

Use Lean/Six Sigma (L/SS) and the DMAIC process to improve your month-end financial statement close process and drive real, sustainable change

Ralph M. Jeswald

rjeswald@dopkins.com

January 2020

Since the late 1980's beginning at Motorola and later at General Electric, the principles and tools of Lean/Six Sigma (L/SS) have been engaged to facilitate improvements and manage change within the manufacturing environment. Over the past few years however, these same methods have been used more and more within the administrative departments of organizations for the same end- goal; to eliminate waste and remove variation in the process.

One area in which we are continually asked to help our clients facilitate change is the process of closing the monthly books. Although many companies, perhaps even yours, have made good strides in reducing cycle time, it is still not uncommon for us to see month-end close cycles approaching 30 or more days! Of course, while there are many root causes for those grossly extended delays, even approaching anything more than 3 to 5 days is considered to be less than "best in class" these days. *(i.e. A one day close is becoming more and more common and with continued technology advancements allowing for real time reporting, the notion of "closing the books" is rapidly becoming a thing of the past.)*

What are some common failure modes we observe within the month end close process?

For one, "suppliers" to the process are not always fully informed as to their contribution to a timely month-end close. These would include areas responsible for month-end accruals, expense reporting, bank reconciliations, depreciation, accounts receivable and payable etc. It is not uncommon to still find responsible parties unaware of how their respective activity affects the "big picture". As a result, wait times affecting those unable to do their job until information is received can be days if not weeks!

Sometimes seemingly simple solutions can address the root cause issues driving the extended cycle times. For example, these might include internal policies such as the accepted level of reconciliation for a bonus accrual appropriate for month-end close does not have to tie to the penny as is necessary for payroll purposes. These "to the penny" reconciliations can be typically calculated later in the month ahead of cutting payroll checks. Another simple solution is often just appropriate accountability. For example, ensuring the timely submission of expense reports may be facilitated by using contemporary smartphone expense reporting apps and holding staff to submission deadlines. However, what may seem like a simple solution can often be difficult to execute. DMAIC helps to bring all stakeholders together and eliminates "silo" thinking which can significantly increase the likelihood of successful implementation.

How can you employ the DMAIC process to reduce such waste and variation in your system? Recall that the DMAIC process (Define, Measure, Analyze, Improve and Control) is grounded in the data-driven-decision-making enlisting the experience and knowledge of subject matter experts. A cross-functional core team is typically coached by a L/SS Master Black Belt to ensure adherence to the process and the use of the many tools. This team activity is guided by a written Charter, or contract that describes the problem, why it's important to solve, how success will be measured, the expected return on investment and a comprehensive list of deliverables provided to the process owner upon project completion.

In short, this disciplined approach to change management by effectively removing emotion from decision-making and thereby allowing for a cause-effect solution supported by measurable data, is what makes the DMAIC process so different, highly valued and ultimately successful.

If your company is in need of more timely, accurate and comparable monthly reports, DMAIC, the proven framework of Lean Six Sigma may be your answer.

For more information, please contact Ralph Jeswald at rjeswald@dopkins.com.



Ralph M. Jeswald CPA, LSSMBB

Partner

rjeswald@dopkins.com ▪ (716) 634-8800

A Partner with Dopkins & Company, LLP, Ralph's primary responsibility is providing a unique blend of consulting and compliance services to many of the firm's clients. Ralph has developed a unique expertise in the design and implementation of custom performance management and improvement solutions primarily for service-based entities. As a certified Lean Six Sigma Master Black Belt, he has had significant experience using and teaching the Lean and DMAIC tool sets, strategic planning, activity-based cost/management, performance measurement, and other related performance improvement methodologies.