



cutting through complexity

# Being the best: Inside the *intelligent* finance function

Insights from our latest global  
CFO research

KPMG INTERNATIONAL





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# Global finance functions — What next?

So you are the chief financial officer (CFO) of a large global company. When you took on the role a few years ago, you inherited a finance function that could barely cope with the increasing array of financial reporting requirements and compliance initiatives. Your finance organization was hamstrung by inflexible business processes, legacy systems, poorly trained people and constrained finance budgets. A lack of visionary leadership and structural underinvestment had spurred a downward spiral of poor service, dissatisfied internal and external stakeholders and high finance staff turnover.

Thanks to the finance transformation project you embarked on last year, things are improving, slowly but surely.

- You created and communicated your new finance vision and strategy to all your key stakeholders and designed a bespoke Target Operating Model (TOM) for the finance function.
- You hired well-qualified, highly motivated finance staff for key positions in your finance organization.
- You embedded business controllers as liaisons between the finance departments and the business operations.
- You implemented a new Enterprise Resource Planning (ERP) system and consolidation tool using a globally consistent standard chart of accounts.
- You standardized basic financial transaction processing in your key locations and centralized them in a newly established finance shared service center.

Now finance reports are delivered on time and — most importantly — user satisfaction and staff morale are at all-time highs.

So what next?

As the leaders of today's finance functions continue to work hard to boost their relevance and value added to the business, they are shifting their focus outward to those financial management activities that contribute the most to better business decisions that improve the bottom line. Their biggest challenges lie in creating the efficiencies needed to gather and process basic financial data and continue to deliver traditional finance outputs while at the same time redeploying their limited resources to enable higher-value business decision support activities.

For the member firms of KPMG International, a top priority is helping our clients optimize the operation of their finance functions and position their finance teams for lasting success. Since 2006, we have conducted biannual surveys of senior finance executives around the globe. Our purpose is to examine how finance functions are evolving over time and identify their key challenges going forward. Our research aims to capture and distill the leading practices and priorities of the finance teams of the world's best performing companies. By distinguishing the key attributes of high-performing companies that consistently outperform their peers, we can pinpoint those features of their financial management strategies and priorities that put them ahead of the pack.

Our 2013 survey has enabled us to find out the current state and future aspirations of finance functions and how things have changed since our previous global CFO research conducted in 2011 and the years before. In particular, we polled senior finance executives at over 440 organizations worldwide to capture their views on the following key questions:

- What are the strengths, weaknesses and critical capabilities across your core finance process areas and activities?
- How is your finance function's role evolving in the development and execution of new business strategies in the aftermath of the global financial crisis?
- What changes to finance operating models, controls and systems are you expecting in the next two years? What are the drivers for these changes, which of these changes will present the biggest challenges, and how can finance organizations overcome them?
- To what extent is your company willing to invest in further improving the efficiency and effectiveness of its finance operations, and in broader finance function transformation?
- To what extent has your finance function been successful in shifting its focus away from basic transaction processing and financial reporting and control activities, toward more strategic and forward-looking business performance, decision support and risk management activities?

To deepen our understanding of how senior finance executives answered these questions, we drew on the collective knowledge and experience of several KPMG Financial Management advisory leaders and subject matter experts globally, across all major industry sectors and finance disciplines. Through this multidisciplinary lens, this publication presents a comprehensive overview of the current state of the finance function, going beyond the obvious to describe how organizations can drive tangible improvements in their quest to derive more efficiency, effectiveness and value from their finance functions.





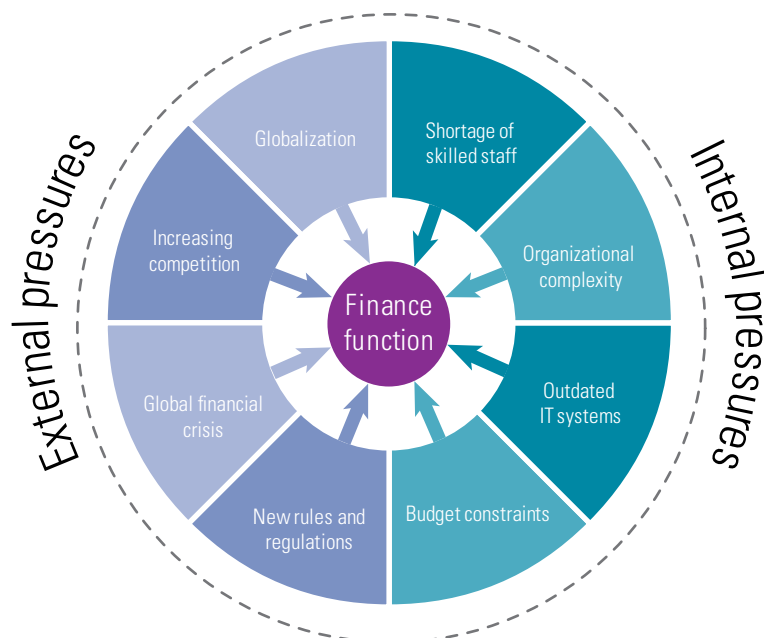


# Summary of key findings and insights

“ More than 60 percent of all respondents in this year’s study are generally satisfied with the performance of their finance function ”

## Are finance functions improving enough?

Overall, KPMG’s latest Global CFO Research shows that finance functions, driven by both internal and external pressures, are improving in many areas and advancing toward the desired future state of the intelligent finance function. The ultimate objective of this finance transformation journey is to become ‘best in class’ in terms of operational efficiency, business support effectiveness and ability to add real value to all its stakeholders.



Source: KPMG International

The key research findings below offer a snapshot of the current state of finance functions around the world today.

**Gaining confidence:** Compared to our 2011 CFO study’s results, respondents’ overall confidence in almost all of their finance activities has significantly increased. The highest increases are visible in the “order to cash” and “planning and budgeting” finance processes.

**Top strengths:** More than 60 percent of all respondents in this year’s study are generally satisfied with the performance of their finance function and agree it is “highly credible with line-of-business and functional management, the C-suite, the board of directors and other stakeholders.” The finance function’s biggest strength is most commonly the treasury process.

**Biggest weaknesses:** “Talent management and the technical knowledge of staff” are generally viewed as the biggest weaknesses of the finance organization. Respondents name these people-related areas and sets of capabilities as the most difficult to improve. One potential reason for this may be that “collaborating with the human resources group” is the finance activity most often cited as a weakness or neutral capability.

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**Managing talent:** While talent management is difficult to master, respondents rank it as the most important factor to the value-adding success and sustainable competitiveness of the finance function. Over 50 percent of respondents expect to see dramatic changes in the people-related processes of “retaining staff” and “increasing technical knowledge” within the finance function in the years to come.

**Lean finance:** Over 50 percent of respondents feel lean finance is of much or great importance to their finance organization. A similar number feel their finance organizations are already somewhat or very skilled at lean finance. “Extensive use of data analytics” and “highly optimized finance processes” are viewed as the most important enablers of a lean finance function.

**Characteristics of ‘high performers’:** Drawing conclusions about the finance attributes of high performers is complicated due to the varying sizes and maturity of firms in the various geographies covered in the research. That being said, generally speaking, the respondents from high-performing organizations — in this case, those whose revenue and EBITDA increased by more than 10 percent over the past three years — clearly put more effort in and value on talent management than those from less-performing organizations. The same holds true for the perceived importance of lean finance.

**From decentralized to centralized:** Most finance functions in countries with more mature economies are evolving toward more centralized operating models, for example, as corporate functions or within shared services centers. On average, survey respondents say they perform 51 percent of finance activities centrally but responses vary significantly. Respondents in Asia cite levels of centralization that are 10+ percent below the overall average and finance operations of larger companies (having over USD 1 billion in revenue) are consistently more centralized. High-performing organizations (as defined in the paragraph above) also tend to be less centralized. Interestingly, this implies that smaller, faster growing companies in emerging markets have yet to embrace centralization to the same degree as their larger, Western peers. These smaller companies are likely to increase their centralization over the coming years and reap the resulting benefits.

**Finance and risk alignment:** Half of the respondents feel their organization’s finance and risk management policies are already fully or significantly aligned. At the same time, most companies recognize the importance of ongoing alignment and better embedding of finance and risk activities, as a key lesson learned from the recent global financial crisis. Many factors can contribute to better alignment and/or integration of finance with other non-finance back office activities, including “better software and tools” and “better staff training and education.”

**Future focus shifts and investments:** Senior finance executives want to increase efforts on improving their decision support capabilities and reduce efforts on transaction processing in the next two years from current levels, a perennial goal often elusive to achieve. Major investments in finance workforce optimization and talent management are expected in the next few years to support the transformation of finance in to a broader business partner role.

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“ Senior finance executives want to increase efforts on improving their decision support capabilities and reduce efforts on transaction processing in the next two years from current levels, a perennial goal often elusive to achieve. ”





“ Providing greater support to the business is seen as the greatest opportunity for the finance function to add value, as identified by over 50 percent of respondents. ”

## Financial intelligence that business can depend on

The intelligent finance organization of the future, and indeed of today, must go beyond its business-as-usual financial reporting and control role to become a value-adding provider of intelligence that the board and business units can depend on to make strategic business decisions. This year's study finds that many, but certainly not all, organizations claim to be rather successful in making this transition.

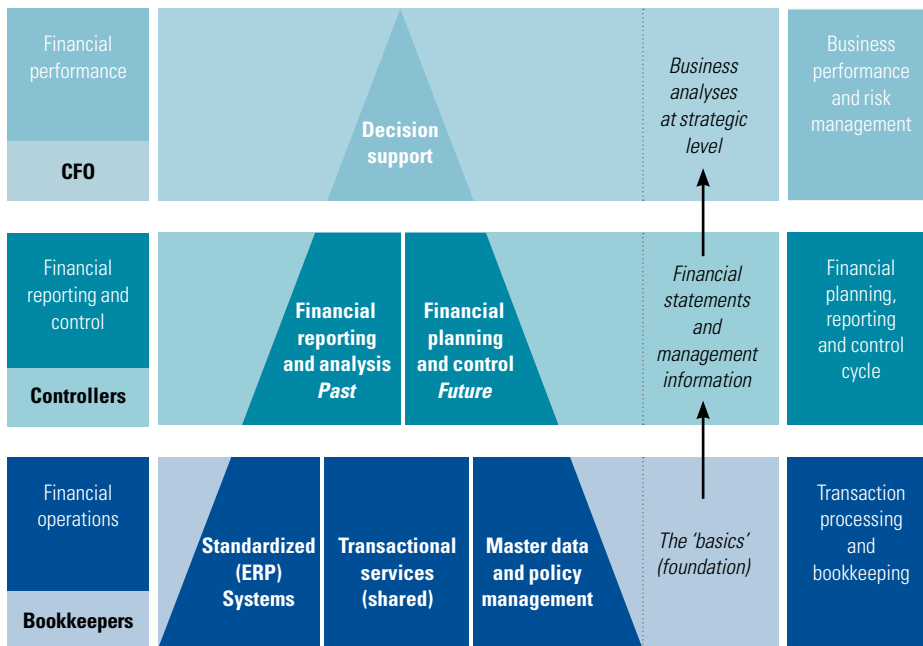
- Forty-nine percent of senior finance executives rate their ability to communicate effectively with their board of directors as a strength (up from 40 percent four years ago).
- Forty-four percent say they are already able to contribute well to the organization's long-term business strategy development, (up from 33 percent four years ago).
- Fifty-six percent of the senior finance executives expect their finance teams to have a larger role in developing and executing business strategy in the next five years.
- Providing greater support to the business is seen as the greatest opportunity for the finance function to add value, as identified by over 50 percent of respondents.
- Reducing the cost of the finance function has the lowest priority, viewed as a "great opportunity" by only 17 percent of respondents.

The global momentum to transform the finance function continues to grow, based on the rising number of respondents who are willing to boost investment in their finance operations. Compared to 2011, 25 percent more respondents in this year's study say their organizations are "very willing" to spend money on finance function improvements. Over two-thirds of senior finance executives say their organization is "very" or "somewhat willing" to spend money to improve the effectiveness and efficiency of their finance function, while only three percent of respondents say their organizations is "very reluctant" to do so.

While there are many different levers for enabling finance transformation, respondents say the areas that matter most are "investments in talent management, acquisition and retention" and "improved decision support capabilities, skills and methods".



### Understanding the building blocks of a finance function



Source: KPMG International

As the pyramid on the next page shows, finance functions generally fulfill three fundamental and distinct roles:

- financial operations (transaction processing and bookkeeping)
- financial reporting (planning and control)
- financial performance (decision support and risk management activities).

“ The global momentum to transform the finance function continues to grow, based on the rising number of respondents who are willing to boost investment in their finance operations. ”

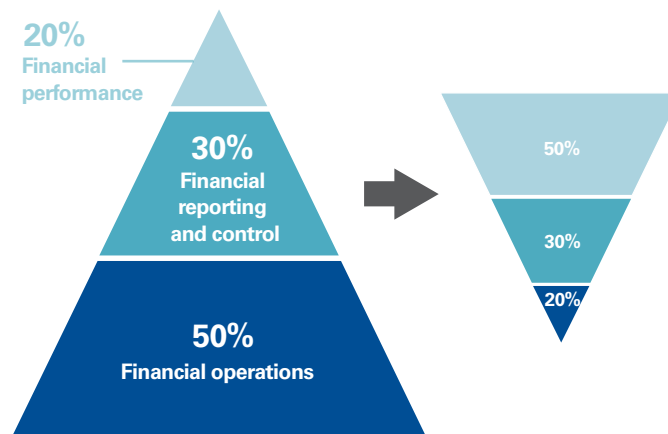




“ In short, the goal of finance function transformation is to turn the pyramid on its head (while making it smaller at the same time). Many finance functions are making or intend to make this shift ”

## Turning the finance pyramid on its head

As the role of finance functions is being redefined, CFOs are challenged to drastically change their traditional finance processes and operational support models in an effort to deliver faster, more accurate and more insightful analysis and reporting — while at the same time managing risk and reducing cost.



Source: KPMG International

Historically, finance teams devoted the bulk of their time and attention to ‘the basics’ — their traditional transaction processing and bookkeeping roles – and less time to the more strategic, value-adding finance activities. Finance function transformation, including the deployment of lean finance principles and shared services centers, have allowed finance teams to manage their basic finance operations much more efficiently and effectively. In the pyramid’s middle layer, financial reporting and control activities are enhanced by concentrating specialized skills and knowledge within centers of excellence for financial reporting, tax, treasury and other more complex finance areas.

Changes like these free up scarce finance resources to devote more energy and time to decision support activities for the business, enabled by more sophisticated Enterprise Performance Management (EPM) tools, enhanced data analytics capabilities, improved communication skills and closer liaison with business units.

In short, the goal of finance function transformation is to turn the pyramid on its head (while making it smaller at the same time). Many finance functions are making or intend

to make this shift, as evidenced by our 2013 survey. Respondents say their finance function's "decision support" efforts will increase while "transaction processing" work will decrease in the next two years, compared to current levels.

So how can busy finance functions successfully upend the pyramid while still meeting all their current responsibilities? Based on KPMG's research and practical experience, this requires a tried- and -tested approach for finance function transformation, such as KPMG's TOM which enables finance leaders to plot where they are today and where they want to be in their transformation journey in two to three years.

KPMG's Finance Target Operating Model	<b>Services</b>	<b>Entirely internally focused</b>	Multiple agendas, cost centre mentality	Finance vision agreed and aligned with the business	Focus on value management	Finance is a business partner of management and the board	Key influencer of stakeholders	<b>Value driver</b>
	<b>Organization</b>	<b>Finance function in silos</b>	Autonomous finance functions, e.g. objective setting at BU level	BU finance reporting directly into local mgmt/ dotted line to center	Strong alignment with central finance (hard dotted line)	Central guidance for BU implementation	Integrated finance community	<b>Integrated finance function</b>
	<b>People</b>	<b>Scorekeeper</b>	Diligent caretaking	Reactive ad hoc analysis	Business acumen and financial knowledge	Insightful analysis and comment	Constructive challenge	<b>Business partner</b>
	<b>Processes</b>	<b>Business unit (BU) specific</b>	Disaggregated processes and responsibilities, multiple G/Ls	Low degree of standardization and automation (divisions/ geographies)	Recommendation for common methods, processes and reference data	Standardized processes for low value, high volume transactions	Standardized processes for financial management	<b>Standardized and optimized</b>
	<b>Technology</b>	<b>Incompatible systems and data models</b>	Multiple data models, tools/ applications and G/Ls	Standard consolidation layer	Standard systems, interface layer and recommended data models	Standard data models, tools/ applications, on multiple occurrences	Standard tools and applications, on single occurrence	<b>Central data model/ systems</b>
	<b>Location</b>	<b>Decentralized processing</b>	All processes are internal and decentralized	Some centralization for low value, high volume transactions	Sourcing (central or external) of finance support tasks (i.e. finance systems)	Majority of finance processing are sourced (central or external)	All financial processes in optimum locations	<b>Strategic sourcing/ SSCs optimized</b>

Source: KPMG International





The FinanceTOM model looks at six specific areas, as shown below, ranging from alignment of finance services with the business strategy, through organizational and cultural needs, to specific process and system requirements.

Defining a clear finance vision and strategy and designing a fit-for-purpose Finance TOM that will deliver this vision, should be the first steps of any major finance transformation program. It is essential that the finance management team determine the scale and scope of its finance ambitions clearly at the outset. But a full-fledged finance transformation program is not always necessary. Indeed finance leaders can choose how far and fast they want to move the finance function, based on an assessment of prioritized requirements and their expected benefits. As an example, the diagram below depicts what a 'world-class' finance function could look like.

#### What does a world-class finance function look like?

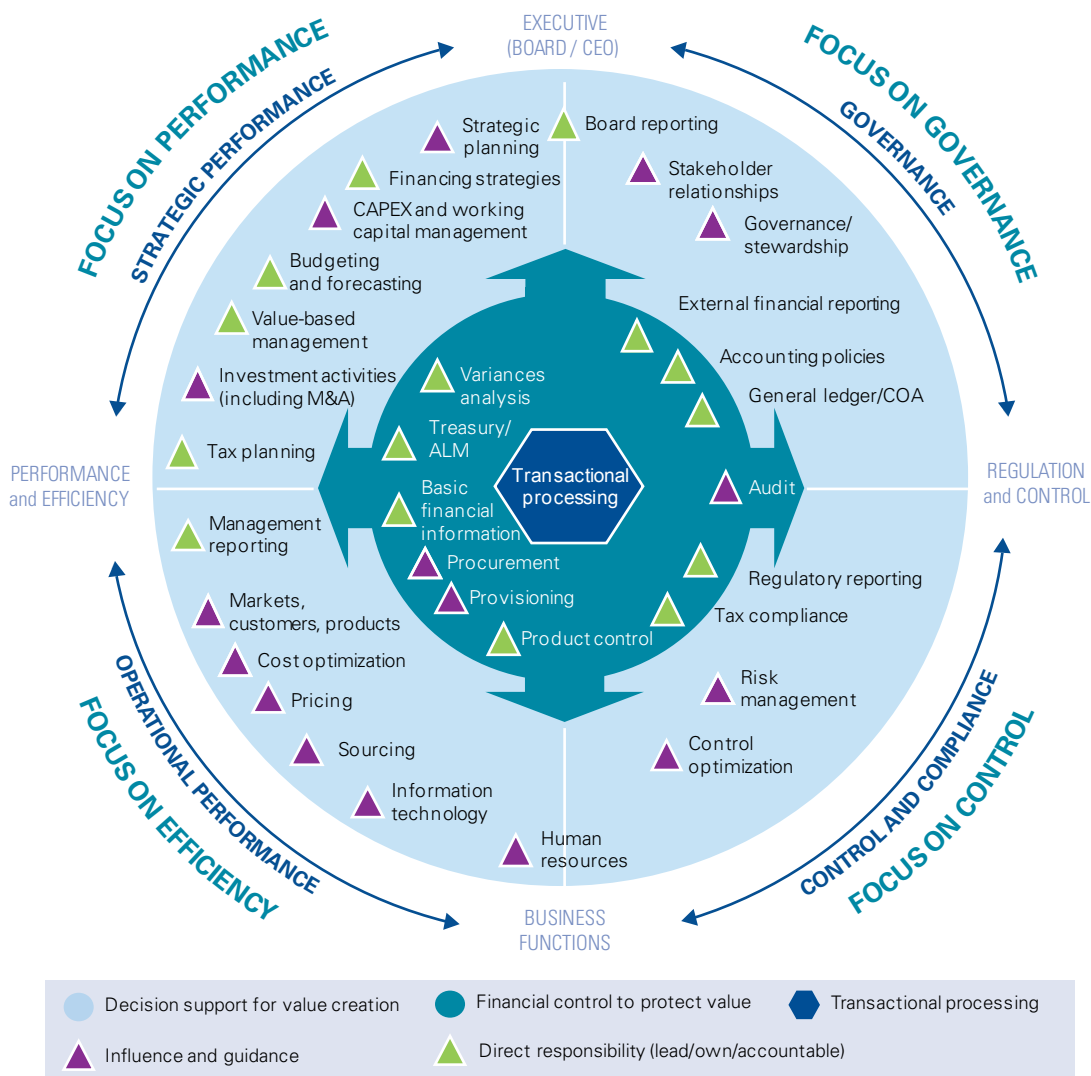
Services	Organization	People
Single finance vision and strategy aligned to business Finance as a business partner Focus on value drivers Single version of the truth Strategic and operational decision support Leads communication of performance to stakeholders	Global finance function Clear roles, responsibilities and accountabilities Transparency and objectivity Global objectives setting Global training and mobility Global governance framework	Global finance teams Global finance team competencies Commercial challenge Highly motivated and enthusiastic staff Global talent management Global succession planning
Process	Technology	Location
Standardized policies, procedures and controls Integrated processes and common data models and reference data Standardized and automated processes Integrated performance management (including CP&M) Complex scenarios (PB&F) Scaleable and flexible	Single consolidation/GL/COA Common reports, data models and reference data Single ERP (one instance) Global systems governance framework Single sourcing strategy (M&D) Scaleable and flexible	Sourcing aligned globally Processes in optimum locations Global sourcing governance framework Processes/controls enable sourcing People skills enable sourcing System(s) enable sourcing

Source: KPMG International



The requirements for the FinanceTOM are normally driven by what the finance function ultimately produces — i.e. the financial reports and related financial management services. Defining these services in a services delivery model is important, as we discuss in more detail in the “lean finance” topic in the following chapter. The principal outputs and key stakeholders of the finance function are as follows:

### Finance function — Principal outputs and key stakeholders



Source: KPMG International

In summary, a well-defined FinanceTOM should identify where the finance function needs to acquire or develop new capabilities, knowledge and/or resources in each of the six operational areas to become a leading finance organization. By doing so, the FinanceTOM maps the way forward for finance teams and their business partners to achieve their desired state as an intelligent finance function.





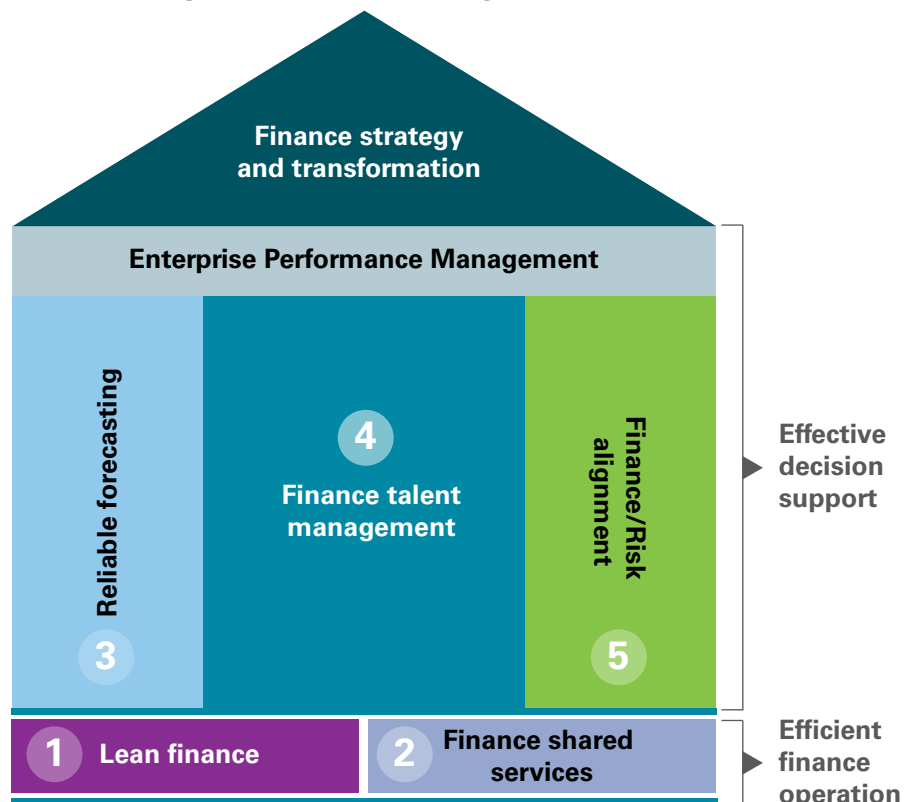
# The intelligent finance function

“ Current survey results reveal that most companies are progressing toward the implementation of **intelligent finance** concepts and functions. ”

Current survey results reveal that most companies are slowly but steadily progressing toward the implementation of **intelligent finance** concepts and functions. Having spent much of the past decade ensuring compliance with rapidly changing financial reporting standards, corporate governance requirements and/or cost reduction initiatives, many of them are poised to focus more on driving innovation through the embrace of intelligent finance models by:

- strengthening their strategy alignment, business planning, performance reporting and analytical capabilities
- empowering their finance organization to help the business make better and more informed decisions based on the right information delivered at the right time
- more consistently and expansively transforming data into intelligence that enables actionable decisions based on insightful reports that highlight key performance measures collected by multiple functions (such as finance, risk, operations, HR and marketing), using the latest business intelligence tools combined with innovative (big) data and analytics techniques
- leveraging the latest information technology developments to take advantage of evolving market opportunities, for example, through more integrated, cloud-enabled ERP and EPM solutions combined with user-friendly mobile technologies.

## The building blocks of an intelligent finance function



Source: KPMG International

The previous chapter set out a proven approach for establishing a more efficient and effective finance function through the creation of a leading-edge Finance TOM that defines the structure and governance of the desired finance organization and its core components. We will now zero in on five key topics that are increasingly vital to the evolving role of the intelligent finance function and its ability to add even more value to the business as a whole.

1. **Lean finance** tools and techniques optimize the finance operations and ensure minimum waste and other inefficiencies occur in the basic finance activities.
2. **Finance shared services** and strategic sourcing practices perform the basic finance activities at the most appropriate location, allowing finance teams to re-direct their efforts to those value-adding activities that matter most.
3. New business intelligence tools and data and analytics techniques enable the intelligent finance organization, as exemplified by the rise of integrated business planning and control tools supported by more **reliable forecasting** techniques.
4. **Managing talent** in the finance function by creating an organization-wide HR framework for attracting, motivating and retaining the best finance staff at all levels in increasingly diverse and competitive labor markets.
5. **Alignment of finance and risk** functions and their related activities to enable improved strategic and tactical decision-making through better balancing of risk and reward factors over the short and long term.

Finally, we conclude this report with a discussion of how CFOs can help their finance teams make the leap towards a truly **intelligent finance function**.





# 1.

## Lean finance — Foundation for success

Across the globe, the finance teams that provide the most value are those who offer high-quality analysis and advice that contribute to better performance. Of course, finance teams cannot expect to boost their value overnight. Effective business support needs to spring from a strong foundation, and so finance functions need to get the basics right. Until they do, they will not have strong enough footing to offer credible insight and analysis at the upper end.

This is where lean finance comes in. Under these principles, finance teams focus on improving the efficiency and effectiveness of their core activities to enable reliable data streams, uniform reporting standards, and optimized finance processes and technology infrastructure. Finance functions can then harness the resulting gains in quality and efficiency to improve the range, timeliness and integrity of their strategic business support. In short, lean finance involves simplifying, streamlining and harmonizing essential finance processes to create a leaner, more efficient finance operation.

### Benefits go well beyond reduced costs

The 2008 financial crisis has already caused many finance functions to embrace lean finance principles to some extent. Indeed, companies have sought innovative ways to re-engineer their basic business processes (including finance) since the 1980s, when Tom Peters' *In Search of Excellence* topped bestseller lists and the term Business Process Re-engineering (BPR) was coined.

But until recently, the world's largest companies mostly operated as multinationals rather than truly global companies. In pursuit of growth, they allowed their businesses in various parts of the world to proliferate largely independently. As a result, their finance operations and data flows became more far-flung and complex, and their underlying processes, technologies, systems and data models lacked consistency and coordination.

Finance operations suffered from unreliable data, information gaps and inefficiencies as a result. When the economic downturn hit, the threat to their survival made it imperative for companies to control their costs, spurring many of them to take on badly needed finance function improvements. Underpinning these improvements were efforts to gain greater global control and consistency over their finance organizations, processes and technologies.

But reduced operational cost is only one of lean finance's goals. Lean finance can dramatically boost speed, flexibility and quality across the finance function and enable finance teams to deliver services of greater range and value. While many companies have taken initial steps to enable lean finance operations, higher-performing companies (those with revenue and EBITDA growth over 10 percent in the past three years) are more likely to recognize and prioritize taking lean finance to the next level.

“Lean finance can dramatically boost speed, flexibility and quality across the finance function and enable finance teams to deliver services of greater range and value.”



**Contributor**

Robert Cecil (US)

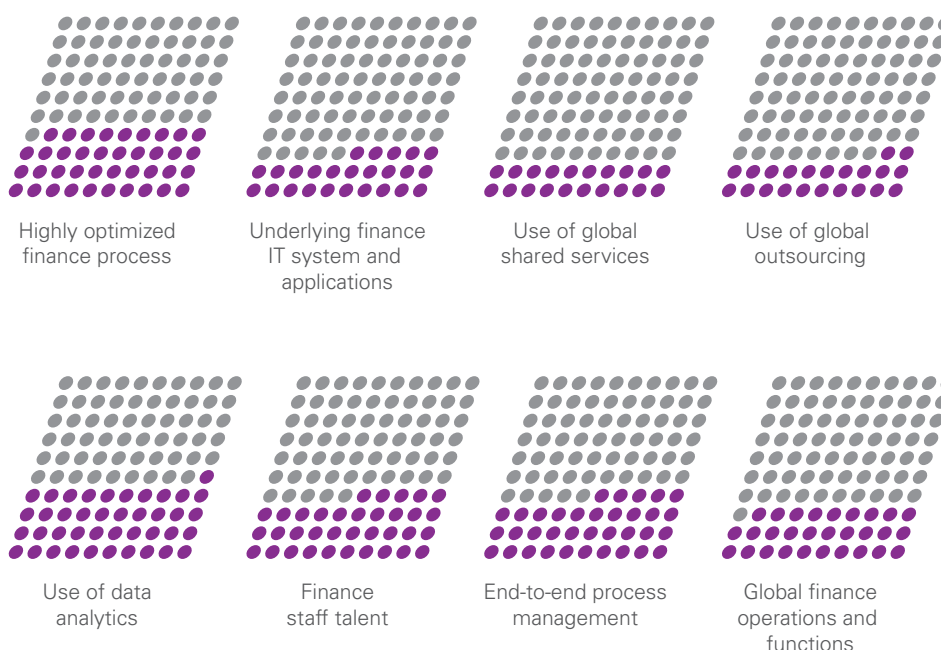
**Higher priority for high performers**

In KPMG's 2013 survey of senior finance executives, a slight majority of companies say they are already skilled at embedding lean finance principles and capabilities in their day-to-day finance operations. Interestingly, a relatively high percentage of the high performers (29 percent) believe they are very skilled/strong in this area, compared to only 16 percent overall. High performers also are twice as likely to put great importance on adopting lean finance principles (25 percent for high performers versus 12 percent overall).

According to KPMG's survey, lean finance enablers that high performers consider to be "extremely important" are: "use of data analytics" (41 percent), "highly optimized finance processes" (39 percent), "finance staff talent" and "end-to-end process management" (both at 35 percent). While we agree that use of data analytics techniques is increasingly important, its effectiveness depends on a strong foundation of optimized finance systems, processes and people.

“High performers also are twice as likely to put great importance on adopting lean finance principles ...”

**How important are embracing and adopting lean finance principles and capabilities to your organization? Percentage of high performers who answered "extremely important"**



Source: KPMG International CFO survey 2013





“ The next level of lean finance involves investing in data analytics, decision support tools, and finance talent and training to develop intelligent finance skills and capabilities. ”

## Laying the foundation

As noted earlier in our discussion of the FinanceTOM, the first step in employing lean finance principles is to pinpoint where and how the finance function adds value. This requires reviewing all functional areas of the finance pyramid, including transactional processing, financial reporting and control and decision support activities.

Lean finance project outcomes often reflect changes at the lower end of the value chain (transaction processing and financial reporting) that will ultimately allow resources and effort to be re-directed to the activities with the highest value. At this initial stage, finance functions invest in company-wide transformation projects that involve:

- moving lower-end transaction processing work out of the finance function and concentrating these activities within shared service centers and/or outsourcing them to third-party service providers
- standardizing and automating routine procedures where possible to increase efficiency, reduce potential for error and improve quality
- standardizing and streamlining finance function roles and responsibilities, processes and controls
- standardizing and streamlining data flows and underlying IT architecture to automate the transfer of data inputs and integrate and rationalize legacy systems; and establishing data warehouses to ensure one global data set and enhanced reporting.

## Taking finance to the next level

Essentially, this first step of lean finance implementation involves creating a unified, reliable platform and structure for finance activities that involve collecting, verifying, classifying and processing financial data. With a robust platform in place for these core finance activities, finance functions can confidently plan how they will move to the next level of lean — by leveraging this platform and structure to enable finance activities that involve data aggregation, manipulation and analysis to support decision-making.

The next level of lean finance involves investing in data analytics, decision support tools, and finance talent and training to develop intelligent finance skills and capabilities. It can also involve revisiting shared service center and outsourcing practices with an eye to implementing more strategic, mixed sourcing practices.

It is telling that fewer finance executives of high performers intend to invest in lean finance's foundational elements over the next two years, compared to other areas of the finance function. In our survey, outsourcing of transactional finance activities is the least named area for investment (14 percent), followed by use of shared services (22 percent). This suggests that high performers have already laid these foundations.

High performers are now looking to enable higher-end activities, as suggested by the greater numbers of them who plan to invest in talent management (53 percent), deployment or expansion of ERP software (43 percent), and decision support tools (37 percent).

### Tilting the balance toward better business support

Notably, while finance functions expect they will continue to devote most of their time to basic financial reporting activities, they believe that the balance of their efforts will tilt toward decision support activities in the next two years. In the next five years, 56 percent of finance executives say they expect their finance teams to take a larger role in developing and executing business strategy.

Setting targets for adopting lean finance principles as part of a Finance TOM can help finance teams make the transition with success. By going through the process of streamlining, standardizing and simplifying their financial reporting and transaction processing processes and capabilities, they can now build a tailored platform for the provision of timely, insightful financial advice that influences business outcomes and adds maximum value.

“ In the next five years, 56 percent of finance executives say they expect their finance teams to take a larger role in developing and executing business strategy. ”





## 2. Shared services — Catching the next wave

“ Globalization and new technologies (have) allowed companies to concentrate activities to optimize costs without compromising effectiveness and efficiency. ”

In the past 15 years, finance shared service centers have become so widespread that the idea of running a top-flight finance function without one is almost unimaginable. But now that the shared services model is so well entrenched as a leading business practice, finance leaders appear to give less priority to how they can harness emerging practices to adjust their shared services so they deliver even more value.

Shared service centers have grown exponentially since the turn of the 21st century as globalization and new technologies allowed companies to concentrate activities to optimize costs without compromising effectiveness and efficiency. In the past decade, shared service models have undergone several rapid evolutionary cycles, changing focus away from captive operations and toward outsourcing and off-shoring. Finance shared service centers drove significant gains in terms of process efficiency and economies of scale. They also freed retained finance resources to devote more energy to value-adding activities that better support the business and improve profitability.

Now the use of finance shared services is standard leading practice in most global companies. Along with traditional functions, like finance and IT, shared service centers are increasingly being used to centralize other functions, such as research and development, human resources, and sourcing and procurement. In the most recent wave of change, more strategic mixed, or co-sourcing, practices are taking hold.

In KPMG's 2013 survey of senior finance executives, just over one-quarter of all respondents say they plan to invest in the use of shared service centers for the finance function. Of the high-performing respondents, only one in five plan such investment. While these results suggest that many companies are already reaping the benefits of previous investments in consolidation, the minority of respondents that do plan new investments stand to benefit considerably by catching the latest wave of changes to this dynamic business model.

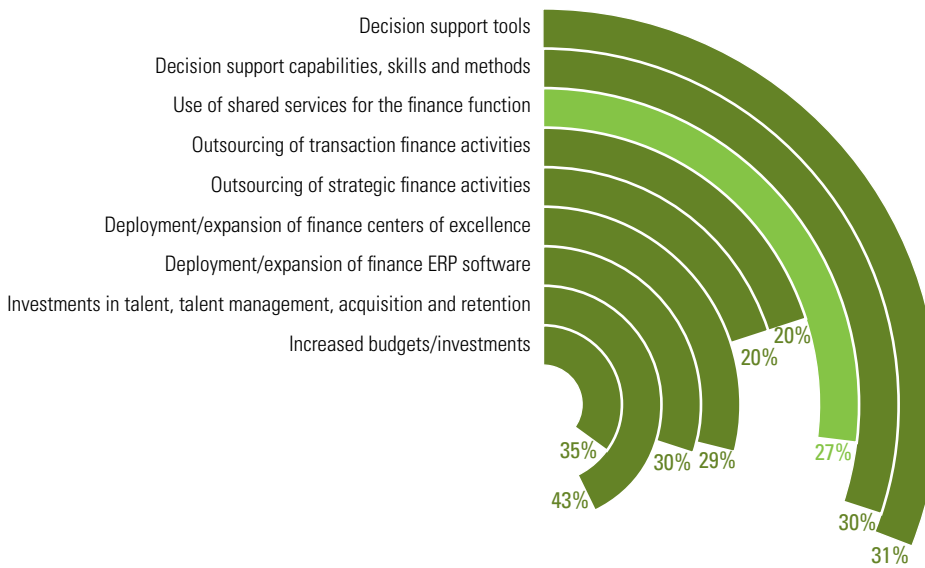
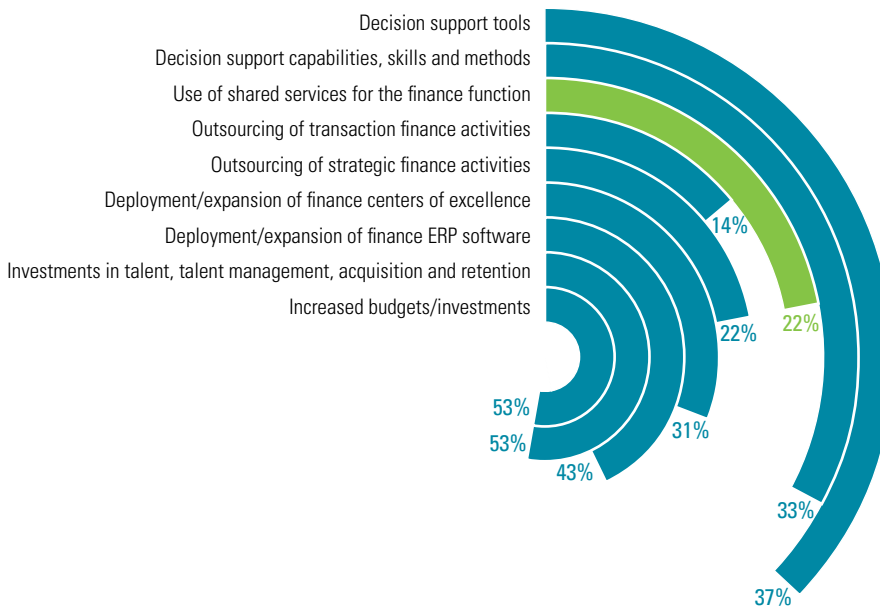


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**In which of these areas does your organization plan to make increased, tangible investments in the next two years?**

**All respondents****High performers**

Source: KPMG International CFO survey 2013





“ As with all areas of the finance function, companies that seek to derive more value from shared services need to enable the optimal combination of processes, technology and people. ”

As with all areas of the finance function, companies that seek to derive more value from shared services need to enable the optimal combination of processes, technology and people. Our advice in this section aims to help finance executives answer these questions.

- **Processes** — Which processes should be assigned to shared service centers and which processes should be retained? How can companies ensure they are managing these processes end-to-end across the retained and shared services organizations and, if any, third-party outsourcing service providers?
- **Technology** — How does technology influence the need for constant innovation?
- **People** — With constant reinvention and churn, how can finance executives keep their people engaged and motivated? How can they develop new and compelling career paths for retained and shared services organization staff and management?

### Which finance activities can be co- or outsourced?

During the early advent of shared services, outsourcing and offshoring, companies transferred transactional finance processes (such as accounts payable/receivable, reconciliations, payroll and finance systems maintenance) into these alternative delivery models. Now companies are scrutinizing their front-office processes to see if they can benefit from leveraging these successful offshore models. Increasingly, companies are now centralizing, offshoring and even outsourcing more knowledge-intensive finance-related processes such as strategic sourcing and procurement, treasury services, tax including transfer pricing, master data repository management, data analytics, management and regulatory reporting, and financial statement preparation.

High-volume, low-value finance activities, such as bookkeeping services, general ledger journal postings and reconciliations, tax compliance work and accounts payable functions, continue to be the most likely finance activities to be offshored or outsourced. Companies also are gaining confidence that third-party providers with the right tools and training can be relied on for certain low-volume, higher-value work, such as collections (accounts receivable) and reporting. The increasing popularity of innovative arrangements such as gain-share contracts, where payments to vendors depend on improvement gains, can make the outsourcing of collections and other finance activities even more attractive.

The outsourcing of more strategic functions in niche areas such as tax and treasury is also rising. These areas require teams with highly specialized knowledge and experience that few global companies have the need to fully support in-house. By outsourcing activities like customs processing, tax dispute resolution support and cash hedging, companies can tap the skills and experience of worldwide networks of specialists in these fields if and when a business need arises.

## What activities to retain?

Traditionally, finance functions give priority to retaining higher-value activities that support the business and contribute to decision-making. Activities may be retained in order to maintain knowledge within the company, protect work of a proprietary or privileged nature, meet local regulatory requirements, or tighten control over business-critical activities.

The need to groom the next generation of finance leaders also causes companies to retain certain finance functions. For succession planning, younger finance executives and the company both benefit from hands-on training in analyzing financial reports and practical experience using forecasting and analytic tools. Cross-migration of resources — from captive or outsourced units to business line functions and vice versa — is becoming a common way to train next-generation finance talent. Some large global organizations mandate that their finance professionals need to spend a period of time in their shared service centers (onshore or offshore; captive or outsourced). Similarly, smart, young professionals working in the shared services are being rotated into line functions to improve their understanding of the business and build valuable on-the-ground relationships.

As mixed sourcing practices become more popular, companies are being more strategic about which finance activities they retain. For example, some consumer goods companies are forgoing call centers in favor of retaining activities where the volume of customer contact is low but the value of that contact is high. Since outsourcing providers and shared service centers tend to have high employee turnover, these companies have more to gain by retaining activities where close customer relationships and continuity of contacts are important.

Review and approval of period end results and planning, budgeting and forecasting continue to be finance process areas that need to stay close to the business from a functional and control standpoint, but this no longer implies a close geographic proximity. Indeed a hybrid model with a shared service center working together closely with financial controllers and business managers seems best practice here.

## Status quo = diminishing returns

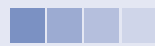
While forward-thinking companies are re-thinking their sourcing practices, others seem to believe their shared service operations are sufficiently mature and that no further reorganization or investment is needed. This can prove a dangerous position to take. As noted earlier, the apparent lack of appetite for new investment in shared service operations suggests that the majority of companies are satisfied with the status quo. But as new technologies, business models and market opportunities emerge, companies that stand still run the risk of losing competitive advantage.

Shared service models are relatively new outside of North America and Western Europe but they are evolving quickly. We have observed significant technology shifts every few years in the tools and processes that support these business models. Balance sheet account reconciliations have evolved from the downloading of reports from an ERP onto spreadsheets to the use of sophisticated finance governance tools (such as Blackline and Trintech) that easily interface with legacy ERP systems. Similar advances have occurred for tools and technologies for procure-to-pay activities, including scanning, split-screen technology, workflows and real-time goods received note (GRN) processing. Tools continue to improve for activities such as collections, month-end closing and cash matching.

“ Cross-migration of resources — from captive or outsourced units to business line functions and vice versa — is becoming a common way to train next-generation finance talent. ”

“ We have observed significant technology shifts every few years in the tools and processes that support these (shared services) business models. ”





### **Outsourcing change management — the Build-Operate-Transfer model**

One innovative way that some companies are managing the risks of new shared service center implementations is through the Build-Operate-Transfer model. In this approach, the company engages a third-party service provider to build the new operation, manage the changeover, and cooperate in overseeing the center's operations for a limited time period (e.g. three years).

Once the shared service center is running smoothly, local finance team knowledge is transferred in and the kinks are ironed out, operational responsibility reverts back to the company. This approach gives finance executives access to the know-how and tested change management processes of third-party service providers during the implementation and start-up phase. It also ensures there is a clear plan in place to bring operational responsibility back in-house when implementation is complete.

### **Continuous improvement is key**

Companies should recognize that they likely will not get things right at the outset. Rather, they should build in the expectation that the operating model will evolve for the better over time, and put in place capabilities and change management processes to facilitate continuous improvement. That way, the company can help ensure that it will continue to derive maximum value from its finance shared service operations, now and into the future.







## 3. Reliable forecasting — Expect the unexpected

“ The key to reliable forecasting is to consider it a business process, rather than a purely financial reporting exercise. ”

From stock market incidents to *force majeure*, from customer complaints to viral consumer trends — in today’s globalized, data-rich and connected world, traditional annual business plans and periodic forecasts are not enough. Organizations need a more reliable, relevant forecasting approach that is flexible, multifaceted and aligned to the changing needs of the business — an approach that can contend with the full array of possible scenarios and offer sensitivity analyses on the latest developments affecting the business today.

Executive teams typically start to plan for the next financial year anywhere from six to nine months in advance. When the budget is signed off, the assumptions no longer relate to the external environment. Huge efforts are expended to produce the plan, but it is often out of date before the relevant period even begins.

Reliable forecasting goes well beyond such traditional business planning. High-performing companies employ sophisticated business analytic tools and techniques to continuously improve their forecasts, predict and manage risk, and reveal new market opportunities. With reliable forecasting, companies can understand future scenarios, apply insights, and develop suitable strategies for response. By sharpening their focus on analyzing data, forecasting trends and supporting business decisions that improve performance, finance teams can become more forward-looking, value-adding partners to the business.

In our 2013 survey of senior finance executives, most finance functions are still more focused on their traditional scorekeeper role. That may be set to change in step with the demands of an ever faster-moving business environment. The majority of respondents expect that in the next two years, their finance teams will devote much more effort to “decision support” activities and less to “transaction processing” — and the highest-performing respondents are more likely to have specific plans in place to invest in their finance functions to enable this change.

### Enabling business alignment and longer-term views

“ Having a common KPI dashboard in place promotes alignment between business units, improving understanding of movements in all their markets and allowing them to synchronize business decisions to support the company’s strategic goals. ”

The key to reliable forecasting is to consider it a business process, rather than a purely financial reporting exercise. As an interpretation of future business performance, the financial forecast needs to align the operational forecast to the key business drivers. Setting the business assumptions that drive the forecast early in the planning process and aligning them to the financial outcomes can avoid the lengthy process of reworking these assumptions later on. For this reason, a forecasting process is most effective when these assumptions and the forecast are owned by the business itself. Finance teams support the planning process as trusted business partners.

For the same reasons, forecasting targets should be owned by the business units that are accountable for delivering them. Managers should be rewarded for highlighting risks and opportunities early, reflecting them in the latest forecast views and applying improvement initiatives to drive better performance.

Business units should be accountable for delivering on their targets and for their forecasting accuracy. Accuracy can be improved by not only comparing forecasts to actual results but also by comparing them to previous forecasts. Business performance and forecasting accuracy should be continuously monitored and rewarded, using a balanced business scorecard approach.



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Input assumptions should encompass the value drivers that are most important for achieving business objectives. Those assumptions should align with the company's performance management reporting to ensure that the finance team reports and plans on the same areas that drive business value. Relevant external factors should be included to enable a strategic view of current markets and how they might move. Data analytics techniques (see sidebar) can enrich this process by integrating far-flung and disparate sets of data into the forecasting process and helping to set realistic targets.

Making the shift from traditional to reliable forecasting techniques requires a strong show of support from the company's senior management. Embedding responsibility for setting targets within business units requires an organization-wide change in mindset. To promote organizationally aligned forecasting practices and closer cooperation between business units and the finance function, a strong tone from the top is critical.

### Improving transparency and alignment across business units

Company-wide 'business cockpits' have emerged as a leading practice for tracking forecast accuracy and other performance metrics. A business cockpit provides a real-time display for all key business value drivers that can be shared across the global finance function and all business units. Having a common KPI dashboard in place promotes alignment between business units, improving understanding of movements in all their markets and allowing them to synchronize business decisions to support the company's strategic goals.

For example, a business cockpit can allow the company to anticipate when some products or markets are under- or over-performing and provide substance to investment/divestment decisions to reallocate valuable organizational resources. Consumer goods companies can use this information to improve specific product offerings in response to changes in consumer behavior and demand. Similarly, banks and financial service companies facing high regulation and capital requirements can promote better decision-making on developing new sources of revenue, and provide transparency on key risks to help enhance their efficiency in terms of liquidity and capital requirements.

Businesses in all sectors can ensure that new investments are closely linked to the organization's core purpose, avoiding investments in markets or assets that may produce short-term balance sheet improvements but are not sustainable in the long term. In short, greater transparency and more forward thinking can reduce risk and help organizations know where to invest or divest in order to help obtain maximum shareholder return at all times.



### What are business analytics?

By some estimates, the information now circulating the Internet amounts to more than a zettabyte — 1,000,000,000,000,000,000 bytes. Most analysts suggest that this quantity will increase by about 40 percent every year for the foreseeable future. Within this expanse of data, finance teams can mine a rich vein of intelligence from both traditional sources, like customer databases and analyst reports, and a wide range of new sources, like Twitter, Facebook, call center activity, wireless networks and even satellites and surveillance cameras.

Business analytics are techniques that make sense of all this data and put that knowledge to work in business planning, budgeting and forecasting. The outcomes have predictive power well beyond conventional forecasting techniques that are based on historical, static financial reports. Business analytics enable 'living forecasts' that give real-time insights into where the company should focus its efforts and invest its money so it can catch up in areas where it is lagging and spot opportunities as they emerge. Business analytics can also help companies simulate a wide range of responses to potential occurrences, from everyday market movements to extraordinary 'black swan' events.





“ Companies need to raise the bar for their existing finance resources, by training or hiring staff who are equipped to drive valuable insights from available data and to do so at a speed that effectively responds to the needs of the business. ”

### Raising the bar

To derive optimal value from the forecasting process, finance teams need to go beyond their traditional range of competencies, for example, by investing in areas such as data engineering and statistics. Companies need to raise the bar for their existing finance resources, by training or hiring staff who are equipped to drive valuable insights from available data and to do so at a speed that effectively responds to the needs of the business. Finance teams also need to communicate that they are providing these outputs in their roles as trusted business partners who help develop and/or challenge strategic business decisions.

### Enabling reliable forecasting — are finance functions on track?

To achieve an optimal forecasting process, global finance leadership teams need to create and implement a comprehensive information and business process strategy that drives and delivers efficiencies across the organization. Are companies prepared to make the investment needed to implement more innovative and reliable forecasting processes and tools?

Based on KPMG's 2013 survey of global finance executives, it seems that many of the companies that we consider high performers (those with more than 10% growth in revenue and EBITDA in the past three years) are on track.

- Over half of these respondents (53 percent) plan to increase their budgets/investments in their finance function in the next two years.
- Thirty-seven percent of high performers plan to invest in decision support tools, and 33 percent plan to invest in decision support capabilities, skills and methods.
- Deployment or expansion of finance expertise is on the agenda for 43 percent of the high performers.

Respondents outside the high-performing group are somewhat less likely to be planning these investments.

Experience tells us that companies need to first get the basics of transaction processing and financial reporting right before their finance teams can transform into high-value business intelligence providers. In fact, in the eight years since we began conducting structured research into the latest trends and developments in the finance domain, we have noted that the improvement of planning, budgeting and forecasting (PBF) methods and tools has been one of CFOs' top three priorities. But somehow this recognition has not led to the expected improvements in this strategic finance area.

Presumably, the reason is that PBF tools simply were not up to the job and lacked integration with the underlying ledgers and ERP tools. Also, as the planning and budgeting cycle is typically done only once a year, and completed just before the year-end, there is often simply no time left to improve the manual PBF processes as the focus shifts to the year-end close and annual report production in the first quarter.

Nevertheless, many high-performing companies have made significant strides in improving efficiency and standardizing technology, processes and data for their ongoing PBF cycle. As a result, they already have in place much of the infrastructure they need to tap modern business analytic models and techniques and evolve their forecasting practices.

Companies that lag behind in process and technology improvements likely will follow suit, but the change will be more revolutionary. Even though, as noted, most finance functions are poised to increase their focus on business support, many of them will struggle with this transition and be challenged to catch up. In light of the tremendous cost savings and potential for market growth and competitive advantage that the revolution will deliver, finance teams can make a compelling case for investing in finance function transformation and enhancing their reliable forecasting capacity.

**In which of these areas does your organization plan to make increased, tangible investments in the next two years?**

**All respondents**

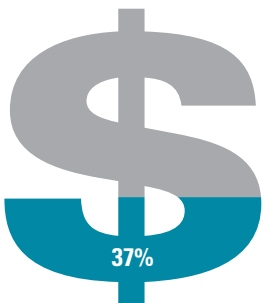


Decision support tools



Decision support capabilities,  
skills and methods

**High performers**



Decision support tools



Decision support capabilities,  
skills and methods

Source: KPMG International CFO survey 2013





## 4. Talent management — Playing for keeps

“ Fifty-three percent of the high performers say talent management is their top priority for investment in the next two years. ”

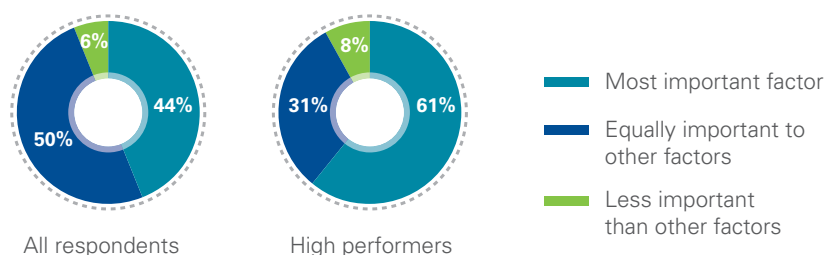
In the past decade, finance employees of global companies have undergone successive waves of technological, regulatory, business process and structural change. Now, the finance teams of leading organizations are working to strengthen their role as business partners who support decision-making and contribute value while fulfilling their traditional and still vital role in financial control. With increasing internal and external demands, more diverse skill requirements and more complex organizational structures, finance executives are finding that recruiting, managing and retaining talent is one of their most important objectives — and one of the most difficult to achieve.

In this environment, senior finance executives need to take ownership of the talent agenda. They need to consider the implications of business changes on their staff and ensure that qualified resources are in place to meet current and future business needs. They must respect the divergent needs of their employees, for example, as transaction-oriented service providers or strategic business partners. Above all, they need to create an organization-wide HR strategy that attracts appropriately skilled finance employees and supports their aspirations at all levels throughout their careers.

### Finance talent management — top factor for success

In KPMG's 2013 survey of senior finance executives, 44 percent of all respondents and 61 percent of the high performers (those with revenue and EBITDA growth of more than 10 percent over the past three years) feel that talent management is the most important factor for the success of their organization's finance function. More importantly, only 6 percent believe other factors are more important.

#### How important is talent management to improving your finance function in the next two years, compared to other factors?



Source: KPMG International CFO survey 2013

So it is no surprise that improving talent management is high on the finance agenda. In fact, 43 percent of all respondents and 53 percent of the high performers say talent management is their top priority for investment in the next two years.

## Contributors

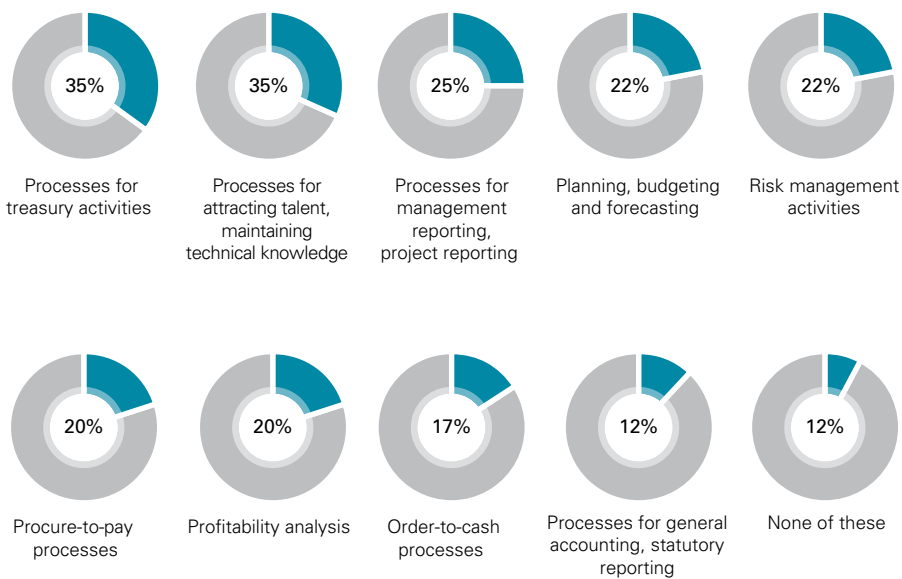
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 Patrice Gilles (US)  
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 Chau Woeste (UK)  
 Ruth Svensson (UK)

## Which finance function process, if any, is the most difficult to improve?

### All respondents



### High performers



Source: KPMG International CFO survey 2013





“ Given the high costs of recruiting and training new staff and the potential for diminishing quality, motivating and retaining people is critical. ”

## Dynamic and diverse environments

As a solution to new priorities and competing demands, most finance functions have taken steps to adapt their operational models and segregate their activities into different financial control and business partnering units. In most organizations, finance activities are now spread among separate functions and locations: corporate reporting, finance centers of excellence, shared service centers and/or outsourcing delivery centers, and retained local finance functions with country-specific skills.

As the numbers of shared service center employees have swelled, the capacity of finance managers may be over-stretched. And as retained finance functions have gotten smaller, work allocations may have changed and employees may feel overburdened, under-recognized or unclear of their roles or their future. Unique talent management issues may arise depending on location and roles, as resource needs, skills requirements and labor market forces combine to create highly diverse environments.

## Retention — challenges at all levels

In these complex environments, finance executives are challenged to attract and manage employees with diverse skill sets for each finance division. Retention has emerged as perhaps the most critical talent management area for finance teams, whether to reduce turnover among lower-skilled employees in shared service centers or to ensure management and leadership development among higher-skilled employees in retained finance functions and centers of excellence.

For example, work in many finance shared service and third-party outsourcing centers is still heavily weighted toward low-value, high-volume transaction processing. As a result, employee turnover is high — currently about 30–40 percent in India, for example — and competition for properly skilled staff in most emerging markets is intense. Given the high costs of recruiting and training new staff and the potential for diminishing quality, motivating and retaining people is critical. This involves defining attractive career growth paths including management opportunities, and offering cross-training and posting options between functions, sites and geographies (also within finance shared service centers).

People in the corporate or retained finance operation may also face motivational problems, but for different reasons. Most finance functions have undergone huge transformations in the past decade. People in retained finance functions have endured years of cost cutting and structural changes. They have seen many of their colleagues' roles shifted into shared service centers. This ongoing disruption can make them anxious and uncertain about their future with the company.

Whether or not retention rates in corporate and retained service functions are higher, keeping these employees is even more critical, especially for high-performers. The specialized skills required in areas like budgeting, forecasting and reporting are scarce, and demand is rising for new skills in areas like financial risk management, data analytics and EPM. In parallel, demands for technical and control skills are rising in step with the increasing complexity of accounting and tax regulations. Retaining and training finance professionals to become the next generation of finance leaders is key to the organization's future success.



Finally, with most employees clustered at the high and low ends of the skill spectrum, finance organizations struggle with a dearth of skills and positions in the middle range (i.e. positions requiring five to 10 years' experience). The lower demand for these skills can create gaps in the organization and limit mobility opportunities for employees seeking to advance their careers within the company.

### “Tune in to Talent” — KPMG’s strategic talent management framework

KPMG’s “Tune in to Talent” framework is a step-by-step process for building a customized talent strategy that is right for your organization. The framework emphasizes building a talent strategy that aligns your finance workforce to the needs of the business.

As your company’s business plan and its talent strategy are inextricably linked, the first step in developing your talent strategy is to determine the capabilities your organization needs to win now and in the future. In practice, this means both traditional workforce planning — looking at future finance function needs from your company’s point of view — and organic talent planning — looking at what your finance function has to offer through the eyes of the current and next-generation workforce.

The next steps involve the three traditional talent management activities:

- **acquire and place** — Creating innovative recruitment and onboarding programs and reviewing alternative approaches to sourcing
- **develop and connect** — Offering tools, training and programs to help people manage and progress in their careers
- **engage and retain** — Developing an optimal combination of performance, reward and communication, and an overall compelling employee value proposition.

#### ACQUIRE AND PLACE



- Marketing
- Hiring
- Onboarding
- Mobility
- Flexible workforce
- Sourcing
- Internal resourcing

#### DEVELOP AND CONNECT



- Technical/professional training
- Business and leadership development
- Learning and development function optimization
- Academies
- Competency/capability frameworks
- Career paths
- Succession planning
- High potential programs
- 70/20/10
- Diversity and inclusion
- Social media

#### ENGAGE AND RETAIN



- Performance management
- 360° feedback
- Reward strategy
- Leadership communication
- Employee value proposition
- Retention strategy
- Exit and alumni

Source: KPMG International





“ To keep up motivation and guard against stagnation, finance executives should recognize that the function itself needs to grow and improve, by taking on additional services and by elevating the value of its current services. ”

## A global approach

To enable an effective talent management strategy, CFOs need to take a global view of their finance talent. The employees in various finance functions should be treated as one diverse pool of talent. Roles, responsibilities and career paths should be clear for all finance people at all levels. Further, the company's approach to career paths should be broadened to create prospects for mobility across finance teams and to encourage linkage and knowledge transfer between embedded and offshore teams.

## Investing in your finance function's brand

A further step is to invest in building your brand and emphasizing the value proposition of working with the finance function within the company, both to attract new recruits and retain them in today's highly competitive job markets. CFOs need to articulate the benefits of working for the finance function within the company and what sets their finance function apart as an employer of choice. This means developing and communicating:

- a consistent recruitment policy and plan for the finance function globally
- a finance function performance and development strategy that aims to achieve leading-class operational structure, technology and processes
- reward and incentive programs that motivate the right behavior and celebrate accomplishments
- training programs that address skills development and promote knowledge transfer at all layers of the organization
- targeted interventions (such as coaching programs and buddy systems) for specific employees or employee groups to equip them with new skills in anticipation of emerging needs and improve their ability to add value
- a proactive, transparent approach to succession planning.

For example, organizations should strive to position work in the finance function as a 'plus' on employees' résumés, regardless of their level and whether they work in shared services, corporate finance or a local retained organization. In developing countries like the Philippines, jobs in shared service centers are prized as they are well paid, high in status and secure. In fact, it is not uncommon for highly trained professionals (such as graduates in business and accountancy graduates, and even doctors) to spend a period of time working in a shared service environment. Companies should aim to differentiate themselves in order to build their brands in these competitive labor markets so they can attract and retain the best talent.

Wherever your finance employees are located now or in the future, researching the labor market is a must. Investigate your competitor's hiring, compensation and retention practices, and use this information to differentiate your brand's value proposition before you start hiring.

Finally, to keep up motivation and guard against stagnation, finance executives should recognize that the function itself needs to grow and improve, by taking on additional services and by elevating the value of its current services. This requires constant monitoring and adjusting your talent strategy to anticipate future needs and identify opportunities for employees to up their games and contribute more value, as they pursue their career aspirations with your company.







## 5.

## Finance/Risk alignment — Breaking down the silos

“ Companies that can break down these silos can win confidence that their business decisions will be more balanced over both the short and long terms, giving them an edge over their competitors. ”

The 2008 financial crisis has been attributed to many factors, but clearly a widespread breakdown in balanced assessments of risk and reward bears some of the blame. Since the crisis, rising pressure from stakeholders and regulators has challenged companies to find new ways to balance risk and reward on a more sustainable basis. To meet this challenge, a good starting point is to align the activities of finance and risk — two important support functions charged with safeguarding this balance.

A combination of cultural, organizational, linguistic and system barriers has traditionally divided these functions, each having its own reporting line to senior management (i.e. the CFO and the chief risk officer (CRO)). Companies that can break down these silos can win confidence that their business decisions will be more balanced over both the short and long terms, giving them an edge over their competitors.

For example, some leading insurance companies, driven by new Solvency II requirements, have made significant improvements in the governance of their finance and risk functions by spreading their actuaries across the so-called ‘three lines of defense’. This involved:

- putting actuaries in the business to help with product pricing and profitability analysis (1st line of defense)
- tasking the finance and risk functions to help calculate and report the technical liabilities and reserve (2nd line of defense)
- tasking their internal audit department to review the reported results and underlying controls (3rd line of defense).

Finance executives have always recognized the importance of managing risk in today’s complex environment. Previous KPMG surveys of CFOs clearly showed the rising importance of the risk management agenda. At the same time, organizations are still struggling with this challenge. In response to KPMG’s 2013 survey of senior finance executives, 30 percent of respondents feel that processes for risk management are the most difficult processes to improve (second only to talent retention and recruitment).

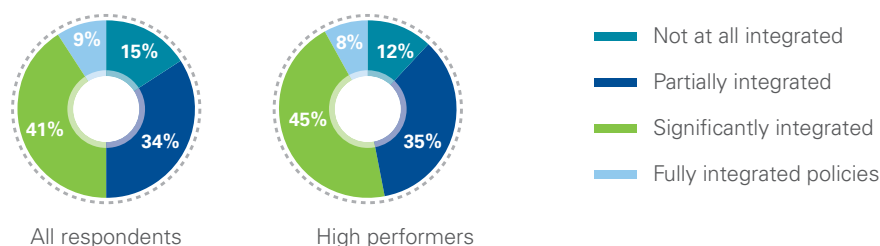
High-performing organizations seem to have more success in this area; only 22 percent found improving these processes to be most difficult. In fact, high-performing organizations identified “processes for risk management” as one of their top three strengths.

Additionally, 41 percent of all respondents and 45 percent of high performers feel that their organizations have significant financial risk management policies aligned across the key market (treasury and commodity) risks.

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**To what degree are the finance and risk management functions and processes aligned in your organization?**



Source: KPMG International CFO survey 2013

While managing risk remains a key concern for finance executives, most organizations have yet to realize the benefits that closer alignment of the finance and risk departments can bring. Successfully aligning the two functions' objectives, activities and processes can produce:

- better quality decisions based on balancing returns received with risks taken within risk appetite limits defined by senior management, rather than solely based on (financial) growth, revenue, cost and margin targets
- better, risk-weighted capital allocation methods that are aligned with the organizational strategy and commercial opportunities, again within the risk appetite limits defined by senior management
- better understanding about true profitability across the business in terms of capital used and risks taken
- cost savings for regulatory reporting, management reporting and capital management by integrating similar processes and activities (e.g. data quality, assumption setting, modeling, and reconciliation) and by optimizing and rationalizing technology
- better awareness of different stakeholder needs, paving the way for more integrated reporting (also with other areas outside finance and risk, e.g. HR, IT, marketing and compliance).

Many of the alignment issues facing the traditional finance and risk functions stem from their different roots. Finance functions date back as far as the Renaissance and have since evolved into modern bookkeeping and reporting factories. They operate under well-defined and well-understood sets of rules that primarily focus on retrospective reporting requirements.





“As a first step, risk and finance teams need to educate each other about how they fulfill their joint roles as processors and suppliers of information for decision-making.”

However, systematic approaches to risk management only emerged in the 1960s. Risk functions primarily prepare prospective reports using statistical data, requiring very different skill sets to process and interpret, and they operate under a range of rapidly evolving regulatory requirements and business models.

The two functions also tend to attract distinct — and not always compatible — personality types. Over time, they have developed their own definitions, processes, data flows and systems, which can hinder a more integrated reporting and control environment.

So how do you create the right conditions for alignment? Based on experience, KPMG believes that finance and risk need to take a close look at how they can further improve their current operating models in order to deliver the benefits of alignment. This desired end-state is best captured in a functional TOM (see page 9), which should highlight (at minimum):

- a governance model with clear roles and responsibilities that facilitate better alignment between finance and risk people at all levels in the organization
- the process and system interdependencies for each operational area
- where changes to functional process flows and/or systems are needed to facilitate better alignment
- what training is needed for people to use the improved processes and systems.

Designing and implementing an aligned TOM for both functions will create a more integrated management framework that enables better, quicker and more balanced business decision-making. So how can this be achieved?

### **Consider end-to-end activities, not departmental functions**

As a first step, risk and finance teams need to educate each other about how they fulfill their joint roles as processors and suppliers of information for decision-making. Developing an end-to-end, activity-based view of the finance and risk operating models helps to identify interdependences and determine interlinked processes for both functions. Understanding which activities need to be performed by which function, and where those activities start, stop, interface and overlap with each other, can help the teams design more effective and efficient end-to-end processes and systems and put the right governance framework in place to support them.

It is best to first select a number of core processes with the highest impact or greatest urgency for improvement, such as Common Reporting (COREP) processes for capital and risk reporting and Financial Reporting (FINREP) processes for financial reporting, as mandated by the European Union under the Basel 2 and 3 regime for the financial sector. An effective practical application technique is to map the entire end-to-end reporting chain and ask ‘customers’ or stakeholders at all points in the chain to define what they need from the ‘vendors’ within the chain. This usually results in a better understanding of bottlenecks and helps point the way toward further alignment.



## Data consistency is key

Creating an integrated data warehouse supported by a master data repository will ensure data is captured only once and used consistently across the reporting chain. The warehouse should be designed so that only single data streams (from the transactional source systems) feed into it in order to avoid multiple data flows and conflicting information, which would go against the 'single version of the truth' design principle. Making this information readily available provides greater transparency and enables tighter controls and flexible reporting. It is also important to understand the current systems landscape, including what functionality resides where and any technical limitations to data sharing, to avoid issues down the road related to data traceability or lack of drill-down capability.

For the risk function, the use of risk and actuarial models is critical. The data warehouse should provide the input data for these models, eliminating manual intervention as much as possible. Similarly, reporting systems linked to the data warehouse should be able to provide virtually all reporting needs, without excessive use of bespoke stand-alone systems or spreadsheets.

## Clarifying roles and responsibilities

With constantly changing internal and external reporting requirements, it is important to have clarity over who is responsible for the data sources and information flows, and how the different roles played by each function interact. Again, the key is to take an activity-based, end-to-end view, rather than a departmental view, by organizing new functions around the job instead of the people. This will help to break down organizational silos and clarify departmental definitions.

## Improving communication

Improved communication is needed to facilitate better cooperation so that people can speak the same language and understand each other's field of expertise. Cooperation between finance and risk requires removing silos to create a culture that supports open attitudes, awareness and respect for each other's roles.

## Common goals and priorities

Management should set shared priorities and needs to stimulate operational cooperation between the finance and risk functions. Doing so will compel them to combine forces in their efforts to be a business partner and ensure their efforts are better aligned with the business's strategic objectives. This approach can also help ensure that finance, risk and the business take the lead in building a new integrated finance and risk systems architecture, rather than the IT department. For example, preparing for new regulatory reporting requirements is a challenge that people will manage better when the shared objectives, priorities and roles of each department are well known and understood.





“ Companies that succeed in aligning their finance and risk functions will enjoy a more sustainable reporting environment. ”

## Achieving the right balance

Aligning the finance and risk functions does not necessarily require a large transformation program. In our experience, taking small, practical and coordinated steps toward a common goal can be just as effective. In this way, each step can tackle a specific and definable issue that delivers immediate and tangible results.

For example, the first step toward more aligned finance and risk functions is the **cooperation model**, where roles and responsibilities are clarified and well documented and overlapping activities are kept to a minimum, but both functions remain as separate entities. The next step could be the pursuit of an **integration model**, marked by deeper agreement on aligned processes and common definitions, resulting in parts of the separate functions working closely together in multifunctional teams responsible for selected end-to-end processes (e.g. treasury, product development). The ultimate alignment stage is the **embedded model**, where the operations of both functions are truly integrated and support embedded, end-to-end business processes and systems that cut across the traditional functional boundaries.

Whatever the preferred approach, companies that succeed in aligning their finance and risk functions will enjoy a more sustainable reporting environment where all aspects — the data, systems, processes, organization and culture — are in optimal balance, enabling improved business performance.

### Is CFRO the way to go?

Does it make sense for companies to appoint one person to lead both finance and risk functions? Some companies have succeeded in improving coordination and cooperation by installing a chief finance and risk officer (CFRO). But in others, the conflict between the two roles and divergent technical skill sets required has been too difficult to surmount, despite the 'countervailing power' benefits of a combined role. Regulators in some countries even forbid combining both functions in a single person (normally at the board level).

Success usually depends on the technical and leadership skills and cooperative mindset of the people involved rather than their job title. Rather than expecting a single person to control everything from the top, the better way to safeguard success in the finance and risk domain may be to appoint leaders and staff with the right skills and aspirations to meet the increasingly complex demands of the different roles.





## Conclusion — Enabling the *intelligent* finance function

“ Embracing lean finance and shared services organizational models, deploying innovative data analytic tools and techniques to drive more reliable forecasting, taking a more strategic approach to talent management, and aligning finance and risk functions — these areas are top priorities for investment in the finance function of the future. ”

As our report clearly shows, many companies, especially high-performing ones, are aspiring to establish intelligent finance functions. They are seeking to better integrate finance into the decision-making activities of all parts of the organization, changing finance professionals from back-room financial reporters into more forward-thinking analysts and trusted advisors to decision-makers at every level and function of the organization.

Our global survey results also suggest that finance teams face many challenges in making this transformation a reality. In this report, we have explored some of the new capabilities and infrastructure that need to be put in place to support an intelligent finance function. Embracing lean finance and shared services organizational models, deploying innovative data analytic tools and techniques to drive more reliable forecasting, taking a more strategic approach to talent management, and aligning finance and risk functions — these areas are top priorities for investment in the finance function of the future.

Looking ahead, an emerging priority is the adoption of new EPM solutions to derive even more value from investments in technological innovations and process improvement (see page 43).

Now that we have explored leading strategies for improving some specific, high-priority finance areas, the big question remains: How can companies successfully execute this transformational journey for their finance organization?

Enabling intelligent finance is no small task. It means rationalizing flows of data collected from dispersed business units and subsidiaries, applying deeper and more meaningful analysis of their data, and harnessing the results to make the finance function a true partner in value creation. In short, it means undertaking a company-wide transformation project to combine finance and technology skills to forge a finance function that delivers valuable business intelligence.

### Driving change — Critical success factors

Earlier, we discussed the importance of developing a Finance TOM to define the future finance organization and its core components. Implementing this model can be a complex, multiyear journey. Ensuring the project can be completed successfully and provides lasting value requires a carefully considered change management approach. Based on our experience in helping clients manage complex finance transformations, the most critical steps to success are as follows.

1. **Establish clear objectives and mandate:** A well-defined Finance TOM not only defines the future state of the finance function but also offers a road map on how to get there for everyone involved in the transformation.
2. **Engage broadly with partners across the business:** Before and during the conversion, it is important to communicate with stakeholders across the company to align finance's strategic goals with those of the business, highlight how they will benefit, and win their cooperation.
3. **Set realistic goals and timelines:** Ensure that the transformation is achievable by breaking its execution into manageable steps and workstreams and allow reasonable time to complete them. Build flexibility into the plan so it can be adapted to address the changes that will inevitably occur in the business or its markets over the project's course.

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4. **Lead with a clear ‘tone from the top’:** Obtain strong commitment from the CEO and CFO and, if necessary, the whole board, including the executives in charge of other business units that stand to benefit from the transformation. Business unit leaders often look forward to the more sophisticated analyses and strategic assistance that intelligent finance functions can offer them, but they may need to be persuaded to adjust their traditional ways of understanding their customers, defining business performance and dealing with rapidly changing market conditions.
5. **Develop a transparent governance framework.** Clear accountabilities and expectations need to be set in place to enable the finance transformation and ensure the change creates value that endures over the long term. Establish objective benchmarks and KPIs to monitor and measure the performance of your finance function before you start (baseline), at pre-defined intervals, and after the project is complete. Empower a strong project management office with the authority to maintain the focus on the transformation activity, manage execution and report on progress and quality of deliverables.
6. **Build and manage the project’s ‘brand’:** For mutiyear transformation projects, sustaining momentum over the project’s life cycle can be difficult. To keep up morale, maintain support and foster cooperation among everyone who will be affected by the planned systems and operational changes, create a plan to broadcast the project’s benefits regularly. This means developing detailed explanations of the changes to come and sharing them in advance with other functions. It also means highlighting incremental progress made and sharing early successes. Use a multichannel approach to reinforce these messages, for example, through various avenues such as conferences, training programs, webcasts and online portals.
7. **Manage talent during the transition:** To implement the transformation program while maintaining core finance services, finance teams need to have the right number of finance professionals and the right mix of skills and experience at every step of the transformation journey. Finance groups often have difficult internal decisions to make as they work to match staff skill sets with an expanded mission — including whether to retrain present staff, recruit from within the company, or look outside. As the conversion proceeds, consider alternative sourcing strategies to provide the optimal combination of internal and external resources.

Finally, consider accessing the change management skills and experience of external advisers. KPMG’s global network of finance and change management advisers has a strong track record in helping companies develop and implement successful strategies that enable intelligent finance teams. Our field experience and our ongoing research through our regular global surveys of senior finance executives have equipped us with the detailed knowledge and practical experience of the tools and methodologies needed to plan and run these kinds of complex transformation projects smoothly.

That being said, our research and experience also show that the benefits of finance transformations only endure if the project is fully owned and widely supported by the company. To win and sustain this support, a comprehensive plan for the future, defined through a Finance TOM and supplemented with a flexible, effective change management approach is critical.







*At the beginning of this report, we asked what's next for CFOs in their quest to achieve an intelligent finance function. We hope that we've been able to provide a range of answers for CFOs to consider in the context of their own finance function's goals and needs. To find out more about how we can help you achieve your finance transformation ambitions, contact any of our Finance Management country leaders and/or subject matter experts that have contributed to this comprehensive report. You will find their names and contact details in the back of this report or on our FM website at [kpmg.com](http://kpmg.com).*

### **Finance function transformation — What next?**

Depending on how far along your finance function is in its journey to transform into an intelligent finance function, the responses of the high performers and our own experience suggest that the following items should be a top priority for investment in the near term.

1. **Establish a FinanceTOM** that defines the finance organization of the future and its core components and provides a road map that shows all stakeholders what needs to be done to achieve the ideal future state.
2. **Take lean finance principles and practices to the next level** by building on existing process and structural efficiencies and investing in data analytics and decision support tools, finance staff talent, and training to enable intelligent finance skills and capabilities.
3. **Rethink your use of shared service centers and outsourcing** with an eye to implementing more strategic, mixed sourcing practices and migrating certain higher-value finance activities.
4. **Take a company-wide approach to finance talent management** that matches your finance workforce to the needs of the business, attracts finance employees with the right skills for their roles, and supports their aspirations at all levels throughout their careers.
5. **Harness business intelligence tools and data analytic techniques** to provide more meaningful, forward-looking financial forecasts, predict and manage risk, and reveal new market opportunities.
6. **Align your company's risk and finance functions** to ensure business decisions strike the right balance between considerations of risk and reward and create a more sustainable financial reporting environment.
7. **Investigate EPM solutions** (see page 43) to optimize your return on investment in ERP technology and create a comprehensive framework for defining, measuring and improving the business performance.
8. **Take a disciplined approach to change management**, ensuring your finance function transformation has clear objectives, realistic goals and timelines, commitment from senior leadership, and broad engagement with partners across the business.
9. **Promote connectivity and collaboration** with other business units to understand their needs and provide high-quality, real-time financial intelligence that influences business decisions and contributes value.
10. **Clearly communicate your finance vision**, strategy and key priorities for the next few years to all internal and external stakeholders of the finance function.





## Define, Measure, Improve — The case for Enterprise Performance Management (EPM)

Now, more than ever, clients need accurate, insightful and timely information for decision-making. And just as technological advances helped shape current finance operating models, new technologies are now enabling finance teams to provide this financial intelligence, driving measureable business performance improvement.

Over the past decade, most medium-to-large organizations have implemented Enterprise Resource Planning (ERP) systems (e.g. from SAP and Oracle). These systems have allowed companies to evolve away from the use of separate — often spreadsheet-based — tools and legacy financial systems for their day-to-day transactional finance processing activities like accounts payable/receivable, general ledger journal entries, closing, accounts reconciliation and legal entity consolidation.

Now, the new trend is to use these established ERP platforms as a foundation for integrated EPM solutions that can help businesses make more informed decisions. Typical value-adding finance tasks performed by EPM systems include:

- financial and management reporting (including KPI dashboards)
- cost accounting and management (e.g. using activity-based costing techniques)
- budgeting and forecasting (including scenario-based planning)
- advanced data analytics and business intelligence solutions (e.g. for profitability analyses by division, client and/or region).

EPM solutions help companies optimize the return on their investments in ERP systems, data warehouse tools and business intelligence capabilities through a standard, company-wide approach to defining, measuring and improving business performance. By integrating and leveraging existing ERP solutions with innovative data analytics tools (such as QlikView) and combining them with new cloud/mobile technologies, companies can not only boost performance in traditional finance areas but also derive optimum value from effective strategy management, real-time scenario modeling and insightful profitability analytics.

Forward-thinking companies are making significant investments in their people, systems and processes to establish intelligent finance functions and EPM can play an important role in this transition as it provides a comprehensive, integrated decision support platform to help finance teams contribute their utmost value to the business they support. It is no wonder that, according to several market analysts, the EPM market (both for software and implementation services) is already the fastest-growing area in the finance domain.

“ Forward-thinking companies are making significant investments in their people, systems, and processes to establish intelligent finance functions and EPM can play an important role in this transition. ”





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# About the survey

- KPMG International's global survey of CFOs and other senior finance executives of organizations worldwide is one of the most comprehensive and long-running survey series of its kind.
- Iterations of our global CFO surveys and research papers have been conducted regularly since 2006, charting the evolution of finance departments and identifying leading financial management practices of high-performing companies. These include:
  - *Being the Best — Insights from leading finance functions* (2006)
  - *Forecasting with Confidence* (2007)
  - *Finance of the Future: looking forward to 2020* (2008)
  - *Being the Best — Thriving not just surviving* (2009)
  - *A New Role For New Times* (2010)
  - *Transforming Finance* (2011)
  - *From Keeping Score To Adding Value* (2012)
- For the 2013 survey, approximately 440 CFOs and senior finance executives in 15 countries covering all major industry sectors shared their opinions on how finance functions are adapting to emerging business challenges. Our survey polled executives in the following countries.

Australia	Germany	Netherlands
Brazil	India	South Korea
Canada	Italy	Spain
China	Japan	United Kingdom
France	Mexico	United States

- To provide additional context we interviewed key finance advisory leaders and subject-matter specialists with our KPMG member firms globally, across all major sectors and finance disciplines. The resulting five chapters provide additional insight into some of the key themes identified in the survey and can be used as stand-alone articles or as part of the broader research.



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