



How to evaluate the effectiveness of a company's decision-making process

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Small and medium businesses do not usually spend much time thinking about the quality of their reporting. After all, they have other priorities to tackle that could drastically alter the fate of their business. Besides, small and medium businesses are usually managed “by hand”: the founders and top managers can make decisions independently and can easily monitor the implementation of their instructions.

Reporting in and of itself is viewed as less useful and of secondary value, as both employees and managers tend to associate the word “report” with accounting documents.

However, as the company grows, so do the complexity of business processes and the quantity of decisions that need to be made. Trying to manage everything by hand creates a bottleneck. If the decision is made to sell part of the business to outside shareholders or to secure external investments (this does not necessarily imply significant revenue or enterprise value, considering that the average annual turnover of Russian companies acquired in 2015-2016 was USD 7-8 mln*, which is within the range for medium or even small businesses), then the priority of quality reporting increases significantly.

Managers and shareholders alike need quality reporting to track growth trends, to allow them to promptly react to problems, and to ensure a consistent understanding of the company's current situation and main strategic development goals.

In our practice, we have worked with a private company during a gradual change of ownership. The new shareholder group was unsatisfied with the existing reporting format and required radical improvements. Meanwhile, the current owners felt that this was a secondary matter and wanted to focus on other issues that seemed more important to them.





As part of the project, our consultants needed to develop metrics and algorithms that would make it possible to objectively evaluate the quality of the company's existing reporting and develop recommendations for necessary improvements.

We first focused on formulating the parameters for evaluating the reporting and identified sources where the necessary information could be obtained. Figure 1 shows the parameters and information sources used.

Now, we will take a closer look at our approaches and the tasks we set when working with each information source.

* Based on 400 deals from EY and PwC investment and venture capital markets reports

Figure 1.
Evaluation parameters and information sources

Reporting evaluation parameters	Key questions	Information sources		
		Comparison with peers	Expert interviews	Employee interviews
1 Completeness of information 	<ul style="list-style-type: none"> Does the report contain all necessary information about external factors? Are the business model and company strategy described? Are key KPIs provided, as well as their trends and variance analyses? 	✓	✓	✓
2 Reliability and trustworthiness of information 	<ul style="list-style-type: none"> Do the company's managers trust the information in the reporting? Is the information timely? 	✗	✓	✓
3 Ability to use as a basis for management decision-making 	<ul style="list-style-type: none"> Is the reporting used to evaluate the status of the business line and to make management decisions? Does the reporting help to coordinate future-period planning for business lines? 	✗	✓	✓
4 Reporting formats and top management review meeting 	<ul style="list-style-type: none"> Is the reporting preparation process optimal? Is the document structure logical? Is the top management meeting structure optimal? 	✓	✓	✓

• Comparing regular reporting documents.

We collected and compared examples of the structures of both public and internal reports for a wide range of companies. In this analysis, our consultants were primarily interested in the completeness and quality of the information reflected compared with the client company's similar reports. Figure 2 shows our evaluation scale for regular reporting.

• Expert interviews.

Our consultants arranged to interview several top managers from a wide range of companies. During the interviews, we asked questions about the report preparation processes and how the reports were used (for example, by the board of directors, in management and employee motivation systems, and for distributing dividends among shareholders).

Figure 2.
Evaluation scale for regular reporting of companies in the food industry

Category	Components	Reporting evaluation elements	Maximum score, points
1 Completeness of information	1.1 External factor analysis	<ul style="list-style-type: none"> Description of competitive environment: market share and trends, market structure and main competitor share trends, competitor activity analysis Demand analysis: market size and trends, description of trends in terms of product groups, key consumers, demand structure changes Analysis of macroeconomic factors (including raw material prices and political events), explanation of potential impact on company, risk analysis 	30
	1.2 Description of strategies and initiatives	<ul style="list-style-type: none"> Description of the business lines' business models, value chains, recent key changes and improvements Description of company vision and strategy, key goals; description and status of strategic initiatives 	30
	1.3 Description of company's operations	<ul style="list-style-type: none"> Description of KPIs for company as a whole and for each business line Historical analysis of company's key financial and production indicators Detailed for each business line: description of key performance indicators, variance analysis, historical analysis, future forecasts and proposed strategic initiatives 	30
4 Report formats and review meetings for top managers*	4.1 Report structure and design	<ul style="list-style-type: none"> Presence of all structural elements in report, parallel presentation of information for each business line Presence of uniform corporate design, balance of text and graphical information 	10
Total			100

Figure 3.
Elements of the company’s organizational and management model

Structure and tools of the company’s organizational and management model				Problems
	Management tools	Components of organizational and management model	Description of company’s target status	Pain point
Strategy	Board of directors	Goals	<ul style="list-style-type: none">• Ambitious goals for 3-5 years set and fixed• Management understands and shares goals	1
		Strategy, initiatives, resources	<ul style="list-style-type: none">• Key priorities set and fixed• Implementation resources allocated	2
Strategic management system	Management board and general director	Operating plan	<ul style="list-style-type: none">• Operating plan is realistic and corresponds to strategy	4
		Financial plan	<ul style="list-style-type: none">• Financial plan is based on operating plan and is realistic	5
		KPIs and control tools	<ul style="list-style-type: none">• KPIs set for all business lines (<5)• Management agrees with KPIs• KPIs are achievable and monitored	3 6
Operating model	Working meetings	Organizational structure	<ul style="list-style-type: none">• Organizational structure corresponds to strategic goals and objectives• Roles and responsibilities are clearly defined	8
		Business processes	<ul style="list-style-type: none">• Business processes are regulated and effective	n/a
		Competencies and motivation	<ul style="list-style-type: none">• Staff motivation is effective and transparent• Company’s targets cascade into management KPIs	n/a
		IT infrastructure	<ul style="list-style-type: none">• IT infrastructure is reliable and corresponds to business needs	7

- **Interviews with employees and managers of the client company’s business units.**
During this process, our consultants conducted several dozen structured interviews inside the client company aimed at identifying “pain points” in its management models. Figure 3 shows general elements of the company’s organizational and management model and their target state, which we discussed during the interviews.

We aggregated the results of all three parts of our work into a single document:

- 1) quality evaluation for the client company’s existing reporting;
- 2) description of the risks associated with the client company’s existing organizational and management model;
- 3) recommended action plan to improve the organization’s management and decision-making process.

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