**Financial performance**

**Financial performance** is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall **financial** health over a given period.

The word ‘Performance is derived from the word ‘parfourmen’, which means ‘to do’, ‘to carry out’ or ‘to render’. It refers the act of performing; execution, accomplishment, fulfillment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar “The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm’s success, conditions, and compliance. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

**What Are Financial Performance Measures?**

**It won’t come as news to you that financial performance is a way to measure your company’s overall health. Understanding essential financial performance was the first step that led you to where you are.**

**We will review some of the primary key performance indicators (KPIs) that you should be tracking so that you can you can review, measure and track these indicators.**

### **KPIs for Business Success**

1. **Operating Cash Flow:**

**Knowing how much cash you have on hand lets you know that you can pay for operating expenses and incoming inventory. Beyond how your business is functioning today, you can use operating cash flow in comparison to capital investments to see how you can move your business forward.**

1. **Current Ratio:**

**This is the ratio between your assets over your liabilities. It allows you to understand solvency and ensure that you have a good enough credit rating to expand.**

1. **Debt to Equity Ratio:**

**Your business has likely relied on investors and shareholders with a stake in your overall financial health. To make sure that you can protect their investment, you want to regularly check in with your total liabilities against your shareholder’s equity. To remain transparent and be held accountable, it’s a KPI that your shareholders will want to stay abreast of. Automation technology makes it easy to share reports with all those who need to see them automatically.**

1. **Days Sales Outstanding:**

**DSO defines the average sales collection period. This KPI is not only useful to you as CFO, but your whole team can also use it to understand how to incentivize people to pay faster. Your marketing and sales team should be aware of this KPI always, especially when introducing new campaigns. This is why it’s essential to have accessible dashboards, so every team member can pull insights they need for their own decisions that will affect the business’ bottom line.**

1. **Working Capital:**

**If you subtract your current liabilities from your existing assets, you have your working capital. This will let you know if you have what you need to take care of short-term liabilities.**

1. **Accounts Payable Turnover:**

**Your cash flow is affected by when and how many times you pay vendors. This is known as your accounts payable turnover.**

1. **Accounts Receivable Turnover:**

**Going hand-in-hand with accounts payable turnover is accounts receivable turnover, or how often you collect money that is owed. It may be the case that you are running into issues raising money, and that will affect your cash flow. To better understand if your business process is right or if you may need**[**business process improvement**](https://www.solvexia.com/blog/5-best-steps-for-business-process-improvement)**, you should regularly monitor this situation with the help of automated means.**

1. **Inventory Turnover:**

**By dividing your current average sales by your current average inventory in the same period, you get an idea of your inventory turnover. You don’t want to hold too much inventory as a liability, nor do you want to be short to satiate consumer demand.**

1. **Return on Equity:**

**Comparing your net income to each unit of shareholder equity lets you understand whether or not your net income is appropriate for your business’ size. Not only does it inform you about profitability, but it also gives insight into how efficient you’re financially managing the business. When you improve your ROE, you are signaling that you’re making the right decisions with shareholders’ capital.**

1. **Customer Satisfaction:**

**Although this is not a direct financial measure, the KPI of customer satisfaction can be gleaned by calculating customer responses from surveys. This can be done by quantifying satisfaction on a numerical scale and using the Net Promoter Score (NPS). High satisfaction is indicative of retention. And, as you know, it costs more to acquire a new customer than it does to retain an existing one.**

## Which KPIs are the Best to Measure?

**Not all KPIs are created equally. Determining the best ones for your business relies on aligning what you measure to your business goals.**

**To determine this, you should consider where your business currently stands and its future strategy (i.e. have you created products yet? Are you expanding? Downsizing? etc.). Then, you’ll want to make sure that you have both leading and lagging indicators to measure performance.**

**Look back at your history and past data, such as sales per month. Leading indicators help measure where you are headed, such as conversion rates — this type of information benefits alongside**[**predictive analytics.**](https://www.solvexia.com/blog/what-is-prescriptive-analytics)**‍**

# **Relationship between Sales & Finance**

Successful companies need efficient sales and finance departments. A sales department focuses primarily on expanding the organization’s customer base, and a finance department focuses on achieving profitability. An organization depends on a healthy relationship between its sales and finance departments. In some companies, the departments fail to effectively communicate and collaborate, which can adversely affect operations. Managers and leaders must develop and cultivate close coordination between the two departments. Failing to build a strong relationship can hinder the growth and profitability of a company.

## Sales Department

The structure of a sales department depends on the size of a company and its industry. The sales department focuses on closing deals and increasing revenue by selling the company’s goods or services. The sales department works in conjunction with the marketing department to develop strategies to attract new customers. It also relies on the finance department to develop credit policies that meet customer demands, and to provide efficient invoicing and quality customer service. With the primary focus on increasing revenue, a sales department may not fully or closely monitor the money its spends to accomplish its tasks -- which can create friction with a finance department.

## Finance Department

Finance departments focus on earning profits while limiting costs. A major purpose of the finance department is to develop operational budgets. Finance employees use the projections of the sales department to develop short-term and long-term forecasts. Although credit policies benefit the sales department and the organization as a whole, the finance department must deal with the organization’s accounts receivable account and uncollectible debt. If the organization's revenue comes primarily from credit sales, it may experience cash flow problems in the future.

## Working Together

Conflicts between sales and finance departments are typically based on how money is spent. A sales department may complain about the expectations of the organization to increase revenue and bring in new accounts on a limited budget. The finance department may complain that although the organization’s sales are increasing, the sales department spends too much money to achieve the increase. Issues between sales and finance departments may arise if the departments establish performance targets that fail to consider the other department.

## Improving the Relationship

Organizational leaders must focus on improving the relationship between the sales and finance departments. Effective leaders can facilitate communication that department heads cannot because of conflicts of interest. According to an article on American Express Open Forum’s website, some companies find success by allowing lower-level sales and finance employees to team up, because they are more open to ideas of improving communication. Companies should focus on developing sales strategies that yield the highest profitability. Sales and finance departments play significantly different roles in a company, but leaders must reconcile the roles to focus on the bottom line.