

## SYSTEMS REVIEW

This month's focus is on reviewing the development and implementation of business systems to make your business run smoothly and efficiently while increasing value. Summer is an excellent time to review the operational systems of the company, because business is often slower and vacations cause a need for people to do other tasks, thereby raising the need to understand the systems that underlie these tasks.

Operating systems are intangible assets and establish fundamental disciplines of running the business well. Operating systems create competitive advantage. Therefore, operating systems are key parts of the value chain in a company. There are many systems in a company, including:

- Financial Systems
- ERP (Enterprise Resource Planning) systems
- CRM (Customer Relationship Management) systems
- Software and processes for delivering products or services

### Developing a Systems Culture

Corporate scandals and Sarbanes-Oxley have encouraged private business owners to also think more seriously about maintaining proper internal controls to encourage a high standard of ethics. But beyond the prevention of scandals, a company culture that encourages consistent documentation of processes adds value to the business.

Improving a system is  
about culture change.

Systems development and implementation is not a typical strength of the average entrepreneur. While entrepreneurs excel in the strategy and vision setting stages, as the company matures they may struggle to implement the necessary systems to deliver consistent profitable growth of the company. Systems are absolutely vital to enable a company to grow consistently beyond the start-up stage. Therefore, we regularly see an experienced manager brought into the start-up to take that company to the next level. It is the systems implementation that the new management team can bring that causes them to be hired.

Systems are not completely established when the company begins. They grow and mature with the company. However, a company will find it very difficult to spot holes in their systems, if the company's basic systems are not documented. A financial audit provides some documentation of these systems - primarily internal controls and financial data flows, but most private companies do not have financial audits performed. A thorough systems documentation process records what "is", as opposed to what the company wishes the system were. Only after processes are documented, can weaknesses be clearly spotted and the system improved.

Improving a system is mostly about culture change. Generally, this involves clear documentation of what is the desired system, then training of the desired system, and then follow-up and monitoring of the implementation to be sure that the system becomes imbedded in the company culture.

**Operating systems create competitive advantage.**

It is the owner's role to encourage documentation of processes and incorporate training to provide a culture which understands the value of systematic work processing. Owners with the desire to utilize the franchise model as an exit strategy often understand the importance of systems in the success of their future franchisees. Another owner cannot duplicate the exact customer experience if it is not first documented to the smallest detail. McDonald's is an excellent example of a systematized business well documented for the customer to receive the exact same product at every location.

### **Systems Save Money**

While a system in itself may not generate money, the lack of one may prove to be quite costly. Many small business owners have found the unwelcome knock of the IRS agent to underscore the need for better financial documentation systems. While the typical audit may be relatively painless if the company is prepared, the lack of availability of any documentation proof requested by the IRS immediately raises red flags for further questioning. Regardless of the audit outcome, the lack of systematic documentation may cause the owner a lot of wasted time (and money paid to an accountant) to provide the evidence requested.

### **Enterprise Value**

When companies translate good intentions to systematic documentation of processes, the business can spot even small areas that can be improved. This value becomes identifiable and a transferable part of enterprise value. Systems help to mitigate the risk of too much dependence on any one person in the company by allowing processes to continue, and thus business growth, should an employee or owner no longer participate in the business. This increases the value of the company at point of sale.

### **Articles for Further Reading**

1. "Does Discipline Squelch Flexibility and Creativity?" This article addresses the stages an entrepreneur walks through as the business grows and matures. [www.inc.com/resources/office/articles/20060101/morgan.html](http://www.inc.com/resources/office/articles/20060101/morgan.html)
2. Gerber, Michael. The E Myth Revisited. Besides addressing the life stages of a company, this book also puts forth a systems strategy in chapter 18.
3. "ISO 9000: The Inside Advantage" – This article addresses the movement from good intentions to good processes through ISO certification. [www.inc.com/magazine/19950901/2409.html](http://www.inc.com/magazine/19950901/2409.html)
4. "Big Biz Strategies for Small Biz Owners." This article teaches the small business owner how to use Six Sigma problem solving methods to improve their business. [www.entrepreneur.com/management/operations/article187246.html](http://www.entrepreneur.com/management/operations/article187246.html)