About the Author

Rob Reider, CPA, MBA, PhD, is the President of Reider Associates, a management and organizational consulting firm he founded in 1976, which is located in Santa Fe, New Mexico. Prior to starting Reider Associates, he was a manager in the Management Consulting Department of Peat, Marwick in Philadelphia. His area of expertise encompasses planning and budget systems, managerial and administrative systems, computer processing, financial and accounting procedures, organizational behavior and theory, management advisory services, large and small business consulting, management information and control techniques, and management training and staff development.

Rob has been a consultant to numerous large, medium, and small businesses of all types in the aforementioned areas (in both the private and public sectors). In addition, he has conducted many and varied operational reviews and benchmarking studies and has trained both internal staff and external consultants in these techniques.

He is the course author and nationally sought after discussion leader and presenter for more than 20 different seminars that are conducted nationally for various organizations and associations. He has conducted more than 1,000 such seminars throughout the country and has received the AICPA Outstanding Discussion Leader of the Year award.

Considered a national expert in the areas of operational reviews and benchmarking strategies, Rob provides specific consultation in the areas of general business management, development of internal and external
consulting practices, organizational and management systems, and the development and conducting of continuing professional education (CPE) and other training programs.

Rob is the course author of nine Reider Associates self-study courses marketed nationally. He is also the author of the following books also published by John Wiley & Sons, Inc.

- *The Complete Guide to Operational Auditing*
- *Operational Review: Maximum Results at Efficient Costs*
- *Benchmarking Strategies: A Tool for Profit Improvement*
- *Improving the Economy, Efficiency, and Effectiveness of Not-for-Profits*

Rob has also been a presenter at numerous professional meetings and conferences around the country and has published numerous articles in professional journals. He has been a frequent commentator on the educational video programs produced by Primemedia Workplace Learning such as The CPA Report, The Governmental Update, and the Accounting and Financial Managers Network.

Rob has earned the degree of Bachelor of Science (BS) in Business Administration and Master of Science in Business (MBA) from Drexel University as well as Doctor Of Philosophy (Ph.D) in Organizational and Management Psychology from Southwest University. He is currently listed in *Who’s Who in the East and West, Who’s Who in the World, Who’s Who in Finance and Industry, Personalities in America, International Biography, Who’s Who of Emerging Leaders in America, and Who’s Who in Executives and Businesses.*

For more information about Rob Reider and Reider Associates, visit his web site at www.reiderassociates.com/otp/ or e-mail him at hrreider@reiderassociates.com.
Contents

Preface ix

Chapter One Overview of Operational Reviews 1

Operational Review Concepts 2
Why Businesses Are in Existence 5
Businesses a Company Is Not In 6
Some Basic Business Principles 8
Criteria for Organizational Growth 9
Mental Models and Belief Systems 15
Organizational Criteria Example 17
Economy, Efficiency, and Effectiveness 20
Definition 25
Terms 26
Financial Audits versus Operational Reviews 27
Why Perform an Operational Review? 28
Specific Objectives 31
Specific Purposes 33
Benefits of Operational Reviews 34
Operational Review Phases 38
What Functions to Review 40
Budget 43
Initial Survey  45  
Engagement Development  49

Chapter Two: Planning Phase  65

Planning Phase Overview  66
Information to Be Obtained  67
Sources of Information  70
Review of Organizational Planning and Budget Systems  72
Organizational Structure and the Role of Management  78
Identification of Critical Problem Areas  88
Review of Administrative and Operational Controls  90
Planning Phase Work Program  92
Financial Statement Analysis  92
Identifying Critical Areas  108
Areas Not Selected for Review  117
Conclusion  118

An Operational Review Case Example:
The Accounting Function  121

Chapter Three: Work Program Phase  177

Benefits of the Operational Review Work Program  178
Operational Review Work Program Standards  179
Who Develops the Work Program  181
Work Program Work Steps  182
Work Program Development Procedures  184
Sample Work Program: Purchasing Function  185
Operational Review Engagement Budget  192
Assignment of Staff  196
Operational Review Management  199
Operational Review Schedule Control  202
Engagement Control  204
Example Company Work Program Phase  205
Work Program to Field Work Phase  205
## CONTENTS

**Chapter Four: Field Work Phase** 209

- Field Work Considerations and Tasks 210
- Factors in Reaching Conclusions 211
- Field Work Techniques 213
- Specific Field Work Techniques 214
- Field Work: Example Company 228
- Other Techniques 233
- Work Papers 234
- Evidence 237
- Identifying Items for Finding Development 238

**Case Study: Mercy College, a College Business Office** 239

**Chapter Five: Development of Review Findings** 299

- Attributes of a Review Finding 301
- Review Findings Development 312
- Identifying Attributes 314
- Approach to Developing Review Findings 315
- Review Finding Development: Example Company 317
- Developing Recommendations 320
- Recommendations through Internal Benchmarking 321
- Recommendations through External Benchmarking 326
- Choosing a Benchmarking Approach 327
- Benchmarking Data Collection 329
- Process Comparisons 332
- Functional Cost Controls 334
- Conclusion 340

**Chapter Six: Reporting Phase** 343

- Interim Reporting 345
- Oral Reporting 346
- Written Report 347
- Characteristics of Good Reporting 348
CONTENTS

Reporting Review Findings 355
ABCs of Effective Report Writing 361
Sample Reports 366
Conclusion 367
Afterword 388

Index 389
Preface

The objective of this how-to guide to performing the operational review for results is to help the reader understand the basic principles involved in planning and conducting an operational review directed toward the continual implementation of best practices in an organized program of continuous improvements. In addition, it will provide the information and fundamentals the reviewer must know to use operational review concepts to enable the organization to operate most economically, efficiently, and effectively—that is, to maximize operating results at the least cost using the most efficient methods. This book is designed to meet the needs of the reviewer, regardless of any prior experience in performing operational reviews. Both basic knowledge for those with no previous hands-on experience, and reinforcement and additional learning for those who already have some prior operational review experience are provided.

Questions that will be answered include:

- What is an operational review?
- When should an operational review be performed?
- How can an operational review be performed effectively and efficiently?
- How can positive change be effected as a result of an operational review?
How can operational review tools and techniques be used to maintain operations in an economic, efficient, and effective manner on an ongoing basis?

How can best practices be identified and implemented in a formalized program of continuous improvements?

One Must Know the Questions before One Can Seek the Answers

The materials presented in this book can be used by management and supervisors and other employees to perform operational reviews for their operational areas of responsibility. In addition, the tools and techniques presented can be used by others, such as internal and external consultants and auditors, to maintain operations in the most economical, efficient, and effective manner.

PURPOSE AND OBJECTIVES

In today’s many-faceted and multidisciplined economic environment, organizational management has placed ever more emphasis on increasing results with fewer resources through evaluation of the economy, efficiency, and effectiveness of the organization’s operations. The operational review is the tool used to perform such an evaluation, either singularly or as part of another procedure such as benchmarking, activity-based management, total quality management, reengineering, and so on. This book presents the basic principles of planning and conducting such an operational review, as well as the fundamentals the reviewer must be aware of to understand operational review concepts.

The objectives of this book are:

• To increase understanding of operational review concepts and the ability to use them effectively.

• To increase understanding of the purpose and mechanics of conducting operational reviews.
• To help identify the relationship and differences between operational reviews and other procedures such as benchmarking, activity-based costing/management, reengineering, and so on.

• To increase the skills and abilities needed to conduct operational reviews.

• To increase awareness of operational review opportunities and to help in their identification.

• To improve the reviewer’s capability to perform operational reviews in his or her present situation.

Knowing the Purpose and Objectives Ensures Taking the Correct Path

ORGANIZATIONAL SYSTEMS AS HELPERS

In many organizations today, top management is seeking ways to become competitive and maintain market position—or merely to survive. Managers have sensed that many of their organizational systems are detrimental to progress and have held them back from achieving organizational, departmental, and individual goals and objectives. These are the very systems that are supposed to be helpful; for example:

• Planning systems, long- and short-term, that resulted in documented plans but not in actual results.

• Budget systems that became costly in terms of allocating resources effectively and controlling costs in relation to results.

• Organizational structures that created unwieldy hierarchies, which produced systems of unnecessary policing and control.

• Cost accounting structures that obscured true product costs and resulted in pricing that constrained competitiveness.

• Management systems that produced elaborate computer systems and reporting without enhancing the effectiveness of operations.
• Sales functions and forecasts that resulted in selling those products that
  maximized sales commissions but may not have been the products man-
  agement desired to produce and sell.

• Operating practices that perpetuated outmoded systems (“We’ve always
done it that way”) rather than promoted best practices.

Operational reviews, together with other techniques, are tools to make
these systems helpful as intended and direct the organization toward its
goals. Theoretically, organizations should operate in an economic, efficient,
and effective manner at all times. If such was the case, operational review
techniques would be applied on an ongoing basis. However, with the pas-
sage of time, good intentions and initially helpful systems tend to deterio-
rate. Operational reviews are then necessary to help get the organization
back on track by pinpointing operational deficiencies, developing practical
recommendations, and implementing positive changes.

Again, theoretically, managers at all levels should be held accountable
for using the scarce resources entrusted to them to achieve maximum results
at the least possible costs. Although management should embrace opera-
tional review concepts and apply them as they proceed, this is rarely the
case. More typically, management has to be sold on the value of operational
reviews. In selling the benefits of conducting operational reviews, it is im-
portant to stress that unlike other techniques that cost time and money for
uncertain results, operational reviews pay for themselves. In effect, the op-
erational review environment becomes a profit center instead of a cost cen-
ter. Although there are no guarantees, a successful operational review should
result in at least three to four times its cost in annual savings. These are not
one-time savings, but ongoing, that is, savings year after year. With the suc-
cess of an operational review, management may quickly realize that the
more operational reviews done and the more recommended economies and
efficiencies implemented, the greater the savings and results. In addition,
the residual capability for performing operational reviews remains in the
area under review, so operations personnel can continue to apply operational
review concepts on an ongoing basis.
Keep in mind that the intent of the operational review is not to be critical of present operations, but to review operations and develop a program of best practices and continuous positive operational improvements by working with management and staff personnel. This can be accomplished most effectively by working with operations personnel in areas where they recognize deficiencies and are willing to cooperate. The concept of operational reviews should be sold as an internal program of review directed toward improved economies and efficiencies that will produce increased operational results.

**Best Practices**
*Provide Best Results*

**OPERATIONAL REVIEW PROCESS: STARTING AT THE TOP**

The operational review process should start at the top of the organization. Top management should define and communicate its strategic plans for the company, including areas of expansion, retrenchment, and status quo. At the same time, management members should identify the businesses they want to be in, the businesses they do not want to be in, their basic business principles and belief systems, and their desires for each function within the organization.

For instance, top management may define a desire for the sales function, which has historically sold whatever it could to customers, to become a more integral part of the planning process and other functions such as manufacturing and engineering. In defining their desires, members of management may identify attributes such as:

- Sales forecasts more realistically related to actual customers and products to be sold.
- A larger percentage of the sales forecast (at least 80 percent) matched by real customer orders.
- Sales efforts driven by management’s identification in the planning process of what to sell, to whom, and at what quantity.