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From Accountability to Profit

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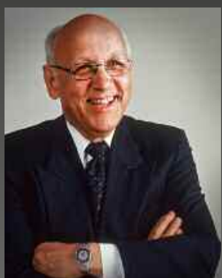

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Do you have topic ideas? Comments or questions?

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***How do I know if I am making a profit on a daily basis? My intuition is pretty good but I'd like to be sure. Better still, how do I know if my employee, Sam, is making me a profit – or George or Eloisa?"* There is an answer and we will attempt to discuss it in about 500 words.**

It begins with Accountability

In a previous article[1] we showed that there are 10 steps to achieve accountability of an individual. Among those steps are the unusual processes of (i) the necessity of ensuring the employee is in agreement with the measure (ii) delegating sufficient authority to the employee (iii) setting the bar (measure) as low as the employee wants, and (iv) reviewing the bar setting every 3 months with the employee. Done this way Accountability puts the individual in charge.

KISS

Keep It Simple, Stupid is a common refrain which we embrace completely. In the case of our worker, Sam, let us define only ONE of the tasks of the employee, albeit the most important task of that person, for the Accountability measure. The measure tells us how well the task is to be done. It has to be so obvious that anyone can see if the measure is being reached or not[2].

The Core of Accountability

As we showed in last month's article, the key to making accountability work is one word: 'authority' (read real delegation). In support of that, the core of Accountability is the maxim that you cannot make a person accountable for something over which the person has no control. This changes how we should view things – tasks and numbers related to those tasks. For example, in construction:

- The person who bids can control direct cost estimates and pricing, but not overhead.
- The project leader on the job can control time spent and materials used but often not employees selected.
- The worker can control time spent and amount of materials used but often not material brands selected.

Project monitoring figures have to measure controllable items at each level – otherwise you are NOT measuring accountability. Therefore project estimating figures and all the steps in the project chain have to get in line with that concept.

Dispatching the Accountants

With a sweep of the wand, I want you to forget what you have learned from your favorite accountant. If you follow our accountability model, only numbers over which the individual has con-

[1] See "*The Accountability Mess*", Volume 6, Article 12 of CCCC Newsletter, December 2007

[2] We do recommend three tasks to be measured usually, but let us start with one till you can see the system working.

trol should enter the equation. FORGET ABOUT ALLOCATIONS. Let the rent for an office lie with the person in charge of renting the office, not the person who occupies it!

Two principles must reign supreme: (A) All numbers we apply must be directly accountable. (B) Margin must be defined as a controllable item. While we can't show you a situation for each employee in such a brief paper, we can show it for the company as a whole, as we do below.

To make a group accountable we need to define Margin a certain way. It is the money left over after all direct costs have been attributed to a sale. A direct cost[3] is a cost incurred because the sale was made. If we did not make the sale, the direct cost would not occur. For example if I build and sell a house at 44 Avon Street, the direct cost would be the labor and materials associated with the house at 44 Avon Street and nothing more. NO ALLOCATIONS PLEASE. The difference between the selling price and the Direct Cost is the Margin.

Outlining the Accountability Model

With these principles in hand, we can define the financial situation for companies by creating three types of accounting realities: Green units make money; yellow units are at or around breakeven – a necessary service, say; and red units cannot make money. Example of a green unit is a manufacturing group, yellow a technical writing department, and red, an accounting department. Now let us show all the combined groups that way: *(See Table 1)*

By extension, this model can be broken to smaller departments and to individuals within each department as long as the accountability principles are followed. No one or no group is allocated with items over which they do not have a full say or full control. We call a spade a spade; we simply expect a duck to quack and a cow to moo – not the reverse. As we plan our future, we need to focus on growing the green departments, especially the ones with the greatest margins, not the yellow and certainly not the red units.

Making the Company Profitable

If we master accountability for one group, we can apply it any employee within the group, and thus from the individual, back to the whole company. All the pieces of the financial puzzle, including pricing, will come together to have control and measures tied to profit for the entire enterprise.

The profit situation is totally controllable, but you must be willing to think outside of the box.

Good luck

Bill Caswell

[3] Direct Cost is not equivalent to Cost of Sales; it could be, but it usually is not.
[4] This last 'Margin' is actually profit for the company.

Table 1

Units (Example)	All Green Units (Production, say)	All Yellow Units (Training Dept, say)	All Red Units (Executive group, say)	Total Company
Sales	\$5,000,000	\$1,050,000	\$0	\$6,050,000
Direct Costs	\$2,000,000	\$1,000,000	\$2,000,000	\$5,000,000
Margin	\$3,000,000	\$ 50,000	-\$2,000,000	\$1,050,000[4]