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When operational efficiency translates into financial results through management income statements, working capital, capital expenditures, and governance indicators.

When operational efficiency becomes financial performance through managerial income statements, working capital, capex and indicator governance

When operational efficiency is converted into financial income through accounts of directive results, working capital, investment and governance of indicators

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SUMMARY

This article discusses how operational excellence and financial discipline can be integrated to improve decision-making. Using a narrative review and illustrative, anonymized examples derived from the author's professional experience, it examines Lean and continuous improvement, management income statements, cash flow, working capital, CAPEX analysis, and KPI governance. The study differentiates potential operational gains from benefits effectively converted into profit or cash flow, showing that reducing time, waste, or effort does not automatically represent financial savings. It proposes a decision architecture that connects process indicators to margins, liquidity, capacity, investment, and risk, allowing for the evaluation of both the quality of the improvement and its economic capture.

Keywords: operational excellence; Lean; continuous improvement; management income statement; working capital; CAPEX; indicator governance.

ABSTRACT

This article discusses how operational excellence and financial discipline can be integrated to improve decision-making. Based on a narrative review and anonymized illustrative examples derived from the author's professional practice, it examines Lean and continuous improvement, managerial income statements, cash flow, working capital, CAPEX analysis, and KPI governance. The study distinguishes potential operational gains from benefits effectively converted into earnings or cash, showing that reductions in time, waste, or effort do not automatically represent financial savings. It proposes a decision architecture connecting process indicators to margins, liquidity, capacity, investment, and risk, allowing organizations to assess both improvement quality and economic capture.

Keywords: operational excellence; Lean; continuous improvement; managerial income statement; working capital; CAPEX; indicator governance.

INTRODUCTION

Operational excellence and financial discipline need to be treated as parts of the same system.

Management. Companies can improve productivity, reduce lead time, or free up capacity, and even...

Thus, they may not convert these advances into cash; similarly, they may show a profit and face...

Severe liquidity constraints. Decision-making requires understanding how Lean, improvement

Continuous factors such as sales, margins, lead times, inventory, capacity, costs, and investments interact over time.

of time.

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The literature on working capital demonstrates that the cash conversion cycle is a relevant variable.
for performance, although its relationship with profitability depends on the context and should not be...
reduced to the simplistic rule that shorter cycles are always better. Recent evidence in
Latin American companies emphasize the importance of jointly analyzing components of the cycle.
and firm characteristics (FIGLIOLI et al., 2024).

In parallel, performance measurement systems need to connect financial indicators and
operational. Kaplan and Norton (1992) demonstrated the inadequacy of an exclusively operational view.
financial resources to guide improvement and innovation. In practice, deteriorated margins can originate from
Operational losses, inadequate product mix, low capacity utilization, rework, purchases.
inefficient or commercial policies that lengthen the financial cycle.

This article aims to organize an integrated approach to economic analysis.
operational, articulating operational excellence, Lean and continuous improvement with managerial P&L, flow
Cash flow, working capital, CAPEX, and governance indicators. The text is academic in nature.
didactic and incorporates illustrative and anonymized examples derived from the author's professional experience.
with investment analysis, structuring of income statements for small and medium-sized enterprises, and governance.
of KPIs. The examples do not identify organizations nor are they presented as an empirical basis for
study; its purpose is to demonstrate practical applications of the concepts discussed.

2. METHODOLOGY

A narrative literature review was conducted in corporate finance, management accounting, and capital.
Turnover, performance measurement systems, and risk management. References were prioritized.
classic, peer-reviewed articles and recognized institutional standards, with a time limit of
Publication until 2025.

The analysis was structured in seven blocks: integrated reading of results and cash flow; working capital and cycle.
financial; costs and contribution margin; investment and CAPEX viability; improvement
continuous financial perspective; integration between operational and financial indicators; and
Data governance and risk. The concepts were examined according to their usefulness for decision-making.
planning, control and economic capture of operational gains.

The study does not intend to establish causality between a specific financial policy and
profitability, as these relationships vary by sector, size, business cycle, and conditions.
macroeconomics. Instead, it proposes a framework of questions and relationships that can guide
diagnoses and decisions.

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As a limitation, narrative review depends on the conceptual selection of sources and does not replace studies.
Sectoral empirical data. Indicators and feasibility parameters should be calibrated with real data from the...
Organization, documented premises, and sensitivity analyses.

3. The Financial Translation of Operational Efficiency

Translating operational efficiency into economic performance requires the organization to address
Financial results as a consequence of a system of causal relationships. Accounting results and
financial factors synthesize effects that frequently originate from process, quality, and other decisions.
Capacity, inventory, deadlines, and resource utilization. Robust measurement systems need, therefore...
This involves connecting financial and non-financial measures, avoiding both a retrospective reading restricted to...
DRE regarding the proliferation of operational indicators without a link to value creation (KAPLAN;
NORTON, 1992; NEELY; GREGORY; PLATTS, 1995).
This perspective is particularly relevant in continuous improvement environments. Evidence
Empirical evidence indicates that Lean practices achieve greater consistency when integrated with mechanisms.
of management accounting and control, allowing the organization to relate operational changes.
to its economic effects without presuming an automatic equivalence between local efficiency and results.
financial (FULLERTON; KENNEDY; WIDENER, 2014). Thus, managerial analysis should
distinguish between productivity, capacity freed up, effective reduction in expenditure, and incremental generation.
revenue generation, working capital release, and risk mitigation.
Financial discipline expands this understanding by incorporating temporality, liquidity, and cost of
Opportunity. Studies on the cash conversion cycle show that decisions regarding inventory,
Accounts receivable and accounts payable influence operating cash flows, risk, and investment capacity.
but its effects depend on the business context (FIGLIOLI et al., 2024). The following subsections
They develop this integration based on the management income statement, cash flow, working capital, costs,
CAPEX, continuous improvement, KPIs, and data governance.

3.1 FROM ACCOUNTING RESULT TO MANAGERIAL LIQUIDITY

The Income Statement organizes revenues, costs, and expenses according to the accrual basis of accounting.
allowing for the evaluation of performance over a specific period. For management purposes, its usefulness
It increases when accounts are structured in a way that is consistent with business drivers.
allowing you to distinguish margins, controllable expenses, non-recurring effects, and levels of
responsibility.

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Cash flow answers a different question: when does money actually come in and go out? IAS 7
(IASB, 2025) organizes flows into operating, investing, and financing activities.
This distinction is useful for understanding whether cash generation stems from operations or from fundraising and
Divestment. Profit and loss and cash flow should therefore be reconciled and not treated as separate measures.
competitors.

A growing company can increase revenue and profit, but this can consume cash if the increase in...
Accounts receivable and inventory exceed spontaneous financing from suppliers. This effect makes the
Working capital planning is inseparable from commercial strategy. Growth without the capacity to...
Financing the cycle can lead to credit dependency and increase financial risk.
Managerial analysis should break down variations in volume, price, mix, cost, and efficiency. When the
As the margin deteriorates, the correct question is not just how much it fell, but why it fell. The connection with
Operational data allows you to check if the cause lies in price, waste, productivity, quality,
freight, overtime, or capacity utilization. The integration between financial measures and
Operational drivers are consistent with the logic of balanced performance systems.
(KAPLAN; NORTON, 1992).
The discipline of managerial closing must balance speed and reliability. Information
Perfect reports that arrive late lose their decisive value, but quick reports with ratings...
Inconsistencies also lead to errors. Competencies policies, provisions, cost centers, and...
Reconciliations need to be clear and auditable.
In an illustrative and anonymized example derived from the author's work with small and medium-sized businesses
For companies, the reorganization of the management income statement by revenue lines, margins, controllable expenses and...
The responsibility centers made it clear that revenue growth was not being achieved.
accompanied by the same margin evolution. The usefulness of the report was not only in
Present the result, but without connecting the financial variation to price, mix, productivity, and expenses.
operational aspects, allowing management to discuss causes instead of just looking at the final number.

3.2 The Financial Cycle as an Expression of the Operation

Working capital represents the resources needed to sustain the operating cycle. Accounts receivable,
Inventory and accounts payable form a temporal dynamic that can either finance or put pressure on cash flow.
The cash conversion cycle combines inventory and collection periods, discounting the period of
Payment to suppliers, and offers a concise overview of the financial duration of the operation.
Reducing the cycle time can free up cash, but aggressive policies can harm sales and availability.
or supplier relationships. The managerial objective is to optimize, not simply minimize,

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each component. Figlioli et al. (2024) show that the relationship between cash cycle and performance
Financial data deserves contextual analysis in Latin American markets; results in other contexts,
Italian industrial SMEs and Greek service companies also reinforce this relationship.
It depends on the characteristics of the operation and the sector (MUSCETTOLA, 2014; STAVROPOULOS;
(ZOUNTA, 2025). Recent literature reinforces that the effect of the cash conversion cycle should be
interpreted in context, and not as a mechanical and universal relationship (FIGLIOLI et al., 2024).
Accounts receivable should be analyzed for aging, concentration, delinquency, and conditions.
Commercial growth financed by excessive payment terms can increase revenue without creating...
Proportional value. Credit policies need to reflect risk, margin, and cost of capital.
Inventory management requires a balance between availability and tied-up capital. Excessive inventory increases
Storage costs, obsolescence, and losses; insufficient inventory increases stockouts and emergencies.
Integration with demand and capacity planning reduces decisions based solely on...
medium coverage.

Accounts payable also require an economic perspective. Extending payment terms can preserve cash flow, but
Lost discounts, penalties, or deterioration of the relationship can outweigh the benefit.
The decision should compare cost-effectiveness, financing alternatives, and supplier criticality.

3.3 COST STRUCTURE AND MARGIN QUALITY

Cost information is useful when it relates to the decision to be made. Fixed costs, variable costs,
Direct, indirect, avoidable, and incremental factors answer distinct questions. Using a single rate of
Allocating costs to all decisions can distort the profitability of products, clients, or projects.
The contribution margin shows how much of the revenue remains after variable costs and expenses.
to cover fixed structure and results. It is especially useful for mix, capacity and decisions.
Short-term pricing, provided it is not confused with final profit. Products with margin.
Positive options can still be economically unsuitable if they consume scarce resources or require...
significant investments.

Cost and responsibility centers improve visibility, but they must reflect the decision-making structure.
Excessively fragmented centers increase classification efforts without necessarily improving results.
Management. The design should allow for accountability and causal analysis, preventing arbitrary allocations.
be interpreted as controllable performance.
Pricing should consider value, market, elasticity, cost structure, taxes, commissions,
Logistics and credit risk. Strategies based solely on markup may ignore mix differences.

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and capacity. On the other hand, prices based solely on the market can destroy margins if...
The organization is unaware of its economic cost.
Financial reengineering doesn't mean cutting all expenses. The goal is to identify expenses that...
They do not support strategy, risk, or value creation capacity. Linear cuts can reduce
Critical skills and creating future costs. The analysis must separate wasted capacity.
necessary.

3.4 CAPEX, RETURN AND ALLOCATION DISCIPLINE

Investment projects should be evaluated using incremental cash flows and explicit assumptions.
Net Present Value, Internal Rate of Return, and payback period are complementary metrics, but
None of these eliminate the need to examine risk, time horizon, cost of capital, and alternatives.
The assessment must preserve the distinction between accounting result, liquidity, and relevant incremental cash flows.
to the decision.

NPV is conceptually robust because it incorporates the time value of money and incremental cash flows.
The IRR facilitates percentage-based communication, but it can generate inappropriate interpretations in non-IRR flows.
conventional or mutually exclusive projects. Payback is simple and useful for liquidity, however
It ignores cash flows after the recovery period and, in simple terms, the value of money in
time.
Sensitivity analysis is essential because projections are conditional. Volume, price, timeframe of
Ramp-up factors, costs, exchange rates, discount rates, and initial investment can significantly alter the...
return. The decision must identify which assumptions have the greatest impact and what signals will indicate a return.
Need for revision.

Scenarios should not be treated as exact predictions. A base scenario, an adverse scenario, and a favorable scenario.
They help visualize plausible scenarios, but they need to be internally consistent. Combinations
Arbitrary assumptions of the best possible premises produce artificial optimism.
Investment governance continues after approval. Post-implementation reviews allow...
Compare assumptions with results, identify deviations, and improve future estimates. Without this...
At this stage, the organization learns little from its own forecasting errors.
Considering the professional experience reported by the author in CAPEX analysis, it can be concluded that...
To formulate, for didactic purposes and without assigning numbers or undocumented results, an example.
in which an investment that presented an attractive return in the base-case scenario, but depended on certain assumptions.
Aggressive capacity utilization and ramp-up timelines. By explicitly stating sensitivity, need
Regarding working capital and benefit capture milestones, the analysis shifted the discussion away from simple value.

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from the investment to the conditions necessary for achieving a return. The case illustrates why...
CAPEX governance should monitor the project after approval.

3.5 WHEN OPERATIONAL IMPROVEMENT TRANSLATES INTO CASH

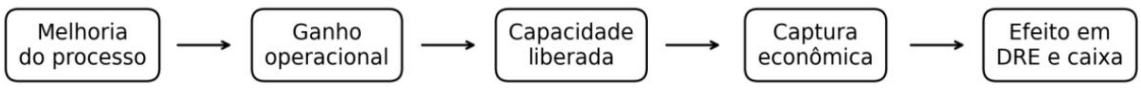
Lean and continuous improvement projects often demonstrate operational gains sooner than expected.
These gains will appear in the income statement or cash flow. Reductions in cycle time, movement,
Rework and waiting can free up capacity, but freed-up capacity is not automatically synonymous with
The financial analysis needs to identify how the gain will be converted into less.
disbursement, higher revenue, lower asset requirements, release of working capital, or mitigation of
risk. Studies on Lean and management accounting reinforce that the integration between operations and
Financial control mechanisms are necessary to properly interpret the benefits obtained.
(FULLERTON; KENNEDY; WIDENER, 2014).
This difference prevents overestimation of savings. If a team reduces the hours needed to...
to perform an activity, but the staffing structure and the volume produced remain the same, there is a
Productivity gains and an economic opportunity, not necessarily an immediate reduction.
cash flow. The financial benefit arises when capacity is redirected towards growth, avoiding
Overtime pay, postponing hiring, reducing outsourcing, or allowing for another measurable decision. A
The literature also notes that traditional accounting methods may not be immediately reflected.
the financial effects of operational changes in the early stages of Lean programs (MEADE;
KUMAR; WHITE, 2010).
The Lean Enterprise Institute notes that Lean Management Accounting systems seek to make
The effects of the improvements on customer value, growth, profitability, and cash flow are clearly visible.
box, precisely because traditional systems may not immediately reflect changes.
operational (LEAN ENTERPRISE INSTITUTE, 2026a). The institution's practical literature also
It highlights that Lean improvements can build capacity before producing a direct impact on the bottom line.
financial (CUNNINGHAM, 2018).
Conversion can also occur through inventory control. Reduction of stocks, decrease in materials in
Process and flow improvement can free up working capital and cash without generating an explicit line of debt.
cost reduction in the income statement. Therefore, evaluating projects solely based on expense savings may underestimate them.
relevant benefits and, at the same time, incorrectly classify potential capacity as
Savings achieved.
Considering the professional experience reported by the author in continuous improvement, it can be said...
To formulate, for didactic purposes and without assigning specific results, an example of a project of

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An improvement where the operational indicator showed a significant reduction in effort, but validation
The financial department revealed that part of the benefit corresponded to released capacity. Governance separated
Three categories: proven operational gain, capturable financial benefit, and effective effect.
Performed in cash or result. This separation made the project's accountability more
transparent.
A recommended practice is to build, right from the project's inception, a bridge between the operational KPI.
and the financial mechanism. The baseline must be defined, as well as the person responsible for capturing it.
The affected cash account or component and the implementation timeframe. Ultimately, the project should be...
revised with the same discipline applied to CAPEX, comparing hypothesis, operating result and
financial effect actually observed.



A melhoria operacional cria valor potencial; a realização financeira depende de captura, alocação e uso da capacidade.

Figure 1 - Conversion of continuous improvement gains into economic and financial results. Source:
Author's elaboration (2026), conceptual synthesis based on Fullerton, Kennedy and Widener (2014) and
Meade, Kumar and White (2010).

3.6 From Operational Metrics to Executive Performance Analysis

Financial indicators are often consequences of operational processes. Margin can...
Cash flow can fall due to scrap, rework, low productivity, or mix; cash flow may be pressured by delays.
production that delays invoicing; logistics expenses may increase due to low adherence to
Planning. Integrated analysis shortens the distance between financial symptom and operational cause.
An executive dashboard should allow navigation between results and drivers. Revenue can be...
broken down into volume, price, and mix; margin into price, cost, and efficiency; cash flow into profit and capital.
Working capital and investments. This value tree avoids dashboards with dozens of numbers.
disconnected. The measurement system design must consider both individual measurements and

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the coherence of the whole and its relationship with the organizational environment (NEELY; GREGORY; PLATTS, 1995).

Kaplan and Norton (1992) argue that financial measures should be complemented by Perspectives that reveal customers, processes, and learning capacity. The logic of Performance. Prism broadens the discussion by also considering stakeholders, strategies, processes, capabilities, and... Expected contributions, reinforcing that measurement systems need to reflect more value relationships. broad (NEELY; ADAMS; KENNERLEY, 2002). The contemporary application of these principles suggests that C-level executives need to see both results and leading indicators capable of... Explain trends.

The frequency should match the speed of the decision. Caixa may require follow-up. Daily report; income statement, monthly closing; investments, specific milestones; capacity and service level. Daily or weekly cadence. Calendar standardization reduces decisions based on information. of incompatible periods.

Indicators need to include limits and response rules. A goal without a response plan becomes... The dashboard is a passive instrument. For each critical metric, it is useful to define an expected range and triggers. escalation, responsible party, and initial action.

Considering the professional experience reported by the author in KPI governance, an example didactic and anonymized, it can be structured as follows: similar indicators were calculated by different areas with distinct rules and sources. The creation of a metrics dictionary, Defining the official source, periodicity, responsible party, and response rule reduced discrepancies and... allowed the executive meeting to move from reconciling figures to discussing Performance and decision-making. The example shows that the quality of governance is part of the very... measurement system.

3.7 DATA RELIABILITY, RISK AND DECISION-MAKING RIGHTS

Executive decisions require confidence in the data. Financial and operational governance must define this. Official sources, calculation rules, responsible parties, and change trail. When areas use versions With figures distinct from revenue, margin, or cash flow, the organization wastes time reconciling numbers and increases costs. decisional risk.

ISO 31000 guides the integration of risk management into governance, strategy, and planning. Applied to financial decisions, this logic broadens the analysis beyond expected return, including Volatility, concentration, liquidity, execution, compliance and continuity (ISO, 2018).

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Decision models should make assumptions visible. Spreadsheets and dashboards that hide hypotheses.
Complex formulas reduce auditability. A good architecture separates inputs, calculations,
Scenarios and results, allowing for independent review.
Governance also involves decision-making rights. Not every deviation needs to reach the C-Level; nor
Every decision must remain within the operational framework. Limits of authority, escalation criteria, and...
Clear responsibilities increase speed without losing control.
Economic and operational maturity emerges when an organization is able to anticipate the effects of negative consequences.
crusaders. Instead of simply asking if an initiative reduces costs, the question is how it affects them.
Capacity, revenue, cash flow, risk, and customer. This systemic view improves the quality of growth and...
It reduces decisions that create apparent gains in one dimension while destroying value in another.
The practical relevance of integrating profit and liquidity is evident in the Small Business data.
Credit Survey. In the 2025 report, published by the Federal Reserve Banks (2025), 75% of
The companies surveyed indicated rising costs of goods, services, and/or wages.
as a financial challenge; 56% cited the payment of operating expenses and 51% reported cash flow.
irregular cash register. As the responses allow for multiple selection, the percentages are not representative.
parts of the same whole. Reading these indicators together reveals the coexistence of pressures.
Regarding margin and liquidity.

CONCLUSION

Economic and financial management improves when it ceases to operate in isolation from reality.
Operational. Results, cash flow, working capital, margin, capacity, and risk describe dimensions.
distinct aspects of the same business system and need to be interpreted together.
The managerial income statement allows one to understand the formation of the result, while the cash flow statement shows...
financial temporality. Reconciling the two reduces misinterpretations about
growth, profitability and liquidity.
Working capital deserves strategic attention because commercial policies, inventories, and deadlines...
Suppliers can transform growth into intense cash consumption. The conversion cycle of
The box is useful, but it must be interpreted in context and broken down into its components.
Cost information must be compiled to inform decisions. Contribution margin, incremental costs.
Responsibility centers can increase clarity, provided that allocations and classifications are not...
confused with absolute economic reality.

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Investment analysis should combine NPV, IRR, payback period, sensitivity, and scenarios.

The transparency of the assumptions is as important as mathematical precision, because long-term decisions

Timeframes are vulnerable to unstated optimistic assumptions.

Operational indicators help explain the causes of financial results. Integration by

Value trees and dashboards with causal relationships reduce the time between problem identification and

managerial action.

Data governance and risk management underpin the reliability of the decision-making process. Sources

Officials, calculation rules, decision-making rights, and escalation criteria transform information.

in institutional capacity.

It can be concluded that financial discipline is not synonymous with indiscriminate restriction, just as

Operational efficiency is not synonymous with maximizing local productivity. The goal is to allocate

Resources are allocated in a way that is consistent with sustainable value creation, liquidity, risk management, and strategy.

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