

Finance transformation: A Lean approach to increase value

*Management Consulting –
Lean Finance*

June 2013

Assessing the situation

Put down the report. Close the laptop. Walk around your finance and accounting offices and you'll see, hear, and feel how well the machine is running. Look for uneven piles of paperwork on worker's desks. Listen to the tone and urgency of your employees responding to calls—are people frantically chasing late information, or are they so busy correcting the numbers that there's no time left for in-depth analysis? Are your associates fully engaged in their work—and do your managers trust them to perform? Does your company view your work as vital, or merely necessary?

Now it's time to return to the laptop, reboot, and review the department's metrics. How often does your finance and accounting staff struggle to meet deadlines? How good is the analysis of results you get from the field? How much work is done in silos, with mistakes passed along until the last minute? How does your finance and accounting organization stack up against other companies when it comes to achieving first-time quality and timeliness? How much time does your team have for innovation?

Intuition and the data have likely led you to the same conclusion: something isn't working—your improvement efforts are not producing the desired effect. Perhaps it's time to try a new approach.

Recognizing the need for a new, Lean approach

Today, organizations are squeezing their finance and accounting functions like never before. Expectations are at an all-time high, yet resources are increasingly scarce. Finance and accounting leaders must deliver a growing array of filings, reports and critical information. They must maintain controls and compliance and keep up with complex accounting rules—all this while meeting business demands for faster turnaround and lower costs.

The most common solutions to these challenges are to cut managers, invest in automation, or simply ask people to do more and hope for the best.

While some efficiencies can be achieved by optimizing the staff to manager ratio, in most cases cutting managers will simply result in shifting more work to someone else primarily because managers are actually doing nearly as many tasks as their staff.

Automating financial and accounting processes has some significant advantages. It can formalize and accelerate workflows, add data checks and enforce financial controls, and ensure uniform reports and analyses. But automation has two key limitations that can easily create an expensive long-term liability:

- Computers can only do what you tell them to do, and
- Computers are not great at applying judgment or handling exceptions.

If the workflows are inefficient, exceptions are the rule or the data is deficient, then the automation investment will only further embed poor processes.

Sometimes finance leadership is correct in knowing that waste exists in their department, but they may wrongfully assume that cutting staff or piling on more responsibilities will force their staff to stop doing the inefficient activities. In reality, most accountants do not have the time, skills, or authority to eliminate wasteful activities. Reducing heads without helping to reduce the work can lead to demoralized staff, lower customer satisfaction, and higher costs in the end when quality suffers.

The point is, traditional approaches fail because they don't improve the work processes. Instead, they merely shuffle tasks from person to person, from person to machine, or simply to fewer people. To change the results for finance and accounting, you should change the underlying processes.

Lean is an alternative approach that changes the way the work is performed. At its heart, Lean is an operating philosophy focused on creating customer value—in simple terms Lean is about doing more of the right tasks with less wasted effort. Lean also provides a toolkit for achieving and sustaining process excellence. When applied in the back office, Lean helps identify the value provided to internal and external customers, focus effort on the tasks that deliver value and eliminate effort spent on wasteful activities wherever they exist.

“Don't find fault. Find a remedy.”
– Henry Ford

At its heart, Lean is an operating philosophy focused on creating customer value.

Lean in Action

Lean was pioneered in the automobile industry, where intense competition drove dramatic advances in process and quality management. These practices eventually found their way from the factory floor to the office, and from products into service industries. Lean has been widely and successfully implemented in non-manufacturing environments for many years.

Today, Lean is the predominant process management methodology for professional services organizations—and it is rapidly transforming how accounting and finance functions are managed in leading global institutions. Lean can improve the quality, timeliness, and overall value delivered by finance and accounting teams. Lean does not change core accounting and finance services but it does simplify the processes for executing these functions, and makes it much easier to spot defects, redundancies, and wasteful steps.

When applying a Lean approach to process improvement, many clients have seen sustainable man-hour reductions in the range of 40% – 60% in short order. Improvements of this magnitude are commonly achieved across finance in transaction processing, month-end close, SEC reporting, budgeting, forecasting and analysis, and management reporting.

To illustrate this point, below are some very specific results that one of our clients—a multi-billion international company—achieved only three months after their initial Lean improvements:

Work effort reduction results

Process	Before	After	Reduced effort
Balance sheet	20 hours	8 hours	60%
P&L statement	19 hours	9 hours	55%
Statement of cash flows	26 hours	17.5 hours	32%
Stockholders' equity	14 hours	5.5 hours	60%
Impairment	75 hours	15 hours	75%
Debt schedules	57 hours	14 hours	75%

It's clear that a well-executed Lean process improvement program can lead to significant savings in both time and effort expended, allowing your finance function to refocus attention to higher-value business issues.

Lean's impact on Finance organizations

Beyond merely improving workflows, Lean provides an operating methodology to sustain process excellence and continuously improve results. This changes the way finance and accounting professionals view their work and manage their activities. In doing so, Lean helps transform finance and accounting into high-performing, customer-focused organizations.

Below we discuss lessons learned after assisting a multitude of clients design and deploy Lean programs.

The key to eliminating waste is to understand what your customer wants.

Focus on value from your customers' perspective

Whether you are looking at a complex filing or a single report, an entire work process or a single task, the first and most important question to ask in any Lean transformation is “does this add value for the customer?” Answering this question highlights the products and services that meet or exceed customer expectations as well as those that are not valued and might be eliminated.

Customers of finance and accounting include regulatory agencies, investors and lenders, and decision-makers within the business itself. As such, it's very beneficial to periodically review filings, reports, and statements with the appropriate customers (or with a convenient proxy, like your auditor) to assure that what your team prepares is sufficient, on target, and not consuming unnecessary work effort.

Understanding value from the customers' perspective allows you to stop performing entire processes that don't generate value, rather than wasting time improving them. It may be tempting to “not bother” the customers, but that is a critical mistake. We have seen hundreds of accounting man hours instantaneously eliminated in a Lean workshop when the client simply says, “Well...I really don't use those reports.”

Take time to really know your processes and workflows

Ironically, the people who do the work are often surprised at the activities performed by their co-workers. Even highly experienced groups discover hidden details, inconsistencies, workarounds and fixes that occur every day.

While the preferred method for documenting processes is direct observation, some back-office processes are often not executed with sufficient consistency and frequency to be readily observed. A common alternative is to capture the core elements of these processes through process mapping sessions, and then validate them when the process is eventually executed. This approach is useful when analyzing the month-end close and other periodic processes.

Direct observation and process mapping both require a time commitment from your teams. In our experience, improvement teams can spend several days mapping the current state, defining an ideal state, and finally agreeing on a future state. Consider this an investment in finding valuable opportunities.

Lean is very effective at the systematic identification and removal of non value-added activities.

Eliminate non-value adding activities

Value-adding activities in back-office processes often represent a small percentage of the overall effort, and can be scattered throughout the workflow. Interspersed within the process are extraneous reviews, rework, overproduction and extra processing, unnecessary movement and transportation, waiting time, and other non-valued added activities to the end products. These non-value adding activities consume resources, add costs, delay delivery, and add complexity.

Lean is very effective at the systematic identification and removal of non value-added activities. By mapping the process and identifying non value-adding tasks, improvement teams can address each element of waste and significantly improve process performance.

In the Lean approach to quality, problems are viewed as opportunities to enhance customer value and improve process capability.

Turn problems into “good things”

You have probably seen this before: in every financial close or budget review, your staff spends a large amount of time reworking exceptions, rewriting reports, and preparing reclassification and adjusting entries. Pointing fingers at the problem creators often begets defensiveness rather than progress.

In the Lean approach to quality, problems are viewed as opportunities to enhance customer value and improve process capability. Lean strives to solve each problem by addressing the root-causes at their source, as soon as they occur. Once the root-cause is identified, the team changes the process to prevent the problem from recurring. This is done by depersonalizing process improvement. The approach is to blame the process, not the people. If you fail to depersonalize process improvement, people won't talk about what's broken.

One approach that worked well at a global quick-serve restaurant company was to refer to the process as the “systems and processes.” Systems are always part of the process mapping analysis, and we find people are never reluctant to identify problems with the inanimate systems. By verbally referring to systems and processes together and giving the process that same inanimate quality, people were equally open to talk about the process problems within their own activities. Simple but effective.

From Day 1 bring a bias towards improvement

“Nothing succeeds like success.” Lean focuses on eliminating waste as quickly and simply as possible. Don’t get bogged down in analysis when improvements can be made. While fully reengineering a process may take a few weeks and sometimes months, there are a number of actions that may be implemented without much effort that will significantly alleviate pain and build momentum. Many of these improvements fall into the “**stop doing it**” category:

- *Overly precise accruals*
- *Repetitive or immaterial flux analysis*
- *Too many layers of review*
- *Immaterial adjusting entries*
- *Unused reports*
- *Non-productive meetings*
- *Coding errors at the source*
- *Accommodating for exceptions and last-minute processing*

In general, finance personnel are very good at spotting and correcting errors. It is in their DNA. Some consider this ability their most highly valued contribution to the process. So it is not surprising that we often see a review process at every level of management in the finance organization doing the same analysis and asking the same questions. From a Lean perspective, this is highly inefficient.

With a focus on achieving first-time quality, the majority of these reviews may be removed from the process to create a smoother flow and eliminate wait times embedded within each review. Inspections are not value-adding activities. Instead, you should have a strong process including one “doer” and one “checker” to provide the necessary control. Convince your team of this principle and you will be on your way to transforming your organization.

A global energy company eliminated 20 “corporate reviewer” positions by applying Lean to the close process in their international locations. They achieved first-time quality in their financial submissions and eliminated the need to check them all again.

From a Lean perspective, quality reviews at every level of management are highly inefficient.

Teach quality at the source

It is fairly common for frustrated under-performers to become energized Lean champions.

Turn early adopters into internal Lean Champions

Invariably, certain individuals will quickly emerge as the champions of your Lean initiative. Look for them during early trainings and process mapping sessions. They are the ones that show enthusiasm and curiosity to try something new, generate good ideas in the working sessions, and are willing to change. Empower these individuals regardless of their staff level and make sure they continue to play a critical role during future working sessions and especially during the implementation phase to achieve the redesigned future state.

On a recent engagement, we witnessed the transformation of two staff accountants from “underperformers” to “superstars” of a Lean simplification effort for Corporate Reporting. Their spirit had been broken by a frustrating process riddled with rework and their inability to fix root causes in other departments. The group working sessions with suppliers of information were liberating and energizing. They quickly opened up and shared pain points, expressed new ideas that dramatically influenced the future state process, and accepted champion roles on various work streams during the implementation.

Predict and manage performance against customer expectations

Teams often struggle to measure the value they produce for the organization. Some have no sense of their customers’ satisfaction level. Others have limited insight to productivity, timeliness, or quality. These blind spots make it harder to keep finance costs under control and hinder good business decisions.

High performing finance groups use clear “output targets” to set goals that their customers care about; attributes like accuracy, timeliness, and satisfaction. Then they create “process targets” for their own internal finance processes that will tactically drive them to success—such as first time cash application match and number of adjusting entries.

Challenging the team with an outside perspective

At first, finance staff may not push the envelope. They will think about ways to make the work get done faster, rather than go away. This is natural.

An outside perspective will break this mindset. Hearing stories of what other finance teams have done can set them down the right path. These stories can come from divisions of the same company, industry groups or consultants. They should be delivered in the initial training and used to guide the working sessions.

When the mindset is changed, breakthroughs happen. In a simple example, rather than deciding to create a new report to streamline an accrual process, a team member will realize the accrual doesn’t change much month-to-month and eliminate the process altogether.

Lean is intuitive and accessible to just about anyone in your organization.

Becoming better process managers

As a leading approach for improving and managing work, Lean is intuitive and accessible to just about anyone in your organization.

Begin your transformational campaign with training. It doesn't have to be elaborate. A two-hour introduction to Lean concepts and tools will prepare the team for action and will create a common language that is critical during the "assessment and design" working sessions.

Share some examples of transformations from other departments or companies. Use this time to introduce the standard templates and documentation tools prior to beginning the work. Give permission to everyone to think differently, and then let them practice what they've learned.

Maybe the most significant benefit of Lean in finance and accounting is its ability to get everyone thinking and working as a team toward increasing customer value. Along with the numerous efficiency gains, this also improves the work environment, employee morale, and overall engagement. By empowering your people to improve their work, Lean instills a sense of ownership and urgency in every activity.

The evidence is clear: As demonstrated historically, Lean is a proven methodology to optimize Finance.

For a deeper conversation on how to use Lean to improve the accuracy, timeliness and value of accounting, finance, and back-office processes, please contact:

Don Rupprecht

Toronto
(416) 815 5048
don.w.rupprecht@ca.pwc.com

Jack Kahler

San Francisco
(415) 498-7667
john.a.kahler@us.pwc.com

Michael Ovalles

Ft. Lauderdale
(954) 356-5903
michael.e.ovalles@us.pwc.com

www.pwc.com