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Finance transformation: Think à la carte, not overhaul

Proven strategies to address key challenges facing CFOs and finance organizations

Gather a group of CFOs around the dinner table and ask them if they're ready to undertake finance transformation – initiatives such as improving decision support, rationalizing global finance operations, and strengthening risk management – and you may get some testy responses. "Transformation? I'll tell you about transformation. Three months ago we eliminated the COO position. Sure, our CEO is getting more hands on. But stuff still rolls down hill. I have more accountability, compliance responsibility, and personal liability than ever before. I've had about all the transformation I can stand for awhile."

Once their blood pressure drops, however, the CFO's concede the reality: They do need to refine finance's role as business partner, particularly as their businesses shift from retrenchment to growth. And they still need to do a better job of handling traditional transaction-oriented responsibilities. But, there are likely to be as many definitions of finance transformation as there are people debating it, so the question is where to start.

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Finance transformation is many things, but it's not one size fits all and it doesn't always mean a massive overhaul. Every finance organization will differ in pain points and priorities. Meaningful, value-adding finance transformation can be just as easily found through an a la carte approach as long as initiatives stay focused on supporting the business in achieving growth, improving efficiency, and managing risk and compliance. For one organization, transformation may mean redefining its finance operating model. For another, it's closing the books in a more timely fashion. For yet another, it may be consolidation on a single financial system and implementation of a new planning and consolidation tool. Or the goal may be to revamp the entire finance operation.

Through our work with global organizations, Deloitte has identified 10 key finance transformation challenges facing CFOs and finance organizations today – and leading strategies to address them. We believe that understanding these challenges and adopting proven strategies can help finance fulfill the expanded role and responsibilities it has at the executive table.

Going global: The finance operating model

Finance is a service delivery business and finance organizations grow as the businesses they serve grow. It's common for this evolution to produce different finance operating models for various regions and lines of business, a condition that is particularly prevalent when growth comes through M&A activities. The resulting inconsistency increases costs and fosters duplication of activities.

Finance organizations of leading companies are developing a common and consistent global finance operating model that standardizes both transactional and business-support services across geographies and business units. These organizations conduct the appropriate activities and deliver the right mix of services based on cost, location, in-house staffing, and outsourcing resources.

A global approach may include expanding the use of shared services and centers of excellence to drive efficiency without sacrificing quality or control. Common financial planning and analysis resources can be established to support business decisions, accompanied by consistent application of processes region to region. Leading organizations also leverage a global talent pool, going offshore as appropriate both for commodity services and to fill leadership and management roles.

Attempting to highly centralize finance in a decentralized business is a recipe for trouble, however. An organization's business operating model should define the degree to which finance centralizes its processes. Standards then spell out responsibilities and establish service levels to provide consistency.

Companies engaged in deep globalization have invested in figuring out how to efficiently integrate finance functions across geographical boundaries. They report significantly higher satisfaction with their investments than those who have cherry-picked one or two offshoring opportunities.

– Deloitte, "Globalizing Finance? Not So Fast," www.deloitte.com/us/globalizingfinance

How finance earns its stripes: Improving business decision support

Fundamentally, Finance has two traditional roles: stewardship of the business through controller and accounting functions, and business partnering, which supports business decision making. Business partnering is gaining even more importance as economic activity strengthens and companies look to capture market share and increase revenue.

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To fulfill the business partnering role more effectively, finance leaders need to be engaged as strategists and catalysts, especially when driving corporate growth initiatives. The finance organization needs to make more meaningful and actionable information available to the business through conventional processes like management reporting, forecasting, planning, and analysis. Yet it can be a struggle to understand business drivers, what needs to be measured, and whether results are accurate and insightful.

Finance can deliver a fuller picture with better business decision support. Defining information needs based on the nature of decisions that need to be made rather than by the reports finance is expected to deliver is essential to improving decision support. Leading finance organizations routinely incorporate strategic planning, budgeting, variance analysis, and management reporting as part of an integrated cycle rather than independent financial cycles. They drive global, consistent performance measures to all levels of the organization and integrate them into all elements of the management process, and ensure compensation is linked to forecast accuracy versus simply beating the forecast.

But finance alone can't improve business decision support. The IT organization is a critical partnering channel that can enable finance to take ownership of the collection and governance of financial data, including standardization of data definitions, systems, and processes across the organization.

Prioritizing capital investments: It's not as easy as 1, 2, 3

Capturing the opportunities of an economic upswing will require capital investments by many companies. Deciding where to invest may sound easy enough, but many organizations 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 business unit leaders and C-suite executives 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 tradeoff decisions. Ranking capital investment options by their after-tax benefit-to-cost ratio can help prioritize 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.

Capital investment involves not only equipment and facility investment, but channel development and entry into new markets. Taking a program approach to capital planning that identifies and quantifies project interdependencies up front can help identify synergies, and is an important factor to help business leaders understand how investments were prioritized.

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Finance is not a concierge service: Do less and still be valuable

Finance will often do whatever any decision maker asks, always proud to have a seat at the table for critical business decisions. It will run and rerun reports because someone wants to see it a little differently, in a different color, or "just in case."

But finance is not a concierge. Adopting a "throw bodies at the problem" approach to addressing multiple service requests doesn't necessarily add real value, and puts added stress on finance organizations trimmed in the economic downturn.

Finance can increase its value by educating business leaders on the "cost to serve" around decision support and challenging them to focus on those activities that add the most value to the organization. Building on the establishment of a global finance operating model, finance can drive a cultural shift away from an "on-demand" service mentality to a model focused on the highest and best use of finance. Business units will grow to understand that finance services are being applied consistently from division to division and region to region.

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Take a hard look at the generation of reporting restatements and nonstandard reports that offer questionable value to the organization, yet increase demands on finance. The same is true for portions of the FP&A service delivery model which could be shifted away from geographies and business units into a common center of excellence for standard FP&A activities such as data consolidation, data reconciliation, and report compilation.

Taxes Impact on the Bottom Line

Sales people are essential to revenue generation. Taxes however will also have a significant impact on the bottom line. Potential bottom-line tax-related savings may be found throughout the organization, including logistics, procurement, capital projects and corporate development.

Yet many CFOs may routinely overlook the tax function in finance transformation initiatives. They should not. It's critical to keep pace with the rapid and diverse legislative developments that are constantly changing the tax landscape. Up to half of profits are vulnerable to absorption by taxation.

Integrating the tax function into any finance transformation initiative and leveraging their experience and knowledge can potentially lead to tax planning opportunities which help to manage the tax liability of the company.

Encouraging the tax organization to explore planning opportunities such as tax-aligned supply chains, legal entity simplifications and "green" initiatives can catalyze change and organizational improvement.

Financial risk management: From intelligence to action

Recent economic events have compelled boards and executives to gain a better understanding of the effectiveness and completeness of their risk management approaches. Many organizations struggle to recognize emerging risks and address overly complex organizational 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 programs with necessary controls and processes. Important program 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 aide 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 prioritization of finance initiatives, such as creating a shared service model or center of excellence.

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Regulatory changes are coming: Don't be afraid, embrace the opportunities

Regulatory changes are sweeping across the business landscape. Healthcare reform, energy and environmental legislation, tax changes, strengthened antifraud enforcement, and the looming conversion to International Financial Reporting Standards (IFRS) put added stress on legacy finance systems and finance processes. Regulatory interpretation and adherence demands will likely increase over time, a burden compounded by reduced staffing levels.

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Leading finance organizations aren't cowering in the face of these challenges. Instead, they are using them to help trigger finance transformation. They are establishing system and process foundations that sustain agility and flexibility to respond to future, inevitable changes.

Assessment of in-place controls for anti-money laundering and Foreign Corrupt Practices Act requirements can help in identifying and remediating risks intertwined with the business model. If implementing IFRS, organizations should consider establishing a global center of excellence for statutory reporting, which can help consolidate, standardize, and automate location-agnostic reporting activities.

Finance talent management: It's not an on/off switch

Attracting, retaining, and developing key personnel were top finance priorities before the economic downturn. Lately, of course, finding and keeping people has been far less challenging.

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But that's no reason, and this is not the time, to neglect or devalue talent management. Growing the business and addressing risk depend on having the right people in important roles when opportunities and issues arise, which often happens quickly. Talent management isn't a switch that can be flipped on or off depending on the hiring and retention environment. So it's essential for the finance organization to determine whether it has appropriate strength in the competencies needed to align finance with the business or to stimulate the organization to achieve its strategic and financial goals.

Leading companies are identifying workforce segments critical to the finance function meeting its responsibilities. They are recognizing and embracing generational differences as they undertake programs and initiatives to develop, deploy, and connect with key talent.

Moreover, moving finance personnel through business unit assignments can help top talent add value and grow. Aligning compensation packages to results can foster motivation and loyalty.

If cash is king, how come no one else seems to care?

The consumer spending collapse, financial services meltdown, and credit crisis added to the cost of capital and the difficulty in obtaining it. Predictably, this resulted in finance organizations taking a greater focus on cash.

Cash may be king again, but getting organization-wide buy-in to its value is difficult for companies historically focused on revenue and profit and loss. The old mindset was earnings per share. Traditional management systems were created to focus on EPS, and not cash flow. This has now changed, and finance needs to educate its business partners on a new cash mindset. Understanding the substantial breadth of cash productivity opportunities can help get everyone on board.

Opportunities will vary for different organizations, but finance needs to push the organization to understand the framework and different component drivers of cash, including:

1. **Generating** cash through cost reduction, revenue maximization, tax strategies and financing and funding

2. **Liberating** cash through global cash management, working capital reduction and asset management

3. **Deploying** cash through capital investments, performance management, treasury and risk, asset management.

Generate	1. Refocus on Revenue to Maximize the Top Line 2. Reduce Costs Across the Organization 3. Plan for Tax Strategically 4. Optimize Capital Structure
Liberate	5. Access Cash Trapped Overseas 6. Unlock Cash Tied-up in Working Capital 7. Analyze Underperforming and Non-core Assets
Deploy	8. Engage Treasury to Streamline Banking and Mobilize Cash 9. Transform Internal and External Performance Measurements 10. Evaluate Capital Investments

Prioritizing finance transformation investments

Finance has multiple investment priorities, from improving the close, investing in new finance systems and finance processes, to redefining the finance operating model 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, organization, and systems requirements.

A 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 finance transformation efforts.

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Taste the sweetness of transformation

The demands on the finance organization have and will continue to expand. Finance itself needs to grow – in focus, capabilities, and contribution – if it is to meet the imperative to add business value while fulfilling its ever-more complex roles and responsibilities. At the outset, be sure to assess the right needs for transformation initiatives that will deliver the proper level of sophistication, structure and alignment with the broader organization. Then define what finance transformation means for the company and pursue projects that address the most pressing priorities, while not gorging finance with more than it can digest. In the end, taking an a la carte approach will help make finance transformation a more satisfying, enriching and value-added venture.

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