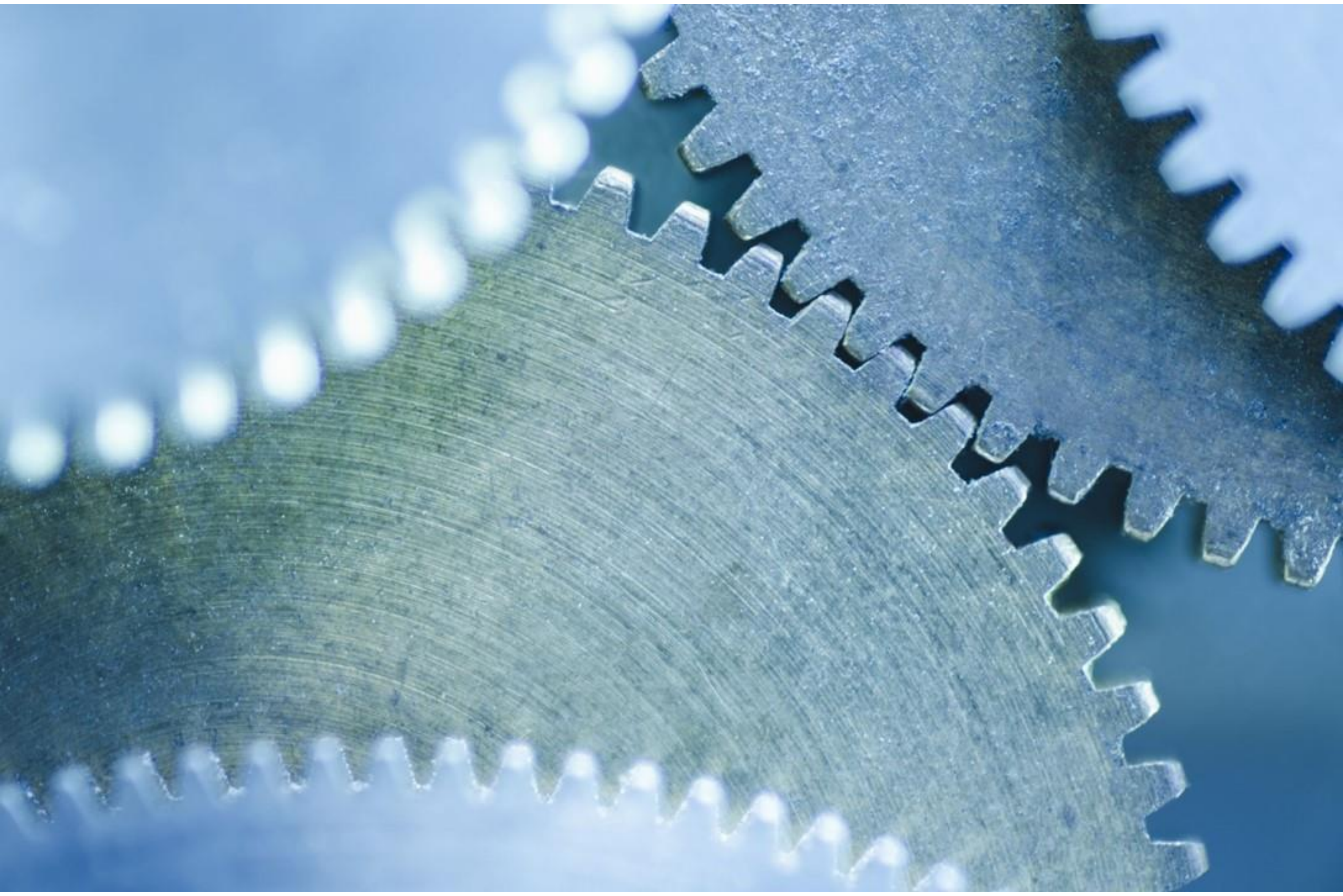
EIGHT FORMS OF WASTE IN FINANCE PROCESSES (LEAN APPROACH IN FINANCE)



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March 2021

Assessing efficiency of businesses, projects and processes, the finance function does not always set an example in terms of best productivity. There is always a room for process optimization in which lean approach can help by focusing on value maximization while minimizing efforts.

The evolution of the finance function results in new roles of finance professionals as strategic co-pilots and process and performance management experts. This assumes continuous improvement towards maximum efficiency to free up time for strategic leadership, leading by example in productivity increase, development and use of new skills and knowledge, including understanding of process improvement methods and technologies, such as lean approach.

The Lean Enterprise Institute Inc. defines lean as creating more value for customers while minimizing waste which means using fewer resources. Lean is usually associated with manufacturing and supply chain, but it can be applied to any field including finance. From the finance function standpoint, maximizing customer value, which is the ultimate goal of lean, can refer to both external and internal customers. As for minimizing waste, it focuses on the shift from low or non-value-added activities, for instance, excessive manual reporting to those which create value, such as generating insights for informative decision-making.

This differentiation of value-added and non-value-added activities is a cornerstone of lean methodology. The former are those tasks which transform a product or a service in the way customers are willing to pay for, while the latter ones do not contribute to the value increase of the output from the customer's point of view and, therefore, are waste. Over 80–90% of the tasks in a business process are typically considered waste because they do not add any value to the customer. Despite the focus of lean on eliminating non-value-added activities, some of them are essential, for example, for legal or regulatory reasons, and, thus, certain level of waste is inevitable. Lean helps organizations to identify and minimize waste which exists everywhere and can take 8 forms: defects, overproduction, extra processing, waiting, inventory, motion, transportation and non-utilized people. Next, we will consider how each of them can be manifested in finance processes.

Defects

Defects are usually associated with tasks performed in an inaccurate or incorrect manner which causes scrap or rework. This type of waste is mostly related to human actions and interventions. The most common examples of defects in finance processes are:

- errors in payments while billing or accounts payable processes,
- incorrect entries in accounting,
- inaccurate forecasts in budgeting,
- delays in reporting,
- incorrect data in the reports,

- a formula error in the Excel spreadsheet.

Overproduction

Overproduction means producing more output than necessary or producing output earlier or at a faster rate than required by the customer. The first finance process that comes to mind is reporting which usually needs to focus more on just-in-time performance. Among widely spread examples of this kind of waste are:

- unnecessary, redundant reports and KPI calculations,
- printed copies when they are not required,
- producing and calculating scenarios which are not relevant to the situation,
- downloading excessive data into databases or Excel spreadsheets.

Extra processing

This waste refers to doing more work, having more steps in the process, or adding more components in a product/service which are not required by the customer. The common examples of extra processing in the finance function are:

- adding excessive details in reports and KPI dashboards,
- requiring unnecessary signatures on the document,
- duplication of data processing and analysis cause by lack of coordination.

Waiting

Often considered as the opposite to overproduction, this type of waste is the idle time when a person / item is waiting for the next step, but the process is not ready to accept them. Some examples in finance processes are:

- waiting for other departments to respond to an email
- waiting for somebody to submit data/information,
- waiting for invoices to be signed,
- calculations of the investment projects efficiency and approvals to be made.

Inventory

This waste relates to excessive work in progress, storing products and materials that are not needed at this particular time. For the finance function the most common examples are:

- storage of the unused information in the database,

- storage of the obsolete files longer than necessary,
- same data and/or reports stored in several locations,
- accumulation of invoices.

Motion

This type of waste includes the unnecessary movement of people, equipment, materials, items which does not contribute to the value of a product or service. Examples of motion waste in finance processes are:

- unnecessary meetings and phone calls,
- people searching for files and folders to find necessary information,
- unnecessary iterations during budget cycle.

Transportation

This kind of waste includes moving items, people, information more often or over farther distances than necessary. It causes process complexity, errors and leads to defects. Among the most widespread examples in finance processes are:

- sending hard copies of documents which can be electronic,
- reports transferred from one user to another for multiple inputs,
- having numerous levels of control and approvals.

Non-utilized people

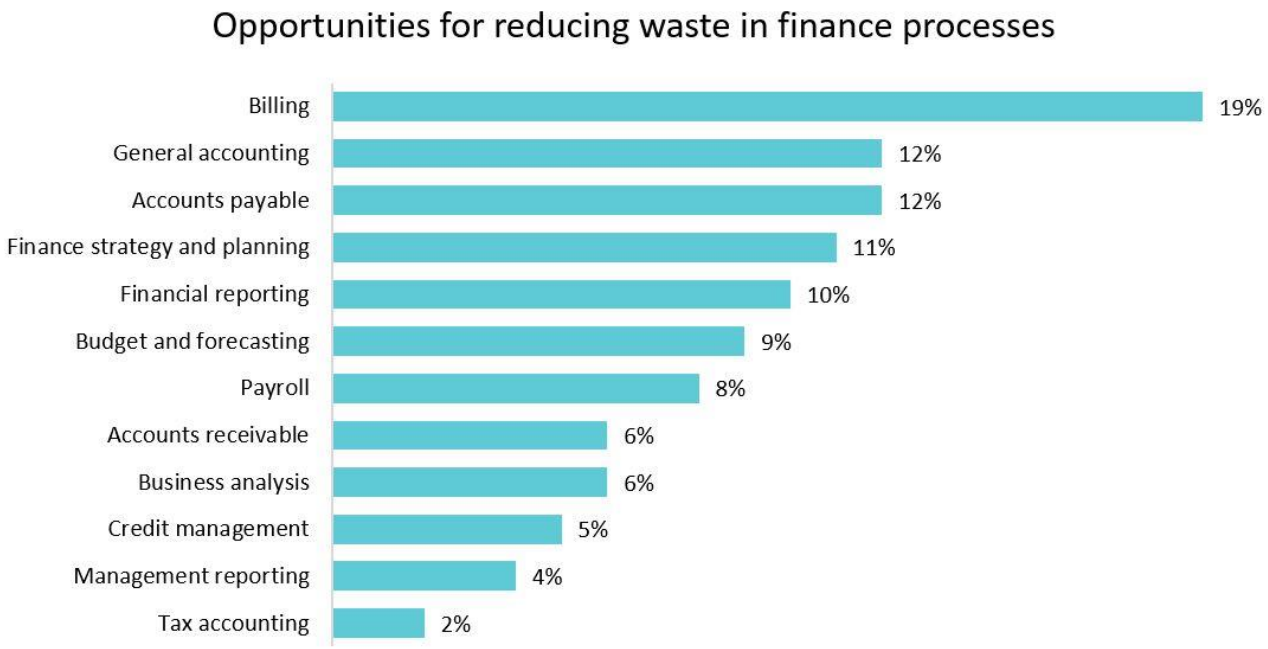
This type of waste occurs when employees' skills, abilities, talents, knowledge, experience, creativity are not used efficiently and in the best possible way. Examples of this waste in the finance function are similar to those of any other department:

- employees are poorly trained,
- highly skilled employees are doing unskilled tasks or tasks that can be automated.

Keeping in mind the 8 above-mentioned wastes together with the most common areas where they can appear, finance teams can start implementing lean principles which enable them to improve existing processes in order to achieve efficiency.

Best-in-class finance functions usually have "leaner" processes using, for instance, standardization of roles and responsibilities, automation of routine processes and procedures, and/or shared services which ensure less cost and higher level of agility, performance and productivity.

PwC's Finance Effectiveness Benchmark Report 2019 highlights main finance processes with high potential for waste elimination:



Source: PwC's Finance Effectiveness Benchmark Report 2019

These opportunities for improvement are definitely attractive and worth efforts of lean implementation within the finance function.

Waste can exist everywhere in the organization, in every department or process. Using lean methodology, finance teams can analyze their processes, including all activities and decision points, better understand them, determine which activities are value-adding and which ones are not, highlight the areas of inefficiencies and, therefore, identify possible opportunities for performance improvement. Though lean implementation is usually considered a company-wide initiative, eliminating waste in finance processes can be a huge step towards best practices and high-performing finance function your company can lean on.

References:

1. The Lean Enterprise Institute Inc.

2. Raising Finance Productivity and Capability: The Lean Approach, 2016 PricewaterhouseCoopers Consulting (Singapore) Pte Ltd and CPA Australia Ltd

3. PwC's Finance Effectiveness Benchmark Report 2019.

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