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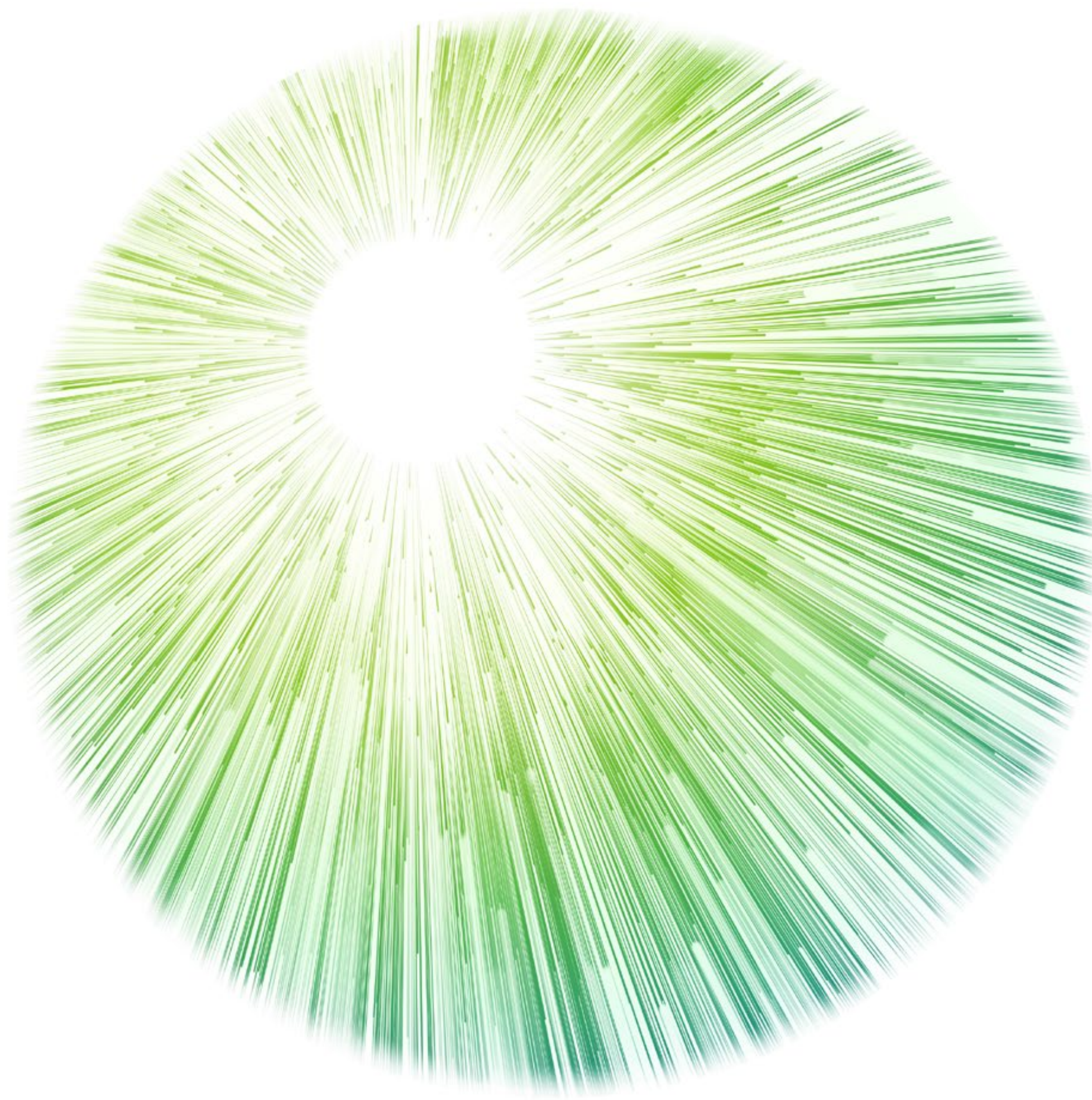

Modernización de las finanzas en preparación para eventos disruptivos

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Modernización de las finanzas en preparación para eventos disruptivos

Inevitablemente, cada organización enfrentará al menos un evento disruptivo importante. Algunos serán el resultado de crecimiento rápido, mientras que otros surgirán internamente, tal como la oportunidad de una adquisición clave u otra transacción mayor. Otros más resultarán de eventos externos que están más allá del control de la compañía, tal como un cambio importante en el mercado.

Navegar exitosamente esos eventos depende de los equipos y líderes de finanzas que puedan ser capaces de responder rápidamente a las circunstancias cambiantes que enfrentan. Los negocios que no inviertan en la preparación para esos eventos ponen en riesgo valor y efectivo. Como el negocio crece, finanzas tiene que crecer con él. En orden a actuar como socio estratégico para la organización y su administración en general, el equipo de finanzas debe desarrollar los necesarios procesos, controles, y talento de infraestructura que se necesiten para entender mejor los orientadores clave del negocio para preparar para eventos futuros.

Este reporte cubre un rango de perspectivas y conocimientos sobre cómo las organizaciones líderes están reposicionando sus equipos de finanzas para el éxito. También proporciona una estructura que las compañías pueden usar para evaluar las capacidades actuales de su equipo de finanzas, y los pasos que deben comenzar a dar ahora para fortalecer las capacidades de finanzas. Esos incluyen automatización de procesos manuales para mejorar eficiencia, uso de visualización de datos para proporcionar perspectivas más útiles sobre el negocio, y construir equipos más fuertes para proporcionar valor incrementado para la compañía.

Nosotros esperamos que usted disfrute leer el reporte, y lo invitamos a que comparta con nosotros sus pensamientos.

El cambiante rol de las finanzas

Tener un plan para modernizar la función de finanzas es importante bajo ciclos normales de crecimiento. Pero cuando la disrupción ocurre, un equipo de finanzas más maduro no solo es importante – es crítico.

Como las organizaciones crecen, las capacidades de sus equipos de finanzas tienen que crecer con ellas. Para compañías privadas nuevas (**Figura 1**) o *startups* que estén en las etapas iniciales de su crecimiento (Etapa 1) los líderes de finanzas se necesitan para que vigilen la función de contraloría, registren transacciones, administren activos y capital de trabajo, minimicen impuestos, y preparen los reportes financieros requeridos – todo ello funciones críticas en un negocio joven, de rápido crecimiento, donde mantener flujos de efectivo fuertes es esencial para el crecimiento continuado.

Como las compañías maduran (Etapas 2 y 3), sin embargo, necesitan líderes y equipos de finanzas con capacidades mayores que la contraloría. Necesitan equipos que tengan un entendimiento fuerte de los orientadores del crecimiento del negocio y sean capaces de proporcionar perspectivas oportuna y significativamente, así como también información para el propietario del negocio sobre los problemas de operación y los indicadores clave del desempeño, para analizar mejor los riesgos del negocio y capitalizar las oportunidades.

Figura 1: La función de finanzas en las compañías privadas

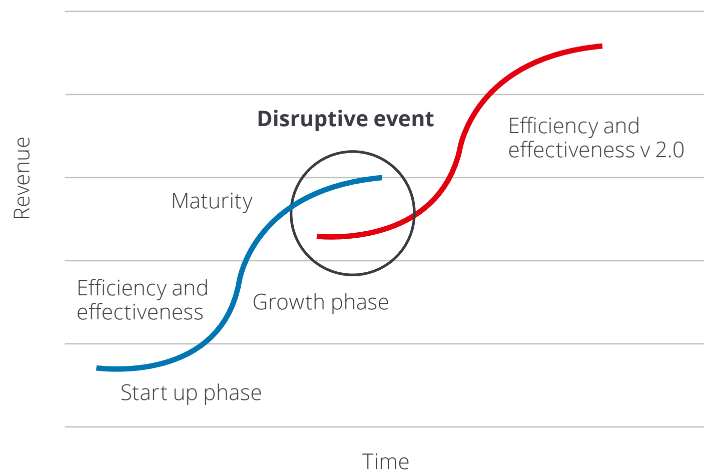
FigurU 2: Curva de crecimiento de una compa a privada

The evolution of a typical organization begins with a start-up stage, where growth is slow, but steady.

As the company perfects its products or services and gains market share, it often undergoes a period of rapid growth in its first five years of operation. In this stage, the challenge is to continue generating sufficient cash-flow to maintain growth and implement the finance and management systems needed for a growing enterprise.

Eventually, the growth curve will level off as the company reaches maturity. At this point, there is an increased likelihood of a disruptive event to refuel growth, such as the acquisition of another company to increase capacity, or the transition of the ownership structure through the introduction of private equity, or the decision to go public in order to obtain the funds necessary to reinvigorate growth.

These events create the start of a new growth curve and also trigger transformational activities within the finance function. Finance teams are challenged to proactively assess their readiness to respond to the business needs arising from these events, and analyze the impact to the finance team and the business in order to protect and grow value.



Many finance leaders anticipate the need for their teams to mature and develop greater competencies as the business grows. However, the time required to reach maturity is usually longer than anticipated, especially now, when the pace of business growth has never been faster and the range of challenges has been even greater. Having a plan to modernize the finance function is important under normal growth cycles. But when disruption occurs, a more mature finance team is not just important—it is critical.

Many companies create new growth cycles through disruptive events, such as a major acquisition or divestiture, the introduction of private equity (or third parties, joint ventures, etc.), or going public through an initial public offering.

Disruptive events can cause significant transformations both in the finance team and the business. A discussion of the impact many of these events have on finance teams is provided in Appendix A. Some organizations may believe these events are unlikely, but it is typically not a question of whether an event will happen, only when it will. Companies often believe they will have enough advance notice of these events to be able to manage them; however, they usually arise suddenly and must be addressed quickly.

While disruptive events are often within a company's control, they are still a challenge to manage. Many companies, however underestimate that challenge and believe they are better prepared to manage the disruption than they actually are.

Much greater challenges arise due to major external events that, while they may be anticipated, are outside the company's control, such as, introduction of innovative new technologies that usher in new and different competitors.

Some of the most disruptive events are "black swans"—events that occur unexpectedly, such as a sudden decline in commodity prices, like oil, that have long underpinned the economy in which the company operates; changes in exchange rates, geo-political events such as changes in government, or changes in trade agreements.

A company's ability to successfully manage a black swan event depends largely on having tight control of operations and assets and the right information at the right time in order to make quick and effective decisions. In these situations, most companies rely on their finance leaders and finance teams to provide that information and to help make strategic choices. To succeed, companies need to be nimble in their response to disruptive events and be able to quickly assess the changes in their operating environment, evaluate their strategic options, and implement their strategies quickly and effectively.

Since disruptive and transformative events often appear with a limited time window in which the company can respond, management cannot afford to wait until an event is on the horizon before they begin building their finance team's capabilities. The following pages highlight proactive measures Finance leaders can take to prepare for an event which include:

1. Minding the gap that may exist between stakeholder expectations and finance's role within an organization.
2. Identifying growth areas to succeed in the future such as expanding capabilities to achieve increased efficiency, more effectively communicating finance's knowledge of the business through value-add insights, and building strong, client-focused teams.
3. Implementing modernization plans.

1. Mind the gap

Finance is not always well-aligned with the expectations many organizations have for their CFOs and finance teams.

CFOs have a wide range of responsibilities, as illustrated in **Figure 3**. Operator/steward activities, such as core transaction processing, internal controls and risk management are the critical foundation of a finance function in all organizations. These activities also support catalyst/strategist activities, which include creating a risk intelligence culture and developing capital allocation strategies.

As organizations grow and mature, the role of their finance leaders changes. While record keeping and cash management continue to be important responsibilities, leading organizations invest in and reposition their finance teams to provide greater value and greater return on the cost of the finance function through CFOs acting as strategists/catalysts, undertaking activities such as developing and monitoring key financial indicators, and providing input into the company's strategy.

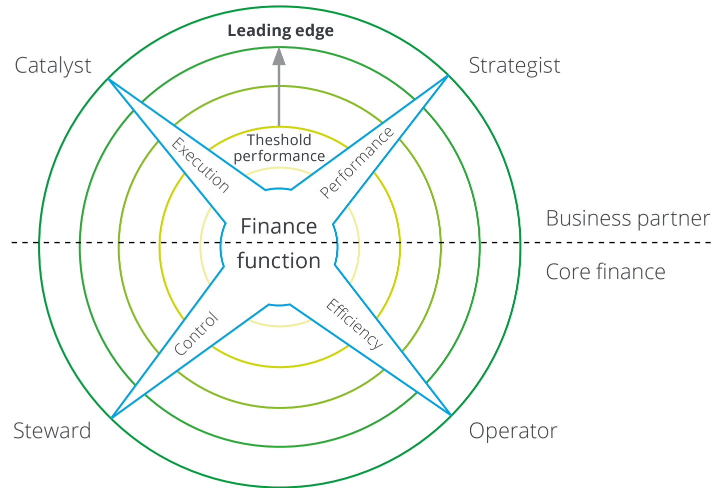
Figure 3: Four faces of finance

Strategists participate as financial leaders, help to shape and define the organization's strategic direction, and align its people, processes, infrastructure, and controls accordingly. They focus on capital allocation strategies, funding growth, and mergers and acquisitions, completed through comprehensive analysis of relevant scenarios that factor in organizational dynamics, changes in the external environment and adjustments to the key drivers of the organization.

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

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

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.



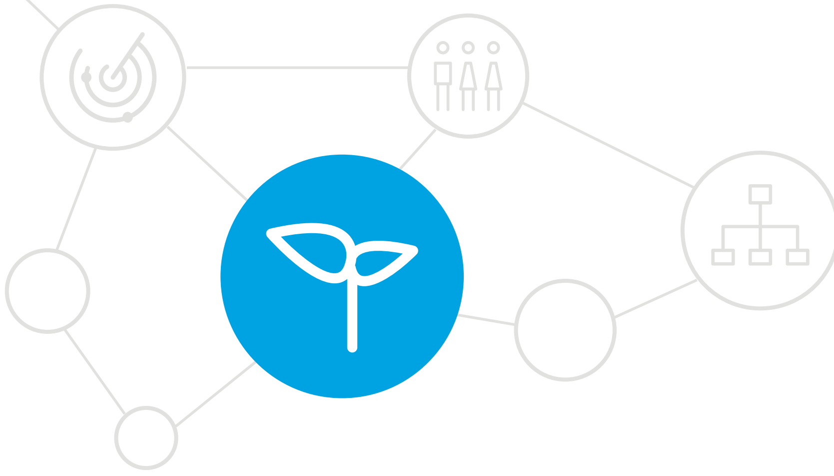
Operator/steward roles will always be critically important to finance's mandate, however with a solid foundation across people, processes, and technology, Finance can become a more efficient and meaningful business partner able to more quickly provide better information and insights to the business.

As CFOs and their teams spend more time on catalyst/strategist activities, they will need to shift from generating data to producing insights. This will be essential since finance will need to be at the table for strategic discussions to help drive the conversation and contribute key information to help guide critical decisions.

Currently, many of finance's stakeholders tend to view finance as a "black box." They don't clearly understand what finance does, or what it can do for them. As a result, their "asks" of finance are often for more data, or to have existing data presented differently – which keeps finance tied to the report generating treadmill.

Providing finance insights is an opportunity to break out of the black box and begin communicating to stakeholders from a business perspective rather than just a finance perspective.

Advances in technology and talent, together with the increasing volume and variety of available data assets, create both challenges and opportunities for finance as it strives to become a better business partner. In today's transforming world, organizations need finance leaders who are able to translate numbers into opportunities.



2. Succeeding in the future

By addressing three key needs today, finance teams will be better prepared for tomorrow

Finance leaders understand what is expected of them, where and how those expectations are changing, and the priorities they believe they will face in future. They are also well aware of the external and internal events that could disrupt their companies' growth. The challenge, however, is that their teams lack the capabilities to take on many of the key responsibilities needed to help ensure the company continues to succeed. What is more, the demands of many of their current activities leave some finance teams with insufficient time to realign their roles and build a more mature finance function for the future.

Fortunately, the options available to finance leaders to help them realign their roles and activities are much greater—and much more affordable—than ever before. Whereas the technologies available to automate many finance tasks were once out of the reach of all but the largest organizations, new cost-effective solutions are increasingly being adopted by private companies. In addition to the traditional ERP and CPM suites, new niche players provide a full range of cloud-based and on-premises solutions across data capturing/processing, analytics, and data visualization to make tasks simpler and complex tasks possible.

While the range of potential solutions may seem daunting at first, a growing number of companies are now identifying and moving to cloud-based and other solutions, and as they do the service providers are enhancing the scalability and security of their solutions to help finance address three critical needs, namely:

1. To become more efficient
2. To communicate their knowledge of the business and provide operational insights
3. To build stronger, more client-focused teams

Finance needs to become more efficient

While CEOs expect CFOs and their finance teams to take on greater roles in providing input into strategy, financial reporting will always be a key finance responsibility. Indeed, financial reporting still ranks among the top three expectations that CEOs have for their finance teams. The problem for CFOs is that financial reporting overwhelms their other responsibilities.

So whats the solution?

While changing the finance team's current workload and schedules may ease some problems, a better solution would be for finance to become more efficient in reporting financial performance. Financial reporting consumes the large amount of time that it does for several reasons:

- **Lack of automation:** Many finance teams continue to rely heavily on manual journal entries. There may be varying charts of accounts across the organization, and the main automation tool is most often a spreadsheet, which has limited functionality.
- **Disparate systems:** In many companies, multiple disparate systems play a role in the financial close and financial reporting cycle. Purchase orders may not be used consistently, or foreign currency translations may be performed manually; time recording systems may not be integrated with accounts payable, resulting in manual reconciliations; all of the required information may not be available in a single report; capital projects may be tracked using a spreadsheet and manually assessed for percentage completion and forecasts.
- **Lack of communication:** Members of the finance team, and others involved in the reporting process, may be unclear about the work done by others and how their work interrelates; monthly reporting requirements may not be clearly defined; and the critical path may not be well understood.

Today, a majority of CFOs and their teams use spreadsheets for financial reporting, forecasting, and providing financial insights. Spreadsheets are useful tools with embedded calculations, built in macros and other features; however they are not designed for forecasting or producing insights. Spreadsheets lack controls needed to understand audit trails and identify breaks and errors and, as spreadsheets required for larger, growing business areas become more complex, there is a greater risk of corruption, version control problems, and general errors.

Clearly, finance leaders recognize that their teams need better tools to be more successful, and they expect they will obtain those tools at some point in the future. But how well do finance leaders understand the tools that are already available and which they could adopt now? In the past, many of the tools available to automate finance were costly and complicated to implement.

However, as with all technologies, the tools available to connect the financial process across the organization have changed dramatically in recent years. Finance leaders who research and assess the options currently available will likely find that the time, effort, and money needed to implement new tools such as cloud-based software, robotic processes, or cognitive technologies are less than they expect.

Finance leaders also need to ensure that business owners understand the value a mature finance team can bring to the company, and the risks created when the finance team's capabilities are not effectively aligned with the company's needs. While the transformation of the finance team and the adoption of new finance tools will cause some short-term disruption during the transition, a finance team with enhanced capabilities will have a deeper understanding of the business and be able to deliver greater, more meaningful insights to help the owner successfully manage that business.

Roadmap to building a more efficient finance team

Identify the processes and procedures currently being followed.

Consider how to reduce manual activities and the use of spreadsheets.

As demand for new information (more, faster, better information) increases, a move to standardized monthly close and reporting requirements will be required.

Research the potential technology solutions available to:

- Automate processes
- Embed control
- Empower end users

Finance needs to communicate its knowledge of the business and provide insights into its operations

In public companies, finance teams produce extensive financial reports and other financial documents because many users want information about different aspects of the business. Although financial reporting is often more straight forward and less diverse in private companies, most users of this information want finance to speak the language of the business rather than the language of finance.

Finance leaders might be able to better communicate their knowledge of the business and provide better insights into operations if there was a better alignment of strategic priorities and clearer expectations from management.

More importantly, greater usage of data visualization tools would also help CFOs and their finance teams to better communicate with, and support, management. These tools enable finance teams to reposition and repurpose the data it collects to present it in a way that is more meaningful to company owners and other leaders, and enables them to better understand the performance of the business through the lens they understand best and clearly present the business's performance drivers.

Finance teams also need to consider unlocking the full potential of analytics. Finance is ideally positioned to capture and manage all of the data that drives better decisions. In addition, finance should also position itself to provide the context around that data. While financial planning and analysis has long been a core finance function, when approached more strategically, it can open the door for finance to empower key stakeholders so that they can more effectively manage the risks and opportunities related to business growth in partnership with finance.

Finance needs to build a stronger, more client-focused team

Finance leaders need to build strong finance departments, not only to demonstrate the total contribution that finance can make to the company but also to free up more time to devote to strategic concerns. But it is not easy to do: many CFOs say they are having a hard time finding or developing the kinds of employees who can help shift the finance department away from a collection of technical specialists towards a team of business people who can work with business unit leaders to add value to decision-making.

In an era of greater workforce mobility and severe skills shortages, attracting and retaining top talent is a major challenge for organizations. It can be especially difficult for organizations which usually lack the resources of larger enterprises and cannot offer as many job options. However, organizations that create a workplace culture that engages, retains, and motivates workers can compete in today's talent market.

The challenge is to create a finance culture with deep employee engagement created by providing meaningful work, career and growth opportunities, a flexible and humane work environment, job and organization fit, and continuous improvement, together with strong leadership.

CFOs are having a hard time finding or developing people who can help them shift finance away from being a collection of technical specialists toward being a team of business people who can work with business unit leaders to add value to decision-making.

Organizations that do this can expect to be rewarded with the strong engagement of their employees and a strong foundation of partnership with the business. To build this kind of culture, organizations need to understand workers' motivations, which have evolved over the years. Today's employees have a new focus on purpose, mission, and work-life integration. Since more than twice as many of them are more motivated by work passion than by career ambition, organizational leaders need to focus on making the work environment compelling and enjoyable for everyone. In particular, understanding the next generation of employees is critical because their desires, needs, and values will shape organizational cultures over the next decade.

With their reliance on manual processes and the repeated need for overtime work just to get things done to meet deadlines for operator/steward responsibilities, traditional finance functions do not offer the type of work environments that today's employees are likely to find attractive. However, by automating current processes, finance can modernize itself. In this way, employees will have more time to focus on more meaningful, higher value work, and finance itself can become much more attractive to the next generation of talent.

Considerations for building a stronger finance team

Is finance getting the most out of its talent? Leaders need to assess their current teams to identify the strong performers who are making finance incrementally better, and those who are dragging it down.

What responsibilities do team members have? Are the talents of highly qualified accountants being wasted on spreadsheet management?

How do the skills and abilities of current team members compare to what finance will need in the future?

Does finance set clear performance goals for its team members that it also then evaluates them against?

Do the performance goals include stretch targets for each level/role?

Does finance have a formal learning and growth plan for each level/role?

3. Implementing a modernization plan

Modernizing finance is typically a long-term process that must be carefully managed

When an organization encounters a disruptive event, the capabilities of the finance team will often determine the company's success in managing that event. Since it takes time for finance to develop those capabilities, teams need to determine—well in advance—what they need to do to become "event ready" and then take the necessary steps to build the required capabilities.

Here is a game plan.

Determine where finance is positioned today

Finance leaders must mind the gaps that exist within their current capabilities in the areas of close, consolidate, management reporting, financial reporting, and finance operations. What are finance's current strengths? What areas are in need of improvement, and what would those characteristics look like?

Create a finance modernization plan

Once the team has identified where it is currently positioned, they can determine the capabilities needed to succeed in the future. Often this will require:

1. **Determining systems needs and developing a systems strategy.** Finance teams need to improve their efficiency by automating any tasks they currently perform manually. Today, cloud technologies provide companies 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.

   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 short, focused reports that contain clear insights into operations, cash flows, the financial condition of the business, and other important factors.

2. **Determining process needs.** 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.

3. **Determining a talent strategy.** Most finance teams will need to transition their 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, companies need to critically assess the current structure and talent of the finance team and identify required training and development needs. This includes education programs, courses, and ongoing onsite learning for current team members, as well as any recruiting needs to ensure that the finance team has all of the required skills and capabilities to fulfill the finance vision.

Build commitment to finance's modernization

Modernizing a finance function, rebalancing it across all four faces of finance, is a major undertaking that often involves acquiring and implementing new infrastructure, developing new finance processes, and controls, and realigning/upgrading professional talent. This modernization process will also impact more than just the finance function itself. It is important, therefore, that the company's CEO and other members of its management team agree and are committed to modernizing the finance function.

Manage the modernization plan

Modernizing 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 transition their skills to take on new responsibilities.

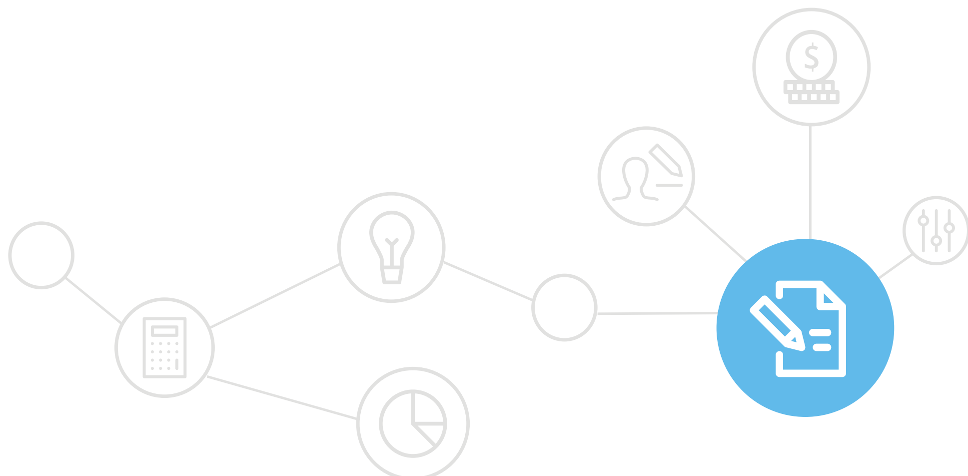
Conclusion

As organizations grow, their needs from, and expectations of, the finance team change and evolve. The key capabilities required of finance when the company is a start-up and in its early stage of growth—dealing with transactions, managing cash and taxes, and record keeping—continue to be important in more mature companies. However, larger, more complex companies need a finance team that also has a deeper knowledge of the business and is capable of providing greater strategic insights into its operations.

The importance of a mature finance team is demonstrated when a company faces a disruptive event. These are complex events that usually arise suddenly with a short timeframe in which to respond. To navigate them successfully, organization's need to build their finance capabilities well before such an event is encountered.

In order for finance to be "event ready," most teams will need to become more efficient. How? By automating the many processes that continue to be performed manually, by using data visualization tools to provide information that is more insightful and relevant to management, and by strengthening their finance teams to be more effective in handling the more complex, higher value tasks that are increasingly required by a growing company.

Today, those charged with governance would like their finance leaders to act as strategic partners to the company's owners and other members of its management team. But are they willing to make the investment in finance that will enable it to be such a strategic partner? Undertaking a readiness assessment and building finance capabilities is not an optional exercise since it is not a case of ***if*** one of these events will occur, but ***when***. Companies cannot afford to underestimate the impact a disruptive event will have on their business. Nor can they afford not to begin modernizing their finance teams.



Appendix

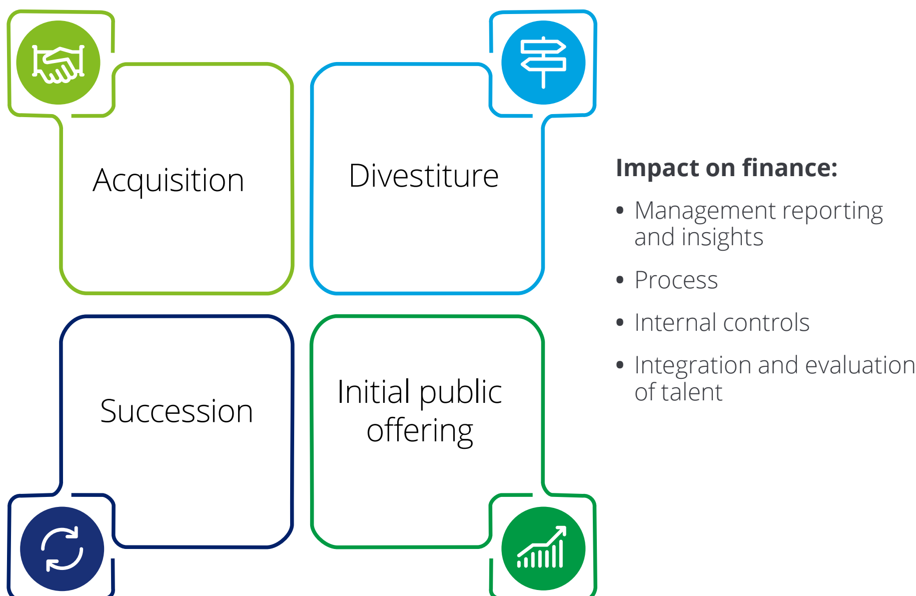
Appendix A: Disruptive events

Some disruptive events are within a company's control, while others are not. When any of these events arise, having an advanced finance team is essential for success.

At some point, every organization will encounter at least one of four major game-changing, disruptive events. For example, all private companies will eventually undergo a transition of ownership to the next generation of the current owner's family, or a sale to an outsider or private equity. For others, it may be the opportunity to buy another company or sell a key asset. Increasingly, many private companies are opting to go public, either to raise funds to fuel further growth or to enable the company's owners to remove some of their equity from the business.

Often these events will arise suddenly, and companies will have only a limited amount of time to take advantage of them. The success of any of these events depends in large part on finance's capability to support the transaction. Because of the complexity of these transactions, finance must have the capability to operate on multiple levels – from providing core transaction processing and accurately reporting financial position to effectively monitoring key performance indicators, analyzing scenarios, and planning for possibilities and contingencies.

Events – It is a matter of *when* not *if*



Impact on finance:

- Management reporting and insights
- Process
- Internal controls
- Integration and evaluation of talent

Unfortunately, it is not uncommon for finance teams to be incapable of handling these tasks, with the result that:

- The financial reporting is inadequate to support the transaction, and may not even be in compliance with financial reporting requirements
- The finance team lacks the right skill sets to undertake the required quantity and quality of financial reporting
- The CFO and finance team often have to redo past financial reports to bring them up to the required standards
- Finance becomes a bottleneck to the business, limiting its ability to capitalize on these events because finance and the company are surprised to learn the depth and breadth of improvements required of finance
- After an unsuccessful event, there is a long-term negative impact on the finance team and its culture, which reduces its ability to function appropriately

Since these events often arise suddenly and must be acted upon quickly, private companies need to build a strong finance team well in advance of undertaking an event. By undertaking an early readiness assessment, companies can put in place an improvement plan that includes automating processes to improve efficiency, utilizing data visualization to provide more insightful and meaningful information, and building a stronger finance team – all of which are key building blocks to creating both an event-ready finance function and one that is more efficient and effective when performing everyday tasks, such as monthly and annual reporting.

Every significant event—mergers, acquisitions, divestitures, sales to new owners or the introduction of private equity, and of course going public—has significant impacts for finance. Finance needs to be ready to support the company in capitalizing on and executing the transaction, while also creating and protecting the value in the business for the owner.

The sections below focus on some of the major considerations for finance related to the purchase of a business, the sale or divestiture of a business, and going public. Companies considering any event should examine them in detail to determine what will be required of finance and to assess finance's readiness for the event.

Mergers and acquisitions (M&A)

When a merger or other acquisition opportunity arises, the window to take action is time-sensitive. Most intrinsic factors for success can be planned for in advance to significantly reduce deal execution risk. Nonetheless, the majority of M&A transactions fail to deliver anticipated value to shareholders.

The rewards of M&A can be great. Having a clear strategy around target selection and building the appropriate capabilities from a combination of in-house and external expertise in preparation to complete the deal with discipline is key to agile execution and seamless integration. Finance is both a gatekeeper and an enabler, throughout the M&A lifecycle, because it is critical to informing decision making with rigorous and fact-based analysis.

Finance's role in an M&A transaction may include:

- Maximizing tax efficiencies and protecting against exposures as well as maximizing after-tax returns on the investment
- Commenting on the valuation and synergy assumptions in the deal model
- Treasury and capital raising functions, such as helping to structure financing through debt and equity arrangements
- Acting as the key interface between the corporate development team, the CEO, the board, and external financial and accounting advisors, investment bankers, financing syndicate, and the sellers
- Performing financial analysis to assess key risks and value drivers
- Analyzing the target's sustainable run-rate earnings, required working capital levels, and debt and debt-like items within the target company
- Performing historical budgeting accuracy analysis and year-to-go analysis
- Performing cash flow, capex, and foreign currency analysis
- Designing a path toward accounting policy alignment between buyer and seller
- Interim period financial monitoring on the target company's performance and key value drivers between signing and closing
- Planning for the transition of key reporting functions and systems in advance of Day One, including activities related to bank accounts, payroll, vendor, and customer transaction assignment
- Assessing the strength of the accounting and reporting controls environment as well as the target company's finance team
- Preparing for longer-term finance integration, consolidation, and other post-closing accounting requirements

When a company is considering an acquisition, being able to produce high-quality, accurate, timely financial information on the base company's performance is vital. This will also allow finance to participate more actively in the deal process. Finance's ability to contribute valuably to the M&A transaction will result in a better chance of the deal realizing desired shareholder value. Having an integrated system of financial reporting, with documented processes and procedures, will help ensure the integration process goes smoothly after the acquisition.

Divestiture

Ideally, the current owner's departure from the business shouldn't be an event, but rather a carefully managed process, since it normally takes time for business owners to transition or exit without detriment to enterprise value. When businesses contemplate divestiture, a key determinant of a successful sale is the company's ability to credibly and quantitatively present its track record to prospective investors.

Likewise, incoming Investors or buyers need to be confident that the business will continue to succeed and thrive toward greater scale after this transition. Building an experienced management team to transition the business is often the first critical step along this journey, and finance has a leading role to play in this context within that management team.

Buyers will put considerable effort into analyzing the company's historical performance. Having a reliable and disciplined budgeting and monthly management review process, as well as high-quality, accurate and timely financial information will help companies better support their value. Knowledge is power. Buyers will also want to understand the company's value drivers, industry benchmarks, and key economic and market trends. Finance needs to lead divestiture readiness preparation in order to withstand the rigors of an auction or due diligence exercise by prospective investors. The CFO and finance team are vital not just for crafting the story of the company's past growth but also in helping to create the narrative for the company's future vision and growth strategies.

In order to have the ability to generate the required financial information about the company, finance will need to have the right reporting systems and technologies in place. This will both help improve the ongoing financial management under the current and future owners, and also attract buyers who can be confident in the company's financial records.

Succession or divestiture planning – Readiness assessment

1. Have you defined your personal goals, a vision, and a timeline for the transfer of ownership and management of the company?
2. Do you have an identified successor or exit strategy in place?
3. Have you considered divestiture to external investors? If so, how long would the founders be willing to stay on to secure value? What percentage would be divested of?
4. Have you put in place a robust finance function in order to support a divestiture process where there may be multiple bidders?
5. Have you considered how to get ready for a divestiture?
6. Have you considered how to identify and screen prospective investors or buyers based on your values and vision?
7. If applicable, have you resolved the family issues that often accompany leadership and ownership decisions?
8. Does your plan include a strategy to mitigate the impact of potential taxes?
9. Will there be sufficient liquidity to avoid the forced sale of the business?
10. Is there a detailed contingency plan in case of a "black swan" event?
11. Have you identified and considered alternative corporate structures or stock-transfer techniques that might help the company achieve its succession goals?
12. Have you determined whether you or anyone else will depend upon the business to meet retirement cash flow needs?
13. Have you recently had the business valued and analyzed in the same way potential buyers and competitors would?

Initial public offerings (IPOs)

Today, a growing number of private companies are considering going public. On the surface, the transformation from a private to a public company may seem fairly straightforward. But this is often not the case as IPOs can introduce costs and challenges to the finance function. And with the changing landscape placing greater importance on market timing, the need for private companies to prepare well in advance of their IPO entry has increased exponentially.

Private businesses will need to gear up their financial reporting capabilities to meet the significantly greater requirements of public companies, including:

- Annual and quarterly financial statements
- Quarterly news releases
- Management discussion and analysis commentary
- CEO/CFO certification requirements
- Ongoing regulatory and securities commissions disclosures
- Review of the finance function, ensuring compliance with internal control requirements, and optimizing future state performance

Going public also means having to switch the preparation of financial statements from local generally accepted accounts principles (GAAP) to either International Financial Reporting Standards (IFRS) or US Generally Accepted Accounting Principles (GAAP).

Finally, a private company will need to produce several years of audited financial statements before it goes public. Trying to generate this material immediately before going public may require a significant amount of time and effort even for the most advanced finance team. For this reason, private companies intent on an IPO should begin by having annual audits conducted several years in advance of when they expect to go public.

Beginning the journey to an IPO

Once finance has been transformed and has developed the required competencies to support all of the activities associated with an IPO, the company can begin its journey to going public. The key steps in that process are:

1. **Assess – Pre-IPO considerations**
   Assess the organization's readiness to undertake an IPO. Identify and fill any gaps in the organization.
   - Understand business value drivers and the corporate environment
   - Develop goals for the organization and a business strategy
   - Consider where to list the IPO
   - Review the quality of financial reporting
   - Assess the corporate governance model
   - Consider tax implications and other legal and regulatory matters
   - Evaluate resource capabilities and plan for the future state
   - Engage in initial discussions with external advisors

2. **Plan – Preparing for the IPO**
   Create a detailed plan and timetable to track the status of the IPO process.
   - Develop detailed IPO timetable with key milestones
   - Set up a project management office to ensure goals are met
   - Create communications strategy and form investor relations group
   - Share the corporate story and vision to potential investors
   - Outline roles and responsibilities
   - Formalize corporate governance structure and Board of Directors
   - Consider interdependencies between various work streams
   - Perform internal controls assessment

3. **Execute – The IPO "event"**
   Prepare and file for the IPO.
   - Draft key components of the prospectus and ensure financial reporting requirements are met
   - Pre-clear accounting and/or reporting issues with regulators
   - Prepare information for due diligence exercise

   Respond to regulatory comments
   - Update the design of governance structure requirements, documents, and processes
   - Ensure controls are in place for CEO/CFO certification
   - Finalize tax structuring

4. **Sustain – Life after the IPO**
   Develop a plan for ongoing financial reporting commitments as a public company.
   - Post-mortem on IPO process
   - Evaluate status of internal controls gaps and their associated mitigation plans
   - Create ongoing external reporting calendar with key timelines
   - Consider ongoing training and development needs
   - Optimize the finance function
   - Monitor effectiveness of the board/management governance structure and benchmark against peer organizations

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