

Corporate Waste

Average and below average performing companies are guilty of significant corporate waste

Why are there so many companies materially overspending on the Finance function? We are not talking about those companies who choose not to ship their transaction processing offshore. Instead we are focusing on companies who have one or more of the following characteristics:

- Manual intensive transaction processing
- Too many transactions relative to size
- High IT support costs for Finance systems

The Impact

1. **Corporate waste:** spending money unnecessarily on the status quo driving higher G&A cost structures
2. **Inflexible process models and systems:** cost structures that don't easily adapt to changes in the business or macro economic factors
3. **Brain drain:** the most driven and talented employees will look elsewhere for better opportunities

The Causes

What causes these companies to get to this point? Are their executives unaware of the issue, unwilling to tackle the issue or is the company so profitable that it does not matter? There is no acceptable answer to these questions that would satisfy any sane investor or shareholder.

Our perspective is that these companies share the following traits:

1. Overly focused on the short term
2. Decision making that is too decentralized
3. A culture that does not promote risk taking and innovation
4. Limited measurement systems
5. A lack of a corporate philosophy to continually improve at all aspects of the business, including back office functions

Recommendations

This is not rocket science. It's a matter of:

1. Leadership
2. Focus
3. Measurement
4. Incenting the right behavior

Conclusions

The gap between the best performing companies and the rest is widening. Not addressing these types of issues will render a company uncompetitive in the global economy.