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Pythagoras, where art thou?

From the dawn of ages, many have tackled the complex operation of keeping score. Whether using primitive techniques to quantify time or applying complex economics to manage large capital assets, a wide range of monetary problems requires solutions grounded in understanding how the numbers work.

I've often been called a numbers guy. By looking at key ratios, I can instinctively identify trouble spots — as can many people who know their numbers. But knowing what to do about them, or what is causing them, is much more complex.

Sharpen your financial IQ with these 10 steps:

1. **Use a chart of accounts** — Make sure your company is using a chart of accounts to manage important costs. As a general rule, it is necessary to have separate cost of sales accounts for each type of sales or revenue account. Labor is your single largest manageable cost. A chart of accounts will help you manage it.
2. **Keep in mind the velocity of cash** — More has to come in than go out.
3. **Net not** — The bottom line isn't the bottom line. Many managers look at the bottom line, and if the net gain/loss numbers look OK, they do not dig any deeper. This is a mistake.
4. **Welcome pushback** — Don't be afraid of the Devil's Advocate. Pick someone on your accounting team to challenge your results. You want your accounting team to help you see things you might miss or take for granted.
5. **"Like" your P&L** — The balance sheet is your friend. This is the true measure of your business's health. Learn your ratios, what they mean and how to influence them.
6. **Get a budget** — It will help you build, re-build and provide the tools to guide spending and measure your short- and long-term success.
7. **Get a fiscal posse, too** — Enlist key members of your accounting and management teams to help build a sustainable budget. This gives them shared ownership in doing their part to achieve the targets.
8. **Be an open book** — This does not mean you have to share your whole financial statement with your team, although some companies do. Be open with your employees about numbers they can influence. This benefits their sense of ownership, helps engage them in a positive outcome and is good for morale. For instance, operations managers should see sales and job costs; crew leaders should understand how the hours work.
9. **Manage what you can measure** — Measurement is the cornerstone of evaluation. You can determine whether your practices are improving or deteriorating, and assess processes and outcomes. You can become more successful over time if you measure where you are now.
10. **Offer incentives wisely** — Aligning business goals and targets with organizational structure can generate positive outcomes. When these are misaligned, there is a danger that performance can become self-serving. If you create incentives for employees to achieve targeted goals, beware of unintended consequences: It can bleed red ink and create a cutthroat culture. More damage can be done by an ill-conceived plan than no plan at all. This is one area where you should get help from consultants or other contractors you know.

Numbers are important and require rigorous attention to detail. But stressing financial numbers can also contribute to sending mixed messages to your team. Remember that other numbers have an equally important value system in your business: the number of people who trust and respect your company; the roster of satisfied (and retained) customers; having a high percentage of engaged, motivated employees; and the amount of credibility your company has in the community.

Whether you use an abacus or an Apple, measurement is the best practices way to ensure your company has an agenda for action.