operant leadership

Executive Summary

Cash Is King—How Organizational Behavior Management (OBM) Helped a North American Telecommunications Organization Obtain $76 Million in Receivables

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As the old saying goes, "cash is king." An important asset for managing short- and long-term operations, purchases and acquisitions, and the payment of wages, cash on hand is incredibly vital in ensuring that a company is not left paralyzed or essentially bankrupt, despite maintaining a positive net worth. In 2006, faced with increasingly strong competition, potential acquisition from investment firms, and the highest turnover among upper management that the company had seen in decades, the senior leadership of a large North American telecommunications organization realized that something had to be done. Out of the total of about $3 billion that the company had billed its largest customers in 2006, outstanding payments amounted to up to $600 million in any given month, making it abundantly clear that cash collections would be a key area to focus on in improving the company's fortunes. Setting the goals of decreasing receivables by collecting $50 million more in 2007 than in the previous year, and decreasing Days Sales Outstanding (a company's average collection period per total outstanding receivables) by more than eight days, the company took to implementing Organizational Behavior Management (OBM) solutions to improve the performance of its accounts receivable management team.

Plagued with a myriad of problems, such as insufficient training for team members, the absence of standardized metrics for individual performers, low employee morale and engagement, and the lack of proper operating protocols (employees simply managed accounts as they saw fit), management and employees implemented a number of solutions to overhaul their approach to conducting their work. New metrics were put in place to evaluate performance, standard performance scorecards were utilized to track those metrics, weekly team meetings were held, individual coaching and feedback was provided weekly to employees, priority accounts to manage were identified daily, and monthly rewards were given to teams for achieving targeted goals that resulted in receivables.

By the end of 2007, the results spoke for themselves. The overhaul was a resounding success, with receivables increasing by 12.5% from the previous year, or $76 million more than in 2006, and Days Sales Outstanding being trimmed down to 58.1 from 66.6 days, an improvement translating to about $10 million a day. The goals previously set had not just been reached – they had been surpassed, and quite convincingly, at that. Equally as important, management and employee behavior had changed, as well. Employees began to help conceive new collection methods, set monthly targets, and use peer-based coaching for customer meetings. Management, started to more regularly engage with employees (previously only biannual meetings had been held), and performance reviews at the team level became normal occurrences. Communication and feedback had also increased from the upper management level down to the front line, leading to improved employee satisfaction scores. Overall, the changes registered a cost-benefit ratio of above 200%, and resulted not just in greater cash collection, but significant improvements in client satisfaction, as well.

Cash may indeed be king, but in practice, improving cash flow isn't just as simple as reciting an old adage. Rather, as this case has shown, Organizational Behavior Management solutions, and more specifically, improved communication, effective performance assessments, and scientific reward and feedback systems, are what put the king in his rightful throne.

Reference:

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