

The 3 Keys to Achieving Astounding Performance

"It is an immutable law in business that words are words, explanations are explanations, promises are promises, but only performance is reality." - Harold S. Geneen, the man who built ITT into a global powerhouse

As business owners, we set standards for and measure Performance from the day we open our doors. We might not recognize that we're doing it, give it a name or consider it as anything but part of our job. For example, when we walk around we look to see if goods received recently have been put away, if a custom job is moving smoothly from work station to work station, or if our A/R person is making collections on time. All of these things are measuring Performance – but at an operational level, on a day-to-day basis.

As we become more successful, our Company grows, we add more overhead – space, equipment, people - and it becomes difficult for us to oversee everything ourselves. Inevitably, at the same time, more competitors appear, they use more aggressive tactics and our customers become more demanding. As owners we're still responsible for ensuring that the Company delivers exceptional Performance – but the way in which we do it has to change.

We now have to do three things. Firstly, set and communicate clear Performance standards for the Company, and make sure everyone understands them. Secondly, measure actual Performance against these standards regularly, give feedback to everyone involved and make changes if necessary. And finally, identify a few key indicators of success or potential problems in the business and personally measure performance against those our selves on a daily, weekly or monthly basis.

We set clear Performance standards when, for example, we:

- Lay out a picture of what we want the Company to achieve in the future in, for example, 3 years. We may say things like we want to have 60% share of a specific market or we want profit to increase to 12% of revenues. A great way to do this is via a Planning process.
- Help our key players work out what each/every part of the business will have to do to, for example, achieve the increase in operating profit. Also have them involve their direct reports in working out what their area has to do to support your goals.
- Have every member of staff come up with personal goals which support the Company's plan during their annual performance review.

Key inputs for our Performance standards incorporate our customers' expectations and what's happening in the rest of the industry. Have salespeople ask customers what problems they face in their business – and the changes taking place in their industry. Do regular Customer Surveys, they can be inexpensive to implement and easy to complete. But don't just ask customers to rate our Performance on the issues we think are important. Ask them which aspects of our products, deliveries etc. are important to them. Otherwise we waste time and money fixing the wrong things. (There really is only one question to ask customers, do you know what it is? Send me an email and I'll share it with you jimstewart@profitpath.ca)

Get information about the industry from the web sites and annual reports of publicly traded companies in the same, or similar, businesses. These companies

frequently publish financial data, for example their margins and expense ratios and operating information, even their service levels. We can use this information to guide our own thinking.

A good way to communicate Performance standards and make sure everyone understands them is to hold a meeting and tell everyone what the goals are for the year. Be open and frank about what will have to be done to achieve them. Encourage everyone to ask questions and ask for input. Hold key players responsible for sharing the Performance standards at meetings with their teams. Make sure they explain what the goals mean for each individual and how they can help beat them. Follow up by having the Performance standards published and by talking to people about them.

Measure actual Performance against Performance standards – and do it regularly. Imagine what would happen if an NBA, NHL or NFL team saw the results of each game only when it was over. The coaches and managers would have no opportunity to adjust their game plan for what had actually taken place in each period. Our businesses are no different. We need to take a half day just after the results for each quarter become available so that we can compare actual performance with our forecast. At the same time we should check progress with the SMART goals we set ourselves and our staff and see which have been completed. Compare developments in the economy, industry and marketplace against the assumptions and, with the help of our key players, make the necessary changes to our strategy. We should also share each quarter's results - good and bad – and the improvements we've made in your strategy with everyone at regular staff meetings and encourage questions.

Finally, we must identify a few key Performance indicators of success or potential problems in the business and measure them ourselves. Think about the things that give advance warning of trouble – in the company and in the industry - and pinpoint the top 3 or 4 of those. Some key questions which apply to every business and which directly address the health of the company are - do we have enough cash for the next 90 days, is the order backlog increasing or decreasing, are Receivables coming in on time, is Inventory increasing and/or getting stale, are we close to capacity in the plant? We need to figure out what the most important 3 or 4 are for our Company. Then we have to have someone collect the data on them and give it to us regularly. I'd suggest we look at them at least once a week – particularly when there is a lot of change going on in the industry and in the company. Our financial statements – income statement, balance sheet and cash flow statement - are an important source of information. We must insist we have them early in the month because while those financials are useful, they're also historical. They tell us the facts about a period that's already gone. Getting the previous month's statements after the fifteenth of the current month should be unacceptable. (I know of someone who says it's better to be pretty accurate and early rather than very accurate and too late.)

To take issue with anything I've said or to share your experiences, send me an email at jimstewart@profitpath.ca or call me at 416-258-9610.