

One Page Reporting for The Finance Team

by David Parmenter

Table of Contents

1.	The foundation stones of reporting	2
1.1.	Designing graphs by following Stephen Few.....	2
1.2.	Good graph design practices	3
1.3.	Bullet and sparkline graphs.....	5
2.	Better practice month-end reporting formats.....	7
2.1.	Issuing a flash report by close of play Day+1.....	7
2.2.	Reporting a business unit's performance	8
2.3.	Reporting a consolidated Profit & Loss account.....	9
2.4.	A3 page summary report for the CEO	10
2.5.	Reporting the balance sheet.....	11
2.6.	Reporting a Profit & Loss forecast	13
2.7.	Reporting a daily cash flow forecast	14
2.8.	Reporting a monthly cash flow forecast.....	15
2.9.	Other cash flow forecast graphs.....	16
2.10.	Reporting capital expenditure	17
2.11.	Treasury graphs	18
3.	Modifications to month-end reporting	19
3.1.	The impact of the lean methodology on traditional reporting	19
3.2.	The Toyota A3 investment proposal.....	22
3.3.	Quarterly rolling forecasting / planning	24
3.4.	Reporting against a recent forecast rather than a budget.....	24
3.5.	Reporting the strategic objectives/ risks/ costs pressures	26
3.6.	Making your project reports decision based	30
4.	Daily / weekly reporting.....	32
4.1.	Yesterday's sales report	32
4.2.	Weekly key customer's sales.....	33
4.3.	Weekly reporting in a lean environment.....	34
4.4.	Weekly late project reporting	35
4.5.	Weekly list of overdue reports	36
5.	A Board dashboard.....	37
6.	Other working guides	42
7.	Writer's biography	43

1. The foundation stones of reporting

Board members and the senior management team have complained for years that they are sent too much information, yet we still insist on preparing a large month-end finance report. The cost of preparing, analyzing, and checking this information is a major burden on the accounting function, creating significant time delays and consequently minimizing the information's value.

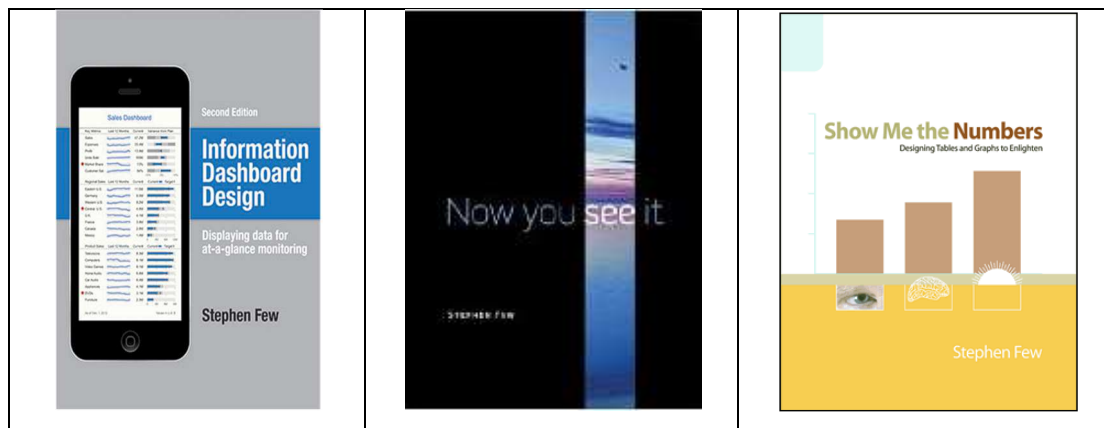
Over the years of studying reporting I have developed some foundation stones for reporting:

1. Written reports should be planned so they are structured with the reader's decision in mind
2. Reports should be completed quickly on a true and fair view basis avoiding unnecessary detail. For example, is it necessary to report Sales of \$23,456,327? Surely \$23.5 million is much easier to read and relate to.
3. Where possible, limit the report to one page, albeit sometimes a fanfold page (A3). This forces one to be concise by keeping it to commentary to highlight points and inserting only graphs that really matter.
4. Have a comprehensive quality assurance process so the reports are totally consistent internally and agree to the source numbers every time.
5. Use best-practice graphics—following the guidelines of Stephen Few, an expert on data visualization. Incorporate trend analysis on key lines going back at least 15 months so that you have a direct comparison to last year.
6. Utilize twenty-first-century reporting tools so managers can see their reports on their tablet.
7. Reports should be agreed to a reliable source, (that excludes spreadsheets over 100 rows) and be subjected to quality assurance steps (two person read through, all cross references checked etc, and have been reviewed for reasonableness.

1.1. Designing graphs by following Stephen Few

Data visualisation is an area that is growing in importance. No longer is it appropriate for well-meaning accountants and managers to dream up report formats based on what looks good to them. There is a science behind what makes data displays work. The expert in this field is Stephen Few. Stephen Few has written the top three 'best-selling' books on Amazon in this field, see below for details.


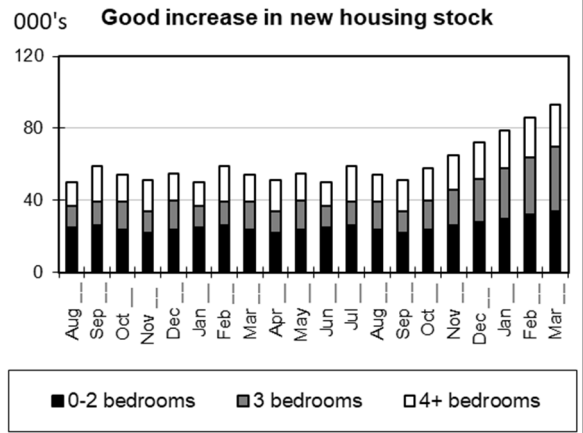
A must visit for all corporate accountants, analysts and managers is Stephen Few's company's website where he has lodged many high quality white papers on the topic of graphical displays (www.perceptualedge.com/articles). His latest book, which is highly rated, can be found on Amazon.



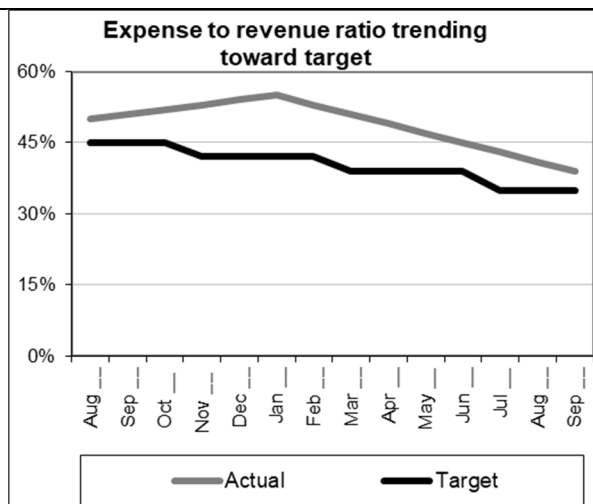
1.2. Good graph design practices

Besides the rules for dashboards there are additional rules for graphs used in reports. Exhibit 1.1 lists advice with graphs, utilizing Few's wisdom, and some better-practice solutions I have observed over the years.

Exhibit 1.1 Advice on designing graphs

Common graph problems	Example of a better practice graph
<p>Supply adequate context for the data: Far too often we show dials which do not give enough information as to what is good, satisfactory or poor performance.</p>	 <p>Source: Stephen Few, www.perceptualedge.com</p>
<p>Avoid displaying excessive detail or precision: Graphs should summarize the information and be a big picture view. The graph should have no more than a five-point scale and be in rounded numbers e.g. 40 instead of 40,000.</p>	

Always start the scale at zero: Often to emphasize a point the press will show an exchange rate between a very narrow band say US\$ to Euro between a five cents range magnifying the movement. Few is adamant that this may mislead and give rise to a poor decision. Better to express the graph starting the scale from zero.

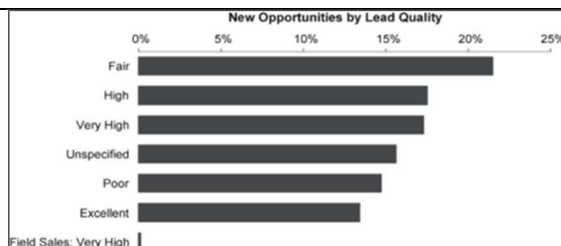


Avoid using these graphs: The following graphs should be banned from use:

- pie charts
- radar graphs
- 3D graphs

Few points out that it is far better to use a horizontal bar graph instead of a pie chart.

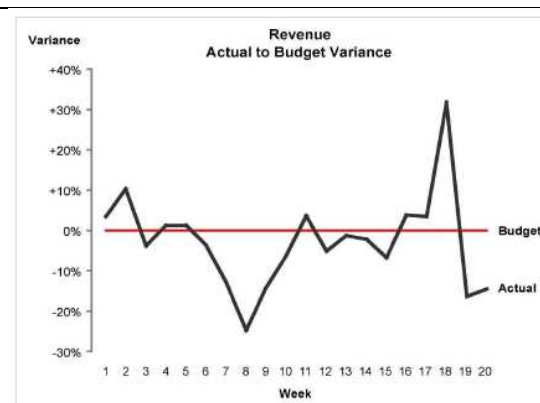
In the horizontal bar graph the magnitude between highest and lowest is clearly seen as are the values.



Source: Stephen Few, www.perceptualedge.com

Make one data series the baseline:

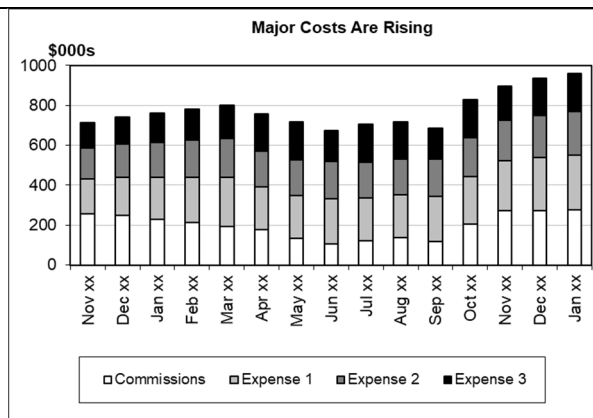
Few also indicates the benefit of making one data series the baseline and showing the other as a variance to it. For example, actual shown against a budget, which is on the baseline.



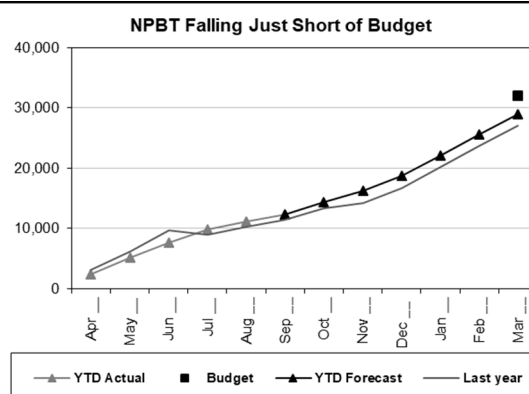
Source: Stephen Few, www.perceptualedge.com

Show a minimum of 15 months' trend analysis:

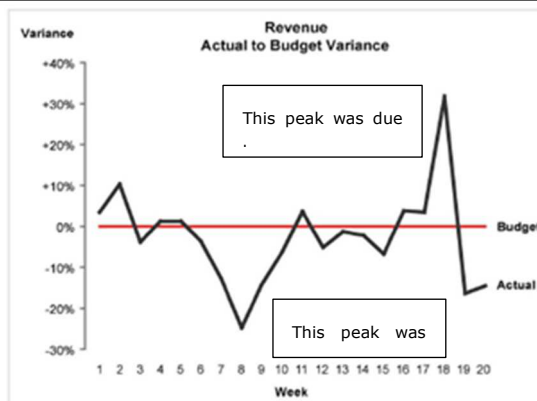
Trend analysis is required, going back at least 15 months to ensure any seasonality in the operations is captured. This gives the ability to compare the performance in last three months against the same period last year.



Avoid using a year to date budget line: There is no room to show a flawed monthly or year-to-date budget line. This is an arbitrary apportionment of the annual planning number that was done at the last minute and was wrong from the very start.

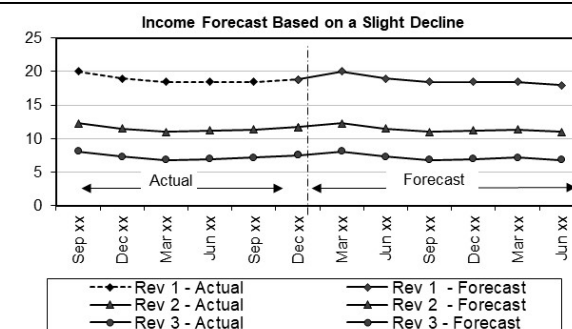


Explain turning points: Key turning points on graphs should be explained by a note on the graph, and comments need to highlight major issues.

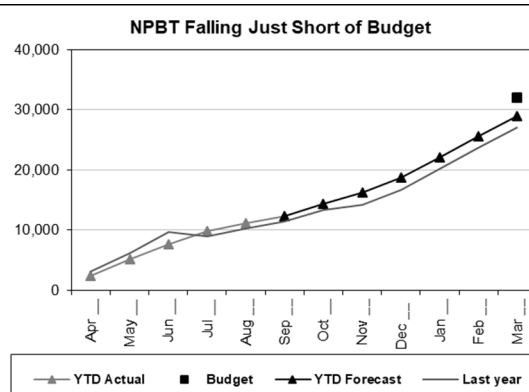


Source: Stephen Few, www.perceptualedge.com

Use up to five gridlines: The gridlines on the graph should be limited to around five lines. I always make these a medium tone of gray. Black on yellow is the best combination for clarity, so when using color graphs, make the background a light yellow.



Use the graph title to say something important: Like a journalist, you need to treat the title as important "real estate." If you cannot say something important maybe, you should use a different graph.



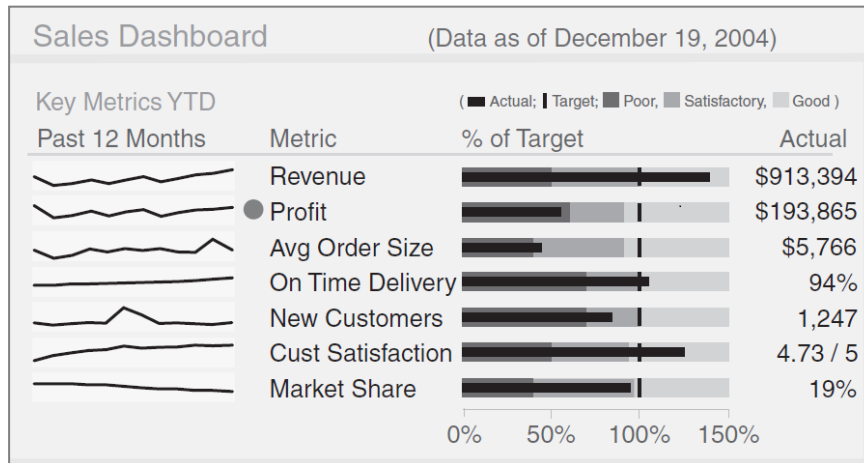
1.3. Bullet and sparkline graphs

Stephen Few has introduced a new concept called "bullet" graphs. These are particularly powerful when combined with Edward Tufte's "sparkline" graphs; see Exhibit 1.2. A sparkline graph looks like a line graph without the axes. Even with this truncated diagram, you can still see the trend. The bullet graph shows different details about current performance. The shades used range from dark grey (to indicate poor performance) through to

lightest grey (to indicate good performance). The dark vertical line indicates a comparative measure such as a target or last year's result.

Stephen Few is very cautious about the use of colour. He draws attention to the fact that many readers will have some form of colour blindness. In Exhibit 2.2, the only use of colour would be red bullet points indicating the exceptions that need investigation and follow up.

Exhibit 1.2 Advice on designing graphs



2. Better practice month-end reporting formats

The better practices I have observed are summarised financial numbers (why do we need to show more than 10 to 15 lines on the consolidated profit and loss statement?); graphs and comments on the one page, and truncated commentary. Set out below are some examples, I hope they stimulate some innovation in your reporting formats.

2.1. Issuing a flash report by close of play Day+1

Many organisations are issuing a flash report on the P/L bottom-line to the CEO by 5pm of the first working day. Some are managing this by lunchtime. The flash reports stating a level of accuracy of say + or - 10%. They immediately inform the CEO of any real problems with the flash report numbers in the next couple of days, see Exhibit 2.1 below.

Flash report for the Month Ending 31 December 20__

	This month \$000s			>\$100K
	Actual	Target	Variance	
Revenue				
Revenue 1	5,550	5,650	(100)	↔
Revenue 2	3,550	3,450	100	↔
Revenue 3	2,450	2,200	250	✓
Other revenue	2,250	2,350	(100)	↔
Total Revenue	13,800	13,650	150	↔
Less: Cost of sales	(11,500)	(11,280)	(220)	↔
Gross Profit	2,300	2,370	(70)	
Expenses				
Expense 1	1,280	1,260	(20)	
Expense 2	340	320	(20)	
Expense 3	220	200	(20)	
Expense 4	180	160	(20)	
Other expenses	170	110	(60)	
Total Expenses	2,190	2,050	(140)	↔
Surplus/(Deficit)	110	320	(210)	✗

✓

major positive variance, comment required

✗

major negative variance, comment required

↔

Within expectations, no comment required

Areas to Note

1. _____

2. _____

3. _____

4. _____

Exhibit 2.1 A flash report of the month-end result issued by close of play Day+1

It is important not to give too many numbers as you will set up another set of variance reporting. Remember to state your degree of accuracy e.g. +/- 5% , +/- 10%

2.2. Reporting a business unit's performance

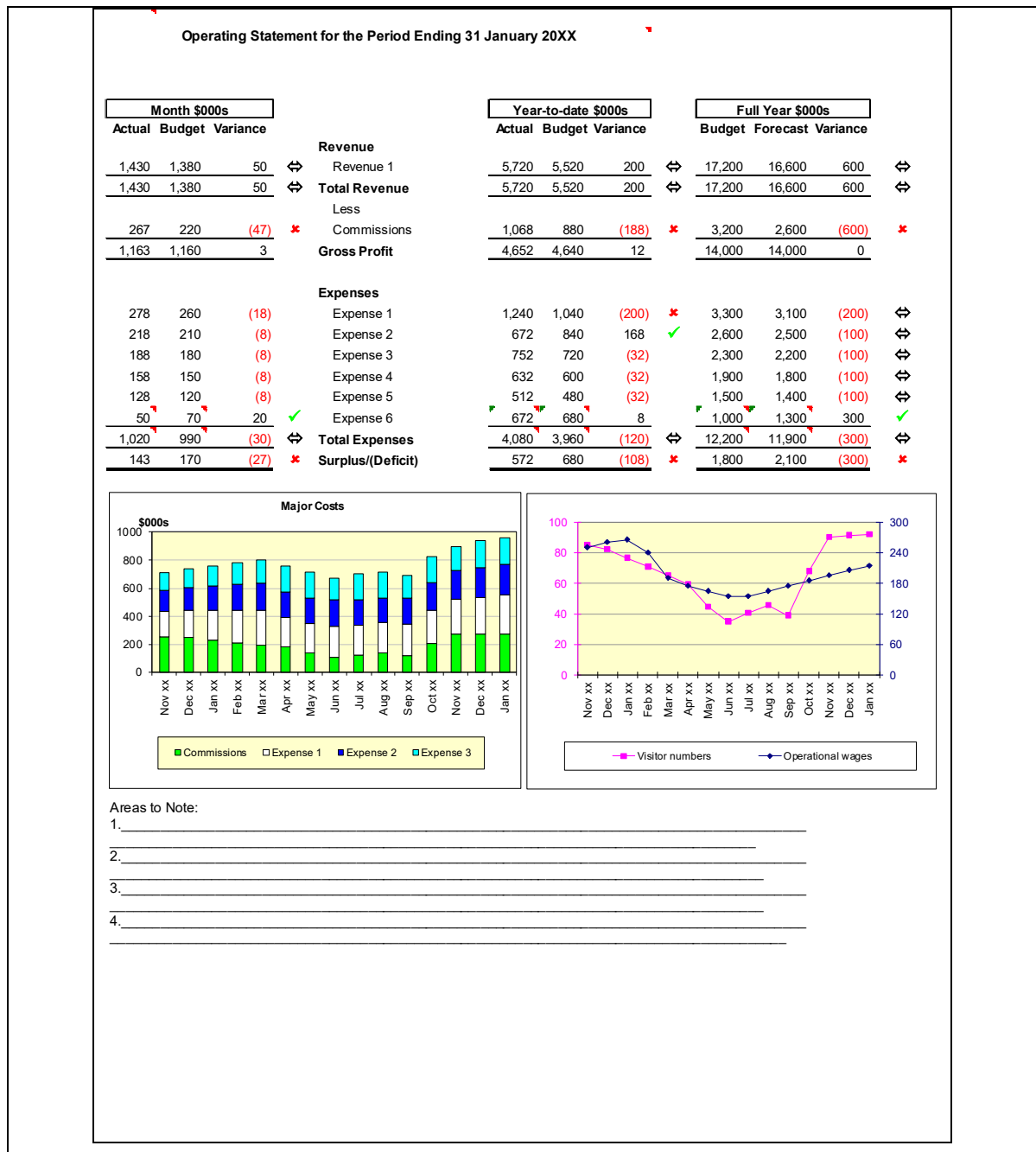


Exhibit 2.2 . A business unit's monthly finance report

Features: Summarises the P&L. One graph looks at the trend of the major expenditure items (and revenue if a profit centre). The other graph may contrast financial and non-financial numbers, in this case tourist numbers against personnel costs. The notes are the main highlights and action steps to take. No other commentary is provided on the business unit's P/L.

Each business unit may have up to five different graphs and the two that show the most pertinent information are shown in that month's report. Each business unit report will look slightly different. The titles of the key lines and graphs may be different.

2.3. Reporting a consolidated Profit & Loss account

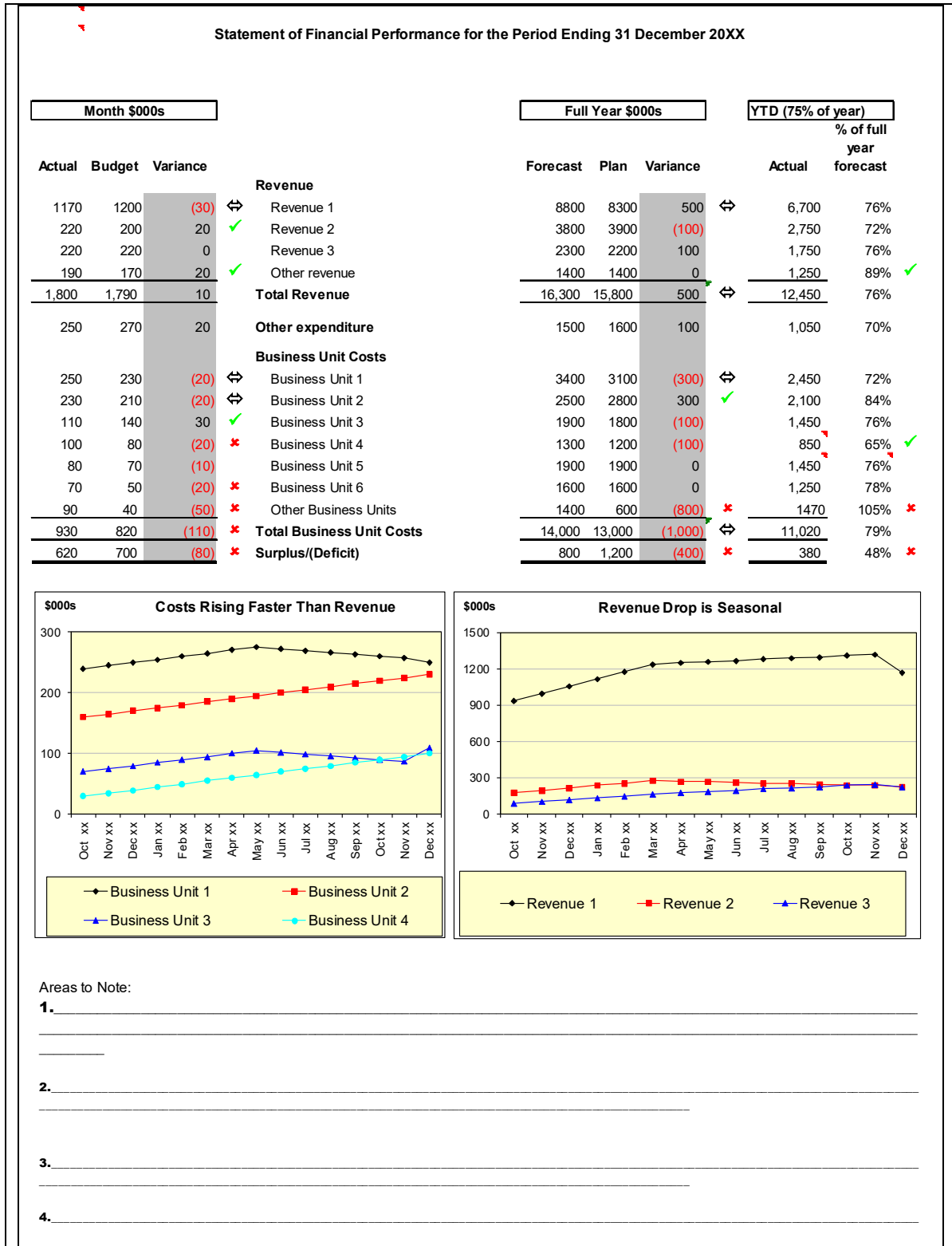
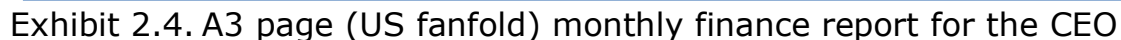


Exhibit 2.3 A consolidated monthly Profit & Loss

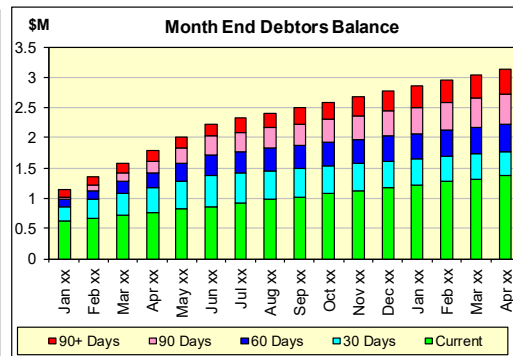
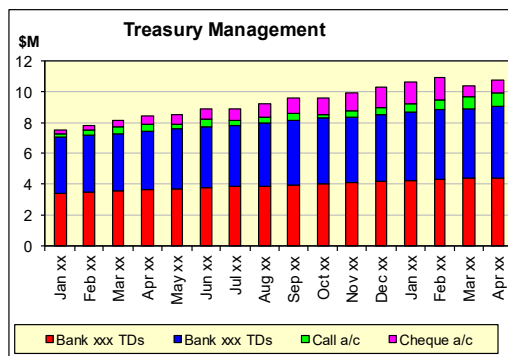
Features: This report summarises the P&L in 10-15 lines. Instead of looking at consolidated costs such as personnel, premises etc. the report summarises the divisions/business units' expenditure. The graphs look at the trends in major revenue and expenditure. A number of different graphs will be maintained and the most pertinent will be shown. The notes are the main highlights and action steps to take. There is no other commentary on the P/L. The icons are fully automated based on pre-set criteria.



2.5. Reporting the balance sheet

Statement of Financial position as at 30 April 20XX

	Month-end Actual	Last month Actual
Bank and Cash	10.2	10.3
Debtors	3.2	3.0
Stock	2.5	2.2
Fixed Assets	9.0	9.1
Other Assets	1.1	1.2
Total Assets	26.0	25.8
Accounts Payable	-4.0	-3.0
Other Liabilities	-1.0	-1.0
Net Assets	21.0	21.8
Funded by		
Current Year profit	2.7	3.3
Accumulated Funds	18.3	18.5
Total Equity	21.0	21.8



Areas to Note:

1.

2.

3.

4.

Exhibit 2.5. Reporting the summarised balance sheet.

Tell management that debtors are \$3m rather than \$2,867,234; I can assure you they will remember \$3m but have forgotten the other number. The graphs focus on main balance sheet issues such as debtors ageing, stock levels and cash. The notes cover the main highlights and action steps to take. There would be no other commentary on the balance sheet. Another point is that every line added to a balance sheet serves to confuse management and benefits only the accountants. The detailed balance sheet, balanced to the cent, should be left to the accountants' working papers!

2.6. Reporting a Profit & Loss forecast

Features: Rolling quarterly forecast showing year end position and the remaining five quarters of the 18 months forecast. Whilst Q2 is forecast monthly it may be shown as a quarterly number. The expenditure graph looks at the main 3 expenditure lines and highlights where budget holders are playing the old game of locking in slack. The revenue graph highlights the reasonableness of the sales teams' projections. Also included is a management overview which rounds the year end number to land on something more realistic and easier to remember..

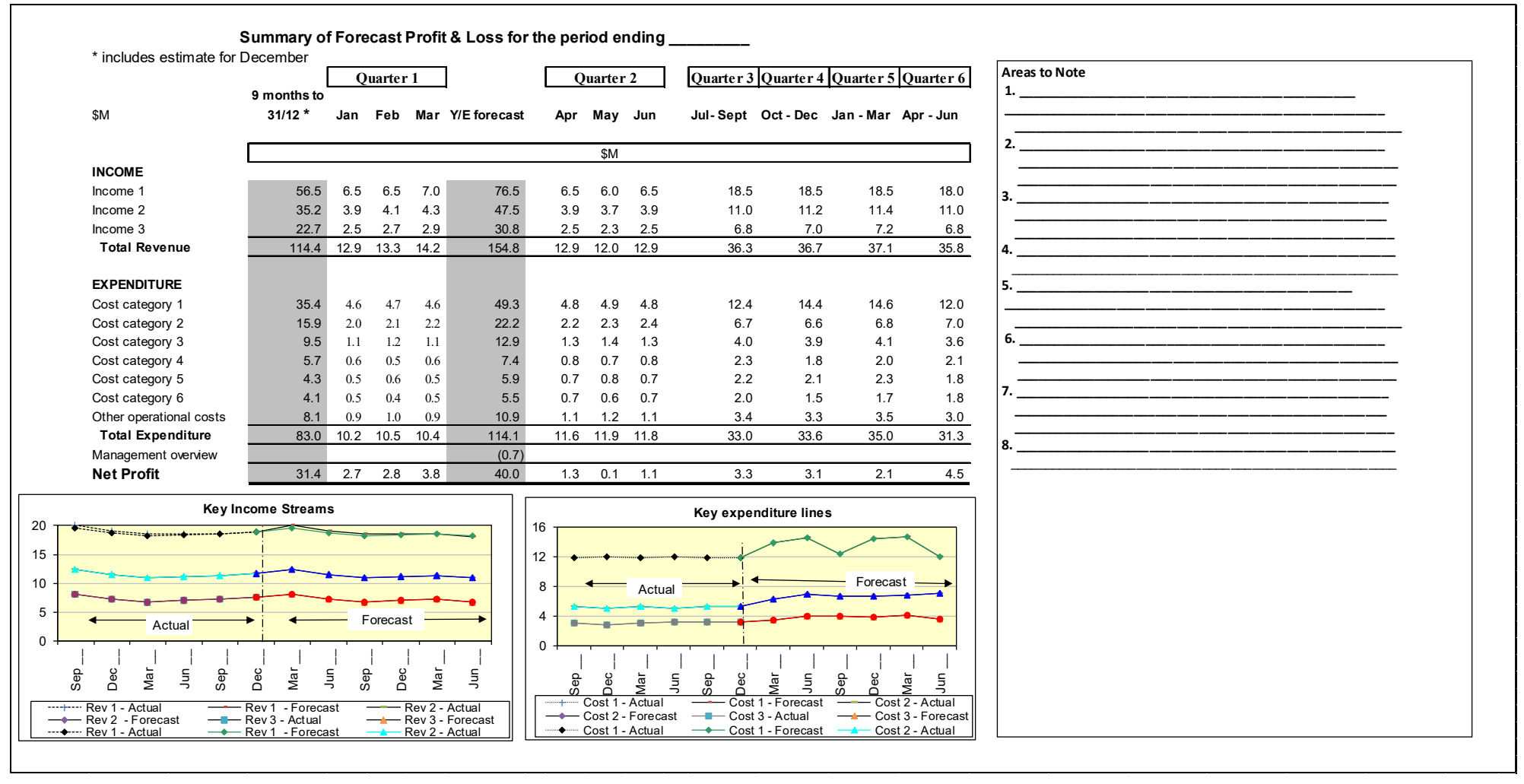


Exhibit 2.6. Reporting a Quarterly Rolling Profit & Loss forecast

2.7. Reporting a daily cash flow forecast

Features:

1. List all major cashflows indicating date of payment and whether estimated or actual
2. Automate placement of these cashflows
3. Focus on major flows of your top 3-5 customers and suppliers
4. All other operating expenditure is based around some trend analysis you have performed and relates to known flows in month and seasonal fluctuations.
5. The graphs show 10 weeks of the past and 13 weeks of the future.

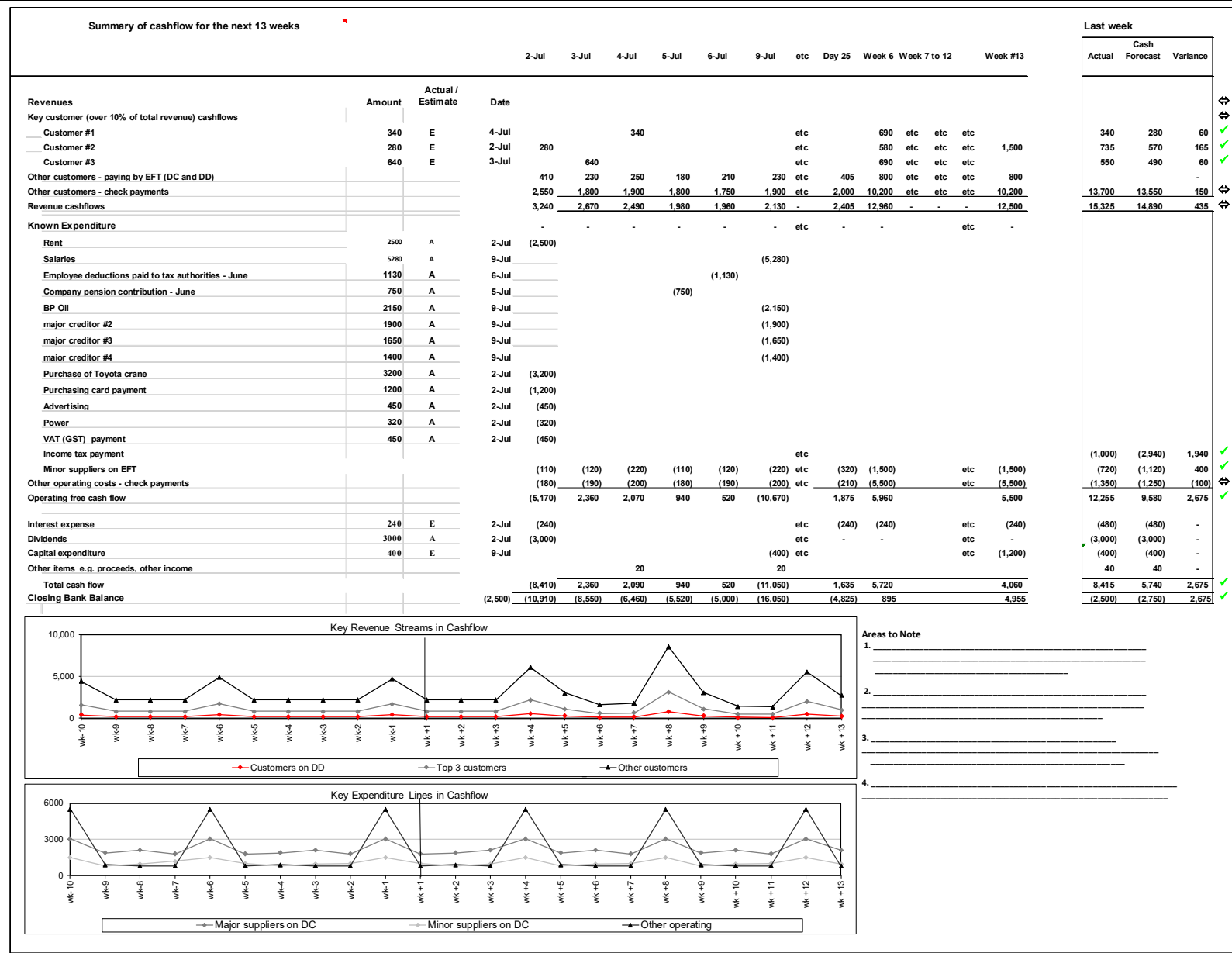


Exhibit 2.7 Reporting a daily cash flow forecast

2.8. Reporting a monthly cash flow forecast

Features:

1. Go out around six months. Anything longer will be very error prone.
2. Stating a month-end bank balance is a risky business. A large transaction on the last day can have a major impact. It is best to show the likely range of bank account movements during each month.
3. Free cash flow is an important number to focus your commentary on.
4. The three graphs can also show some prior history. I would recommend the same amount of time looking back as forward.
6. Showing last actual month's cashflow against most recent forecast may be showing too much until you get better at cash flow forecasting.
7. Notice that graph title is stating the key observation.

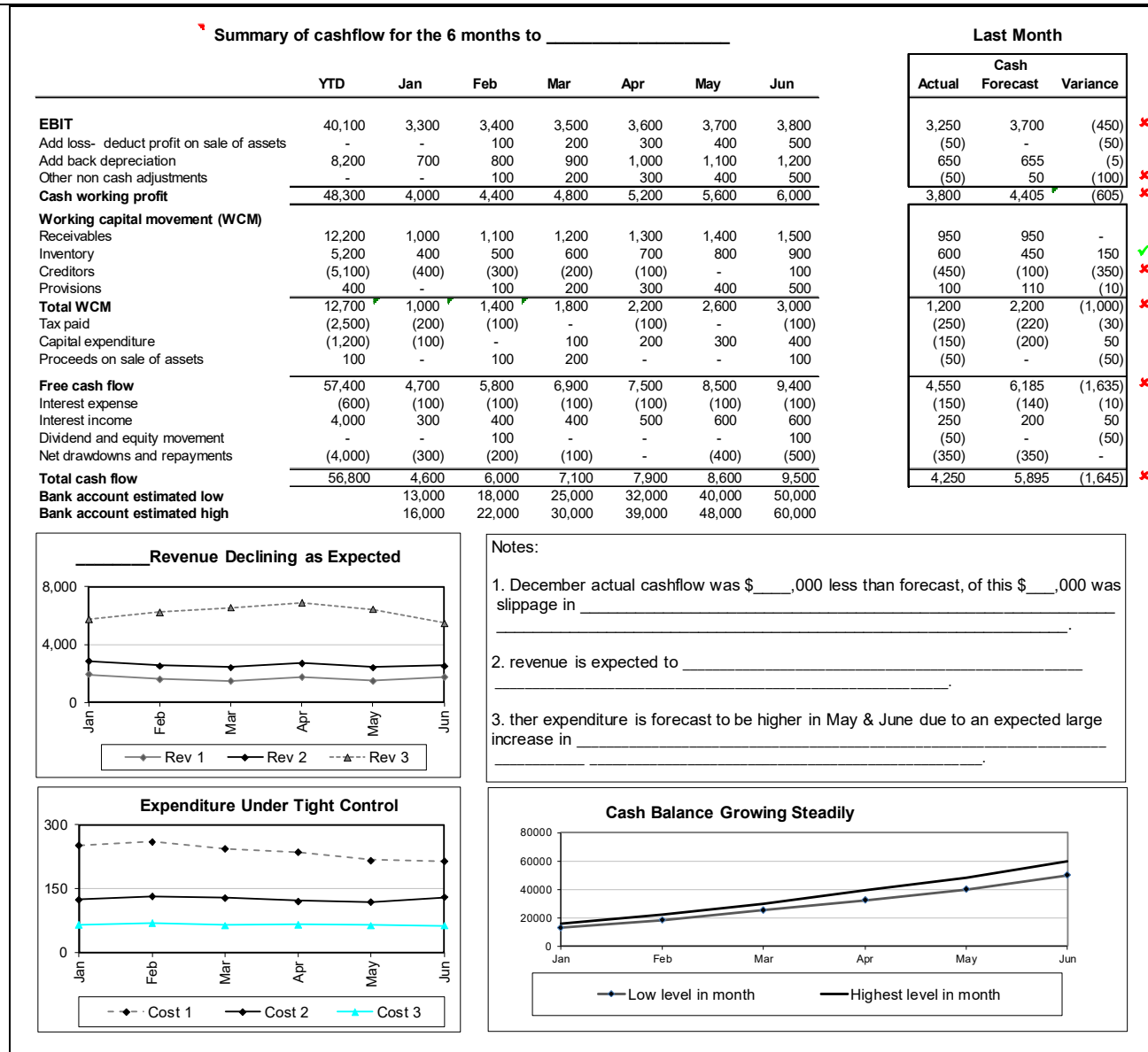
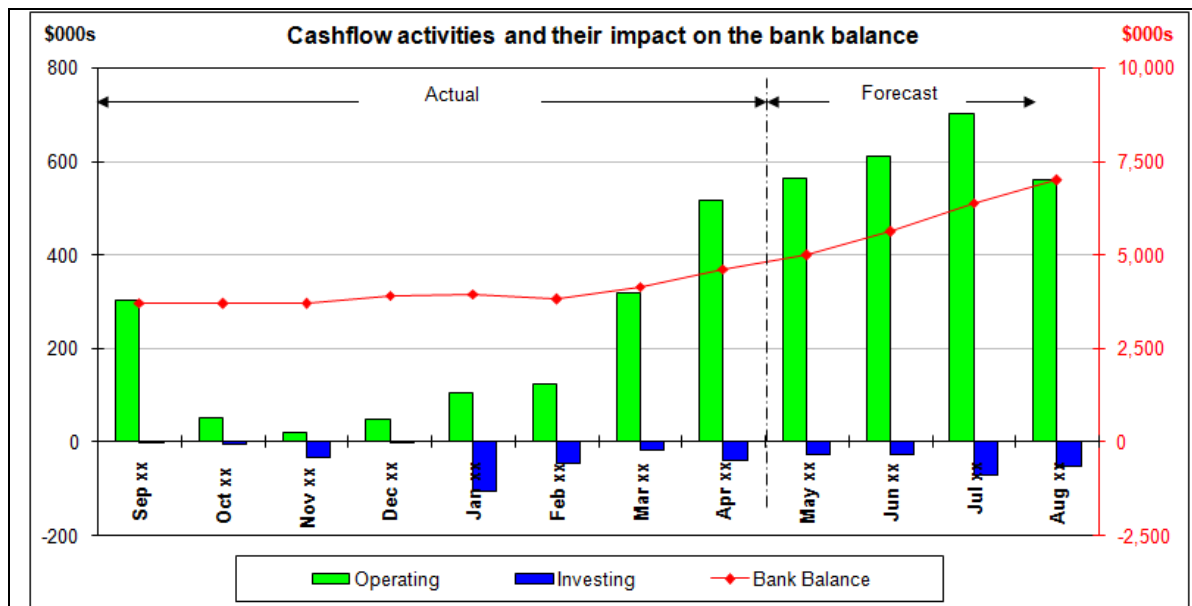
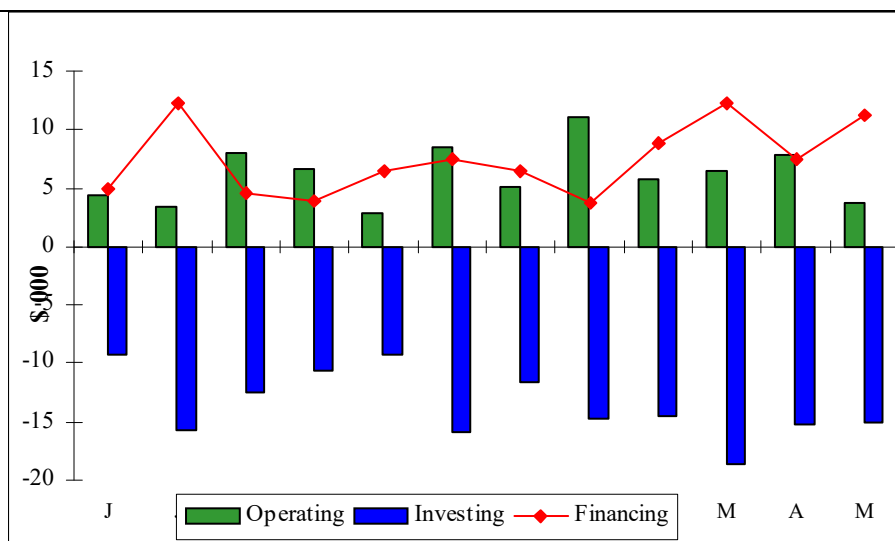


Exhibit 2.8. Reporting a monthly cash flow forecast

2.9. Other cash flow forecast graphs



Features: Some people may want to show the cash flow as a source and disposition of funds. This graph is useful if you want to show the resulting bank balance. The right-hand side scale is the bank balance, and the scale should be coloured in the same colour as the bank balance line.



Features: Some people may want to show the cash flow as a source and disposition of funds. This graph shows clearly the impact of the three main components.

Exhibit 2.9. Other cash flow forecast graphs

2.10. Reporting capital expenditure

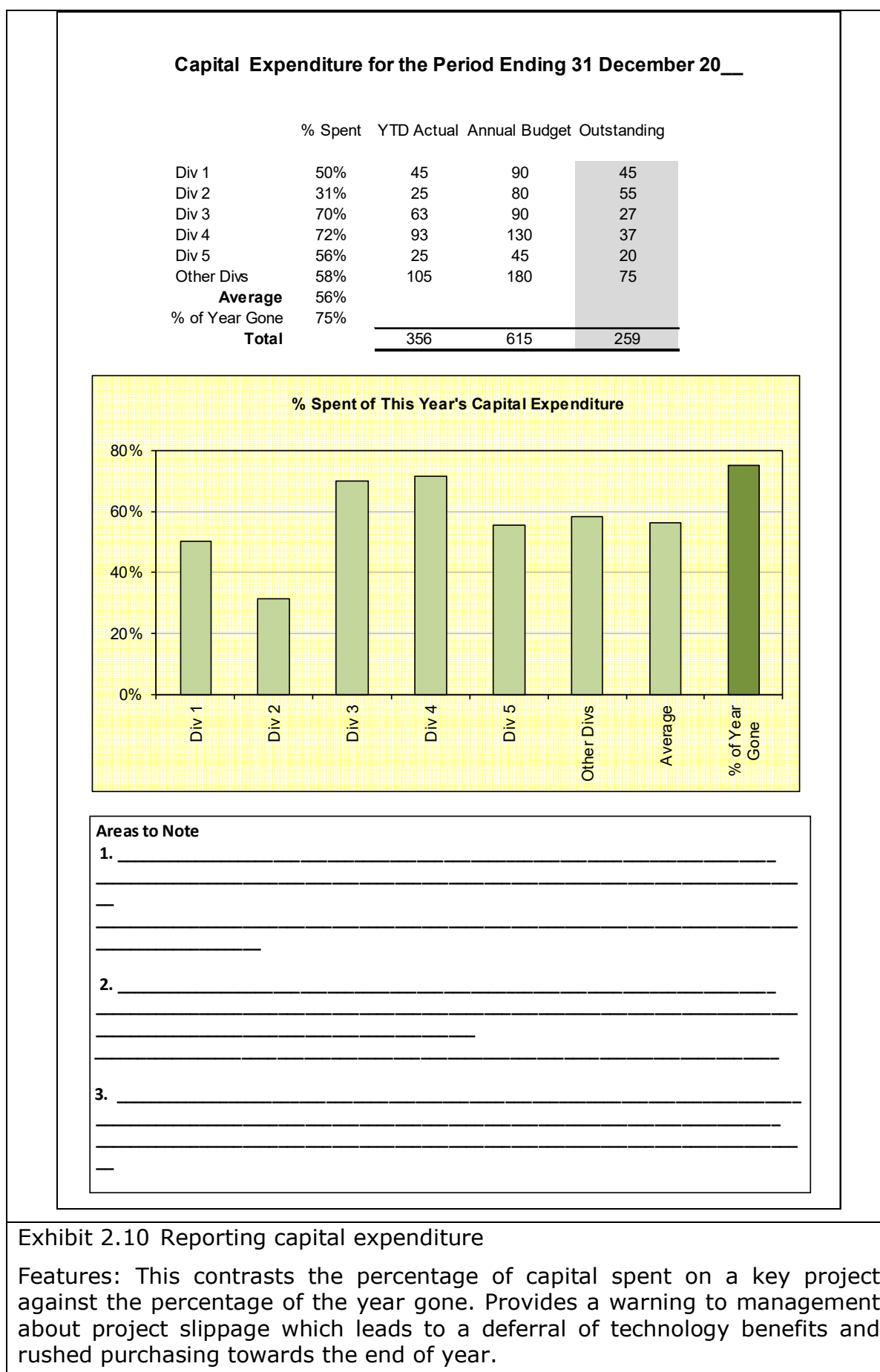


Exhibit 2.10 Reporting capital expenditure

Features: This contrasts the percentage of capital spent on a key project against the percentage of the year gone. Provides a warning to management about project slippage which leads to a deferral of technology benefits and rushed purchasing towards the end of year.

2.11. Treasury graphs

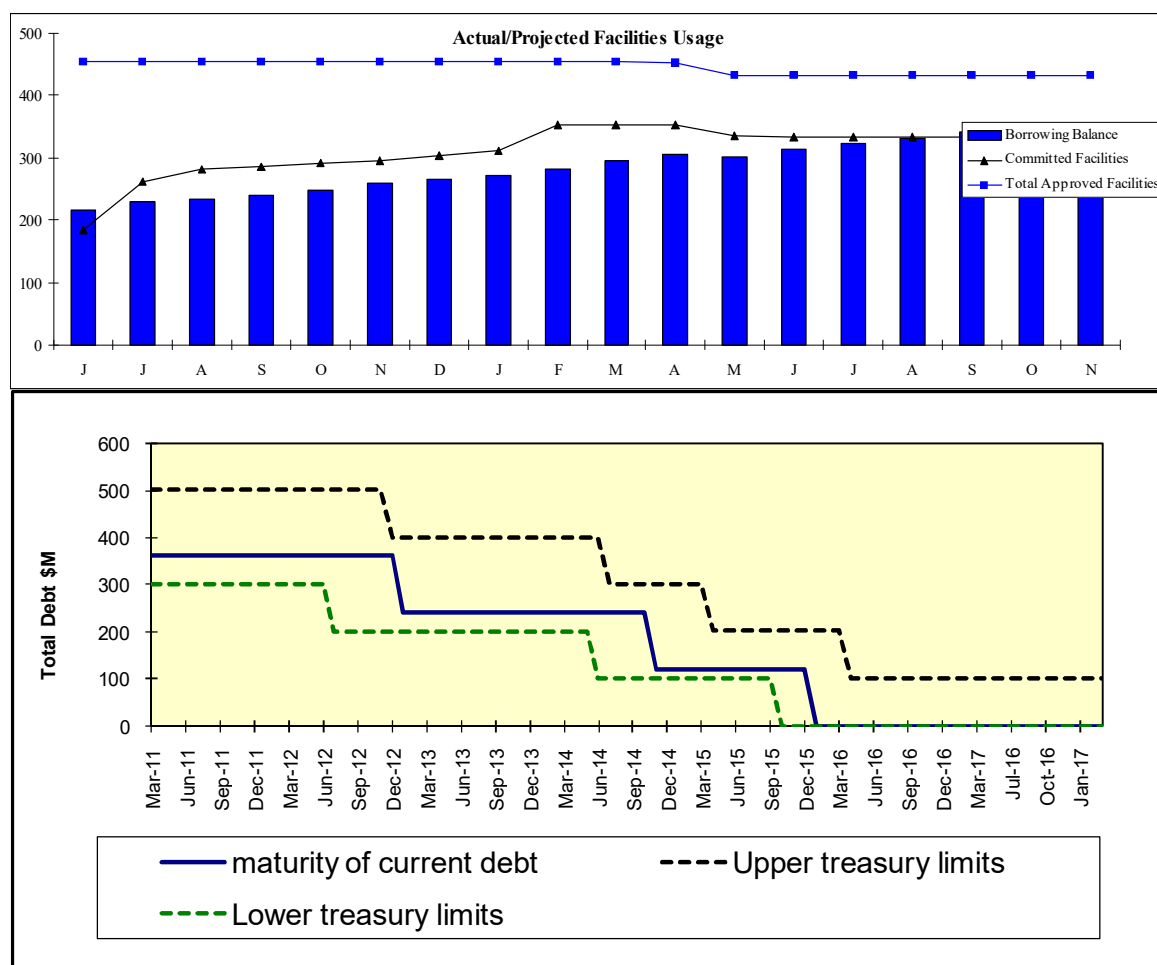


Exhibit 2.11 useful treasury graphs

Feature: These two treasury graphs show the current and forecast use of bank facilities and the maturity profile of the current debt. The cascading upper and lower limits shown on the graph indicate that it is a better practice to spread the maturity dates.

One Tyre distributor monitors key financial data and some performance measures on a daily basis, Branch by Branch. The SMT have a 9 o'clock news report every morning, giving yesterday's sales by branch as well as information about sales of key products. This is followed up by further weekly information on other key drivers such as payroll costs, gross margin.

At the monthly management meeting to discuss the results the CFO places the finance report face down in front of each senior team member and says, "Guess what the bottom-line is?" Even the HR manager is able to enter the sweepstake guessing the month-end result. The HR manager may think 'We had 17 out 23 good sales days and the other 6 were not that bad, costs were in control so we must be between \$100-155K. I will go for \$120k'.

The month-end has now become less important and consequently the board papers reduced to 15 pages.

3. **Modifications to month-end reporting**

Traditional reporting, as you may well have been faithfully replicating for several years, has been radically challenged by the lean movement and the advent of rolling planning.

3.1. The impact of the lean methodology on traditional reporting

New thinking about reporting has come out of the lean movement with writers such as Brian Maskell and Frances Kennedy¹ pointing out that accounting, control and measurement methods need to change substantially.

Advent of value stream accounting

A value stream is a collection of products that share the same processes and include the costs from all people and resources involved in value stream. Brian Maskell has stated that **"A value stream is a sequence of steps both value adding and non-value adding required to complete a product, or service from beginning to end"**.

Instead of looking at departments, business units or product costs we look at the value streams. These value streams can be one product, or a cluster of products that go through a similar process. In the example below we are looking at a company that makes only two products, which in this case, are quite different.

The main differences include:

- Labour and machine costs are assigned directly to value streams using some simple cost driver, but such allocations are held to a minimum, certainly not using activity-based costing models. The existing labour force is not treated as variable unless you need to employ extra staff
- Sustaining costs, which are necessary costs that support the entire facility, but cannot be directly associated with particular value streams, are not allocated to value streams and are shown in a separate column. Sustaining costs include management and support, facility costs, information technology, and human resource management costs that are not associated directly with a value stream.
- Inventory changes are reported separately as below-the-line adjustments and reported for the entire entity, not the separate value streams. This allows the value stream managers to assess their individual value streams without the complexities of the inventory changes affecting the value stream profit. If the company succeeds in adopting just-in-time inventory methods, the issue would largely disappear. Consequently, the motivation for manipulating inventory values also disappears.
- Under lean accounting, occupancy costs are actually assigned to value streams according to the amount of space used. Assignment of these costs provides motivation for the value stream teams to reduce occupancy costs. However, no attempt to absorb all of the occupancy costs is required. Space not used by a value stream is charged to sustaining costs. As a result, occupancy costs are handled in a similar manner to traditional accounting, but they are assigned to value streams instead of other cost objects such as products or divisions.
- Standard costs and price and volume variances, a backbone of classical management accounting is abandoned
- Very few allocations are used – other than allocation of occupancy costs.

- Costing of a product is not related to the amount of labour or machine time used, it is based upon the rate of flow through the value stream. This impact is shown in a later section.

There is a marked change in the way we report performance to management when using value stream reporting. Instead of showing performance in a conventional way, as shown below in Exhibit 3.1, we now look at the value streams, see exhibit 3.3.

Traditional Income Statement	
	\$
Sales	100,000
Cost of Goods Sold	<u>-70,000</u>
Gross Profit	30,000
Operating Expenses	<u>-28,000</u>
Net Operating Income	<u>2,000</u>

Exhibit 3.1 Reporting the results of a manufacturer

Value Stream Income Statement				
	Camry	Corolla	Sustaining	Total Plant
Sales	60,000	40,000		100,000
Material costs	-20,000	-15,000		-35,000
Employee costs	-9,000	-8,000	-5,000	-22,000
Machine costs	-10,000	-5,000		-15,000
Occupancy costs	-6,000	-4,000	-5,000	-15,000
Other costs	-1,000	-1,000		-2,000
Value stream costs	-46,000	-33,000	-10,000	-89,000
Value stream profit	14,000	7,000	-10,000	11,000
Inventory reduction additional cost				0
Inventory increase (reducing costs)				<u>3,000</u>
Plant profit				14,000
Corporate allocation				<u>-12,000</u>
Net operating income				<u>2,000</u>

Exhibit 3.2 Reporting the results of a manufacturer through value streams

Besides the P/L differences we also show results differently for product costing, pricing of one-off deals, and plant comparisons.

The need to change reporting when reducing inventory levels

The change in accounting is very important if you are to show the correct impact of the benefits of lean. Otherwise management can feel disappointed with the results as subsequent months get hit by a double charge of overheads. Since we are no longer producing goods to add to existing stock levels all the current period's

overheads are absorbed along with the overhead capitalised in the brought forward inventory that has now been sold.

Imagine two identical plants. One is not lean and has in fact increased inventory levels at month end and the other, an adapter of lean has reduced production and sold off excess inventory, and reduced overtime. The comparison requires a careful eye.

Looking from the traditional accounting standpoint the lean operation has been disappointing, see Exhibit 3.3. Profit is down from \$390,000 to \$280,000 and return on sales is 8% down from 11%.

	<u>Plant 1</u>	<u>Plant 2 (Lean)</u>
Sales	3,500,000	3,500,000
Opening Stock	-2,000,000	-2,000,000
Material Costs	-1,850,000	-1,450,000
Employee Costs	-450,000	-400,000
Equipment Related Costs	-160,000	-160,000
less Closing Stock	<u>2,140,000</u>	<u>1,580,000</u>
Cost of Sales	-2,320,000	-2,430,000
Gross Profit	1,180,000	1,070,000
Occupancy Costs	-120,000	-120,000
Sustaining Costs	-310,000	-310,000
Corporate Allocation	-40,000	-40,000
Other Costs	<u>-320,000</u>	<u>-320,000</u>
	-790,000	-790,000
Net Operating Income	390,000	280,000
Return on Sales	11%	8%

Exhibit 3.3 Reporting the results of a manufacturer in the traditional way

But in reality, the lean plant had:

- trained all the plant's employees in lean concepts and had deployed them in small teams to make improvements to the equipment set up, placement, and maintenance
- reduced overtime, saving \$50,000 this month
- reduced batch size – resulting in lower finished goods levels and faster lead times
- generated extra cashflow through eliminating large amounts of WIP and finished goods and reducing overtime payments.

So we need to show the lean operation in a different way as set out in Exhibit 3.4. We now focus on the value stream profitability. We split the inventory movement between materials which are a direct cost and the overhead component.

Now the lean plant shows a \$50,000 advantage and operating drop is seen as a one-off cost of overhead from prior periods.

	<u>Plant 1</u>	<u>Plant 2 (Lean)</u>
Sales	3,500,000	3,500,000
Material Costs in Month	-1,850,000	-1,450,000
Net Movement in Materials	100,000	-300,000
Employee Costs	-450,000	-400,000
Equipment Related Costs	-160,000	-160,000
Occupancy Costs	-120,000	-120,000
Other Costs	-320,000	-320,000
	<u>-2,800,000</u>	<u>-2,750,000</u>
Value Stream Profit	700,000 ^{20%}	750,000 ^{21%}
Sustaining Costs	-310,000	-310,000
Inventory Reduction (labour and overhead from prior periods)		-120,000
Inventory Increase (labour and overhead carried forward)	40,000	
Plant Profit	<u>430,000</u>	<u>320,000</u>
Corporate Overhead Allocation	-40,000	-40,000
Net Operating Income	<u>390,000</u>	<u>280,000</u>
Return on Sales	11%	8%

Exhibit 3.4 Suggested lean report for the correct decision to be made

3.2. The Toyota A3 investment proposal

One of the important principles that make Toyota so successful is the need for transparency. This view is carried through to their investment proposals. All proposals have to fit on an A3 page - a very difficult task. It ensures clarity of thought and reduces the possibility that the proposal will be 50 pages because it represents a \$500m investment. Toyota has recognised that a large investment document will not be read or fully understood by all the decision makers. In fact, the larger the document the less there is 'clarity' for decision making. A must-read book is 'The Toyota way' by Jeffery Liker where the Exhibit 3.5 came from.

Investment Proposal for _____ **** / /

Current Situation

Year	% of total orders under \$5,000	% of total value of orders under \$5,000
2016	~75%	~15%
2017	~80%	~18%
2018	~80%	~18%

Plan

• → _____

• → _____

• → _____

Acceptable business-related purchases using the purchasing card

Small tools		
Auto-spares		

Unacceptable business-related purchases using the purchasing card

Cash advance		
Computer hardware		

Controls

• → _____

• → _____

• → _____

• → _____

Labour Costs and Time Analysis

Labour and Materials Savings

• → _____

• → _____

• → _____

• → _____

• → _____

Time Savings

• → _____

• → _____

• → _____

Estimated Costs of Set-Up

• → _____

• → _____

• → _____

Return on Investment

• → _____

• → _____

• → _____

Section Break (Next Page)

Proposals

Significant Variances:

• → _____

• → _____

• → _____

• → _____

• → _____

• → _____

Implementation

1. → _____

2. → _____

3. → _____

4. → _____

5. → _____

6. → _____

7. → _____

8. → _____

9. → _____

Timeline

Key Dates	30/4/20								
Key Task	Present at _____	Issuer selection	Training for pilot programme						

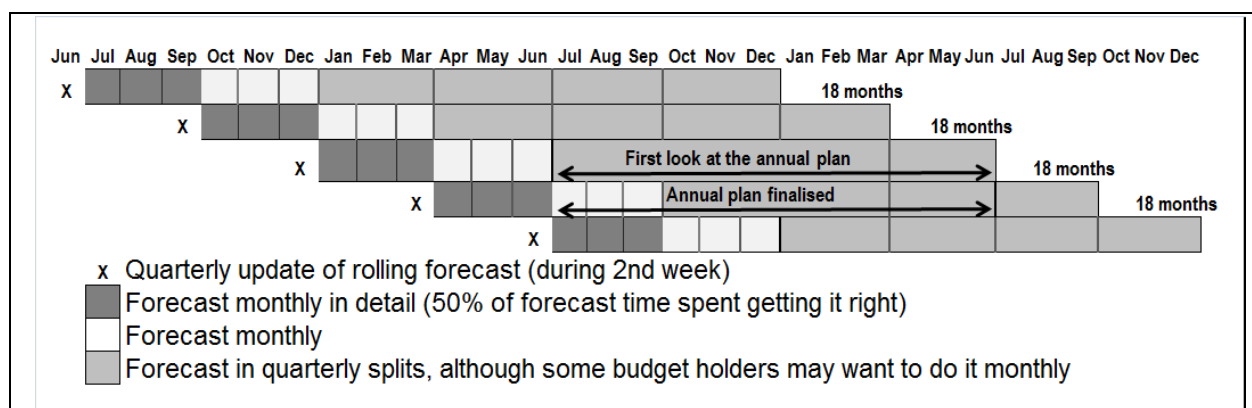
Exhibit 3.5 The A3 (US fanfold) Toyota investment proposal

3.3. Quarterly rolling forecasting / planning

The quarterly forecasting process is where management sets out the required expenditure for the next 18 months. Each quarter, before approving these estimates, management sees the bigger picture six quarters out. As you can see from Exhibit 3.6 below the annual plan is a by-product of one of these quarterly forecasts. All subsequent forecasts while firming up the short-term numbers for the next three months also update the annual forecast.

Budget holders are encouraged to spend half the time on getting the detail of the next three months right as these will become targets, on agreement, and the rest of the time on the next five quarters. Each quarter forecast is never a cold start as they have reviewed the forthcoming quarter a number of times. Provided you have an appropriate forecasting software management can do their forecasts very quickly, one airline even does this in three days!! The overall time spent on the four forecasts, one of which being a two-week annual plan, is no more and in many cases much less, than the typical annual planning and budgeting process.

Exhibit 3.6 How the rolling forecast works for a organisation (June year end)



The key points of a rolling forecast are:

- Budget holders provide an annual plan through the bottom-up rolling quarterly forecasting regime but are not assigned those funds, this is done on a quarter-by-quarter basis
- monthly reporting is more meaningful as it measures performance against the most recent forecast and not a monthly split of the original annual plan
- each subsequent forecast is still expected to put the ball through the posts at the end of the field (year-end annual plan) the difference being the ball carries on to the next pitch (into next year). e.g. budget holders always looking forward 18 months
- forecasting is carried out on an appropriate planning tool that can handle a bottom-up forecast once a quarter - Excel is not, and has never been, an appropriate tool for a key company system

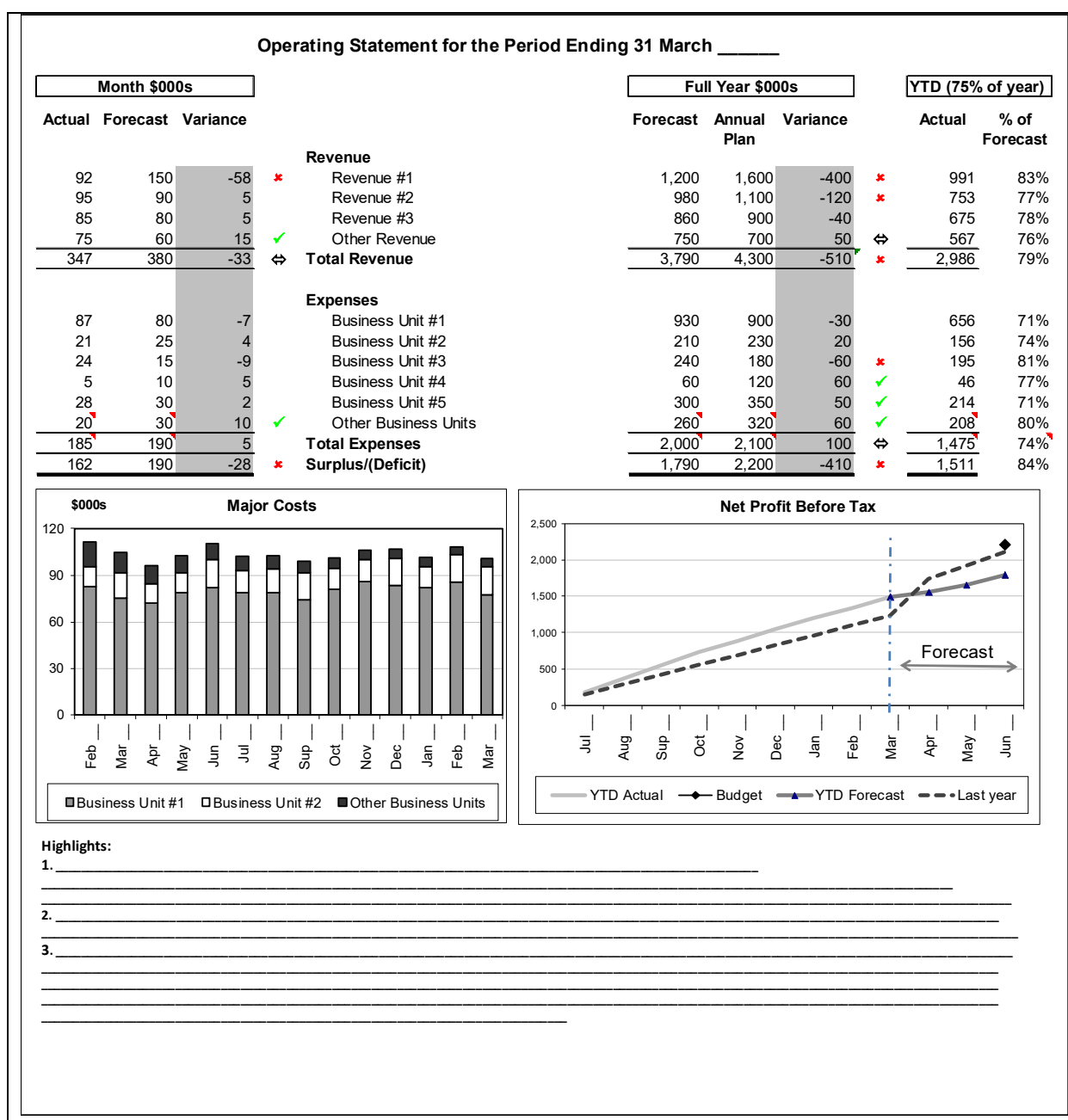
3.4. Reporting against a recent forecast rather than a budget

Organisations who are using rolling forecasting and planning, are no longer comparing actual against a flawed monthly budget. Instead, they compare last months actual against the most recent forecast see Exhibit 3.7. The year to date (YTD) actual is no longer compared against a YTD budget. Instead YTD progress is

evaluated alongside progress against the year-end forecast and the accompanying trend graphs. Trend analysis now becomes much more the focus. The forecast year-end numbers are now more prominent and moved to where the YTD numbers are traditionally placed. Commentary is much more targeted as there is little scope for the “explain it all away” timing difference comment as the forecast is updated quarterly.

It is best to erase the word budget and replace with forecast, or target, or expected actual etc. The YTD actual is no longer compared against a YTD budget, it is compared against last year's YTD or against the full year's forecast e.g. if we are 75% through the year, we might expect an expenditure category to be between 70%—80% of YTD total!

Exhibit 3.7: Reporting with a rolling forecast target



Commentary is much more targeted as there is little scope for our “explain it all away” timing difference comments as forecasts are only, at worst three months old.
















You still need to report against the annual plan but you will only do this at the end of each quarter, when the forecast has been updated. In other words, you still need to get the ball through the goal posts, albeit from a different side of the field than you first thought. This is particularly important in the public sector where there is much accountability for what you said you were going to achieve and the cost of doing so.

3.5. Reporting the strategic objectives/ risks/ costs pressures

Finance teams are realising that the finance report needs to also focus on strategic issues. If the finance team does not do this another team will do it. I have come across the following reporting that I recommend to you:

- Reporting monthly the progress against the strategic objectives/themes and the initiatives within them, see Exhibit 3.8. The example uses a simple traffic light display.
- Monthly/Quarterly report about major risks and costs over a certain figure, see Exhibit 3.9. Please note that you are talking about uncertainty so avoid using 3.75m when \$3-4m would be better.
- A quarterly look at cost pressures, in more detail, as they are affecting this year compared with previous years, , see Exhibit 3.10. If you are in a sector where future costs are more predictable you could look at the current year and the next 3 to 4 years.

Exhibit 3.8: Reporting progress against the strategic objectives and the initiatives

<div> <div> Warning: little progress made</div> <div> Some progress but behind schedule</div> <div> On track or finished</div> </div> <div> Progress Against Strategy Status as 30 June _____ Comments (required action if amber or red) </div>	
Strategy one _____	
A1 Initiative _____	 Completed in third week of May
A2 Initiative _____	 _____
A3 Initiative _____	 _____
Strategy two xxxxxxxxxxxxxxxxxxxxxx	
B1 Initiative _____	 _____
B2 Initiative _____	 Completed in March
B3 Initiative _____	 On track, completion date mid Sept
Strategy three xxxxxxxxxxxxxxxxxxxxxx	
C1 Initiative _____	 Completed in third week of May
C2 Initiative _____	 Completed in third week of May
C3 Initiative _____	 On track, completion date end Dec
Strategy four xxxxxxxxxxxxxxxxxxxxxx	
D1 Initiative _____	 _____
D2 Initiative _____	 _____
D3 Initiative _____	 Completed in third week of May

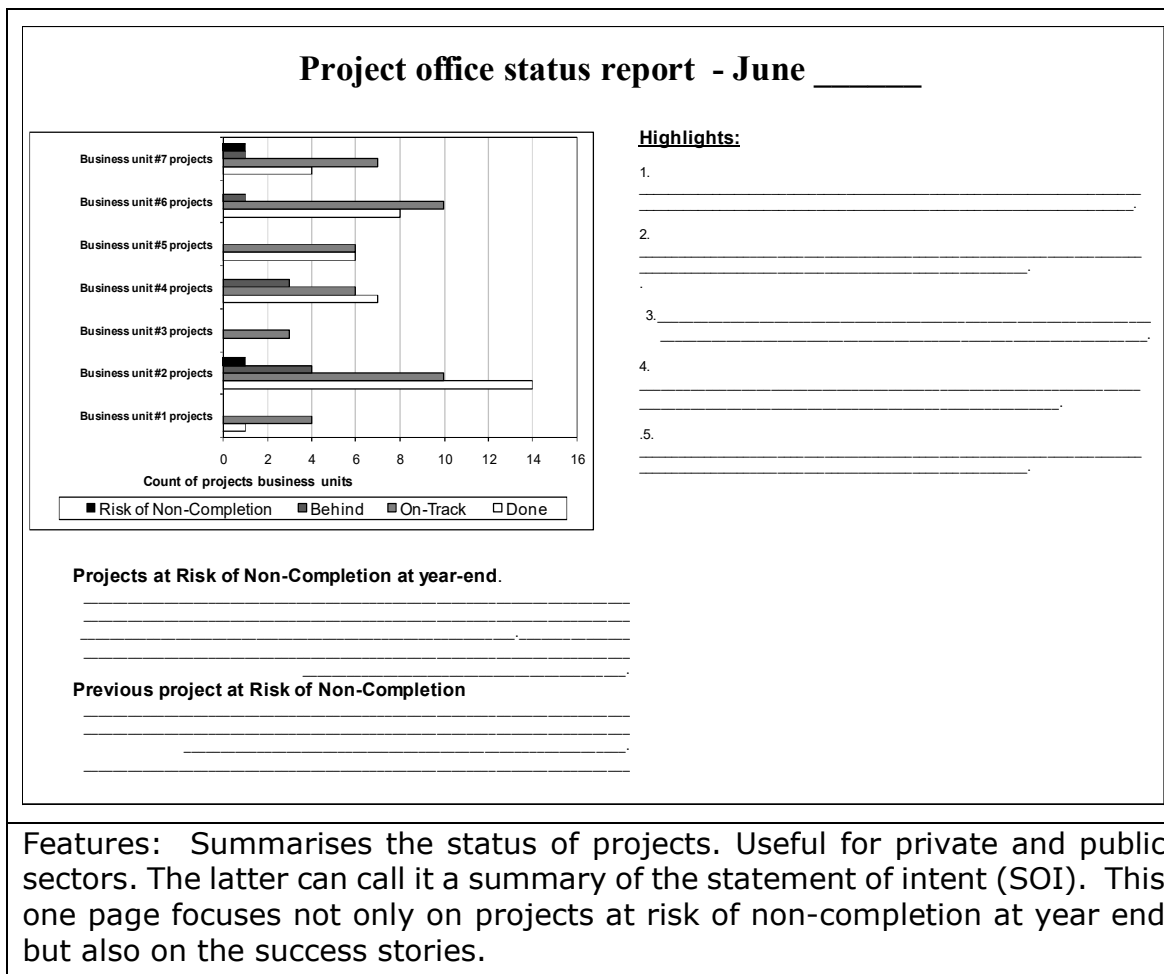
3.6. Making your project reports decision based

Project reporting can be a huge burden on a project team, consuming significant amounts of time, creating documents that are too long, poorly structured, and often lacking quick reference action points.

Project management software was first designed for very complex projects such as “putting a man on the moon”. Project managers charging in excess of \$200 per hour for their time can spend it completing endless progress schedules. As a rule of thumb, if more than 5% of the project time is spent on reporting, balance has been lost. Project reporting is best managed by progressively updating a PowerPoint presentation. This means that at any time the project team can give an interesting and informative progress update.

I believe it is only worthwhile measuring metrically, by that I mean without estimate, those performance measures that are so fundamental to the organisation that they affect nearly every aspect of its operation. For example, British Airways “late planes” measure (see Management Magazine October 2002). “Project progress” certainly does not fit into this category and hence I promote a four-quadrant project management approach. To me a project is either 0%, 25%, 50%, 75%, 100% complete. I am not interested in any other in between assessments as by their nature they can only be very arbitrary.

Exhibit 3.11 Reporting against a whole series of projects (30 or more)



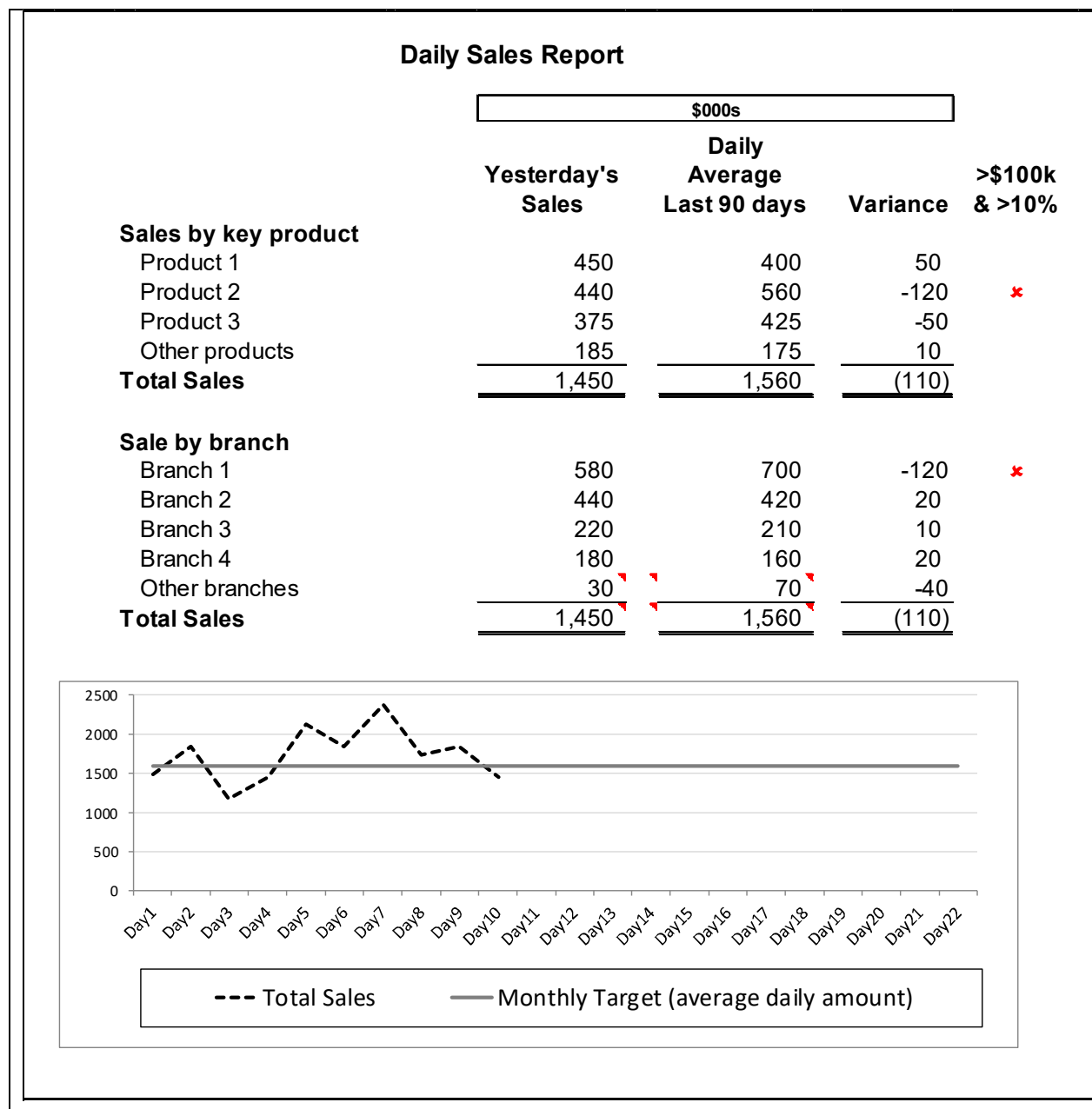
4. Daily / weekly reporting

4.1. Yesterday's sales report

If the CEO and SMT receive a report on the daily sales, they will understand better how the organisation is performing.

Set out below in Exhibit 4.1 is an example of how this could be done. The sales are analysed into the four types of customers using Harry Mills, 'DROP' method, from his 'Rainmaker' book. The top customers are diamonds, the next level rubies, then opals and the lowest level are pearls, which you now get given to you for spending US\$20 in a store in Kuala Lumpur.

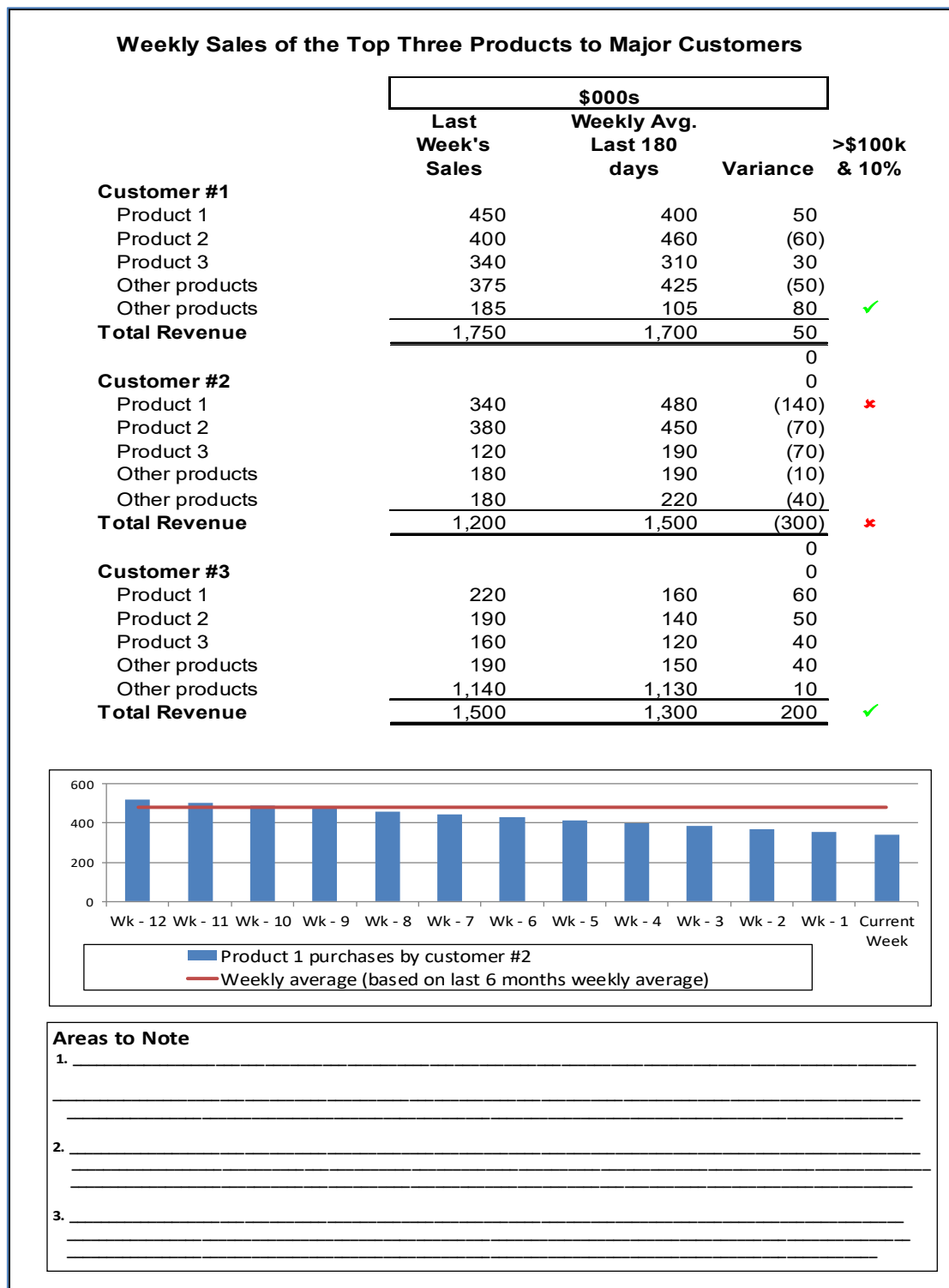
Exhibit 4.1 Yesterday's sales report



4.2. Weekly key customer's sales

On a similar vein it is important for the SMT to monitor how products are being purchased by the key customers. This is especially important after a launch of a new product, or, after your competitors launch a new competing product. Set out below, in Exhibit 4.2, is an example of how this could be done.

Exhibit 4.2 Weekly sales to key customers



4.3. Weekly reporting in a lean environment

Lean has moved the focus of timeliness to the here and now. Cells or processes will need daily and weekly information. Visual management is a cornerstone of lean management. Lean accounting requires visual presentation of both financial and non-financial measurements. The "Box Score" format commonly used in lean accounting provides a one-sheet summary for a value stream showing the operational performance, the financial performance, and how well the capacity is being used.

Exhibit 4.3 Weekly cell reporting using a box score

		11-Jan	18-Jan	25-Jan	1-Feb	8-Feb	15-Feb	22-Feb	1-Mar	8-Mar	Goal
Operational	Unit per person	15	16	15	16	16	16				21
	On- Time Shipment	100%	100%	100%	100%	100%	100%				100%
	Dock-to-Dock Days	6	6	6	6	6	5.5				5.5
	First Time Through	80%	80%	81%	85%	85%	87%				92%
	Average Cost	\$343	\$337	\$362	\$338	\$337	\$325				\$262
Capacity	Productive	29%	29%	29%	28%	28%	28%				40%
	Non- Productive	54%	54%	54%	52%	52%	52%				33%
	Available	17%	17%	17%	20%	20%	20%				27%
Financial	Revenue	\$471	\$485	\$456	\$490	\$488	\$526				\$576
	Material Cost	\$123	\$125	\$129	\$132	\$135	\$137				\$139
	Other Variable Cost	\$49	\$50	\$51	\$54	\$76	\$87				\$51
	Fixed Costs	\$120	\$120	\$118	\$116	\$116	\$116				\$108
	Profits	\$179	\$190	\$158	\$188	\$161	\$186				\$278
	Return on Sale	38%	39%	35%	38%	33%	35%				48%

Staff Scoreboards are also common in the lean environment



4.4. Weekly late project reporting

The world is full of innovative people who love to get on with a project but often fail to tie up the loose ends or finish it. I am always encountering projects which are stuck in limbo, and so will only be of value to the organisation when someone refocuses and completes them. Exhibit 4.4 is a report format which I believe should be tabled weekly to senior and middle management to enable them to focus on completion.

Exhibit 4.4 Weekly late project reporting

<u>Weekly Tracking of Projects That Are Past Their Deadline</u>			
Manager	Number of Projects Running Late	Number of Projects Running Late Last Month	Total Projects Currently Being Managed
Kim Bush	7	0	8
Pat Carruthers	5	3	10
Robin Smith	3	3	12
_____	3	2	5
List of Major Projects That Are Past Their Deadline	Original Deadline	Project Manager (Sponsor)	Time to Complete
_____	___/___	AB (YZ)	5 days
_____	___/___	DE (RS)	15 days
Strategic Plan Project	___/___	AB (RS)	90 days
Balanced Scorecard Project	___/___	DE (YZ)	15 days
Rolling Planning Project	___/___	AB (YZ)	60 days

Features: This list will help promote finishing. There is a dual focus, on the project manager and the project.

4.5. Weekly list of overdue reports

Far too often reports get stuck in in-trays. This report will prevent that from happening.

Exhibit 4.5 Overdue reports

<u>Past Deadline Reports</u>				
Week Beginning __/__/__				
Report Title	Date: First Draft	of Manager's In-Tray	Version #	Original Deadline
Annual Report	__/__/__	DP	>10	__/__/__
Annual Budget	__/__/__	DP	>20	__/__/__
_____	__/__/__	DP	>10	__/__/__
_____	__/__/__	DP	5	__/__/__
_____	__/__/__	DP	4	__/__/__
_____	__/__/__	PC	>10	__/__/__
_____	__/__/__	PC	1	__/__/__

Actions to be taken:

Annual Report	_____
Annual Budget	_____
_____	_____

Features: Focuses management on those reports that are well past their deadline. The version # helps management realise the cost of revisions. The manager's in-tray column focuses on the guilty manager and helps encourage action.

5. **A Board dashboard**

Board papers can reach mammoth proportions, tying up vast amounts of management time in preparation. Often, the result is late Board meetings with papers being sent to directors only a day or two before the meeting. The Board meetings themselves can then be side-tracked by detail with strategic overview inadequately addressed. In addition, Board meetings longer than five weeks after period end must create a tremendous amount of confusion, the last month passed being April but the report only discussing March results.

Directors themselves are often guilty of requesting changes to Board report formats, or additional analysis without first finding out what such exercises will involve, or giving staff guidelines as to how much detail is required.

A dashboard should be a one-page display (see the exhibit 5.1). There should 6-9 trend graphs and commentary should be included on this page.

A good dashboard with the KRIs going in the right direction, will give confidence to the Board that the management know what they are doing, and the “ship” is being steered in the right direction. They can then concentrate on what they do best, focusing on the horizon, for icebergs in the first-class lounge, instead of parking themselves on the “bridge” and getting in the way of the captain (who is trying to perform important day-to-day duties).

A board dashboard completed overnight

One accountant, after attending a KPI workshop went home and prepared a Board dashboard for the board meeting the following day. It was not hard as most of the graphs required had been prepared for previous papers. He simply updated and repositioned them. He arrived early to meet the Chairman and said, “I know you do not like surprises but I have just prepared a one page summary of the organization, I think you will find it useful”. The Chairman agreed and opened the Board meeting explaining the origins of this new one pager. It was such a success that accountant was instructed to make it the first page of all future the Board papers.

Exhibit 5.1: An A3 page Board Dashboard

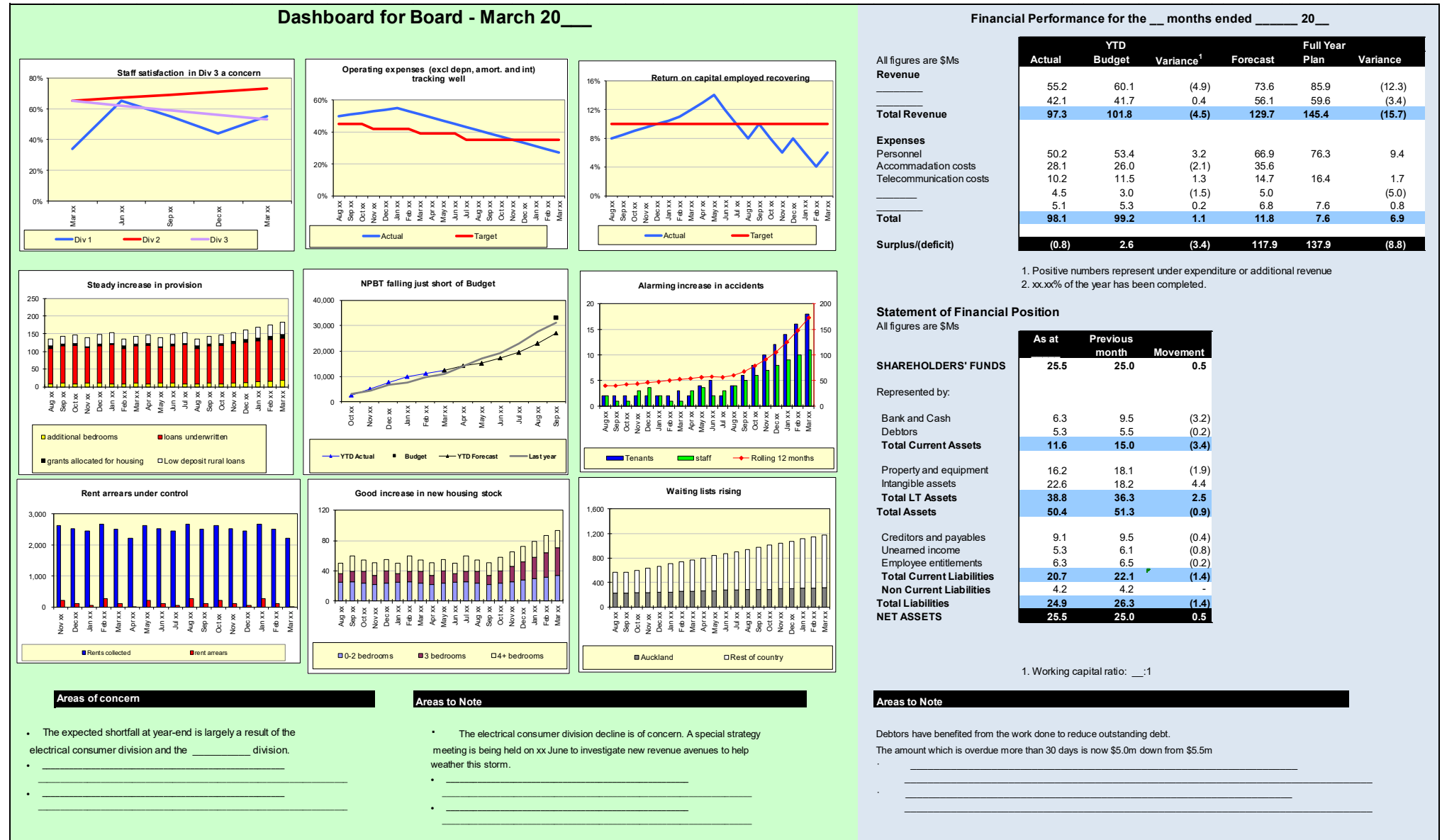
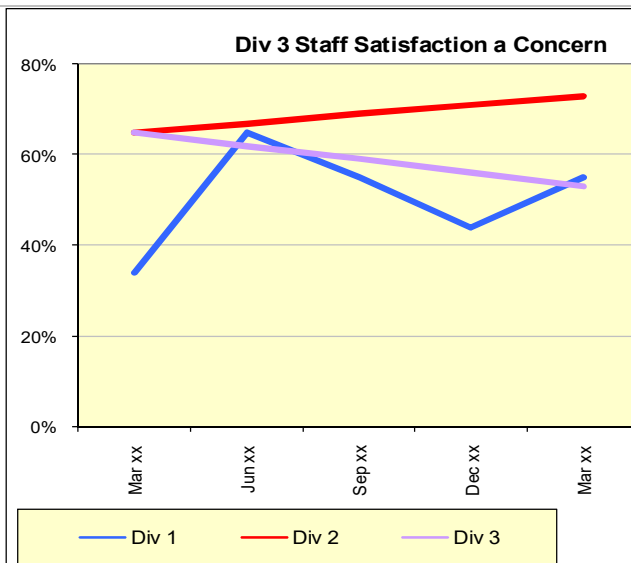


Exhibit 5.2 Examples of key result indicators for a Board dashboard

Staff satisfaction:

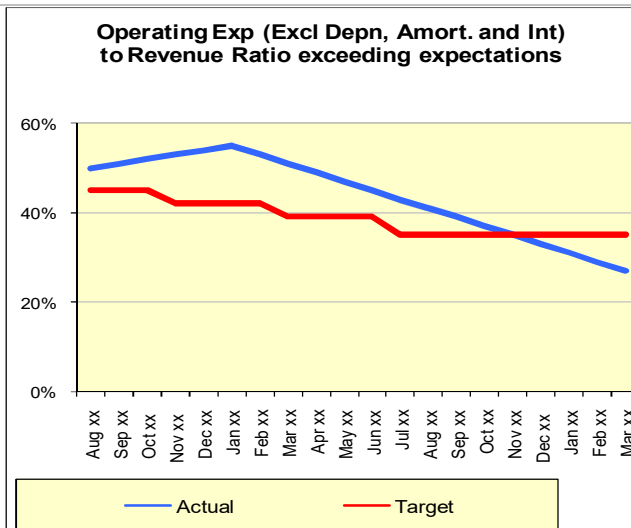
As one person said, "Happy staff make happy customers, which make happy shareholders." A staff satisfaction survey should never be sent out to all staff; instead a survey should be sent to a statistical sample run three to four times a year. This will give more useful and timely information.

See my article on "How to seek staff opinion and not blow your budget" www.davidparmenter.com.



Expenses to revenue as a ratio:

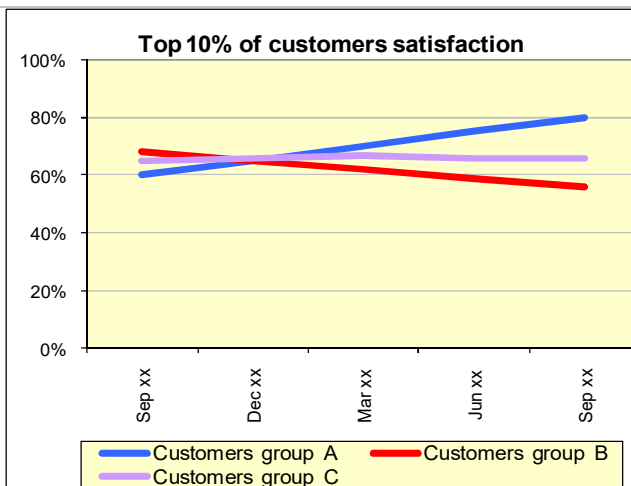
The Board should be interested in how effective the organization has been in utilizing technology and continuous improvement. This graph clearly shows if the cost of operations is tracking down as a percentage of revenue.



Customer satisfaction:

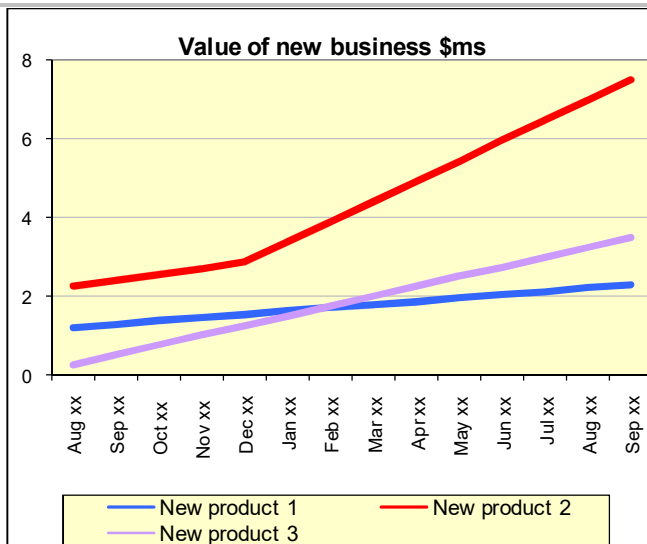
In every organization, your customers should be set out in groups as to their importance to you. Airlines have between four and five different categories for their registered frequent flyers. Satisfaction needs to be measured at least every three months for your key customers and for the next level down.

I believe the lowest group of customers should not be surveyed as they contain the disgruntled and price driven customers that are often not profitable and thus can be abandoned.



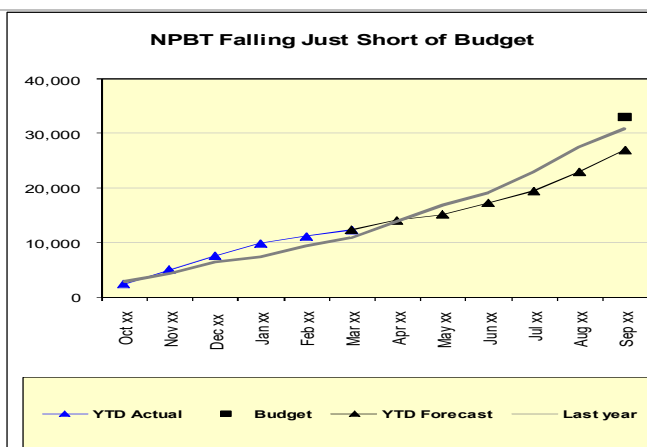
Value of new business:

All businesses in the private sector need to focus on the growth of their new offerings, their rising stars. In the government and non-profit sectors, this graph would look at the take-up of new services.



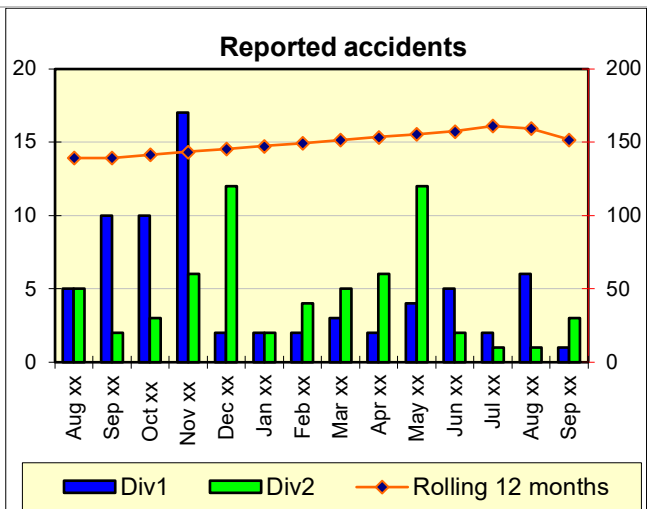
Net profit before tax (NPBT):

Since the board will always have a focus on the year-end, it is worthwhile showing the cumulative NPBT. This graph will include the most recent forecast, which should be updated on a quarterly basis bottom-up. Note that the year-to-date budget line is not included. Instead we show last year's actual progression which is a more valid comparison.



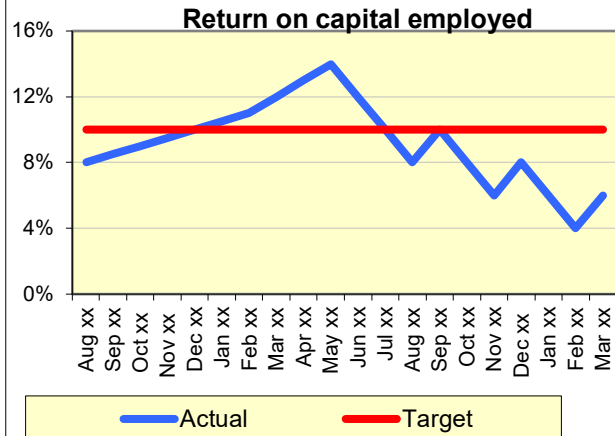
Health & Safety:

The well-being of staff is a major focus of responsible management, and boards are interest in the status. For manufacturing, accident rate, including near misses, should be the focus. In the service and non-profit sectors, we might look at staff turnover rate.



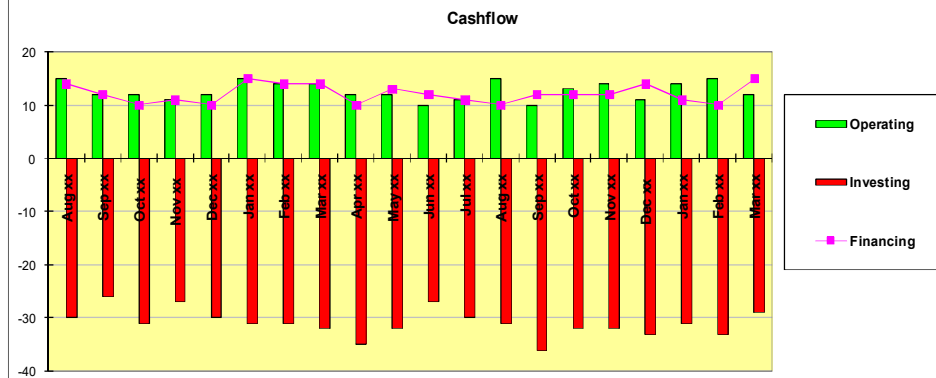
Return on capital employed (ROCE):

ROCE has always been an important KRI and should not ever be called a KPI. It is a result of all the actions of management and staff over a period of time.



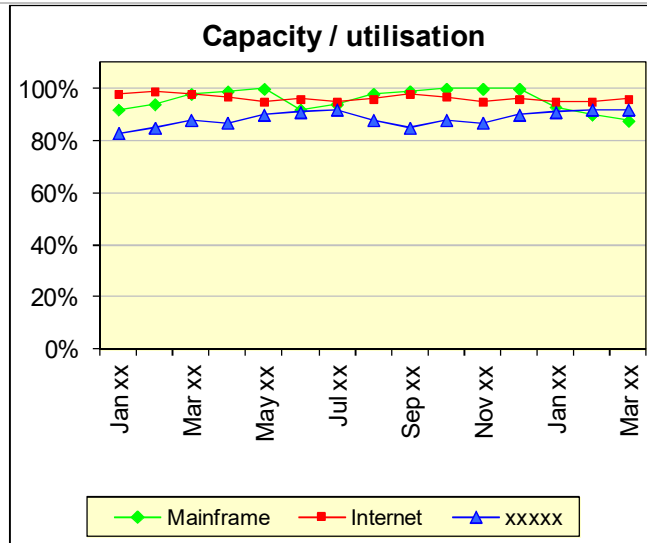
Cashflow:

This cashflow graph should look 15 months back and 6 months forward.



Capacity:

Monitoring the capacity of key machines and plant is always important. The graph should go forward at least 6 to 12 months. The board needs to be aware of capacity limitations, and such a graph will help it focus on the need for new capital investment.



6. **Other working guides**

I do hope this working guide has been useful and set out below is the current list of working guides you can purchase from my website. Each guide comes with electronic templates.

30 smarter ways of working
Attracting and recruiting talent
Future-ready technologies for the finance team
Getting performance bonus schemes to work
How to lead and selling change to the finance team, budget holders, and the senior team
One-page reporting
Quick annual reporting: within 15 working days post year-end
Should I stay or should I go?
Techniques to adopt from the lean movement
The hidden costs of reorganizations and downsizing
Time is on my side, yes it is
Unleashing innovation in your organization
What you need to know before undertaking a takeover or merger
Winning leadership: a Viking with a mother's heart
Wisdom from the great management thinkers

7. Writer's biography

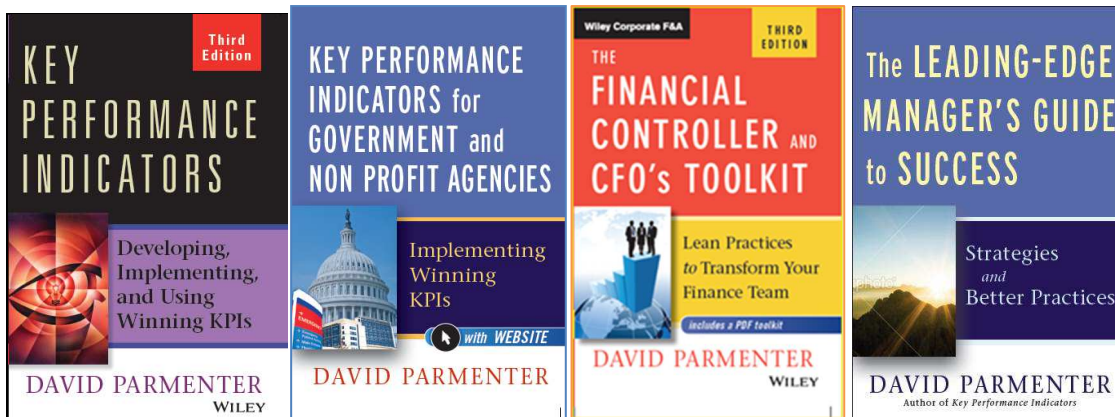


David Parmenter is an international presenter who is known for his thought provoking and lively sessions, which have led to substantial change in many organisations. He has spoken in 31 countries. Besides delivering in-depth workshops he has been a keynote speaker for the IBM Finance Forum, The World Capability Congress, TEC Malaysia, and Profiles International Romania. David is a leading expert in performance management practices that help organisations on the journey from good to great.

John Wiley & Sons Inc have published his four books, including “Key Performance Indicators – developing, implementing and using winning KPIs, 3rd edition” “The Financial Controllers and CFO’s Toolkit, 3rd edition”, “The leading-edge Manager’s guide to success – strategies and better practices” and “Key Performance Indicators for Government and Non Profit Agencies”.

David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants in England and Wales.

He has written over 100 articles for accounting and management journals. His published articles titles include: “*The myths around KPIs*”, “*the dark side of KPIs*”, “*the new thinking on KPIs*”, “*Measuring performance in difficult times*”, “*Quarterly rolling planning - removing the barriers to success*”, “*Throw away the annual budget*”, “*Rotten TOMs*”, “*Establishing an effective bonus scheme may not be straight forward*”, “*Why you should consider scrum communication techniques*”, “*Smash through the performance barrier*”, “*Is your board reporting process out of control?*” “*Beating the meeting*”, “*Abandon the broken processes and systems*”, “*Attracting, recruiting, growing and retaining talent*”, “*How to get it approximately right, not precisely wrong*” “*Conquest leadership- lessons from Sir Ernest Shackleton*”, “*Jack Welch’s winning ways*” etc.



¹ Maskell, Brian and Kennedy, Francis “Why do we need Lean accounting and how does it work” Wiley Inter Science 2007