

fs viewpoint

www.pwc.com/fsi

February 2012

02
Point of view

10
Competitive
intelligence

14
A framework
for response

19
How PwC can help

23
Appendix

Lean forward or fall back:
How applying lean principles
can improve the finance
function



pwc

Point of view

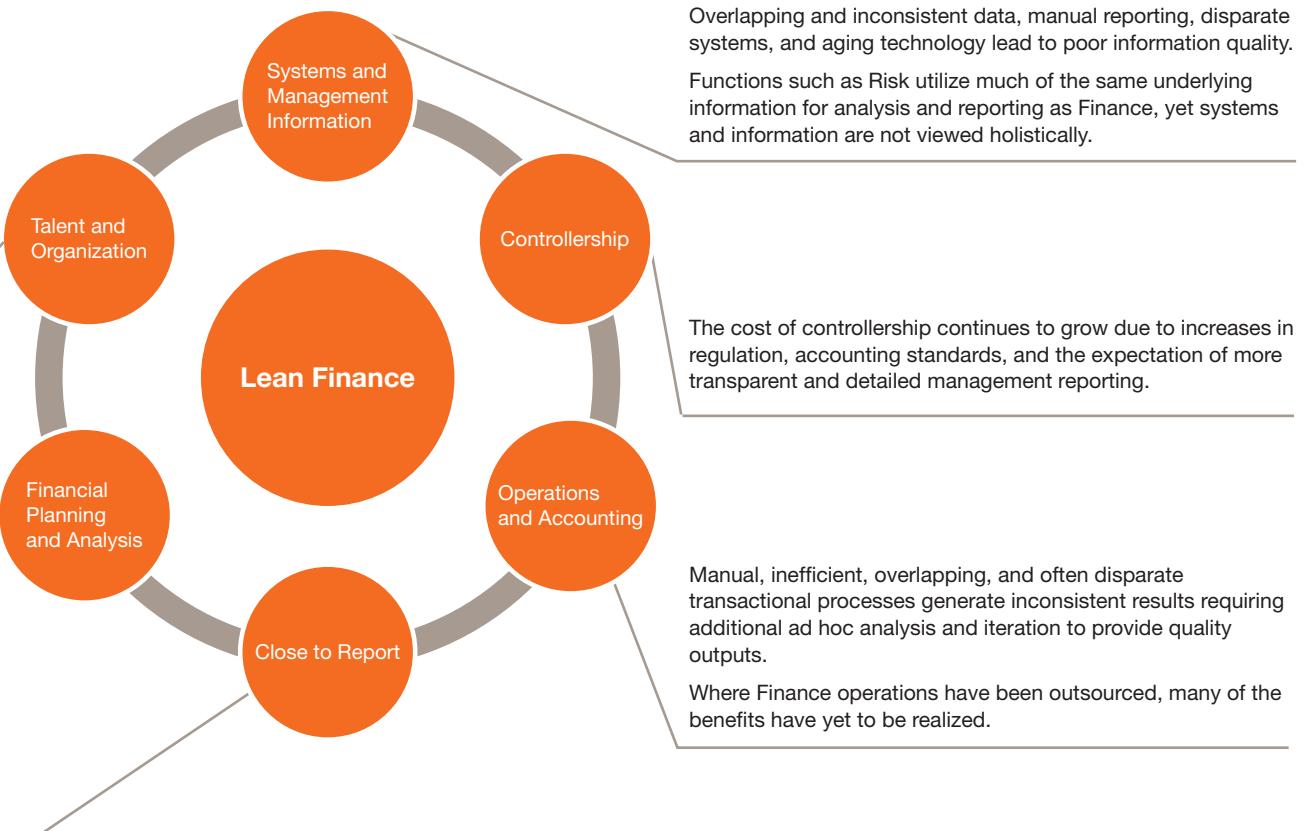


Finance leaders are facing a hailstorm of accounting, regulatory, and management challenges, creating pressure to improve the efficiency of Finance and information quality.

Increasing capital expenditure to keep up with challenges drains other investments. If capital is not available, Finance must do more with less, cutting discretionary projects, reducing time for analysis, or making other tradeoffs. This ultimately compromises speed, accuracy and/or controllership.

Inputs to the budget and planning process are inadequate; as a result, many of the outputs are of little use, as they become outdated or unrealistic by the time they reach their intended users. Nevertheless, variances continue to be reported, analyzed, and explained.¹

Externally, stakeholders and regulators demand more transparent and reliable information in less time. Internally, business leaders require fast, accurate, and increasingly transparent information to support smart, informed business decisions.



1 PwC, "Breaking the Cycle: The Case for Eliminating the Budget," FS Viewpoint, October 2010.

Applying Lean can provide a fresh lens to attack challenges on the CFO agenda, boost efficiency, improve quality, and free up capacity.

Challenge	Benefit of Lean
Systems and Management Information	Help Finance improve data integrity; reduce timing issues; eliminate duplication and non-value-added validations; and standardize common data sources, systems, and processes to provide better information at a lower cost.
Controllership	Help controllers with the following: have cleaner, more accurate data; reduce redundancy within the function; streamline and remove waste from existing processes to create capacity; and identify overlap within regulatory and accounting changes.
Operations and Accounting	Eliminate non-value-added activities from transactional processes, improve first-time quality, and make operations and accounting processes more efficient at lower cost. Lean also applies to outsourced operations where the full benefit of outsourcing is waiting to be realized.
Close to Report	Help Finance achieve a faster, more accurate, and more efficient close-to-report cycle. The focus will be on assuring first-time quality and eliminating non-value-added inspections, corrections, and rework.
Financial Planning and Analysis	Help Finance not only link budget and planning to what internal and external customers value but also eliminate non-value-added outputs. These benefits will lead to more useful outputs that add real value to the business.
Talent and Organization	Make the Finance function more agile. Mobilizing ideas into action can hasten change and create a culture of empowerment in which employees are accountable for continuous improvement.

Although Lean has its roots in manufacturing, there is tremendous opportunity for financial services institutions to adopt Lean principles to bolster the bottom line.

Financial services companies, like manufacturing companies, have product, supporting operational processes, and back-end functions—all of which have some level of inefficiency. By reducing costs and releasing capacity, this is where Lean improvements can contribute significantly to the bottom line.

Lean has been adopted globally, primarily by leading manufacturing organizations, because of its bottom-line growth results, low cost of implementation, ease of understanding at all levels of the organization, and ability to advance a cultural shift toward continuous improvement.



Institutions leveraging Lean report results of 20–30% cost reduction within 12 to 18 months.¹

Lean adopters maintain cost-efficiency ratios below the industry average.²

At least 40% of costs are due to wasteful activities that add no value to the end consumer.³

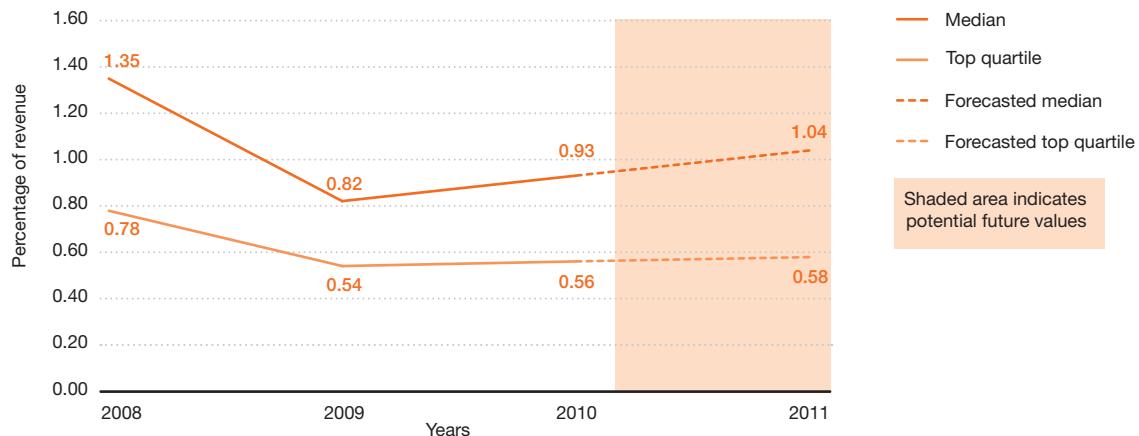
¹ Operations Council, Corporate Executive Board, "Lean Manufacturing for Financial Services: Delivering Value by Eliminating Waste," Executive Summary, Arlington VA, 2009.

² ibid.

³ Ibid.

With the cost of the Finance function increasing, post-crisis competition squeezing margins, and unprecedented pressure to cut costs, the prospect of boosting efficiency and freeing up capacity through Lean is more compelling than ever.

Cost of the Finance function as a percentage of revenue¹



\$1.4 million

Estimated increase in the cost of the Finance function from 2010 to 2011 for the median bank with assets of more than \$10 billion.²

Estimated increase in the cost of the Finance function from 2010 to 2011 for the median bank with assets of from \$5 billion to \$10 billion.²

\$484,000

Having fallen sharply in the early stages of the financial crisis, average costs began to increase once again in 2010.

CFOs cite increasing business complexity and regulatory demands as the main reasons for the rise. Yet, more efficient top-quartile performers are dealing with these pressures without needing to raise costs. As a result, their expenditure remained relatively steady in 2010 compared to 2009.

Should the trend in 2011 continue, companies in the top quartile will far outperform those at the median.

¹ PwC, "Drifting or Driving?" Finance Effectiveness Benchmark Study, 2011.

² PwC Benchmarking analysis based on SNL financial data, 2011.

Lean generates big results for a small price by eliminating non-value-added activities and creates a mindset of continuous improvement.

Unlike other process improvement methodologies, Lean does not require significant capital investment. Lean concepts and tools are relatively easy to learn and apply—often boiling down to common sense. Below are the key dimensions that PwC sees successful organizations focus on when applying Lean:

Key dimension	Benefit of Lean
Process efficiency	Lean addresses the challenges that Finance must meet to become more responsive and accountable. Lean addresses these challenges by aligning the Finance function to what the customer values, by eliminating waste from the function, and by streamlining processes to allow the function to be more agile.
Performance management	Lean establishes key performance indicators that are tied to customer value, thereby making results and defects easy to see and empowering employees to be accountable for continuous improvement.
Organizational capabilities	79% of CEOs surveyed said that their innovations will be a key source of competitive advantage this coming year. ¹ Lean makes the organization more agile to mobilize ideas into action and respond to regulatory change more quickly and cost effectively. Lean creates a culture in which people believe that they are empowered and accountable, thus eliminating inertia that exists within the Finance organization.
Mindset and behavior	Lean tirelessly addresses both the “soft” and “hard” dimensions of performance in order to produce an ongoing capability for value creation. Many organizations tend to approach Lean with only a process efficiency mindset, when in fact it is a much broader way of viewing business. Lean is dynamic; it is a mindset and a way of thinking.

Outputs stemming from Lean are compelling, for example: simplified processes, standard tools and templates, and standard financial and operational metrics and reporting. All of these outputs lead to bottom-line results that can be repeated across a global enterprise.

¹ PwC, “14th Annual Global CEO Survey,” Presentation, 2011.

Ways in which Lean practices can improve the Finance function are highlighted in the results of PwC benchmarking survey of financial institutions.

The results of our survey reveal that performance indicators covering the Finance function vary widely across the financial services industry, suggesting that there is ample room to improve the function.

Improvement opportunity	Key finance performance indicator examples ¹	PwC observations of Lean benefits ²
Cost	<ul style="list-style-type: none">Cost of the Finance function ranges from 0.4% to 4.7% of revenue.	<ul style="list-style-type: none">Reduced operating costs by 20-30% through capacity release.
Quality	<ul style="list-style-type: none">Average error-correction entries to close the books is >5%.Finance and accounting transaction processing error rates range from 0% to 30%.	<ul style="list-style-type: none">Reduced defects by 90-100%.Enhanced control through centralizing production activities.
Cycle time/productivity	<ul style="list-style-type: none">Days to close the books range from 1 to more than 100.Days to prepare budgets range from 7 to more than 190.	<ul style="list-style-type: none">Reduced cycle times by 30-40%.
Throughput	<ul style="list-style-type: none">Number of invoices processed per FTE range from 300 to 17,000 annually.Number of remittances processed per FTE range from 1,300 to 450,000 annually.	<ul style="list-style-type: none">Improved throughputs by 70%.Improved cash flow from operational activities (CFOA).
Organization	<ul style="list-style-type: none">Lower employee engagement and morale linked to performing non-value-adding work.²	<ul style="list-style-type: none">Reduced non-value activity by 40%.

1 PwC, "Finance and accounting benchmark report," Benchmarking Analysis, 2010..

2 Based on PwC experiences in the marketplace.

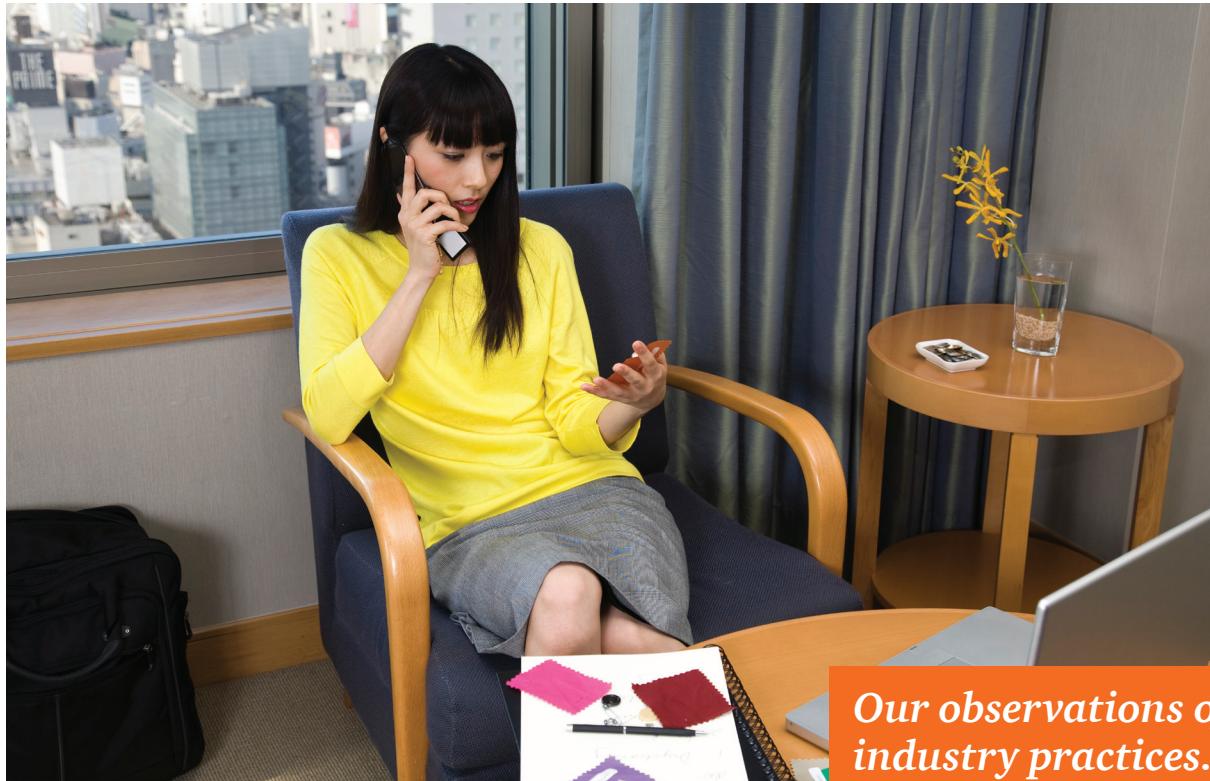
When leading institutions adopt Lean, their organizations embrace it as a behavioral change, not a finite project.

Across institutions that have adopted Lean, PwC has observed they can realize tremendous value early on through the elimination of waste. Furthermore, institutions that embrace Lean over the long term realize sustainable benefits across multiple facets along with continuous improvement.

- Lean is not a cost management exercise; rather, it is about sustainable process improvement that leads to multiple efficiencies. Reduction of cost is just one benefit, among many others.
- High-performing organizations effectively combine Lean principles with strategically tailored best practices focused on people/organizations, the effective use of technology, and efficient and effective processes.
- Sustainable performance improvement combines employees and subject matter experts who are schooled in Lean principles and supported by extensive best-practice experience and benchmarks.

- Sustainable improvement requires looking at the end-to-end value streams and their enabling technologies, not just focusing on individual activities.
- Process improvement is best accomplished with, not to, employees—thus, it is vital that team members have a clear understanding of Lean principles and how to apply them to the organization.
- Use key performance indicators aligned to the value streams to facilitate decision-making processes, root cause analyses, corrective action, and management reporting.
- Demonstrate “quick-wins” early on in the effort to build momentum and demonstrate the opportunity for ongoing, continuous improvement.

Competitive intelligence



*Our observations of
industry practices.*

Financial institutions are in various stages of adopting Lean practices.

Lean attribute	PwC's observations	Global bank 1	Global bank 2	Global financial services conglomerate
Process efficiency	<ul style="list-style-type: none"> Continuous improvement is not a daily focus. The organization demonstrates ad hoc improvement activity and some evidence of improvement in efficiency. Improvement is not driven from employees but pushed from above. Although a process may be documented, there is no consistency of application. 	<ul style="list-style-type: none"> The organization recognizes that its people should not be blamed for process flaws, and is actively working to manage and improve the process. 	<ul style="list-style-type: none"> Waste is understood and starting to become visible. Within the organization, teams utilize a value-stream approach and are starting to connect suppliers to customers to improve process efficiency and business outcomes. The customer synchronizes the value creating activities upstream and downstream. 	<ul style="list-style-type: none"> Actual performance is measured against the target. Continuous improvement is systematic and regular. Standard process has been formally defined as a standard operating procedure and is being followed.
Performance management.	<ul style="list-style-type: none"> While some performance indicators are in place, it is not clear whether they are customer. Performance indicators are shared but do not provide "information at a glance" and are not systematically monitored. 	<ul style="list-style-type: none"> Customers are consulted in defining value. 	<ul style="list-style-type: none"> Visual management is used to share standard processes, performance indicators, and drive continuous improvement. Performance is monitored using indicators that are informed by the needs of the customer. 	<ul style="list-style-type: none"> Delivering on customer outcomes is continuously monitored and improved through a structured and focused approach to ensure that quality is delivered at all times. Performance indicators are defined for quality, cost, control, and delivery.

 Leading  On Par  Lagging

Financial institutions are in various stages of adopting Lean practices.

Lean attribute	PwC's observations		
	Global bank 1	Global bank 2	Global financial services conglomerate
Mindsets and behavior	<ul style="list-style-type: none"> The Lean concept of waste is relatively unknown and waste is not systematically eliminated. There is little evidence of cross- functional teamwork. Although the need to improve may be obvious, the existing culture does not drive performance improvement. 	<ul style="list-style-type: none"> There is an organization-wide emphasis on awareness of the customer and the imperative to focus on their needs. Waste is systematically identified and removed as part of normal operations. Teamwork leads to improved performance for customers but may not be systematic. When projects succeed or fail, internal analysis is performed to extract lessons learned. 	<ul style="list-style-type: none"> The organization encourages continuous improvement and regular elimination of waste. Employees work individually and collectively to put the customer at the heart of the business. There is a strong focus on customer value.
Organizational capabilities	<ul style="list-style-type: none"> Organization operates in functional silos, and there is limited awareness of value streams. There is limited visibility of team- required skills and actual skills. 	<ul style="list-style-type: none"> Although the organization operates in functional silos, a value stream has been designed with specific customers and deliverables. Skills matrices are used to drive flexibility and performance improvement. 	<ul style="list-style-type: none"> Team members proactively identify and develop appropriate skills to improve performance and deliver more value to customers The organization is structured around end-to-end value streams rather than functional silos.



Leading



On Par



Lagging

Financial institutions are in various stages of adopting Lean practices.

Lean attribute	PwC's observations	Global bank 1	Global bank 2	Global financial services conglomerate
Customer value	 Some teams or departments have documented internal and external customers and customer requirements.  Most knowledge of customer needs is based on informal analysis or in silos, and is not disseminated across the organization.  Customer needs have little impact on product or process design.	 There is strong evidence that customer indicators are analyzed and acted upon and customer feedback is incorporated (Voice of the customer is performed regularly).  Customers are considered to be an extension of the value stream.  System is in place to identify and socialize customer needs across the organization, which provides a major strategic advantage.	 Regular meetings are held with customers to solicit feedback and continually improve customer value.  Voice of the customer drives process design.  Customer satisfaction is tracked and displayed in most areas, although it is not always visible.	



A framework for response



*Our recommended approach
to the issue.*

Lean is more than simply process efficiency, and institutions need to look through multiple lenses to realize the full benefits of Lean.

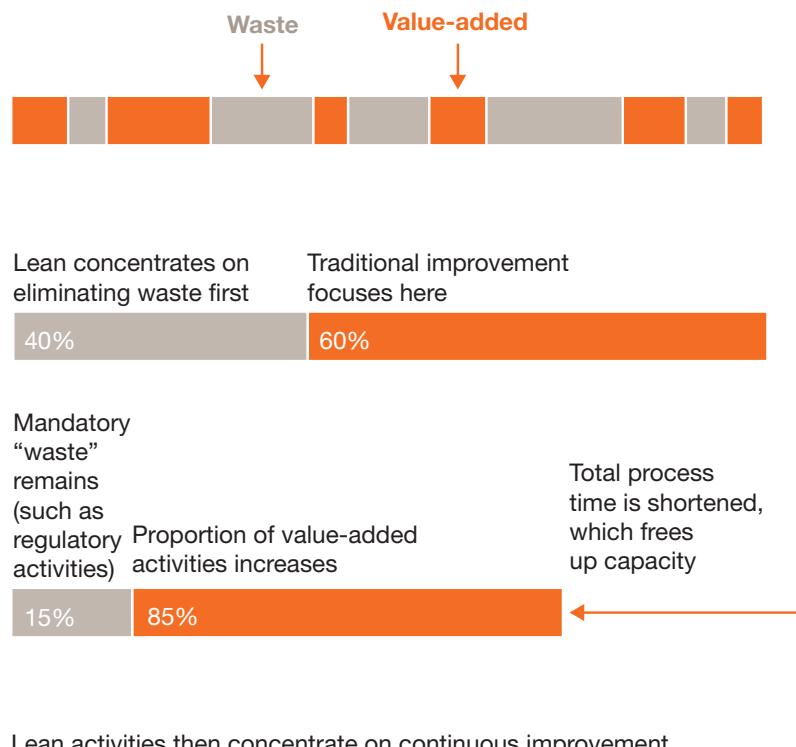
Successful organizations implement Lean holistically.

They do so by looking across five dimensions: customer value, process efficiency, performance management, organizational capabilities, and mindset and behaviors. These dimensions are outlined in the chart below.

Start with the customer	<ul style="list-style-type: none">• Have a clear understanding of who the customer is and what the customer values.
Process efficiency	<ul style="list-style-type: none">• Eliminate waste by identifying and focusing on the value stream.• Identify and remove non-value-added activities (i.e., waste).• Assure that the work flows without interruptions from obstacles or bottlenecks.• Design the system so it reacts to customer demand and pulls work through the process.
Performance management	<ul style="list-style-type: none">• Make results and defects easy to see, with performance tied to strategy.• Collaborate and foster an open discussion of business problems and solutions.• Assign clear roles and accountability for results.• Monitor meaningful key performance indicators, and revise improvement plans.
Organizational capabilities	<ul style="list-style-type: none">• Develop flexible organizational structure, teams, and capabilities.• Construct systems that enable delivery of continuous improvement.• Enhance process owners' critical thinking skills and ability to identify waste.• Empower process owners.• Align cross-functional teams around end-to-end value streams.
Mindset and behavior	<ul style="list-style-type: none">• Shift mindsets and behaviors to embrace continuous improvement.• Create enterprise-wide ownership for improvement led by process stakeholders.• Develop intolerance for activities that do not add value.• Challenge the status quo by constantly asking: "Is this as good as it could be?"• Shift behavior toward a relentless focus on customer value vs. managing in functional silos.

When adopting Lean, institutions should first focus on the elimination of non-value added activities. This will bring rapid, significant, and sustainable improvement.

Example of efficiency improvement through the elimination of waste.
Lean value-stream mapping identifies value-added vs. non-value-added activities. Generally, a significant percentage of the total is found to be non-value-added waste and scattered throughout the process.



Lean eliminates waste by focusing on and addressing non-value-added activities first.

All business process activities fall into one of the following categories:

- **Activities do not add value** from a customer perspective. This is waste that can be eliminated without impact to the customer.
- **Activities add value** from a customer perspective. This requires an understanding of who the customer is and what their needs are.
- **Activities do not add value** from a customer perspective **but are mandatory**. This is usually due to legal or regulatory requirements..

Typically, more than 40% of the tasks in any business process are waste activities (non-value-added) that can be eliminated.¹

While eliminating waste is often the initial focus, continuous improvement requires focus on value-added and mandatory activities as well.

¹ Operations Council, Corporate Executive Board, "Lean Manufacturing for Financial Services: Delivering Value by Eliminating Waste," Executive Summary, Arlington VA, 2009.

Institutions should seek to improve the value stream so that when activities are done correctly and in the proper order, the process produces what the customer values.

Institutions need to understand both the process and how it delivers customer value, and then strive to eliminate waste. To do this, institutions should address the following:

- Use value-stream mapping to capture the key elements of the process delivery. Where possible, watch real processes with the working teams.
- Encourage those involved in the process to help identify the areas of waste or non-value-added activity.
- Overlay the value stream with key customer metrics, rather than with organizational metrics.

Lean concept/tool	Application
Lean task analysis	<ul style="list-style-type: none">• Eliminate waste by focusing on and addressing non-value-added activities.• Improve value-added and non-value added but required activities.• Assess processing time and effort and how process outputs contribute customer value.• Run tasks in parallel, where effective.
Standard work	<ul style="list-style-type: none">• Document tasks with minimum variation.• Implement workflow-driven processing.• Introduce variation only where it adds value to the customer and where it will not generate waste for others utilizing the same basic output (e.g., report layouts added at the end).
Mistake prevention	<ul style="list-style-type: none">• Error-proof controls where possible, removing redundant processes.• Implement entry validation controls.• Automate controls, where possible.

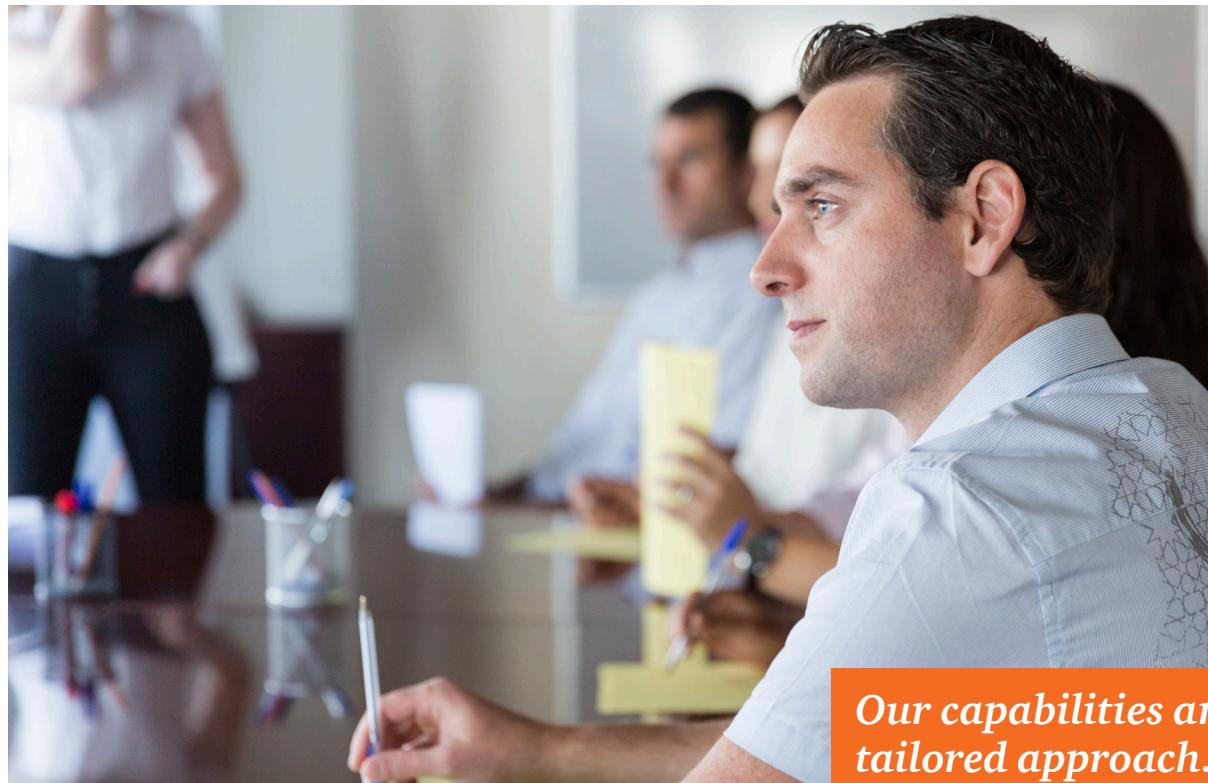
Work should flow steadily and without interruption from one value-added or supporting activity to the next.

Every effort should be made to eliminate obstacles and bottlenecks that prevent flow. To do this, consider the following:

- How is customer value created and how does it flow? Value must be examined from creation to delivery.
- Is there a smooth, even value stream? Look to have predictable flow.
- Where does value creation get stopped and delayed (such as redundant reconciliations and approvals, missing information requests, rework)? Eliminate or minimize the batch and queue.
- Where is flow constrained? Seek to maximize throughput by eliminating bottlenecks.

Lean concept/tool	Application
One piece flow	<ul style="list-style-type: none">• Avoid batching that results in process “waiting” (such as off-system/queued transactions from source systems).• Execute efficient straight-through processing.• Plan exceptions part of the process, which are sent to the right person the first time.
Constant effort	<ul style="list-style-type: none">• Set processing standards to work at a constant level to avoid waste or reduced value through volume management.
Automation and visual reporting	<ul style="list-style-type: none">• Stop and flag errors as they happen, using built-in automated controls.• Use processing dashboards with defined key process indicators to flag operational issues.

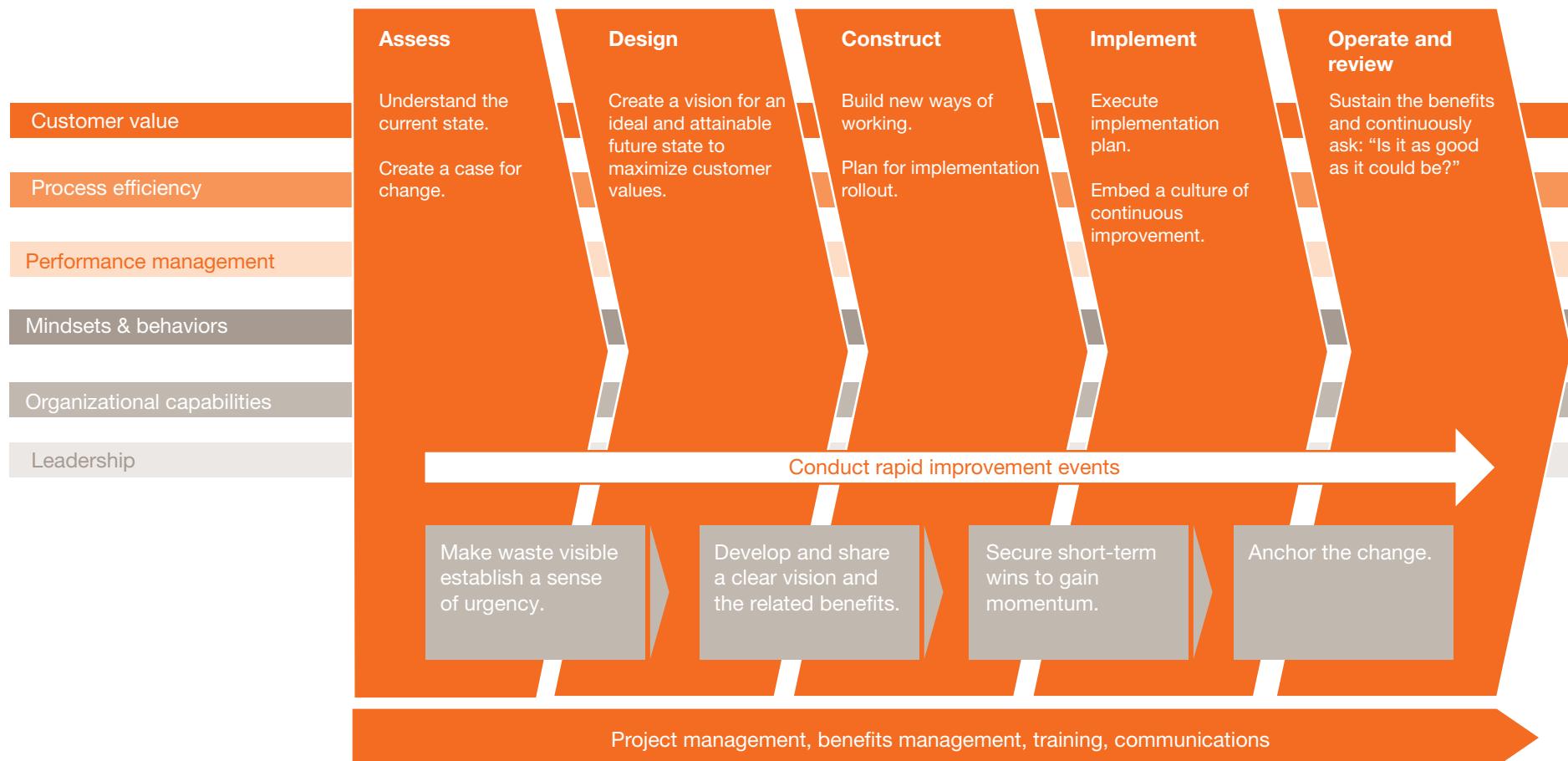
How PwC can help



*Our capabilities and
tailored approach.*

Leveraging PwC's Lean framework and expertise accelerates the application of Lean principles by enabling the identification of quick-hit opportunities through rapid improvement events.

PwC combines a systematic approach, along with a customer-centric and benefit-focused mentality to realize sustainable benefits. We use a hypothesis-driven method to collaboratively develop accurate assessments of problems and create tailored solutions for our clients.



What makes PwC's Financial Services practice distinctive.

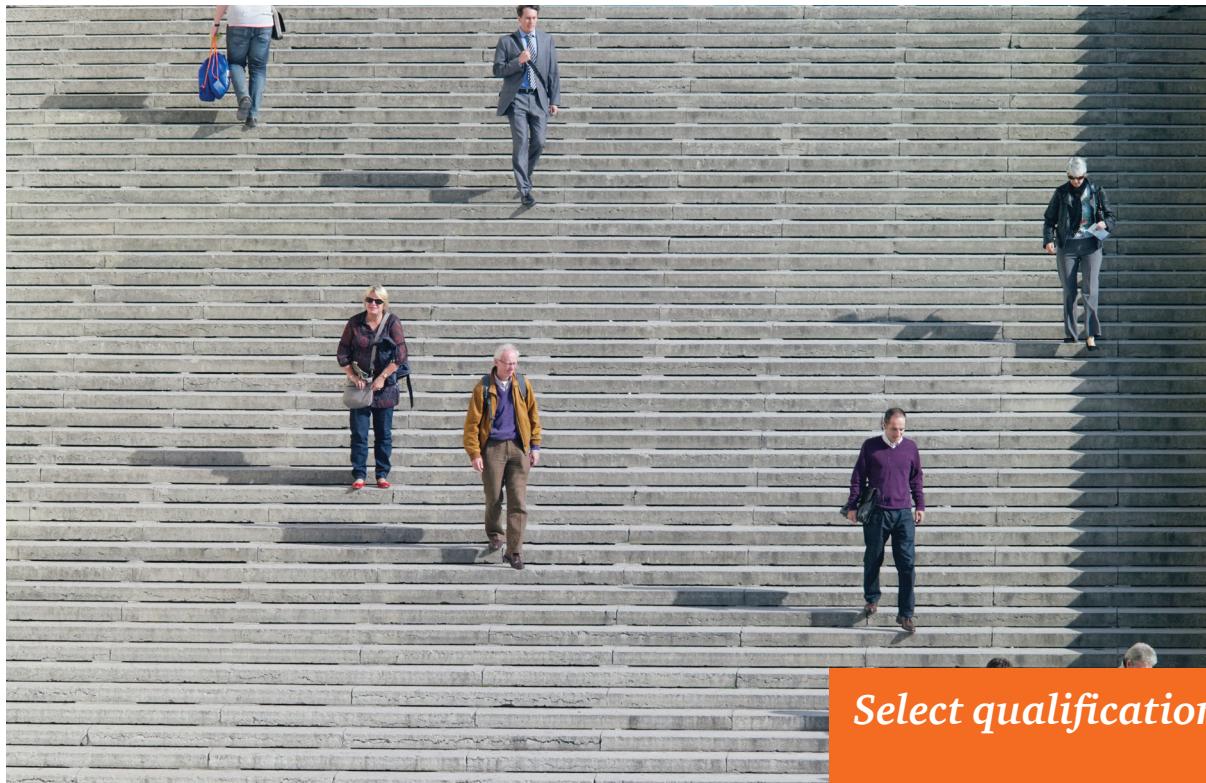
Integrated global network	With 34,000 industry-dedicated professionals worldwide, PwC has a network that enables the assembly of both cross-border and regional teams. PwC's large, integrated global network of industry-dedicated resources means that PwC deploys the right personnel with the right background on our clients' behalf whenever and wherever they need it.
Extensive industry experience	PwC serves multinational financial institutions across banking and capital markets, insurance, asset management, hedge funds, private equity, payments and financial technology. As a result, PwC has the extensive experience needed to advise on the portfolio of business issues that affect the industry, and we apply that knowledge to our clients' individual circumstances.
Multidisciplinary problem solving	The critical issues financial institutions face today affect their entire business. Addressing these complexities requires both breadth and depth, and PwC service teams include specialists in strategy, risk management, finance, regulation, operations and technology. This allows us to provide support to corporate executives as well as key line and staff management. We help address business issues from client impact to product design, from go-to-market strategy to an optimized economic model to proper functional practices across all aspects of the organization. We excel solving problems that span the range of our clients key issues and opportunities, working with the heads of the business, risk, finance, operations and technology.
Practical insight into critical issues	In addition to working directly with clients, our practice professionals and Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients new intelligence, perspective, and analysis on the trends that affect them.
Focus on relationships	PwC US helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms with 169,000 people in more than 158 countries. We're committed to delivering quality in assurance, tax, and advisory services.

We look across the entire organization—focusing on strategy, structure, people, process, and technology—to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.



Client needs	Issues we help clients address
Innovate and grow profitably	<ul style="list-style-type: none"> • Reshaping the IT function into a source of innovation • Transforming business information to drive insight and fact-based decision making • Evaluating acquisition and divestiture strategies to position for the future
Manage risk and regulation	<ul style="list-style-type: none"> • Building a risk resilient organization • Managing ERP investment and project execution risk • Safeguarding the currency of business; keeping sensitive data out of the wrong hands • Ensuring capital project governance and accountability
Build effective organizations	<ul style="list-style-type: none"> • Establishing effective strategic sourcing and procurement • Realizing competitive advantage through effective sales operations inventory planning • Transforming the close and consolidation process to work for you rather than against you
Reduce costs	<ul style="list-style-type: none"> • Driving efficiency through shared services • Redesigning finance to realize efficiency and competitive advantage • Taking control of cost through effective spend management and cash forecasting practices
Leverage talent	<ul style="list-style-type: none"> • Defining and implementing an effective HR organization • Rethinking pivotal talent

Appendix



Select qualifications.

Improved financial reporting processes by implementing Lean—A global investment bank.

Issues

The bank's expenses were climbing and the financial reporting process time was significantly longer than acceptable, due in part to complexity resulting from ineffective cultural and functional integration. Reports frequently were late and misaligned with customer requirements. A lack of process visibility resulted in inefficient and inconsistent approaches, with duplication of effort and over-production. A lack of visibility into roles and responsibilities delayed processing. Finally, there was no standardization, and little trust in the quality of available data, which led to over-processing and rework.

Approach

The PwC team applied a multi-team and global phased approach to improve the client's Finance processes by applying Lean principles across each location through the following phases:

- The pre-assess phase of the work confirmed scope, critical issues, and constraints—and highlighted initial opportunities.
- The assess phase validated the current state value streams, enabling the client to understand the “size of the prize” and establish a sense of urgency in the business case for change. Lean champions were identified and trained, along with their teams. Visual management was introduced and started becoming actively managed.
- During the design phase, the PwC team helped the client teams to develop a clear, shared vision. The team also helped the client to design improved processes, supported by a new structure and standardized documentation, enhancing efficiency and addressing critical issues.
- The construct phase focused on building the new processes, supporting organizational structures, performance indicators, and standardization. During this phase, roles and responsibilities also were aligned to the new processes.

Implementation secured quick wins and anchored the cultural change required for the client to take ownership of ongoing continuous improvement. Finance, financial operations, and technology teams were trained in Lean and continuous improvement techniques. Also, there was a transfer and embedding of skills, mindsets, and behaviors to operations personnel. Visual management was embedded across team locations. Controls were validated, and a recommendation for further improvement was produced.

Benefits

With PwC's assistance, the client achieved its benefit targets, 15%–25% of capacity was released, and 30% of processing time was removed from the Finance processes.

**Applied Lean to drive incremental growth through increased profitability of customer interactions—
A global consumer finance institution.**

Issues	A large consumer finance business within a global conglomerate sought to leverage customer interactions or “touch points” to increase sales. The client wanted to develop credit service marketing channels across 21 client portfolios covering North America to drive incremental revenue while mitigating fraud.
Approach	<p>The PwC team drew on extensive work with client and industry teams around Lean to address risk and increase revenue throughout the client’s businesses worldwide. The team coordinated with operations, risk, and marketing groups to leverage Lean to complete a variety of activities, including:</p> <ul style="list-style-type: none">• Gathered requirements to identify, analyze, and prioritize customer touch points and profitability across the North American client portfolios, identifying the most profitable customer channels.• Modified existing operations to integrate new programs, driving efficiencies through value mapping.• Developed risk, marketing, and operations card activation infrastructure to support sales strategy. Institutionalized first-card activation to sales process for the company and then led a global crossfunctional team to build functionality across the North American client portfolio.• Initiated a complex statement simplification project.• Designed and built a card expense and re-forecasting tool, tackling expense and profitability in a standardized operational expense forecasting tool.• Created and implemented a standard global real-time dashboard to monitor and analyze activity and sales, cross-sales, and product for five activation channels.
Benefits	<p>The work of the PwC team assisted the client to realize the following benefits:</p> <ul style="list-style-type: none">• Mitigate against the client’s fraud risk .• 15% incremental income growth within the first year of operation.• Decreased annual operational expense by over 30% through improved operating efficiencies and standardization in the cardholder communications channel.• 30% improvement in forecasting operational expenses.• Increased the client’s agility and sales capability.

Used a Lean approach to optimize Information Technology Finance reporting and the procure to pay (P2P) process—A global financial conglomerate.

Issues	Costs were climbing at a global financial conglomerate. To reel back in some of the costs, the Finance department was tasked with reducing two of the larger drivers of cost: Information Technology Finance needed to cut costs by 15% and Sourcing by 10%.
Approach	<p>The PwC team took a cross-functional, phased approach to address the client issues:</p> <ul style="list-style-type: none">• Assess: This phase confirmed scope, critical issues, and constraints, highlighting initial opportunities. The team analyzed the IT general ledger to understand the categories of IT expenditures, as well as key suppliers and customers.• Design: During this phase, the team helped the client to develop a clear and shared vision. The team leveraged the findings from the Assess phase to focus on key value streams and the baseline time to perform key activities. A new, improved state was designed and supported by a new structure and standardized documentation.• Construct: The team focused on building the new processes, supporting organizational structures, key performance indicators, and standardization. During this phase, roles and responsibilities were aligned to the new processes.• Implement: Communication, training, and RACI (responsible, accountable, consulted, informed) charts were developed and administered across the company to help facilitate a smooth, phased rollout of the new structure.• Operate and Review: To maintain improvements and mitigate a return to the old state, the team implemented a control plan that included key metrics, customer feedback loops, and visual management.
Benefits	<p>The client achieved the following:</p> <ul style="list-style-type: none">• A 25% cost reduction in IT Finance by optimizing the Americas IT server infrastructure for the global conglomerate.• A 20% decrease in the server population.• Standardized global purchasing, in addition to a 15% cost savings and a 70% increase in productivity.• Adoption of Lean principles across the multinational organization in 30 countries as a method for meeting cost reduction targets.

***Applied Lean tools to
improve business processes
and drive cost reduction
prior to a move to a new
location—
An insurance institution.***

Issues	The client was preparing to move to a new corporate headquarters and was in the process of preparing for the move. The client's process improvement division was having trouble meeting improvement targets that were established to help facilitate a productive move. The client wanted to apply Lean tools and concepts to meet the targets and accelerate the move. The client sought PwC's help in developing a Lean approach to achieve the 5% cost reduction target through improvements in core business processes.
Approach	A cross-functional team of 10 client representatives was assembled. The team was responsible for learning, piloting, and implementing the Lean methodology for a core business process. PwC delivered 11 interactive Lean training modules and completed the following: <ul style="list-style-type: none">• Developed a detailed implementation plan and business case.• Analyzed the "as is" value-stream process to identify waste.• Executed three rapid improvement events that were focused on (1) elimination of waste, (2) improvement to flow, and (3) implementation of key performance metrics to manage the value stream.• Developed a customized Lean improvement methodology for use by the client on future process improvement initiatives.
Benefits	The application of Lean improvement techniques resulted in cycle time reductions of 30%-40% and the identification of over 100 instances of waste. Cost savings of 20%-30% were achieved through implementation of the future-state vision. PwC developed a robust, user-friendly playbook and standard training materials that apply the Lean methodology to ongoing improvement activities.

Streamlined and standardized the close-to- report process using Lean to resolve delays in hand-offs and a high degree of rework— A banking institution.

Issues	A \$1 billion banking institution was taking more than 15 days to perform monthly close procedures and to generate management reports. The monthly close process was slowed by complex data flow among three tracking stock entities and a burdensome allocation process for corporate expenses. Non-critical tasks were performed during the close and reporting cycle, which increased the volume of unnecessary work and reduced focus on significant business issues and areas of risk. In addition, many finance and accounting personnel were unaware of, or did not effectively utilize, existing system capabilities. Adding to the client's challenges, materiality thresholds were not being utilized effectively. As a result, a high volume of low-dollar invoices and journal entries was processed during the month-end close, adding needlessly to the workload.
Approach	Using a Lean approach, the PwC team assessed and revised the client's close procedures. The team assisted in building a financial reporting infrastructure that could deliver to management accurate, meaningful financial information in a timely fashion to support proactive business decision making. By analyzing the "as is" workflow and comparing it to industry best practices, the PwC team made recommendations to help standardize and shorten the close cycle. The team also developed implementation plans to achieve the company's other close and reporting goals. To document the new processes, the team developed a revised month-end close process manual, including updated policies and procedures, detailed close checklists, and close performance metrics. A standard monthly reporting package was also designed, with the input of management, to achieve consistency of finance numbers throughout the organization.
Benefits	The revised reporting content and format provided leadership with the necessary information and analysis to make more informed management decisions. With PwC's assistance, the client has reduced its month-end close process from more than 15 days to less than 6 days and is able to provide improved reporting information about operations.

Improved the control, cycle time, and flexibility of the accounting consolidation process—National mortgage finance company.

Issues	<p>The client was taking three days to complete its loan and securities balance sheet consolidation. The consolidation process included a significant number of manual steps due to lack of flexibility and was highly dependent on numerous upstream activities. The data was sourced from disparate systems that did not communicate and required multiple reconciliations, resulting in lack of trust in the data. The consolidation process was on the client's critical path to close the books at month-end and impacted the securities close-to-report cycle.</p>
Approach	<p>The PwC team took a Lean, fact-based approach to perform a current state analysis of the client's consolidation process. During this analysis, the following activities were performed:</p> <ul style="list-style-type: none">• An in-depth review and documentation of the current state consolidation process.• Documentation of a detailed value-stream map identifying the value-added, the non-value-added and the non-value-added-but-required steps in the process.• A baseline analysis was performed to understand process cycle time, efficiency, and throughput, followed by benchmarking to understand how the company's baseline process metrics compared to industry peers.• Interviews with process owners to understand pain points, monthly tasks, and rework loops, and to seek ideas for improvement.• Analysis to identify areas for improvement in process, structure, policy, technology, people, and strategy. <p>As a result of these activities, the PwC team developed future-state recommendations and a roadmap to implement improvements in the process. The future state recommendations and roadmap were aligned to the organization's overall future-state vision of the organization.</p>
Benefits	<p>The PwC team identified areas for improvement in the current state process and proposed future state recommendations. The future state recommendations removes non-value-added tasks, reduces operational risk, increases control of the overall process by improving data flow and accuracy, and increases the flexibility of the overall process by creating a Lean process. The recommendations and associated benefits include: cycle time reduction of 70%, cost reductions, and decreased operational and financial risk through the elimination of manual tasks and the automation of controls.</p>

To have a deeper conversation, please contact:

Kurtis Babczenko
+1 312 298 3559
kurtis.babczenko@us.pwc.com

John Garvey
+1 646 471 2422
john.garvey@us.pwc.com

Kenneth LaManna
+1 312 298 2128
kenneth.lamanna@us.pwc.com

Shane Crenshaw
+1 646 471 1418
shane.crenshaw@us.pwc.com

"Lean Forward or Fall Back: How Applying Lean Principles Can Improve the Finance Function," PwC FS Viewpoint, February 2012. www.pwc.com/fsi

© 2012 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved. PwC refers to the US member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. LA-12-0246