

## Expense Management Moving from Control to Creativity

Companies always start with, and most still have, a top-down, control-focused approach to budgeting and managing expenses. In this approach, senior management sets the company's overall expense target and then puts in place approval processes and other procedures that ensure their number is attained. The emphasis is on control. In this environment efforts to become more efficient or reduce expenses usually need executive sponsorship and tend to be big, strategically-focused, and often include computer system changes. This is a classic – executives set the direction and employees implement – approach.

Having control is good. Setting goals and ensuring they are met is good. Having everyone understand where the company is going is also good. But even though this approach has these strengths, it is never enough to get the best results. This is because it is a one-dimensional approach. It lacks the power of having everyone involved in solving the problem.

This point was brought home to our founder many years ago. He was in the army and a brand new basic training company commander. He describes it this way...

*"Behind our company area was an exercise area that had a big pile of rocks in the middle of it. Our battalion commander wanted the rocks moved to the road so they could be picked up. I got the order and told my first sergeant to leave one or two soldiers back from training to get this done. He was clearly annoyed. He gave me a look that I have since seen my wife give me fairly regularly and asked me if he could please handle the problem in his own way. Like most sergeants he had a lot of experience and I had already learned he was generally right, so I said – 'Sure, just make sure the rocks are moved by the end of the day.'*

*He turned around, called the company to attention and gave them the following instructions. 'When I say "fall out" I want each of you to run to that pile of rocks, pick one up, carry it to the road and drop it in a new pile. Do you understand? This was met with a resounding "Yes, Sergeant."*

*The pile was moved in less than five minutes and every soldier went to training. I learned several lessons that day. One of the least embarrassing was that many people working on a problem generally produce the best result."*

This same lesson applies to expense management. Once you have the right goals and appropriate controls in place, it is time to open things up and allow your employees to participate in a meaningful way. This is a "natural" step in creating the most effective financial management environment. By this we mean that employees will naturally try to become involved, even if you don't ask them. This is the direction organizational inertia will take the company unless you do something to consciously stop or subvert it. You do not have to take extraordinary actions to make this happen. Most employees will want to participate.

But there are several things you can do to encourage and help them participate more effectively. Here are a few.

1. Translate corporate expense goals down through the organization so each department, unit, team and individual has their own goals that support the company's goals. This is the first step in mobilizing everyone in the company and making sure they are all "pulling on the same end of the rope."

Setting these additional goals can be done in several ways. The simplest is to use your current budgeting system and to set objectives based on these numbers. If you do this, be careful that the goals are realistic. For example, setting goals by applying the same percentage reduction to every unit in a department is usually unfair to some and too generous to others. Make sure everyone accepts these new goals. If they do not think they can attain them, they probably won't.

One of the most effective ways of creating realistic goals is to use the approach we have talked about frequently in the past – use “*expense allowable*” formulas to set your objectives. You can read about how to do this on our website in the Ideas and Concepts section. The strength of this approach is that it automatically adjusts for the actual premium and revenue results that occur throughout the year. It adjusts goals to provide more (or less) expense dollars each month not based on what was projected at the beginning of the year (which is almost always wrong) but on what actually occurs. It is a little more work to create these formulas but it is worth the effort.

Creating “*expense allowable goals*” helps employees at every level in the company see the full financial picture of their unit and encourages them to make changes in all areas. For the first time they see a picture in the same way that executives and management does. This can create a fundamental change in the way employees see their jobs and what they accomplish.

2. Get everyone in the team actively involved in making improvements. This usually means working at two levels.

Each employee likely has his or her own ideas on how to reduce costs, become more efficient and help their team as they do their own job. Once this has been discussed and accepted, you can add the next level of change – working on project teams to create Improvements, but now with a different more focused objective. This can include streamlining work processes, system fixes, improving decision-making and making other changes that save time, reduce errors and improve customer satisfaction. Most units and people have a list of things they want changed. This is a good place to start. Be careful to ensure that these changes produce meaningful dollar improvements.

3. Communicate, motivate, adjust and build on success. This means publishing results at least monthly, more frequently if possible. Don't just show numbers. Use graphs, posters and other pictures to demonstrate progress. Don't just show total results; show the results and contributions from specific individuals, ideas, teams and projects. Emphasize your area of responsibility but also show how your success fits into your department and the total success of the company.

Have regular team meetings – I like weekly meetings best – to openly discuss what everyone is working on, how to speed things up (this is always needed), what new efforts or projects are needed, how to coordinate your work with other units or teams, etc. This gives everyone a chance to show off a bit, get help if needed and share ideas. Use these meetings for team building as well as project management.

4. Reward success. Be enthusiastic in your praise. Remember that some of this work will be new to your people. With encouragement, they will grow the skills they need.

But keep in mind that the whole focus of expense management is on the money. The best way to show the company really understands the importance of this exercise is to allow employees to share in the success they create. The best way to do this is with a combination of “spot incentives” to encourage individual and project team results and a “gainsharing incentive plan” to encourage unit and team efforts. Gainsharing and expense allowables go hand-in-hand in creating the best expense management results.

These four steps are just the basics. Please call us if you are interested in expanding on any of these ideas or talking about *next steps*. Also, please visit our website at [McDonaldConsultingGroup.com](http://McDonaldConsultingGroup.com) for more on this subject, Gainsharing and our other services.