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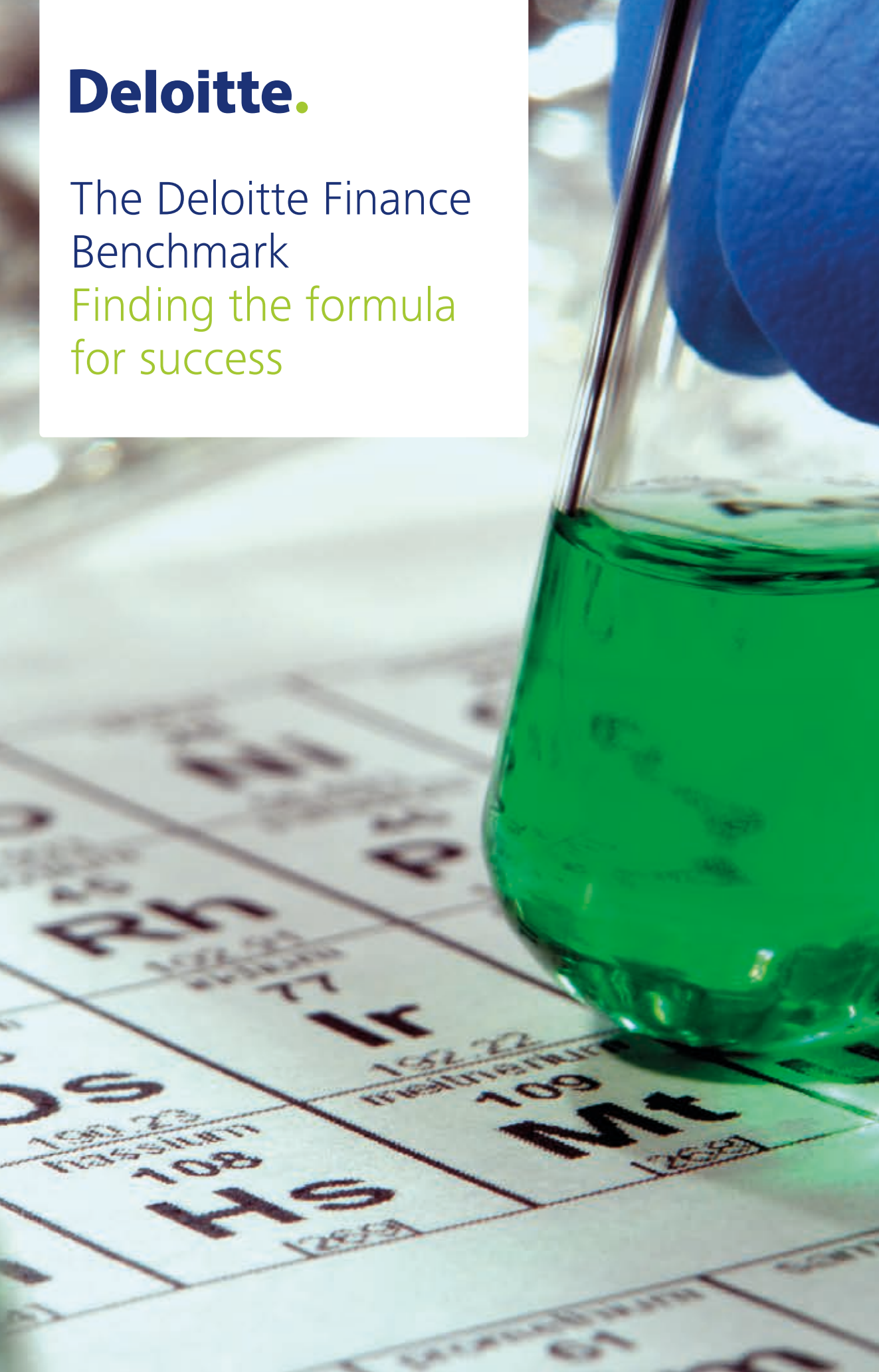
The Deloitte Finance Benchmark

Finding the formula for success



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About the survey

Now in its third year, the Deloitte Finance Benchmark explores the changing face of the modern finance function. Appetite for growth is on the rise, but it is tempered by economic uncertainty. What can the finance team do to help business find a formula for success in an uncertain economic landscape that is hard to read? Where should finance leaders focus their efforts to ensure finance is delivering the best and most effective support?

Between 1 January and 31 December 2015, 139 organisations completed Deloitte's survey. They included:

- 48 organisations with turnover over £1 billion
- 42 with turnover between £100m and £1 billion
- 47 with turnover under £100 million.

To supplement our research we also interviewed senior finance leaders to provide deeper insight and perspective for the findings of the survey. The quotes highlighted in this report are all from those interviews.

This report draws on the survey data and interview findings to reveal the key opportunities facing the finance function, and also includes examples of good practice. The report offers valuable context for the more detailed benchmarking report that each of our survey participants receives. These personalised reports allow each participant to compare their own practices and performance against a tailored peer group, and also highlight areas for focus.

The year ahead poses huge challenges for businesses – understanding how to take advantage of opportunities for growth without taking on excessive risk will be key. We believe the finance function has a critical role to play in providing the insight business leaders need to make fully informed and effective decisions.

I hope you find this year's report informative and stimulating, and welcome your feedback on its findings.

Simon Kerton-Johnson
Partner, Finance Transformation
Deloitte LLP

Unstable variables: the careful pursuit of growth

Our survey in 2015 took place against a backdrop of optimism tempered with caution. Businesses are increasingly planning for growth – the depths of the global economic crisis are now behind us – yet significant economic uncertainty suggests we are not out of the woods yet. Slower growth in China, the UK leaving the European Union and concerns about the labour market internationally are some of the factors that are dampening business leaders' growth ambitions. The persisting economic uncertainty is clearly reflected in interest rates, which remain at historic lows, and the most recent figures on global GDP growth, which are disappointing.

In this context, the expectations on the finance function are higher than ever. While internal and external reporting remain core finance responsibilities, business leaders are increasingly looking to finance to provide the strategic insight that will enable them to map out a safe and successful path to growth.

Most leaders have exercised caution since the recession, preferring to make incremental and minor changes to the finance model. In some cases, however, we are seeing finance leaders respond to the business's evolving requirements by revisiting their operating model and considering how best to structure the function to deliver this insight – perhaps even asking how they would design it starting from first principles.

> If you started from scratch you wouldn't design the function like ours – we're going to put that right and switch to more of a hub-and-spoke model.

To develop the insight that the business increasingly expects, there is a need to minimise time spent on routine tasks.

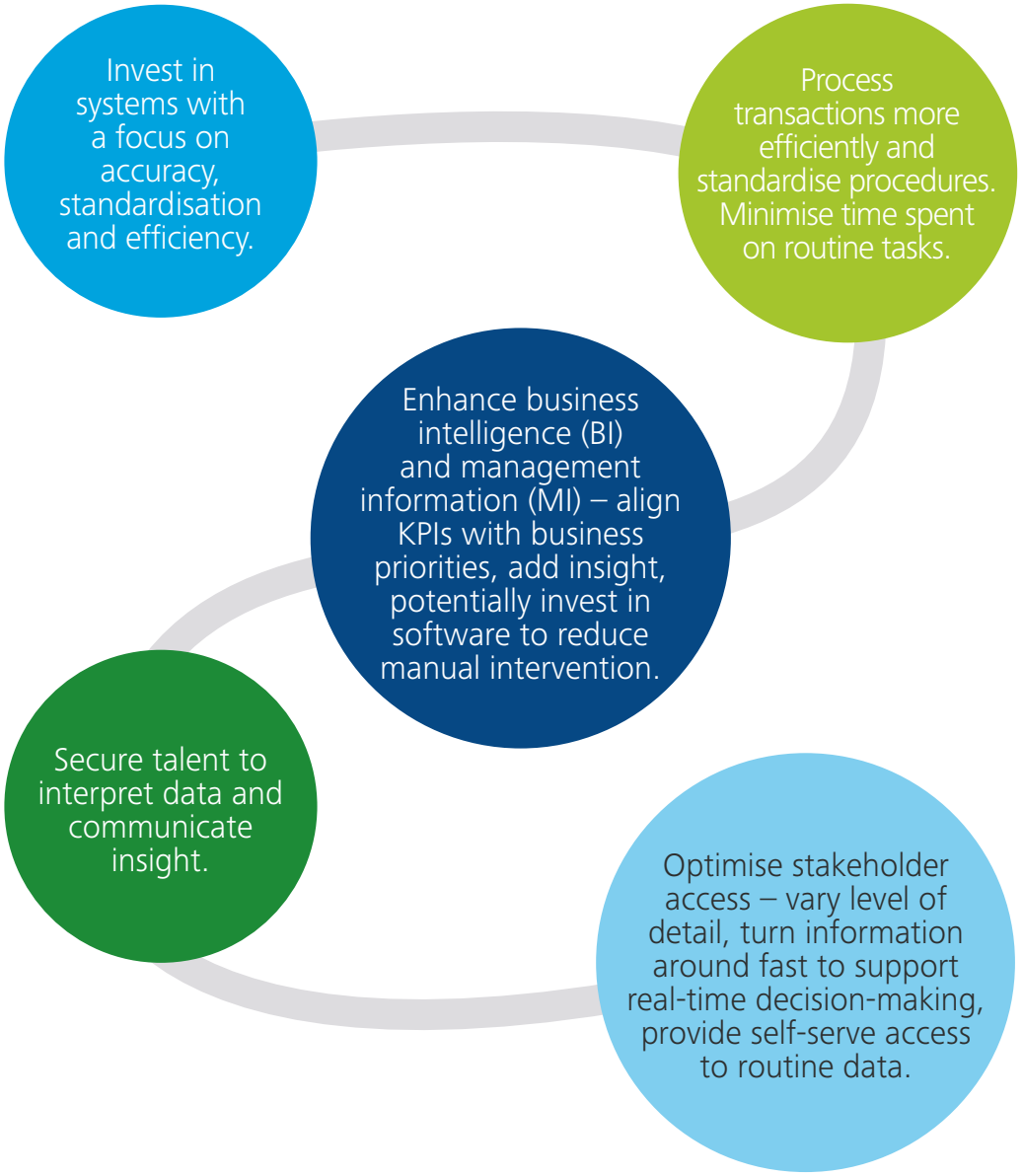
As a result, many of our survey respondents are looking to increase automation within the next 12 months. Leading teams are also looking ahead and planning to implement advanced technologies to improve and extend their analytic capabilities. Technology is not the solution to all problems, however, as any fundamental issues with the underlying data must first be resolved.

The finance development pathway

The uncertain economic outlook is changing business expectations. Yet while finance leaders may be considering making radical changes to the team's focus and operations, the theory for developing a finance organisation equipped to deliver optimum support remains constant:

- 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 remove 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 based on a clear picture of performance.

Pathway for the development of the finance function



Changing states: can the finance function deliver?

As business leaders face the challenge of growing successfully in uncertain economic conditions, they are looking to the finance function to move beyond its traditional roles of steward (protecting the organisation's assets) and operator (fulfilling core finance responsibilities efficiently) and to adopt the role of strategist.

In the role of strategist, the function provides financial leadership to support the business's strategic direction. This can include leading on finance for mergers and acquisitions, accessing capital markets and developing strategies to improve financial performance. Leading-edge functions will move even beyond this role and start to act as a catalyst, influencing behaviours and attitudes as partners in the wider organisation, while simultaneously creating a risk-intelligent culture.

Figure 1. What are your finance function's priorities? Allocate 100 'points' across the priorities and distribute them according to weight

This shift in what is expected of the finance function is borne out by our survey findings (figure 1). Survey respondents say that investing in finance talent will be increasingly important in the coming years. This is especially true when thinking of the most talented people, particularly those capable of interpreting financial data and understanding its implications for the business.

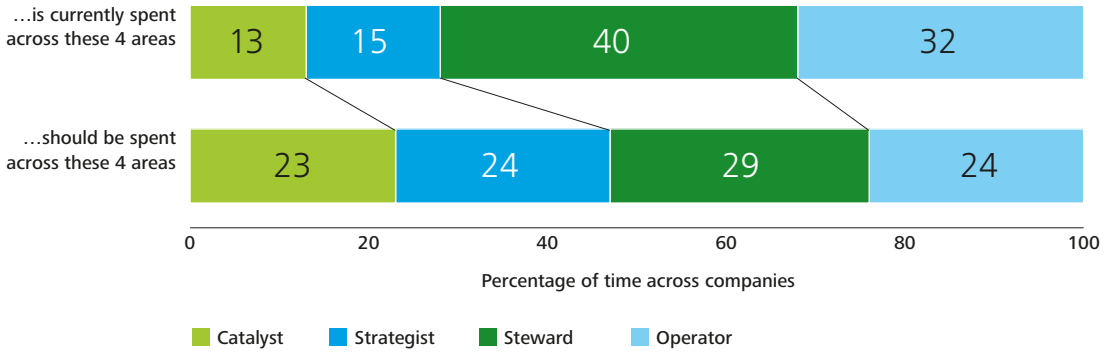
Correspondingly, reporting (both internal and external) will be slightly less of a priority. Given the effort that has been invested in getting these areas right in recent years, finance leaders may now feel confident enough to shift their focus to meeting business demand for strategic insight.

Getting the right mix

Finance leaders may recognise that priorities are changing, but there is a mismatch between how the function *actually* spends its time and how it *should* spend its time in order to fulfil potential.

Our survey respondents believe the function should be spending almost half its time (47 per cent) operating as a catalyst and strategist but in reality little more than a quarter of its time (28 per cent) is spent on these roles (figure 2). Respondents say that over two-thirds (72 per cent) of the function's time is spent performing the steward and operator roles, whereas a figure closer to half (53 per cent) would be more appropriate.

Figure 2. Using the 'four faces' of finance model, what percentage of finance function's overall time would you say…

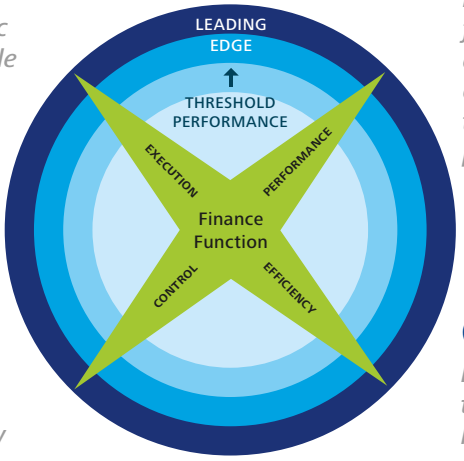


CATALYST

Influences behaviours and attitudes to achieve strategic and financial objectives while creating a risk-intelligent culture.

STRATEGIST

Provide financial leadership for vital strategic business direction, M&A, financing, capital market and longer term strategies that impact performance.



STEWARD

Protect and preserve the critical assets of the organisation and accurately report on financial position and operations to stakeholders.

OPERATOR

Balance capabilities, talent, cost and service levels to efficiently fulfil the finance organisation's core responsibilities.

Finance wants to do more with business information and reporting, but we're busy just cranking the handle.

There is increasing pressure on the finance function to deliver business partnering more effectively. As finance leaders think about how to meet these changing expectations, many are looking to reduce time spent on transaction processing. Standardising systems and processes is key to increasing efficiency and the leading organisations have achieved this to a large extent. Nevertheless our survey findings show that a significant proportion still have some way to go.

25 per cent of organisations felt that there is a large gap between their current and desired level of transactional process standardisation.

The difficulty in achieving high levels of standardisation increases with organisational complexity. Survey participants highlighted standardisation challenges across international borders, across divisions, and with the integration of other entities post-merger or post-acquisition. The challenges faced are varied, including the use of multiple systems, the existence of cultural differences, and the variety of processes and policies to reconcile. Leaders will often need to address these issues before they can truly realise their vision for a consistent approach to transactional processes.

Improving the model: enhanced MI through smarter use of data

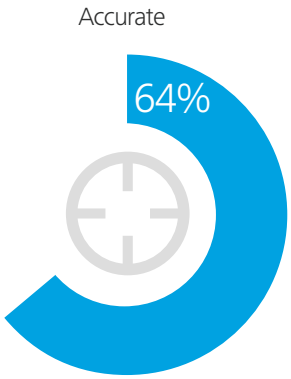
Providing MI remains one of the finance function's core responsibilities and there are two components to fulfilling this responsibility effectively. Fundamentaly, the information provided by the finance function must be accurate. Building on this, the information must be analysed, interpreted and presented in a way that provides insight for the management team.

Our survey shows that a significant number of finance organisations are not confident about their ability to meet even the first of these requirements (figure 3).

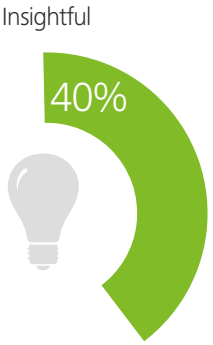
More than a third of respondents do not agree with the statement 'the business considers the information provided by finance to be accurate'. An even greater percentage of respondents (60 per cent) feel unable to agree with the statement 'the business considers the information provided by finance to be insightful'. The majority of respondents did indicate that the business values finance's input overall. Overall this indicates that finance is a trusted source of information, but that it is not consistently a provider of insights that may challenge management thinking.

Figure 3. The perception of finance within the business

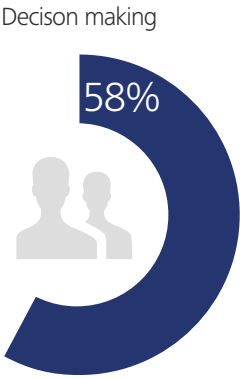
64% of respondents said the business considers the information produced by finance to be accurate



40% of respondents said the business considers the information produced by finance to be insightful



58% of respondents said the business values finance's input into decision making



The business doesn't always know what they want. We need to help them more to see what's possible, to help them understand our analysis, help avoid bad decisions.

Clearly, having the right people to interrogate data and think about what it means for the business is critical to being able to develop insightful management information. Only around half of our respondents told us their team had a high level of analytical capability (the ability to interpret financial analysis and draw appropriate conclusions) or commercial/strategic capability (the ability to understand the commercial/strategic implications of conclusions).

There are other factors that are important when it comes to delivering insight. The business and finance need to work together to understand what would truly deliver value. This works both ways: the business needs to communicate its needs effectively, and finance needs to make suggestions based on its understanding of the commercial environment. For finance to feel comfortable in venturing an opinion, it is also crucial that there is a culture of openness. Finance executives need permission to express a point of view, and they need to know that the business will engage constructively.

Distilling the data

In our interviews with finance leaders, we found a growing focus on the way management information is shared. Many functions are condensing MI wherever possible, reducing the number of pages and metrics and the level of detail presented in recognition that if the information is more digestible it is more likely to be acted on. Although spreadsheets remain the foundation for most, there is also an increasing focus on data visualisation. This may include charts, summary tables or a simple dashboard that is created within the spreadsheet itself.

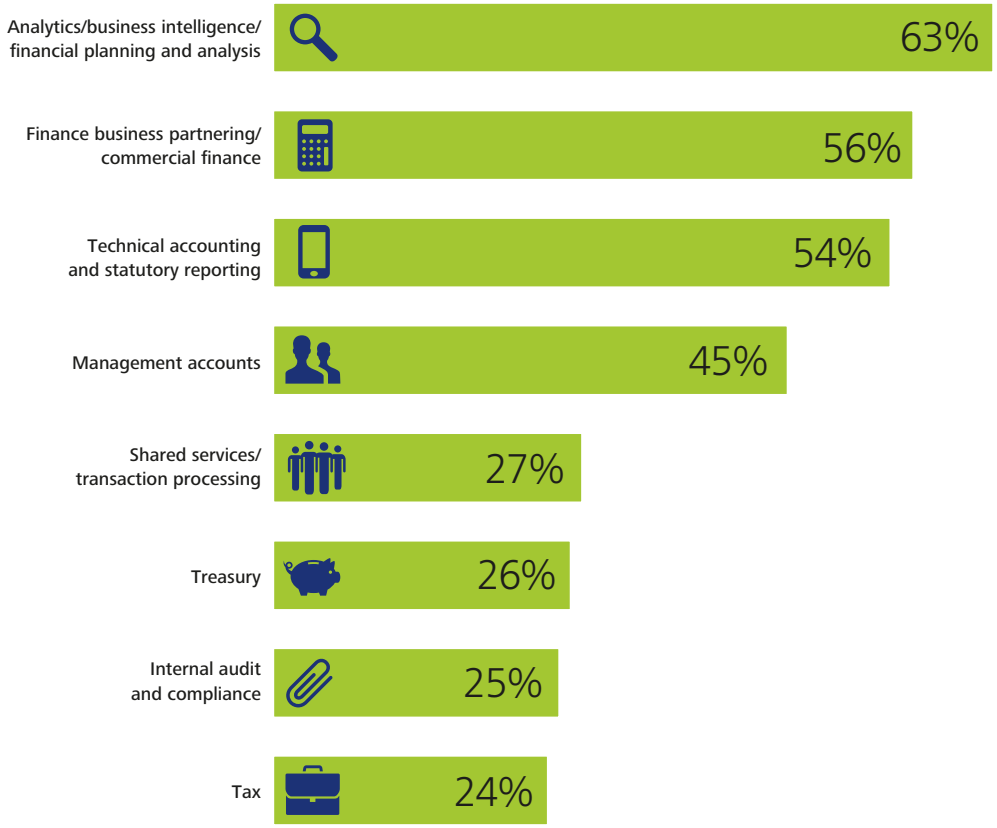
Among leading finance functions, this move to make data and the insight it contains more accessible, goes even further. Digital dashboards stripped of all but essential data, automatic notifications on data updates and the ability to access dashboards via mobile devices are just some of the techniques being used to give senior managers fast access to live, relevant data. In addition, the flow of information is no longer just one-way. Some finance organisations are encouraging their internal customers to interrogate the data themselves and to engage in two-way communication with the finance team.

> There's a fear that if I give insight, and it's not right, I'll be responsible. Will they have a go at me? So it's easier not to do anything, it doesn't make it your fault if it goes wrong. It's a blame culture. We're starting to shift this.

Forming strong bonds: winning on talent

Our survey found that finance functions face recruitment challenges across the board and have difficulty in recruiting the people they need in every area (figure 4). The recruitment challenge extends from internal audit and compliance right through technical accounting and statutory reporting to analytics and business partnering roles.

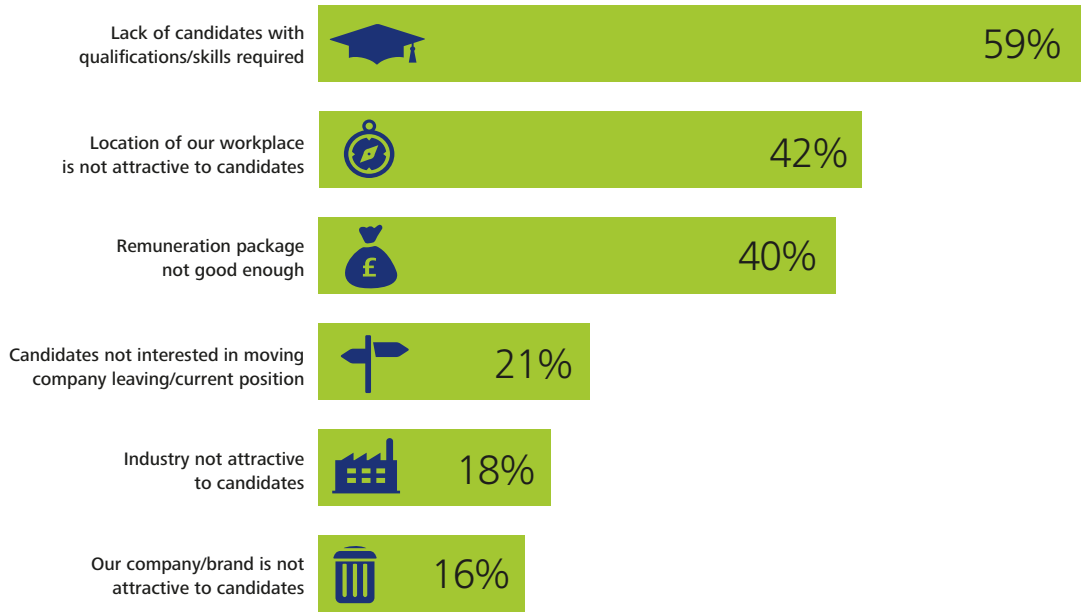
Figure 4. Where, if anywhere, do you currently have the most difficulty in recruiting qualified and high-potential candidates?



The biggest challenge lies in recruiting qualified and high-potential candidates in the areas of analytics, business intelligence and financial planning & analysis. 63 per cent of our respondents identified this as an area of challenge (18 per cent said it was their number one area of challenge). A second area of significant challenge is recruiting to finance business partnering/commercial finance roles – with 56 per cent of our respondents citing this as a recruitment challenge (22 per cent stated this was their number one area of challenge).

A lack of candidates with the necessary qualifications is the prime reason for recruitment difficulties, according to respondents (figure 5). Interestingly, while the proportion identifying lack of candidates as a challenge is high (59 per cent), this is lower than the equivalent figure in last year's survey (72 per cent).

Figure 5. For what reasons, if any, is it a challenge to find qualified and high-potential candidates?



The tone of our interviews with senior finance leaders was markedly more positive regarding their ability to find talent. It was often suggested that there is a pool of people out there who are willing to move. Significant challenges remain, particularly in terms of the location of your business and the proposed remuneration. Anecdotally, however, it seems candidates are experiencing the same tentative optimism that businesses are also experiencing as the economic gloom of recent years recedes.

Casting a wider net

Despite finance professionals potentially becoming more willing to move between employers, the pool of fully and partly qualified candidates remains limited. As demand for the right people rises in line with business's developing appetite for growth, competition for top talent is set to increase.

As a result, many finance leaders are starting to look beyond qualified accountants and consider whether other candidates have the potential to fill finance roles and, in particular, roles involving business partnering. Softer skills, such as the ability to influence stakeholders and to build effective relationships, are vital in these roles and are far from exclusive to finance professionals. Similarly, skills in data analysis can be a real strength in business partnering roles. Provided candidates from non-finance backgrounds can – or already do – grasp financial concepts, they can represent a new source of talent for finance functions seeking to strengthen their teams.

It's important not to forget, however, that the recruitment challenge extends right across the finance function. The best organisations also maintain their focus on employees in transactional roles, even as they seek out candidates to fill business partnering and analytics roles. As specialisation in transactional roles increases, encouraging and facilitating lateral moves, and communicating possible career pathways, are both vital to retaining and motivating employees in these roles.

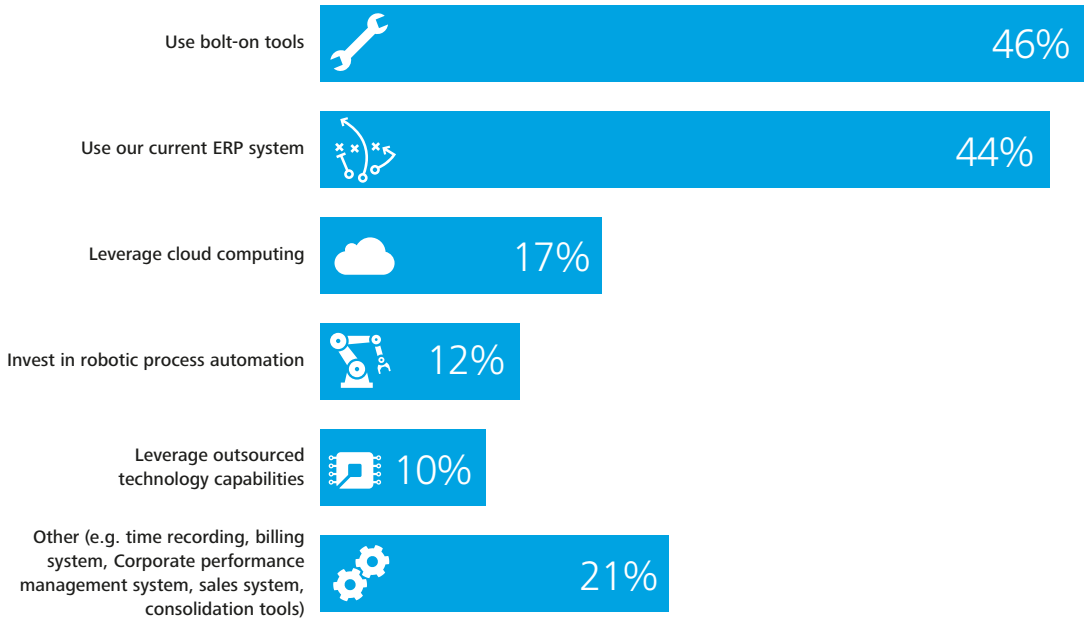
For partnering roles, commercial knowledge is key so we actually prefer to recruit people from different backgrounds because they can bring fresh ideas.

Evolving methods: the future is here

Innovative technologies are now exerting a powerful influence on the shape of the finance function, offering opportunities to improve efficiency, develop faster and more accurate business intelligence, and even to transform how the function is organised and where its capabilities are located.

Automation is the technology trend that is front of mind for most finance leaders. Of our survey respondents, 37 per cent said they are planning to increase automation within the next 12 months, with a variety of approaches being utilised (figure 6).

Figure 6. How, if at all, are you planning to increase automation over the next 12 months?



Currently, most automation is focused on Enterprise Resource Planning (ERP). This will include tasks such as the preparation of standard journals and reconciliation management. Within a few years, we can expect to see an increase in automation of more advanced areas, such as routine analysis, business intelligence reporting and forecasting, as well as full robotic process automation. At the time of our survey there were very few examples of advanced automation amongst our respondents, but a handful of leading organisations are implementing such solutions in 2016.

The cloud is also playing a key role in the emerging trend for finance functions to move towards a Centres of Excellence (CoE) model. Feedback suggests that the cloud market is still fairly immature and unproven in finance for larger organisations, though this is changing rapidly.

The cloud, combined with mobile applications, enables the outsourcing or centralisation of transactional functions to 'finance factories' where transactions can be processed with maximum efficiency. These factories exist in tandem with large, centralised knowledge centres which are home to business partnering consultants, business analysts and specialised technical experts – all required to serve business's growing need for the finance function to act in 'strategist' and 'catalyst' roles.

It will be a challenge to find the right tools at the right time. There are already lots of options and the wrong decisions can create inefficiencies. But, if we get it right, we can move from the provision of data to the provision of insight.

Summary

The global economy continues to recover from the 2008 financial crisis. Although optimism continues to build, there remains a great deal of uncertainty.

For most businesses this has meant a gradual re-balancing towards growth-focused (rather than defensive) activities. Finance needs to act as a catalyst for growth, by supporting business decisions and shaping strategy at the highest level. However, there is still a need to increase efficiency wherever possible.

Expectations of finance have never been higher. The process of becoming a leading performer is complex, requiring time and investment. Many of our survey participants are investing in systems, improving processes, enhancing delivery of data and boosting the capabilities of their people. When these fundamentals are in place, we are seeing role model organisations starting to make use of analytics and other advanced technologies. The goal is to increase the proportion of time that finance spends on bringing insight and on influencing strategy, so that the business can continue to grow.

Request a personalised report

To complete the survey and find out how your practices and performance compare with a tailored group of peers, please contact financebenchmark@deloitte.co.uk

Talk to one of our experts

To discuss any of the issues raised in this report or to find out how we can help your finance organisation meet business's evolving expectations, please get in touch with financebenchmark@deloitte.co.uk or one of the key contacts listed on the final page.

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