Maximization of the Finance function through Business Partnering

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The Finance function needs to evolve

The finance function (Finance) stands at the crossfire of both internal and external challenges. External challenges are best described by the pursuit of efficiency and the related chase for cost reduction in the wake of the financial crisis in 2008. In parallel, internal challenges for Finance have increased due to various reasons such as the increasing need for faster financial reporting production coupled with a limited quality of data and the need for centralized, client-centric service models to respond to cost reduction as well as general efficiency and control pressures. These challenges lead to increasing pressures on Finance to create a high-performing business culture, while the function also experiences higher demands from the business to drive performance with increased focus on strategic advice and business insights.

Faced with these challenges, an urgent need for Finance to transform itself has emerged. The role of Finance is evolving from serving as accountant and controller to one of a trusted adviser who supports the business manager's strategic and operational decision-making by delivering value-adding insights. Although this transformation is necessary, the function still needs to comply with the more traditional role of Finance where the department's output is used to support board-level decision makers with analyses and facts. Leading businesses aspire to reduce the amount of time spent on transactional activities and financial reporting and planning—for example through ERP implementation, shared service centers, outsourcing and Business Intelligence investments—while maximizing the amount of time spent on activities, which are considered to bring the most value as decision support activities.

A refocus of efforts towards driving business and shareholder value, and providing the right environment to successfully create such value are demanding tasks. Many organizations are thus focusing on implementing strategies to provide a better environment for business partnering. This opportunity to redefine and invest in Finance business partnering has been further enhanced by the surge in quantity and variety of data available, commercial demands of new business models and opportunities presented by digital transformation. As a result, many organizations have already started to invest in and develop Finance business partnering capabilities.

Finance executives are increasingly becoming strategic business partners

Business partnering can be defined as the role that Finance undertakes to support and challenge the business in ensuring that the chosen business strategies deliver the required shareholder value at an acceptable level of risk. Thus, the business partner supports the Finance function in the evolution towards a role that focusses on delivering decision support aimed at value creation, rather than solely concentrating on transactional, reporting, and planning activities dedicated to value preservation. As such, a business partner not only analyzes the past information but also looks at the future through simulations and scenario analysis during planning, budgeting, and forecasting exercises. He develops and maintains sustainable relationships with the business units, advises on the value drivers, and formulates sound recommendations that lead to better steering of business decisions. Business partnering plays a crucial role across the organization by delivering timely, relevant and insightful management information to the business, allowing the best decisions possible to be made.

The shift in the center of gravity of Finance towards strategic aspects suits the business partnering model very well. To support strategic business decisions, it is important to identify the people with the right perspectives to solve the problem, to develop a common understanding of the issues, to create the environment that will foster creative collaboration and to find the right timing. By enabling increased interactions with business units, the business partnering model creates a favorable environment for the above-mentioned prerequisites. It also supports the three stages of strategic decision making: building understanding, shaping choices, and making decisions.

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The Finance business partner thus acts as an informed challenger and adviser who ensures the alignment between profitability, strategy as well as the capital and risk aspects. The business partner brings additional value to the organization's value drivers compared to the traditional Finance executive.

- **Revenue growth:** The business partner plays an active role in enhancing revenue, either business-specific, or investment-related through sound judgment on customer segmentation, product portfolio and investment management techniques.
- **Operating margin:** The business partner challenges and advises the business units to improve their margin by clarifying the impacts of specific claims and other cost fluctuations on the business profitability.
- **Capital and risk management:** The business partner supports the business to integrate risk impacts (liquidity, credit, market, operational) in its decision making process, analyzing the balance sheet impacts of a new or existing product e.g., in terms of capital consumption and reserve formation.
- **Strategy effectiveness:** The business partner challenges the initiatives taken by the business units and assesses their alignment to the strategic ambitions set by the company as well as the market trends and actions taken by competitors. The business partner also facilitates the linkage of business performance measures with financial outcomes.

Making the transition from a traditional, mainly back-office function to a more strategic, business-facing, front-office oriented role is not always an easy endeavor and requires commitment and effort to achieve. This critical transformation process impacts the organization as a whole and does not ensure per se that finance business partnering capabilities will translate into tangible strategic benefits, which are meaningful and value-adding to the organization. This may explain why CFOs need to think twice before selecting this organizational setup. Not all CFOs are prepared to invest a significant amount of Finance's resources and time in order to deliver business partnering capabilities.

Finance business partnering requires adaptations

Changing Finance into a business partner organization poses barriers, as do all transformation processes, as it is rare that a consistent approach across the business is applied. This means that priority areas and activities cannot be clearly identified and that the financial return on any partnering investment is potentially undermined. By trying to tackle all opportunities at once, Finance will also find it harder to convince the business of the benefits they can bring. Focusing attention first on the delivery of partnering activity to a few high value opportunities can both test and prove the worth of such an objective.

In our view, Finance should strive to optimize its operational levers to deliver effectively and support the business in achieving its objectives. This can be achieved only through the creation of a favorable environment for the implementation of business partnering. That is why the Finance transformation process should mainly focus on four enablers:

1. **Finance organization**—The Finance organization often shows a high level of complexity, putting a burden on the communication between Finance and the business. Moreover, operational efficiency can be achieved by eliminating fragmented organizational models where similar tasks are performed by different teams. It can prove useful to design and implement a new target operating model which takes into account the focus on the business unit, while maintaining transversal knowledge of company figures. In addition, a single point of contact within Finance allows for streamlined communication with the business units.

2. **Policy and process**—In the business partnering model, strategic objectives are operationalized through integrated performance management processes. To do so, it is crucial to have solid financial processes that meet the new requirements and to establish organization-wide integrated planning and budgeting process. In addition, creating related governance structures will allow to properly promote

the strategic objectives of the company. To support this change, it is necessary to create transparency and to challenge the business and service providers in order to play an active role in cost management by optimizing the Finance cost base. Establishing service level agreements may also secure an agreed-upon quality standard of deliverables that will benefit both Finance and the business.

3. **Talent and people**—Assuming the role of business partner implies a strong focus on getting skilled business leaders on board. In order to be able to add value to the organization, investments needs to be made to acquire and retain specialists with the necessary business skills as well as accounting and auditing skills. It is important to identify and stimulate the top talent, to broaden their skills and competencies, to create a new team of business partners through internal and external recruitment of new profiles as well as rotational assignments in the respective business organizations. This needs to be achieved while increasing the time spent on analytics and reporting through automation and organizational change.

4. **Systems and information management**—A well designed set of processes—enabled by a single, reliable source of data for reporting across systems—is critical for quality decision making, while automating key Finance processes will enable accurate reporting and analysis supporting the decision making process. Consequently, in order to leverage on the benefits of business partnering it is of paramount importance to develop new performance system solutions to ensure the production of correct financial data ("one single version of the truth") and the flexibility to simulate projections. The centralization of the report generation within a clear governance structure providing standardized and certified reporting, supported by flexible modeling and reporting tools, should also be an objective.

Understanding where partnering effort will add the most value to the business, will enable the prioritization of activities where Finance can work with the business right from the start

Now is the time

Within a challenging economic context, in which the path to profitable growth is unlikely to be straightforward, Finance business partners are in a unique position to help steer the business. The quantity of data available and the tools to turn that data into insight is enabling an unprecedented level of analytical and commercial input into decision-making. This gives the opportunity to CFOs and finance leaders to prove that they are able to effectively step into the role of strategic Finance business partner, and become a driver of change. While the journey to effective business partnering is based on continuous improvement and learning, there are some practical actions that can set the course:

Clearly identify where Finance can add value to the business—Set an agenda for business partnering to enable the business strategy, address obvious high value areas, and ensure that all value opportunities are reviewed over time (some of the quickest wins can come from areas that have not previously received any focus). Understanding where partnering effort will add the most value to the business, will enable the prioritization of activities where Finance can work with the business right from the start. This will also ensure agreement on the partnering role and secure immediate buy-in to the approach.

Remove the hurdles to creating new value, and demonstrate the results—Addressing each value area separately and undertake all that is necessary to obtain the insight and influence to deliver value creates a "virtuous circle" of belief in Finance's ability for business partnering, both within the function as well as across the organization. Celebrating successes and highlighting role model behavior will help pave the way for the manner in which Finance wants to act as a strategic catalyst.

Bolster improvement by addressing the structural enablers of financial capacity—While immediate progress can be made, irrespective of the challenges, it is important to address the four fundamental enablers of financial capacity in order to sustain that progress. Insight tools, data quality, skills development and career progression opportunities are all necessary to maintain the motivation of good Finance partners. Identifying the gaps in these enablers and setting a clear, realistic and sustainable roadmap to address them over time will bolster Finance's capability development over time.