Financial Planning & Analysis – Lean Transformation

By
Brian Higgins, Principal
Management Resource Technologies, Ltd.

The American Productivity and Quality Center (APQC)* released the results of a recent survey that indicate that CFOs and other Finance personnel are under increasing pressure from institutional and/or activist investors, management, and competition to improve financial performance. Changes in market dynamics, demand for products and services, technology, and monetary strength in the dollar are complicating these demands on Finance personnel. Yet, at least one in three strategic initiatives fail. The top reasons stated by the respondents to the APQC regarding their most vexing barriers to improving Financial Planning & Analysis (FP&A) are:

- 62% stated that the staff was buried in basic duties – no time to improve FP&A
- 31% report that they had insufficient access to the operational metrics that drive financial performance
- 27% indicated that the Finance staff had insufficient knowledge of business strategy.

Another startling statistic from the Institute of Management Accountants (IMA) indicated that the average tenure of CFOs is only slightly more than 18 months – perhaps due to the reasons stated in the APQC survey.

Unfortunately, there are only limited tools available to Finance personnel to identify opportunities for financial improvement and those tools are often insufficient as they present incorrect and/or misleading information. For example, the accounting system may provide expense information but lacks additional information needed to evaluate the value produced by those expenditures or why they were incurred. Finance personnel may also rely on information from their cost accounting systems, but again those systems may provide very misleading results if those systems depend on cost aggregation (pooling) and/or allocations based on irrelevant and/or average allocation rates. Oftentimes, products and services are allocated costs for indirect services that those lines of business (LOB) do not use. Even more contemporary costing systems, such as Activity Based Costing (ABC), rely on several levels of aggregation and averaged driver rates which allocate costs to the LOBs similar to that of more conventional costing systems. Whenever, averages are used, LOBs are either *over*- or *under*-costed. Over-costed LOBs may be over-priced, losing revenues while under-costed LOBs may be priced too low, sacrificing profits. What is needed are Lean Financial Planning and Analysis (FP&A) systems that:

- Eliminate pooling and allocation of costs providing a true picture of both costs and profitability.
- Include stakeholder (*e.g., customers, employees, etc.*) input to determine the value of activities performed and product/service outputs while enhancing satisfaction and loyalty.
- Provide rational pricing that maximizes both revenues and profitability.
- Identify unnecessary and avoidable cost/effort by uncovering non-value-added and non-mission-related work content as well as unnecessary overlap and duplication.
- Improve performance by enhancing concentration on mission-critical activities – *having the right people do more of what they should be doing and less of what they should not be doing*.

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Brian Higgins is a Principal at Management Resource Technologies, Ltd. Mr. Higgins has over 25 years of progressive experience in the field of financial/operational performance management and quality improvement. Mr. Higgins is a nationally-recognized leader in the development of advanced performance management systems having been honored by receiving “Best Practice” recognition from the American Quality and Productivity Center (APQC). Mr. Higgins has authored numerous articles and is a frequent speaker at national conferences, universities, and professional organizations on the topic of advanced cost and performance management.

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