



cutting through complexity

Being the best: Inside the *intelligent* finance function

Lean finance – Foundation
for success

KPMG INTERNATIONAL



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Lean finance — Foundation for success

Across the globe, the finance teams that provide the most value are those who offer high-quality analysis and advice that contribute to better performance. Of course, finance teams cannot expect to boost their value overnight. Effective business support needs to spring from a strong foundation, and so finance functions need to get the basics right. Until they do, they will not have strong enough footing to offer credible insight and analysis at the upper end.

This is where lean finance comes in. Under these principles, finance teams focus on improving the efficiency and effectiveness of their core activities to enable reliable data streams, uniform reporting standards, and optimized finance processes and technology infrastructure. Finance functions can then harness the resulting gains in quality and efficiency to improve the range, timeliness and integrity of their strategic business support. In short, lean finance involves simplifying, streamlining and harmonizing essential finance processes to create a leaner, more efficient finance operation.

Benefits go well beyond reduced costs

The 2008 financial crisis has already caused many finance functions to embrace lean finance principles to some extent. Indeed, companies have sought innovative ways to re-engineer their basic business processes (including finance) since the 1980s, when Tom Peters' *In Search of Excellence* topped bestseller lists and the term Business Process Re-engineering (BPR) was coined.

But until recently, the world's largest companies mostly operated as multinationals rather than truly global companies. In pursuit of growth, they allowed their businesses in various parts of the world to proliferate largely independently. As a result, their finance operations and data flows became more far-flung and complex, and their underlying processes, technologies, systems and data models lacked consistency and coordination.

Finance operations suffered from unreliable data, information gaps and inefficiencies as a result. When the economic downturn hit, the threat to their survival made it imperative for companies to control their costs, spurring many of them to take on badly needed finance function improvements. Underpinning these improvements were efforts to gain greater global control and consistency over their finance organizations, processes and technologies.

But reduced operational cost is only one of lean finance's goals. Lean finance can dramatically boost speed, flexibility and quality across the finance function and enable finance teams to deliver services of greater range and value. While many companies have taken initial steps to enable lean finance operations, higher-performing companies (those with revenue and EBITDA growth over 10 percent in the past three years) are more likely to recognize and prioritize taking lean finance to the next level.

“Lean finance can dramatically boost speed, flexibility and quality across the finance function and enable finance teams to deliver services of greater range and value.”

Contributor
Robert Cecil (US)

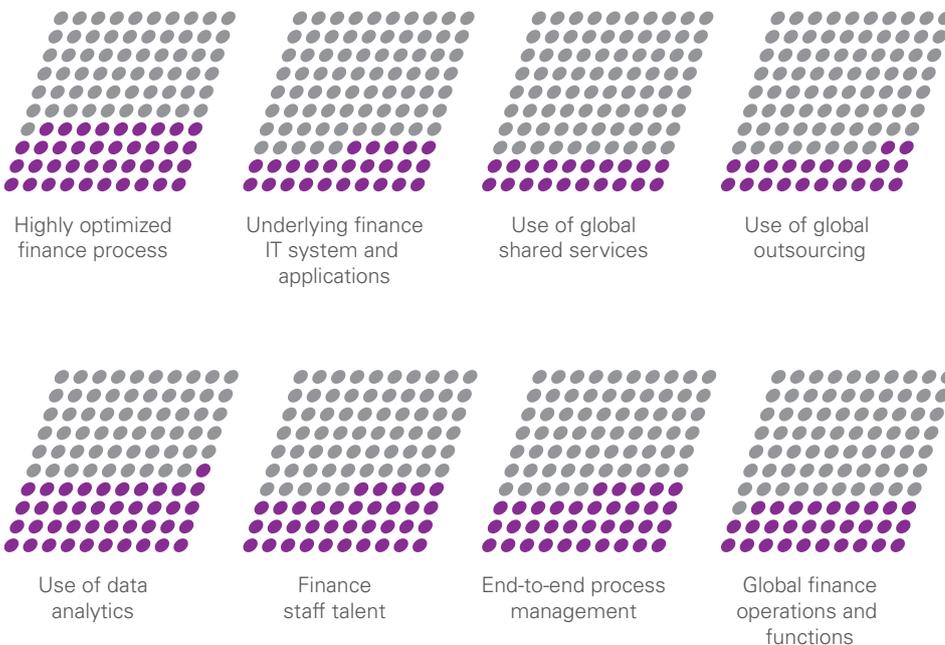
Higher priority for high performers

In KPMG’s 2013 survey of senior finance executives, a slight majority of companies say they are already skilled at embedding lean finance principles and capabilities in their day-to-day finance operations. Interestingly, a relatively high percentage of the high performers (29 percent) believe they are very skilled/strong in this area, compared to only 16 percent overall. High performers also are twice as likely to put great importance on adopting lean finance principles (25 percent for high performers versus 12 percent overall).

According to KPMG’s survey, lean finance enablers that high performers consider to be “extremely important” are: “use of data analytics” (41 percent), “highly optimized finance processes” (39 percent), “finance staff talent” and “end-to-end process management” (both at 35 percent). While we agree that use of data analytics techniques is increasingly important, its effectiveness depends on a strong foundation of optimized finance systems, processes and people.

“ High performers also are twice as likely to put great importance on adopting lean finance principles ... ”

How important are embracing and adopting lean finance principles and capabilities to your organization? Percentage of high performers who answered "extremely important"



Source: KPMG International CFO survey 2013





“ The next level of lean finance involves investing in data analytics, decision support tools, and finance talent and training to develop intelligent finance skills and capabilities. ”

Laying the foundation

As noted earlier in our discussion of the Finance TOM, the first step in employing lean finance principles is to pinpoint where and how the finance function adds value. This requires reviewing all functional areas of the finance pyramid, including transactional processing, financial reporting and control and decision support activities.

Lean finance project outcomes often reflect changes at the lower end of the value chain (transaction processing and financial reporting) that will ultimately allow resources and effort to be re-directed to the activities with the highest value. At this initial stage, finance functions invest in company-wide transformation projects that involve:

- moving lower-end transaction processing work out of the finance function and concentrating these activities within shared service centers and/or outsourcing them to third-party service providers
- standardizing and automating routine procedures where possible to increase efficiency, reduce potential for error and improve quality
- standardizing and streamlining finance function roles and responsibilities, processes and controls
- standardizing and streamlining data flows and underlying IT architecture to automate the transfer of data inputs and integrate and rationalize legacy systems; and establishing data warehouses to ensure one global data set and enhanced reporting.

Taking finance to the next level

Essentially, this first step of lean finance implementation involves creating a unified, reliable platform and structure for finance activities that involve collecting, verifying, classifying and processing financial data. With a robust platform in place for these core finance activities, finance functions can confidently plan how they will move to the next level of lean — by leveraging this platform and structure to enable finance activities that involve data aggregation, manipulation and analysis to support decision-making.

The next level of lean finance involves investing in data analytics, decision support tools, and finance talent and training to develop intelligent finance skills and capabilities. It can also involve revisiting shared service center and outsourcing practices with an eye to implementing more strategic, mixed sourcing practices.

It is telling that fewer finance executives of high performers intend to invest in lean finance's foundational elements over the next two years, compared to other areas of the finance function. In our survey, outsourcing of transactional finance activities is the least named area for investment (14 percent), followed by use of shared services (22 percent). This suggests that high performers have already laid these foundations.

High performers are now looking to enable higher-end activities, as suggested by the greater numbers of them who plan to invest in talent management (53 percent), deployment or expansion of ERP software (43 percent), and decision support tools (37 percent).

Tilting the balance toward better business support

Notably, while finance functions expect they will continue to devote most of their time to basic financial reporting activities, they believe that the balance of their efforts will tilt toward decision support activities in the next two years. In the next five years, 56 percent of finance executives say they expect their finance teams to take a larger role in developing and executing business strategy.

Setting targets for adopting lean finance principles as part of a Finance TOM can help finance teams make the transition with success. By going through the process of streamlining, standardizing and simplifying their financial reporting and transaction processing processes and capabilities, they can now build a tailored platform for the provision of timely, insightful financial advice that influences business outcomes and adds maximum value.

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