YOU AND YOUR ACCOUNTANT

Some agribusiness managers display superior talent in their ability to control business financing. Others are capable of exerting control over financial operations, but do so with distaste. Still others prefer to practice their profession in other areas and leave financial responsibilities in the hands of their accountant or fiscal executive.

Whatever your own degree of expertise in financial management, there is no excuse for delegating all financial considerations to others. As manager you are expected to stay on top of your firm’s financial affairs. To do so, you must ask the right questions of the right people at the right time.

In most cases, your accountant or fiscal executive is the “expert-in-residence” regarding financial matters. As such, he is the most convenient and appropriate person to ask for information. The time at which to ask questions depends on particular business circumstances. Usually, a routine reporting system should be established with enough inherent flexibility to allow for coverage of crisis situations. Asking the right questions is probably the most critical requirement in maintaining adequate control. These questions will dictate the fundamental relationship which will exist between you and your accountant.

An Overview

An agribusiness manager needn’t become totally involved in all the details of finance. He should, however, be in receipt of a steady flow of information on key financial matters.

Every manager should be aware of his firm’s profit on sales, liquidity, cash position, return on investment, inventory turnover, etc. His awareness must be:

1) continual,

2) trend-oriented, and

3) based on the desire to maintain an overview of his firm’s financial affairs.

Too often, the value of an accountant’s report to the manager is judged by its weight and thickness. The manager is often too busy to read a lengthy report and sort out the key financial indicators. To be most effective, therefore, the accountant should condense the information into something a busy man can read quickly and proficiently.

In view of this, a good manager sets up a close working relationship with his accountant. It is his responsibility to tell the accountant what information he needs in order to maintain a business overview. He may ask for a joint meeting to discuss:

1) what information is needed,

2) what information is relevant, and

3) what information is available.

The manager-accountant relationship will prove beneficial only if the manager has enough financial savvy to assess and quickly interpret balance sheet and income statement entries. This is especially critical in a multi-division agribusiness. A common
characteristic of many agribusiness managers is a reluctance to close out an unprofitable division. Logic, sentimentality, and disbelief are all rallied to the defense of continuing the operation. If the accountant’s financial reporting system is complete and comprehensive, it will enable you, as a manager, to take a hard look at the facts behind the figures and initiate remedial action, while experiencing fewer second thoughts.

The questions you submit to your accountant, therefore, should be action-directed, e.g.

1) What is our return on investment?
2) Do we need additional financing?
3) How costly is our present loan repayment schedule?
4) Etc.

If the information provided by your accountant does not help answer this type of question, it will probably be of little practical value.

**Your Reporting System**

Agribusiness managers would be well advised not to accept a financial reporting system designed exclusively by financial specialists. If you accept such a system, you open the possibility of learning only what the specialists want you to know. Because of their training, perhaps, accountants are inclined to prepare accurate statements which depict what is happening, but fail to consider why it is happening. Gross profit on sales, for example, depicts a result of business operations only. If this figure happens to be declining, little information is provided as to why this is occurring. Normal financial statements provide the manager with little direct information regarding product obsolescence, increasing competition, personnel limitations, etc. Yet these factors may be the real answer to why gross profits are declining.

Your financial reporting system should be more than a routine report which appears on your desk each Monday morning and provides data but not answers. As a manager, it is your responsibility to instruct your accountant as to:

1) how often you want a financial report,
2) what types of information it should contain,
3) how the data is to be interpreted, and
4) the depth in which it is to be analyzed.

The interpretation of these reports becomes a critical factor. The trick, of course, is to look not for numbers, but for causes. Your accountant’s report should be decision-oriented so your interpretation will accurately identify those factors most seriously affecting your business. To do this, it may be necessary to have your accountant attach a brief narrative summary giving the highlights of the report. This summary should pinpoint areas where remedial action seems warranted and answer some critical managerial questions before they’re asked. It should give you, as a manager, an instant short- and long-run picture of each business division vis-à-vis established goals and objectives.

What type of information should your financial reporting system provide? To be both practical and applicable, it must be tailored to the needs of a particular business and manager. It may consist of a combination of financial charts, graphs, and comparative
data. If your business is engaged in food processing, for example, you may ask your accountant for information on productivity, equipment utilization, order backlog, inventory turnover, effects of price changes, division break-even points, and capital expenditures.

Trouble-Shooting

Consider that the financial operation of your agribusiness represents a pulsating heart -- increasing its activity during periods of economic crisis and decreasing it during periods of reduced business stress. As a manager, it is your responsibility to check the financial pulse rate frequently to assure that flows and activities are maintained within the physical limitations of the firm. As a doctor would react to abnormal chest pains, you must maintain an awareness of abnormal pains in the corporate body. Your goal is that of a diagnostician -- to identify the cause of these abnormalities and prescribe a cure.

To continue our analogy, your financial report may be looked upon as the printout of an electrocardiogram. When analyzing this report, therefore, you are looking for deviations from what is normal. Abrupt changes in cash position, working capital, or relevant financial ratios would indicate the existence of a malady in the corporate body.

The process of trouble-shooting has not really been completed until the cause of an abnormality has been identified. In search of this cause, a manager will commonly consult with many individuals. In this regard, a consensus of opinion is rare. You'll get one answer from your marketing director, another from your production superintendent, and perhaps a third from your accountant. In the end, you will have to weigh all answers in the balance. A financial reporting system that is dollar-oriented, not figure-oriented, will make it easier for you to trouble-shoot on a person-to-person basis.

Commonality

Communication is a vital part of financial analysis. A misunderstanding between you and your accountant may become a major roadblock to excellence in financial management. Do you both have a common understanding of the terms depreciation and budget? When you speak of a goal, is your accountant aware that you are referring to a target, a forecast, or a projection? All managers should strive for commonality of financial terminology. It is often a time-consuming task. However, it is better to achieve this common understanding before launching a major project than to say, “Let’s get started and worry about the details later.”

Recently, the so-called nuts and bolts meeting has been devised to establish commonality among the management team. This meeting is designed for an open discussion of problems and operations. Executives from many disciplines or divisions are deliberately thrown together and confronted with existing internal confusions. This situation lends itself naturally to the identification and clarification of business goals, policies, and procedures. Semantic misunderstandings are thereby reduced.

The issues discussed may not be directed to financial management, but over time, many major problems do resolve themselves into matters of dollars and cents. A free and commonly understood flow of information between you and your financial personnel represents a giant move towards a well-coordinated financial reporting system.

What If…..?

At first glance, the relationship between a manager and his accountant would seem to
require a very down-to-earth attitude. It does. However, if this relationship is to be most profitable, some abstract thought and imagination are also required.

The abstract thought and imagination relates to the ability of financial planners to project themselves into many different business situations. In other words, a manager should ask his accountant a series of “what if” questions, e.g.

1) What if we suffered a prolonged business recession?

2) What if another competitor entered our market?

3) What if we fail to receive long-term financing?

4) Etc.

Have your accountant figure out what would happen to your income, cash flow, and overall financial position if business should fall by 10%, 20%, or even 30%.

When answers are available, plan appropriate strategies which would minimize problems and possible losses under each set of circumstances. This procedure is often referred to as contingency planning and requires that your operation be designed to absorb the impact of a serious economic crisis. Even if crises do not develop, contingency planning will pay for itself in peace of mind and operational security.

If a business decline should appear on the planning horizon, attempt to convert your financial reporting system to a trouble-oriented environment. Make unexpected demands on your financial personnel until performance no longer lags. Ask for a daily financial report in place of the weekly version. Shock them, if necessary, into an awareness of the crisis. However, don’t go overboard in your demands. A paper and pencil may be just as effective in a crisis situation as an expensive computer.

The Search

What you don’t know about financial management will be less of a problem if you know where to search for help when it is needed. A sound relationship between you and your accountant may only partially fulfill the demands placed on you as a manager. Many managers believe that the best way to sharpen financial savvy is to establish a day-to-day working relationship with bankers, businessmen, and others in the finance area. Again, if this type of relationship is to prove beneficial, you must ask questions.

What about training through seminars, symposia, and clinics? If a manager is to gain from this experience, the training should be more heavily directed towards management finance than financial management. In other words, your accountant is the person who should be highly trained in the ways and means of sophisticated financial techniques. As a manager, your training should be more concerned with preparing you to oversee the total financial operation of the firm. Your goals should be to:

1) broaden your awareness of the kind of information you need from the financial reporting system,

2) improve your ability to quickly and accurately interpret this information, and

3) enhance your managerial skill in initiating correct remedial action when financial problems arise.

Under some circumstances, your search for improved management of business finance
may require establishing an internal training course or retaining a private consultant. If you choose either of these methods, follow through with the thought that this search for information is a costly endeavor. Make maximum use of your expenditures. For example, it is your responsibility to see that the consultant is earning his fee.

Summary

A sound manager-accountant relationship is a critical factor in the attainment of excellence in the financial management of an agribusiness firm. This relationship depends on the manager’s ability to ask the right questions of the right persons at the right time.

The financial reporting system used in your firm may indicate significant weaknesses in this manager-accountant relationship. If this reporting system is to effectively assist you, its design should be:

1) action-oriented,

2) dollar-oriented,

3) decision-oriented, and

4) trouble-oriented.

The financial information provided by your accountant should provide an up-to-date overview of the firm as a whole and by division. The system must be designed to pinpoint abnormalities in day-to-day operations and identify suspected causes of these irregularities. Commonality must be incorporated into the system to minimize internal confusion and misunderstanding. Finally, a large proportion of the information provided by your accountant should be in answer to “what if” type questions.

Ken D. Duft
Extension Marketing Economist