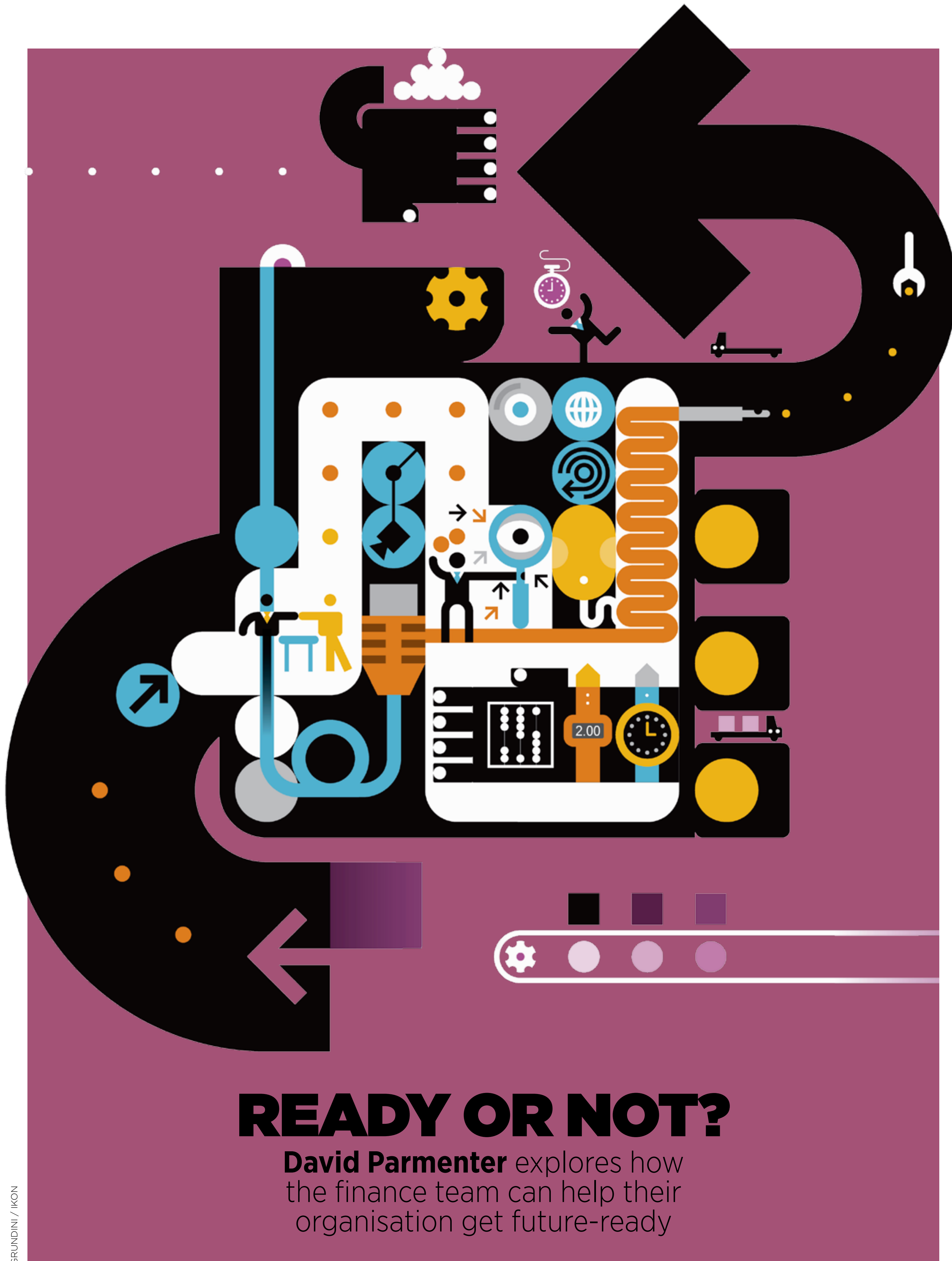


GRUNDINI / IKON

READY OR NOT?

David Parmenter explores how the finance team can help their organisation get future-ready

Every high-performing finance team must be focused on helping their organisation get future ready. By future ready, we mean an organisation that is fast and light on its feet, able to react quickly to events as they unfold, an organisation that is nimble through utilising world best practice, an organisation that is an advanced adopter of leading edge technologies, an organisation with modern people practices that abandon the broken, ill-conceived management practices of the past.

The issue, however, is that many finance teams are far from future ready. In truth, how many finance teams are satisfied that they have:

- fully embraced all the lean best practices to be future ready?
- an annual planning process that helps their organisation get future ready?; and/or
- successfully adopted the tried and tested leading edge technologies now available in the 21st century?

THE BURNING PLATFORM

But while there are some finance teams that are most definitely future ready, a majority are stuck in a time warp, blissfully ignoring the change around us that signals the future.

This article will look at areas the finance team can focus on to get some rubber on the road in this important, maybe, organisation-saving area.I am talking about key performance indicators (KPIs), the annual planning process, forecasting, using outdated technology and, to round it off, period-end reporting.

These processes have failed to stop the drift of once-great companies such as BlackBerry, Kodak and Polaroid. Their busy executives were no doubt, like Nero, busy fiddling while Rome was burning. Attending another annual planning round where management and the board were told the lies they wanted to hear. Taking home a briefcase full of reports that on their third return journey were deemed as read.

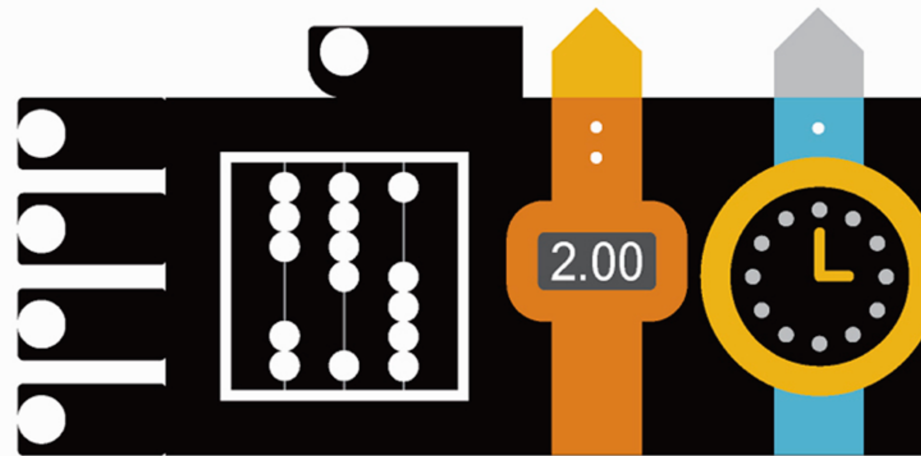
What role did the finance team play in these failures? Were they not heard or did they not make the message clear?

1. EMBRACING THE LEAN

1.1 Getting out of old habits

The finance team needs to create time for change, to have more time to act. To create this magic we need time. Where do we find this time? We find it by attacking the top 20 mistakes corporate accountants make. An extract from my related whitepaper is shown in the table below:

AREA	NON LEAN PRACTICES	LEAN TARGETS
Team communication	Many unfocused meetings going nowhere quickly, emails sent to team members who are sitting next door	Introducing agile meetings e.g.SCRUM meetings and introduce a Kanban Board which visually shows the status of the backlog, work in progress and finished tasks. (see following sections)
Renewal	Maintaining out of date processes that have no meaning,	Embracing the abandonment of processes that do not work (see later section).
Month-end reporting	Slow month-end reporting as finance teams unnecessarily pursuing precise month-end number. Yet 'right' month-end number does not exist.	Fast month-end by day three or less (by next month-end) with a target to be reporting by the close of the first working day by 12-18 months and be able to report net profit intra month (virtual reporting) inside three years.
Year-end accounts	The annual accounts consuming nearly all of the corporate accountant's time in the first quarter of the year.	Fast year committing the auditors, your finance team, board and executive to a 15 working day signed set of annual accounts
Annual Planning	Annual planning process that takes months to arrive at the wrong number.	Produced in less than two weeks from the rolling planning exercises. Eventually the annual plan will be dropped in favour of a quarterly rolling planning process.
Key Performance Indicators	Having scores of performance measures many incorrectly called KPIs. which are more damaging than beneficial.	Working with no more than ten KPIs in the organisation. The other performance measures which are not KPIs to not exceed 80.
Excel based adhoc systems	A spreadsheet for everything that moves, and most certainly many versions of the truth.	All spreadsheets over 100 rows replaced with a robust solution using one of the modern planning and reporting tools now readily available.
The chart of accounts	Having many account codes, leading to miscoding, excessive reporting and too many budget fields.	Streamlining the chart of accounts by limiting the Profit and Loss to less than 50 account codes.



1.2. Adopt the SCRUM methodology

One technique that is important for the finance team is to adopt the SCRUM methodology evolved by Jeff Sutherland (2010). Each day, during the month-end or year-end close, the finance team members involved gather in a stand-up meeting.

The features of SCRUM are as follows:

- Instead of overplanning, one needs to have a clear vision of what you are after. With this shared vision, you take a small chunk of work, saying, "If we deliver this feature we will progress the project". We thus do not need a massive project schedule befitting an Apollo space programme.
- The key is that this chunk is about two weeks of effort and is an isolated stand-alone part of the project that can be signed off by the customer as "Yes, that is what I want". This chunk is called a sprint backlog.
- The meeting is held, every day during the deadline, first thing in the morning and lasts less than 15 minutes. They are asked to talk about:
- what they did yesterday;
- what they are doing today; and
- what road blocks are barriers to your progress?
- Each attendee is to take no more than a minute or so and some teams even have a dumb bell to be held out with the rule you can only talk as long as you can hold it up. The team leader, renamed the "SCRUM master" notes all the road blocks and immediately sets about removing them with an appropriate phone call or walkabout.
- At the end of the session the group end by touching fists, a homage to the source of this technique (the sports field).
- This SCRUM does many things; it replaces loads of emails, as the team members get to know what has been done, what is going to be done and by whom. It makes everyone accountable. There is no place for a team member to coast along.

1.3. Abandoning poor processes

"Founder of modern management" Peter Drucker frequently used the word "abandonment". I think what he said about abandonment is one of the top 10 gifts he gave the world. He frequently said that abandonment is the key to innovation. According to Elizabeth Haas Edersheim's *The Definitive Drucker*, he said: "Don't tell me what you're doing; tell me what you've stopped doing." In finance, many processes are carried out, year-in and year-out, because they were done last year. When staff question: "Why do we do this?" The CFO or financial controller will often answer: "There must be a reason; please do it."

All the previous givens should be challenged and all the inefficient processes thrown out. Here are some abandonments finance personnel need to embrace:

- using spreadsheets for consolidating, annual planning and forecasting;
- annual planning (replacing it with quarterly rolling planning);
- making the month-end and year-end a never ending process;
- issuing Finance reports over 10 pages;
- setting monthly targets from the annual plan;
- receiving paper-based invoices from our key suppliers;
- budgeting at account code level;
- having more than 50 account codes for the P/L; and
- using a chequebook (many readers will already have reached 100% electronic payments).

2. ON A ROLL WITH PLANNING

Without doubt, rolling planning is one of the most important changes an accountant can make. The first writers to put annual planning to the sword were Jeremy Hope and Robin Fraser in their classic book *Beyond Budgeting*. The annual planning process should be replaced is because it:

- takes too long;
- costs too much;
- does not focus on performance drivers;
- does not link to strategic outcomes or "critical success factors";
- leads to dysfunctional behaviour, building silos and barriers to success;
- undermines monthly reporting (monthly budgets from the annual plan are poor targets);
- is not designed for a dynamic company in a rapidly changing environment; and
- is an "anti-lean" process.

> The past 20 years, in my view, have seen minimal progress in the right direction on KPIs. Deriving measures is often viewed as an afterthought

No organisation can say it is future ready if it has annual planning process in place. I will cover this later with an article in 2015.

3. KPIs – A TOTAL RETHINK

The past 20 years, in my view, have seen minimal progress in the right direction on KPIs. Deriving measures is often viewed as an afterthought. Measures are regarded as something we fill into a box to say we have achieved a goal. I firmly believe performance measures exist for a higher purpose - helping align the staff's daily actions to the organisation's critical success factors (CSFs).

Yet all too often the measures in an organisation amount to a random collection prepared with little expertise signifying nothing. To make matters worse, these measures cost the organisation dearly:

- Measures are gamed to the detriment of the organisation so executives can increase their pay.
- Teams are encouraged to perform tasks that are contrary to the organisation's strategic direction.
- Costly measurement and reporting regimes lock up valuable staff and management time.
- Measures are often derived from six-figure consultancy assignments that yield little.

KPIs represent a set of measures focusing on those aspects of organisational performance that are the most critical for the current and future success of the organisation.

I believe KPIs have certain characteristics, and I have developed a seven-point checklist, see table 2 above.

KPIs that fit these characteristics could include:

- number of CEO recognitions planned for next week or two weeks;
- staff in vital positions who have handed in their notice on a given day (the CEO has the opportunity to try to persuade the staff member to stay);
- late deliveries to key customers;
- key position job offers issued to candidates that are more than 48 hours outstanding (the CEO has the opportunity to try to persuade acceptance);
- list of late projects, by manager, reported weekly to the senior management team;
- number of innovations planned for implementation in the next 30/60/90 days. Reported weekly toCEO;
- complaints from our key customers that have not been resolved within two hours (report 24/7 to CEO and GMs); and/or
- emergency response time over a given duration (reported immediately to the CEO).

TABLE 2: CHARACTERISTICS OF KPIS

Non-financial	Non financial measures (not expressed in dollars, yen, pounds sterling, euro etc)
Timely	Measured frequently, eg, 24 by 7, daily or weekly
CEO focus	Acted upon by the CEO and senior management team
Simple	All staff understand the measure and what corrective action is required
Team based	Responsibility can be tied down to a team or a cluster of teams who work closely together
Significant impact	Have a significant impact, eg, it impacts on more than one of top CSFs and more than one balanced scorecard perspective
Limited dark side	Encourage appropriate action (eg, have been tested to ensure they have a positive impact on performance)

Replacing Julius Caesar's calendar

Julius Caesar gave us the original basis for the calendar we use today. But it is not a good business tool, because it has divided up the year in uneven periods. With the weekdays and number of weekend days in any given month being different to the next month, it is no wonder forecasting and reporting is unnecessarily compromised.

All organisations whether in the private, government or in the not-for-profit sectors will at some time migrate away from calendar months: we can and should base our forecasting models around a 4,4,5 quarter, eg, there are two four week months and one five week month in a quarter.

Closing off the month on a weekend can make a big positive impact on the efficiency of month-end. Every routine is done on the same day, staff around the organisation naturally get better and more efficient with such a routine.

Forecasting becomes easier, as you have four or five complete weeks of revenue. Four or five weeks of salary, power, telecommunications and property-related costs can be allocated more accurately. To make progress in this area, I recommend that you contact your general ledger supplier and ask who is a very sophisticated user of this general ledger and who uses 4, 4, 5 reporting periods. Arrange to visit them and see how it works. Ask if they would go back to calendar reporting.

With this time saved you will have time to get the finance team future ready and start tackling annual planning, the organisation's KPIs and the adoption of the advice provided by the paradigm shifters. ■

David Parmenter is an international speaker and author of books including *Winning KPIs*
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