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Finance Transformation
Think a la carte, not overhaul

Proven strategies to address
key challenges facing CFOs
& their finance organisations

The word ‘transformation’ brings with it grandiose connotations that shout ‘high cost’ and ‘slow payback’ to CFOs. It is important to remember that Finance Transformation is not a one size fits all solution and it doesn’t always mean a massive overhaul of the Finance function. Successful transformation can be achieved by taking a more ‘a la carte’ approach – providing shorter term initiatives that remain true to the longer term vision of Finance and the organisation as a whole.

The CFO Agenda for 2012 and beyond

In advance of identifying transformation initiatives for 2012 and beyond, the CFO and their senior team need to agree the overall vision and role of Finance and understand the main capability gaps that exist across their organisation from a people, organisation, and process and technology perspective. Once this foundation is in place, short and long term transformation initiatives can be defined.

Through our work with global organisations, Deloitte has identified 10 key challenges that should be considered by CFOs when defining their transformation agendas. We believe that understanding these challenges and adopting proven strategies to address them can help Finance fulfil the expanded role and responsibilities it has at the executive table.

It is important to highlight that these do not have to be considered all at once and CFOs can choose from the following ‘a la carte’ menu dependant on what makes sense for their organisation:

1. Define the future Target Operating Model for Finance

Once the CFO has identified their vision for Finance and understands the capability gaps, they should then look to design the future Target Operating Model (TOM) for Finance – one that will deliver the strategic vision and position Finance as a valued partner to the business.

This TOM will define the future state of the four main operating enablers; people, organisation, process and technology, and the transformation programme will look to develop these enablers for their current state. While organisations can choose to embark on transformation activities without defining the TOM, agreeing this upfront will ensure all initiatives support the organisation’s overall strategic objectives, albeit on a piecemeal basis.

2. Develop talent to address capability gaps

Finance talent is at the heart of any successful Finance Transformation programme and having a clear talent strategy is vital. Too many transformation programmes focus on just technology and process improvement or organisation redesign but fall short in addressing Finance’s prime capability – its people. Of course, the required level of expertise and capability will depend on the role in question and so Finance must be clear on the different roles required to serve the business and the competencies required to deliver these roles.

A talent management strategy can then be derived that articulates the main capability gaps and how the business intends to address these gaps. This becomes even more important as Finance strives to be a successful Business Partner, as the type and calibre of individual required for business partnering is very different to those required for more traditional accounting roles.

3. Deliver greater value through Business Partnering

Business Partnering represents both Finance and the Business’s desire to work together to drive better decision making and ultimately drive improved operational performance through a clear understanding of the organisation’s main value drivers.

As organisations strive to adapt to changing market conditions the Business Partnering role becomes more important. To be effective, Business Partnering must be perceived as more than a role description; it often requires a significant shift in the way Finance interacts with the business. If Finance can understand its role in defining strategy and supporting the business to create value, it can organise itself to deliver this coherently across the organisation.

From our experience, this partnering organisation is critical to unlocking often considerable untapped value in the business. With coordinated and appropriately channelled activity, Finance Business Partners can connect, support and challenge the business. They can also improve the quality of business decisions to ensure business strategy delivers the highest financial value at an appropriate level of risk.

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4. Use Analytics to improve business decisions

Analytics is the practice of using data to enhance business performance through the enablement of more effective decision making and insights into business processes and practices. Finance organisations now have an inordinate amount of data available for analysis, they just need the tools and technologies necessary to extract and manipulate this data.

Analytics projects should be hypothesis-driven, aimed at improving measurable business objectives and the results of any analysis must be incorporated into business practice in order to derive any value from it. Finance needs to be both the owner of information consistency, and the engine room to produce timely, insightful and forward-looking information.

5. Release value through shared services and outsourcing

While shared services, outsourcing and centres of excellence are not new concepts to CFOs the extent to which they have been incorporated into the finance operating model varies widely from business to business. What is clear is that their scope and geographic reach is increasing.

In many organisations, transaction processing and other support services are carried out from many different locations, each of which performs the work in its own way. This trend can be exacerbated when companies go through mergers and acquisitions and the lack of standardisation carries both additional cost and risk.

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There are clear benefits to stripping out the lower value transaction processing common to (or shared by) these disparate sites and bringing it together in one global and/or a number of regional sites. Processes are standardised, the people and technology are relocated to agreed locations and the work is reengineered to ensure enhanced quality of service. Many organisations are also "moving up the value chain" and moving higher value activities to shared locations, often as part of Centres of Excellence.

Whether a company decides to outsource Finance activities rather than implement internal shared services will depend on their in-house capability as well as their risk appetite and ability to manage third party relationships. Many organisations also use a hybrid model of in-house and outsourced provision depending on the risk profile of the processes in scope.

In any case, shared services and outsourcing allows Finance to focus more effort on what is of strategic importance to the business including business partnering, risk management and corporate governance.

6. Build a strong foundation for Planning, Budgeting and Forecasting

Many CFOs see Planning, Budgeting and Forecasting (PBF) as a necessary evil, often associated with time-consuming manual processes, endless budget iterations, wasted technology and lack of buy-in from key budget holders. On the contrary, CFOs should see PBF as a powerful tool for informing and executing the business strategy.

An effective strategic plan translates business strategy into a simple story about the organisation's future and this provides the foundation for PBF that works. CFOs today have the resources and technologies available to them to custom-design planning, budgeting and forecasting to meet their unique business needs.

7. Implement a value-based approach to capital investment

Capital investment involves not only equipment and facility investment, but channel development and entry into new markets, both of which are important contributors to a business's ability to operate successfully. Organisations wrestle with how to effectively identify, fund, implement, and measure the results of new investments and ultimately improve shareholder value. Finance can play an important role in streamlining the process by helping the business cut through the clutter of information around investment opportunities.

Implementing a value-based investment approach can translate both hard and soft benefits into a common shareholder value measure that allows management to compare investments and make difficult trade-off decisions. Ranking capital investment options by their after-tax benefit-to-cost ratio can help prioritise capital allocation, and quantifying the relative urgency of investments can help management explore three alternative decisions for each project presented – fund now, reject, or defer.

8. Translate tax into cash savings for the business

Every year, businesses leave billions of pounds of unclaimed tax deductions on the table – simply because the data to support those deductions is not accessible to the tax team. Tax functions can only prepare their calculations and reporting based on the quality and granularity of finance data available to them.

This usually means relying on systems and processes that have not been designed and implemented with the tax user in mind. Partnering with tax throughout Finance Transformations – so that data can be accessed, analysed and reported in a tax-friendly way – will give the tax team the best possible opportunity to translate enhanced data into cash savings for the business. The saying that "information is money" is invariably true when it comes to tax.

By their nature, tax savings are often recurring, so a one-off investment during a Finance Transformation initiative can deliver annual benefits to the business. The value of tax savings can be compelling and can even provide the business case to fund the Finance Transformation in its entirety.

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The impact of the benefits can also be felt very quickly by the business – providing higher quality processes and data to a tax function from 1 January could translate to lower tax paid on that year's profits on 1 July – simply because additional deductions or claims could be made and supported.

There are several key areas where savings are most often found – R&D tax credits, fixed assets, P&L book/tax adjustments, indirect taxes, transfer pricing – however, as every business has a different tax profile, it is essential to engage fully and early with the tax team to identify the unique set of savings that could be available to each business.

9. Adapt for Regulatory and reporting changes

Regulatory and reporting changes are never far away and organisations can expect to see changes in the near future including going concern disclosure requirements, extension of audit exceptions to companies and limited liability partnerships and the regulations around maintenance of accounting records.

The European Commissioner for internal markets has proposed changes to audit regulations. These changes will potentially have significant consequences on organisations and their audit partners.

Any changes will undoubtedly put added stress on legacy finance systems and finance processes and Regulatory interpretation and adherence demands will likely increase over time, an obligation that will need to be resourced appropriately. Organisations should treat these changes as opportunities to trigger Finance Transformation and establish system and process foundations that sustain agility and flexibility to respond to future, inevitable changes.

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10. Turn Risk Management to your advantage

Many organisations struggle to recognise emerging risks and address overly complex organisational models and global footprints with disparate risk cultures and risk appetites. One way to address this is by integrating a risk perspective into the formulation of the Finance function's strategy, governance structure, and operating and talent models. This entails designing integrated and sustainable Finance risk management programmes with necessary controls and processes. Important programme components include identifying and assessing risks, defining risk ownership, implementing formal policies and procedures, and establishing communication protocols to deliver consistent finance value.

The quality of the controls can be enhanced through automation technologies and staffing with appropriate technical skills. Risk assessments of third-party vendors can aid in validating the ongoing effectiveness of process, system, compliance, and service delivery controls. In addition, companies can gain a risk-adjusted perspective on the expected returns from planned projects by applying risk analysis to the prioritisation of finance initiatives, such as creating a shared service model or centre of excellence.

Prioritising Finance Transformation investments

Finance has multiple investment priorities, from redefining the Finance operating model to investing in new Finance systems and Finance processes and enhancing Finance talent management. All of these require varying commitment levels, timing and resources.

Realistically, Finance can't do all this at once, but leading companies leverage Finance maturity models to assess gaps between performance and objectives. They develop a Finance strategy that supports the business's overall strategy and operating model, and then develop a long-term, holistic Finance road map that addresses Finance strategy, processes, organisation, and systems requirements.

The key to getting solid results from such efforts is sequencing the road map to combine larger strategic efforts with near-term foundational "quick win" initiatives. It's also vital to keep executive leadership engaged throughout the Finance Transformation process and dedicate full time resources to transformation efforts.

What the analysts say

Gartner
Magic Quadrant for Financial Management Consulting Providers, November 2011*

"Deloitte enjoys a reputation as having a complete finance vision, being able to advise on everything related to finance. Its' advantage of scale in terms of finance domain expertise also enables the company to encapsulate the emerging areas of risk and sustainability issues around the finance function."
***Source:** Gartner Magic Quadrant for Financial Management Consulting Services; 19 December 2011

Kennedy
The Kennedy Vanguard for Finance Management Consulting Practices, 2011*

"Deloitte sits in a strong position among FM consulting providers, with positive market momentum stemming from comprehensive offerings across its Finance Transformation practice and continued heavy expansion of the breadth and depth of its capabilities globally. Its deep relationships with CFOs and senior finance executives afford it privileged access, while the breadth of its financial advisory services and depth of experience and IP position it to deliver well against this strategic vision."
***Source:** Kennedy Consulting Research & Advisory; Finance Management Consulting Marketplace 2011-2014;

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Additional information

Delivering insights on "top of mind" Finance issues.

Contact us at **ft@deloitte.co.uk,** visit **www.deloitte.co.uk/ft** or scan the QR code for a complete list of our Finance Transformation thoughtware, insights and results from the latest Deloitte CFO survey.

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