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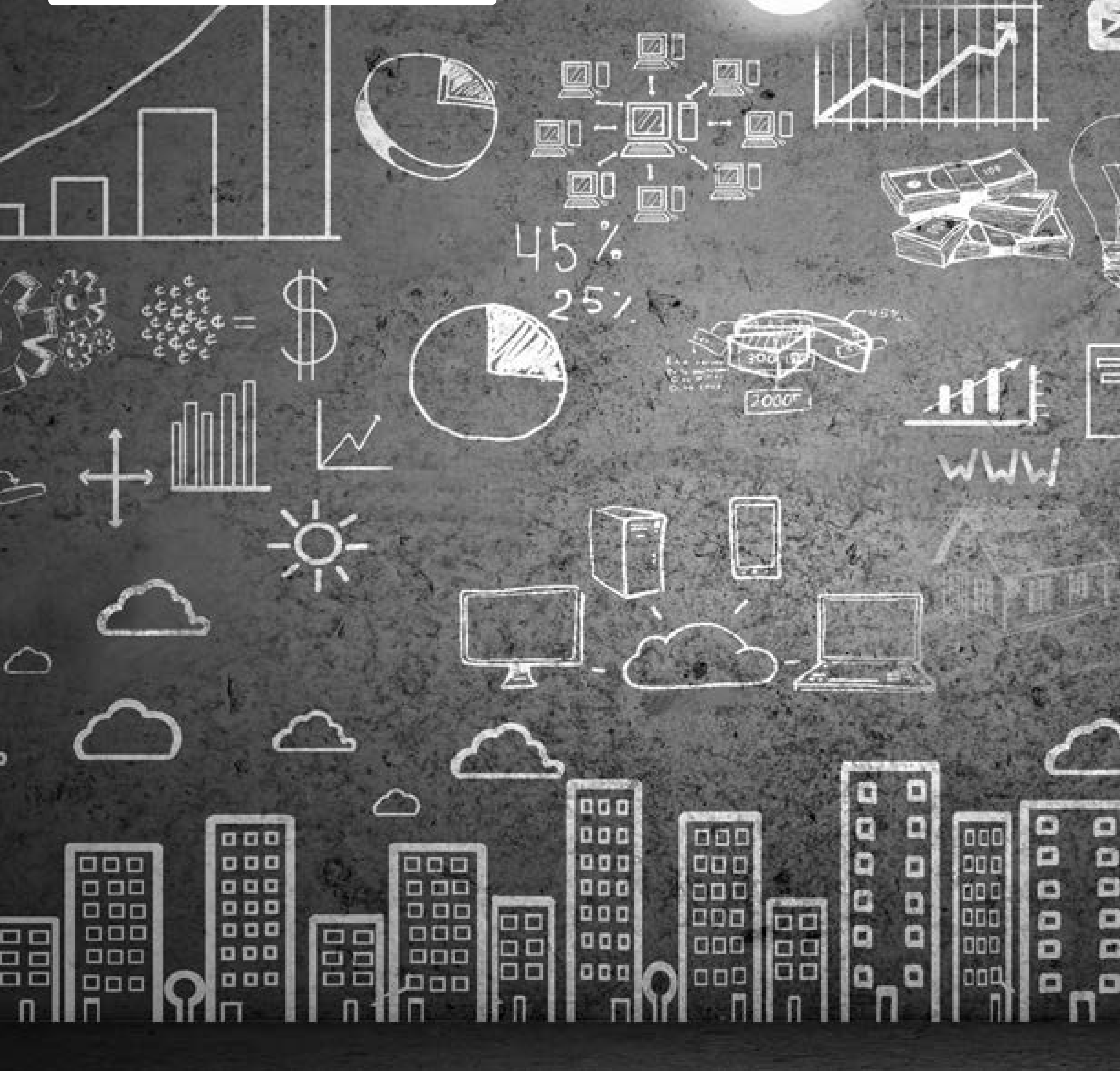
Upping your game:
Realigning the four faces of finance



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Preface

Today, dramatic and unexpected changes have become normal – for example, oil that drops to less than half its price in just a few months, triggering a subsequent fall in the value of the dollar. These are "black swan" events that no organization can control. All, however, must be able to manage their responses to them, and usually they must do so in a very short timeframe. Increasingly, the responsibility for identifying the impact of changes on the organization, and then determining an appropriate strategic and operational response, falls to Chief Financial Officers.

Many finance teams, however, find it increasingly challenging to provide meaningful and timely responses, especially as they relate to analyzing results and preparing forecasts across various business lines and projects in a volatile operating environment. Based on data obtained through a survey of over 300 respondents who attended Deloitte's Finance Trends conferences in late 2014, this report identifies the key factors that constrain many CFOs and prevent them from acting as effective strategic partners with their C-suite colleagues.

The good news is: practical, cost-effective solutions are available, and in this report, you'll find a four-part strategy that CFOs can follow to begin implementing them.

We've developed this report because we want to help CFOs "up their game." In it, you'll learn how your finance function can be realigned to create greater value for the organization by moving away from compiling data and reports and toward providing thoughtful insights and analysis into that data. We hope you enjoy this report and are inspired by its messages. We invite you to contact us to learn more.

Sincerely,

Mike Goodfellow
Partner, Audit
Deloitte Canada

Between August 2014 and January 2015, the price of oil fell from over $100 per barrel to less than half of that amount – $45 per barrel. It was a "black swan" event – unexpected and virtually impossible to predict. No organization can control the occurrence of black swan events, but all of them must be able to assess their impact and respond to them, usually in a very short timeframe.

Although finance is often known for its historical cost and control focus, it needs to play a leading role in helping the organization anticipate and quickly develop financial and marketplace scenarios that portray the impact of changes on them and their stakeholders, and then determine appropriate strategic and operational responses. Forecasting is challenging even in stable environments where changes are gradual and predictable. Today, however, organizations need to have forecasting capabilities that enable them to operate effectively in a globally interconnected world where dramatic and unexpected changes are the "new normal."

Traditional risk management techniques often aren't sufficient to fully mitigate marketplace changes. For example, when oil prices fell and the Canadian dollar plunged, many companies believed they could weather the storm by hedging a portion of their future production, foreign purchases or foreign-denominated obligations. Hedging is a sophisticated and effective risk management strategy, but hedges expire and provide only temporary relief. As the oil and dollar crisis drags on, the need for longer-term strategies that capture opportunities and minimize risk becomes more important.

Given the connections and interdependencies of many economic and strategic variables, what might be the wider impact of low oil prices? They quickly led to a drop in the value of the Canadian dollar. Could they also burst the Canadian housing bubble, since housing prices have increased in tandem with rising global oil prices over the past 15 years? If so, could further impacts hit the marketplace, such as a sudden spike in interest rates? And would these changes be cyclical or would they be structural changes that transform the economy and industries? If any of these or other changes occur, how quickly and precisely could you determine their impact on your organization or your supply chain? How quickly could you determine the actions you would need to take in response?

No organization can control the occurrence of black swan events, but all of them must be able to assess their impact and respond to them, usually in a very short timeframe.

The responsibility for assessing the impact of these changes increasingly falls to the CFO and the finance function. If finance is to operate strategically, it needs to make these assessments at three levels:

1 **Focus on the company:**
What is the effect on costs and operations in the past quarter and year-to-date? What is the balance sheet impact (especially for liabilities denominated in foreign currencies or forward purchase commitments)? How can we best explain these impacts to our shareholders and key stakeholders?

2 **Focus on the industry:**
What is the impact on our customers, suppliers and competitors? Who are the winners and losers in our industry? How do these changes affect the competitive dynamics of our industry, both in our home and foreign markets? What opportunities and threats are being created?

3 **Focus on the economy:**
Are these developments cyclical or structural in nature? What are the long-term impacts on the Canadian and global economies? What regional shifts could occur in Canada? What strategic opportunities and threats do these changes create?

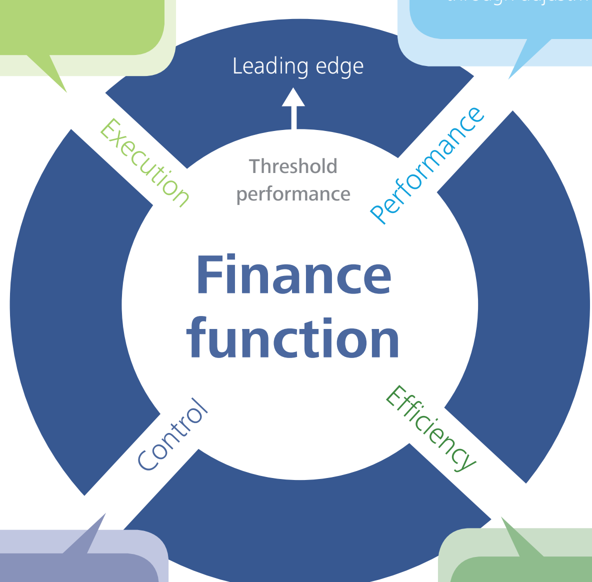
Four faces of finance

Catalyst

Catalysts drive behaviours across finance and more importantly across the entire organization to execute strategic and financial objectives while also creating a risk-intelligent culture. This is achieved by the design and deployment of enterprise-wide performance management systems, dashboards, effective forecasting processes and tools, and key performance indicators.

Strategist

Strategists participate as financial leaders, helping to shape and define the organization's strategic direction, and aligning its financial people, processes and systems accordingly. They focus on capital allocation strategies, funding growth, and mergers and acquisitions, accomplished through the comprehensive analysis of relevant scenarios that factor in organizational dynamics, changes in the external environment, and planning for possibilities through adjustment of key drivers.



Steward

Stewards concentrate on protecting and preserving the organization's critical assets and accurately reporting its financial position and operations to the organization's stakeholders. The focus is on quality of information being reported, accounting standards, internal controls and risk management.

Operator

Operators balance capabilities, talent, costs and service levels to ensure that the finance function fulfills its core responsibilities effectively. They concentrate on the efficiency and effectiveness of the core transaction processing processes and systems to ensure a 'rock-solid', quality-based foundation.

Where CFOs are spending their time…and why

Ensuring that senior management and boards of directors have a meaningful and current operational and strategic analysis is critical in periods of uncertainty and volatility, a responsibility that is increasingly falling to the CFO.

A survey[1] of 300 attendees at Deloitte's Finance Trends conferences in late 2014 found that over 85% of respondents believed they should work as partners with their c-suite colleagues to help shape and define their organization's strategic direction and translate that into operational plans, including developing scenarios based on different capital allocation decisions, return-on-investment implications and various cost-of-capital models.

However, while CFOs widely agree that they and their teams should play a strong strategic role in their organizations, few of them are actually doing so. Why? Some may lack the required competencies to develop strategies. But many respondents said it is because they simply don't have the time: just 17% of survey respondents say they have sufficient time to devote to strategic activities.

If CFOs and their finance teams don't have sufficient time for strategic activities, where are they spending their time instead?

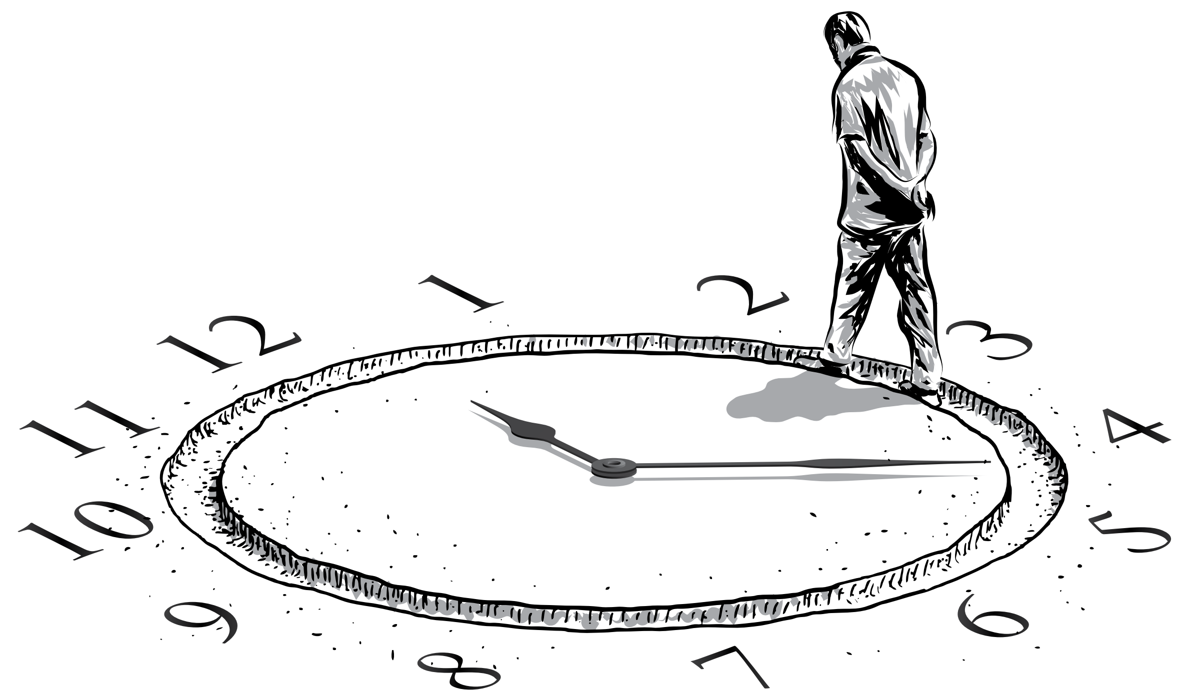
Strategy is an important facet of CFO leadership, but it is not the only one. CFOs must also act as catalysts, operators and stewards – the four roles that, together, comprise a fully effective finance function (see Figure 1). Since CFOs must allocate time and resources to each role, increasing the time and effort for one role can only be accomplished by freeing up the resources required for one or more of the other roles.

If CFOs and their finance teams don't have sufficient time for strategic activities, where are they spending their time instead?

Operator/steward activities such as core transaction processing, internal controls and risk management are the critical foundation of a finance function in all organizations. In public companies, the CFO and CEO must certify the quarterly and annual regulatory reports; if they don't properly discharge these operator and stewardship responsibilities, they are exposed to regulatory actions and litigation. These activities must also be in place to support catalyst/strategist activities, which include creating a risk intelligence culture and developing capital allocation strategies.

Different roles will be dominant at different times, depending on the finance team's priorities. For example, CFOs will likely spend more time on operator/steward activities when they need to respond to extraordinary events such as regulatory or standards changes – the transition to IFRS in 2010 and 2011, for example, or the introduction of new standards (such as IFRS 15). Other priorities will be created by recurring events – finance teams will usually devote more time to operator/steward activities when financial reports are due.

[1]In October and November 2014, 300 people attended Deloitte's Finance Trends conferences held in Halifax, Quebec City, Montreal, Ottawa, Toronto, Calgary and Vancouver. At those sessions, attendees were surveyed about their organizations and finance functions.



The reason many CFOs lack sufficient time for strategist/catalyst activities is that their operator/steward responsibilities are more than just an occasional or periodic priority. Instead, it is a claim on the finance team's time and resources and can become a chronic problem. Often, this is a result of one or more of three main problems:

- An inefficient and labour-intensive financial close process and extended reporting process
- A fragmented systems environment
- Difficulties in producing timely and relevant forecasts.

Why do so many CFOs and their teams face these three problems? Typically they are created by five underlying weaknesses:

- Lack of investment in information systems technologies
- Poorly integrated technologies and processes
- Over dependence on spreadsheets
- Underutilized and underinvested talent in the financial department
- An inability to get off the reporting treadmill

Lack of investment in information systems

A surprising number of finance teams operate either without systems or with outdated systems that have limited automation functionality. Our survey found that over half of respondents (51%) have no automated capabilities. An additional 27% operate with either obsolete or fragmented systems.

Non-automated or poorly automated finance functions typically lack real-time access to information, are unable to make variance-to-target queries and often suffer from poor quality of data, control reliance and other problems leading to an ineffective financial close, "procure to pay" and "order to cash" processes.

Poorly integrated technologies and processes

Many organizations rely on "bolt on" transactional reporting systems that require inefficient manual workarounds. Without an integrated platform of tools to process transactions and provide accurate information, as and when needed, it is almost impossible for the finance team to draw relevant conclusions, nail down the financial close or generate meaningful forecasts. Poorly integrated systems can also heighten the risk of error and fraud.

Dependency on spreadsheets

Less than 10% of survey respondents say they budget using a dedicated planning tool, either one developed in-house or sourced from a third-party vendor. Instead, almost 75% of respondents say their organizations still rely on spreadsheets to prepare budgets; 16% use spreadsheets in combination with a third-party planning tool.

To capture opportunities and mitigate risks, finance functions must be able to develop multiple scenarios and stress tests, shock financial forecasts with major operational and risk drivers that link profitability and cash flow fluctuations to key balance sheet metrics and key performance metrics. This is difficult to do efficiently and effectively with stand-alone spreadsheets, such as Excel, that rely on manual interventions to capture and combine data from a variety of systems and sources. Spreadsheets also create greater risks related to data integrity, version control, functionality and accessibility.

When key systems are not integrated and the quarterly closing process is labour-intensive, monthly and quarterly closing and reporting cycles become even more time-consuming

Underutilized and underinvested talent

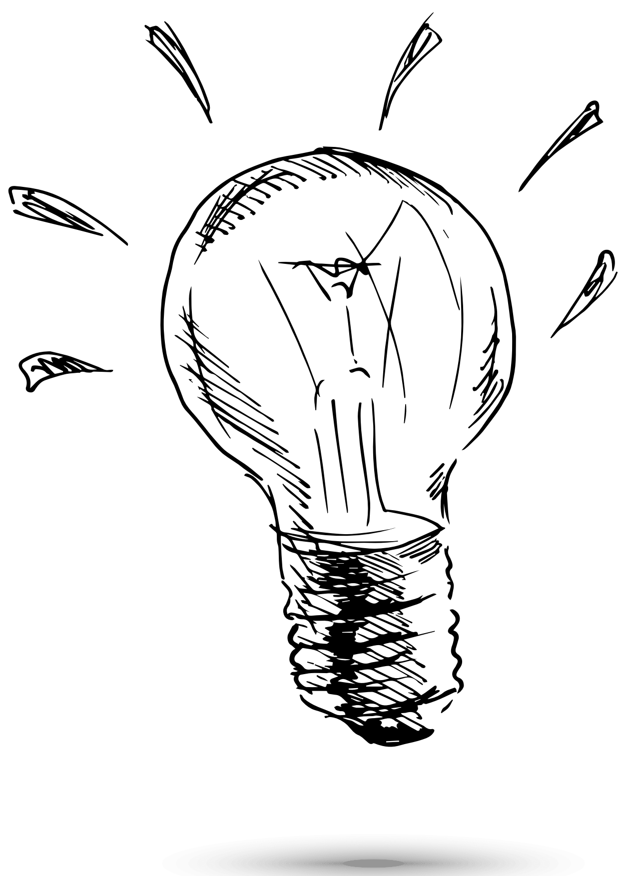
Finance functions that rely on manual processes or have only limited automated processes typically require larger numbers of people to capture data and generate reports. Correspondingly, manually dependent functions have fewer people and less time to undertake higher-value analyses, such as providing senior management with meaningful insights on business performance. When they need to recruit new talent, finance teams that rely heavily on manual processes search for people who can help get the job done – typically, more people with lower value skills, creating a challenge to improve the strategic talent of the team.

An inability to get off the reporting treadmill

Our survey found that only 40% of respondents were able to forecast to the end of their current fiscal year – and just 2% forecast beyond the current year. An additional 19% undertake rolling 12-month forecasts.

It takes time, skill and good analytic techniques to produce concise financial reports and forecasts that provide meaningful insights into the operations, cash flows and financial condition of the business. If the process isn't streamlined, however, quarterly reporting becomes a treadmill that the finance team can't get off: as soon as one period's reports are complete, the finance team must almost immediately begin work on the next period's reports.

Mark Twain once said, "I didn't have time to write a short letter, so I wrote a long one instead." Finance teams that spend almost all of their time just pulling together information from across the organization rarely have time to analyze and prioritize that information. Instead, they generate ever larger monthly/quarterly and management reports, leaving it to users to sort through the data to find the information most relevant to their needs. When key systems are not integrated and the quarterly closing process is labour-intensive, monthly and quarterly closing and reporting cycles become even more time-consuming.



Realigning
the finance function

At our *Finance Trends* conferences, many organizations reported that they are taking steps to enhance and upgrade their finance teams. To do so, CFOs usually need to bring different approaches to their people, processes, data and technology capabilities in order to automate and integrate control-based operator/steward tasks, thereby freeing up time and resources that can be devoted to higher-value catalyst/strategist activities.

Step 1: Determine where finance is positioned today

The first step in realigning the finance function is to understand where it is currently positioned, and then determine where it needs to go. Using the Finance Function Maturity Model, CFOs and their teams should match their capabilities in the four areas – People, Processes/Automation, Systems/Integration and Reporting – to maturity attributes that best describe their capabilities in order to determine their function's stage of maturity. In this step, CFOs should focus on two fundamental questions: Where are we positioned on the maturity model? And, why are we in this position?

Using the Finance Function Maturity Model, CFOs and their teams should match their capabilities in the four areas – People, Processes/Automation, Systems/Integration and Reporting – to maturity attributes that best describe their capabilities in order to determine their function's stage of maturity

Finance organization maturity model

	Stage 1: Developing	Stage 2: Basic	Stage 3: Advanced	Stage 4: Leading
People	• Finance organization is fully dependent on key individuals and acts as an operator for finance transactions • Lack of clearly defined roles and responsibilities	• Finance organization is highly dependent on key individuals and is a steward for key finance output and reporting • Some definition of roles and responsibilities in key areas • Key finance operating measures are established	• Finance is a catalyst for change and support for the business with meaningful insights and enhanced management information • Roles and responsibilities are defined • Key finance operating metrics are monitored and improved upon • Skills improvement plan is established	• Finance is a strategist and a business partner to key stakeholders • Roles and responsibilities are defined and have embedded business partnership elements • Key finance operating measures are core to finance operations • Talent continuous improvement plan is operational
Processes/ Automation	• Ad hoc, reactionary, and grandfathered processes • Highly manual • Financial close process non-standardized; little/no data to assess performance • No tracking of forecasting accuracy	• Partially defined with varying levels of documentation • Financial close data difficult to access and often requires manual manipulation	• Standardized processes and documented policies and procedures • Financial close is mainly standardized with limited ad hoc activities • Use of some predictive techniques to model risks and opportunities	• Processes and tools fully defined and optimized • Financial close fully standardized • Forecasting accuracy continuously monitored • Conducts multiple stress tests and analyzes multi-risk outcome scenarios
Systems/ Integration	• Minimal use of systems and tools; mostly spreadsheet-based • Multiple disparate systems not integrated • Pervasive use of Excel	• Available tools used, but with high reliance on manual efforts • Multiple systems that do not integrate • More advanced use of spreadsheets and Excel	• High-level systems support and integration across the organization • Few systems with interfaces that allow real-time updates • Considering various service delivery options	• Highly integrated systems to support operations • Systems seamlessly linked across the business • Automated cloud-based systems
Reporting	• Mostly manual and detective • Driven by regulatory or external requirements • Forecasts based on single-point estimates and metrics • Significant variability in forecasting assumptions and inputs across business units	• Defined, documented and mostly detective • Manually generated dashboards • Budget, planning, and forecasting – a spreadsheet-driven manual activity • Internal discipline around the frequency of internal / external reporting regardless of regulatory or external requirements	• Tending towards automated and preventive • Tools for automated generation of scheduled financial reports, statements and management information and dashboards • Established KPOs and KPIs • Budget, planning and forecasting systems with manual adjustments • Development and execution of an analytics strategy and tools	• Automated and preventive • Scenario planning • Driver-based modeling of 'what-if' scenarios and ad hoc requests • End-user empowerment • Drill down access for users to self-analyse the data • Automated KPO and KPI drivers • Organization-wide use of analytic tools and predictive modeling

Step 2: Create a finance vision and transformation plan

In this step, CFOs should use the maturity model to answer two questions – Is this where we want to be? And, what is the gap between where we are and where we want to be? By comparing their current capabilities to the characteristics of more mature finance functions, CFOs and CEOs can identify what they need to do to move the finance team and its resources to higher levels of operating efficiency and effectiveness to 'close the gap.'

Many finance teams will need to address several factors to build a more mature finance function, one of the most important of which is to obtain the support of the CEO and management team for the finance transformation. To obtain this support, finance teams need to develop a documented, holistic vision that describes their proposed end state, supported by a modernization plan to get there that includes the finance talent, supporting systems and critical processes to help ensure the finance function creates and adds value. Some of the key issues to address in developing a vision and transformation plan for the finance function include:

Determining systems needs and developing a systems strategy

Because of the high cost of traditional technologies, many Canadian organizations have invested much less in their finance functions' systems than they have invested in systems for other areas of their operations. Today, cloud technologies provide organizations with world-class automation capabilities that allow them to replace lagging systems faster, with better functionality and at a significantly lower cost and time to implement than traditional systems.

According to a separate survey[2] we conducted last year, most organizations are either already using cloud technologies, or are in the process of moving to the cloud. That survey found that:

- 14% of organizations already use cloud technologies
- 34% are currently transitioning to the cloud
- 24% are in the planning stages or have started implementing pilot projects.

The cloud is here and its use is accelerating globally. According to Gartner Inc., the global software as a service (SaaS) market will grow at a yearly rate of 20.2% and will become a $45.6-billion industry in 2017. CFOs, therefore, need to answer these fundamental questions: Are you ready to embrace this technology and help get you and your teams off the monthly and quarterly reporting treadmill? Are you ready to devote more time to business analysis and less time to report production?

Determining process needs

Finance functions that upgrade their systems capabilities typically also need to review and upgrade their processes, since many of the activities required for manual or minimally automated processes – such as multiple data entry points – will no longer be required. When transitioning from manual to automated processes, a key consideration is to develop integrated approaches that improve efficiencies, avoid duplications of effort, create team alignment and replace ad hoc approaches with standardized, documented procedures.

Looking critically at your finance reporting process – including close, statement preparation, management information and MD&A production, as well as procure to pay, order to cash and budget/planning/forecasting processes – is key to finding efficiencies and being able realign the time spent.

Determining a talent strategy

With upgraded systems capabilities and supporting processes, most finance teams will need to transition people from their current roles and responsibilities to new ones that are aligned with the future role and objectives of the finance function. When investing in their talent, organizations will need to critically assess the current structure and talent of the finance team and determine not just recruiting needs but also the training and development required for current team members (such as offsite education programs and courses as well as continuous onsite learning) to ensure that the entire finance team has all the skills and capabilities they need to fulfill the finance vision.

[2]Deloitte, *Technology in the Mid-Market: Perspectives and Priorities*, 2014

Streamlining reporting

Highly integrated systems that are seamlessly linked across the organization enable finance teams to gather information about all aspects of the organization easily and quickly. This frees up time to analyze that data and provide shorter, more focused reports that provide clear insights into operations, cash flows, the financial condition of the business and other important factors.

Begin by clearly defining "performance." Then identify the most relevant KPOs and KPIs to measure that performance in real- or close-to-real-time. With a sharper definition of performance, finance teams often discover that many of their current KPIs are no longer required, and automated processes give the finance function a drill down capability through dynamic KPIs to granular levels of detail when required. Many KPIs get developed and embedded in the reporting process because they are easy to compute and the supporting data is readily available – not because they are the most meaningful or reliable.

Step 3: Build commitment to the finance transformation plan

Transforming a finance function, realigning it across all four faces of finance and making it more strategic, is a major undertaking that often involves acquiring and implementing new systems, developing new processes and upgrading and realigning people's skills. Since the transformation process will impact more than just the finance function itself, the CFO must gain alignment and commitment for change from the CEO, other members of management, the board and the audit committee. Obtaining this buy-in is often a major challenge that takes considerable effort, but it is essential – especially since there will be disruptions during the transition period.

Building on the transformation vision and implementation plan developed in Step 2, the CFO must then develop a compelling business case that clearly demonstrates that the value and benefits of change outweigh the effort and costs of the plan's budget and IT requirements. The plan must focus on how the finance transformation will help the CEO and the senior management team operate more strategically and effectively.

CFOs must show how they will engage management leaders outside finance and implement the transformation plan, including providing a timeframe and a clear definition of the roles and responsibilities of those involved.

Step 4: Manage the execution of the transformation plan

Transforming the finance function is typically a complex, longer-term process that must be carefully managed to ensure that activities are coordinated and undertaken in the appropriate timeframes. Members of the finance team will need to be supported as they take on new responsibilities.

Since the finance transformation will affect the entire organization, the finance team must also remain focused on its customers' needs – including the board, audit committee, other members of senior management and the finance function itself. Finance must work in partnership with others to minimize any disruptions that may occur during the transition period. CFOs should ensure that a comprehensive change management plan is developed to manage all of these activities. Often, setting 100-day objectives helps the team focus on what is immediately doable, ensures that activities are undertaken in the correct sequence and allows the team to refocus and revise the plan as required.

Finally, CFOs must ensure that they do not "lose control" of their financial reporting and stewardship responsibilities during the transformation process since these responsibilities provide the foundation for the value the finance team brings to the organization and the credibility of the CFO.

CFOs should ensure that a comprehensive change management plan is developed to manage all of these activities.

A realigned,
high-value finance function

Fortunately, cost-effective solution options and process enhancements are available to help increase the efficiency and effectiveness of the finance team, freeing up time for CFOs and their teams to focus on the analytical and strategic support activities that bring the greatest value to the organization. They can also enable the implementation of finance transformation plans within a realistic time, effort and cost envelope.

Many finance teams find it increasingly challenging to provide meaningful and timely responses, especially as they relate to analyzing results and preparing forecasts across various business lines and projects in a volatile business environment

After all, the business support, operating analysis, financing support and one-off reporting “asks” that CEOs, other executives, owners, boards and audit committees make of their CFOs and their finance teams continue only to increase in volume and complexity. Many finance teams find it increasingly challenging to provide meaningful and timely responses, especially as they relate to analyzing results and preparing forecasts across various business lines and projects in a volatile business environment. In order to meet these expectations, CFOs and finance teams need the right balance of talent, processes and technology across all four faces of finance, and they need that balance to be aligned with today’s uncertain and rapidly changing business world.

Appendix

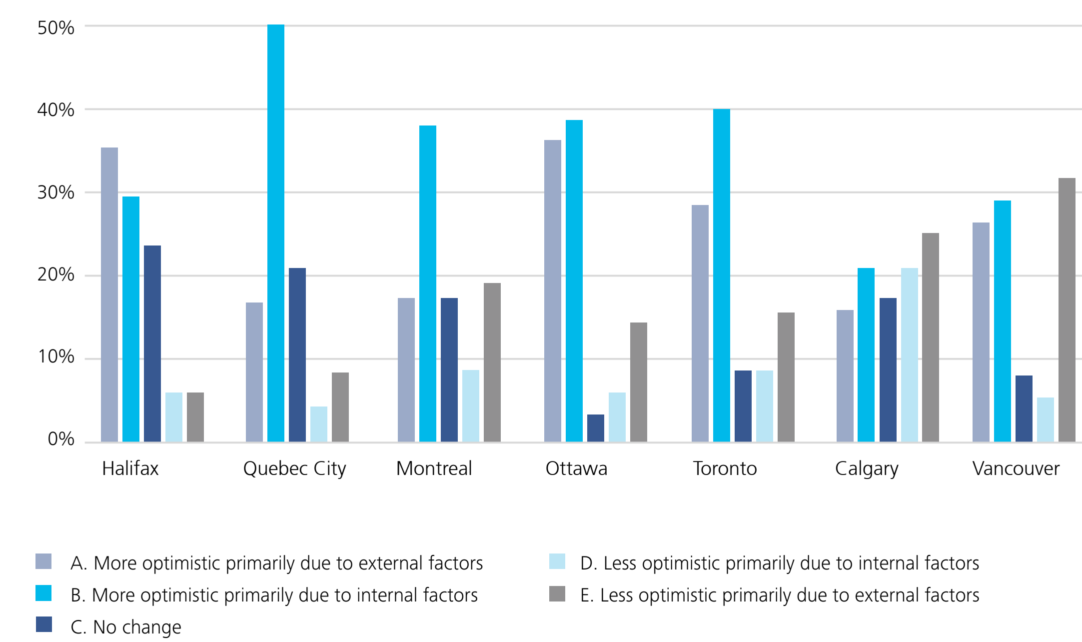
Survey results

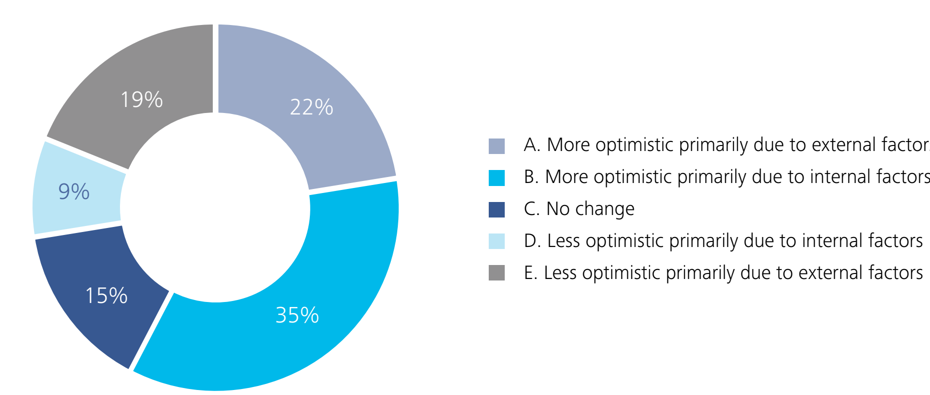
In October and November 2014, over 300 people attended Deloitte's Finance Trends conferences held in Halifax, Quebec City, Montreal, Ottawa, Toronto, Calgary and Vancouver. At each of those sessions, attendees were surveyed about various aspects of their organizations and finance functions.

The questions are presented in this appendix and show the responses from each location as well as a combined response from all centres.

Question 01

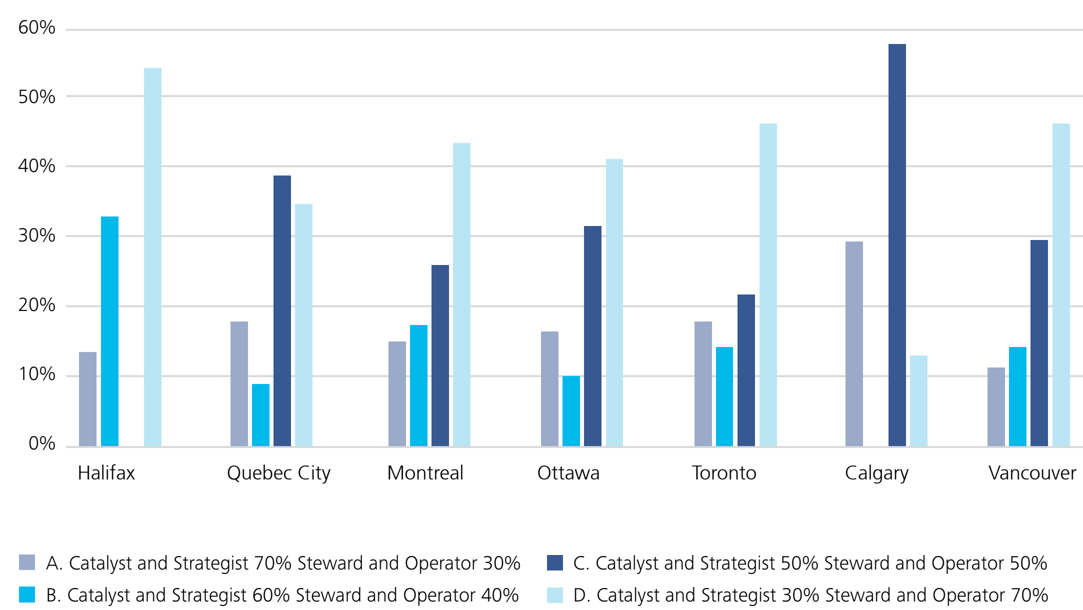
How do you feel about your company's prospects relative to last quarter?

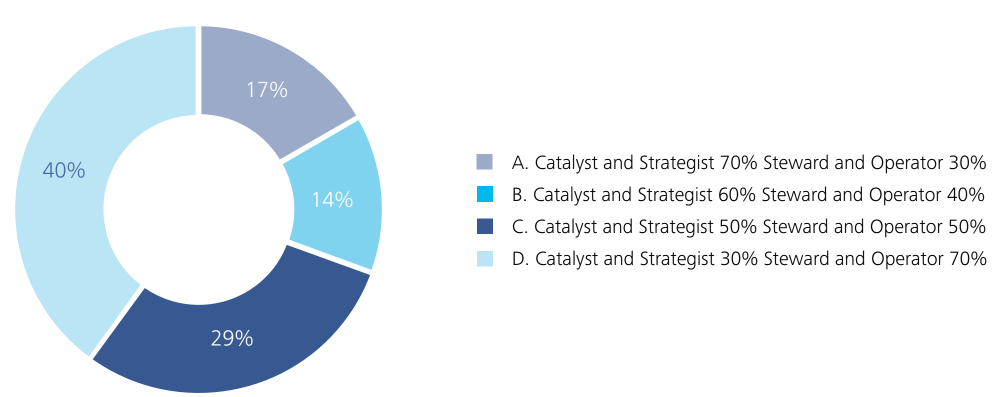




Question 02

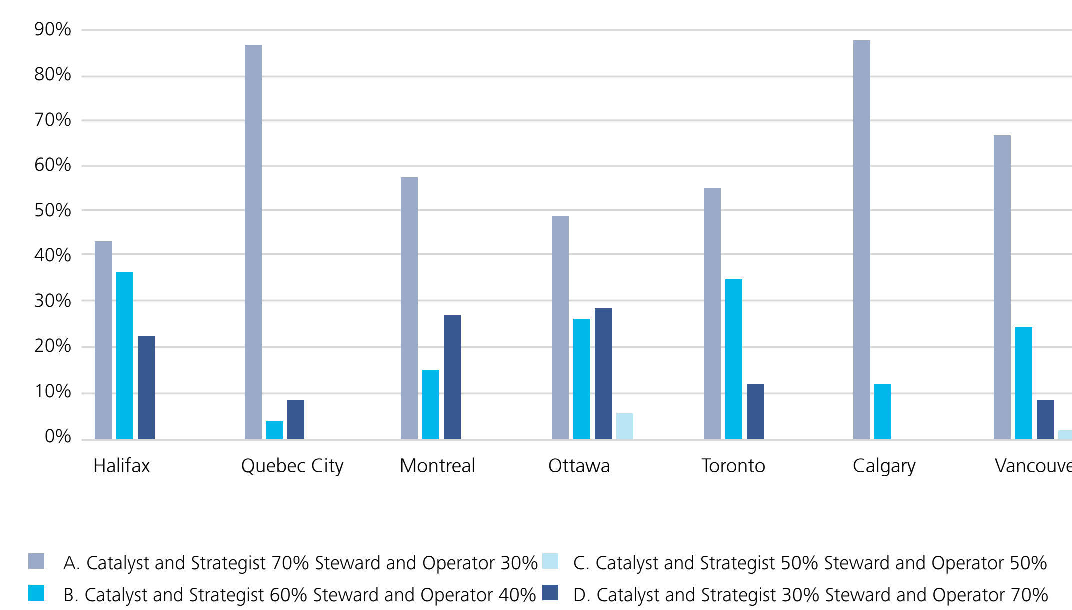
Where do you spend your time currently?

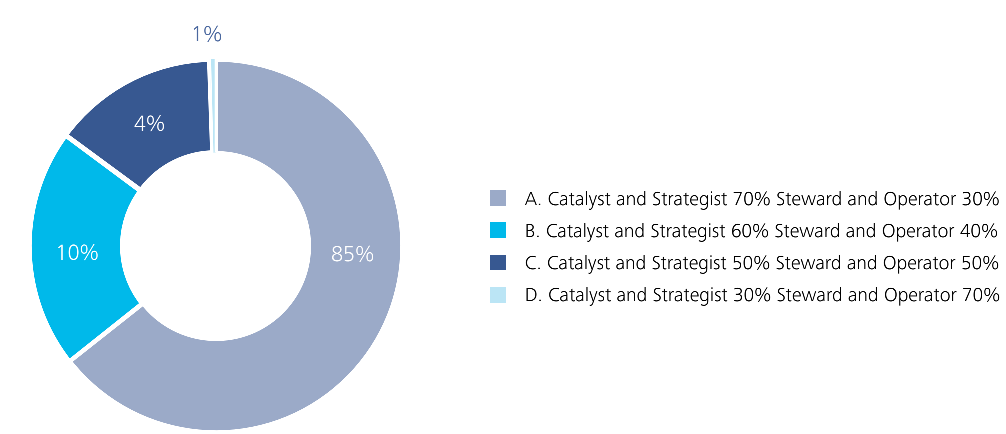




Question 03

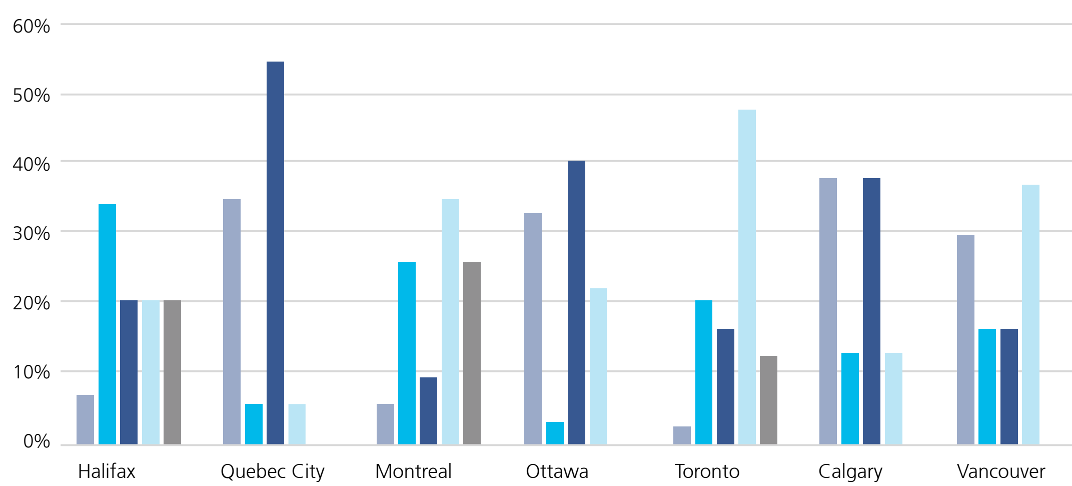
Where would you like to spend your time?



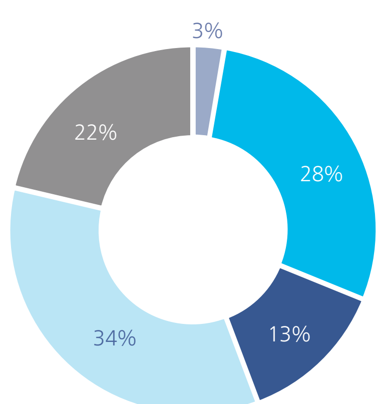


Question 04

Which of the following is most negatively impacting your ability to deliver against business partner expectations?



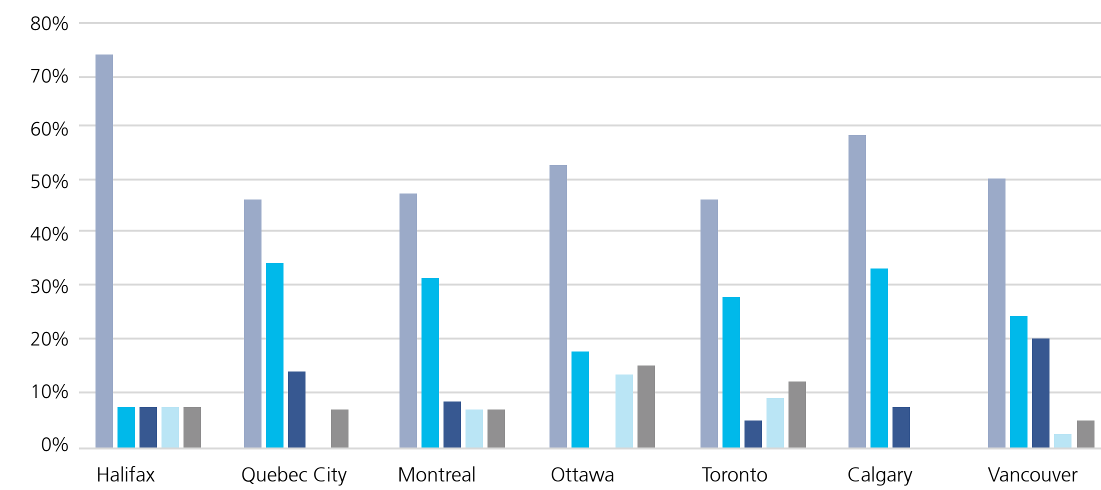
- A. Ineffective financial close process
- B. Fragmented systems environment
- C. Inability to produce timely/relevant forecasts
- D. All of the above
- E. Something else



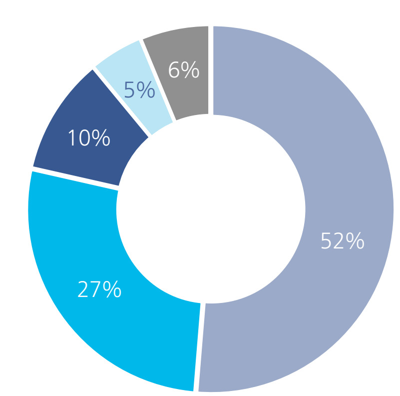
- A. Ineffective financial close process
- B. Fragmented systems environment
- C. Inability to produce timely/relevant forecasts
- D. All of the above
- E. Something else

Question 05

What is your organization's greatest challenge with respect to managing operational finance processes?



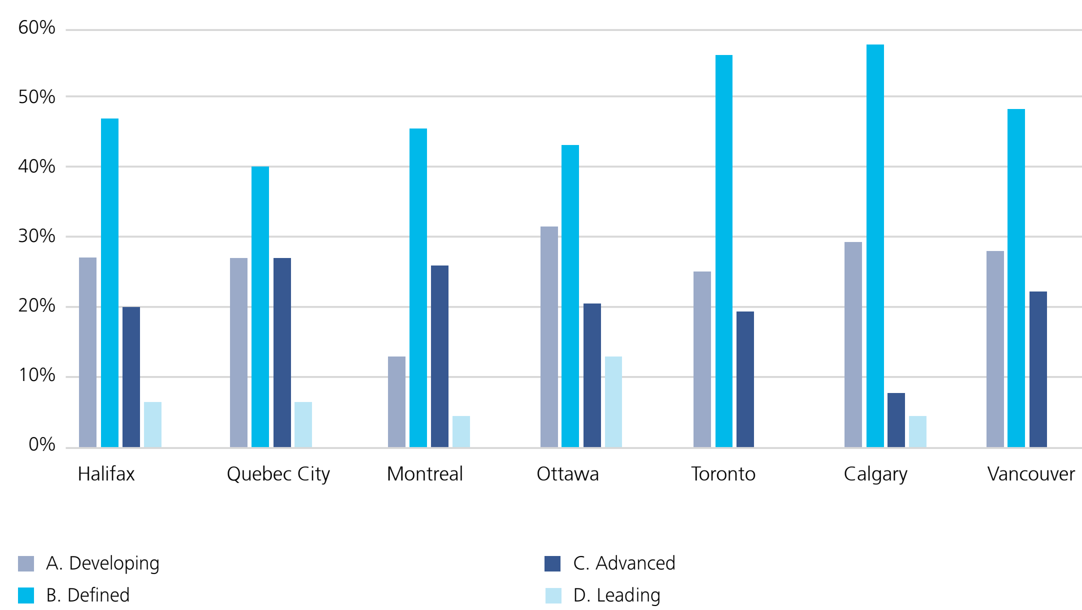
- A. Manual processes and lack of automation
- B. Obsolete or fragmented systems
- C. Lack of standards - process or data
- D. Lack of investment
- E. Other

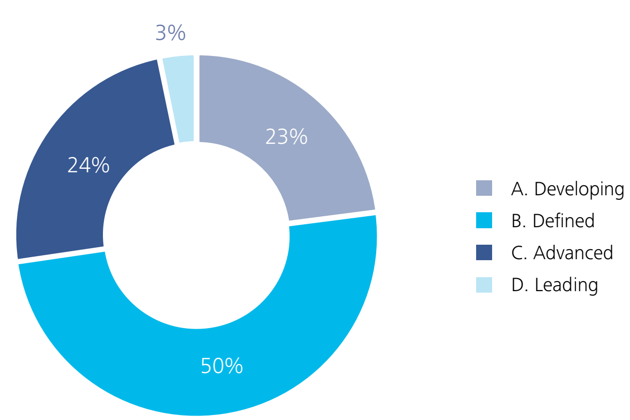


- A. Manual processes and lack of automation
- B. Obsolete or fragmented systems
- C. Lack of standards - process or data
- D. Lack of investment
- E. Other

Question 06

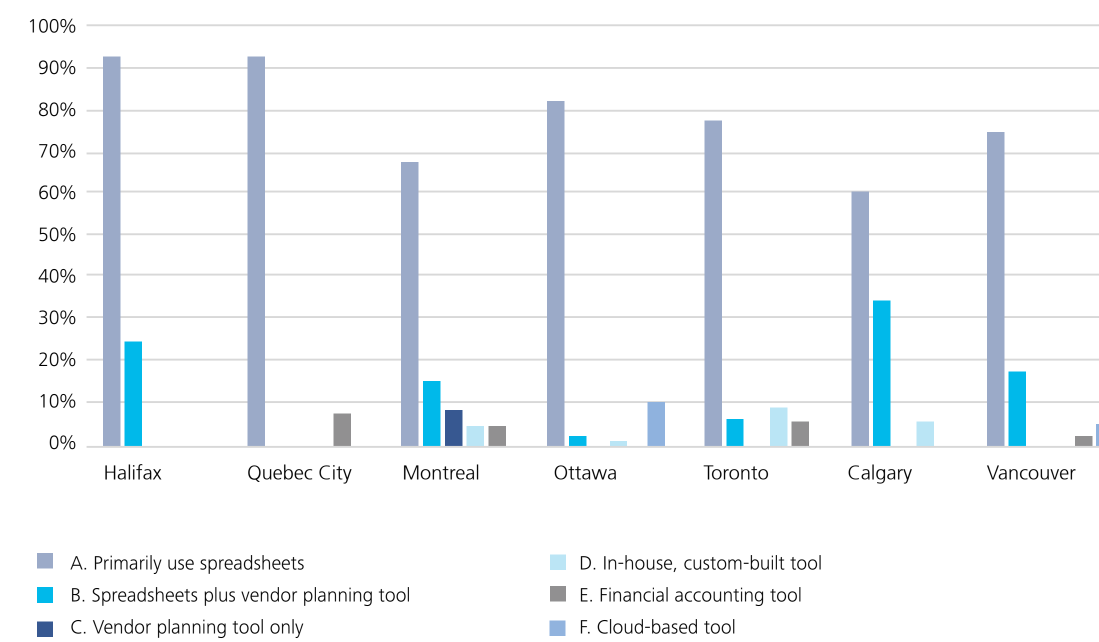
How mature would you say your organization's financial close process is?

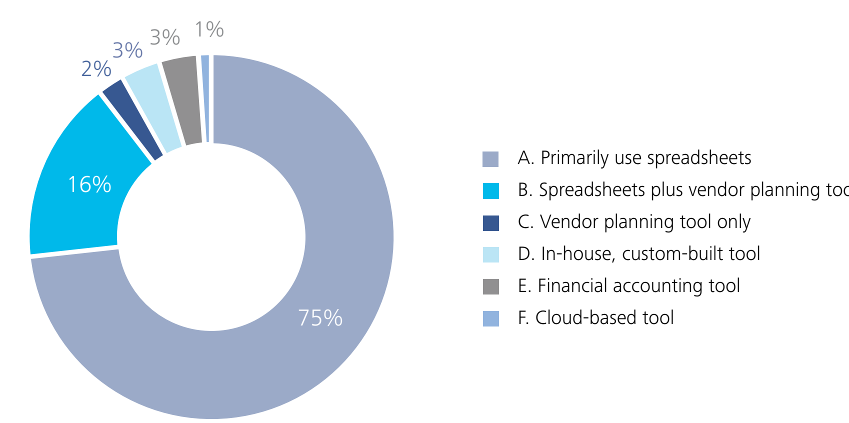




Question 07

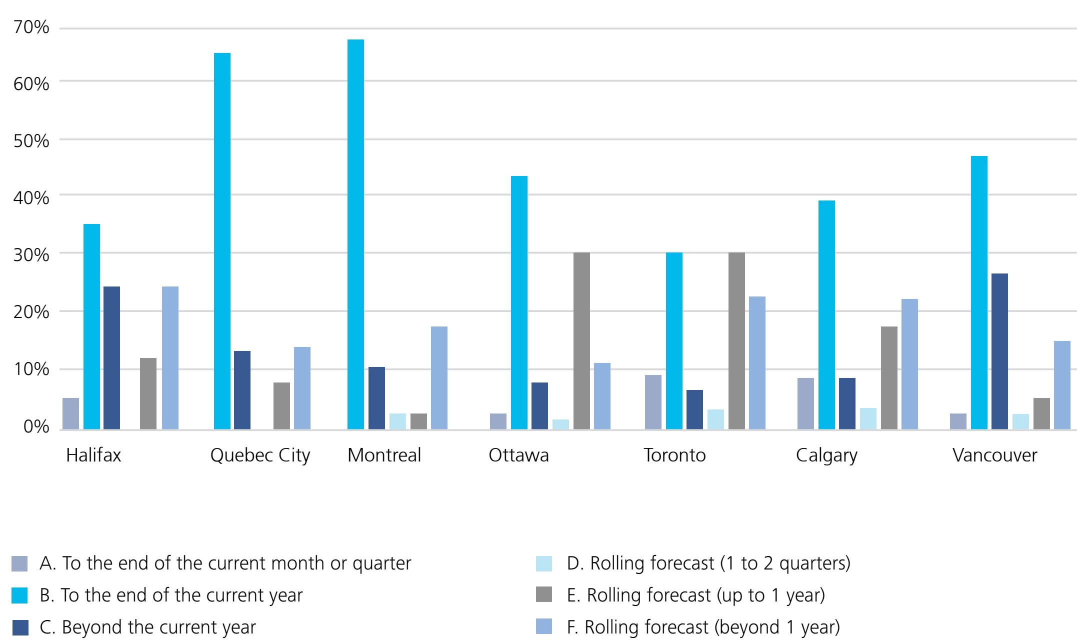
What is the main technology you use to prepare budgets and forecasts?

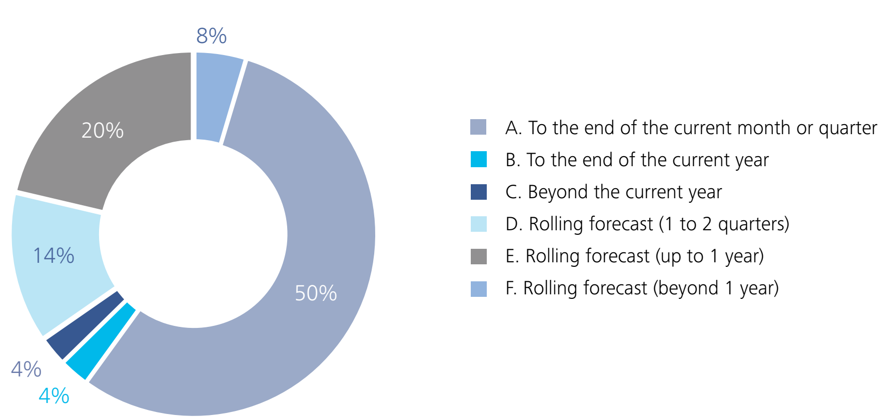




Question 08

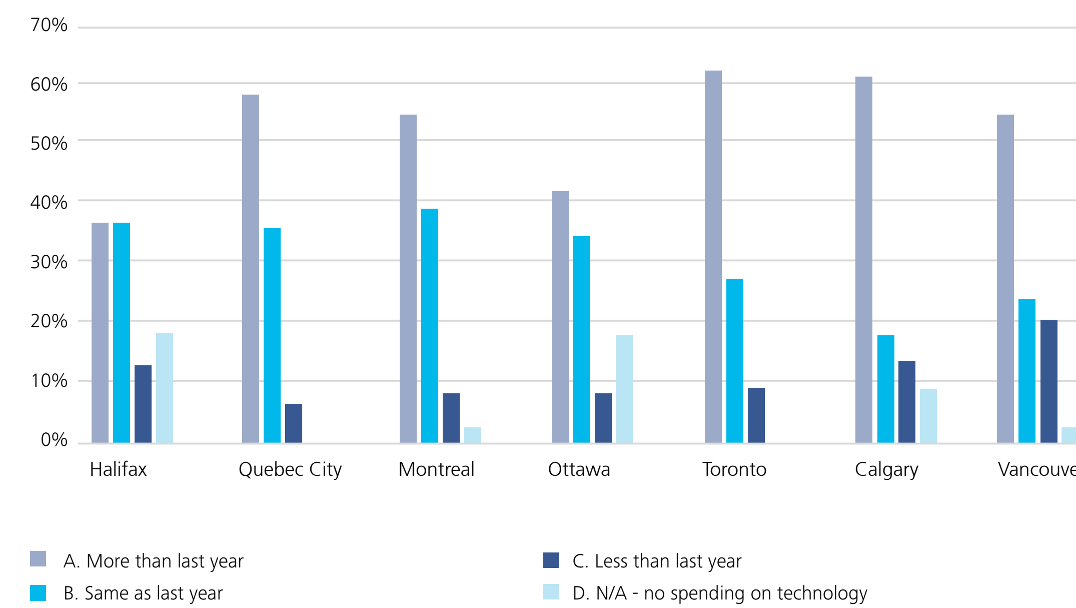
How far forward does your organization forecast?

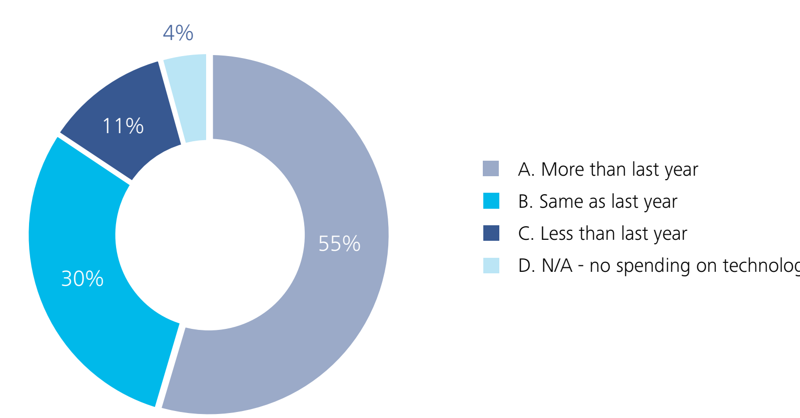




Question 09

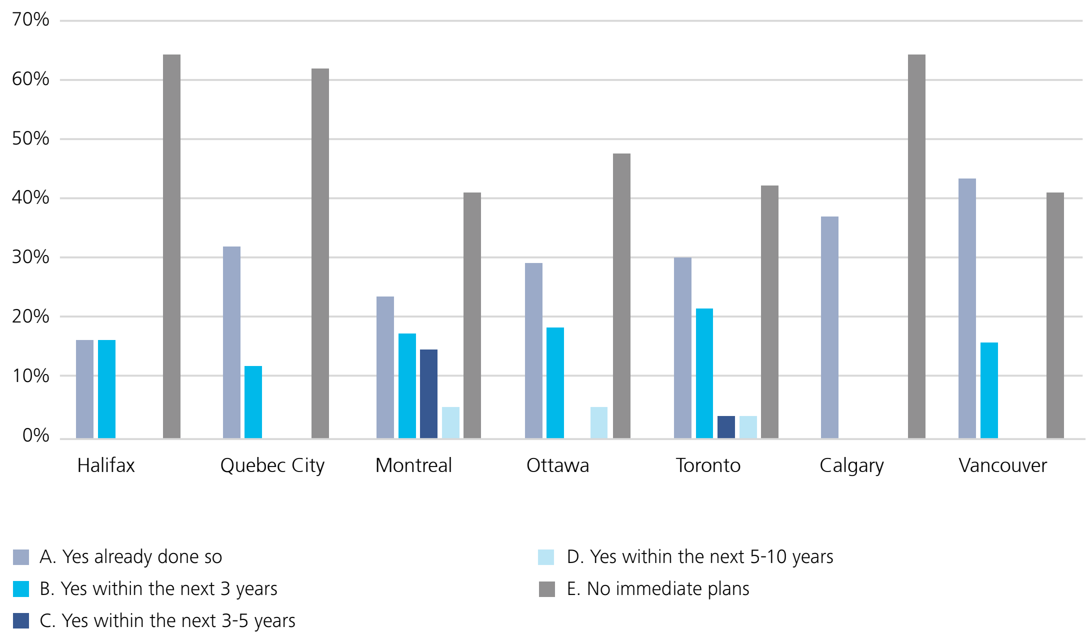
How does your organization's investment in technology compare to last year?

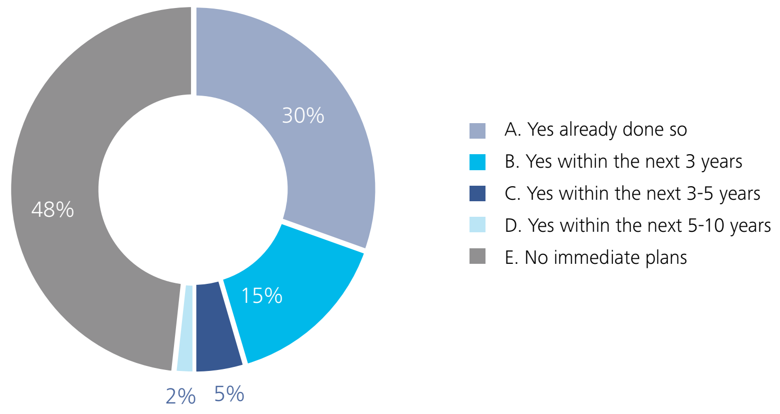




Question 10

Is your organization planning to move to a cloud-based technology?





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Designed and produced by the Deloitte Design Studio, Canada. 15-2719H