

**Finance strategy:
delivering the
partnering role**



“In order to support the agenda for growth through innovation, Finance needs to partner more, to analyse and predict, not only record and report.

What stops this happening? Business partnering needs people with the right skills. It needs a culture that uses information and spurns workarounds. It demands the ability to think strategically, the ability to work with, and sometimes around, risk. As far as possible, it needs ‘silent running’ – Finance operations that demand more from automation and less from the CFO.

How do successful CFOs engineer this shift? They reassess their heavy roles in favour of what matters most to their business, and delegate the rest. They put much greater focus on the people agenda. They use innovation in tools and techniques. And they home in on the information agenda, with a target of quality information and its management.

They are then able to fully partner with the business.

We have prepared this paper because we believe passionately that Finance’s partnering role is vital for business growth and, though challenging, is a realistic goal.

I would like to thank the many contributors to this campaign including clients, the IBM Finance and Planning team, and our financial management consultants who specialise in this field.”

Ian McMillan

Financial Management Consulting Leader, IBM UKISA

The central message in this point of view paper

The key assertions in this point of view are:

- *Finance needs to partner more within the organisation*
- *Its role and priorities should be agreed with the leadership team*
- *It needs its own business plan if it is to develop.*

And CFOs need to:

- *Invest to develop skills and behaviours in the retained organisation*
- *Define a wider 'contract' to motivate and retain the right people*
- *Drive standardisation and scale economies through centres of expertise*
- *Use the new IT enablers to improve end-to-end processes and information architecture*
- *Focus information on the roles of individuals to improve productivity and collaboration*
- *Ensure that there is a governance framework around information integrity*
- *Communicate the business plan so everybody understands where Finance is going and why.*

In practice, the message will need to be tailored around each organisation's priorities. For example, in a Telco, the key concern may be getting insightful information; in an energy business, it may be managing the wider risk agenda.

“With the right people in the right roles, provided with continually improving information and underpinned by adaptable and effective end-to-end processes, Finance can achieve its partnering role.”

Why Finance is not an easy option

The CFO's job is arguably as difficult as that of the CEO. Finance affects and is affected by all aspects of the enterprise. The job covers compliance with increasingly higher standards of financial reporting and control, prudent management of risk without allowing this to blunt innovation – proactively supporting growth by providing analytical insight – or, in the public sector, optimising service delivery effectiveness. The CFO has to participate at a strategic level and yet be able to operate at the lowest level of detail across the whole organisation. The job demands the ability to look backwards to report, be alert to what is happening now and see into the future to plan.

Figure 1 – The number one problem for CFOs is seeing through all the complexity



The CFO operates against a background of compounding structural complexity (see Figure 1 above) and often a lack of agility brought about by the workarounds created to meet urgent business needs. To cap this near-impossible combination is the imperative to do it all at lower cost.

Some organisations have been successful in managing these complexities but the more usual reality is a continual journey of improvement, during which the CFO has to grapple with the problems of diverse and inflexible legacy systems, and business culture change.

The partnering role in the retained organisation

Most organisations have implemented some degree of shared services in Finance operations. This has often delivered large cost reductions while taking a step in the direction of standardisation. However, people in the 'retained organisation' – those remaining in the Finance function who are not under the new management of a shared service centre or outsourced provider – can experience difficulty in adapting to their changed roles. They need to focus more on:

- *Being adaptable and supporting business growth*
- *Working closely with the business units, and creating insights from information and risk management strategies*
- *Improving end-to-end processes.*

Finance's effectiveness may have been undermined by past single-agenda emphasis on cost reduction, weakening its ability to contribute to future results (growth) as opposed to reporting actual results. There has been a shortfall in working with the organisation to improve performance and develop growth opportunities, i.e. a weakness in Finance's 'partnering' with the organisation.

Partnering is a two-way relationship that requires an integrated and interdependent way of working throughout the organisation – a collaborative culture. At one extreme, Finance could operate with an independent and narrowly siloed style, focusing on its role as owner of the control compliance agenda. But partnering broadens the role to include trust with accountability and strategic risk-taking.

Partnering is based on sharing knowledge: Finance people need to learn about customers and the way the other parts of the enterprise work – an end-to-end view of processes. Finance crucially needs to increase the financial acumen of the rest of the organisation. Communication, training and developing people are therefore central to effective partnering.

The key to delivering effective partnering is to ensure that the retained organisation has people equipped with a partnering competency as well as technical skills. This must also be built on sound processes and information infrastructure.

Finally, a reminder to the CEO: if you want to use Finance as a stick for hitting the other functions, it is unlikely that partnering will take root.

Can Finance succeed in its partnering role?

Yes – it has to. Finance can succeed in a partnering role – and indeed does in many cases – but in most situations it needs to do more.

Essentially, the role of Finance needs to be based on the strategy of the enterprise translated into its own organisation structure and priorities – for example, an enterprise in an acquisitive growth phase will have different priorities from one growing organically. Therefore, the role and priorities will need to be agreed with the leadership team. Furthermore, the role will periodically need confirming even in a successful Finance function to ensure that it adapts synchronously with the enterprise. But the partnering aspects of the role will constantly need to be demonstrated.

The starting point should be for the CFO to define and confirm the future role of Finance with the CEO and leadership team in the enterprise: to what degree does the business actually need Finance to get involved outside its normal operational role, for example in managing risk?

The next question is whether Finance has learned to live in a world of shared services, or whether the retained organisation has not yet made the necessary changes in people and skills.

Technology is often criticised for inflexibility, making it appear to be part of the problem rather than providing the solution. But analysts confirm that technology is now moving more strongly in the direction of enabler. This is an exciting development as it enables processes to be designed with a wider perspective, end to end, so that financial information flows more efficiently. The provision of information to people based on their role needs is also now more feasible, and enables higher productivity and scope for collaboration.

So, the purpose of this paper is to take encouragement from these opportunities, and describe how to build on them to succeed in the journey to greater effectiveness in delivering the role of Finance.

Redefine and communicate Finance's new role

First, the CFO should agree a high level mission statement for Finance with the CEO and leadership team. For example it might include: 'Finance is a highly valued partner helping the business to drive outstanding results and embedding financial competency in the business.'

This formally endorses the legitimacy for Finance to sit at the table and contribute when important decisions are made rather than just reporting the outcomes. It also acknowledges the importance of raising the financial competency of the whole organisation and Finance's role in skills transfer.

Case study – Boeing

Boeing established a strategic vision for Finance and Accounting to become a true partner with the business by shifting focus to value-adding activities. Boeing's senior management recognised that the company's financial processes and related systems did not support the strategic objectives. They therefore:

- Identified the strategic capabilities of Finance
- Focused on the supporting processes to those capabilities to identify opportunities for streamlining, simplification or standardisation, and set priorities
- Compared Boeing practices and capabilities with best practices in accounting transaction processing, close and consolidation, reporting and analytics, planning and budgeting, and systems architecture
- Identified and prioritised improvement opportunities and developed a business case to move forward
- Guided the development and implementation of 'to be' processes and systems to ensure a quality solution in a timely manner.

Based on the pain points and alignment to strategic capabilities, Boeing identified six work streams that simplified and standardised, and created headroom for more effective partnering with the business:

- Rationalised chart of accounts – reduced from more than 15,000 to less than 1,000
- Moved to a single level consolidation – rationalised five subconsolidation systems
- Standardised and monitored compliance and close procedures – reduced close from 12 to five days
- Implemented common tools for data capture – 75 percent reduction in the use of spreadsheets for statutory data gathering
- Standardised on one general ledger across the enterprise – more than 30 discrete general ledgers were consolidated to one.

Case study – BBC

The BBC adapted to rapid forecast changes in audience behaviours, programme initiatives and new technologies by creating a new enterprise model. Finance decided it needed to develop a more agile structure to support this and as a starting point redefined its mission:

“Building a better business, proactively driving value for our audiences through informed and insightful decision making, and fostering a culture of continuous improvement across the BBC. A business and Finance team, which works in partnership with the divisions and maintains a transparent system of effective standards, processes and controls.”

Characteristics of BBC Finance’s vision:

- Finance is a strategic business partner, agile and responsive to business needs
- Processes are streamlined and easy to use
- Finance supports the BBC across all its key measurement needs, providing relevant understandable information
- The Finance organisation comprises a team of skilled professionals
- Finance supports diligence and rigour with internal controls
- A single technology system underpins Finance
- Finance consumes no more than one percent of revenue.

Next, the CFO should break down the role of Finance into its main components to understand its ‘building blocks’ in terms of the services it provides. This should be used as the organising framework to define the scope of Finance’s role, the required competencies, and Finance’s relative strengths and development needs as in the illustrative Component Business Model* (CBM) for Finance in Figure 2 below.

In our view, the tasks that relate to financial control and in core performance management processes are fundamental to Finance’s role and must be retained. But a number of value-adding components, such as corporate strategic planning and the mergers and acquisitions role, can be deployed to others where circumstances dictate that the CFO’s priorities cover too wide a span for the time being.

Figure 2 – Illustrative cross-sector Finance and Accounting CBM

	Financial operations	Accounting close and consolidation	External financial reporting	Business performance management	Planning, budgeting, forecasting	Risk and compliance management	Treasury & investments		Tax management	Speciality services	Financial administration
Direct							Liquidity planning	Treasury procedures and rules			
							Investment portfolio planning	Investment procedures and rules			
Control							Bank account reconciliation	FX exposure management			
							Portfolio performance monitoring				
Execute							Cash forecasting	Cash management operations			
							FX transactions execution	Portfolio management			
							Investment modelling	Equity/debt management			
							Capital acquisition and securitisation	Trading and settlement			

Case study – a multinational pharmaceutical group

After a merger, the new organisation embarked on a programme to drive out the synergies in research and development (R&D), sales, marketing and back-office support services. It therefore:

- Outsourced its IT support (PCs, servers and software support) to IBM
- Reduced the number of enterprise resource planning (ERP) applications
- Consolidated and integrated the businesses in the US.

This left a complex organisation in Europe with a matrix of business units for sales and marketing, discovery, development and manufacturing in each country. The Finance function has responded by:

- Creating three transaction processing shared service centres in Europe
- Embedding Finance specialists in the business units
- Rolling out Hyperion planning.

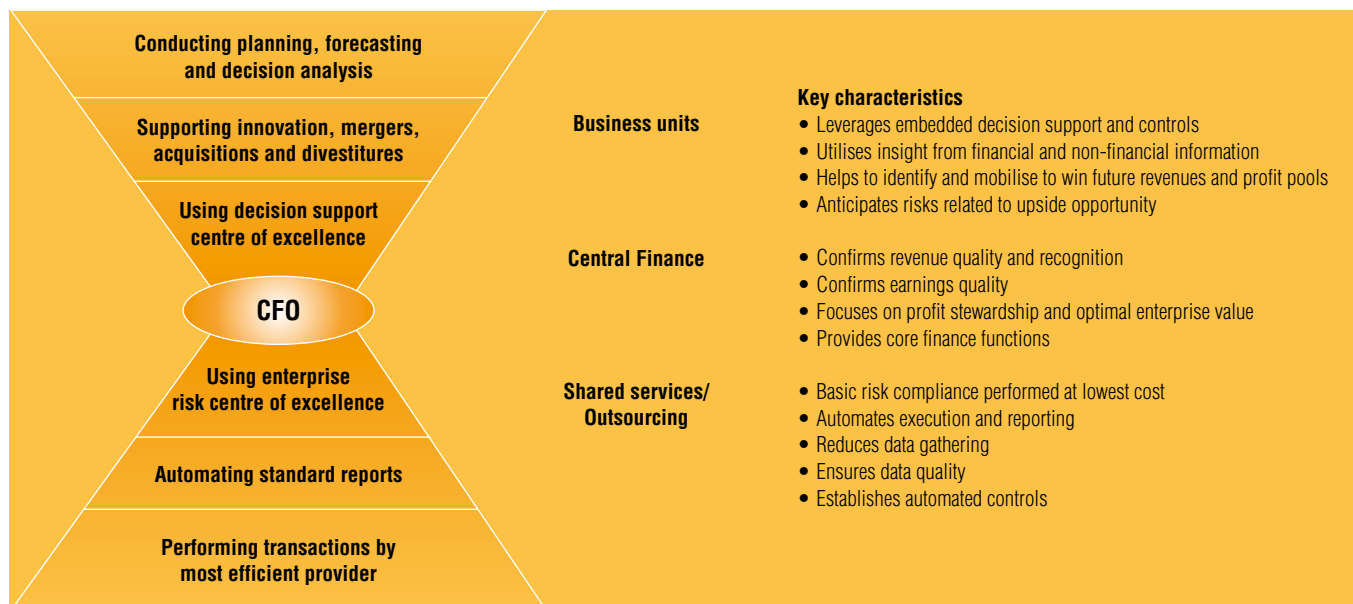
The next stage is to leverage a component business modelling analysis of the existing organisation, and to roll out a PeopleSoft HR platform to construct a framework for global support and enabling services, including Finance.

During their consideration of the role of Finance, CFOs should also review Finance's wider potential role in risk management as there is a natural fit with their financial competencies. This can be particularly valuable in contributing to the growth agenda by ensuring that a rigorous risk identification and mitigation process is in place.

The execution of Finance's role should mirror the way the enterprise is structured. We believe the future organisation of Finance will see the CFO as customer of shared or outsourced services, and provider of decision support and performance management services embedded in the business. This will reflect a focus on providing value-adding services and leading the rooting of financial competency throughout the business. See Figure 3 below.

Figure 3 – Divide the organisational model

We believe the future state will be supported by dividing the organisational model



Case study – a large European insurance company

Management identified the need to significantly upgrade the capabilities of Finance globally to enable the group to meet its strategic objectives. It needed to meet the increasing requirements of regulators, through a strong corporate governance framework and provision of appropriate information.

It also needed to:

- Manage financial resources more effectively – cash, capital, dividends – to drive up returns for shareholders
- Gain clarity on the role of group versus business units, improving key processes and systems, and developing people, with Finance becoming a more value-adding function to the business
- Improve management information and its alignment with external reporting processes.

The solution was to develop an overall Finance vision and then:

- Design a blueprint to put the vision into operation
- Set up a central programme management capability
- Engage with the global business units to explain the impact of the Global Finance Transformation Programme (GFTP) and develop strategic business requirements for Finance
- Develop a business case for the delivery of these requirements and the cost of implementation
- Scope, design and launch the global project portfolio to delivery the strategic requirements of the GFTP
- Determine an appropriate strategy/roadmap for implementation
- Mobilise plans and teams to deliver the programme.

The outcome during 2006 was to achieve ‘cost avoidance’ (finance staff, efficiencies and standardisation of processes and systems, and financial systems costs) as well as:

- Risk reduction (compliance with external reporting and regulatory requirements, FSA targets, mis-statement of results)
- Improved return on capital.

The people agenda must have a higher priority

We believe that greater recognition of the importance of people in the retained organisation is long overdue.

The first step in putting a higher priority on the people agenda is for Finance to define what actually constitutes ‘effectiveness’ in delivering its role. It can then agree performance measures to ensure they reflect its new role, and monitor the adoption of the right behaviours in partnering and pursuing the control agenda.

These need to extend conventional measures that typically cover efficiency and process quality to include partnering effectiveness. These would measure the capabilities of Finance and business units’ satisfaction across a range of criteria. See Figure 4 below.

Figure 4 – Balanced scorecard for finance

Finance efficiency		Finance effectiveness	
Process efficiency <ul style="list-style-type: none"> • FTE per 1000 transactions • Cycle times • Staff overtime 	Process quality <ul style="list-style-type: none"> • Error rates • Timeliness • Disputes • Working capital vs revenue 	Partnering effectiveness <ul style="list-style-type: none"> • Grade profile vs plan • Training accredited • Time on business unit-facing activities • Business unit satisfaction • Revenue and margin growth • Project milestones vs plan 	E.g. 1-10 scores on: <ul style="list-style-type: none"> • Responsiveness • Understanding the business • Ideas generation • Communication • Knowledge transfer

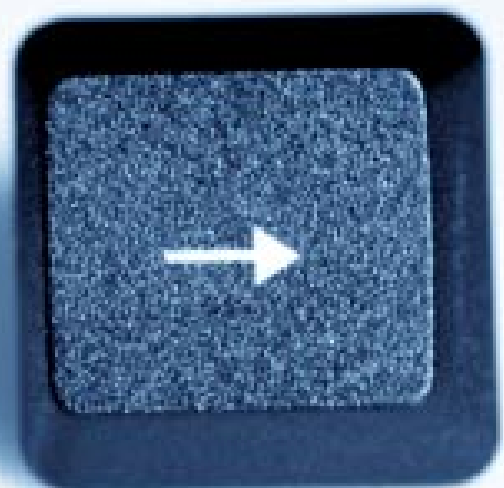
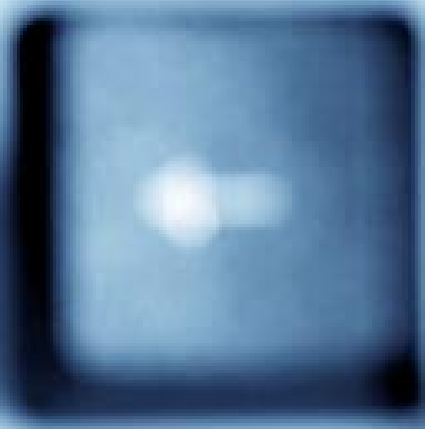
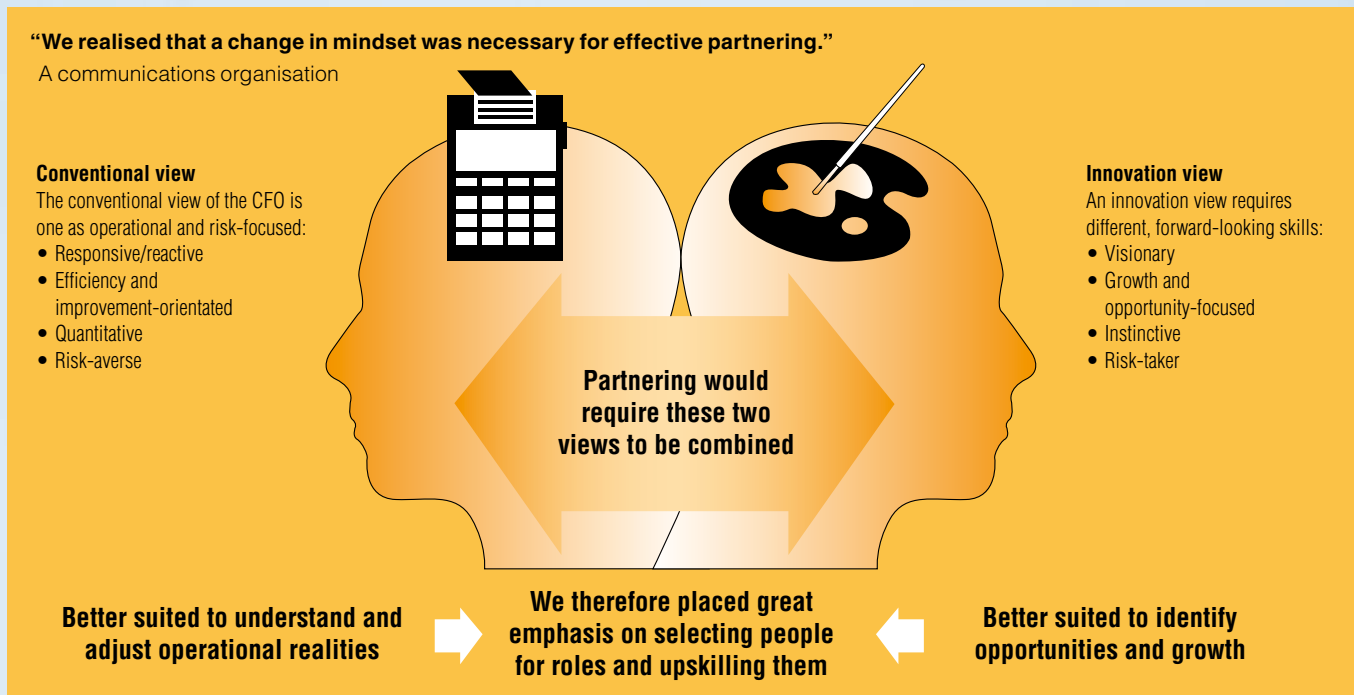
The roles of individual team members should then be clearly spelt out, including behaviours and the mindset required for their success. The gap between the new roles and the skills profiles of the existing people will define the degree of upskilling necessary and the coaching, training, recruitment or migration of staff as appropriate.

This provides Finance with an opportunity to define a new 'contract' with individuals for their personal development. This would include new tools and training to help them excel and the career development path they can expect in the organisation.

The feasibility of establishing centres of expertise should be evaluated to optimise available skills on a regional or global basis, and to drive standardisation and economies of scale.

Teams need to be reshaped to reflect the growing automation of many of Finance's operations, and to differentiate the skills required in operations from those required in analysis and business partnering. See Figure 5 below.

Figure 5



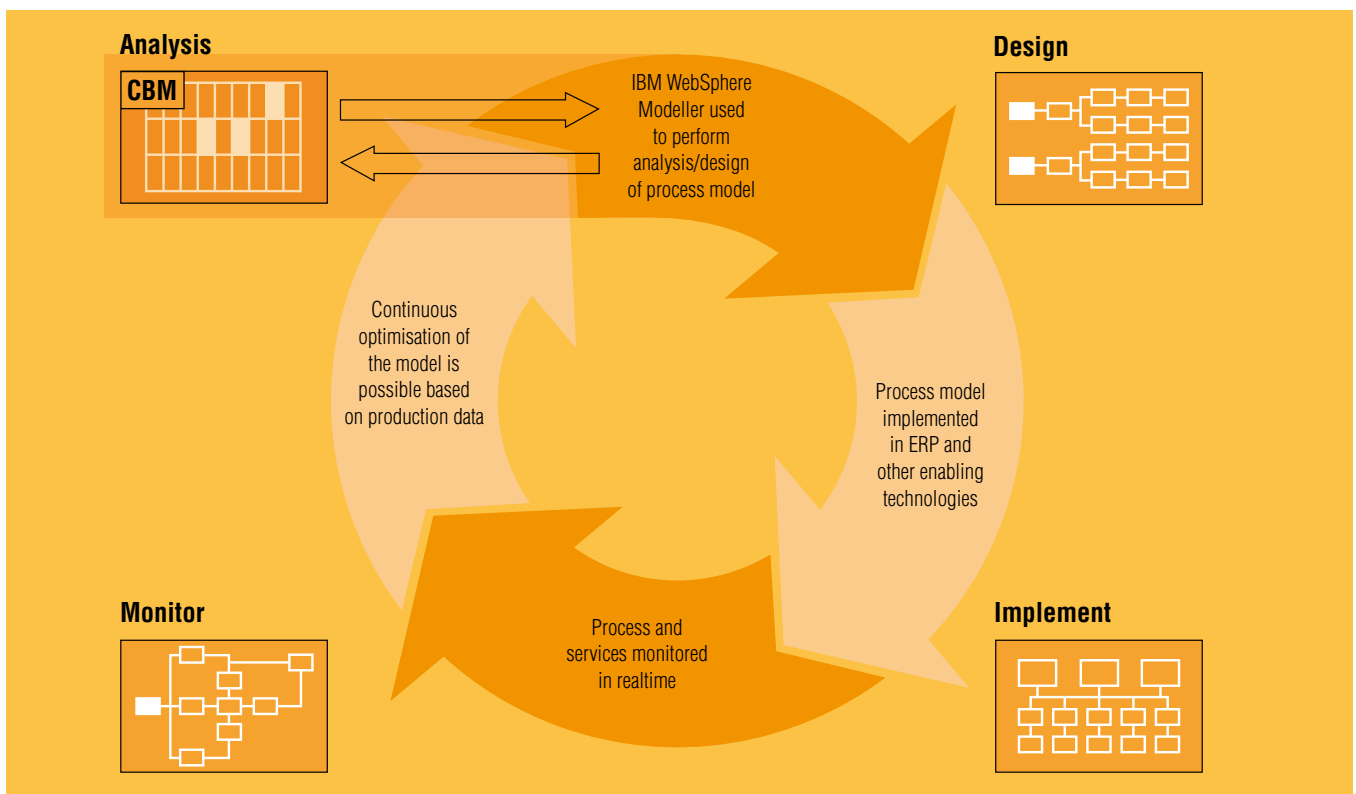
Make IT work for you in end-to-end processes

Harmonising communication standards and the use of the Internet/intranet are opening up the feasibility of efficiently exchanging data between diverse systems within the organisation or with outside suppliers and customers. This has a significant potential impact on Finance processes as it eliminates paper-based workload and speeds up the flow of accurate digital information. For example, numerous organisations are accelerating their period-end reporting as a result.

This also facilitates end-to-end process reviews that are not just restricted to the financial (typically shared services) operations by factoring in the relationships between activities in different parts of the process that affect each other.

The use of the latest generation of dynamic process modelling and workflow tools speeds up and simplifies the work of optimising processes and monitoring their performance. An example of these tools, the IBM Process Optimisation Tool using IBM WebSphere* Modeller, is illustrated in Figure 6 below.

Figure 6 – IBM Process Optimisation Tool



Similarly, modern ERP functionality is used for financial processes, rather than wasteful bespoke systems that produce maintenance problems. Avoiding the trap of thinking "my organisation is different" is a great way of reducing complexity.

Reviewing processes with the aim of streamlining, improving controls and effectiveness requires an examination of how data flows, and this in turn is the source of information for decision making.

Rationalise the information architecture and underpin people’s roles

Information is the most often-quoted pain point due to difficulties around timeliness, lack of transparency, inconsistency, multiple versions and inaccessibility. The paradox is that there is usually too much data but little focused information. The root of these problems can often be traced to legacy systems that lack cohesion and the difficulty of deciding where to start improving while the organisation grapples with growth and business as usual. Expedient workarounds usually result in further complexity and inflexibility.

Information is the blood that flows through the veins of an organisation and every activity from strategy to transaction depends on it. Deficiencies in information systems therefore directly affect performance and morale. They also compromise the quality of decisions that shape the strategy of the organisation. For example, if there are multiple and inconsistent sources of customer information and the products they buy, how can reliable insights into customer/product/channel marketing decisions be gained?

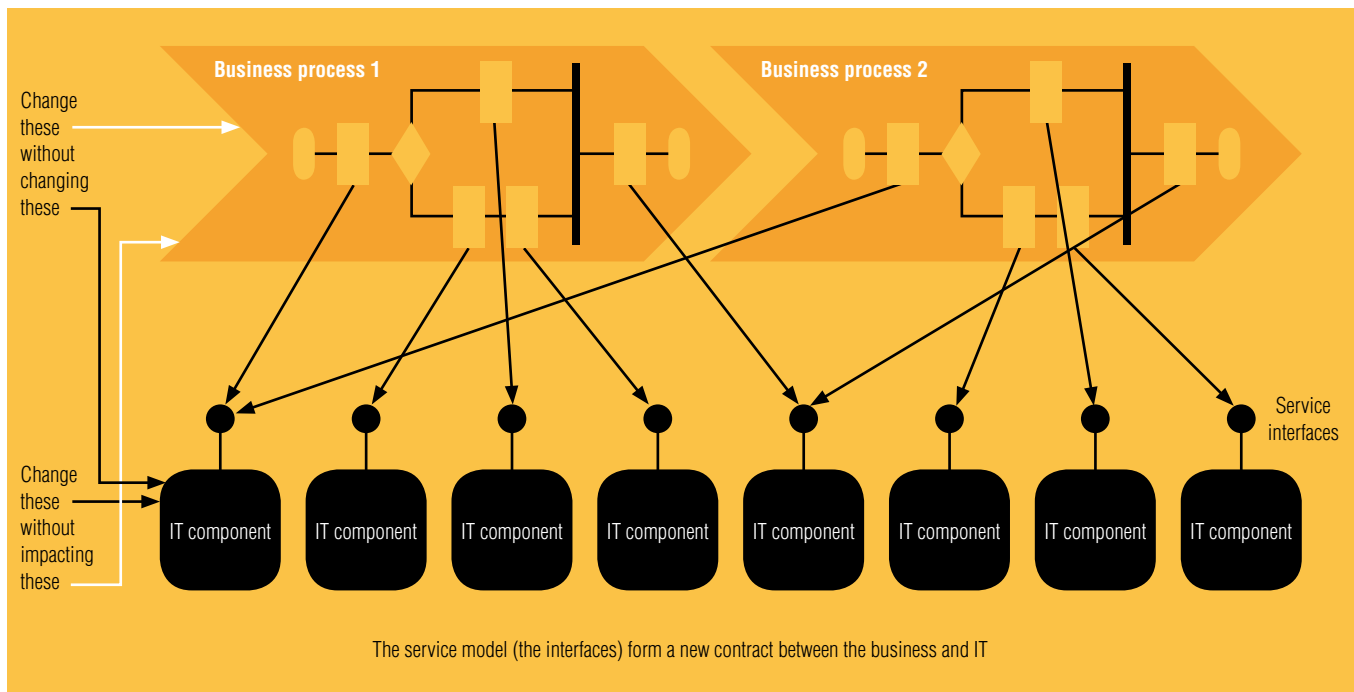
Information is therefore a strategic asset that requires an end-to-end view if it is to drive higher business value.

In response to this, we are seeing two emerging trends in information management that potentially provide more robust and flexible solutions:

- *The ability to source information in a more rational and flexible manner – the information architecture designed around ‘services’*
- *How information is used and can be accessed directly and easily by people doing their job – role-based information.*

With IT industry support of open standards, it is becoming possible to more easily link different systems, or components of systems, through an approach called service-orientated architecture. This means that information (customer data, for example) can be held in one place and shared among the systems and users that require it – hence the use of the word ‘service’. For example, within the ‘Order to Cash’ process, a component would be credit-checking. This could be configured as a service that is used in several other applications such as order acceptance and cash collection. See Figure 7 below.

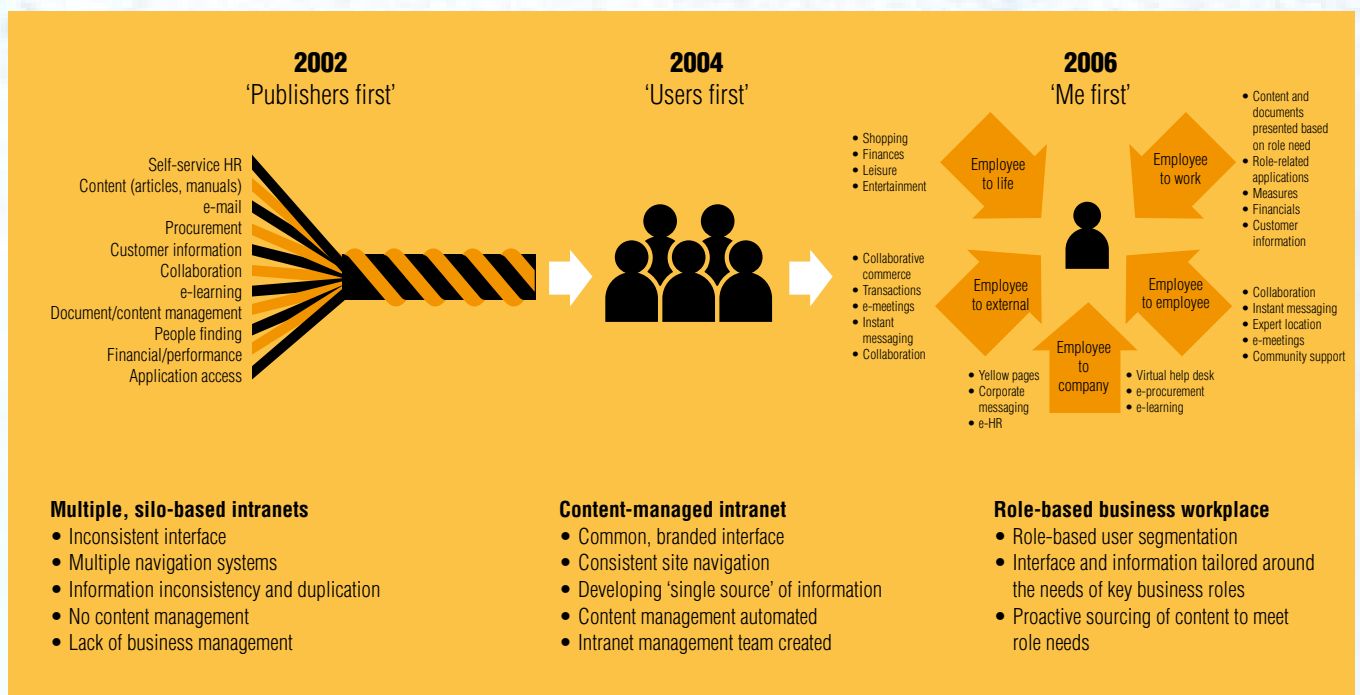
Figure 7 – Service interfaces insulate business processes from IT change, and IT from business process change



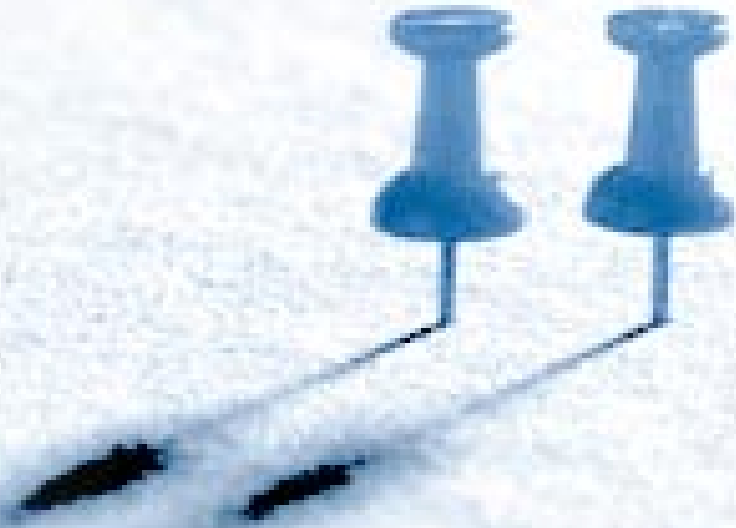
This has profound benefits in terms of governance, maintenance, consistency and transparency. Deciding what to tackle first in rationalising the information architecture is still a challenge, but a structured, prioritised and phased approach is possible – no big bangs necessary.

People’s need for more relevant information and the use of available technology needs to lead to a change from a ‘publish everything’ culture to a ‘role-based portal’ intranet that accurately reflects the way the organisation does business and an understanding of an individual’s role within it. The evolution of role-based information is illustrated in Figure 8 below.

Figure 8 – From creative anarchy, via a content-managed intranet, to a fully-fledged business workplace



The organisation’s own intranet opens up the possibility of tailoring the accessibility of information – internal, external, non-financial and financial – through a personalised Web portal. The benefits of this are being able to filter the trees from the wood and provide people with information they really need, accessible from anywhere with an Internet connection.



Case study – IBM

The IBM financial systems blueprint was redesigned based on commonality across an integrated matrix management system.

This involved:

- Creating common data definitions, corporate data standards for financial elements and a worldwide charter of accounts
- On that foundation, building common applications for accounting transactions such as employee disbursements, intercompany billings, accounts payable, accounts receivable and assets
- Feeding source data into a common ledger system to allow aggregation by unit at the corporate level.

On a base of common, worldwide accounting data, IBM could then deploy a robust financial information strategy and common worldwide planning system to deliver business and treasury management information. Systems were run in common

geographic mega centres and data maintained in a worldwide financial information warehouse.

IBM invested in collaborative solutions: instant messaging, online team rooms and Web conferences.

Using programmes such as IBM ThinkPlace*, which is designed to capture ideas from across the company, IBM gained more input on which to build through active collaboration with colleagues.

The foundation for this culture of collaboration is the On Demand Workplace, which allows the communication of information to be tailored to the requirements of specific roles.

When we see organisations with fragmented and inconsistent sources of information, we are witnessing a lack of governance. Where there is a vacuum, we believe that the CFO should own the governance process around information integrity because weaknesses in this ultimately are reflected in financial results. This is not the same as saying that the CFO should own all the data, as clearly others are better placed to own information originating in their domain. For example, marketing may own customer relationship management (CRM) data, Finance owns accounts receivable data but Finance ensures that there is an overarching governance framework in place.

So, with the right people in the right roles, provided with continually improving information and underpinned by adaptable and effective end-to-end processes, Finance can achieve its partnering role.

Planning for success

In our view, the process of developing a plan for Finance should adopt the same rigour as the business users for its wider business plan. This means that Finance need clarity around:

- *Its value proposition, including its internal and external 'customers' – for example, internal process owners and external analysts*
- *Alternative delivery models such as offshored or outsourced services*
- *Investment and benefits, not just functional costs.*

We have placed the solutions into a framework that reflects the method we use when working with clients. The starting point is defining and confirming the role of Finance with the CEO and leadership team. This is the basis for every decision that Finance will make about its development.

People, processes and information pain points are then identified and evaluated in relation to the role in order to set priorities. Solutions are then developed also taking into account the available technology enablers. These will form the backbone of the business plan for Finance and technology enablers in order to produce the development plan. See Figure 9 below.

Figure 9 – Finance business plan



The development plan articulates the case for change, key milestones and actions with timescales and accountabilities. A high degree of 'demand-pull' from the CEO and leadership team should be supported by a governance structure to make it happen. The key benefits of a finance development plan are proven:

- *The process of preparing the plan involves Finance and other people in defining what the business needs and establishes a rapport with the organisation that can be built upon*
- *A clear statement of purpose acts as a rallying call for Finance people to understand how their roles meet the needs of the business*
- *A detailed route map describing how Finance will achieve its vision enables the business case to be confirmed and investment funded with confidence*
- *It establishes yardsticks by which success can be measured and rewarded*
- *It is the basis for communicating the role of Finance throughout the whole organisation.*

Case study – a large UK government department

The department started the Finance change programme through developing its strategy for Finance. This included outlining a business operating model in order to develop the future state Finance operating model, identifying gaps between the current and future states, and developing a gap closure programme and business case for change covering the entire scope of Finance activities.

The targets for the change programme included:

- Governance, risk and assurance
- Integrated planning and performance management
- Procurement
- Financial, commercial, estates and employee shared service provision.

The strategy provided the department with a clear position on how Finance would perform and service the needs of its customers by 2010.

In delivering the Finance transformation programme (FTP), the department established projects to:

- Design and implement business change in the Finance areas
- Develop a change framework for the FTP, focusing on the achievement of tangible outcomes
- Provide business change support for the department's implementation of the resource management system
- Implement people transformation, including organisation design, leadership, and learning and development solutions
- Upgrade the functions of planning, performance management, decision support and investment management.

To date, the FTP has realised significant benefits in the way services are delivered, including:

- Improved performance management and decision making – for example, the implementation of a new scorecard for the executive team, new planning processes and systems
- Improved information on resources, outcomes and value produced (enabling decision support, better planning, budgeting and resource allocation)
- Clarity on organisational accountabilities and responsibilities through the design and implementation of a new Finance organisation
- Building the platform for improvements to be made in service delivery
- Improved efficiency through implementation of best-practice Finance processes and systems
- Enhanced financial awareness and capability across key staff and across the business.

In conclusion

CFOs are fully able to continue their migration from providing excellent financial management, reporting and control to partnering with the business. But to do this requires most CFOs to do some reengineering of their own role, freeing up Finance to devote more energy to the business and growth agenda. The plans identified here should go a long way toward achieving this objective.



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