Beyond Automation: Finance Excellence Requires Continuous Improvement

In an effort to drive efficiency, management typically turn to ‘big bang’ initiatives such as outsourcing, process automation or ERP changes. Whilst these can be highly effective, they are typically ‘one-shot’ optimization projects. There is growing evidence that a process of continuous improvement has a longer term, more substantial impact.

The finance function has always been under pressure to drive down costs while increasing efficiency. This more for less agenda has been at the heart of optimizing the finance function. The average cost of finance has sat at around 2% consistently, but according to the latest study by Accenture the average cost of the finance function in the world's 1000 largest companies is now down to 1.2% revenue, with the leanest spending 0.7% or less. We all know businesses want and need to save money but it is often clear the cuts to cost also translate as costs to effectiveness or efficiency. So how are those companies that have achieved world class finance managing to find the golden balance?

The finance function has transformed in recent years from one where the emphasis was solely on cutting costs and complying with regulations to one that now seeks to be a more integral part of the business. Technology has helped drive down costs associated with duplicate tasks or manual processes, but challenges that prevent finance from being truly transformational still remain. Today's finance organizations are trying to manage four key priorities:

- Supporting the achievement of overall business results
- Reducing the cost of finance
- Optimizing cash flow
- Effectively managing risk

How can organizations accomplish all of these tasks? The first step is one that has already been taken for many companies: the consolidation and standardization of systems, outsourcing simple processes, as well as the adoption of automated processes to replace outdated, manual ones. But what's next is a move toward continuous improvement: the process by which companies are constantly monitoring their financial processes and activities and seeking to get the most from them.

The Connection Between Business Processes and Systems

Following the initial phases of process and system consolidation and standardization, Shared Services today are focused on continuous improvement and the drive for increased business value. This is closely aligned with the move toward end-to-end global process ownership that spans the organization and takes advantage of best practices while driving process improvement and ensuring global implementation.

We know from many disciplines that standardization drives efficiency and flexibility. But we also know that we don't get true process standardization by publishing new process definitions, implementing a new system or forcing standardization of inputs and outputs. Human behaviour and initiative is very powerful!

One challenge in driving continuous improvement toward a simplified, standardized process is the relationship between business processes and systems. Despite their power, enterprise resource planning (ERP) systems do not enforce business processes, they only enforce the process for data entry and capture. This is the subtle but vital difference between 'achievable' standardization and 'achieved' standardization.

A good example is the accounts payable process. The classic “three-way match” between purchase order, goods receipt, and invoice is designed to ensure people only pay for what they authorize and receive. However, systems can only control the sequence of data input from users — not the physical business process. Consider a purchase order that is created on the same day as its related invoice posting or goods receipt. In many cases, this means the standard “process” was not followed and a belated purchase order was hurriedly raised in the system to enable goods receipt and invoice processing for a physical delivery or invoice. In this example, the automated control (three-way match, in this case) lulls people into a false sense of security. Even with preventive measures in place, it is up to the users to follow the established processes — which might not always be the case. The three way match lulls us into a false sense of security.

To illustrate this concept, look at the parking lot barrier in **Figure 1**. It is designed as a ‘control’ to enforce a standard process for access and use of the parking lot. The automatic gate opens when an employee badge is scanned and one car is admitted at a time. Only people with the proper access rights can use the facility. While the automated barrier technically works as designed and there is regular testing and maintenance performed, the tire tracks in the snow reveal that the process is not working as expected and people are circumventing the barrier.

Figure 1 Tire tracks indicate security measures are being bypassed unbeknownst to the facility owners

The tyre tracks show us deviation or exception from the standard and should stimulate us to understand how often this is happening, why the exceptions happen and refine the process accordingly.

This is why it is important to validate that both the system and processes are doing what is intended and to analyze the “tire tracks” of business process exceptions. While a process may seem sound in theory, the “tire tracks” indicate the reality of the situation; they can be used to diagnose root causes, which is the critical component of continuous improvement. It is therefore necessary to determine a better means to analyze and resolve business process exceptions as they arise.

How to Ensure Continuous Improvement: Continuous Monitoring

Continuous monitoring is a detective, preventive, and even predictive data analytics approach used by management on an ongoing basis to ensure that the business operates as designed. Whilst continuous monitoring requires technology, the critical elements most typically overlooked are related to the process, procedures and organizational governance of this analytics approach.

Continuous monitoring is a key element of any continuous improvement program and alerts management to the “tire tracks” in the business. By consistently identifying and driving out error and waste, leading organizations are continuously streamlining and optimizing their processes under the guidance of the process owner who ensures that they continue to reap the benefits of enhanced standardization, simplification, and automation in their global finance processes.

The continuous monitoring process identifies exceptions from “what is supposed to happen,” whether it’s incomplete customer master data (that could lead to later billing and receivable issues), unbilled revenue, duplicate invoice processing, changes to payment terms, spikes in returns and credits, and retrospective purchase orders, among many others. As part of the continuous improvement process, it is important to recognize that not all exceptions need to be eliminated. Sometimes, exceptions indicate there is a better way of doing things and the process would benefit from change.

Properly applied to an end-to-end business process, a continuous monitoring approach highlights exceptions to expected business practice, whether they are caused by error, waste, lack of knowledge, or even fraud. This is a crucial building block of continuous improvement and can help organizations increase both visibility and their financial control.

Enhanced Financial Control and Automation

It has become clear that world-class finance organizations do not just have world-class efficiency, but world-class effectiveness as well. Highly effective financial control can be achieved by eliminating redundancy and embedding intelligent controls in processes and systems. Most importantly, organizations should look to automating manual processes as well as continuous monitoring of controls and risk.

There has been a great deal of focus on automating manual work practices to enhance control and efficiency. The greatest progress has been made in the purchase-to-pay and order-to-cash cycles. The record-to-report and financial close processes have been late entrants to the world of enhanced automation, but now even the most traditional of finance functions are looking at ways to replace Microsoft Excel-based consolidation, matching, and reconciliation processes with more effective control processes.

It is also important to monitor controls to assure operation and effectiveness. World-class finance leaders adopt complementary process, risk, and control monitoring with 100% transaction coverage consistently, completely, and continuously. They monitor critical processes across a combination of the four key risk types: appropriate access, process control, master data integrity, and transactional alignment. In this way, finance leaders ensure the “parking lot barrier” is working and that “tire tracks” are eliminated.

Continuously Moving Forward

So what can businesses do now for finance excellence in the future? Focus on continuous improvement. Engage process ownership. Enhance financial control over the key process cycles. Employ continuous monitoring to identify and eliminate the process variation “tire tracks.”

Finance excellence is not a destination, but a journey of continuous improvement. The world keeps changing and we need to stay ahead.

The case for action for the journey to Finance Excellence has never been better. Enjoy the ride!

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