

A radio interview with Richard Manors, a chief financial officer,**Optional exercise** Listen and decide if the following statements are True or False.

1. Richard used to measure business performance mainly by using profit indicators.
 2. He learnt about cash flow return on investment on the business course.
 3. Richard says that the course taught him that it is important to reduce production costs.
 4. North London Concrete's bonus system depends on improving cash flow.
 5. Richard's first target was to reduce payables.
 6. Richard discovered that the average collection period was 35 days.
 7. The sales department had to try to sell to customers who paid on time.
 8. Only the finance department were able to meet Richard's first target.
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Presenter: Now to continue our look at executive education, and its role in financial management, we have with us today Richard Manors, Chief financial officer of North London Concrete. Richard, you went on a financial management course a couple of years ago. What effect has that had on your approach to management of the company?

Richard: It completely changed the way I looked at measuring business performance. Before I went on the course I, like many people in finance, saw profit indicators as the most important measures of performance. The course opened my eyes to a different way of looking at a company's financial health, by looking at cash flow return on investment.

Presenter: How does that work in practice?

Richard: You have to look at how the company's cash is deployed. If you don't know the cost of a product, you're not really in control of your company. And you need to know what's happening to cash flow in the company. When you've analysed all this you can take action to improve performance. At North London Concrete we launched a whole new integrated management system aimed at improving cash flow. We decided to tie the company's bonus system, which all our full-time employees are entitled to, to freeing up cash flow. When we analysed company cash flow, we discovered that a lot of our cash was tied up in outstanding receivables, so the first target I set was to reduce receivables collection. We decided that the average collection period was way too long, and set a goal of reducing it to 35 days. To achieve this both the finance and sales departments had to work towards the goal, finance working on collections and the sales department targeting customers who paid on time. When they reached the goal, both teams got their bonuses. Now we have less company cash tied up in receivables and payables, and the company's cash flow situation is much healthier.

Presenter: So you would say that attending that course has had a very positive effect on both you and your company.

Richard: Yes, I feel that I'm really in the driver's seat now. I know how the company is doing and can see how to improve performance (fade out).

Answers: 1 T, 2 T, 3 F, 4 T, 5 F, 6 F, 7 T, 8 F