

Performance reporting - beyond the bottom line

By Katy Sutherland, senior manager Corporate Finance, Anderson Anderson & Brown LLP, Chartered Accountants

“In an age of corporate mistrust and scepticism, it is important that businesses work harder than ever to provide key stakeholders with confidence and comfort”

Actively monitoring the performance of your business has never been more important. When times are good and cash is coming in, we tend to get on with the day job. When times are tougher, many companies find themselves in uncharted territories and a more formal approach is required. More often than not, this is driven by external factors such as increasing scrutiny from banks and investors and/or mounting pressure from shareholders and staff looking for assurances. So how do you make the transition from working ‘in’ the business, to working ‘on’ the business?

Initiating a performance reporting project is a good place to start. This requires a commitment to sharing pertinent financial and non-financial information with some, if not all staff and other key stakeholders. Culturally, this can be difficult. The North Sea has a large concentration of owner-managed businesses that have experienced rapid growth; these entrepreneurial businesses in particular have a tendency to hold financial information under lock and key. When they start to open up, the results can be staggering.

A well conceived performance reporting framework has many benefits:

1. Monitors whether the strategy is on track

While companies often invest time and resource in strategy development, more often than not, they miss a vital step - monitoring. The performance report should be linked explicitly to what creates value in the business and if the strategies are failing to create value, they need to be revisited.

2. Empowers and aligns staff

Staff can be very quick to judge, but with the right information they are more likely to be aligned with their superiors. A performance report can be rolled out at divisional, team and even individual level. Instead of individuals being assessed against generic competencies, they are incentivised to genuinely create value across the business.

3. Keeps banks, investors and stakeholders informed

Anecdotal evidence is no longer enough. Banks, investors, customers, suppliers and analysts are requesting unprecedented levels of detail. A comprehensive performance dashboard, with both historical and leading indicators, will create a more open and trusting relationship. It provides external parties with confidence that management are aware of any issues and eliminates the likelihood of any ‘surprises’.

4. Provides ‘warning signals’

Many management teams and boards spend their time naval gazing – i.e. reviewing historical financial information. Historical financials are important, but not in isolation. They need to be reviewed in the context of a fuller picture, with both financial and non-financial metrics, and take account of leading as well as lagging indicators.

5. Allows boards to be more strategic

Many board members complain that they spend too much time discussing what colour to paint the office than they do on strategy and performance. A performance reporting framework provides an ideal mechanism for focusing on what



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really matters. A traffic light system is typically used to identify the problem areas, with any area moving through amber before becoming red. As such, the board and senior management team are in a position to address an issue before it's too late.

In an age of corporate mistrust and scepticism, it is important that businesses work harder than ever to provide key stakeholders with confidence and comfort. What better time to improve the transparency in your business and implement a performance culture where everyone is pulling in the same direction. ■

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How do you know if your business strategy is really working?

- Spending your time reacting instead of being proactive?
- 10 pages of monthly management accounts to wade through?
- Need to extract key information to communicate to stakeholders?

OUR TEAM CAN PROVIDE THE ENERGY TO CREATE, IMPLEMENT AND MONITOR YOUR ORGANISATION'S FUTURE

Contact Mike Brown or Katy Sutherland on 01224 625111

ANDERSON ANDERSON & BROWN LLP, 9 QUEENS ROAD, ABERDEEN AB15 4YL
corp.fin@aab.co.uk • www.aab.co.uk