-5-motivation-traits-and-rheti-distribution/.

CHANGE MANAGEMENT FOR TEAMS AND PROJECTS

Sometimes it is not as readily apparent how teams can develop the overall process. However, effective use of teams and team members can greatly enhance the change process. The steps in the following list outline the team change management process.

1. **Have a team vision for change project.** The first step is for the team to agree on a clear vision.
2. **Provide a clear goal of the project change.** The team must create a specific goal for the project. For example, a good goal would be if the business would like to reduce the number of days it takes to close their financial records from ten business days to five business days.
3. **Analyse the risk of the project.** If, for any reason, the risk of failure is so great that it could severely impact the department the business or the culture, the team of must be sure the expected change is worth the risk.
4. **Appoint a change owner.** Change programs whether person or team will undoubtedly fail unless there is a change owner or champion of the process.
5. **Identify the business impact.** The team must be able to identify the specific business impact that the change will have.
6. **Identify the reason for change.** Simply stated so the team can understand.
7. **Identify critical success factors.** Team members must address critical success factors. These critical success factors will help identify important steps within the process to ensure that overall it is a success.
8. **Have a plan "B".** This is a backup plan when things go awry. Rarely will change processes go smoothly. It is imperative that the change process team have a backup plan so the business can always go forward.
9. **Implement testing requirements and plan.** Depending on the change, it may be necessary for the team to identify specific testing requirements and testing plan.
10. **Identify all necessary resources and availability.** The team must identify all required resources. It is possible that the change process that they would like to implement may be too costly and may require resources that are not readily available for the organisation.
11. **Evaluate change with organisational standards.** The suggested change must be evaluated in light of organisational standards. It is possible that the change that is being recommended will be opposed to

established standards and procedures for the business culture. Understanding this before the change takes place will help to ensure the change process success.

12. **Arrange process for monitoring the project and periodic change review meetings.**
13. **Review and course correction.** If some changes were unsuccessful, the change management team identifies the reasons and root causes of the change failure. It is necessary that the project management team establish a process to meet regularly and monitor the ongoing process of change. In addition, these meetings should establish tracking tools to help with course corrections when the project goes off track.

THE ROLE OF TOP MANAGEMENT

The role of top management as part of the change process cannot be understated. Management must ensure that people understand the need for change and why it is necessary.

One of management's roles is to prepare employees for change and communicate the change process. Change cannot be thrust upon a business with the expectation that it will be successful. Throughout the process, management should build the case, create the vision, and provide the tools and emotional support that will result in a successful project.

Any lack of support by the management team can be disastrous to the project. This also means that management must free up the time for employees to work on the specific change process. Management would be mistaken to expect employees to create massive amounts of change and still maintain their existing workload.

The management team must seek feedback and address any issues. It is important that they listen to both the successful feedback and the critical feedback. If the business wants to move forward, it must be able to take critical feedback and demonstrate and be responsive. If the employees believe that management is receptive to the feedback, more feedback will be provided. The moment management dismisses critical feedback from the employees, the process is doomed. In the future, all that they can expect is to receive lesser and lesser amounts of feedback.

Box 9-3: Steps to Leading Successful Change

For a business to ensure that change efforts will be successful, use the following checklist:

1. Establish a sense of urgency
2. Form a powerful guiding coalition
3. Create a vision
4. Communicate that vision
5. Empower others to act on the vision
6. Plan for and create short-term wins
7. Build on initial success
8. Institutionalise the new approaches

DANGER SIGNS THAT THE CHANGE PROCESS IS FAILING

Just as it is important to understand the proper ways to implement change, it is also important to be sensitive to the danger signs that the change process is failing. The following items should be viewed with great concern.

- Indecisive leadership—Employees are aware when the leaders are indecisive. This indecision can scare employees. In some cases, employees will see reduced risk in changing employers as opposed to continuing in the change process with their existing employer.
- Failure to seek input—Sometimes change leaders will go about their task and their responsibility with such seriousness that they do not seek out input from other people affected by the change. The only time that seeking input is not appropriate is when a business is operating in a crisis. At that point, using a crisis model that does not seek input is acceptable. In all other cases, change agents should be soliciting, listening and giving feedback upon the input that they receive from the employees.
- Directive without support—This is a very dangerous position. Management will tell employees that they need to change, they need to cut costs, and they need to become more efficient. However, management does not provide the tools to train or the support to ensure this happens. In these cases, employees will not pay any attention to the directives and just ignore them.
- Cracks in leadership resolve—Once leadership is uncertain about their direction, they sometimes make exceptions to the rules of the change process. To some employees this can appear as favouritism. If leadership does not support the workers, the change process will also fail.
- Inappropriate use of consultants—Change must be seen from the top on down. Too many times management will abdicate their responsibility by offloading it to a consultant to lead the change process. It may be very difficult for the consultant to rally employees to follow the change model. Later in this chapter will also look at the pros and cons of using external or internal facilitators or coaches.
- The devil in the details—The change process is not easy. Companies must invest time in tools training and detailed analysis. If the business is not willing to focus on details, it will not be able to achieve the major successes of change, and will only make smaller impacts on the company.
- Lack of performance measures—When a business begins the change process, it must understand the existing processes in terms of flowcharts, metrics, and other measurements. These processes will be used to identify how to be successful and determine if the goals of the business are met.
- Underestimating emotions—One major area that accountants (typically) have difficulty with is the people skills necessary to work through the change process. Change will be deeply emotional and personal to many people. The manager that discounts the emotions that run through their employees will not be successful in the change process.
- Failure to abandon other time commitments—There must be a significant investment of time to execute a change process. Many companies will not acknowledge the required investment of time and will expect their people to accomplish change management processes at the same time that they still maintain all of their old existing processes. Employees will not have enough time to do their jobs and to create new change systems.

ROLE OF ATTITUDES, THOUGHTS, FEELINGS AND BELIEFS

> *"Watch your thoughts, for they become words. Choose your words, for they become actions. Understand your actions, for they become habits. Study your habits, for they will become your character. Develop your character, for it becomes your destiny".—Ralph Waldo Emerson*

Thoughts create our emotions and feelings which in turn generates our behaviour. Our overall behaviour results in our attitude. How often have you heard it said, "That employee has a negative attitude?" Unfortunately, this statement happens all too often, and we have many of these people within our organisations. It is necessary to understand how to work with people with negative attitudes so that we can help them do a better job when it comes to making change within the organisation. To properly address this, we must analyse the major components of thoughts, feelings, behaviour and attitude.

- Thoughts—All creation, all value is driven from the dream or thought level of each individual.
- Feelings—Feelings are the result of the thoughts that each of us has. These feelings can significantly hinder the change process. The real concern is that employees understand that they are responsible for their feelings and no one else is. For example, sometimes you'll encounter an employee that will use a statement such as the following "My CEO makes me so angry". In fact, the only person who can cause you to be angry is you. What is really happening is that you are having a thought that creates a negative feeling inside of you. Then you are putting the blame on someone else. One of the best ways to get beyond this feeling is to confront individuals and make them aware that they are generating their own emotions.
- Behaviour—Based on the thoughts and the resulting feelings, the employee will then act out with a specific behaviour. This behaviour can be anything from very positive to very negative. The real concern for change management is that anytime behaviour is negative it can be disastrous to the change management efforts.
- Attitude—Over time this behaviour creates our overall attitude. If you can see patterns in individuals where the behaviour starts becoming negative, the person might be acting out; he or she might be passive-aggressive; or he or she might be angry. People fall back to their major attitudes. It may be difficult for someone to transform his or her negative attitude to a positive attitude.

  The following steps can help change a negative attitude to a positive one:[5]

  1. Take charge of what you are thinking.
  2. Read inspirational material.
  3. Focus on others.
  4. Take care of your health needs.
  5. Learn contentment
  6. Change the negative language
  7. NLP Neuro Linguistic Programming
     a. Anchoring
     b. Reframing
  8. Act in accordance with your beliefs

CONCLUSION: TWO CHECKLISTS FOR MANAGING CHANGE IN BUSINESSES

Whether you are implementing a new local accounting system in your department or your business is embarking on a comprehensive culture change program, it makes sense to take a breath and review how you are traveling.

CHANGE Approach Checklist[6]

Use the following eighteen-point checklist on your current change project. The questions are based on the CHANGE Approach© to managing change in businesses.

The checklist questions act as a quick diagnostic by surveying the critical activities in each phase. Neglect in one or more areas will likely cause the change program to suffer.

Create tension

- Is there a clear and compelling reason for adopting this change program?
- Is the objective data needed to convince the sceptics available?
- Do people feel the urgency to change?

Harness support

- Do we know what the motivators for each stakeholder group are?
- Does the senior executive team support this change?
- Are all stakeholders engaged in the change process?

Articulate goals

- Do stakeholders take ownership of the vision and goals?
- Are people involved in devolving the goals to lower levels of the organisation?
- Are performance measurement and reporting systems set up?

Nominate roles

- Are change management and new operational accountabilities clear?
- Are the right people selected for the right roles?
- Are project management principles and methods being used?

Grow capability

- Is the training plan sufficiently scoped and adequately resourced?
- Are teams being developed and supported for high performance?
- Is support in place to ensure the transfer of training to the workplace?

Entrench changes

- Are performance results reported and successes celebrated?
- Are remuneration, rewards and recruitment systems aligned with the change objectives?
- Do managers and supervisors lead by example?

Prosci Change Management Planning Checklist[7]

Prosci's planning checklist draws from benchmarking research of over 900 participants. The checklist can be used as an audit tool to ensure you are using a systematic, holistic approach to managing change.

1. Are you using a structured change management methodology for your project?
2. Are you customising your change management plans?
3. Does your approach include a model for how individuals experience change?
4. Does your project have the necessary sponsorship?
5. Are your sponsors prepared and able to fulfil the sponsor role?
6. Have you created an effective communication plan?
7. Have you engaged managers and supervisors in the change management program?
8. Do you have proactive and reactive resistance management strategies and plans in place?
9. Do you have systems in place to gather feedback and measure change adoption?
10. Have you implemented reinforcement mechanisms?

Endnotes

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10

COMMUNICATION AND PRESENTATION SKILLS

This last formal chapter examines skills that are necessary for the controller to become a business partner. The business partner will be expected to communicate effectively with top-level executives as well as outside stakeholders. If the controller is not convincing, competent or respected, he or she will not evolve into a business partner and will remain as a tactical controller.

To be effective, the controller must master:

- Effective communication skills
- Understand how others learn and communicate—neuro linguistic programming (NLP)
- Prepare and deliver effective presentations
- Understand and meet the needs of their boss

As CPAs, technical skills have been an emphasis in most aspects of continuing education training. In seminars for the AICPA, the author poses this question, "In your career, have your biggest mistakes been in technical skills or people skills?" Ninety-nine percent of participants will say that the answer is, "People skills". The purpose of this chapter is to help controllers interacting at the board level, peer level and supervisory level with improved communication skills. A controller who can develop daily communication skills, listening skills, and persuasion skills will succeed at high levels within the organisation.

COMMUNICATION SKILLS

Failure to Communicate

One of the most famous movie statements comes from the classic movie *Cool Hand Luke*. Both the sheriff and lead character make the same statement during the film: "What we've got here is a failure to communicate". This statement is a significant component of the movie's finale. You may have participated in a conversation in which both parties felt that they were not engaging in meaningful communication.

The statement "They were talking past one another" summarises this type of miscommunication.

Controllers who seek to become business partners must have excellent communication skills. Ernst & Young conducted a study entitled the "DNA of a CFO". One of the most interesting findings was that CFOs felt that the area they needed to develop the most was communication skills—not technical skills. In addition, presentation skills also ranked very high on their list. In this chapter, we will examine enhancing communication skills and working with all executives. The main sections of this chapter will be:

- The purpose of communication
- The types of communication
- Improving listening skills
- Improving speaking and presenting skills
- NLP the science of communication
- Managing your boss

Purpose of Communication

What is the purpose of communication? Very simply, it is to create new meaning. If conversation participants were asked, “What meaning could you construct from the conversation?” It would challenge people to reflect on what was said, written, or portrayed through nonverbal or audio communications. It is no surprise that the meaning that each party came away with was not necessarily congruent. Communication is an activity; one person is sending a message and another person is receiving and reacting to the message.

It is very important, prior to sending a message, that the sender takes a moment to reflect on what he or she wants to achieve with the message. Many misunderstandings could have been prevented had the sender thoroughly considered the objective he or she was trying to achieve. Therefore, at the start or creation of a message, the sender should identify what conversation he or she wants to occur. What is the purpose of the conversation?

- Inform
- Persuade
- Influence
- Interview
- Direct
- Inquire

The conversation will direct the style and tone of the message. It is helpful to keep the following in mind when preparing business communications. Business communications should be:

- Clear
- Precise
- Brief
- Grammatically correct
- Culturally appropriate

Types of Communication

Our communication patterns are distributed over a variety of tools. Each of the tools is unique in its own right and can either enhance or detract from creating meaning. Consider the myriad of ways that we communicate with one another during the business day.

Written Communication

E-mail. Much of daily communication is done by e-mail. E-mail is fast; it can be efficient, and it creates a historical record. However, emails can be misinterpreted significantly. E-mails fail to convey body language and tone, and in some cases, have caused much hurt, frustration, and misunderstanding.

Texting. Text messages are overtaking e-mail in popularity. Younger generations prefer texting. It can be fast and efficient, also, but it also suffers from the same concerns as email. In addition, a text message is usually briefer than an email message and increases the chance for misuse or misunderstanding. Texting has demolished proper grammar and spelling. Another unfortunate effect of the growing popularity of texting is that some users prefer to communicate by text messages rather than by face-to-face conversation. When texting is the chosen mode of communication, the sender is eliminating a significant channel of the communication process.

Written reports. The tactical controller produces a significant amount of reports for department heads, the management team and possibly even the board of directors. The tactical controller is worried about getting the reports produced. The business partner is worried about adding new meaning to the report.

There is an established agreement on the components of a message. A person creates meaning from a message based on the following percentages:

> According to Mehrabian, the three elements account differently for our liking for the person who puts forward a message concerning their feelings: words account for 7%, tone of voice accounts for 38%, and body language accounts for 55% of the liking.
>
> For effective and meaningful communication about emotions, these three parts of the message need to support each other – they have to be "congruent". In case of any incongruence, the receiver of the message might be irritated by two messages coming from two different channels, giving cues in two different directions.[1]

Thus, if the sender of the message is relying on the e-mail, the text, the report, or the presentation to communicate, he or she will only share seven percent of the intended message. The chances for misuse and misunderstanding are high.

Presentations

Both controllers and business partners will be asked to deliver presentations. Later in this chapter we will examine the use of PowerPoint as a tool to increase the end user's understanding of the intended message.

Presentations involve slide shows, flip chart presentations, webcasts, board of director meetings, or large crowd presentations. The business partner must concentrate on the message because it will be delivered to a wide group of individuals. This means that there will be a broader constituency that can have varied interests, understanding, and expectations of the presentation.

Body Language

Neuro-Linguistic Programming (NLP) is the study of how we create meaning. A business partner will understand how people interpret messages, how to identify an individual's preferred learning style, and will employ techniques to ensure that the planned message is packaged and delivered in the best possible way so the recipient can act accordingly. NLP involves:

- Audio
- Visual
- Kinaesthetic

There is a separate section in this chapter on NLP.

Daily Conversation

Creating meaning will involve conversations throughout the day and with a variety of businesses stakeholders. Conversations can either be formal or informal.

Conversations that involve technology must be handled with special care. As mentioned previously, written communication does not provide a full spectrum to communicate a message. The same is true when we start using technologies such as cell phones and teleconference systems.

In the case of cell phones, we miss the body language. If the person communicating on one end of the conversation has other items demanding his or her attention, the listener might make wrong assumptions based on the tone or style that may have been influenced by one of the distractions. With a teleconference, we pick up more of the individual's intended message. However, we still do not get the entire person, and the message could be omitting significant components of the intended communication.

Listening

The final style of communication focuses on the receiving end of the message. The prior characteristics involved sending the message. The ability to focus and listen for the meaning and the message is a great skill. Many people do not have the ability to listen attentively. Their minds begin to wander, and they start to formulate an answer or response to the sender's message. When we are formulating responses or interrupting with questions, we detract from the sent message. There is a biological reason that this occurs. Most individuals can process 400 words per minute. Consequently, most speakers talk at a rate of about 120 words per minute. The listener makes a quick conclusion of the content of the sender's message. Next, the listener formulates a response and misses the sender's the full message. As a result, the listener may miss some significant information from the full message.

IMPROVING COMMUNICATION SKILLS

Let us consider some ways that we can develop both our listening and speaking conversation skills.

Listening

Patience. The listener must display patience. Speakers can tell when a listener is not attentive and becomes impatient. The listener looks at their watch, sneaks a peak at messages on their phone, checks recent emails, looks bored, or makes gestures that suggest that the speaker should hurry up.

Demonstrate attentive listening. To be an attentive speaker, focus on the person and the issue. Even if the listener has no interest in the topics, concentrated focus will bring the listener into a state where he or she can receive the speaker's message.

No judging. Silence your brain. Specifically at the start of the conversation, tell your brain to be silent and just listen. If you find your attention wandering or you are trying to formulate a recommendation, remind yourself to be still and then focus on the centre of the message.

Listen with empathy. When the listener can exhibit empathy, he or she experiences the issue from the sender's perspective. If someone is empathic, he or she will feel the emotions of the other person.

Ask great questions. Listening attentively, and then pausing allows the listener to formulate thoughtful questions. As a business coach, the author listens to a wide variety of issues and concerns. When the person being coached is finished speaking, and then the author asks a clarifying question, many times the person will say, "That's a great question". The question allows the person to process their own issue from a different perspective. Also, it shows that the listener was paying attention and trying to understand the ramifications of the discussion.

Check for understanding. Paraphrasing is an excellent tool to ensure that the listener understands the speaker's perspective. This does not mean that you agree with the speaker, it just establishes that you understand the message. It also conveys to the speaker that you've received a message from their perspective.

Don't interrupt. Be careful not to interrupt the speaker. If the speaker has prepared a message as we just discussed, the speaker is transmitting a message in a fashion or specific way to create an entire meaning. If the listener is constantly interrupting, this can change the message the sender is trying to create. In essence, the formulation or creation of meaning might be altered. You can recognise this example in your daily home setting. A spouse or significant other desires to tell you about something that happened during the day. Perhaps you are tired, so you are not thinking about using good listening skills. To make the issue more complex, you may hear part of the other person's message and what you hear triggers one of your hot buttons. You are quick to jump into the conversation with your viewpoint. At this point, the person says thanks and walks away. You and the speaker established no meaning or understanding; on the contrary, you probably hurt the relationship.

Speaking

Be encouraging. Whenever engaged in a conversation, be as encouraging as possible. If you are discouraging to the other person, the conversation may suffer or be shortened.

Challenge appropriately. When challenging another person in a conversation, be sure to make the challenge fair, appropriate and open to discussion by the other person. Allow the other person to save face or negotiate. This is not to be confused with discipline discussions that happen in the workplace. There will be occasions when the appropriate challenge must be strong, non-negotiable, and have strong consequences. However, this conversation makes up less than one percent of the conversations in which a controller or business partner will be involved.

Use diction. Speak clearly. Individuals may poke fun at regional accents or speed of speech. However, as long as the person speaks distinctly and is understood, the message should be clear.

Monitor speed. Note the speed at which you speak. The incorrect speed could detract from the message. In some cases, speakers with quicker speech patterns are viewed as more aggressive, or they can be interpreted as distracted or unfocused.

Avoid industry jargon. Controllers take for granted that others have the knowledge that they have gained over years of experience, and may use acronyms such as FASB, IRS, LIFO, IFRS, EBID, or EBITDA when addressing others. Unfortunately, we may fail to recognise that our listeners may not have the same level of familiarity with what we know that we have gained over the year. We may believe that we have communicated succinctly, when in fact the recipients of the message are too shy to admit they do not understand what the acronyms meant. As a result, no meaning is created, and the message fails.

Background of Other Party

Know the background and education level of the other party. In all forms of communication that we have discussed, but be aware of the audience with whom you are communicating. Failure to recognise the needs of the audience can lead to failed communication. What is their educational level? Are you communicating with Ph.Ds. or with individuals who have GEDs? It is possible to convey the same message to both of these groups. However, the methodology will most likely be different.

Use your audience's language. Understand the language of the audience with whom you are communicating. The author has had great success in speaking to different groups because he uses their terms and their understanding. For example, he was addressing a large social service business in which the social workers believed the corporate offices kept all of the money generated by their programs. They had a term for this money—"pots of money". When the author presented the financial position to the agency, he read the balance sheet to the social workers and identified specific line items, not with accounting terms but as pots of money. He then explained what the traditional accounting term meant. The author was overwhelmed at the end of the presentation when a number of social workers expressed that it was the best financial presentation they have ever had.

Have respect. Always be respectful of the other party. We come from different backgrounds, religious beliefs, ethnicities, political viewpoints, schools, or families. Nothing can doom a message more quickly than the recipient believing that the message was disrespectful to them. That person will not be able to focus on the message, and he or she will formulate a response directed at the lack of respect.

Consider the environment. For communication to be successful, the sender must be sensitive to the current environment. If the sender of the message discounts the environment, it will be treated as a lack of respect as in the prior example. If the recipient believes the sender does not understand the work environment, he or she will not be open to listening to the sender's viewpoint.

PITFALLS IN COMMUNICATION

Following are some topics to be sensitive to when sending messages to other people. The controller who is acting as a business partner and is regularly communicating with high-level shareholders and executive leaders must ensure that their communications are appropriate.

Hot buttons. Controllers must be aware of the hot buttons or trigger points of senior executives or board members. Oftentimes executives or board members possess strong egos. Triggering their egos does not help in creating meaning.

Civility. Even if you are verbally attacked during a conversation keep the discussion or presentation civil. This author has seen numerous cases where the person who maintained his or her composure was complimented and viewed differently because he or she did not retaliate.

Slang. Use slang words or even regional terms cautiously. Many listeners may discount the message because the speaker uses the wrong word. Consider the following example: A group of CEOs were listening to a presenter of a specialized topic. One of the CEOs became angry when the speaker used general terms instead of specific terms. The CEO lost the ability to focus on the topic because he fixated on the improper terms. The rest of the CEOs in attendance understood what the speaker meant. However, the distraught CEO left the meeting because he could not listen to the incorrect usage of the words.

Aggressiveness. There are very few times when aggressiveness is appropriate in a conversation. Also, keep in mind that different personalities (and cultures) have different interpretations of what aggressiveness is. The business partner may believe he or she is as calm and passive as he or she could be, and yet the listeners may believe the person is overly aggressive.

Don't assume they know. Do not make the assumption that people understand all the facts or the implications of the conversation. This is one of the reasons a good listener will ask great questions to identify all of the aspects of the conversation. In this way, the meaning is created by both parties.

Don't overreact. Keep your poise.

Giving advice. Many people just want you to listen rather than advise.

Keep an open mind. Being defensive or argumentative will prevent you from considering an opposing view.

Avoid one-upmanship. The listener jumps in with a personal tale of woe instead of responding to the speaker with clarifying questions.

Don't invalidate feelings. Never dismiss someone's emotions. You may not agree with the emotions but, to pass judgement on those emotions will only serve to shorten the conversation and reduce meaning.

UNDERSTANDING NLP

Neuro-Linguistic programming (NLP) has three aspects:

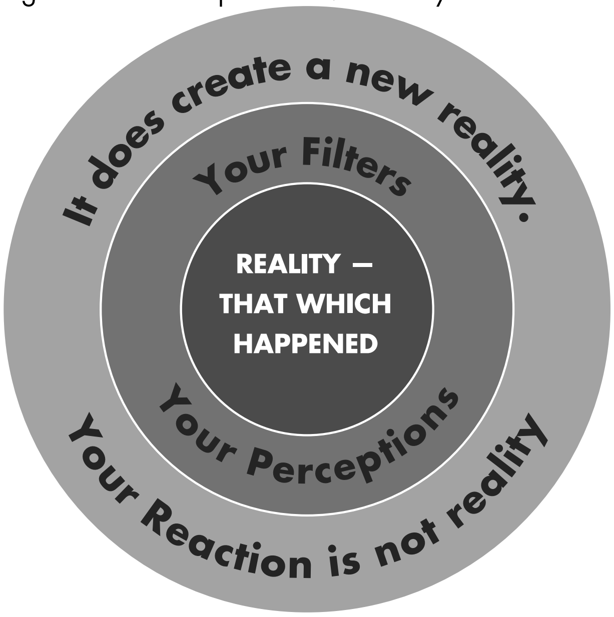
1. *Neuro*—the mind (how we think, feel, and imagine)
2. *Linguistic*—language (speaking, written, unwritten)
3. *Programming*—the technical side of how to influence the mind through language

NLP is a behavioural technology, with guiding principles, attitudes, and techniques. NLP empowers a person to change, adopt, or eliminate behaviours. In addition, it teaches you how to choose your mental, emotional, and physical states of well-being.

NLP is an excellent tool to aid business people in improving and understanding relationships with co-workers, vendors, customers, and other stakeholders. One of the very first business disciplines to use NLP was the sales function.

One of the tenets of NLP is that the map is not the territory. This can also be viewed as, "Perception does not always match reality". Consider figure 10-1, and then continue reading.

Figure 10-1: Perception Is Not Reality



Korzybski's dictum "the map is not the territory"[2] is cited as an underlying principle in neuro-linguistic programming. It is used to signify that individuals do not have access to absolute knowledge of reality. They only have access to a set of beliefs they have created over time. It is important to be aware that beliefs about reality and awareness of things (the map) are not reality itself or everything they could be aware of (the territory). The originators of NLP have been explicit that they owe this insight to general semantics.

Uses of NLP

Neuro Linguistic Programming (NLP) explores the inner workings of the human mind; how we think, how we develop our desires, goals and fears and how we motivate ourselves, make connections, and give meaning to our experiences.

NLP is like a user manual for the mind, and allows us to use the language of the mind to achieve our specific and desired outcomes consistently.

When you learn NLP, you learn specific skills and patterns necessary to make positive changes, create new choices, be more effective with others, break free of old habits, self-destructive patterns and behaviours, and think more clearly about what it is you want and how to get it.

In the business setting, individuals can programme themselves and influence others to

- Increase productivity,
- Improve negative relationships,
- Remove destructive patterns,
- Increase sales, and
- Attain goals.[3]

Three Main Learning Styles

There are three main learning styles (representational systems) that we all use to communicate. They are

1. Visual (approximately 65 percent of the population),
2. Auditory (approximately 30 percent of the population), and
3. Kinaesthetic (approximately 5 percent of the population).

One of the simplest ways to identify another person's dominant perceptual mode is to pay close attention to the words, phrases, and images he or she uses.

- *Visual*—Words used, "I see what you mean", "This idea looks good to me", "I want the big picture…we'll focus on details later", and "My point of view is…".
- *Auditory*—Words used, "Tell me again…I'm not sure I heard you right", "That sounds like a good idea", "Let me use you as a sounding board for an idea I have", "Yes that's clear as a bell", or, "Something just went click in my mind".
- *Kinaesthetic (Feeling)*—Words used, "I sense what you mean", "That idea feels right", "I can't get a handle on this concept", and "He's the kind of guy who can take an idea and run with it".

Utilising NLP

How can we utilise NLP with running a more effective organisation?

- *Read people*—It is possible to read a person's eyes and body language to construct a deeper meaning of the message.
- *Improve communication*—Employing all three types of communication improves the odds that the listener will interpret meaning closer to the original intent.
- *Influence people*—We can use tools such as anchors, rapport, pacing, and reframing to help move people to a desired concept or position.

Eye Accessing Cues

Eye movements indicate how a person is thinking—whether he or she is imagining a future or past event, internally re-hearing a sound or making up a sound, talking to themselves, or attending to their feelings. Notice the direction of a person's eye movements. It is possible to recognise how he or she is processing (or "thinking" in the broadest sense of the term). Often even the people themselves will not be aware of how they are thinking, but the sharp-eyed and skilled observer will be able to detect how his or her audience may be thinking.[4]

See figure 10-2 for the standard eye movement directions as mapped out by NLP co-developers John Grinder and Richard Bandler.

Figure 10-2: Standard Eye Movement Directions

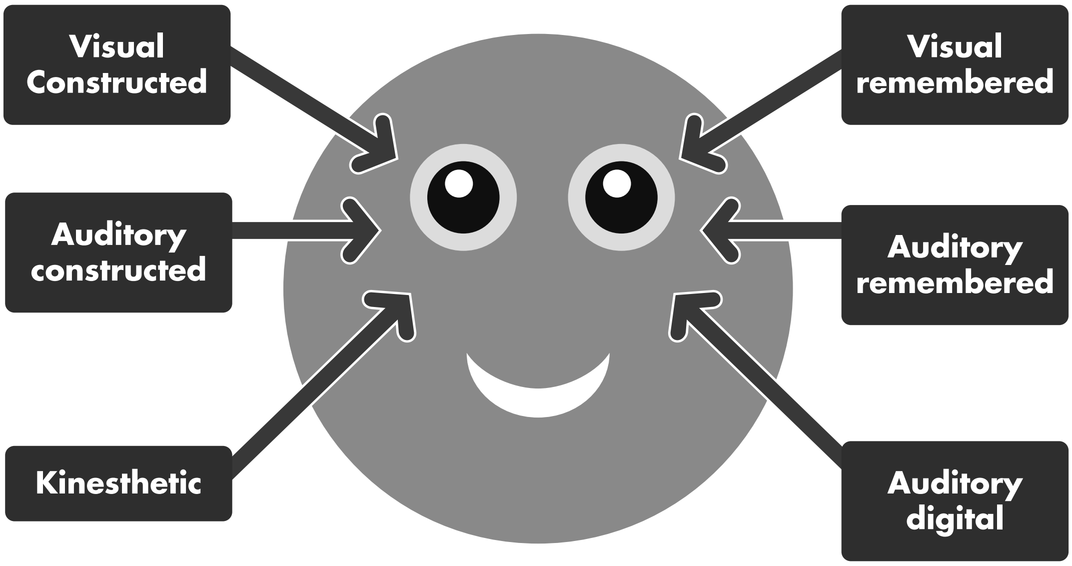


Figure 10-2 reflects a right handed person. The exact opposite applies for a left-handed person.

The eyes are connected to the brain and can be seen moving when searching for information. You have witnessed someone preparing to answer a question and noticed that their eyes moved while contemplating a response. Let us suppose I asked a job candidate, "What was your company's monthly revenue seven months ago?" I would expect him or her to look to his or her upper left (visual memory.) If I asked him or her, "How could I steal from your former employer?" I would expect him or her to look to his or her right to create a visual picture of how someone could steal. If he or she looked up to his or her left and then told me of a way to steal, I would surmise that the person had committed such a theft. There is a great deal to understanding eye cues beyond this brief introduction. The author recommends researching NLP eye cues for more information.

It is important to be aware that this diagram is a general reference. It would be ideal if we could take this map and know instantly how a person is thinking internally. However, people differ, and not everyone will have the same pattern. Treat this diagram as a starting point only and use your NLP observation skills to ask further questions.

BODY LANGUAGE—UNDERSTANDING THE UNSPOKEN

"Your actions speak so loudly I cannot understand a word that you are saying!" Many times we miss a significant part of another person's communication if we do not understand his or her body language. Studies have shown that the spoken word is only a small percentage of the total message. We need to be able to read between the lines by understanding the message that a person's body is communicating to us.

Box 10-1: Examples of Body Language

NONVERBAL BEHAVIOUR	INTERPRETATION
Brisk, erect walk	Confidence
Standing with hands on hips	Readiness, aggression
Sitting with legs crossed, foot kicking slightly	Boredom
Sitting, legs apart	Open, relaxed
Arms crossed on chest	Defensiveness
Walking with hands in pockets, shoulders hunched	Dejection
Hand to cheek	Evaluation, thinking
Touching, slightly rubbing nose	Rejection, doubt, lying
Rubbing the eye	Doubt, disbelief
Hands clasped behind back	Anger, frustration, apprehension
Locked ankles	Apprehension
Head resting in hand, eyes downcast	Boredom
Rubbing hands	Anticipation
Sitting with hands clasped behind head, legs crossed	Confidence, superiority
Open palm	Sincerity, openness, innocence
Pinching bridge of nose, eyes closed	Negative evaluation
Tapping or drumming fingers	Impatience
Steepling fingers	Authoritative
Patting/fondling hair	Lack of self-confidence; insecurity
Tilted head	Interest
Stroking chin	Trying to make a decision

Continued on p. 274

NONVERBAL BEHAVIOUR	INTERPRETATION
Looking down, face turned away	Disbelief
Biting nails	Insecurity, nervousness
Pulling or tugging at ear	Indecision

Source: http://deltabravo.net/custody/body.php

Be careful about reading too much into a single body language sign. Many times a signal is confirmed by other body language indicators or words that provide the complete meaning. In addition to being aware how to read others, be aware of the body language signals that you are sending. There are times when a person must be on guard because his or her body language is revealing information that he or she would rather keep confidential.

IMPROVING PRESENTATION TECHNIQUES

As part of the transformation from controller to business partner, higher profile presentations will be expected. This visibility can result in board presentations, management presentations, large employee gatherings presentations and other public speaking opportunities. This section will provide guidance and tips on ways to make presentations easier to understand and more beneficial for the end-user. The following topics will be addressed:

- Successful Financial Statement Presentation—Excel Rows and Columns
- PowerPoint Tricks

Financial Presentations Made Easy

The success of the controller will depend on the ability to communicate financial topics to a wide constituency. Consider the importance of communication for public companies as they interact with Wall Street analysts. Next time you have a chance to review job descriptions for public companies, note that those companies value the ability to communicate very highly. How can the controller develop his or her communication style and develop the "creation of meaning" transfer (and receipt) of complex information by end-users.

Look at the income statement in figure 10-3. It is in a fairly standard format. The controller has just distributed it at the board or management team meeting and is about to comment on the results. What happens to the board members?

- Do they go immediately to the area about which the controller is speaking? NO.
- Do they go to an area with which they are familiar? YES.
- Has the controller lost them as he or she tries to explain the financials? YES.
- Has the exchange of information stopped? YES.
- The controller is trying to communicate specifics about the income statement, and nobody is focusing on the same number or his or her explanation!

What is the alternative? Look at figure 10-4. Print all financial statements with both the row and column reference from Excel. Is it pretty?—NO! Could someone view it as less than professional?—Possibly, but only for the first time. When you control the conversation and lead participants through the statements, they develop a stronger trust in your expertise.

Now consider what happens when the statements are handed out at the respective meeting. Immediately, everyone still goes to their favourite area. The controller can "clear his throat", and ask everyone to refer to Col C, Row 5. This allows the opportunity for everyone to find the same number and then share the explanation. Politely, the controller asks for everyone to nod once they identify the revenue of $1,715,800. The participants will nod, and then the controller can begin the discussion. It may seem simple, but no one at the table wants to admit that he or she does not understand financial statements. This exercise is also very helpful as different statements are tied together in multiple page reports. It fosters credibility and improves the presentation and "consumption" of the information. It is an easy way for the users to direct questions back to the presenter.

Figure 10-3: Standard Income Statement

Income Statement

View: Annual Data | Quarterly Data

Period Ending	31-Dec-12	31-Dec-11	31-Dec-10
Total Revenue	**1,715,800**	**1,356,900**	**1,383,600**
Cost of Revenue	1,403,100	1,244,200	1,187,900
Gross Profit	**312,700**	**112,700**	**195,700**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	126,500	100,000	118,900
Non Recurring	-	-	-
Others	73,900	78,900	82,000
Total Operating Expenses	-	-	-
Operating Income or Loss	**107,400**	**-140,100**	**-7,600**
Income from Continuing Operations			
Total Other Income/Expenses Net	-25,000	-61,000	21,200
Earnings Before Interest And Taxes	87,300	-127,200	16,000
Interest Expense	49,300	56,900	63,900
Income Before Tax	38,000	-184,100	-47,900
Income Tax Expense	7,600	-39,100	-22,100
Minority Interest	-	-200	-400
Net Income From Continuing Ops	32,100	-171,900	-32,200
Non-recurring Events			
Discontinued Operations	-3,300	-9,200	-6,400
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	**28,800**	**-181,300**	**-39,000**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To	**28,800**	**-181,300**	**-39,000**

Figure 10-4: Financial Statement with Row and Column References

	A	B	C	D	E	F
1						
2	**Income Statement**					
3	View: Annual Data | Quarterly Data					
4	Period Ending		**31-Dec-12**	**31-Dec-11**	**31-Dec-10**	
5	**Total Revenue**		**1,715,800**	**1,356,900**	**1,383,600**	
6	Cost of Revenue		1,403,100	1,244,200	1,187,900	
7						
8	**Gross Profit**		**312,700**	**112,700**	**195,700**	
9						
10		Operating Expenses				
11		Research Development	-	-	-	
12		Selling General and Administrative	126,500	100,000	118,900	
13		Non Recurring	-	-	-	
14		Others	73,900	78,900	82,000	
15						
16		Total Operating Expenses	-	-	-	
17						
18						
19	**Operating Income or Loss**		**107,400**	**-140,100**	**-7,600**	
20						
21		Income from Continuing Operations				
22		Total Other Income/Expenses Net	-25,000	-61,000	21,200	
23		Earnings Before Interest And Taxes	87,300	-127,200	16,000	
24		Interest Expense	49,300	56,900	63,900	
25		Income Before Tax	38,000	-184,100	-47,900	
26		Income Tax Expense	7,600	-39,100	-22,100	
27		Minority Interest	-	-200	-400	
28						
29		Net Income From Continuing Ops	32,100	-171,900	-32,200	
30						
31		Non-recurring Events				
32		Discontinued Operations	-3,300	-9,200	-6,400	
33		Extraordinary Items	-	-	-	
34		Effect Of Accounting Changes	-	-	-	
35		Other Items	-	-	-	
36						
37						
38	**Net Income**		**28,800**	**-181,300**	**-39,000**	
39	Preferred Stock And Other Adjustments		-	-	-	
40						
41	**Net Income Applicable To**		**28,800**	**-181,300**	**-39,000**	

Improving PowerPoint Skills

For the business partner, PowerPoint (or similar software) is both a boon and a bane. The presenter can exhibit more detail, colour, animation, sound, and transitions than ever before. The problem is that these additional items may detract from the presentation. Remember, the goal of the presentation is to "pass on", transfer, educate, motivate or somehow influence the listener. If the listener does not leave the presentation with an understanding of your message, then communication has not taken place!

Powerpoint Dos

- Ensure that the audience understands the main points of the presentation.
- Understand and meet the needs of the attendees.
- Purchase a CD of backgrounds and pictures.
- Put the central point on the screen. Complement it with a picture. Attendees will connect the picture to the point from their personal framework.
- Provide hand-outs of all the slides, so they don't focus on taking notes.

Powerpoint Don'ts

- Don't use a generic PowerPoint template. The author recommends PresenterMedia.com. (He is neither affiliated with nor profits from this recommendation.)
- Don't waste the listener's time.
- Don't list too many points on one slide—limit it to five points. Too much information can detract from the presentation and obscure your point.

- Don't use visuals that do not relate to the point being made.
- Don't use generic clip art. Find your own clip-art that the audience is not already familiar with from a different presenter.
- Don't depend on fancy vs. quality presentations. Limit technological bells and whistles.
- Don't overload the presentation with animations and transitions during a slideshow. The author has seen board members chastise presenters for too much "glitz".
- Don't ignore the sound system. If you are using sound, check that the speakers are powerful enough for all to hear (do not discount that some individuals have a harder time hearing.)
- Don't read from the screen! When you turn your back on the audience it appears as if you don't know the material.

MANAGING YOUR BOSS

You have successfully migrated from controller to business partner, and the last step is to ensure you understand and meet your boss's needs. In addition, at the business partner level, your boss (typically the CEO) will expect you to understand key stakeholders/shareholders and meet their needs, as well. The business partner must recognise the variety of agendas present in top management and board meetings. The business partner should be at such a level that he or she can stand in for the CEO knowing that the CEO will have complete confidence in the business partner. As a result of this relationship, it will be the responsibility of the business partner to "manage up". He or she must be able to anticipate the needs of the CEO, keep the CEO informed and represent the views of the CEO to the business and outside worlds.

To manage your boss effectively, set up an appointment and discuss the following:

- Goals and objectives. Ask for the boss's formal goals. These are the goals that will most impact the business and the compensation of your boss. Ask the boss about the specific business drivers to meet the goals and objectives.
- Pressures. What pressures are placed on your boss? Keep in mind that this question goes beyond traditional stakeholders and includes personal pressures the boss may be experiencing.
- Strengths. What are your boss's strengths? How can these strengths be used to lead the business to greater success?
- Weaknesses. What are your boss's weaknesses? How could these weaknesses, if exploited, hurt the organisation, your boss, and you as a direct report?
- Work style. What is your boss's preferred work style? What hours does he or she like to work? Is he or she a 24/7 boss? In addition, will your boss expect you to be available on a 24/7 basis?
- Culture. Does your boss's culture align with the organisation's culture? On numerous occasions, a new CEO joins an existing business that has a unique culture that is not aligned with the CEO's style. The CEO might fight against the existing culture. The controller/business partner must understand how the CEO views the culture.

For these same items, analyse your style. Create a gap analysis between your boss's preferences and yours. For any area showing a significant difference, determine what is necessary to change so that you and your boss are in harmony.

Some other thoughts to consider with regards to managing your boss:

- Adopt a management philosophy of "no surprises". This message should also be conveyed to the accounting staff.
- Keep your boss informed of any meetings or interactions with the boss's key stakeholders.
- As discussed in Chapter 1, spend time learning about economic, political, and financial trends. Research trend information that can be useful to your boss and provides insights to the business environment.
- Ensure that areas you are responsible for operating smoothly.
- Be willing to accept additional assignments from your boss. Each time you accept additional duties, make sure that your boss understands what it is doing to your capacity and your personal life.
- Exchange personality profiles with your boss. Spend time talking about the strengths and weaknesses in each profile and how well your profile complements the boss. If there's a significant gap anywhere, discuss it and put a process in place to minimise any damage due to lack of alignment.
- Ask your boss to define their decision-making process. With some bosses, you can present any immediate idea or suggestion, and they will be willing to act upon it. In other cases, the boss may want to contemplate the idea or suggestion for a time before taking action. In that case, it may be more important to plant the seed of the idea with the boss and let it germinate.
- Determine how your boss analyses issues. If you know the series of questions your boss typically asks, you can use that question format on any new topic you bring to your boss. In this manner, present the issue to your boss along with answers to your boss's anticipated questions. In addition, include your recommendation. In this fashion, you demonstrate that you understand how he or she would analyse the situation. Done correctly, this process creates trust between two individuals.

Endnotes

1 "Albert Mehrabian". *Wikipedia*. Accessed February 16, 2014. http://en.wikipedia.org/wiki/Albert_Mehrabian.

2 "Map–territory Relation". *Wikipedia*. Accessed February 9, 2014. http://en.wikipedia.org/wiki/Map%E2%80%93territory_relation#.22The_map_is_not_the_territory.22.

3 "Uses of NLP in Your Business & Personal Life Important Ways to Use It Now". *NLP Comprehensive*. Accessed February 12, 2014. www.nlpco.com/uses-of-nlp/#axzz2t92ETMIC.

4 See www.nlp-now.co.uk/eye_accessing.htm.

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11

SUMMARY

Chapter 11 summarises the key points from each of the chapters. Use this summary as a quick reference to the topics in the text.

INTRODUCTION—EXPANDING CONTROLLER VALUE

- **Expanding controller value.** Refer to the diagram on expanded value. Keep it on your desk. When you become mired down in the day-to-day activity of the controller position, refer to the chart and determine where you are spending time. Obviously, there will be many occasions when you have to focus on the detail commodity work that comes along with the controller position. However, make an effort each day to perform some tasks that result in higher value contributed to the business.
- **Comments that CEOs make about Controllers and CFOs.** Reread the CEO comments. There's an excellent chance that you have heard similar comments expressed at some point in your career. You probably have a couple of choice comments that you could add to the list. Use the comments as reminders of where you should focus your attention.

CHAPTER 1—CONTROLLER VS. BUSINESS MANAGER

- **Understand your role as a controller and as a business manager.** Reread the chart that contrasts the controller position with a business manager position.
- **Servant leadership.** Without exception, the support department that exemplifies a servant leader attitude will be included in strategic activities of the organisation. Your role as controller/business manager is to be a servant to the other departments. In this way, you will learn about the business, as opposed to just the financial aspects. Operations will welcome you and your offers for assistance. Be sure to take the 10 points Greenleaf wrote about servant leadership and keep them handy, so you can refer to them on a daily basis.
- **Managing vs. leading.** Remember that managers allocate resources to achieve the direction and goals established by leaders. Leaders create the vision of where the business or business should be headed. In your role, as a controller/business manager, there will be times when you manage, and there will be times when you lead. It is important to recognise when you are managing vs. leading. If you are spending all of your time managing, it will be impossible to lead. The significance is that leaders can move farther out on

the circle of expanding value. Controllers who allocate resources are managers, and they will stay in the detail or commodity section of the expanding value graph.

CHAPTER 2—ORIGIN OF VALUE AND THE PLANNING CONTINUUM

- **Dreams.** All business value originates with dreams. If you are uncomfortable with the word "dream", choose ideas, innovations or research and development. This means that when you are in the quagmire of daily operations, the way to add value to the business is to reflect on new ideas or brainstorming.
- **Vision, mission, values.** Too many businesses underplay the significance of vision, mission and values. That vision directs us where we want to go. The mission tells us how we are going to do it. The values establish how we will interact with one another and our stakeholders.
- **Planning continuum.** Refer to the planning continuum chart. This chart outlines your entire planning process. Keep this chart as a reference tool to guide the company's planning process.
- **Business plan.** Prepare your business plan every two years.
- **Strategic plan.** Prepare your strategic plan every year. The plan does not need to be prepared any earlier than 60 days prior to year end.
- **Business model.** Ensure that the business model reflects the values and goals of the organisation. If the business model does not align with the products and services that are provided, change the model.
- **Alignment.** Keep in mind the picture of the tug of war characters. When the management team, employees, shareholders, and stakeholders are not aligned, efficiency suffers, productivity drops, and profitability decreases.

CHAPTERS 3 AND 4—CORPORATE CULTURE, BUSINESS AND STRATEGIC PLANS

- **Corporate culture.** Prior to selecting any specific planning tool, ensure that corporate culture is understood. Some businesses can create a formal detailed business plan. Some businesses will stumble over themselves if they try to create a detailed business plan. For the latter organisations, a plan on the back of an envelope, or a one-page business plan might be perfectly adequate.
- **Detailed business plan.** This chapter includes an in-depth outline to create a business plan.
- **Detailed strategic plan.** This chapter also includes an in-depth outline to create a strategic plan.
- **SWOT and PESTLE.** Both of these tools are useful resources in the planning process. They can be utilised at the strategic or tactical level.
- **Other planning tools.** The text includes a variety of planning resource tools that can be used. This author specifically recommends mind mapping and Plus Delta.
- **Strategic planning retreat.** A controller who evolves into a business manager may have the opportunity

to lead a strategic planning retreat. Refer to the outline in the text that details how to conduct strategic planning for the organisation.

CHAPTER 5—LEAN, BEST PRACTICES, DATA INTO KNOWLEDGE

- **Lean management techniques.** Recent surveys demand that controllers or business managers "do more with less". The best way to execute this concept is by using lean management techniques. This chapter has laid out a variety of concepts that can be used to begin your businesses lean management journey.
- **Waste.** Learn how to identify waste in the business. There are seven standard types of waste that have been identified by the TPS system.
- **Best practices.** The text includes a series of best practice techniques that will be of interest to a business manager. In some ways, it is possible to bypass some of the detailed work processes that lean techniques require. If your business is not using a specific best practice listed, consider adopting the best practice. Your business might pick up significant deficiencies.
- **Data into knowledge.** It is necessary that the controller or business manager understand the value of the *Almanac of Business and Industrial Financial Ratios* as well as Altman's Z-score.
- **Economic indicators and ratios.** The text cited economic indices as well as ratios that the business can use to compare itself, to other companies in their industry and other industries. The controller who understands business strategy has industry awareness and can interpret that knowledge with macro trends is operating as a business manager.

CHAPTER 6—ETHICAL LEADERSHIP

- **COSO.** Use the COSO framework as a reference. Address the 17 steps within the framework, and you will help your business manage and reduce risk.
- **Business risk of fraud.** Review with your board of directors or board of advisors as well as the management team what their responsibility and roles are in mitigating risk.

CHAPTER 7—EMPLOYEES

- **Employees.** What do employees want? The text identifies numerous ways that a business can address the wants and needs of the employees.
- **Recruit, retain, and develop.** The controller/business manager will not have the time or resources to operate in the outside circle of the expanded value graph if he or she does not have competent trained employees.
- **Personality profiles.** One of the very best ways to improve the quality of hired candidates, the management of individuals, and the overall communication amongst staff members is to understand each

person's unique personal profile. Most of the communication errors that employees have with one another are due to the differences in personalities as opposed to anything else. Consider these specific tools:

- ◦ Myers-Briggs Profile
- ◦ Caliper Profile
- ◦ Culture Index
- ◦ Culture Grid

CHAPTER 8—HR AND IT FUNCTIONS

- **HR function.** Use the text as a guide to administer the HR function if it has been assigned to the controller or business manager. Understand the difference between strategic and tactical HR. The odds are that the business manager will not have enough resources to perform strategic HR.
- **IT function.** There's a trend that companies are delegating management of the IT department to the controller or business manager. This is not popular with IT employees. The controller or business manager must negotiate with IT personnel very carefully. The controller must improve his or her information technology knowledge so he or she can manage it effectively.
- **Outsourcing.** With both HR and IT, the controller or business manager must understand outsourcing concepts and decide if those concepts are advantageous for the business.
- **Cloud computing.** Both HR and IT must examine ways they can leverage the cloud computing technology to be more efficient and provide better service to the business.

CHAPTER 9—PROJECT AND CHANGE MANAGEMENT

- **Champion.** The controller or business manager can be a champion for change and project management.
- **Principles.** Keep the list of principles of change management at your access. Whenever a business fails with change management, it can usually be traced back to a failure to achieve one of the principles.
- **Phases of change.** Memorise the graph on phases of change. It is an excellent image of the various stages. It should aid in recognising what your employees are experiencing.

CHAPTER 10—COMMUNICATION SKILLS

- **Types of communication.** Communication methods have changed drastically over the last 15 years. Realise that the preferred method of communication can be different based on the background and age of the individual.
- **NLP.** Neuro Linguistic Programming is a great tool to understand how individuals communicate with one another. Communication takes place when meaning is created by two or more individuals.

- **Perception and reality.** Perception is not reality. Perception is the way an individual interprets someone else's reality. Therefore, perception is an altered reality.
- **Eye cues.** Use the eye cues of another person to understand better how he or she is processing information.
- **Financial presentations.** Consider using the example from the text for financial reports. Print row and column identifiers on all of your financial reports. It makes it much easier for end-users to navigate the financial statements.
- **PowerPoint.** Review the PowerPoint techniques shared in the text. The controller/business manager can use tools such as PowerPoint to become an excellent presenter. The more successful a controller/business manager is at presenting information, the greater value the end-user will receive.

APPENDIX A

QUESTIONS FOR PREPARING A BUSINESS PLAN[1]

Statement of Purpose

- Who is asking for the money?
- How much money is needed?
- How will the funds be used in the business?
- Why does this loan or investment make business sense?
- How will the funds be repaid?
- How long will it take before the funds are repaid?

The Business

- Description of the business
    - What is your business?
    - What is the status of your business (start up, expansion, takeover?)
    - What is the form of your business (proprietorship, partnership or corporation?)
    - Why is your business going to be profitable (or continue to grow?)
    - When will (did) your business open?
    - What are (will be) your business' days and hours of operation?
    - Does the business have seasonal operations?
    - Has your business prepared a SWOT analysis (strengths, weaknesses, opportunities, and threats?)
- Product or service
    - What are you selling (rather than "what are your products or services?")
    - What are the benefits (rather than the features) of what you are selling?
    - What product(s) could a customer use as a substitute for your product?
    - How do your products or services differ from competing products or services?
    - If your product is new, state-of-the-art, or otherwise unique, what makes it different? Desirable?
    - What is the next generation of the product?
    - If your product or service line is not special, why would people buy from you?
- The Market
    - What are your markets?
    - Which markets are buying from you now?

  - Which products are they buying?
  - Who are the people buying from you?
  - How would you characterise your markets (growing, steady, or declining?)
  - Are your markets driven by commodity pricing or unique pricing?
  - Why do these people buy from your company?
  - Why do they buy from you rather than the competition?
  - How can you find more buyers like these?
  - What is the size of your market?
  - What percent of each market do (or will) you have?
  - What is each market's growth potential?
  - As each market grows, will your share increase?
  - Is the market competitive or not? If not, why not?
  - How will you attract and keep these markets?
  - How can you expand your markets?
  - Does your business market via the Internet?
- Location of business
  - Where are you located?
  - What are the physical features of your building? What should you have?
  - Do you lease or own your space?
  - Is the corporate building leased from the shareholders or partners?
  - What renovations are needed, and how much will they cost?
  - Does the business require special zoning?
  - What other businesses are in your area?
  - Do you share space with any business that shares common ownership?
  - Why did you pick this site over others?
  - Why is this site the right location for your business? Where should it be?
  - How will this choice of location affect your operating costs?
  - Have your facilities been reviewed by a lean consultant?
  - Are any demographic or market shifts taking place?
  - Does your business have Internet presence?
- The Competition
  - Who are your nearest major competitors?
  - How are their businesses (steady, increasing, or decreasing)?
  - How are their operations similar and dissimilar to yours?

- What have you learned from watching their operations?
- How will your operation be better than theirs?
- What new initiatives have your competitors begun?

- Management
  - Personal history of the principals
    - Who is on the management team?
    - What is your business background?
    - Is there anyone on the management team whose background does not appear qualified to be part of the management team?
    - What management experience have you had?
    - What education (including both formal and informal learning experiences) has a bearing on your managerial abilities?
    - What is your age, special abilities and interests, reasons for going into business, where do you live and have lived?
    - Is any of the management team members related to one another?
    - Is the management team healthy and energetic?
    - Why are you going to be successful in this venture?
    - What is your personal financial status?
  - Related work experience
    - What is your direct operational experience in this business?
    - What is your managerial experience in this business?
    - What other managerial experiences have you had? (Remember to only list experience that a reader will be interested in.)
  - Duties and responsibilities
    - Describe the business chart.
    - Are there any informal positions that have authority?
    - Who does what?
    - Who reports to whom? (Both direct and dotted line.)
    - Who makes final decisions?
- Personnel
  - What are your current needs?
  - What skills will your employees need in the near future? In five years?
  - What are your plans for hiring and training personnel? (Note: Include specific timelines for hiring. These timelines should also be tied to achieving specific funding levels to pay for the positions.)

- Application and expected effect of loan
  - How much money do you need?
  - For what purposes will it be used?
  - How will you pay the loan back?
  - When will you pay the loan back?

Endnotes

1 Source: Based on "Questions for Preparing a Business Plan", by Dick Stevenson, SCORE Chapter 432, Moline.

APPENDIX B

STRATEGIC PLAN RESOURCES

This appendix includes three tools to help your business during the strategic planning process: 1) a board readiness assessment, 2) a generic strategic plan outline, and 3) a questionnaire.

BOARD READINESS ASSESSMENT[1]

The starting point for strategic planning is to assess your organisation's readiness to engage in the overall process. Use the following checklist to gauge your readiness to begin strategic planning. Keep in mind that this is not a substitute for careful analysis of the conditions under which strategic planning will take place. Use this as a tool that will help you to identify key issues that can help or impede the process.

- The board usually focuses on new challenges and issues instead of waiting for emergencies to react.
- The board focuses more on policy than management.
- The board seeks management input on decisions.
- The board uses data in making its decisions.
- The board recognises that a change in one part of the business usually calls for a change in another part.
- The board usually reaches decision by consensus after some debate.
- The board is knowledgeable about what other competitors are doing to achieve change.
- The board uses its regular meetings in an effective manner.
- Conflict amongst board members is dealt with in a straightforward and assertive manner.
- The CEO and management team are trusted by the board.
- The CEO and management team are knowledgeable about current trends in the industry as well as technological advances.
- The CEO and management team seek customer input to decisions.
- The CEO and management team are effective managers of human and fiscal resources.

STRATEGIC PLAN OUTLINE

The following generic outline represents a general outline that can be used as a template for your strategic plan.[2]

Executive Summary

Company Background & Milestones

Part I: The Business

- Vision & Mission Statements
- Description of Business
- Product/Service
- Target Market/Customer Profile
- Business Location
- Business Model (How does the business operate and generate income?)
  1. Goals—Objectives—Strategies
     a. Corporate
     b. Division
     c. Functional (Departmental)
  2. Company Performance (Financial and Strategic)
- Management & Organisation
  1. SWOT (Analysis of Strengths, Weaknesses, Opportunities, Threats)
  2. Core Competencies and Competitive Advantage
  3. Value Chain Analysis and Benchmarking
  4. Industry/Market Analysis
     a. economic characteristics
     b. key success factors
     c. trends and opportunities
     d. Five forces analysis (Porter)
  5. Competitor Analysis
     a. Strategic Group analysis
     b. Competitive Strength Assessment (based on key success factors)
     c. Generic Strategy analysis (Porter)

Part II: Marketing

1. Marketing Goals—Objectives—Strategies
2. Customer Analysis
3. Marketing Mix (4 Ps)

Part III: Finance

1. Financial Goals—Objectives—Strategies
2. Financial Data
    a. Sources and applications of funding
    b. Capital equipment and supply list
    c. Balance sheet
    d. Breakeven analysis
    e. Income projections (profit & loss statements)
        i. Three-year summary
        ii. Detail by month, first year
        iii. Detail by quarters, second and third years
        iv. Assumptions upon which projections were based
    f. Cash flow projections
        i. Three-year summary
        ii. Detail by month, first year
        iii. Detail by quarters, second and third years
        iv. Assumptions upon which projections were based
    g. Historical financial reports for existing businesses
        i. Balance sheets for past three years
        ii. Income statements for past three years
        iii. Tax returns

Part IV: Human Resource Management

1. Personnel planning
2. Personnel policies

3. Job analysis
4. Recruitment
5. Training
6. Management development
7. Performance appraisal
8. Compensation and benefits

Part V: Supporting Documents

1. Copies of licenses
2. Copy of lease or purchase agreement
3. Copies of contracts and other legal documents
4. Copies of resumes of all principals
5. Copies of letters of intent from suppliers.
6. Policy manuals
7. Job descriptions
8. Credit reports
9. Letters of reference
10. For franchised businesses, a copy of the franchise contract and all supporting documents provided by the franchisor

Anything else relevant to the plan!

STRATEGIC PLANNING QUESTIONNAIRE[3]

The following questions are included in the 21st Century Action Plan research project questionnaire to guide a business through the process. The questions were originally included in Appendix A of the report and make an excellent resource to use in your organisation's strategic planning analysis exercises.

Company Culture:

1. What are the core values for your company?
2. How would you describe the values of your major clients?
3. What types of projects do you like to pursue?
4. What projects would you rather pass on?

5. What does executive management perceive as your company's greatest strength?
6. What does executive management perceive as your company's greatest weakness?
7. What does project management perceive as your company's greatest strength?
8. What does project management perceive as your company's greatest weakness?
9. What do long-term employees perceive as your company's greatest strength?
10. What do long-term employees perceive as your company's greatest weakness?
11. Are adequate resources provided to all employees (enough tools, equipment, or computers)?
12. Are you proud of your facilities (offices, warehouse, or field offices)?
13. How are decision-making, responsibility, and authority assigned (do employees have to ask permission or forgiveness)?
14. What is the average length of service for the following positions?
    a. Office personnel
    b. Field supervisors
    c. Electricians
15. Why do individuals leave our company?
16. What traits are most important for individuals to succeed in your organisation?
    a. For success in executive management?
    b. For success in project management?
    c. For success in business operations?
    d. For success in field operations/management?
    e. For success as an electrician?
17. In general, have you seen a change in the typical traits available to you from your hiring pool? If yes, in what way?
18. What skills are the most important for individuals to succeed in your organisation?
    a. For success in executive management?
    b. For success in project management?
    c. For success in business operations?
    d. For success in field operations/management?
    e. For success as an electrician?

Current Customers:

1. Who are your customers? How many different market segments do you serve? How does customer needs shape your organisation? Has this changed in the past decade?

2. How do you know what your current customers think of you (in terms of quality, service, price, responsiveness, or value added)?

3. What special knowledge does your business have regarding your major clients?

4. What do customers perceive as your company's greatest strength (in terms of quality, service, price, responsiveness, and so on)?

5. What do customers perceive as your company's greatest weakness (in terms of quality, service, price, responsiveness, and so on)?

6. Have your customers recently asked you to provide a service that you could not? If so, why?

7. How are your customers classified in terms of your volume?

8. How does your business compare to the industry average for

    a. Repeat sales?

    b. Geographic concentration?

    c. Service work?

    d. Negotiated work?

9. Are any of your major clients at risk for downsizing? What plans have you made for that possibility?

10. Is there anything our customers currently do themselves that they could outsource to you?

Technologies:

11. What soft technologies (for example, new management techniques) are you using that you did not use five years ago? Ten years ago?

12. What hard technologies (for example, computer equipment) are you using that you did not use five years ago? Ten years ago?

13. Are technologies available (from reading trade magazines or attending a tradeshow) that would develop your business (profitability, productivity, safety, and so on) but you have not yet implemented? If so, why? What is your implementation plan?

14. List five new technologies that you think will affect electrical contracting in the next five years? List five other new technologies that you think will affect electrical contracting in the next ten years?

15. What "new" training are apprentices being provided that was not available ten years ago?

16. What "new" training are journeymen being provided that was not available ten years ago?

Workforce:

17. What is the most problematic issue with your current workforce?
18. What skills does the business need the most?
19. What training do you provide to your executive managers?
20. What training do you provide to your project managers?
21. What training do you provide to your field managers?
22. How are training decisions made?
23. How are technologies incorporated into business operations?
24. How are new technologies incorporated into project management?
25. How are new technologies incorporated into field operations?

New Products:

26. How many new products are you using today; products that you did not use ten years ago that have greater "embedded labour" in them? (Embedded labour refers to using a manufacturing process to assemble parts and pieces together in a controlled environment rather than in the field.)
27. How many times a year do you have manufacturers' representatives train your employees on the use their product? Are there additional representatives that you should invite?

New Services:

28. What services do you currently provide that you did not provide five years ago? What drove the development of that service?
29. What service would like to provide, but do not have the skills, technology, or knowledge to provide?
30. Do different clients expect increasingly different services (general contractors versus public owners versus private owners versus…)?

Competition:

31. Who are your most important competitors?
    a. How are you different from them?
    b. How are you similar?
32. Which of your competitors compete on
    a. Price?
    b. Quality?
    c. Performance?
    d. Technological innovation?

e. Image?

f. Relationships?

g. Service?

Institutional Structures:

33. What opportunities/threats do you perceive coming from organised labour?
34. What opportunities/threats do you perceive coming from Federal Government?
35. What opportunities/threats do you perceive coming from the State Government?
36. What opportunities/threats do you perceive coming from Local Governments?
37. What opportunities/threats do you perceive coming from changes in contract delivery systems?
38. What opportunities/threats do you perceive coming from utilities?
39. What opportunities/threats do you perceive coming from changes in other contracting disciplines?

The Business Place:

40. What three rules within your business should be eliminated immediately?
41. What problems (billings, invoicing, and payroll) still require fixing?
42. What parts of your business use different computer systems (hardware or software)?
43. What compatibility problems exist between your computer technology and those of your major

    a. Clients?

    b. Suppliers?

    c. Divisions?

    d. Sister companies?

    e. Bank?

    f. Bonding company?

    g. Accountant?

44. How much duplication of data entry exists between

    a. Payroll and job cost?

    b. Job cost and estimating?

    c. Purchasing and warehousing?

    d. Purchasing and project management?

    e. Accounting and everywhere else?

Endnotes

1 The checklist in this appendix was based on the Washington State School Directors' "Passport to Leadership" programme materials (source: http://www.nsba.org/sbot/toolkit/pra.html). It has been modified to be used by a non-educational institution.

2 Source: www.scribd.com/doc/15591361/1-Strategic-Plan-Outline.

3 Source: Federle, Mark O. and Rowings, James E. *A 21st Century Action Plan for Electrical Contractors and Their Workforce.* Iowa State University, 1998.

APPENDIX C

THORSTEN CONSULTING GROUP LIST OF PROFIT ENHANCERS

In addition to the lean management concepts explored in chapter 5, this appendix presents a checklist that the author has used when looking for ways to increase profits. You will note that some of the steps tie back to the best practice checklists and others tie into the big picture tools introduced in chapters 2, 3, and 4.

Macro tools

- The business plan
- Strategic plan
- Mission
- Vision
- Goal setting
- Budgeting
- Hiring philosophy

Increase revenue (or develop the revenue cycle)

- Add additional customers
- Raise prices
- Increase volume through incentives and discounts
- Increase value added services
- Improve the quality of accepted customer
- Bundle services
- Enter new geographic markets
- Create new products
- Modify existing products
- Acquire another company
- Directly enter receipts into computer
- Receive billings through EDI
- Automatically check errors during invoice data entry
- Delivery person creates the invoice

- Delivery person delivers invoice
- Eliminate month-end statements
- Transmit transmissions via EDI
- Use automated bank account deductions
- Early billing of recurring invoices
- Offer customers secure Internet payment options
- On-line sales cycle
- Automatic bankruptcy notification
- Automatic fax of overdue invoices
- Automatic issuance of dunning letters
- Collection call database
- Grant percentage discounts for early payment
- Immediate review of unapplied cash
- Lockbox collections
- Outsource collections
- Pricing structure simplification
- Standardised credit level determination system
- Write-off small balances with no approval
- Lockbox collections
- Lockbox imaging
- Alternative uses for your facilities (such as leasing the roof of your building for a cell phone antenna tower)
- Add complimentary products to your offering (not necessarily products that you produce)
- Rent your customer database
- Adopt e-commerce sales website
- Develop retention strategies for your customers
- License or franchise your business

Decrease expenses

- Reduce wage expense
- Reduce headcount
- Reduce hours worked
- Increase productivity
- Create new efficiencies
- Reduce scrap

- Reduce downtime
- Implement lean manufacturing
- Hire a time and motion expert to review and identify efficiency opportunities
- Begin a total quality programme
- Create a “watchdog” team with employees from all levels that is charged with improving efficiencies and lowering costs.
- Outsource non-core functions
- Create a preventative maintenance programme
- Reduce fringe benefits
- Become self-insured for health costs
- Create an incentive to reduce absenteeism
- Identify practices to reduce turnover
- Refinance
- Do not increase absolute overhead just because sales volume increased
- Improve the credit and collections function
- Obtain alternative sources of raw materials
- Rebid your 401K administration services
- Allow employees to receive some benefit for unused sick time
- Create a safer work environment (lower WC and settlements)
- Create a “back-to-work” programme that helps speed an employee’s return to the regular work force.
- Use direct deposit
- Audit expense reports
- Automate expense reporting
- Automate payments for repetitive invoicing
- Automate three-way matching
- Outsource the accounts payable department
- Shrink the supplier base
- Substitute petty cash for checks
- Substitute wire transfers for checks
- Use stored value cards
- Transmit expense reports by e-mail
- Use blanket purchase orders
- Use procurement cards
- Internet-based monitoring of credit card purchases

- Eliminate the warehouse
- Eliminate the receiving function
- Automatically calculate commissions
- Include commission payments in payroll payments
- Lengthen the interval between commission payments
- Only pay commissions from cash received
- Avoid job costing through the payroll systems
- Minimise payroll cycles
- Send remittances as e-mail messages
- Switch to salaried positions
- Review all telecommunication expenses
- Renegotiate contractual rates and terms with vendors
- Hire a utilities consultant to review utility usage
- Begin energy conservation steps (lights, heating, etc)
- Discuss fees with professional advisors (CPAs, Legal, etc)
- Utilise the appropriate level professional for the specific need (a major CPA firm is not required for a compilation, a small legal firm may be more cost justifiable for collection issues)
- Seek advertising agencies that would accept a percentage of revenue generated from campaigns
- Review use of outside PR firms and determine if needs could be serviced in house
- Determine benefit of brochures and advertising materials. Look at on-line distribution as an alternative approach
- Take advantage of all free PR. Remember the quote attributed to PT Barnum: "I don't care what the newspapers say about me as long as they spell my name right".
- Renegotiate all insurance programmes
- Review all travel agent expenses—determine if it would be cheaper to perform the service in house
- Control travel costs by setting up incentives
- Control purchases that occur on gas cards and procurement cards
- Determine if any co-op purchasing arrangements would be possible with other local businesses or industry affiliations / associations
- Get appropriate recycling fees for scrap and waste

The ratio tools

- The return on investment
- Return on assets
- Gross profit margin
- Inventory turnover

- Days sales outstanding
- Days in accounts payable
- Quick ratio
- Z-scores
- Economic value added
- Individual expense accounts as a percent of sales
- Sales per employee

Benchmarking

- Comparison of business benchmarks with other companies
- The comparison of business to financial publication summaries such as almanac of financial ratios
- Comparison to association benchmarks
- Comparison to similar divisions within same company
- Review cost trends
- Review material scrap levels

Policy and procedure

- Evaluation for results to budget
- And hearings to establish policies
- Reduce bureaucratic policies that do not have value
- Establish limitations on capital expenditures
- Establish spending limits
- The use and statistical sampling poor review of travel and expense vouchers
- Create an advisory board
- To create a contingency and disaster plan
- Hiring and training procedures
- Create formal pay ranges for all employees
- Within pay ranges establish lower level training or probationary wages

Other

- Automate accounts payable approval process
- Centralise the accounts payable function
- Create direct purchase interfaces to suppliers
- Digitise accounts payable documents
- Eliminate manual checks

- Fax transmission of accounts payable documents
- Issue standard account code list
- Link supplier requests to the accounts payable database
- Record payables from a purchase order
- Reduce required approvals
- Link corporate travel policies to an automated expense report
- Audit all inventory transactions
- Audit bills of material
- Eliminate the inventory physical count process
- Implement activity-based costing/management
- Implement target costing
- Revise traditional cost accounting reports
- Simplify the commission structure
- Consolidate payroll systems
- Link the payroll and human resources databases
- Outsource the payroll function
- Clearly define all budget assumptions
- Include a working capital analysis for the budget
- Issue a budget procedure and timetable
- Link budget to performance measurements and rewards
- Reduce the number of accounts in budget model
- Simplify the budget model
- Identify cost efficient software modifications that would result in employee time savings and/or increased productivity

APPENDIX D

OTHER CHARACTERISTICS AND TERMS TO IDENTIFY THE MERRILL-REID PROFILES

Most people's first reaction after reading the four profiles is to believe that they fit into more than one category, and this is usually the case. Most people have a dominant style and a secondary style. This appendix has been prepared as an aid for people to better identify each of the personality types.

DRIVERS	ANALYTICALS	EXPRESSIVES	AMIABLES
Action- and goal-oriented	Organised	Involvement	Co-operation
Need to see results	Have all the facts	Excitement	Personal security
Quick reaction time	Careful before taking action	Personal interaction	Acceptance
Decisive	Need to be accurate and correct	Sociable	Uncomfortable with and will avoid conflict at all costs
Independent	Precise	Stimulating	Value personal relationships
Disciplined	Orderly	Enthusiastic	Like helping others
Practical	Methodical	Good at involving and motivating others	Want to be liked
Efficient	Conform to standard operating procedures	Idea-oriented	May sacrifice own desires to win approval from others
Typically use facts and data	Adhere to rules and historical ways of doing things	Little concern for routine	Prefer to work with other people in a team effort
Speak and act quickly	Typically have a slow reaction time	Future-oriented	Unhurried reaction time
Lean forward	Work more slowly and carefully than Drivers	Usually have a quick reaction time	Little concern with effecting change

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DRIVERS	ANALYTICALS	EXPRESSIVES	AMIABLES
Point and make direct eye contact	Perceived as serious	Need to be accepted by others	Friendly
Body posture is often rigid	Industrious	Tend to be spontaneous	Supportive
Controlled facial expressions	Persistent	Outgoing	Respectful
Rarely want to waste time on personal talk	Exacting	Energetic	Willing
Perceived by other styles as dominating or harsh	Task-oriented	Friendly	Dependable
Driven in pursuit of a goal	Use facts and data	Focused on people rather than on tasks	Agreeable
Comfortable in positions of power and control	Tend to speak slowly	Typically uses opinions and stories rather than facts and data	People-oriented
Have business-like offices (with certificates and commendations on the wall)	Lean back and use their hands frequently	Speak and act quickly	Use opinions rather than facts and data
If stressed, drivers may become autocratic	They do not make direct eye contact	Vary vocal inflection	Speak slowly and softly
"Take charge" person	Control facial expressions	Lean forward, point and make direct eye contact	Use more vocal inflection than Drivers or Analyticals
Their view is THE view	May be viewed as stuffy	Use hands when talking	Lean back while talking
Don't take business rejection personally	Indecisive	Relaxed body posture	Do not make direct eye contact
Not interested in how "exciting" a project might be	Critical	Animated expressions	Have a casual posture

DRIVERS	ANALYTICALS	EXPRESSIVES	AMIABLES
Interested in how much money it will cost/make and how soon it can be implemented/built	Picky	Feelings often show in faces	Animated expression
No photos of family or friends on their desk (unprofessional)	Moralistic	Perceived by others as excitable	Perceived by other styles as conforming
	Comfortable in positions where facts and figures can be checked to ensure they are right	Impulsive	Unsure
	Neat, well organised offices	Undisciplined	Pliable
	When stressed, tend to avoid conflict	Dramatic	Dependent
	Love playing with spreadsheets, charts and projections	Manipulative	Awkward
	Will never make a decision on the spot	Ambitious	Have homey offices – family photographs, plants, etc
	Will buy a car based on fuel economy, servicing costs, resell value, depreciation and other factors	Overly reactive	When stressed, will comply with others
		Egotistical	Peacemaker
		Usually have disorganised offices	Strive for a "win-win" in everything in life
		May have leisure equipment like golf clubs or tennis racquets	May not be overly ambitious or striving
		When stressed, tend to resort to personal attack	Happy to support and encourage others

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DRIVERS	ANALYTICALS	EXPRESSIVES	AMIABLES
		Leave projects 75% completed	Cannot say "No"
		Get distracted by new, "more exciting" projects	May be on a lot of committees
		Make instant decisions	Long time to make a decision (if at all)
		Hate "paperwork" and the "dull routines" of life (such as filling in order forms, checking bank statements, etc.)	
		Are usually "fashionably late" to meetings, events and parties	