BUSINESS PERFORMANCE ADVANTAGE

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CFO Plus LLC
Partners In Growth

Our mission is to provide information and strategies to business owners and managers for improvement in the effectiveness of its business management so that key objectives can be realized.

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Performance Measurement

Small Changes Make a Big Difference!

Have you ever heard the phrase, "You can't improve what you can't measure," or "What you can measure, you can manage"? These ideas are the foundation of a dynamic fact-based management tool known as performance measurement. Performance measurement goes beyond traditional financial measures, which only tell the story of past events. It provides factual feedback that allows management to make real-time course corrections. The goal of performance measurement is to allow management to view their company more clearly, and consequently, make better decisions. The specific financial or non-financial indicators selected should best represent the factors that lead to improved customer, operational and financial performance. A comprehensive set of measures tied to overall company performance requirements represents a clear basis for aligning all activities with the company's goals.

Most blue-chip organizations use performance measurement systems to determine whether they are fulfilling their vision, achieving their short-term objectives and meeting their long-term strategic goals. The measures and goals are usually narrowly focused on a critical few. It is neither possible nor desirable to measure everything. The focus should be on achieving organizational goals via performance measures, and not the measures per se. If a particular measurement can not be linked back to strategic planning, it should be eliminated. Many companies are now using a relatively new approach to strategic management that was developed in the early 1990s by Dr. Robert Kaplan (Harvard Business School) and David Norton (Balanced Scorecard Collaborative). They named this system the 'balanced scorecard'.

According to Kaplan and Norton, "the balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise."

A particularly interesting case study of Dell Computer Corporation demonstrates the concept of performance measurement and shows how seemingly small changes in just one strategic area helped make a big difference in reversing the organization's destiny:

> When Thomas Meredith joined Dell as CFO back in 1993, the company had just posted a six-month loss of $66 million due in part to large inventory write-downs. Sales were increasing rapidly, but cash reserves were dwindling and its stock value was down more than 75% from the prior year. Meredith's assessment of the situation was simply "our balance was out of whack!" He went on to say, "Balance is especially important in performance measurement. Wall Street rewards companies that balance growth, liquidity and profitability. My job is to figure out how to balance those things."
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> Meredith quickly identified the cash conversion cycle (CCC) as a key performance measure to establish the better balance that he was seeking. Using the metrics of days of sales outstanding (DSO), days of sales in inventory (DSI) and days of payables outstanding (DPO), he added DSO and DSI, then subtracted DPO to determine the CCC. During the next fifteen months, he focused Dell employees on how they might influence the CCC equation. They gradually began accelerating inventory turnover and collection activities while slowing down supplier payments. By the end of 1994, the cash conversion cycle had been improved to an acceptable forty days. By 1998, it had been further improved to a phenomenal negative eight days.

Performance Measurement — Small Changes Make a Big Difference! (cont.)

Dell has continued to grow rapidly, but no longer at the expense of liquidity or profitability. Several new performance measurements (including CCC) have helped the company hone its direct-sales-build-to-order strategy to generate billions of dollars in cash reserves since 1995. Dell has continued to be one of Wall Street's top performers over the past several years.

Unlike historical financial information, meaningful performance measurements allow an organization to make ongoing changes in real time. They provide the tools to look ahead and adjust according to circumstances. Excellence in all performance areas will result in the "bottom line" taking care of itself.

To summarize, if you can measure it, you can manage it and small changes do make a big difference — just keep in mind what Dell was able to accomplish adjusting just one element. When you want to explore the changes your company can realize by making small adjustments, give us a call. That's why we are here!