

Financial Measurement and Management

Today, we look at Value Driver Five: Financial Measurement and Management. In this Value Driver, we include the following items:

- Understand and use existing financial information;
- Manage and reduce company debt;
- Implement financial controls; and
- Increase employee productivity.

Understand and use existing financial information

We frequently work with successful business owners to make better use of their existing financial information so that day-to-day activities and requirements don't overshadow broad and strategic planning. When you started your business, you had a strategic vision and you can reconnect with that vision by regularly setting aside a reasonable amount of time to track your company's performance from an objective and quantitative perspective.

We have also noticed that for many owners, their understanding of financial systems and controls does not grow at the same pace as their businesses grow. This is a critical mistake because finances become more important as the business grows: more is at stake, more sophisticated measurement tools and controls are needed and tend to be more affordable.

At a certain point most owners need outside help and consulting. At its outset a company may be well served by a bookkeeper. As it grows it uses the services of a CPA and then finds it is best served by an internal Chief Financial Officer. Over the years, the owner travels from checking a simple financial statement to learning to use professional advisors to using sophisticated financial information and systems to make business decisions.

Manage and reduce company debt

Company debt is not inherently negative. In many cases, loans from outside financing sources facilitate



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growth more quickly than can be supported through internal financing of business opportunities. On the other hand, debt can also create additional stress and prevent growth by tying up needed cash flow. For these reasons, we often recommend that owners create strategic plans to manage the debt that supports business growth (and in turn, supports growth of business value) and to reduce debt that stifles growth and value.

Implement financial controls

Building value without specific financial goals and measures usually results in a less efficient path to success. Performance goals and limits provide the framework for successful operations and a more valuable business. As you develop quantifiable measures for your financial commitments and expectations, you create a more dynamic relationship between internal financial decisions and objective business value.

Increase employee productivity

Are you frustrated because you feel you are too involved in the day-to-day operations of the business or do you have a nagging feeling that employees could demonstrate greater productivity and efficiency? We can suggest ways for you to work with your management level employees to drive the productivity of your employees. When employees consistently perform at the highest levels of productivity and effectiveness, the business deserves the premium value that buyers associate with a high level of productivity.

If we can answer any questions you may have about the many ways you can use financial measurement and management techniques to increase business value, please give us a call.

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