



Numbers, Business Performance, and Strategy Execution

The VECKER Institute has published white papers on good governance and risk, two topics that set the framework for business performance and strategy execution. We now turn to three tangible areas – numbers, operations, and people – that together affect how well a business is able to carry out its plans, as well as sustain profitability, growth, satisfaction, and excellence. This white paper covers the first of the three areas: Numbers.

The Role of Numbers

‘Numbers’ refers to the quantitative measurements of financial performance, investments, returns on investments, and operating performance. They are benchmarks, set in the strategic planning process, and they make strategic goals clear and specific. They define what the business’s operations are expected to produce and accomplish, and they direct the actions, performance, and evaluation of the business’s people, from the top executive levels down to managers and the workforce. Through these interactions, the numbers, operations, and people work together to meet the strategic goals and deliver top-level results.

Numbers are used to:

Drive top-level performance. By defining the goals of the strategy execution, the numbers serve to guide performance, describe what must be accomplished, and set expectations for results. The numbers make sure the business – including operations and people – are headed in the right direction and are working toward profitability, growth, satisfaction, and excellence.

This white paper was written by Thomas Cowan and the thought leaders at the VECKER Institute, which provides business executives and Board members with the practical tools and applications they need to build great companies and to carry out effective governance of the business. We are interested in receiving your comments on this white paper and on the topic of good governance. Please contact us at: info@vecker.com.



Analyze performance. The numbers indicate whether strategy execution is successful, how profitable actions and decisions are, how smoothly processes are running, and which areas need attention and revision. The numbers – hard data – also support the detailed, rigorous analysis and evaluation of less tangible aspects of business performance, including how well operations and people function.

Support good governance. The Board of Directors and executives compare the benchmark numbers to actual results to measure the effectiveness of the strategy execution. If goals are not being met, the numbers can be used to identify areas that need to be strengthened and to adjust operations and people to work toward the desired results. The numbers can also be used to set executive compensation and various forms of bonus and benefits distributions.

The business's stakeholders need valid, complete, and pertinent numbers to monitor their interests and make decisions. Investors, for example, make decisions to buy or sell based on numbers. Employees are evaluated and rewarded based on numbers. Suppliers and customers judge the health and reliability of a business based on the numbers and results released to the public.

Manage risk. Numbers are part of the business's system for identifying, monitoring, and handling risk. Financial data tell executives whether assets and cash flow are sufficient to carry out and sustain operations. Data about resources and supplies of materials may warn executives about oversupply, scarcities, rising costs, or service interruptions. Information from studies of market behavior indicates whether customers are purchasing the products and whether they are satisfied with the business's actions or offerings. In difficult economic times, it is even more important for executives to watch the numbers, so they are able to respond quickly to changing conditions and marketplace risks.

Setting Goals in Relation to Numbers

The numbers are most useful when they can be compared to specific targets that were set in the strategic planning process and were committed to the Board. The numbers serve as the basis for discussing and judging business performance and strategy in a simple, common way.



The strategic planning process involves:

- Developing an integrated, long-term set of goals and actions to pursue growth and opportunities
- Creating systems and procedures for identifying, monitoring, and handling risks in the business environment
- Setting procedures for capturing feedback and information used to review and revise the strategic plan

Strategic planners set specific, numerical targets and measurements against which results will be compared. It is essential for the planners to identify exactly which key measurements will indicate whether the strategy execution is succeeding or failing and whether the operations and people are working toward the desired results. The specific measurements must be directly related to the strategic goals and will vary from business to business, depending on the type, size, and purpose of the business and the details of the strategic plan.

The key numbers may include the following:

Investments. Investments are the resources needed to operate the business and create returns. The business must hire and pay the people who do the work, maintain staffing levels, and offer benefits packages. The business's offices and physical plants must be equipped to carry out the work. Key numbers might be: number of full-time equivalent employees, fixed costs, capital expenditures, and variable expenses.

Operations. Operations are the functions needed to carry out the work. The business must make and sell its products or provide its services. It must manage inventory, maintain customer service programs, and carry out marketing and sales programs to attract customers. Key numbers might be: measures of customer satisfaction, indicators of qualified sales opportunities and pipeline, and benchmarks of product excellence.



Returns. The purpose of the business is to get returns of various sorts. The business needs to collect revenue, have the cash to pay its bills, and provide returns to investors. Key numbers might include: revenue, profit, return on equity or capital, and cash balance.

For each key number, the planners must set a dollar amount, percentage, or other specific benchmark, against which the results will be measured.

Numbers in Monitoring and Analyzing Performance and Results

As the business performs its operations and its people carry out their work, data are collected by management systems and are used as feedback for monitoring and analyzing performance and making sure that the business is headed in the right direction, while maintaining a responsible level of risk. Executives look for weak spots, faulty processes, and underperformance, and they make revisions to get strategy execution back on track.

Any actions taken as a result of this analysis will only be as good as the numbers on which they are based. Good, useful numbers must provide a transparent look at all aspects of the business; cover all operations, divisions, and components; and be valid and pertinent. The numbers must be well defined in the goal-setting process and must measure exactly what managers and executives need to know.

Too often, the numbers are not useful. The planners may not have correctly identified the key numbers to begin with. The data may not be complete or may measure too narrow an aspect of the business. The information generated may be misleading or incorrect. The numbers may not be in a useful format; dollars must be compared to dollars, percentages to percentages, and so forth, or else it is likely the results will be misinterpreted.

Because it is imperative to collect useful, valid, and pertinent numbers, the business must make sure that its management systems are designed to capture and generate the right information. The systems must be comprehensive enough to cover all areas that are to be measured, coordinated so the numbers can be compared, and able to take deep, clear looks at what is actually happening. If the business's systems cannot provide the information needed, they may have to be restructured or redeveloped.



Good strategy execution depends on the ability of the business to monitor and analyze what is happening and make adjustments to improve operations and performance. Good governance depends on the ability of the Board and executives to see and measure results. Good risk management comes from being able to identify and handle issues as they arise. Good numbers are essential for all of these processes. The success, profitability, satisfaction, and excellence of the business depend on them.

A Management System that Provides Numbers for Effective Business Performance and Strategy Execution

The VECKER SX and Tagetik 3.0 Strategy Management *powered by VECKER* are tools used by business leaders to successfully execute their strategies, meet their goals, and manage risk. It is a proven strategy execution management methodology built into a customizable, technology-based operational management system that:

- Gives a transparent look at the key elements of a business – goals, numbers, risks, operations, and people – and the relationships among the elements
- Provides high-quality qualitative and quantitative operational data that help review and analyze those elements
- Identifies problems and risks in key areas as soon as they arise, and reports on those problems
- Covers a business's financial systems, processes, and activities
- Provides a consistent and repeatable framework for managing strategy execution, judgments, decision-making, and goal setting from the business unit to Board levels
- Evaluates the overall performance of the business
- Tracks business performance over time

This functionality gives the Board and executives the ability to look thoroughly and deeply at a business's operations, address risks and problems, improve operational processes, make informed decisions, and run the business efficiently and responsibly. The business is positioned to plan and execute effective strategies and to react to changes in the business environment. It is able to provide accurate pictures of business performance and the operating environment to stockholders and external entities. In



other words, the VECKER SX and Tagetik 3.0 Strategy Management *powered by VECKER* contribute to the success of the business – growth, profitability, satisfaction, and excellence.

Summary

Numbers give the Board and executives the hard data needed to monitor, analyze, and assess business performance and strategy. Key numbers are identified in the strategic planning process, and specific targets are set to measure performance against goals. The business's management systems must be able to capture valid, complete, and pertinent numbers that show whether operations, people, and strategy execution are effective, and they must point to where adjustments are needed. The VECKER SX and Tagetik 3.0 Strategy Management *powered by VECKER* are tools that provide this functionality and can be used by executives and the Board to sustain profitability, growth, satisfaction, and excellence of the business.