



The future of Finance

Driving business value through the
performance of the Finance function

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Introduction

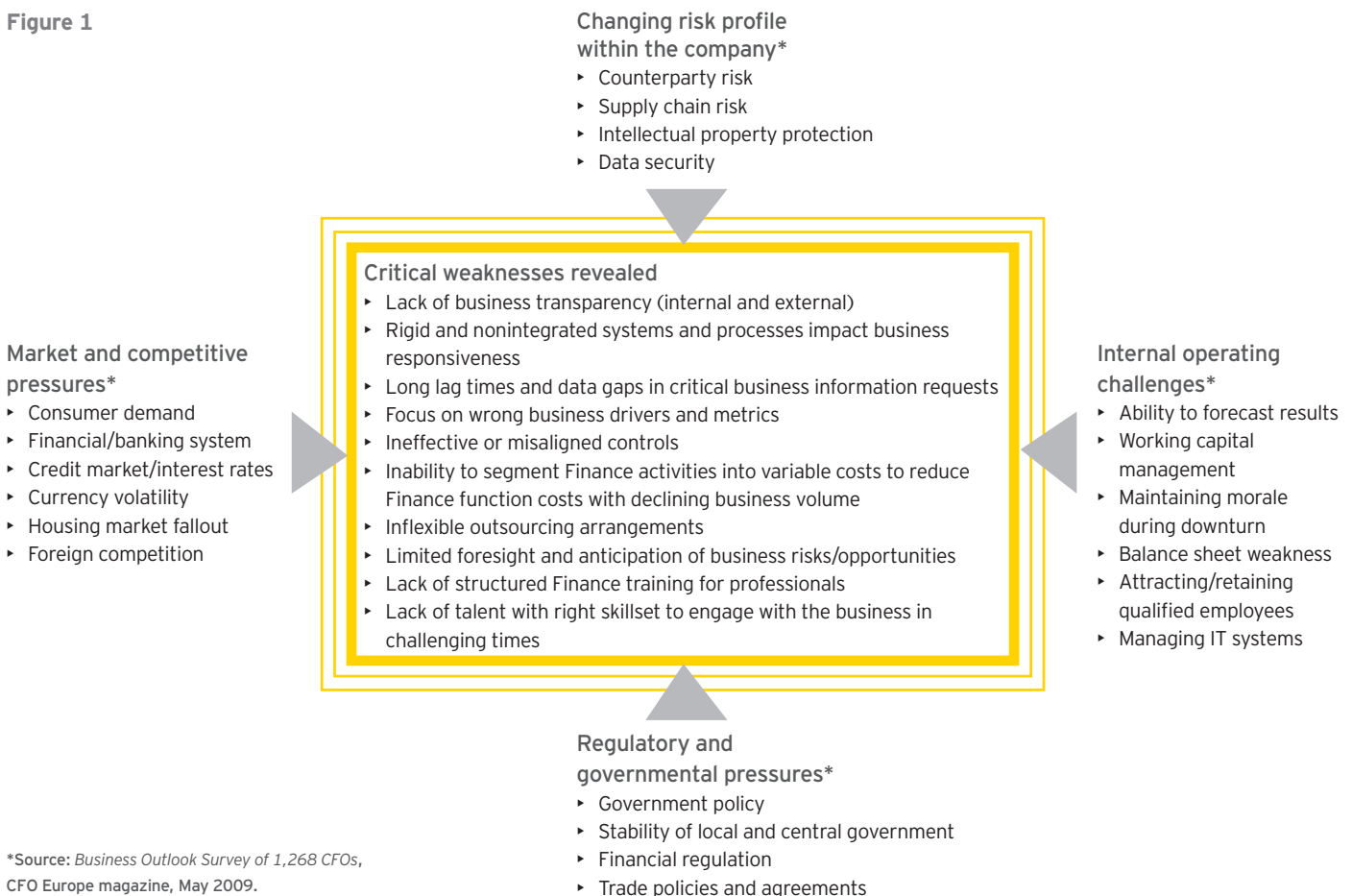
The recent economy has placed unprecedented pressure on businesses. At the height of the crisis, as many as three-quarters of all businesses were focusing on ways to simply survive. Throughout these difficult times and beyond, CFOs have been under increased pressure to evaluate the performance of their Finance function. With cost-cutting, headcount reductions and declining sales occurring, and Finance playing a key role in resolving many of these issues, the function itself has been expected to lead by example and ensure that they are as efficient, effective and as value-creating as every other part of the business.

Now, as the global economy shows signs of recovery, businesses are turning their attention once again to pursuing new market

opportunities in order to reestablish growth. Consequently, Finance is also being asked to help the business improve performance. The challenge for today's CFO is to drive the business forward for the future, while at the same time continuing to monitor and secure its fortunes today.

A recent financial executive survey by CFO magazine helped identify the top external macroeconomic challenges facing companies, as well as their top internal challenges. The challenges faced reveal a number of weaknesses in Finance which are likely to reduce the organization's ability to meet them. However, each of these weaknesses also represents a potential opportunity to improve the Finance function.

Figure 1





In a survey of 262 financial executives conducted in July 2009 by the Economist Intelligence Unit on behalf of Ernst & Young, 98% of respondents agreed that there are opportunities to improve their Finance function. Further, these executives indicated they expect to make the changes to Finance as shown below in Figure 2.

Both surveys demonstrate that today's financial executive is very aware of the reasons driving change in the Finance function and has already identified necessary changes required.

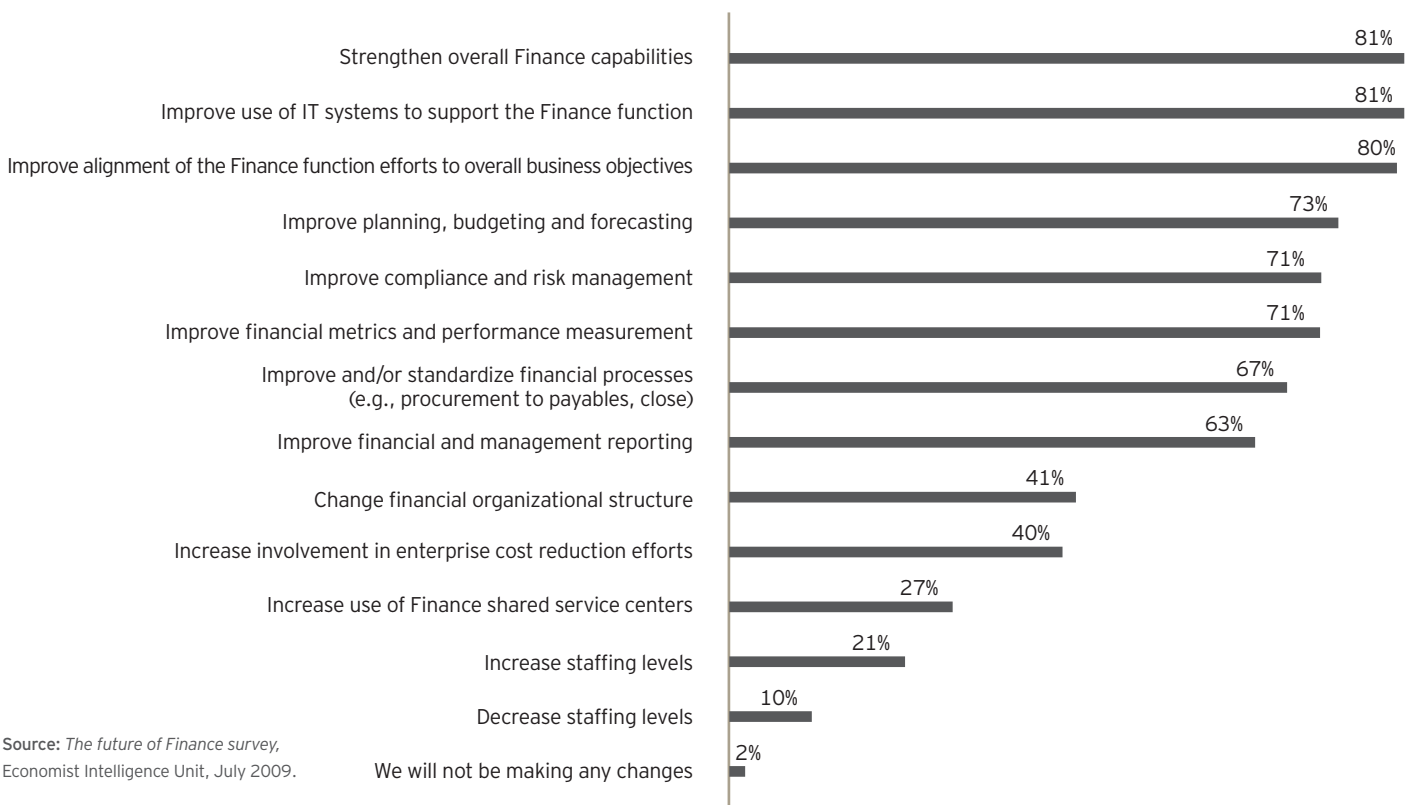
While there are individual elements of Finance which often come under close scrutiny, it is more effective to take a holistic view of the entire Finance operating model and its overall processes and structure. With a broader perspective, clarity can emerge about the various tasks and how they are performed. This can give the CFO a clear view of how the function is performing and the extent to which it is – or is not – adding value to the business.

With this as a backdrop, we advocate the use of a robust framework to identify Finance function weaknesses and potential improvements. Among the questions such a framework might help answer are:

- ▶ Have the opportunities for improvement and the resulting actions been reviewed against a cohesive, integrated framework?
- ▶ What does leading practice for such a framework look like?
- ▶ What are the key objectives or drivers behind planned activities?
- ▶ Will the planned actions go beyond delivering a short-term problem fix, to drive value creation and help improve business performance?

Implementation of a successful framework can strengthen Finance significantly, enabling it to be more effective, lower costs and help deliver more value to the bottom line. This is where the future of Finance lies.

Figure 2



Source: *The future of Finance survey*, Economist Intelligence Unit, July 2009.

Creating value and managing business performance

One of the ways enterprises create value is by making effective use of information to enable the production of strategic and functional plans. These are then delivered and evaluated in an ongoing cycle of improvement. CFOs seeking to identify how Finance can support this process need to ask themselves three questions:

1. Is Finance helping the business identify value-creation opportunities?

Understanding how the business creates value and using an empirical, fact-based approach are critical to delivering performance. Finance can best support the business by getting the right information into the right hands at the right time, and being closely involved when conversations around focus and strategy take place. Leading Finance organizations should be active rather than passive participants in this process. By providing robust financial information and insight, combined with financial rigor and challenge, Finance can become an active business partner and support the identification of value creating opportunities.

2. Is Finance operating efficiently and effectively?

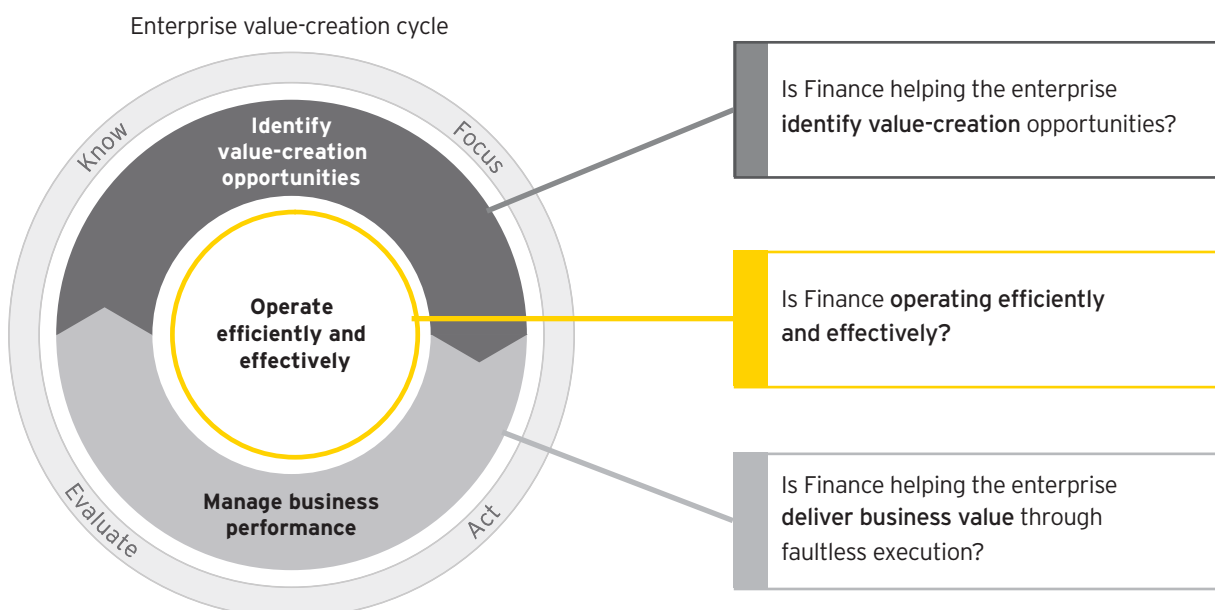
Finance must have its own house in order before it can play an expanded role in enabling value creation, and Finance people must be viewed as leaders before they can play additional roles

within the operation of the business. This perspective would be supported if Finance were founded on well-orchestrated policies, procedures and processes. To be efficient and effective, Finance requires the correct operating framework. Is the function currently organized and located correctly within the business? Does it have the right people, technology and data? Are the correct policies and processes in place? Is Finance able to measure and help manage performance?

3. How can Finance enable faultless execution of strategy and the day-to-day running of the business?

Finance performs best when it acts as a business partner, advising and supporting at every level in the business, from strategic to the functional, in addition to carrying out routine Finance processes. Leading Finance organizations apply their core skills in fact-based analysis to create historical data, as well as supporting the greater role of ensuring accountability and transparency around other aspects of managing a successful business. Are the promises that are made during the forecasting process being implemented? Is performance being delivered as forecast? Can a business case for any necessary funding be justified?

Figure 3



Delivering value through identifying value-creation opportunities

Finance has control of business data that the organization needs to operate effectively. In order to get the right information into the hands of the right people at the right time, it is important to evaluate the information required at each level within the organization. This is especially so when an organization is trying to deliver focused decision-support information with scarce or limited

resources. A Finance function that can articulate clearly what is important, and eliminate the information that is not important, will help the organization become more successful. Additionally, this will enable fact-based decision-making and appropriate actions that deliver value. The key information and key activities that help deliver this value are illustrated in Figure 4 below.

Figure 4

How leading Finance functions support:		
Level of organization	Key information	Key activities
Board/CFO level	<ul style="list-style-type: none"> External capital market and economic drivers Corporate performance indicators aligned to strategic objectives Enterprise process performance Exception and action-based commentary Key initiative monitoring CAPital EXpenditures (CAPEX) effectiveness 	<ul style="list-style-type: none"> Engage the business in strategy development Evaluate investment options with fact-based analysis Optimize capital efficiency with a clear market focus Monitor and manage execution of strategic initiatives Value-based financial management Establish consistent Key Performance Indicators (KPIs) Drive efficiency by focusing on key drivers only, allowing the organization to lessen complexity and focus on what is truly critical
Executive/management level	<ul style="list-style-type: none"> Business Unit (BU) performance CAPEX effectiveness and efficiency Segment profitability and operational efficiency Exception and action-based reporting and commentary Segment profitability and operational efficiency including working capital 	<ul style="list-style-type: none"> Manage performance at consolidated BU level Review BU performance against strategic initiatives Initiate activities to improve value creation (e.g., revenue, profitability, cost, capital) Manage improvement and remediation activities
Business unit/functional level	<ul style="list-style-type: none"> Individual departmental performance against goals Project performance Process performance Unit costs 	<ul style="list-style-type: none"> Manage individual department, initiative and leaders' performance Execute improvement initiatives Monitor process effectiveness and continuous improvement

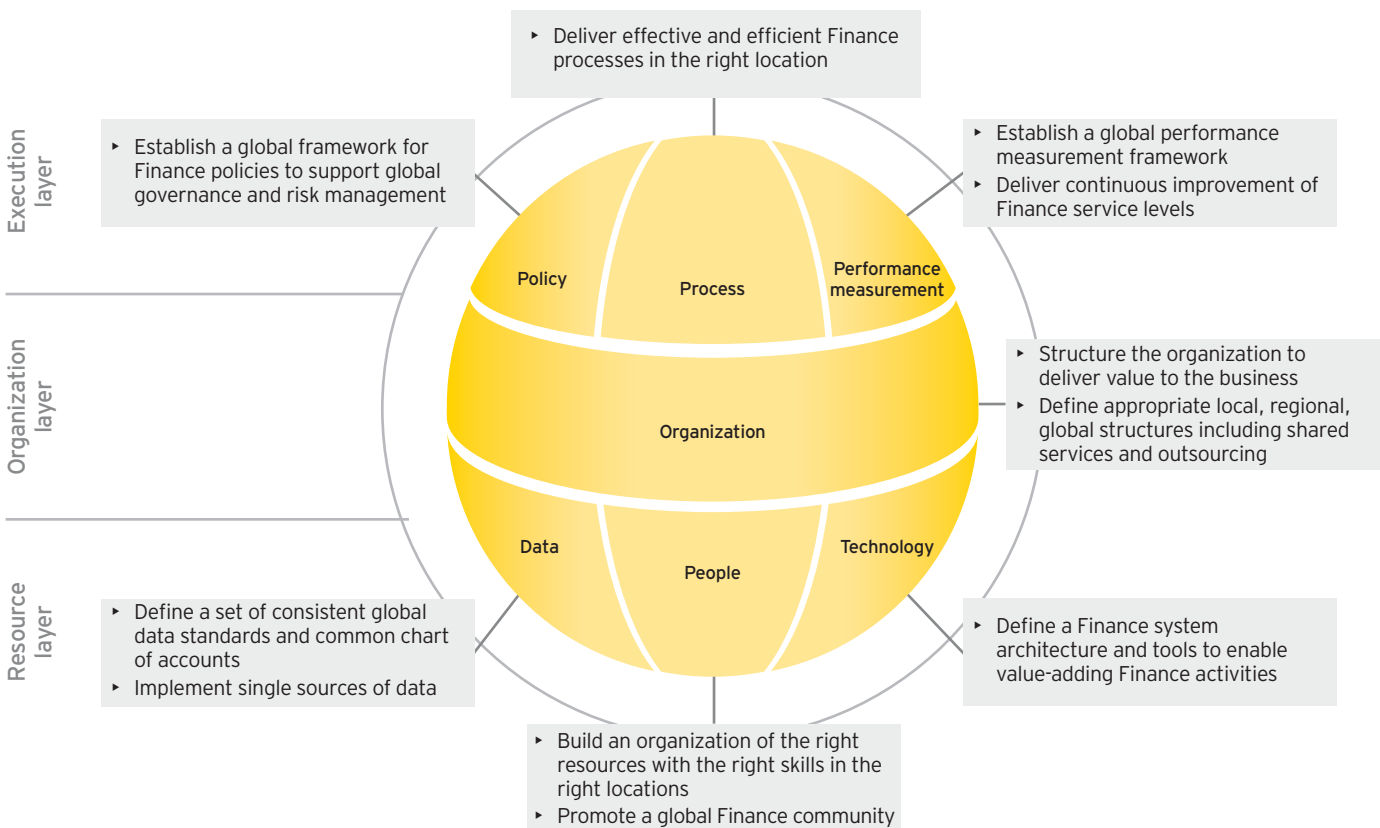
Delivering value through operating efficiently and effectively

Redesigning the operating model for Finance

Finance must balance priorities in delivering an effective support function to the organization. It must help to implement the business strategy by identifying value-creation opportunities. At the same time it must protect the financial assets of the organization. This must be delivered while also reducing the cost of Finance. To achieve these often conflicting objectives, Finance needs to consider its global operating model. This model is made up of the seven key components as outlined in Figure 5.

The Finance function will be designed through making a number of choices around the individual operating model components. As the components are so interconnected, it is important to carry out this design using a systematic approach. Failure to do this can lead to a misaligned operating model, compromising Finance's ability to improve efficiency and effectiveness.

Figure 5



The seven components of the Finance operating model

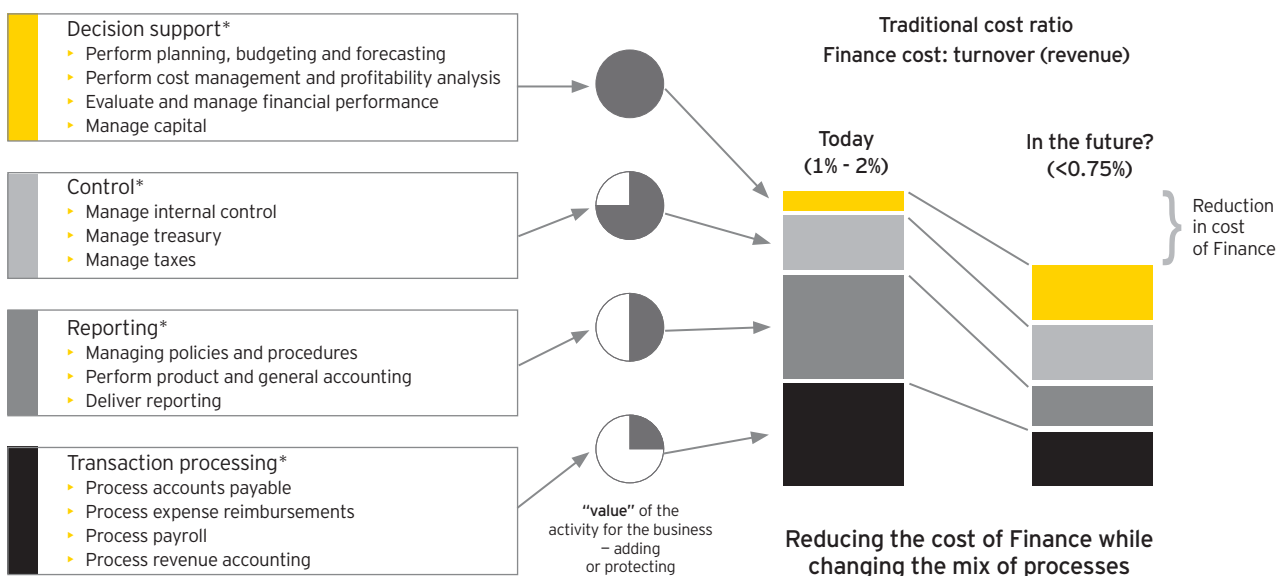
Finance must focus on the Organization and Process components initially to achieve an aligned model. This is essential to make sure that all of the operating model components fit together. In our experience, this “top down” approach will improve the benefits from a Finance change program.

Organization objectives:	Process objectives:
<ul style="list-style-type: none"> ▶ Deliver Finance teams in appropriate locations based on clearly defined criteria ▶ Deliver globally joined-up Finance teams ▶ Define clear roles and responsibilities ▶ Ensure that reporting lines support a global Finance community ▶ Organize along process and process type 	<ul style="list-style-type: none"> ▶ Deliver efficient and effective processes in the right location covering: <ul style="list-style-type: none"> ▶ Decision Support ▶ Control ▶ Reporting ▶ Transaction processing ▶ Design processes that are flexible, scalable, and sustainable ▶ Link process design to current and future capabilities of technology

This approach enables the fundamental questions of “How should we organize Finance globally?”, “What is the role of the Center (Group Finance)?” and “What should our processes be?” to be resolved at an early stage in the change journey. Starting this way also allows an “information technology neutral” approach to the design.

The focus on Process and Organization also helps with the principal challenge in redesigning the operating model: to invest resources in delivering more value-adding process while maintaining or reducing the overall cost of the Finance function. Figure 6 below illustrates a change in the profile of Finance activities delivered.

Figure 6



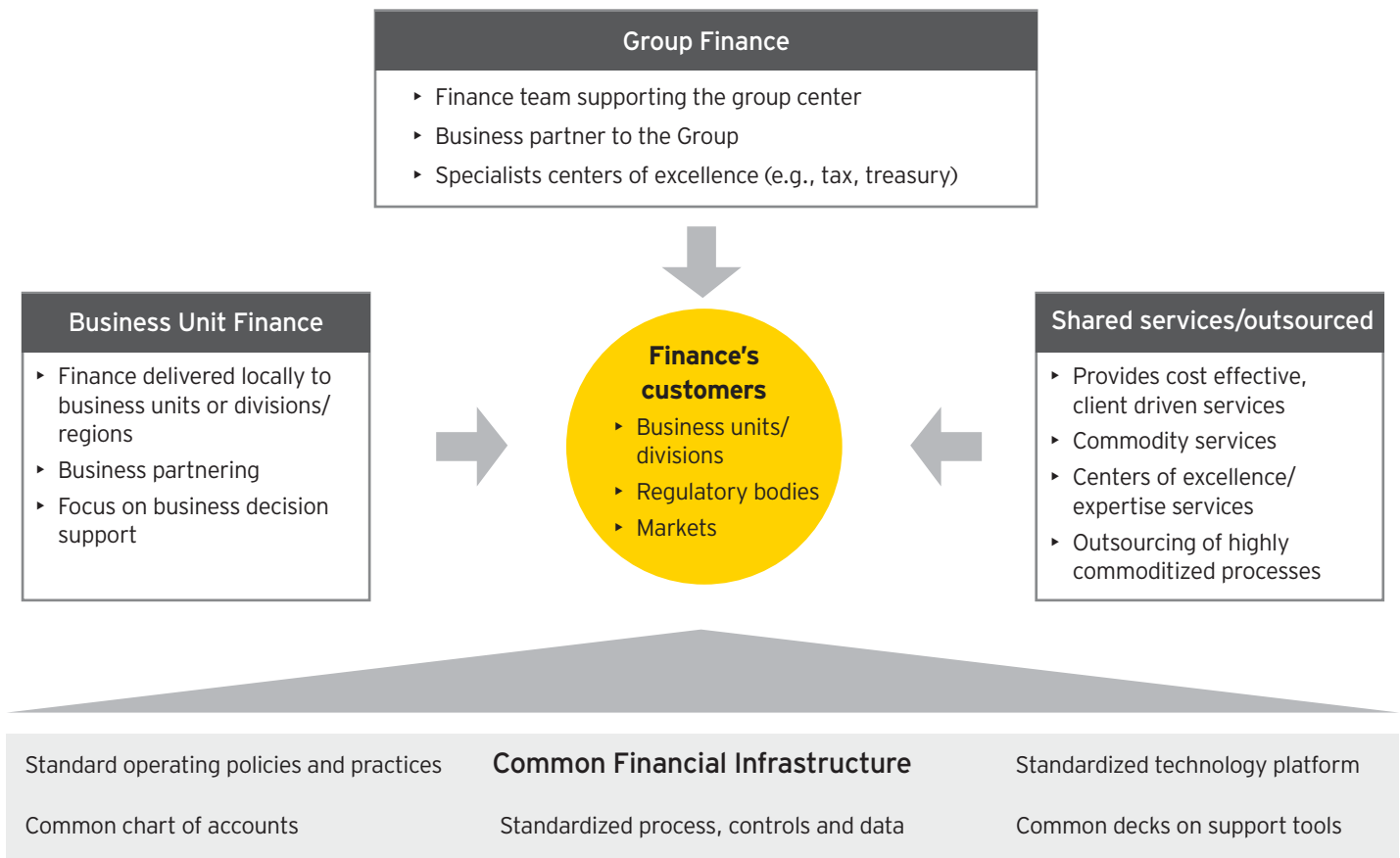
*Source: Finance process names are based on APQCs open standards research.



In analyzing the processes to design the operating model it is important to identify an appropriate balance across the three key organizational delivery layers: "Group Finance", "Business Unit Finance" and "Shared services/outsourced functions".

When these Finance teams are aligned with the four key Finance processes, each of these layers can take responsibility for specific parts of the end-to-end processes.

Figure 7



Achieving cost reduction in Finance

When designing a new Finance operating model, reducing cost is a common desired outcome. It is possible to achieve cost savings while at the same time improving the effectiveness of Finance. Through sharing and streamlining of "commodity" processes, significant cost reductions can be achieved which can fund investment in higher value Control and Decision Support processes. Where this is possible, cost savings in the ranges shown in Figure 8 are typically achieved.

For a typical Finance function with a cost-to-turnover ratio of around 1.5%, net savings of 10-20% of the overall cost of Finance are typically achieved through a holistic transformation of the operating model. The level of saving is dependent on the existing maturity of the organization - where shared services have already been implemented the scope for overall savings in Finance may be less.

Achievement of a leading practice ratio of less than 0.75% will require a strongly global operating model.

Figure 8

Finance Process Class	Level of process commodity	Typical change achievable*	How
Transaction processing	High	Saving 25 - 40%	Aggressive globalization – shared services and outsourcing
Reporting	Medium	Saving 10 - 20%	Rationalization of reporting processes and systems. Extensive use of shared services for Record-to-Report
Control	Medium/low	Increase 10 - 20%	Investment in people and tools to support a global control framework
Decision support	Low	Increase 50 - 100%	Investment in resources to support the business areas with value adding Finance activity

*Indicative benefits based on typical maturity levels and scope for standardization. The benefits available will depend on individual company circumstances.

Key messages:

- ▶ Finance should continue to strive towards delivering more value-adding activities.
- ▶ Finance should design an appropriate operating model to support the organization.
- ▶ The design should focus initially on the Organization and Process dimensions to develop a framework for future developments.
- ▶ Significant cost benefits can be achieved while improving the overall effectiveness of Finance.

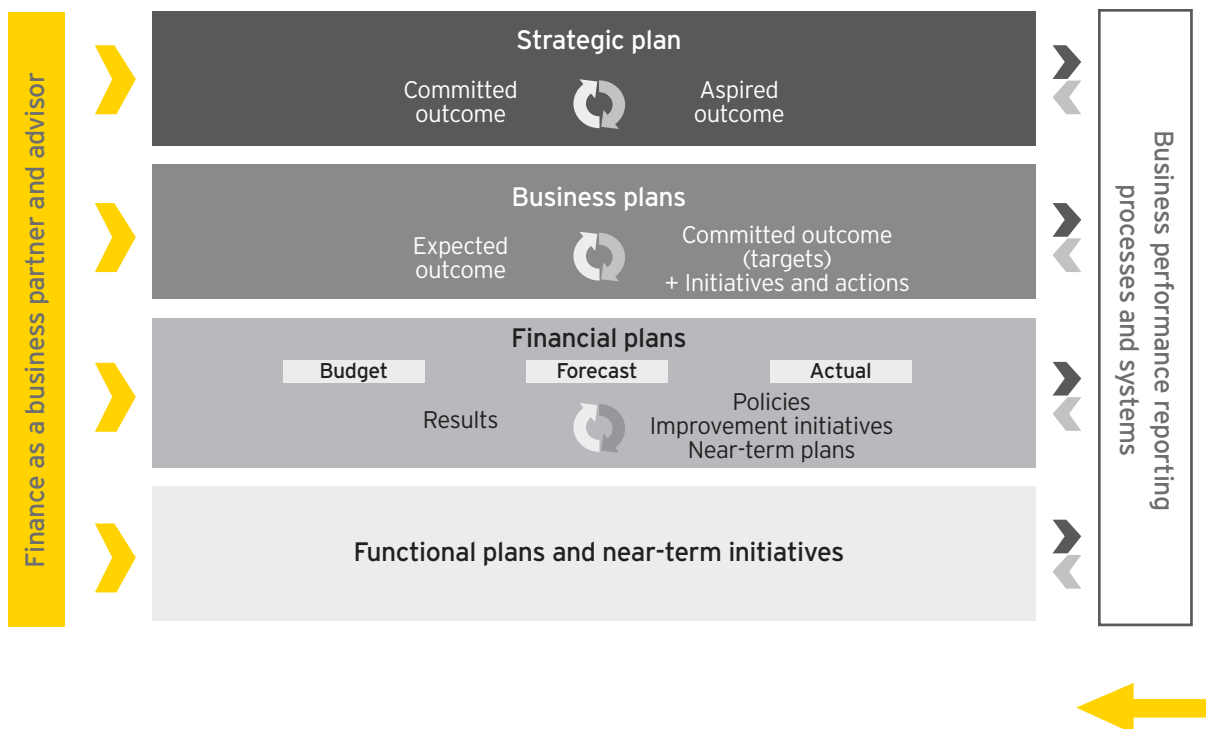
Delivering value through managing business performance

Most Finance functions have followed the trend of their enterprises in general and have invested considerable amounts of money to improve, for example, transactional processing speed and efficiency. The business cases that were developed to justify this investment promised the delivery of commoditized processes by fewer people. Few organizations have then gone on to explore what they should do with the nature and quality of information that is delivered into the hands of decision-makers as a result of these improvements. This information is being delivered more quickly, in an environment where market pressures demand faster responses.

Finance functions need to focus their future improvement efforts on the organization's end-to-end performance management with the same tenacity and discipline that they applied to Enterprise Resource Planning (ERP) led transformation and shared service initiatives in years past. This will require Finance to take the lead in providing integrated, end-to-end planning with a focus on execution and accountability. In fact, this is a prerequisite for Finance's success as a business partner.

Leading Finance functions will focus on the cycle of interaction, planning and analysis as shown in Figure 9. If this planning cycle is correctly driven, it will impel the right strategic focus for the organization, help plan and forecast quickly and accurately, and support accountability for results.

Figure 9



Summary

The recent global business environment has presented many challenges. However, with challenge comes opportunity. This environment provides an occasion to rethink the Finance function. Our research shows the top areas for Finance improvement include:

- ▶ Strengthening overall Finance capabilities
- ▶ Improving the use of IT systems to support Finance
- ▶ Improving the overall alignment of Finance to overall business objectives
- ▶ Improve planning, budgeting and forecasting

Leading companies are using the current environment to transform the way they run their Finance function. Through redesigning Finance, organizations are focused on identifying value-creation opportunities, improving their Finance operating model, and better managing their business performance.

The benefits can be far-reaching. Not only will Finance perform better through greater coordination between resources, organization and execution, but Finance will help to drive value creation and become a model for improved business performance. Organizations that take advantage of this opportunity will emerge stronger and more competitive from the current business environment.

Questions to consider

Identify value-creation opportunities	Operate efficiently and effectively	Manage business performance
<ul style="list-style-type: none"> ▶ Do your Finance professionals understand the business and are they viewed as valued business partners? ▶ Does your internal financial reporting help identify opportunities and support effective business decision-making? ▶ Do you have an effective program for building and retaining the top talent necessary for the Finance function? ▶ Does your Finance function actively provide improvement ideas? ▶ Has your organization developed a cash flow culture? 	<ul style="list-style-type: none"> ▶ Does your organization have common Finance processes, data models and reporting systems that are used globally? ▶ Is your global Finance delivery model tailored to support value creation? ▶ Does your Finance function leverage shared service and/or outsource delivery models appropriately? ▶ Does the Finance function ensure compliance and address compliance risks? 	<ul style="list-style-type: none"> ▶ Does the Finance function help drive strategic and operational business decisions? ▶ Is the Finance function actively leading business improvements? ▶ Does your organization have measurement systems that drive business performance and create value? ▶ Does your organization have an effective risk management and control environment in place to protect business value? ▶ Is your organization's financial performance effectively communicated to external and internal stakeholders?

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