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TRYING TO SURVIVE INCREASINGLY DIFFICULT QUESTIONS?

In a competitive market, businesses are struggling to find a competitive edge and a unique selling position for their products and services, whilst at the same time trying to deal with a web of complex laws, and increasing pressure to ensure that the company is compliant with sound governance practices. More than ever before, companies are acutely aware that their survival depends not only on running an efficient business, but that in order to thrive, they must also be relevant and mindful of operational efficiencies in order to improve financial performance and drive shareholder value. Understandably, as companies struggle to survive, the Board, management and stakeholders have begun to ask more complex questions of its business and the value to the supply chain.

To begin with, unlocking working capital and improving the company's financial ratios remain fundamental objectives in any business. Indeed, knowing the impact that one aspect of the company has on another, is of increasing concern. Similarly this argument also applies to the impacts upon the company's internal and external supply chains. Rather worrying is the fact that many companies still tend to adopt a 'silo mentality' and ignore the operational aspects and the knowledge contained in areas other than their own departments. Such practices have potentially grave implications as the communication channels become bottlenecked, or are shut down. And in spite of the adage of "good risk management attracts better returns", one is reminded that poorly applied knowledge and the lack of interoperability between people, departments and the supply chain often tends to have a negative domino effect. Arguably, for these reasons and perhaps many more, the King Report on Corporate Governance 2009 (King III) now makes risk management the responsibility of the Board and therefore matters such as poor communication, mismanaged knowledge or unreliable data can negatively affect not only the company's logistics, but indeed also its ability to perform optimally.

Understanding the fact that companies and their directors have begun to feel the increasing pressure of running a business, not least the associated increased person liabilities attached to executive and senior management, it is hardly surprising that companies are asking more complex questions regarding the company's 'health'; be this financially and now more recently, since the advent of King III, the non-financial components of the business. Often the answers to many of these questions are not guided by existing best practices; but rather in the marriage between business knowledge and the organisation's ability to mine its data effectively.

Whilst companies may have data warehouses and operational data stores, the reality of these companies being able to retrieve accurate information in order to answer the company's 'health' questions -- in most cases -- can only be discovered by an analyst who has the necessary business knowledge and technical ability to effectively mine the data and then represent this information to the company. Often, companies are challenged when attempting to retrieve these types of answers from their various hardware and / or software systems due to the fact that:

- these systems often lack the judgement, qualitative techniques and intelligence to understand the data, or
- the nature of information being entered into these systems is unreliable, irrelevant or worse, false which then results in inaccurate information being retrieved, and
- there may be an excessive reliance on the information being retrieved, leading to the management losing their intuitive feeling about the business and its risks.

The imperative for the company and its leadership to understand all its facets and therefore cannot be misunderstood, neither understated and the difference between a company's success or failure -- as the case may be -- could singularly depend upon the company's ability to improve its performance through, amongst other, maximising all its knowledge and information within the company's extended supply chain.

To this end, there are a few principal objectives to improving a company's performance:

- ***economy*** is a measurement of the cost of inputs. The cheaper the product can be procured, the more economical the organisation. Economy relates to operating costs on the corporate profit statement.
- ***efficiency*** measures how much can be produced from available resources. The more that can be produced for the same amount of resources, the more efficient the organisation. This is measured through asset utilisation ratio.
- ***effectiveness*** relates to profitability of sales. The higher the profit margin, the better the effectiveness of the organisation. This is measured by calculating return on sales: operating profit/sales.
- ***value for money*** relates to quantity and quality of service generated for available funds. This is especially relevant for institutions where profitability (e.g. NGOs) is not the objective.

Whilst many of the larger companies understand the relevance of applying various ratios to link various business components to another in order to assess its overall health and state of performance, many smaller companies are quite unfamiliar with this practice and may require an analyst who has the requisite levels of knowledge to link the afore-mentioned components in order to start answering some of the company's more complex questions.

Financial systems have long been able to produce this type of information, but only on a high level. With more complex databases and data warehouses, it is now possible to drill down into a company's financial ratios and do the same for regions, departments and products. Expectedly, to monitor improvement in the company, it will need to have complex controls in place to ensure that the various actions progress according to the company's overall strategy. The controls and techniques may include:

- regulatory compliance controls (how does the company know if it is legally compliant and whether its business is affected by charters, regulations and accords?)
- the use of KPIs (key performance indicators) at all levels of the company to ensure minimum performance standards are adhered to
- the use of benchmarking to compare the company's performance against those that lead the industry
- management controls through administrative controls (e.g. balanced scorecard)
- social audits whereby the company's performance is measured against expectations of its employees, customers and the community at large (e.g. triple-bottom line and integrated reporting)
- activity-based costing which allows for more control in operations by assigning costs overhead activities and then assigning the direct production cost
- continuous improvement process impact monitoring
- technical controls (e.g. energy management control systems to improve operational and manufacturing efficiency and thereby reduce cost)
- JIT (just-in-time) manufacturing, based on planned elimination of all waste and on continuous improvement of productivity.

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Finally, as customers (and shareholder activists) become a lot more aware of their rights, including their increased demands for satisfaction, companies who interact on this level will increasingly depend upon ways to monitor their service levels and impressions left with their customers if they are to retain their business.

Determining customer satisfaction can either be done directly through personal interaction or surveys; alternatively customer satisfaction can be deduced based on determinants that lead to customer satisfaction. Determinants that lead to customer satisfaction should emanate from the customer experience derived from the company e.g. reliability, responsiveness, consistency of customer service, complaints and suggestions, product reliability, expectations of management, number of defects, technical support quality and overall service and support. These are some of the tough questions that companies are facing. Trying to balance the company's approach to increasingly important governance matters and at the same time running an effective business, is no small feat. Clearly those companies that achieve a balance of good governance, profitability and a service orientated culture (executed on a proactive basis) will define the winners from the losers.

Ironically, many companies continue to ignore the pressing questions, let alone make provision for the type of changes that will still be required to deal with some of these issues, naively believing their company size or existence will carry them through. There is no doubt that the company's analysts and Business Intelligence (BI) departments will need to proactively build the capacity in the company to respond and anticipate the next round of complex questions.

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