

Improving the Value of Financial Processes Through Best Practices

By James M. Boyd, CPA

Financial managers continue to operate in a challenging and competitive environment as their organizations demand a higher value from the output of their processes. They are bombarded with concepts and buzzwords, such as: "Business Process Management," "Best Practices," and "Process Improvement." These terms represent different tools and techniques designed to assist in improving the value of any process. While initially developed and applied to the operations or manufacturing aspects of a business, they are now being applied to back office areas such as accounting and finance.

Organizations today have shifted the focus and expectations of the accounting department. Financial systems and processes focused on managing large volumes of transactions and ensuring accurate, timely external reporting are only addressing their minimum requirements. A world-class finance organization is now defined by tangible results, such as improved business measurement analytics, innovative solutions to business problems, reduced operating costs, and timely ad hoc reporting.

The ability to extend beyond the traditional deliverables of the finance system is the key to recognition as a world-class finance organization. Value is enhanced when the accounting department is actively involved with line managers or program directors. Ensuring that appropriate data is available for effective decision making and that the financial implications of decisions are properly considered and understood is essential.

One of the tools available to assist finance managers in improving the value of their organizations is *Best Practices*. What are *Best Practices*? The noted author Steven M. Bragg defines *Best Practices* as "...**any improvement over existing systems.**"¹ This broad definition recognizes that the implementation of *Best Practices* does not require a complete overhaul of all financial systems and processes. Simple, incremental changes in the routine processes of the finance and accounting departments can contribute significantly to the improved financial position of the organization. In his book, Mr. Bragg lists a number of specific *Best Practices* that can be used.

Best Practices, like any other improvement-oriented initiative, must be considered in the context of a cost/benefit analysis. This analysis is the key to ensuring that the proper **value** is derived from a *Best Practices* implementation. A complete re-engineering of all financial applications and processes will involve significant investments of time and money - this is a certainty. Such an approach may only be practical for the largest organizations. The key question is: "Will the proper **value** be realized from such a complete and drastic change?" The benefits of a *Best Practices* approach can be realized without a complete overhaul of all of the financial systems and processes.

¹ Steven M. Bragg, *Accounting Best Practices*

How do small- to mid-size organizations reap some of the benefits from this approach without consuming significant organizational resources? They do it through a *Best Practices* review and implementation. The objective of a *Best Practices* review is to identify the business process changes necessary to ensure that the world-class outcomes required of the finance and accounting departments are produced. A *Best Practices* review is accomplished through the following:

Make a Commitment

Senior leadership in the organization must be supportive of a *Best Practices* review and implementation and must clearly communicate the importance and priority of such a project throughout the organization. The willingness of the organization to make meaningful change is a critical factor for a successful *Best Practices* implementation. Change in process and procedure is the major outcome of such a project.

Document

Specific financial processes are in place at all organizations. The success of a *Best Practices* review is dependant on a thorough understanding and documentation of the existing processes. The interaction between the accounting department and other users of financial data in the organization **must** be documented as well. How line managers get the financial data they need for decision-making is critical. Inefficiencies in that interaction have a serious impact on the organization.

Analyze and Define Expectations

The goal in this stage is to critically review the documented processes to determine their applicability in the current environment. All too often, policies and procedures are in place because "...we have always done it that way..." This stage will reveal the areas most in need of change - the areas in which a *Best Practices* methodology will provide the most benefit. Additionally, a measurement mechanism should be defined to allow monitoring of the benefits derived.

Implement

The benefits of *Best Practices* cannot be realized if the organization is not willing and able to implement, and implementation equals change. It is at this stage that the leadership of senior management is critical. Resistance to change is a major risk at this stage. The process of implementing change can be difficult to manage.

There are several conditions that are conducive to successful *Best Practices* implementations, however the most critical is the organization's ability to be adaptable and accept change. Strong, focused leadership and good communication with employees will lay the foundation for change and will ease the transition from current processes to new, improved processes.

The benefits are there to be realized and the improvements derived will lead to a more effective, efficient finance and accounting process. The result will be advancement beyond the transaction processing mode to consistently providing value-added outcomes which is the definition of a world-class financial organization.

About the Author and the Company

James M. Boyd, CPA, is Practice Manager at Mitchell Humphrey, a company that specializes in business process management, offering financial management and HR/payroll solutions backed by over 28 years of Best Practices methodology.

Mitchell Humphrey clients include mid- to large-sized clients in a variety of industries including retail, insurance, services, distribution, regional and municipal government; and not-for-profit organizations.

To learn more, e-mail Jim at jboyd@mitchellhumphrey.com, or visit the Mitchell Humphrey website at www.mitchellhumphrey.com.