Improving Financial Performance

Improving financial performance involves several ongoing activities that need to be done on a continuous basis. Among those activities are the following, each of which should be reviewed separately: receivables management cost controls clear objectives benchmarking ratio analysis continuous improvement Receivables management is one of the most effective means to measure and improve financial performance. The most critical is accounts receivable turnover. The shorter the time period for this turnover, the more profitable the company becomes. The accounts receivable turnover ratio is net sales/average accounts receivable (Shim & Siegel, 2005). Management of receivables enables the company to gage how effectively its credit and collections policies are working. Companies without sound credit and collection processes in place generally have financial difficulties.

Cost controls are another powerful means of measuring and improving financial performance in a company. The purpose of cost control is to obtain optimal results consistent with the standards of the company (Shim & Siegel, 2005). Good cost controls help to assure acceptable financial performance and a healthy bottom line. If costs are not effectively managed, the company usually becomes less profitable, and therefore, less desirable from an investment viewpoint.

Effective and efficient financial performance can be greatly aided by the writing of clear objectives for each strategic goal. Any strategic goal may have several objectives that must be accomplished to achieve that goal. An effective objective should be specific about time of completion. It should also be easily measurable; for example, aiming for an increase in sales by 10% over the previous quarter by the end of the current quarter (Pearce & Robinson, 2005).

Benchmarking has been used by companies to compare themselves to competitors and companies that have proved to be top performers in their respective industries. This is one of the more effective techniques used to determine best practices and set goals for improvement. Benchmarking may look at financial and nonfinancial goals simultaneously—this makes this technique popular to use and easy to implement.

Ratios and ratio analysis remains one of the most useful tools in measuring performance and improving that performance (Gitman, 2006). The principle ratios to look at and measure are the current ratio, the quick ratio, inventory turnover, accounts receivables, debt to equity ratios, and the price earnings ratio (market price per share/earnings per share) (Shim & Siegel, 2005).

Continuous improvement is well-known in the field of total quality management and is a technique that allows for the incremental measurement of the effectiveness of processes and financial performance (Pearce & Robinson, 2005). Models can be set up that facilitate the accomplishment of financial goals and provide a means to measure changes from accounting period to accounting period.

References

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