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Process Improvement: A Universal Framework for Effecting Change

Introduction

Today's managers are being asked to do more with less. Their mandate is to cut expenses and eliminate resources, yet still deliver high-quality products and services that achieve big returns.

For many managers, it's a near-impossible task. They often struggle to identify inefficiencies in their departments and resort to small cost-cutting measures that make a trivial difference to the bottom line. They want to do more, but they don't have the budgets or resources. Without the ability to make changes that will save their organizations millions of dollars, they can't win the attention of process management resources inside the enterprise.

What they need is a way to apply process improvement thinking on a smaller scale—a way to make big, lasting changes that will help their organizations run smarter and leaner without breaking the bank.

We believe financial reporting is an area where managers can make tremendous leaps in efficiency and cost savings—using the resources they have, within the boundaries of their existing budgets. By applying a process improvement framework to their existing workflow, managers can effect change that produces measurable results in a relatively short amount of time.

The history of process improvement

In 1991, H. James Harrington authored a book that offered a new perspective on how to transform core functions in the enterprise. Called *Business Process Improvement*, the book was based on Harrington's work as a quality expert for IBM, where he led teams that looked for ways to perfect the organization's systems, processes, and products.[1]

Their work led to the realization that every enterprise has two primary drivers: people and processes. By changing its processes, businesses can see tremendous improvements in both profits and performance. The idea is both simple and powerful, calling on enterprises to identify areas in their existing processes where they can increase margins, reduce costs, and accelerate schedules.[2]

Measurement is the first step that leads to control and eventually to improvement. If you can't measure something, you can't understand it. If you can't understand it, you can't control it. If you can't control it, you can't improve it.[3]

The fundamental aim of process improvement is nothing less than massive breakthroughs in performance. It does not attempt to make incremental changes, but revolutionary ones. And it has worked. Traditional process improvement initiatives have been used to achieve tremendous results across many Fortune 1000 companies.

But these solutions also have an Achilles' heel—they are built to address processes of massive scale. To implement them requires a multimillion dollar commitment and a team of experts over a period of years. As such, they are generally confined to addressing a small percentage of enterprise processes—those deemed large enough to merit such a large investment.

The 80 percent problem

It has been estimated that 80 percent of potential process improvements projects at any given company aren't being addressed because they aren't big enough to attract actions from upper management. This means inefficient operating processes are costing organizations time and money that could otherwise be saved.

Financial reporting is one such process. A fundamental part of every business, financial reporting has always played a key role the enterprise. It is becoming even more essential as the value of data grows and compliance requires an ever-greater share of the reporting cycle.

Business process improvement for reporting

At Workiva, we've worked with thousands of companies to help them improve their reporting processes. As a result of our work, we've realized that many organizations have similar reporting processes across different industries and business lines. To help them identify the constraints in their processes, we've developed a framework that illuminates weaknesses and inefficiencies. Called the Universal Process Framework, we have found that it can help organizations of every size think more strategically about their reporting functions.

Even more importantly, we've designed the framework to give individuals within an organization the power to effect change, including the managers and team leaders who work with reporting functions every day. In this paper, we'll explain the thinking behind it and demonstrate how you can implement the Universal Process Framework in your organization.

Traditional business process improvement methodologies

Since H. James Harrington first introduced process improvement, the practice has undergone significant evolution. Many different methodologies have sprung up, each of which offers a unique approach on how to optimize existing processes for exceptional results. Today, it continues to change as data and data analysis become increasingly important in making decisions and measuring operational effectiveness.

While these methodologies have demonstrated success...they are costly, require extensive training, and often have lengthy implementation times that span years.

Some of the best-known methodologies include:

Lean – The Lean system operates with the goal of maximizing customer value while minimizing waste and attempts to create more value for customers with fewer resources

CEM – Short for "Customer Experience Management," CEM requires businesses to identify and define customer expectations at every touchpoint and to create repeatable processes that align a business with its customers' success

Six Sigma – Six Sigma seeks to improve the quality of process outputs by identifying and removing the causes of defects and minimizing variability in manufacturing and business processes

TQM – Total quality management consists of organization-wide efforts to develop a climate in which an organization continuously improves its ability to deliver high-quality products and services to customers

While these methodologies have demonstrated success, they are also synonymous with large-scale efforts initiated at the executive level. They are costly, require extensive training, and often have lengthy implementation times that span years.

Financial reporting isn't an area that these initiatives ever reach. Part of the 80 percent of processes that don't

attract the attention of improvement teams, it is an area that has high value to the enterprise yet is often overlooked. Managers need a solution that allows them to create change in their own departments, using resources they already have at their disposal.
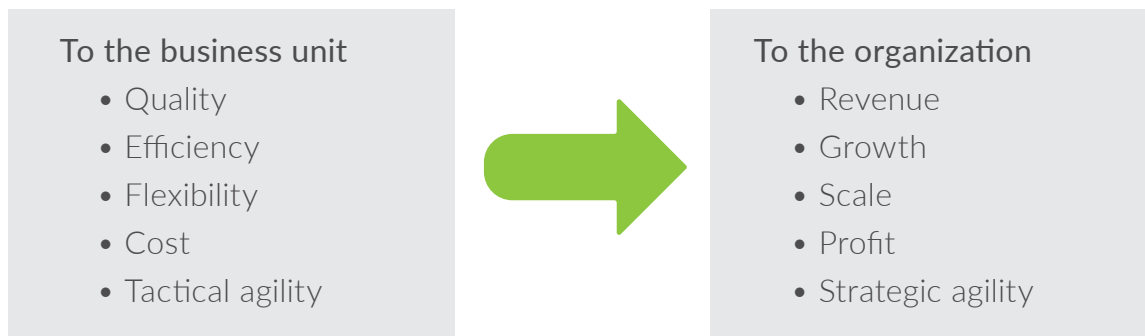
The significant role of financial reporting in the enterprise

Financial reporting requirements have grown exponentially in the last decade, both from internal and external requesters. From corporate boards and oversight committees to the Dodd-Frank Act, the SEC, and SOX regulations, reporting now consumes significant amounts of time and resources in organizations of every size. Finance teams have had to shift their workflow to adapt, and they have not always thought strategically about how to best approach these growing requirements.

Report quality affects organizations on every level

Financial reports are increasingly under scrutiny from a variety of sources. They often indicate an organization's competitive position and commitment to social issues and play a key role in how a company is perceived by the public. Not only is reporting key to good decision-making, but it is also a valuable source of insights into an organization's strengths and weaknesses. Companies with piecemeal reporting systems can be vulnerable to compliance errors and other missteps that can cause damage to their brands and long-term reputation.

Why process improvement matters

To the business unit		To the organization
• Quality		• Revenue
• Efficiency		• Growth
• Flexibility		• Scale
• Cost		• Profit
• Tactical agility		• Strategic agility

The problem of inefficiency in financial reporting

As financial reporting has grown, it has experienced the same issues of other important business functions: inefficiency and wasted resources. According to a study published in Harvard Business Review in 2013, knowledge workers waste up to 50% of their time hunting for data, identifying and correcting errors, and seeking confirmatory sources for data they do not trust.[4]

At the core of the problem is financial professionals who, crippled by the lack of proper technology, must devote many hours to menial functions such as formatting and data input. This is time that could be spent analyzing reports for compliance or performing other functions with much higher value to the organization.

But how can managers determine where the inefficiencies are in their organizations? The puzzle of how to identify non-value added time prohibits many managers from clearly seeing where the constraints exist in their reporting processes.

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Introducing the Universal Process Framework

In the process of working with thousands of clients on financial reporting, we began to recognize similar ways in which organizations run their reporting functions. To help visualize this process, we developed the Universal Process Framework.

This framework helps managers map their current reporting processes and identify their unique constraints quickly, simply, and cost-effectively. It separates the reporting process into three phases that happen sequentially, as follows:

1. Gather

In this first phase, source data is gathered from all of the places it exists. Often in the form of both structured and unstructured data, this phase involves discovering where the data is, requesting it from those who have access to it, bringing it all together into one place, and verifying its accuracy.

2. Aggregate

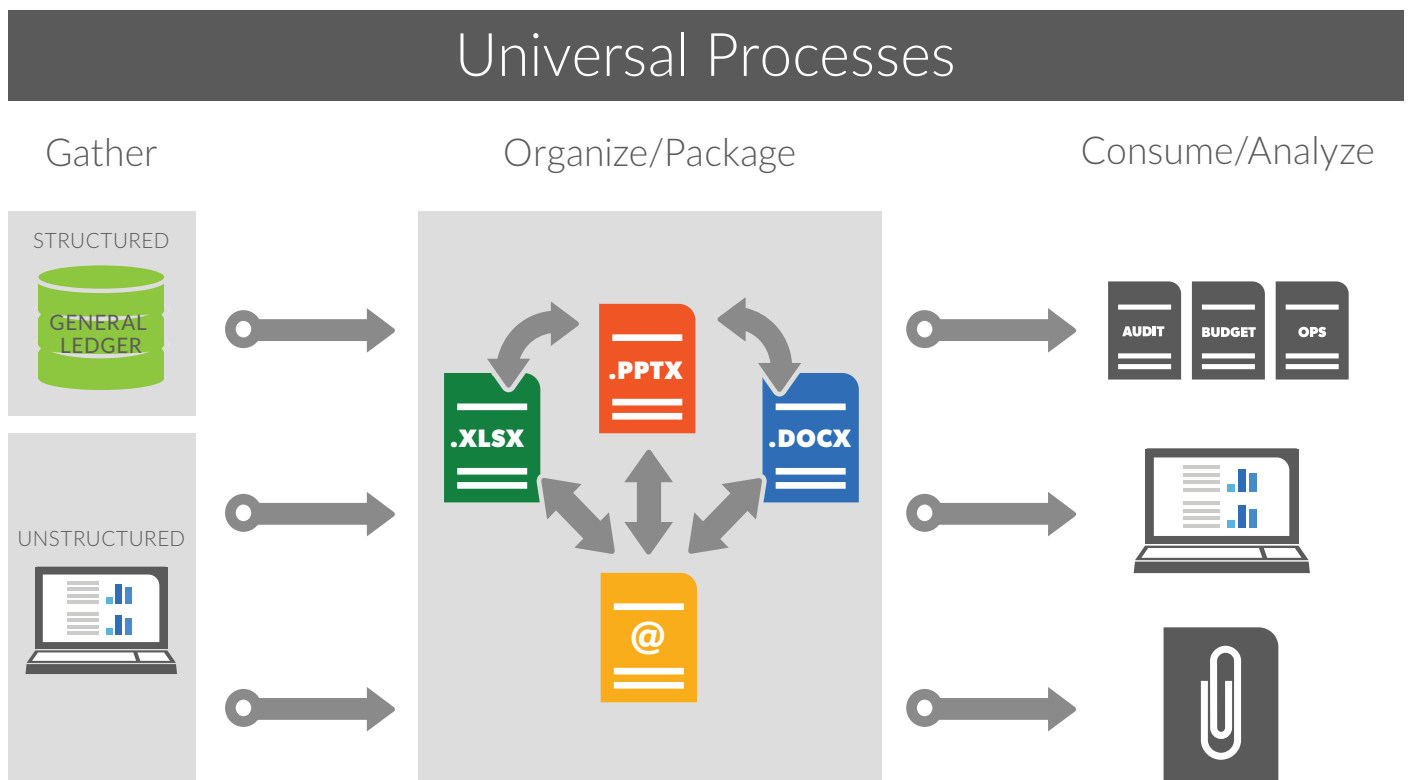Once the data has been collected, it needs to be aggregated into a single format. This part of the process often involves manual labor, as data is cut and pasted from various sources and formatted correctly. At the end of this phase, all the data is in one place.

3. Share

In this final phase, aggregated data is curated for the needs of the end product—such as an annual audit report, a budget report, or a monthly ops report. Depending on the needs of that report, this phase may involve arranging selected data into tables, creating an infographic, or converting it into other formats.

The connective tissue between the phases is where much of the workflow takes place. What actions must happen in each one, and what are the things that delay the process from moving from one phase to the next?

An overwhelming 70% of senior finance executives said they know reporting teams spend too much time on reporting mechanics, too little on analysis.[6]

Universal Processes

Gather   Organize/Package   Consume/Analyze

STRUCTURED

GENERAL LEDGER

UNSTRUCTURED

.XLSX   .PPTX   .DOCX   @

AUDIT   BUDGET   OPS

In fact, these phases rarely progress in a clean, linear fashion. During the aggregation phase, for instance, teams often discover that some data is missing, which means they have to go back and search for it. They may also question the accuracy of some of the data, requiring them to take additional measures to verify it. In the final phase, they often struggle with reconciling different versions and determining which changes should or should not be made. Each of these delays comes with a cost, both in time spent and also in the potential quality of the end result.

How to use the Universal Process Framework

By looking closely at the workflow along each of the three phases of the Universal Process Framework, managers can begin to identify areas where inefficiencies occur in their reporting processes. Often, managers will find that workers get stuck gathering data, obtaining approvals, or spending hundreds of hours on formatting and other mundane tasks.

The simple power of the framework is that it clarifies the prevalence of unsustainable reporting processes throughout the organization. Further, it spotlights processes that are not repeatable and therefore constantly need to be re-created. These constraints keep an organization from being able to quickly and consistently produce accurate reports without excessive manual labor.

Frequent constraints in financial reporting

Here are a few of the common constraints managers often uncover when using the framework:

- No change controls
- No reliable version control
- Process can't be duplicated
- Excessive manual labor
- Excessive formatting time
- Inconsistent numbers
- Inadequate time for reviews

The high cost of non-value added time

These constraints all have one thing in common: they require huge amounts of non-value added time. Many financial professionals are spending their time on menial tasks that don't require their expertise when they could be directing their considerable skills toward activities that could benefit their organizations—activities such as analyzing the data for patterns or trends, ensuring that the organization stays in compliance, collaborating with other teams to raise reporting quality, and more.

These high-value activities are often ignored or postponed due to the demanding work of non-value added tasks. Formatting spreadsheets and wrangling different versions consumes vast amounts of time for little return and takes time away from more important functions, such as thorough reviews to catch errors or omissions. Over the course of months and years, the cost to the organization is significant.

Consider the 2013 study from Ventana Research, which found that:[7]

- 72% of finance professionals said their most important spreadsheets are shared with others
- 56% of users said combining spreadsheets is a time-consuming process
- 81% say they have to combine data from multiple spreadsheets
- 75% of professionals say it would be useful to make real-time connections to company data from within a spreadsheet
- On average, participants spend approximately 12 hours per month updating, revising, consolidating, modifying, and correcting spreadsheets they collaborate on with others and reuse frequently

Conclusion: Using the Universal Process Framework to effect change

The Universal Process Framework gives managers a way to take control of their financial reporting processes on their own, without the need to involve costly outside resources. Once they have identified their constraints, managers can investigate technologies to eliminate some of these non-value added tasks and free up their people to focus on activities that are more productive and profitable. Ultimately, the enterprise reaps tremendous benefits when their finance teams are able to focus on what matters most—making sure their reports are complete, accurate, and compliant.

The ongoing legacy of continuous improvement

The Universal Process Framework is most effective when it is used on a regular basis to evaluate how an organization is improving and where inefficiencies still exist. When examining processes becomes part of an organization's culture, issues are more likely to be identified before they become systematic. In addition, teams are able to implement new insights on a regular basis, rather than waiting for an official change initiative.

An important key in cultivating ongoing change is the support of senior leadership. Managers who use financial data to tell the stories of how their organizations have evolved and where new opportunities exist, often find that senior leaders are all ears. Executives need these stories, too, as they deal with shareholders, partners, and investors. When they are able to obtain clear, trustworthy reports in a timely manner, they often become finance managers' greatest allies.

Organizations with cultures that value continuous improvement are far better at changing their processes and staying competitive.[8]

The financial reporting function has become more important than ever in the last few years, and it will continue to become even more vital in the years to come. By showing that it can add value to a company's bottom line, financial professionals can have a bigger voice in the decisions their organizations make, both today and in the future.

About Workiva

Workiva (NYSE:WK) created Wdesk, a cloud-based productivity platform for enterprises to collect, link, report, and analyze business data with control and accountability. Thousands of organizations, including over 65% of the 500 largest U.S. corporations by total revenue, use Wdesk. For more information, workiva.com.

Resources

[1]Harrington, H. (1991). *Business process improvement: The breakthrough strategy for total quality, productivity, and competitiveness.* New York: McGraw-Hill.

[2]Ibid.

[3]Ibid.

[4]Redman, T.C. "Data's Credibility Problem." (2013). *Harvard Business Review.* Retrieved from http://hbr.org/2013/12/datas-credibility-problem/ar/1

[5]Ibid.

[6]"Finance 360° Insight." (2013). EPM Channel. Retrieved from http://www.epmchannel.com/wp-content/uploads/2013/01/Finance-360-Degree-Insight-by-EPM-Channel.pdf

[7]"Spreadsheets in Today's Enterprise." (2013). Ventana Research. Retrieved from http://ww2.ventanaresearch.com/SS212012_SS21BRESRegistration.html

[8]Power, Brad. "Understanding Fear of Process Improvement." (2012). *Harvard Business Review.* Retrieved from https://hbr.org/2012/09/understanding-fear-of-process-improvement

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