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We launched the Deloitte Finance Benchmark survey with the aim of understanding the key opportunities for the finance function as businesses move to take advantage of a shift in the economic cycle. Are finance teams ready to provide the support that growth-focused organisations need? And where should finance leaders focus their efforts to develop capability and improve practices?

Between 1 September and 19 December 2014, 216 organisations completed our survey. They included:

- 29 organisations with turnover over £1bn.
- 97 with turnover between £100m and £1bn.
- 90 with turnover under £100m.

To supplement our online research, we also interviewed 15 senior finance leaders to draw out a more subtle understanding of the issues on their minds. (The quotes highlighted in this report are all from those interviews.)

This report highlights the key opportunities for the finance function as revealed by our survey, and highlights examples of current good practice. Each of our survey participants receives a personalised, detailed benchmarking report which compares them against a tailored peer group and identifies areas for focus. This report offers valuable context alongside these benchmarking reports.

I hope you find the report thought-provoking and welcome your feedback on the findings as well as the implications for the finance function.

Lucy Newman
Partner, Audit
Deloitte LLP
Getting back to growth

A bitter recession means many businesses have effectively spent years in hibernation, adopting strategies for survival rather than actively building for the future. But change is in the air. The signs of returning growth are becoming stronger, although some caution remains as deflation and weakness in the euro zone present risks that should be monitored.

Cautious but growing confidence in an economic recovery means that many organisations are moving on from the cost-cutting that has been the hallmark of recent years. To respond, finance functions must be at the top of their game.

Senior finance leaders we spoke to told us that their organisations are now refocusing on the opportunities that come with more favourable economic conditions. The mood is still cautious, but businesses are starting to invest again with the aim of securing sustainable and profitable growth.

Finance has a key role to play in enabling the business to manage growth – in particular, by providing accurate information to support effective decision-making and by helping the business understand its progress on growth goals. But how well equipped is the function to meet these challenges?

Our survey shows there are three key areas finance leaders can focus on to develop effective support for the business:

- Improving and simplifying systems to increase data reliability, the foundation for meaningful management information (our survey shows there are significant opportunities for the finance function to improve data accuracy and reliability).
• Making management information more insightful by freeing up time for analysis and by investing in talent (less than half of our survey respondents say the finance function currently delivers information that the business believes is insightful).

• Ensuring KPIs give a clearer picture of performance, by using the right balance of indicators, and linking these to strategic objectives (our survey shows that six in ten finance functions do not review alignment regularly).

By addressing these priorities, finance leaders can ensure their functions are ready to deliver the data and insight businesses need to support growth. As the economic outlook continues to improve, the finance function can help business leaders understand where to focus investment, monitor the impact of new strategic initiatives and track performance, progress and profits.

“It’s about managing growth. We need to make some tough calls... to decide whether to invest in one area and not another.”
The evolving finance function

For the finance function, providing internal reporting and management information remains, unsurprisingly, the prime focus. When asked to identify their priorities, survey respondents gave this aspect greater weight than any other (figure 1). This will remain the case over the next three years (and almost certainly beyond), but there will be subtle shifts in the importance of other areas of work. Finance leaders will be giving greater importance to standardising processes and investing in systems that increase the efficiency of transaction processing. This is about more than good housekeeping. Less time spent on routine tasks means more time for activities that deliver real value for the business, such as developing and communicating accurate intelligence to support the business’s growth agenda.

Finance leaders will also be investing more in finance talent, which is already becoming increasingly sought-after as economic activity picks up. Finally, in line with the increased transaction activity that accompanies greater economic confidence, finance leaders expect providing support for mergers and acquisitions to take on greater importance.

Within these emerging priorities, we identified a common pathway for the development of the finance function: (Please see visual on following page)
Pathway for the development of the finance function

Invest in systems with a focus on accuracy, standardisation and efficiency.

Process transactions more efficiently and standardise procedures. Minimise time spent on routine tasks.

Enhance business intelligence (BI) and management information (MI) – align KPIs with business priorities, add insight, potentially invest in software to reduce manual intervention.

Secure talent to interpret data and communicate insight.

Optimise stakeholder access – vary level of detail, turn information around fast to support real-time decision-making, provide self-serve access to routine data.
A hallmark of top-performing finance functions is that the information they produce is considered insightful by the business. So insightful reporting must be a goal for any finance function ambitious to deliver optimum support.

**Ensuring data accuracy**
The foundation for insightful management information is accurate data. The good news is that 74% of our respondents told us that the business considers the information the finance function produces to be accurate. On a less positive note, we found that only 34% undertake a regular review of master data to verify its accuracy.

Ensuring that there is a ‘single version of the truth’ (i.e. there is a robust data source, metrics are clearly defined, and there is no conflicting data) becomes more of a challenge for any organisation as it expands, so this is an issue the finance function must address as the business refocuses on growth.

In addition, we found that the data underpinning management information needs to be tested more rigorously. Most of our respondents use only manual testing and less than one-quarter say that data-quality measurement is well embedded in their business.
We also found that one in ten of our respondents carries out no data-quality testing at all (figure 2).

Despite these weaknesses, our interviews picked up many examples of businesses adopting good practice to gather useful and accurate data. These include focusing on the most important metrics, defining metrics clearly and unambiguously, ensuring the data source is robust and getting buy-in for the process from stakeholders. We did, however, find evidence of some finance teams using metrics that can be measured through two or more data sources. Where this occurs, it must be addressed, not least to save time spent trying to reconcile conflicting data or to decide which data set to use.

**Developing insight from data**

Across the board, the finance leaders we spoke to reported an increasing demand from the business for insightful data. This demand was strongest among businesses backed by private equity (who are seen as particularly hungry for accurate data).

Given the demand for more insight, many finance teams will be disappointed to hear to what extent the business considers the information the function produces to be insightful. Overall, only 40% agreed management information is insightful. In companies with turnover over £100m, this figure falls to 35%. Smaller businesses fare better – in companies with turnover under £100m, 48% said the business considers information produced by the finance function to be insightful. Amongst technology, media & telecommunications businesses, which are amongst the more data-reliant industries, 52% said the business sees finance information as insightful.

### Figure 2. To what extent does your organisation have checks in place to measure the quality of data?

| Data quality measurement is well embedded in business | 22 |
| Data quality assessed regularly via automatic self-assessment tool | 13 |
| Criteria for data quality testing well defined and kept up-to-date | 12 |
| Little/no data quality testing | 9 |

Manual ad-hoc data quality testing carried out | 61 |
Sharing data and communicating insight

With accurate data produced and management insight developed, finance teams face a third challenge: to share data and insight effectively. This process forms a critical bridge between the finance function and the business. Our experience shows that finance functions that share data and communicate insight effectively, do the following:

- Disseminate information on time in accordance with agreed schedules.
- Give stakeholders flexible access to data – for example, providing self-serve access to routine information and custom dashboards for stakeholders seeking up-to-date information.
- Talk to stakeholder groups about the data the group wants and deliver customised reports that meet each group’s needs.
- Focus on the right KPIs and metrics.
- Keep outputs concise and as visual and engaging as possible.

"We need to be more commercially aware within Finance and engage in conversation with the business. We need to sit down with non-financial people – not just throw information over the fence."

Five ways to improve insight

- Ensure the commercial perspective is built into management reports.
- Identify the actions required to respond to finance data.
- Create time to develop insight – employ more people, invest in better systems, redesign processes.
- Develop the team’s analytical capability and commercial experience.
- Encourage team members to get out and talk to the business.

“We need to be more commercially aware within Finance and engage in conversation with the business. We need to sit down with non-financial people – not just throw information over the fence.”
Collating and analysing data: are finance teams using the right tools?

Figure 3. Tools used to produce management reports

<table>
<thead>
<tr>
<th>Tool Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manually collated in Excel</td>
<td>60</td>
</tr>
<tr>
<td>Reporting tool (e.g. SAP business Objects, Hyperion etc.)</td>
<td>25</td>
</tr>
<tr>
<td>Enterprise Resource Planning (ERP) software – reports generated directly from the ERP system</td>
<td>6</td>
</tr>
<tr>
<td>Bespoke tool created in house</td>
<td>3</td>
</tr>
</tbody>
</table>

Our survey shows that Microsoft Excel remains the tool most commonly used to collate and analyse data and produce management reports. Of our respondents, 60% said Excel is their main reporting tool (figure 3). The figure among large, listed companies is lower, but 50% still use Excel for at least part of the process.

For high-performing finance functions, Excel tends to play only a supporting role in the preparation of management reports and is more likely to be used in conjunction with specialised reporting tools, customised to deliver the information the business requires.

Excel: the highs and lows

Excel offers a number of benefits, primarily around flexibility and customisation. These advantages are open even to small businesses for a minimal outlay. However, there are disadvantages too. These include the risk of inaccuracies when data is copied and pasted, version-control issues, lack of consistency in the way different employees use the software, and the extra time the finance team must spend as a result on compiling and cleaning data.

All these negatives make it more difficult for finance functions to ensure management information is based on accurate data and to free up time for analysis.

Most respondents told us they would like to rely less on Excel and to make more use of specialised reporting tools and Enterprise Resource Planning (ERP) software functionality. Currently, only 6% of our respondents are able to generate reports directly from the ERP system. In addition, none of the companies taking part in the survey is using the latest visualisation technology to help convey meaning from data.

“It takes a few hours of work each time we produce something. It would be great to simply press a button to get what we want.”
Choosing the right mix of KPIs

As they refocus on growth, business leaders will be looking more keenly than ever to KPIs to help them track progress and refine actions. So the finance function must be confident it is reporting on indicators aligned with the business’s strategic goals and also that it is tracking the right number and right mix of KPIs.

Of the companies taking part in our survey, 52% told us they are confident that the KPIs they use are aligned to the strategic goals of the business. However, only 36% told us that KPIs are reviewed regularly to ensure this alignment is maintained. With strategic goals shifting in response to new growth opportunities, this is clearly an area that requires attention.

Balancing lag and lead indicators

One way to improve the alignment of KPIs with business goals is to ensure a good balance of forward-looking lead indicators and historic lag indicators. Survey respondents told us that, on average, the indicators covered in their management accounts are 78% historic and 22% forward looking. Is this balance right? We don’t think so, and neither do our survey respondents. Only 20% agreed that there are sufficient leading KPIs in their management accounts. This figure dropped to 13% for businesses in the energy and resources industry – is this seen as a sector where it is more difficult to look forwards?
Selecting the right number of indicators

In modern business, data is hardly in short supply. The finance function can choose from almost countless metrics for inclusion in management reports, but this creates a problem. Too many metrics can dilute the message and prevent the finance function from communicating clearly with key stakeholders.

Clearly the right number of indicators varies according to the size and complexity of the business, and this is borne out by our survey. The larger companies we spoke to (those with turnover over £100m) typically measure 16–20 KPIs within their monthly management reporting, while the smaller measure only around 7-9. Many finance leaders in larger companies told us they would prefer to cut KPIs down to 10–12. One way to achieve this is to cut out indicators that may have been added at an individual’s request in the past and have simply remained in the report ever since.

Making more use of non-financial indicators

One-third of our survey participants use only financial indicators and, overall, financial KPIs outnumber non-financial indicators by three to one. Why this reluctance to use non-financial indictors? Perhaps because they are difficult to quantify.

Many of our interviewees highlighted the merit of non-financial KPIs and wanted to see them used more often (particularly as they are more suitable as lead indicators).

“It may take time, but you should be confident that non-financial indicators will feed through to the financials.”

In fact, only 20% of survey respondents agreed that there are sufficient non-financial KPIs in their accounts. This figure dropped to 9% amongst healthcare and life sciences businesses.

Our interviewees highlighted several non-financial KPIs that could be used by almost any organisation. These include indicators linked to:

- Future orders pipeline.
- People (retention rates).
- Quality (measuring customer satisfaction to demonstrate a focus on customer experience).
- Conversion rates (website visits that convert to sales, selling conversations that convert to business).
- Corporate responsibility (measuring ‘giving back’ activity, for example, to show the company is serious about its role in society).

The finance function may not produce these non-financial indicators, but they should nevertheless be integrated within management reporting.
Finding and developing talent

The return to growth is welcome, but its long absence has had an impact on the finance function. We know from organisations we work with that, in recent years, hiring has slowed across all areas of finance. As a result, the pool of talented people developing their expertise in post has shrunk. Many finance leaders we interviewed spoke of gaps at middle-management levels, while some expressed concerns about the weakness of the leadership pipeline.

**Who will lead the future finance function?**
The shortage of talent means today’s finance leaders don’t necessarily agree on where their successors will come from. While most feel that future finance leaders are likely to be within the business already, a significant proportion disagree (figure 5). Many are ready to look not just beyond their own businesses, but also beyond their own industries for future leaders. Many of the CFOs we interviewed told us that specific industry experience is not a requirement for finance leaders unless the business is operating in a particularly complex or technical industry.

"To really succeed, you need to bring finance and commercial knowledge together. You synthesise information so non-financial people understand it."
The perfect CFO

Must-have skills

- Commercial finance
- External stakeholder management
- Financial reporting/control experience
- Leadership
- People management

Nice-to-have skills

- Treasury experience
- Operations experience
- Acquisition/M&A experience
- Tax knowledge/experience
- Deep knowledge of company’s industry
- Emerging market/international experience

Contributing to the challenge of filling leadership roles is the range of skills and experience finance leaders now need. It is no longer enough for candidates to have ‘traditional’ (technical) financial experience. Over 80% of our survey respondents believe that candidates for senior positions must have commercial experience too. This, along with the ability to manage external stakeholders effectively, is one of the top two skills that candidates must have to impress.

There was less consensus on the requirement for financial reporting and control experience. While this features on the list of ‘must have’ skills identified in the survey, we found through our interviews that many finance leaders believe that when there is a strong financial controller in place, the CFO does not necessarily need this type of experience.
Talent shortages in key areas

Many respondents are struggling to find the right candidates for roles across the finance function. There are some areas where it is particularly difficult to recruit: business intelligence, financial planning and analytics; technical accounting and statutory reporting; and commercial finance and business partnering (figure 6). Far and away the key reason for the shortage of finance skills is the basic lack of candidates with the right skills and qualifications (figure 7). Finance leaders feel that the recession has clearly depressed the number of people working and training in finance.

Economic conditions are also likely to have had an impact on the attitudes of those that do have employment in the sector. One of the recruitment challenges for our survey respondents is to find candidates prepared to leave their current role. Is recovery still too fragile for talented people to consider exchanging the security of an established role for the opportunities that come with a new employer?

It’s difficult for businesses to counter the two challenges highlighted above, yet there are other barriers to recruitment that companies may have more power to address. Key among these is the remuneration package that organisations are prepared to offer for finance roles. With competition for a limited pool of talent rising as economic activity picks up, businesses may need to reassess what they must pay to secure the skills they need.

“There isn’t an abundance of talent. We recently had just 20 or 30 CVs for a position rather than the 100 we have been used to.”
Focusing on developing existing talent could go some way to helping finance functions build the capabilities they need. While, overall, respondents told us they are happy with their teams’ capabilities, commercial and strategic capability emerged as an area where there could be a potential weakness – and particularly in larger companies. Among companies with turnover under £100m, 48% told us their commercial and strategic capability is strong. Among companies with turnover over £100m, the figure is just 34%.

“We’re good at developing other skills in our people alongside their accounting qualifications. The most important are communication and presentation skills.”

Figure 7. Recruitment challenges
What are the challenges of finding qualified and high-potential candidates

- #1 Lack of candidates with qualifications/skills required
- #2 Remuneration package not good enough
- #3 Location of our workplace is not attractive to candidates
- #4 Candidates not interested in moving company/leaving their current position
- #5 Our company/brand is not attractive to candidates
- #6 Industry not attractive to candidates
- #7 Other

Ranked from most to least challenging
Summary

As growth returns, the ability of the finance function to provide the business with insightful management reporting is becoming more important than ever. Business leaders want to understand whether the investments they are making are targeted correctly to deliver sustainable and profitable growth. Clear, timely management reports, developed by commercially astute finance teams, working with accurate data and the right mix of KPIs, can deliver this insight.

Economic recovery creates a fresh opportunity for finance leaders to position the finance function as a true partner for the growth-focused business. To be among the top-performing functions, individual finance teams must prioritise three things:

- Ensuring data reliability and timeliness.
- Develop insightful reporting by freeing up time and securing talent.
- Aligning KPIs with the business’s strategic goals.

Deloitte Finance Benchmark Survey
To complete the survey, and to gain your own personalised benchmarking report, please contact financebenchmark@deloitte.co.uk
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