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Why most financial reporting is useless to managers



CFO View By Irwin Hurn

I often hear from CEOs, business owners and managers that they receive monthly financial reports, but that they don't understand them. Usually they blame themselves for not having the knowledge or the inclination to make sense of the reports.

Baloney.

CEOs and others are plenty smart. It is the reports that are the problem. One of a CFO's duties is to create an executive reporting system and a financial model that generate understandable reports that can be used by management to run the business. These are very different than the financial statements typically created by the accounting department and the controller.

Most accounting reports address the requirements of the Internal Revenue Service, regulatory authorities, banks and investors. These entities want to know how well the company did in the last month, quarter or year. Various rules known as Generally Accepted Accounting Principles (GAAP) help to make reports comparable from company to company.

To be effective, managers don't need to know how the company did, they need to know how it is doing, and where it is going. They need information and tools that will help them make decisions about hiring, expanding production and acquiring capital equipment. They want to know when the company will need more office space or when to shut down a production line for extended maintenance. The information varies by company, by the person's management level, and by the type of job held by that person in the company.

Moreover, the type of information needed changes over time. Performance measures that were important last year may no longer be important after a major new product line has been launched or the

company has divested a division. The board of directors needs different information than the manager of production. Knowing what information to present is critical to making it useful.

Even when the right information is presented, I often see major problems with how that information is presented; columns and columns of figures, page after page after page. Sometimes they go on for 20 or 30 pages, when a simple graph would really provide more information and be easier to understand.

But just using the cool graphing tools in Microsoft Excel or other software doesn't mean you will automatically get the most effective graph to present the information. Bar charts, pie charts, line graphs, percentage bars, radar charts and other charts all have different purposes. I recently received an industry report from one of the Big Four accounting firms. Even though they do extensive industry sector reports and get paid handsomely for the work they do, the type of graph used for seven out of 15 graphs was poorly chosen.

I find that many people do not know how to use their tools effectively. Here are some examples:

- I see financial reports dealing with millions of dollars and the numbers are presented all the way down to the penny. Could this be true? Can a five-year business projection dealing with millions of dollars really be exact down to the penny? If you know someone with that ability, I want them to be my investment adviser. I can't even get that close estimating the tab for tomorrow's lunch.

- Printed spreadsheets with all the grid lines turned on. Yuck. Using a computer to print graph paper is crazy. Especially when only a few of the cells contain any information. Use lines where they help guide the eye of the user to essential information. A few lines are good. More are not necessarily better.

- Believe it or not, I have also seen computer spreadsheets with no formulas. The totals for the rows and columns were totaled using a handheld calculator and then plugged in manually.

Why have a computer? Sometimes these people are the ones that complain that their computer isn't fast enough. Please. Learn the basics. Most spreadsheets have amazing power. I consider myself a power user and am still amazed by the types of calculations and auto formatting abilities that my spreadsheet can do.

- From the look of some reports that I see, some people have just discovered color and others haven't discovered it at all. Handing out a report with full page graphs with a solid color background and meaningless data to a room full of people may look impressive, but it only points out that its creator doesn't know what they are doing and doesn't care about the cost. Likewise, excessive use of colors and fonts on a financial statement is actually distracting from the purpose for which the report was created. Some color is good. More is not necessarily better.

This is basic stuff. But it needs to be right. The cumulative effect of useless financial information and a confusing presentation makes it no wonder that CEOs get frustrated.

So here's my advice. Ask for what you want. Demand excellence. Clearly state what information you must see. If you are not getting the reports that you need, say so. If you don't understand a report, ask for an explanation. Keep asking until you do, or find the people who can do it. Make changes. Make sure that all levels of management know how to understand their reports and know how to create understandable reports. You can't run a successful business or do your job effectively if you can't get the information you need to get the job done right.

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