

Lesson 8: Lack of financial discipline



By Alon Raiz

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Too many entrepreneurs I have come across over the past 20 years have hindered their business growth and, in many instances, destroyed their businesses because they never took the production of accurate, timely monthly and annual financial statements seriously. An inability to raise finance in time, to show financial stability in a tender submission, etc. has a massive impact on the growth prospects of your business.

Like all other documentation in your business, there is a quality aspect to financials. You may be able to produce financials but are they accurate, complete and logical?

In my time working with entrepreneurs, I have seen financial statements in which the cost of sales in one month is in excess of 100% of the sales value and the next month it's five per cent of sales. I have seen statements in which the rent fluctuates on a monthly basis by as much as 200% and many other such gruesome inaccuracies. Entrepreneurs need to be aware

that, if the people who request their financials do their jobs correctly, they will run their fingers along each row and check for logic, consistency and completeness.



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Alon Raiz 3 Dec 2020



Accurate financials do not simply appear. They are the output of strong financial discipline. Setting up the general ledger, invoicing correctly, posting journals correctly and reviewing financials every month is the difference between having financials that represent reality and those that aren't worth the paper they're printed on.

If your business can't afford a full-time bookkeeper, I highly recommend that you use an external bookkeeper with a good reputation who can set up your books and produce them for you on time every month. If you're in a partnership, it is critical operating procedure to conduct a monthly financial meeting during which you spend time combing through each line in your monthly statements. Any inaccuracies or questions must be raised for the bookkeeper to answer and remedy if necessary.

If you aren't in a partnership, it's prudent to pay your bookkeeper a little extra so you can hold the same sort of meeting with him or her. And, if you're lucky enough to have a mentor who will spend the time with you, a financial review could be the most important interaction you will have with them as it will help you to identify your business's strengths, weaknesses and strategy.

I have been an entrepreneur myself for 30 years and I have moved from a place of loathing monthly financial meetings to genuinely looking forward to them. Even though some people criticise the reviewing of financials as backward looking, I see it as an accurate reflection of the current state of the business, the brutal truth as it were. Knowing the brutal truth makes the quality of designing the strategy moving forward – be it annual, five years or ten years – so much better because it has an accurate starting point.

To put it in a nutshell, accurate, regular financial statements are one of the most important tools in your arsenal to build a robust, high-quality strategy for your business. When you start seeing your financials and financial discipline as a strategic tool and not merely as drudgery, you will be able to build a better relationship with both strategy and your business.

ABOUT ALLON RAIZ

Allon Raiz is the CEO of Raizcorp. In 2008, Raiz was selected as a Young Global Leader by the World Economic Forum, and in 2011 he was appointed for the first time as a member of the Global Agenda Council on Fostering Entrepreneurship. Following a series of entrepreneurship master classes delivered at Oxford University in 2014, 2015 and 2016, Raiz has been recognised as the Entrepreneur-in-Residence at the University of Oxford's Saïd Business School.

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