

Six Sigma in Finance and Accounting

New expectations in F/A departments require Six Sigma implementation.

by Praveen Gupta

Six Sigma is implemented to affect the bottom line. In a corporation, Six Sigma starts in operations then moves into design and finally supporting areas. Finance and accounting (F/A) functions are involved to monitor the financials, however, they aren't involved in practicing Six Sigma. At Motorola, the F/A department was one of the first to practice Six Sigma. Due to the nature of regulatory compliance, F/A departments have higher expectations for accuracy. However, improvement in F/A hasn't been considered critical.

Six Sigma quickly brings a great deal of improvement. To improve from three-sigma to six-sigma performance levels requires more than 20,000—% improvement. Such improvement can't happen without involving every department. In other words, Six Sigma means lots of changes and reengineering. As the pressure to improve profit margins grows, no department can afford to be excluded from Six Sigma implementation. Every department must assess its value contribution to the corporate performance. Recent studies report that businesses face the following changes or challenges in F/A departments:

- Finance executives see business performance management becoming their top priority
- Lack of high-quality and business-oriented professionals
- Business performance management processes aren't keeping up with the complexity of organizations
- Information needs to be improved to ensure governance, control and shareholder value
- Automation and outsourcing will become key processes to reduce cost

The main function of F/A departments has been to compile the financials, manage reporting process and ensure compliance to regulatory requirements. However, F/A roles are changing. F/A folks can no longer afford to be the corporate cops; instead they must act as partners in business. The cost of the F/A function, typically 3-4 percent of sales, must be improved as in other departments. In addition, the focus of F/A must shift from transaction processes to executive decision support and control. New expectations for F/A are being set, including the following:

- Proactively drive decisions regarding business model design.
- Drive holistic, integrated frameworks for success.
- Implement dynamic controls and risk management.
- Implement a competitive finance cost structure.
- Be a key integrator of process, technology and people.

With new expectation, the roles of F/A must shift toward performance management, value assurance, executive accountability and decision management. Accordingly, the performance measurements will include financial and nonfinancial measurements, objective and subjective measurements, operations and accountability, and control and improvement. The F/A would become responsible for corporate performance improvement activities, which may include the following:

- Ensure quality, timeliness, and cost measurements for key functions.
- Facilitate aggressive goals for providing better, faster and more cost-effective solutions.
- Analyze, understand and utilize performance information to continually identify opportunities for improvement.
- Learn new methodologies and drive improvement.

Applying Six Sigma in F/A is no different than in other departments. The key is recognizing gaps or the opportunities for improvement. One must break down processes in manageable pieces by mapping the process and looking at the internal workings of the department.

Steps to Six Sigma in F/A include:

- Establishing objectives and roles
- Seeking customer feedback and identify opportunities for improvement
- Identifying key performance indicators and opportunities for improvement
- Establishing Six Sigma goals for F/A functions
- Formulating and prioritizing projects, and forming teams

- Providing Six Sigma training at the Green Belt level to team members
- Implementing DMAIC for breakthrough solutions

Some of the projects where Six Sigma methodology can be applied include the following:

- Reduction in time to close books
- Improvement in shareholders' value
- Accuracy of F/A processes
- Effective implementation of dashboards or performance measurements
- Timely implementation of improvement actions to achieve growth and profitability objectives

As Six Sigma is applied in F/A departments, there may be questions about changing roles; for example, supporting leadership activities and driving improvement through accountability, reward and consequence. Six Sigma's intent is to create value through improvement and innovation in every department. F/A departments should be no exception.

About the author

Praveen Gupta, ASQ Fellow, has been associated with Six Sigma since 1986. He completed his first Six Sigma project successfully in 1988. Gupta taught Six Sigma at Motorola University for more than 10 years. Currently, Gupta, president of Quality Technology Co., provides training and consulting services in Six Sigma and business scorecards. He has authored [Six Sigma Business Scorecard](#), a book that has been a Six Sigma best seller. His newest book, [The Six Sigma Performance Handbook](#) is due to be published by McGraw Hill in September 2004.

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