

Industrial Manufacturing

Macromanagement will help you grow your business

It's easy to understand how owners of manufacturing and distribution companies can get in over their heads when juggling all of the responsibilities and day-to-day operations that running a company entails. It's a constant struggle to strategically allocate time to all of the areas of the business.

As companies grow, the owners need to realize that success requires a team effort. Owners should spend their time growing their companies through macromanaging the operations and day-to-day transactions of their business.

One of the challenges of macromanagement is that owners must give up control and delegate responsibility while maintaining accountability of performance. The first step in making this transition is realizing which roles the owner should take to grow the company.

Some owners will find the most benefit in dealing strictly with building customer relationships, while others will spend their time studying the market to identify new products and industry trends. Whichever role is chosen, it should put them in the best position to develop and expand their businesses.

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Once owners identify their own roles, they then need to delegate responsibility of the departments to their employees and hold them accountable for those areas.

This is where the transition to a macromanagement system becomes difficult.

One of the biggest mistakes made during the transition is the failure to hold department managers accountable. If the departments operate poorly, owners often feel obligated to take back control and start micromanaging that area. This prevents them from performing their role of growing the company.



To avoid this pitfall, owners need to incorporate internal controls and performance measurement tools that will allow them to track the company operations without being involved with them firsthand.

Internal controls are designed to provide reasonable assurance over the accomplishment of company objectives related to financial reporting. They provide the company with a way of directing, monitoring and measuring its resources, and they also play an important role in safeguarding assets and assisting to prevent and detect fraud.

Internal controls are critical in allowing owners to macromanage their business. They not only may help prevent theft but also allow the owners, when operating effectively, to dictate the results of the department operations.

No matter the size of a company or how successful it is, the importance of internal controls should never be overlooked.

Performance measurement tools can include many items that are regularly used by the owner to track the department's performance and hold managers accountable.

These tools include items that are unique to their business or universal to all companies, but they should clearly and accurately present the performance of the company to the owner.

Budgets are one such tool, and they provide the department heads with clearly documented goals and a set of expectations for which they will be held accountable. They also provide the owner with valuable information that helps to quickly identify and evaluate the performance of the company.

Most companies supplement an actual-to-budget variance report with a narrative that describes which areas have large variances and why. It is equally important to include nonfinancial measurements as well as financial amounts to understand what is happening.

For example, by including the number of employees or the number of sales by each product, the owner can draw more accurate conclusions about how the company performed. Payroll that appears over budget might send up a red flag, but the reason may not be too many employees. It may be the result of inefficiencies or a labor shortage which may result in overtime.

Further, sales may be up, but without the number of products sold, it is hard to know if market share was gained or there were price increases. These types of quantifiable measures must be tracked and monitored to draw accurate conclusions.

Another performance measurement includes the use of ratios that provide further information about the relationships of financial performances. This allows the owner to track cash-flow levels, profitability and the company's investment in inventory.

By calculating the accounts receivable and inventory turnover ratios, owners can quickly monitor their company's investment in inventory and their ability to collect accounts receivable from their customers (i.e., cash flow). They may also decide to closely monitor ratios that are included in their loan covenants to avoid unpleasant surprises later.

Many companies create a report formatted to their own preferences that shows a budget-versus-actual variance report and other performance indicators in a quick and easy-to-read style, often referred to as a vital sign report, report card or business report.

By regularly observing these performance reports, owners will find a much more efficient means for monitoring the volume of business transactions and identifying trends, deviations or inefficiencies.

Through a system of macromanagement, owners motivate their employees to perform well while allowing themselves to concentrate their time on growing a successful business.

As someone once said, if you ignore your business – it will go away!