KPMG

Business partnership

Inside the intelligent finance function

2015 Edition

KPMG.pl

Contents

1

Which way is the successful way?

The Chief Financial Officer (CFO) as a leader of today's finance function continues to work hard, facing pressures both internal and external, to boost finance team's relevance and value added to the business. The 2008 financial crisis exposed mismanagement and mistakes among many organizations and has forced leaders to carefully revise the once adopted strategies and operating models.

Poland is one of the few economies which continue to perform well on the global recession map. However, we increasingly hear the experts say it is time to get ready and prepare for many strategically essential challenges in the time of the new economy. Today's finance function is facing many varied challenges which bring highly complex changes. This is the time when competences of a modern CFO are critical for building a strong organization for success and even, in many cases, for ensuring its survival. Therefore, all stakeholders and market analysts look to finance leaders.

What kind of challenges is the modern Chief Financial Officer facing now and what is the recipe for success in such a fast-changing business world?

As the leaders of today's finance function 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. Shifting from the traditional functions of finance, such as basic transaction processing and financial reporting and control, toward the role of a modern leader of change, value creator or strategist, who supports or even influences new strategic directions of the organization, with limited resources, means that today's CFOs must find a new approach to managing the intelligent finance function of modern business partners.

Shifting from the traditional functions of finance, such as basic transaction processing and financial reporting and control, toward the role of a modern leader of change, value creator or strategist, who supports or even influences new strategic directions of the organization, with limited resources, means that today's CFOs must find a new approach to managing the intelligent finance function of modern business partners.

For the KPMG Financial Management Team, a top priority is helping our clients optimize the operation of their finance functions and position their finance teams for lasting success. In order to better identify key challenges of the future, we have conducted a survey among 120 CFOs in Poland to explore the status quo and future aspirations of finance functions in Polish organizations. The goal of the survey was to capture their views on the following key questions:

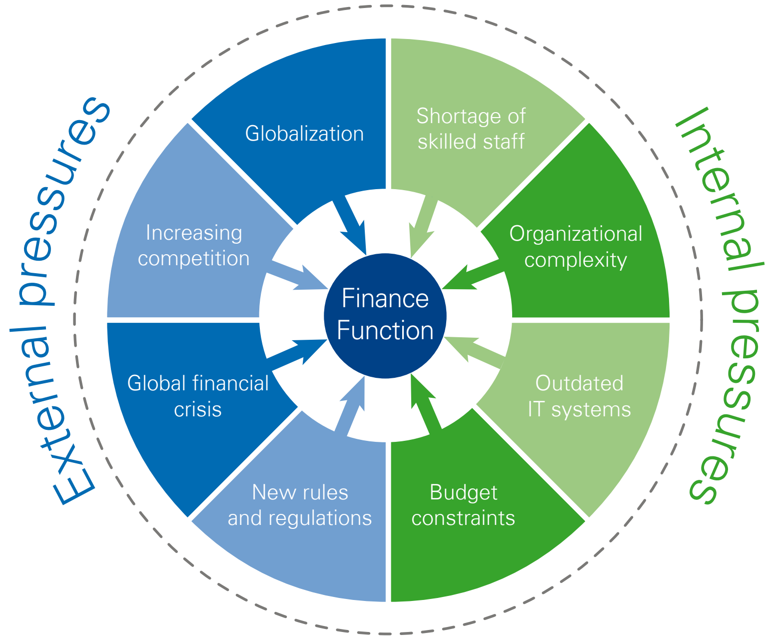
- How effectively do the finance functions operate nowadays? What are their strengths and weaknesses?
- What are the critical capabilities across their core finance processes and activities?
- How is the role of the finance function evolving in the development and execution of new business strategies?
- What changes to finance operating models, controls and systems do the respondents expect 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 are the respondents' companies willing to change the operating model to improve the efficiency and effectiveness of their finance operations?
- To what extent are organizations changing their perception of the role of finance function?

To deepen our understanding of how finance executives answered these questions, we drew on the collective knowledge and experience of several KPMG Financial Management advisory leaders and subject matter experts. Through this 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 modern finance functions.

2 Key findings and insights – opportunities and obstacles

Continuously facing pressures, both internal and external ones, finance functions are naturally going through positive changes, whereas continuous improvements bring teams closer to global standards and best practices: from improvement of productivity and operational efficiency through building business partnership to providing full business support and adding real value for all stakeholders.

> 60% of KPMG in Poland survey respondents are satisfied with the performance of their finance function



Source: KPMG International

The key research findings below offer a snapshot of the current state of finance functions in Poland.

Top strengths

60% of KPMG in Poland survey respondents are 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 strengths most commonly lie in the processes of general accounting, statutory reporting and treasury activities.

Lean finance

45%

45% of respondents believe that embracing and adopting lean finance principles is important or very important. A similar percentage believe that their organization is implementing it effectively or very effectively. "Effective use of data analytics for decision support" and "highly optimized finance business processes" are viewed as the most important enablers of a lean finance function.

Managing talents

70%

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% respondents expect to see dramatic changes in the people-related processes of "retaining staff" and increasing technical knowledge", and almost 70% think that talent management is an important or a very important factor to ensure effective support to business decisions in the organization.

Biggest weaknesses

"Talent management and the technical knowledge of staff" are viewed as the biggest weaknesses of organizations. Almost 30% of respondents indicated that areas related to staff's substantive knowledge in the finance function are also the most difficult ones to improve.

Planning, budgeting, forecasting

30%

The biggest challenge in today's business environment is to anticipate the future and to reflect it most reliably in financial forecasting. Modern finance functions, as a business partner, are able to support the operational departments in setting financial goals and adding value for their organizations. This way they learn new skills and create new analytical tools that go beyond the ordinary Excel. Almost 30% of CFOs claimed that processes of planning, budgeting and forecasting require improvement in their organization.

From decentralized to centralized

22%

Most finance functions in mature economies are moving toward a more centralized operating model, for example as corporate functions or within shared service centers. However, only 22% of all respondents believe that using them is important. Also, only few more than 10% claim that outsourcing of transactional finance activities is important to ensure effective decision support and direct cooperation with business.

> 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.

Finance and risk alignment

70%

Most organizations learned the key lesson from the recent global financial crisis and consider it important to continuously adapt and align finance and risk activities. Almost 50% of CFOs intend to change the risk management process over the next two years and 70% indicate that building awareness about finance and risk is important for improving the alignment of finance and risk activities, which is reflected in the fact that companies which integrate these two activities achieve greater effectiveness in making faster and more risk-balanced business decisions

Upcoming changes and investments

50%

Almost 50% of CFOs plan to invest more in the development of systems and tools for finance and accounting, while a similar number of the respondents plan significant investments in talent management over the next two years with the aim to support the transformation of the finance function into a broader business partner role.

> Investments in talent management over the next two years with the aim to support the transformation of the finance function into a broader business partner role.

2.1 Business partnership of the finance function

The modern finance function in an organization of the future must go beyond the current traditional understanding of responsibilities such as financial reporting and control, and actively support and provide intelligence that the board and business units can depend on: reliable, quick and complete picture of the business reality described in financial reports to make strategic business decisions.

The KPMG in Poland survey results reveal that a large proportion of the respondents claim to be rather successful in making this transition.

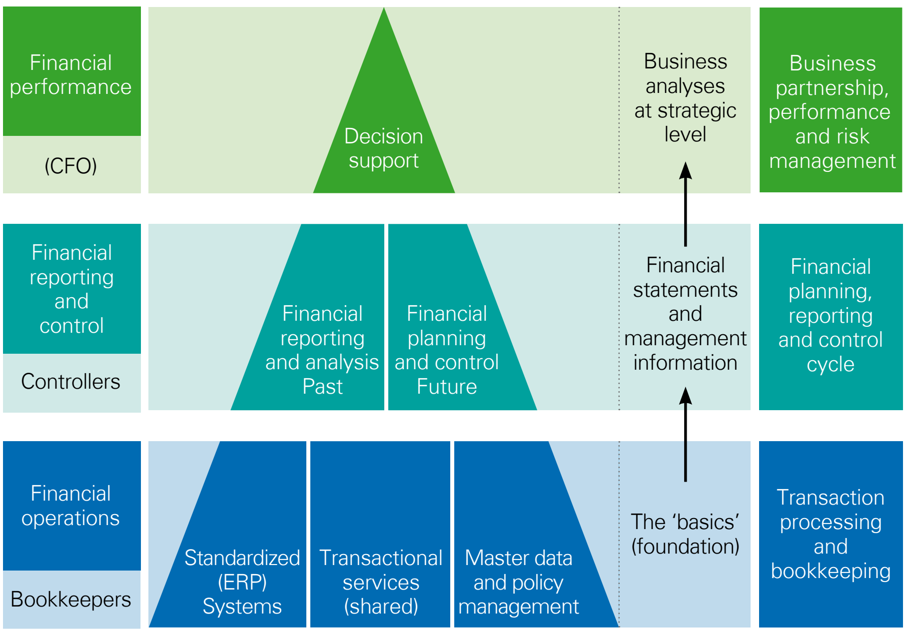
- 53% of senior finance executives rate their ability to communicate effectively with their board of directors as a strength.
- 46% of them expect their finance teams to have a larger role in developing and executing business strategy in the next five years.
- More than 70% of respondents see providing greater support to the business as a great opportunity for the finance function to add value.
- Only 27% say they are already able to support and contribute to the organization's long-term business strategy development.

Global trends and globalization of the finance function, as well as a growing need for innovative solutions for the dynamic business world, create the need for transformation of today's finance function and, at the same time, support it. The answers such as "very willing" and "somewhat willing", observed in our survey in the question about the willingness to invest in the development and improvement of the effectiveness of finance teams, represent 45% of responses. At the same time, only 4% of respondents said they were "reluctant".

While there are many different levers for enabling finance transformation, respondents say the areas that matter most are "investments in talent management" and "expansion of finance enterprise resource planning software".

More than 70% of respondents see providing greater support to the business as a great opportunity for the finance function to add value.

Global trends and globalization of the finance function, as well as a growing need for innovative solutions for the dynamic business world, create the need for transformation of today's finance function and, at the same time, support it.



Source: KPMG International

Responsibility areas of an effective finance function are generally related to three fundamental functions:

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

2.2 Intelligent transformation of the finance function

Traditional finance teams spend a half of their time on financial operations. Modern finance teams seek to increase participation in strategic business partnership in order to reach 50% while reducing involvement in financial operations to 20%.

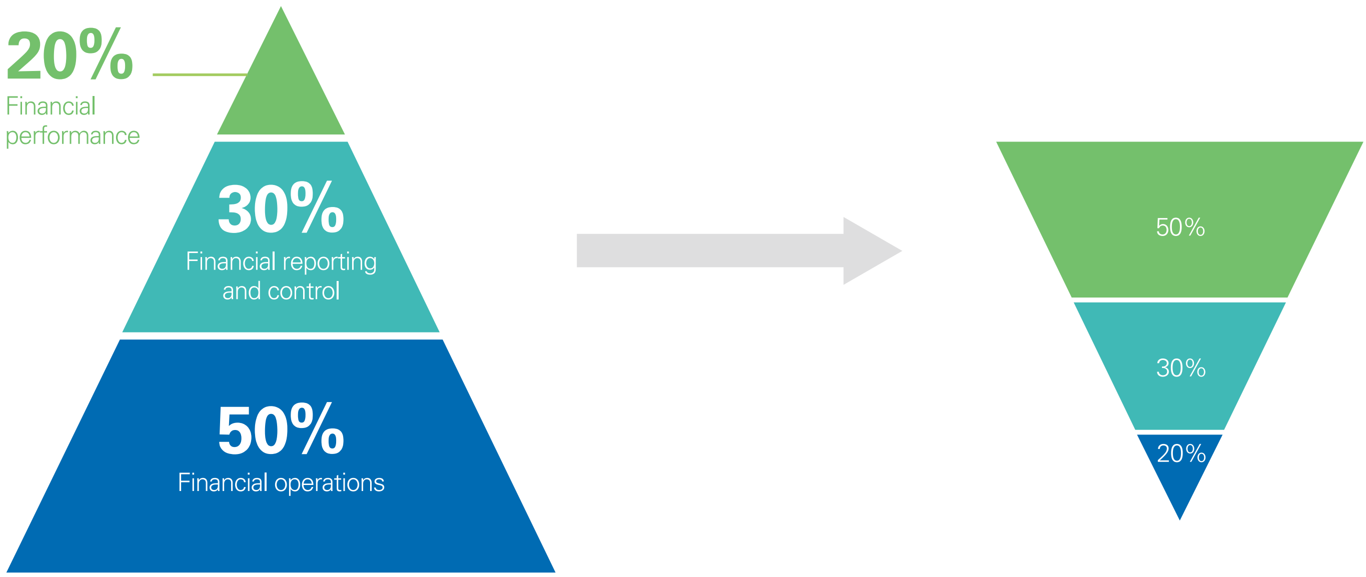
The situation when finance teams devote most of their attention to "the basics", i.e. transaction processing and bookkeeping roles, and less time to the strategic, value-adding finance activities is rapidly changing. Finance function transformation, where lean finance principles are implemented and shared services introduced, has allowed finance teams to manage their basic finance operations much more efficiently and effectively.

Financial and tax reporting, control and treasury activities as well as other more complex areas are enhanced by concentrating specialized skills and knowledge within centers of excellence.

Changes like these allow to free up 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.

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 in the nearest future.

The KPMG in Poland survey respondents clearly indicate that their efforts in the area of "decision support" for their finance function will increase, while the amount of work involved in "transaction processing" will decrease in the course of two years.



Source: KPMG International

So, how big is the challenge to achieve a state in which modern CFOs with their modern financial teams are still meeting all the current responsibilities while ensuring a much wider range of information and strategic support?

In light of the survey results and based on KPMG experience, success is to be achieved by teams, where Target Operating Model (TOM) sets up the scene and framework of transformation.

KPMG's Target Operating Model enables finance leaders to plot where they are today and where they want to be in their transformation journey in two or three years.

> 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 in the nearest future.

KPMG operating model

Services	Entirely internally focused	Multiple agendas, cost centre mentality	Finance vision agreed and aligned with the business	Focus on value managment	Finance is a business partner of management and the board	Key influencer of stakeholders	Value driver
Organization	Finance function in silos	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	Integrated finance function
People	Scorekeeper	Diligent caretaking	Reactive ad hoc analysis	Business acumen and financial knowledge	Insightful analysis and comment	Constructive challenge	Business partner
Processes	Business unit (BU) specific	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	Standarized and optimized
Technology	Incompatible systems and data models	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 ocurrences	Standard tools and applications, on single ocurrence	Central data model/systems
Location	Decentralized processing	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	Strategic sourcing /SSCs optimized

Traditional financial teams → Modern financial teams

Source: KPMG International

Services

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

Organization

Global finance function

Clear roles, responsibilities and accountabilities

Transparency and objectivity
Global objectives setting
Global training and mobility
Global governance framework

People

Global finance teams

Global finance team competencies Commercial challenge

Highly motivated and enthusiastic staff

Global talent management
Global succession planning

Process

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

Technology

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

Location

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

> A well-defined TOM helps to identify which competencies in the finance function are missing, and which ones should be expanded and improved, and to what extent, in each of the six areas, in order to enter the path of success and become an intelligent finance function.

Defining a clear finance vision, strategy and designing the fit-for-purpose Finance TOM that will deliver the vision should be the first step of any finance function transformation program. Not always though is there a need for a complex finance transformation program that addresses all aspects of TOM. Indeed, CFOs can choose how far and fast they want to move the finance function transformation, based on an assessment of prioritized requirements and their expected benefits.

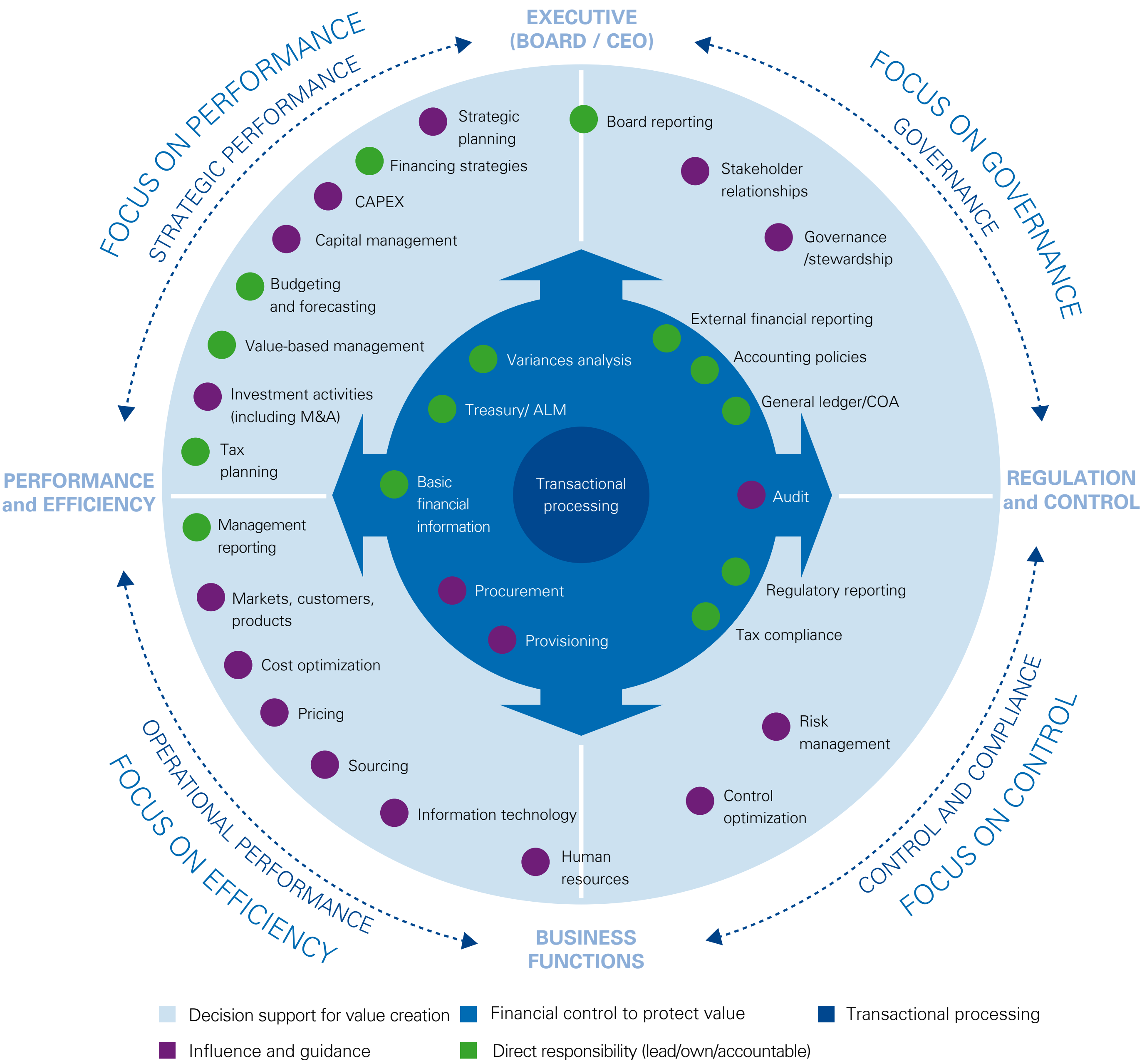
The diagram on the right depicts what a "world-class" finance function could look like.

The requirements related to building the highest quality financial TOM are usually determined by the finance function's responsibilities, by what they provide to whom, and which business needs they address and whom they support as experts and business partners. Defining these activities, roles and final products in the service delivery model is very important.

The principal outputs and key stakeholders of the finance function are as presented on the chart below.

A well-defined TOM helps to identify which competencies in the finance function are missing, and which ones should be expanded and improved, and to what extent, in each of the six areas, in order to enter the path of success and become an intelligent finance function.

Finance function – Principal outputs and key stakeholders



Source: KPMG International

3 The intelligent finance function

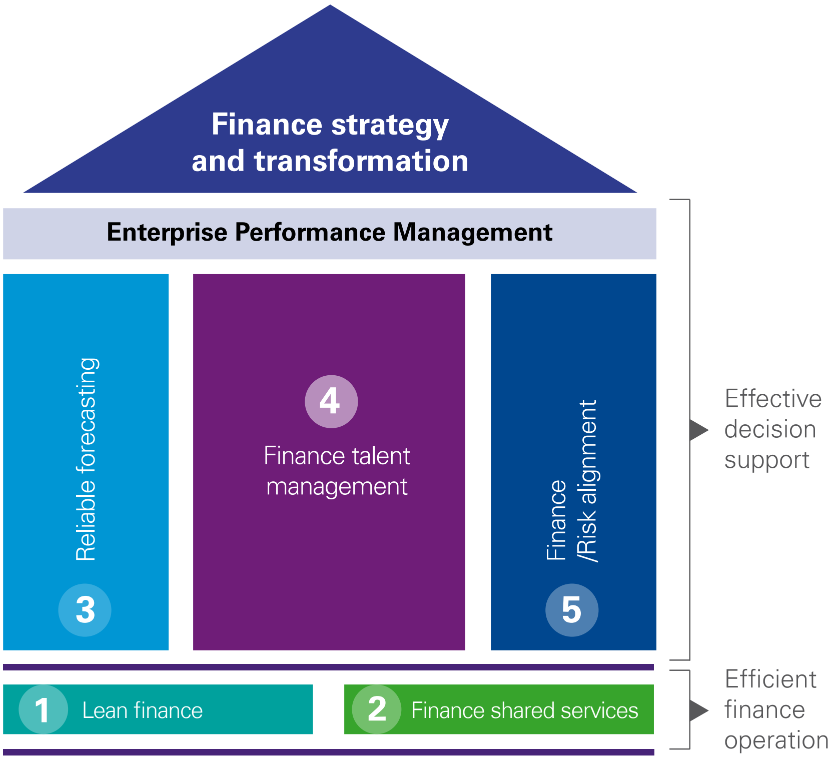
The awareness and high interest in the implementation of the intelligent finance concepts and functions are constantly growing. Over the past decade finance teams spent much of the energy ensuring compliance with rapidly changing financial reporting standards, implementing new corporate governance requirements and cost reduction programs.

These areas have reached a certain level of maturity enabling implementation of intelligent solutions to support building competitive advantage, such as:

- Strengthening the strategy alignment, performance reporting, and intelligent analytical capabilities
- Creating a greater role of finance function throughout organization and making the best possible business decision process based on complete, correct and timely information.
- Most effective reporting of key performance indicators (KPIs) from different areas of the organization (e.g. finance, risk, operations, HR and marketing) using the latest business intelligence tools and innovative (big) data and analytics techniques.
- Leveraging the latest information technology developments, for example, through integrated cloud-enabled ERP and EPM solutions combined with user-friendly mobile technologies.

The awareness and high interest in the implementation of the intelligent finance concepts and functions are constantly growing.

3.1 The building blocks of an intelligent finance function



Source: KPMG International

The previous chapter pointed out the importance of building a more efficient and effective finance function, for example, on the basis of the leading Target Operating Model. In a comprehensive manner, this model defines the structure and governance of the desired finance organization and its core components.

Among many important areas included in the TOM model the first **five key aspects** are becoming increasingly important for the finance function and its ability to add even more value to the business.

1. **Lean finance** tools and techniques optimize the finance operations and ensure reduced or minimum waste occur in the basic finance activities.
2. Standardization and centralization of basic finance activities in **finance shared services** of the modern organization structure are important steps toward increasing the involvement of finance function in much more complex activities supporting business decision-making and becoming a value creator.
3. New business intelligence tools, data and analytics techniques enable the development of modern analytical methods focused on the growing demand for precise, diverse and high-quality data corresponding with the increasingly complex business models, as exemplified by the rise of integrated business planning and control tools supported by more **reliable forecasting** techniques.
4. The process of **talent management** in the finance function should take place through the creation of a consistent set of procedures and a conceptual framework for the entire organization to attract, motivate and develop the best employees at all levels, especially as the labor markets become more diverse and competitive, changing much faster than ever before.
5. **Alignment of finance and risk** functions to enable improved strategic and tactical decision-making through better balancing of risk and reward factors over the short and long term.

We conclude this report with a discussion of how CFOs can develop, encourage and inspire their finance teams in making the leap toward a truly **intelligent finance function**.

3.2 Lean finance – foundation for success

The success of the finance function is no longer defined through the prism of cost effectiveness and the speed of financial transactional processing and reporting. These responsibilities are still very important, yet what has become more important and strategically more needed and critical is the role of the business partner taking active part and supporting the process of business decision making. To be able to put more emphasis on becoming a real business partner, the finance function should focus on the optimization of the processes that will enable it to allocate resources where they can actually create value. Organizations use different approaches to enhance the efficiency of financial processes, but only few of them are value-oriented and enjoy benefits of the lean finance philosophy.

The path to effectiveness

Long-term budgeting, manual data entry, individual customer-oriented exceptions to customize many reporting formats, preparation all sorts of reports which are not designed to support business decisions, problems with consolidation, multi-level authorization processes, lengthy meetings, the dragging process of month-end closing... These are just some of the issues that stand in the way of achieving full effectiveness of the finance function. The time that should be spent on in-depth data analysis, commenting and building business related conclusions is rather spent on correcting errors and reconciling data from seemingly simple transaction activities.

Keeping in mind the complex and growing demands on the performance of the finance function, CFOs should ask themselves some important questions that will help them to diagnose to what extent the finance function is able to respond to the challenges of the future:

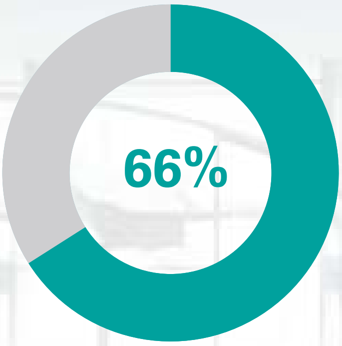
- How often do we miss deadlines?
- How much time do we spend on real support for management decision-making?
- What is our reputation in the organization: a department that generates value or is a pure "cost line" that the organization needs to afford and sustain?

The greatest value is generated by finance functions that focus on delivering quality business analysis and provide real support for management's decision-making. Such a high-quality role will only be played by those that have managed to achieve a high level of operational efficiency and eliminated or minimized the number of low value or dormant operations. Achieving such state is not an easy task and it usually requires a systematic approach and a range of optimization actions. That is why a new approach that was inspired by the automotive industry (lean manufacturing) is becoming increasingly popular. It has been adapted to financial processes to eliminate unnecessary activities and focus on those that actually add value to the organization. Optimization actions of lean finance may include steps:

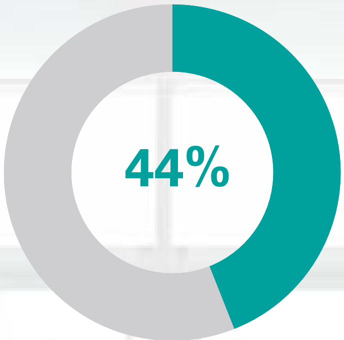
- to perform transactional and high volume activities outside the organization, standardized, centralized and transferred to shared services centers or external outsourcing providers,
- to further develop the IT infrastructure to automate data consolidation, processing and reporting,
- to automate routine processes to save time of their execution and reduce the risk and number of errors,
- to standardize processes, align roles, responsibilities and control points & measures within the finance function.

While comprehensive knowledge of the lean finance methodology by finance managers in Poland is not too high (nearly 48% claim that lean finance in their organization is not implemented or is of little importance), many of the individual elements of the lean approach are used successfully in a significant number of enterprises. Standardization and optimization of processes is implemented with the highest efficiency while the use of shared service centers is becoming increasingly popular.

How skilled is your organization in embodying "lean finance" principles?



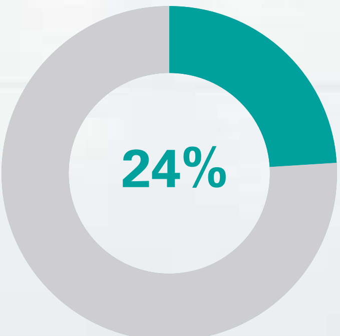
Driving process standardization



The use of global shared services

Driving process optimization

The use of global outsourcing



The use of the Six Sigma methodology

■ Very or somewhat skilled

Source: KPMG in Poland CFO survey 2015

> The greatest value is generated by finance functions that focus on delivering quality business analysis and provide real support for management's decision-making.

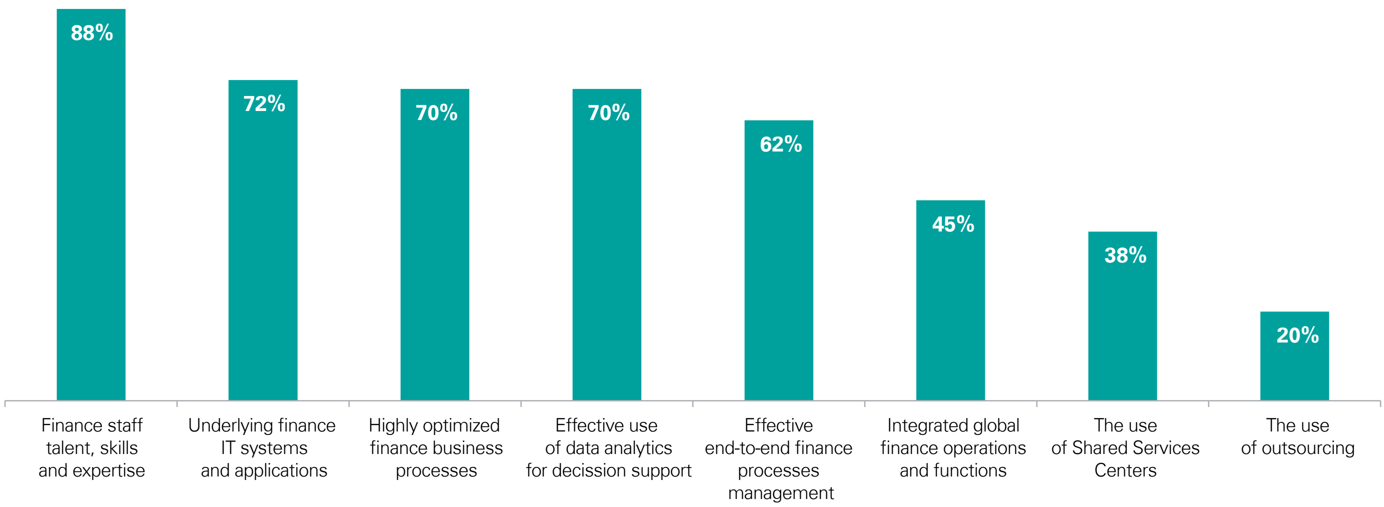
Creating value through the finance function

The basic element of the implementation of lean finance is to identify all areas where the finance function generates value for the organization. At the same time, identifying value-creating activities should be carried out not from the standpoint of the finance function but that of its customers. Customers of finance functions are external institutions such as regulators, banks, investors and, most of all, internal recipients of information who make crucial business decisions on this basis. They are the one who knows best what they need, in which scope and level of detail. For this reason, understanding business perspective should be a priority for every finance function. Periodic review of reports and summaries with stakeholders and business partners help to determine whether the data and the presentation method are relevant to the decisions made on their basis. They also help to verify, discuss and eliminate unnecessary information or reports, which generate a lot of manual workload.

Only understanding the customer's perspective helps to focus on what is really important and valuable for the organization. It also provides a basis for identifying tasks and processes in the organization that are less important and do not support the value creation for customers and business partners of the finance department and the organization as a whole. Working to eliminate or at least minimize their laboriousness and cost is another important element of lean finance.

Implementation of lean finance is complex and often takes a long time. The success depends on many factors. For surveyed leaders of finance functions, "finance staff talent, skills and expertise" was by mentioned by far most frequently (88% of those implementing lean finance identified this factor as very important or fairly important). Other factors which are also very important include: "underlying IT systems and applications" (72% of responses), "effective use of data analytics for reporting" (70%) and finally "highly optimized finance business processes" (70%).

Importance of various factors in enabling lean finance



Source: KPMG in Poland CFO survey 2015

Going beyond cost reduction

By reducing unnecessary activities that do not generate value and focusing on processes that do, the organization will deliver measurable results of reduced operating costs. The standardization of financial processes leads to an increase in the effectiveness, limiting the need to control and reducing time-consuming tasks. The identification and elimination of duplicating processes always gives additional savings.

Benefits of implementing lean finance go far beyond the aspect of cost-effectiveness. With lean finance, the finance function becomes a true business partner for the organization and reduces the number of unnecessary data, simplifying data presentation. Additionally, thanks to better knowledge of the needs and expectations of internal customers, the finance function can engage resources where they actually support business in necessary decision-making. Faster delivery of complete, relevant and correct results will improve business decisions and play a significant role in building or increasing competitive advantage.

Lean finance also provides improved control system for the implementation of finance tasks. On the one hand, it limits the control and the need for verification where it is unnecessary or where the actual value of the task is marginal (repeated verification and reconciliation of each number is almost a compulsory step in many traditional finance functions). On the other hand, emphasis is put on the quality of processes and end products where it matters most to the customers of finance functions.

The impact of lean finance on the mindset, mentality and attitude of employees of finance functions cannot be underestimated. Creating a culture of continuous improvement is aimed at constantly improving the existing processes, the competencies of the finance function and adapting best practices, which eventually become a natural approach. Putting customers' needs first and focusing on their expectations improves the perception of the finance function in the organization and improves communication with other departments.

> Implementation of lean finance is complex and often takes a long time. The success depends on many factors. For surveyed leaders of finance functions, "finance staff talent, skills and expertise" was by mentioned by far most frequently.

Lean finance world

Creating accounting records and generating basic financial reports is still in the spotlight of many financial departments, yet global trends show that the burden of responsibility in modern organizations will move in the direction of supporting business decisions. According to a global KPMG survey entitled "Being the best: Inside the intelligent finance function", as many as 56% of finance function leaders expect that over the next five years subordinate units will have a more significant impact on building and implementing business strategy.

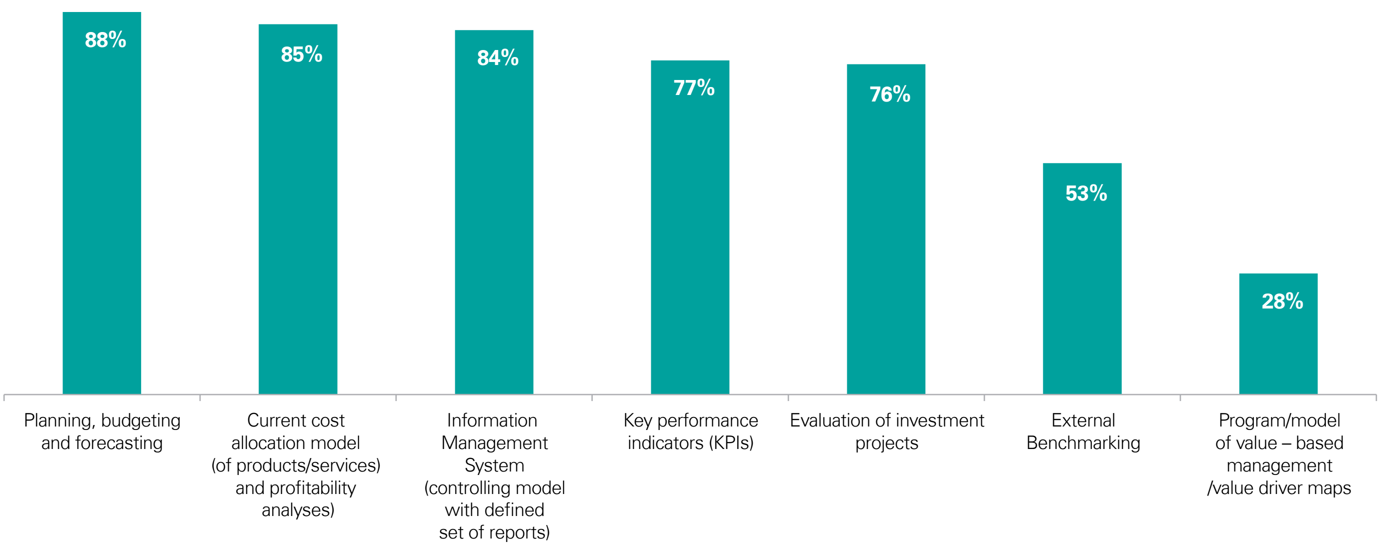
Polish enterprises are facing similar challenges. Over the next few years many financial departments will have to undergo a transformation of the traditional model focused on transactional activities and report generating toward a model where the primary role will consist in analyzing information and reports as well as acting as an advisory body.

The need for such transformation is already recognized and observed, for example, in investing and implementing methodologies and tools to support business decisions. Nearly nine out of ten surveyed organizations use forecasting, planning and budgeting, cost allocation models and profitability analysis of products sold and own a defined information management system with a set of management reports. Nearly eight in ten organizations use key performance indicators (KPIs) to assess their activities and apply the methodology of investment project evaluation to plan and conduct large projects.

Benchmarking and value-based management programs are gaining popularity: respectively 53% and 28% of companies have already used them, and more organizations are going to implement them (respectively 13% and 14% of the surveyed entities).

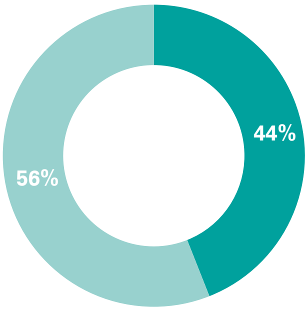
Despite the growing awareness and a high degree of utilization of management tools, it is crucial to pay attention to the leaders' harsh assessment of decision-making support in their organizations. Only 1/3 of the surveyed CFOs identified management reporting, project reporting and strategic decision-making support as a strength of the finance function in their company. For each of the used tools and management methodologies, the percentage claiming that it is used in an optimal manner does not exceed 50% (the largest share, 65% of respondents, see the need to optimize the management information system and the current costing model, and 62% would like to see external benchmarking improved).

The use of tools and methodologies to support management's decision making

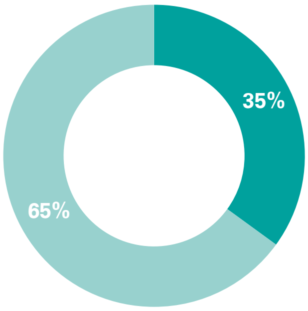


Source: KPMG in Poland CFO survey 2015

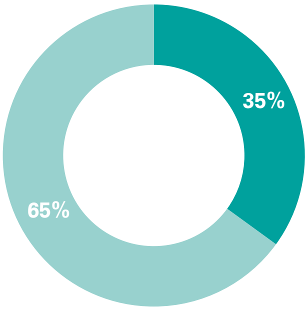
Optimization of implemented tools and methodologies to support management decision making in the organization



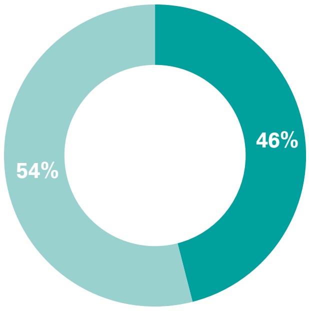
Planning, budgeting and forecasting



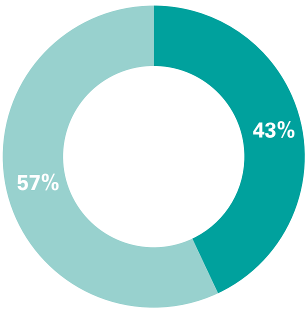
Cost allocation model (of products/ services) and profitability analyses



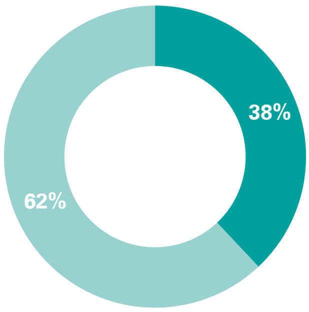
Information Management System (controlling model with defined set of reports)



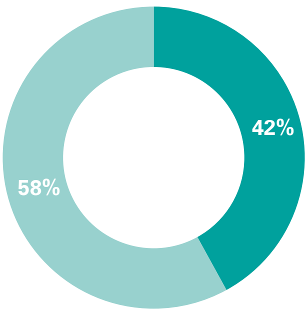
Key performance indicators (KPIs)



Evaluation of investment projects



External Benchmarking



Program/model of value – based management / value driver maps

- Implemented in an optimal manner
- Implemented solution, but to optimiz

Source: KPMG in Poland CFO survey 2015

Lean finance principles will not only rid the finance function of unnecessary and unprofitable tasks, but they will also help in the implementation and optimization of processes and methodologies wherever the finance function generates the greatest value for the organization i.e. decision-making support. For this reason, lean finance is an excellent tool for the transition from the current scope of tasks and organizational culture of financial units towards the intelligent finance function of the future.

> Only 1/3 of the surveyed CFOs identified management reporting, project reporting and strategic decision-making support as a strength of the finance function in their company.

3.3 Modern Business Services Center – pursuing the balance between quality and effectiveness

Shared services centers are commonly used for back-office functions

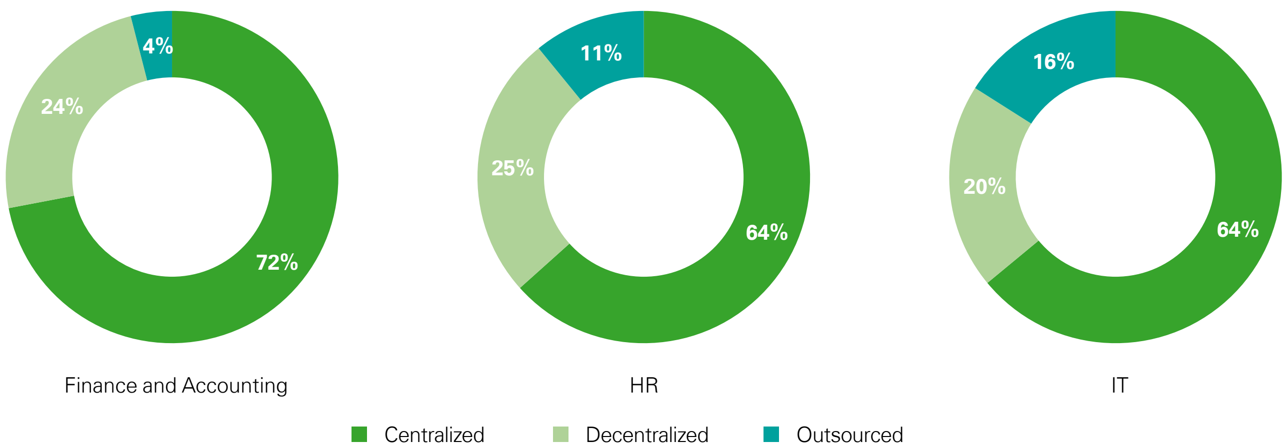
The first shared services centers (SSC) emerged in Poland in 1990s, right after the political and economic transformation. Since then, they have become such a common practice in business that many companies cannot imagine achieving cost-effectiveness of services without using this model. Currently, business support services are among the most dynamically developing sectors of the Polish economy, with an average annual employment growth of 15–20%. More than 650 existing shared services centres employ about 150,000 workers. The availability of qualified staff and well-developed infrastructure (KPMG in Poland report "Poland as the Destination for Business Service Centers – 2015 Edition") make Poland one of the most attractive destinations for this type of business.

Initially, the development of the support services sector was inspired by globalization and the development of new technologies that allowed companies to focus on optimizing costs while maintaining or even increasing the efficiency and productivity of processes. Centralization also enabled them to relocate some resources to teams focusing on supporting core business functions and on improving profitability.

Currently, the use of shared services centres in the structures of organizations has become a standard, and not only among global enterprises. In a survey conducted by KPMG in Poland among CFOs, nearly 72% of the respondents indicated that their companies' operational activities of financial functions had already been centralized. Further on, the respondents mentioned human resources management and IT functions as those which had been centralized (both 64%). It is worth noting that only IT functions of the surveyed companies were outsourced in a significant number of cases (16%).

> Today, organizations are increasingly shifting toward centralizing and relocating more complex processes that require extensive and specialized knowledge.

Activities of back-office functions



Source: KPMG in Poland CFO survey 2015

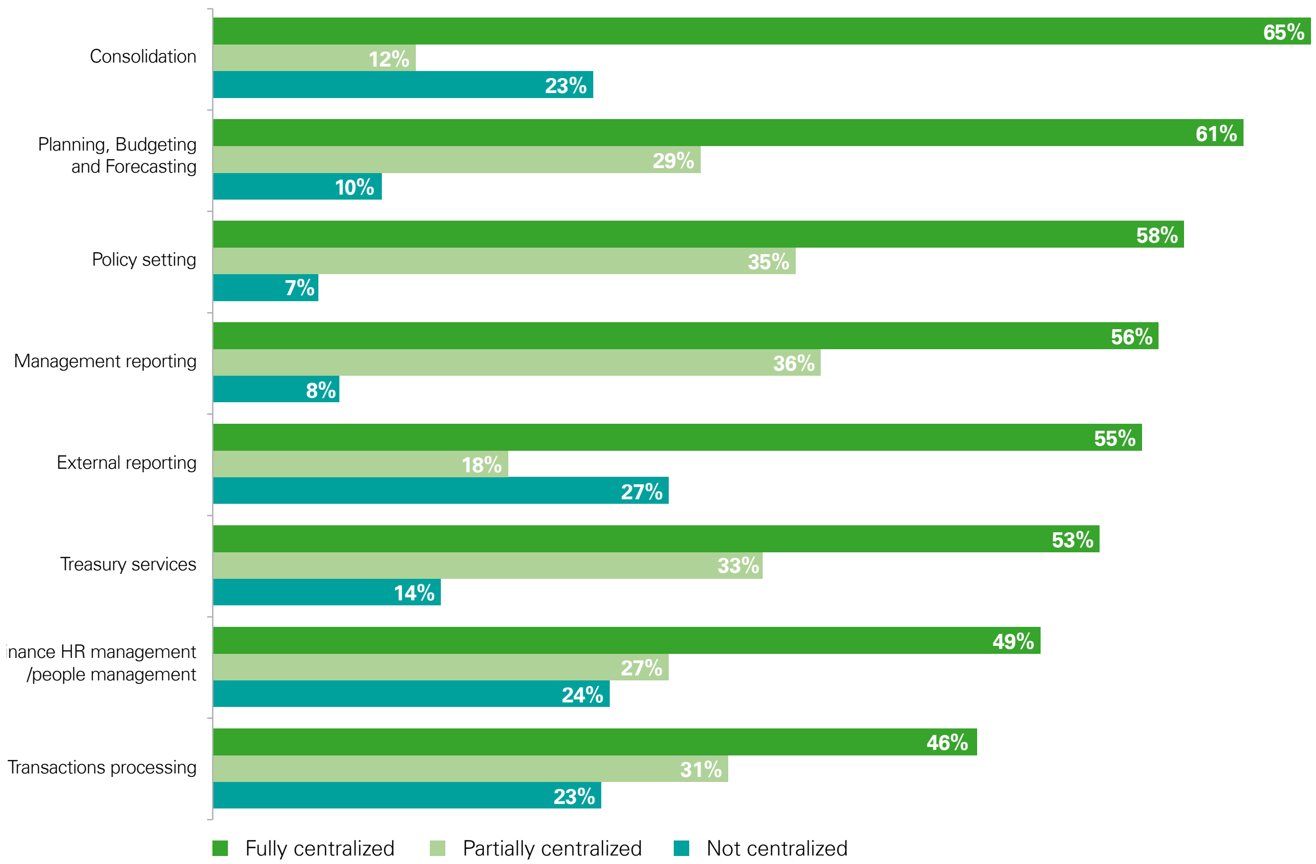
More than transactional processes…

Implementation of shared services centres into the operating model of the finance function creates a need to assess the risks and to make key organizational decisions by the management. Main concerns are mainly about the availability of human resources, infrastructure and modern technologies, but the first and basic important question should be asked: which processes to centralize, and which should stay within the current structure?

In the initial phase of the financial shared service centers development, companies focused on transferring large-scale transactional processes. Low-value and low-complexity processes, such as payables and receivables or general ledger transactions and statutory reporting. Today, organizations are increasingly shifting toward centralizing and relocating more complex processes that require extensive and specialized knowledge. For example, analysis and reconciliation of monthly management results, as well as planning, budgeting and forecasting are areas that still need to be closely connected with operating activities from a functional and controlling standpoint. However, technological advancements mean that geographical proximity to a supported function is no longer a prerequisite, and this enables centralization. In this situation, the main obstacle for choosing a specific location may lie in the availability of well-qualified human resources because these areas require skilled teams with specialized knowledge and experience.

This trend is confirmed by the results of the KPMG in Poland survey. Transaction processing and consolidation of financial statements are centralized fully or partially in 77% of organizations. Additionally, the respondents confirmed a growing share of functions such as management reporting and policy settings (92%), budgeting (90%) and treasury functions (86%). As regards complex processes which are fully centralized, the respondents most commonly mentioned activities related to the creation, approval, and subsequent control of the budget (61%).

Centralization degree of finance-related activities

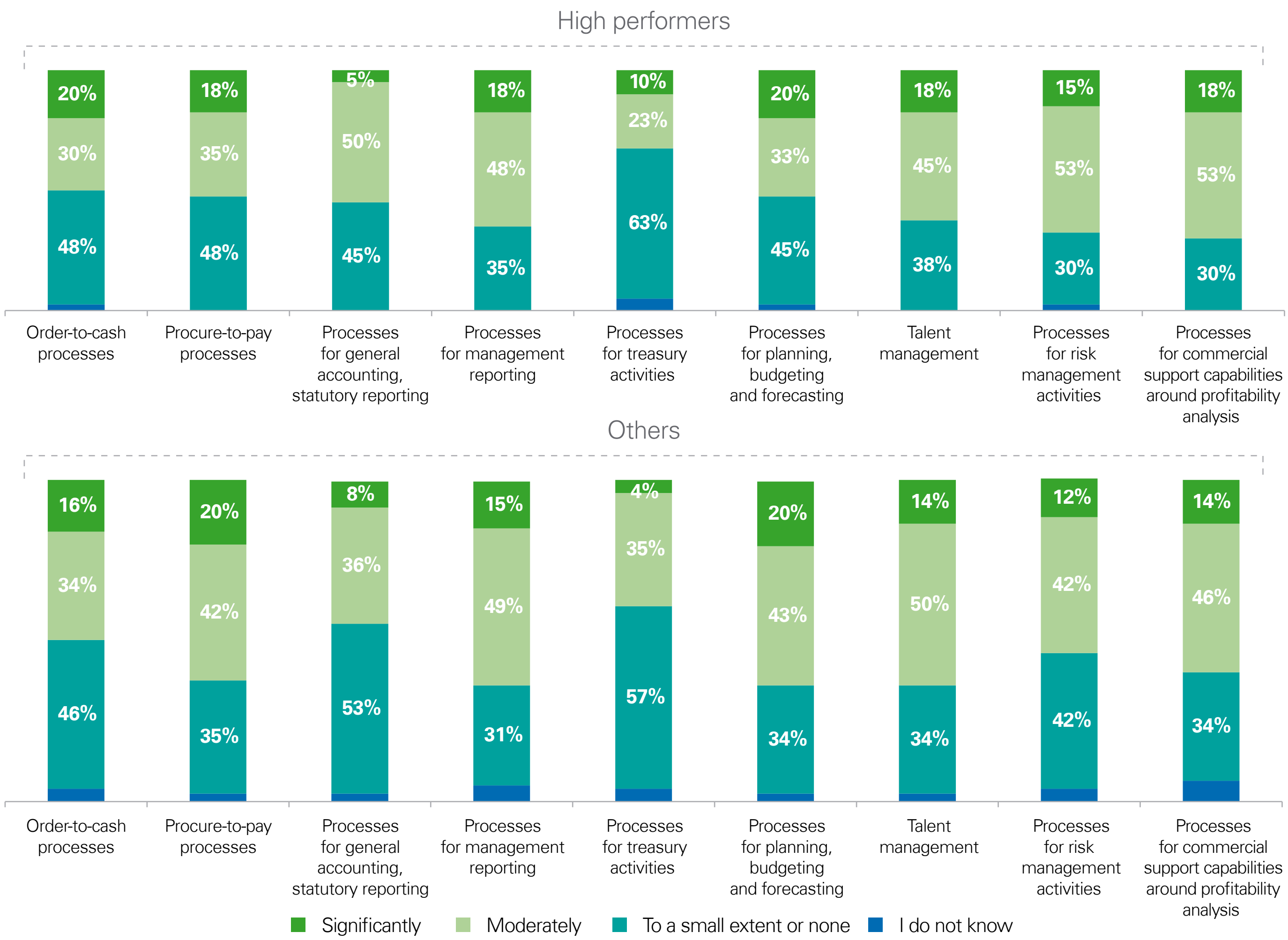


Source: KPMG in Poland CFO survey 2015

Therefore, it is clearly visible that organizations went a thorough transformation in the last decade. Until recently, operations supporting business activities (essential for strategic decisions) had the highest priority when it comes to being preserved in the traditional in-house structures. Currently, the focus is placed on providing a competitive advantage, e.g. maintenance and development of specialized business knowledge (often confidential) within the company, or maintaining increased control over the critical functions for the business view and, on the other hand, on complying with local regulations and requirements.

As regards complex processes which are fully centralized, the respondents most commonly mentioned activities related to the creation, approval, and subsequent control of the budget (61%).

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



Source: KPMG in Poland CFO survey 2015

Do organizations still crave for centralization?

In the context of centralization, it is surprising to see many respondents hold an opinion that their operations in shared services centres are mature enough, and that neither further reorganization nor investments are necessary. Less than 20% of all respondents plan to make additional investments over the next two years in handling transactional finance processes, i.e. order-to-cash (17%), procure-to-pay (18%) and general accounting (8%). These results are comparable for all respondents as well as high performers (only order-to-cash operations play a more important role for high performers). Those results suggest that many companies already profit from earlier investments in the centralization of those functions. The same stands for more complex processes such as management reporting, planning budgeting and forecasting and treasury activities: a significant proportion of the respondents do not plan any considerable investments. This may result from trend seen in recent years whereby centers supporting complex processes are being located in Poland.

This can be observed by comparing the results of studies conducted in Poland with the results of a global study where the respondents were far more likely (from 6% to 14% for transaction processing and by 7% to 17% more for complex processes) to declare their willingness to make changes in the functioning of finance processes in the next two years.

Another reason might be a shift in priorities required from modern financial functions, which have transformed from data-processing centers into business support units facilitating business decision-making. As a result, CFOs perceive both service centers and outsourcing as less important or neutral for providing effective support for business decision-making.

In which of these areas does your organization plan to make increased, tangible investments in the next two years (Poland vs Global data)

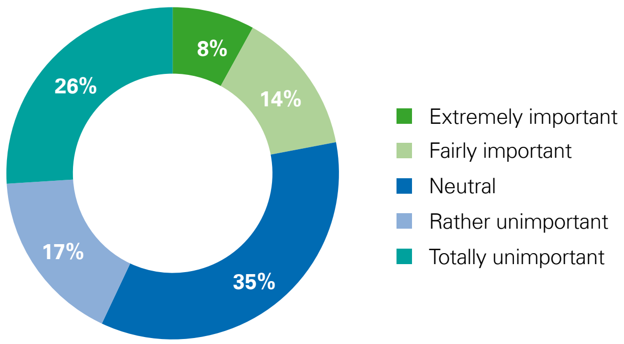
Source: KPMG in Poland CFO survey 2015

This attitude may entail a considerable threat. The obvious lack of appetite for new investments in shared services centres suggests that most of the organizations are satisfied with the status quo. The emergence of new technologies, business models and new market opportunities creates a grave risk of losing a competitive advantage for those companies that fail to invest.

It is important to keep in mind that service centers are a relatively young operational model, although they are developing rapidly. Every few years we see significant technological changes in tools and processes supporting those business models. The most visible changes relate to procurement processes, where many tools and technologies have emerged to support scanning, electronic document flows of real-time processing. Highly specialized tools related to ERP systems have replaced the previously popular data export from ERP systems to spreadsheets when reconciling balance sheet accounts and preparing management reports.

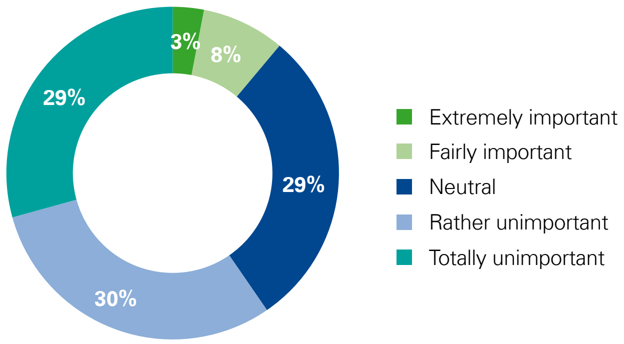
It should be noted that the business model involving the centralization of services has been also evolving. Today, many companies choose mixed (hybrid) solutions, combining the advantages of services centers and outsourcing. Such solutions involve, for instance, the transfer of transactional processes to an external provider and creating centralized competence centers within the organization (center of excellence) which handle more strategic or niche processes, such as taxes or management of financial resources.

Use of shared services centers



Source: KPMG in Poland CFO survey 2015

Outsourcing of transactional finance activities



Source: KPMG in Poland CFO survey 2015

> The obvious lack of appetite for new investments in shared services centres suggests that most of the organizations are satisfied with the status quo. The emergence of new technologies, business models and new market opportunities creates a significant risk of losing a competitive advantage for those companies that fail to invest.

This model has been developed into the Global Business Services (GBS) model which enables organizations to transform both back-office and front-office processes into a unified service platform. This allows organizations to achieve benefits resulting from the use of business expertise, analytical skills and scale of the processes through:

- Multi-functional business processes,
- A common platform / information technology,
- Multi-channel services – outsourcing / shared service centers / centers of excellence,
- Precise subdivision of responsibilities and management.

GBS enables organizations to drive profits by leveraging expertise and scale in analytical, specialist, and transactional processes

Mission:
What GBS customers will see

- A set of transactional, analytical and specialist activities being delivered in a **consistent, reliable, and transparent way** that needs minimal local management ownership to deliver
- Processes moving over time to be globally integrated, further **driving consistency and efficiency**
- With this harmonization of process and data, **better management information and analytics** will become available
- **Reduced cost** of in-scope processes and the ability to compare costs across service delivery models
- **Service levels are** continuously tracked and improved
- A greater ability to deliver both **continuous improvement** and **standardization** across markets

Vision:
GBS will take accountability to deliver

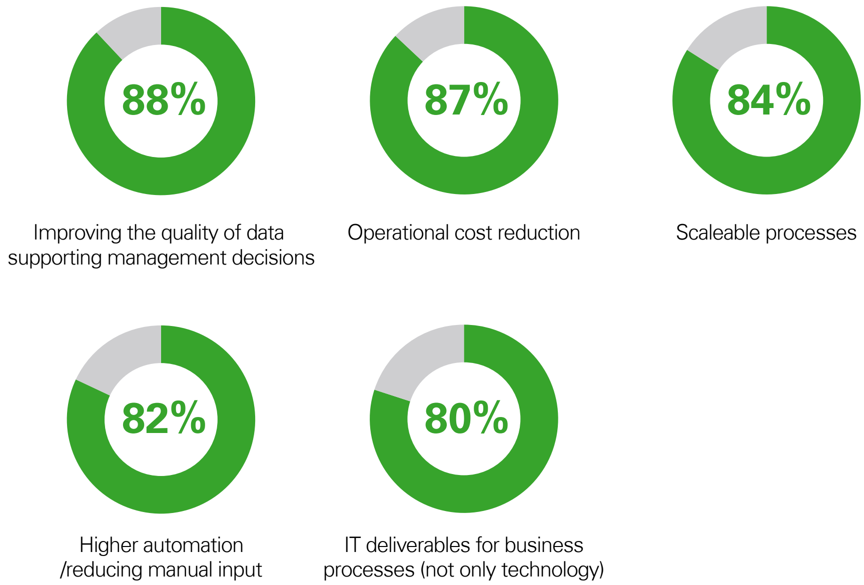
- A **multi-functional** scope of transactional, analytical, and specialist activities
- A platform for harmonizing processes across the organization, promoting globally-defined leading **practice of GBS processes**
- In-scope data and information managed as a global asset to deliver **'one version of the truth'**
- **Transparent, predictable cross charges**, reducing over time
- A **customer-focused** culture with strong performance management and transparent reporting to internal customers
- **Continuous development of people** and approach
- Optimized **global network of delivery centres** and outsourcing partners with access to key talent pools appropriate for the organization's global footprint
- A **platform to support** further revenue growth (organic or acquired) that leverages scale

Relocating processes to shared services centres is a response to market challenges

Summing up, it should be noted that the expectations toward the finance function do not only include cost reductions and increased efficiency of the processes but they also concern the management function and the comprehensive role of the finance function as a business partner for the organization and the management. In the study entitled "2013 State of Outsourcing" conducted by HfS crucial success factors for organizations were identified. In order to maintain a competitive position of their companies in a fast-changing environment, CFOs face the need to reorganize the current model toward delivering high-quality data and real-time in-depth analysis as well as risk assessment while also reducing costs. The importance of implementing new technologies to reduce manual work and providing business solutions was also strongly highlighted.

Transferring processes to a service center or, if centers already exists, expanding their competences and line of services naturally enables more efficient management of operations and processes. This improves quality and frees up resources that can be allocated to more complex activities, supporting decision-making processes and direct cooperation with business. This was confirmed in the aforementioned HFS study. In recent years, global firms which were most aware of the necessity of this transformation, have been gradually giving up the outsourcing of financial functions as well as reducing the scope of in-house processes. At the same time, the vast majority of them (62%) declare that the Global Business Services model will become the dominant model in the near future. The reasoning behind this is the fact that the array of services provided under this solution is focused on building value of the organization instead of reducing costs.

Key factors for SSC transformation success



Source: HfS's Survey „2013 State of Outsourcing"

The value proposition is shifting from a cost to a value focus in mature SSCs

Traditional Drivers	+	Emerging Drivers
Cost Reduction	»	Simplicity and Agility
Capital Avoidance	»	Risk Mitigation
Access to Talent	»	Access to Innovation
Labor Arbitrage	»	Improved Customer Experience
Technology Upgrade	»	Cloud Enablement
Cost Focus	+	**Value Focus**

> In order to maintain a competitive position of their companies in a fast-changing environment, CFOs face the need to reorganize the current model toward delivering high-quality data and real-time in-depth analysis as well as risk assessment while also reducing costs.

3.4 Forecasting as a response to growing business needs

When running a business we operate in a rapidly changing environment. The common use of new technologies, the shortened product life cycles and an abundance of information, both in the external environment and within the organization, are just some of the factors that create the need for implementing flexible and multidimensional forecasting, responsive to growing business needs.

Traditionally, budgeting for the next financial year starts six to nine months in advance and its preparation consumes so much time that the budget is often out of date before the start of the period concerned. This is particularly evident in the case of long-term plans. The more distant the time perspective for which the plan was created, the less precise the projection

If a projection is to be credible, the organization should go far beyond traditional planning and budgeting, use complex tools of financial analysis, identify and manage risks, and seek new market opportunities. Only with such assumptions can companies identify future scenarios, consider their impact on the organization and develop adequate response strategies.

Modern financial units which want to generate value should, therefore, depart from transactional data processing and, instead, focus on analyzing a wide range of information sources, trend forecasting and business decision support in order to improve performance. This need is being recognized by the CFOs surveyed by KPMG in Poland. The majority of respondents believe that the share of activities related to support for business decisions will increase within the next two years from 28% to 36%, whilst involvement in transaction processing will decline (from 40% to 34%).

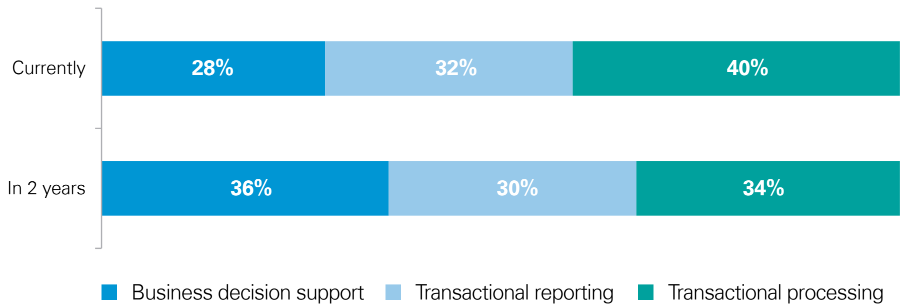
Allocation of work time in the finance department

The process of planning, budgeting and forecasting should be among the basic elements of effective decision-making support by intelligent finance functions. For this to happen, three key success factors must be taken into account: putting business units in the center of planning processes, adequate organization and quality assurance for those processes, as well as developing tools that can quickly and flexibly accommodate complexity and dynamics of the business situation.

Business knows better…

The key to success and credibility of forecasting lies in positioning it as a business process, not as a purely financial exercise. A financial forecast must combine an operational forecast with key strategic factors.

The allocation of work time in the finance department



Source: KPMG in Poland CFO survey 2015

At the same time, if the factors which have an impact on forecasting are defined precisely at an early stage of the process, this helps to avoid tedious corrections at a later stage. For this reason, the forecasting process is most effective when the responsibility for business objectives and the forecast itself is shared with operating divisions. In that case, the finance team acts as a business advisor whose role is to ensure compliance of operational goals with the long-term strategy defined by the organization. The finance function is also an arbitrator that eliminates potential inconsistencies between business objectives set by various business units. Notably, business units should be responsible not only for delivering the objectives but also for forecasting them. Operational efficiency and the accuracy of forecasting should be constantly monitored and evaluated, for instance by using a balanced scorecard. In order to achieve comparability of the forecasts with the current data, financial departments should refer to the same value drivers, whether internal or external, that have been identified in the forecasting process as ones which have most influence on the likelihood of achieving goals.

The transition from traditional forecasting to business-oriented approach calls for strong support from senior management. The transfer of the responsibility for goal-setting onto business units calls for an overall change of thinking across the organization. It is essential for the management to send a clear signal that they support forecasting practices which involve the entire organization and that close cooperation between business units and the financial function will be required.

Quality of processes and reporting

In many organizations, the planning and budgeting period is considered to be among the most difficult periods in the year, both by the financial function and other business units.

> The transition from traditional forecasting to business-oriented approach calls for strong support from senior management. The transfer of the responsibility for goal-setting onto business units calls for an overall change of thinking across the organization.

This is because of the highly laborious tasks related to budget planning, arising from the need to carry out complex analyses covering various aspects of the organization, the pressure from the management board to set ambitious targets, or the lack of understanding why sometimes dozens or even hundreds of budget documents have to be created. To avoid this, the planning process must be, well, adequately planned. It is important to clearly define the roles and responsibilities, to establish and communicate objectives to all participants and to provide the right tools to enhance efficiency and ensure satisfactory quality of the process.

The planning process should not be viewed as an annual exercise that everyone forgets for the next several months. A solution that is used increasingly often is a cyclical comparison of the forecast and actual performance, as well as periodic review of initial assumptions. Another method is to implement a rolling forecasting approach, with cyclical estimations of goals and operating conditions within a specific time horizon.

Having a standardized set of reports enables organizations to compare business units and more easily understand the situation on each market, and, accordingly, to synchronize strategic decisions.

Dashboards, which are part of management information systems, have achieved a leading position among tools used to track accuracy of forecasts and other performance indicators. They provide real-time information about all the key factors and may be shared by representatives of global finance functions and business units.

Dashboards enable optimal allocation of available resources within the company, for example by shifting investments to more promising markets. Companies can ensure that planned and actual investments are linked with their core business, thus avoiding involvement in markets or assets which may improve the bottom line in a short term but are not profitable in the long run. Thus, a greater transparency a and broader perspective may help companies to minimize risk and notice investment or disinvestment opportunities in order to achieve the highest possible return for shareholders.

Complexity of the organization

In order to achieve an optimal forecasting process, global financial teams must plan the scope of data to be collected and processes to include all business processes and strategic goals. Also, the forecasting process must include important external factors which determine the actual and potential situation on the organization's markets.

A changed role of finance functions will call for an investment in tools such as data engineering or statistics, and it will also require an effort to enhance the competence through training or hiring staff with advanced analytical skills in order to find valuable insights from the available data in a time frame that meets the business needs. At the same time, the transformation of finance teams should be communicated to the business so that it could make effective use of the new skills in strategic decision-making.

The growth in data volumes and the rapid progress in information technologies in recent years have exerted increasing influence on how business is done. The diversity of data sources may also be used by financial teams, which can obtain information both in the traditional manner, e.g. through internal customer database, but also from new sources, such as social media.

Data analysis techniques can enhance this process by integrating various data sets in the forecasting process and helping to establish realistic goals.

As a result of these changes, companies increasingly prioritize the collection, processing and analysis of structured and unstructured data with the use of Big Data techniques. Their most important components include broadband Internet as well as the ability to process large behavioral data sets in a virtually unlimited way, in real time.

The sixth wave of the computer revolution forced many organizations to adapt to the rapidly changing business environment and, as a consequence, to abandon the existing business models. In particular, the changes concern the nature of databases. The Internet of Things has irreversibly changed the way of looking at the existing data since it has enabled their analysis in real time. Datasets have become the new foundation for business operations, i.e. the economic equivalent of capital and labor, and a new factor of production.

Thanks to in-depth analysis of large data volumes from various sources it is possible to respond quickly and, above all, to set new directions of development, which does influence competitiveness of organizations and their financial performance.

Thanks to in-depth analysis of large data volumes from various sources it is possible to respond quickly and, above all, to set new directions of development, which does influence competitiveness of organizations and their financial performance.

To change or not to change…

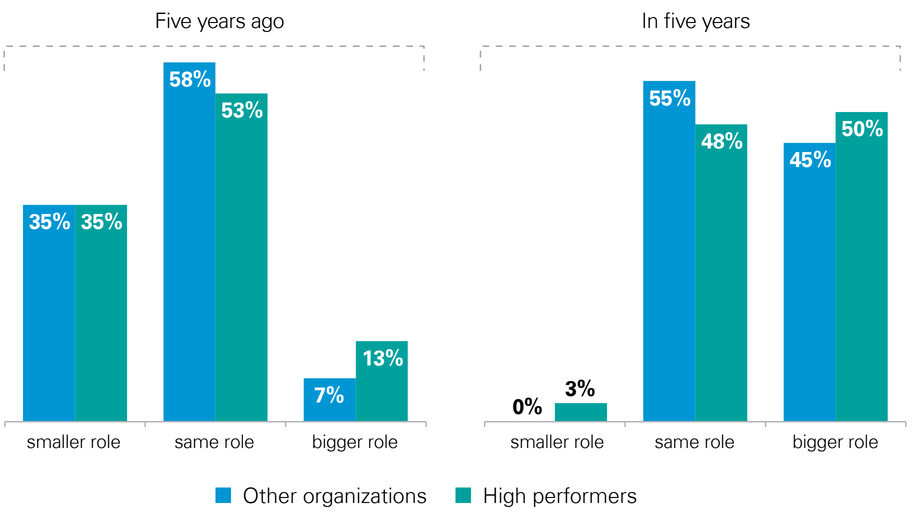
Expenditures on the development of the finance function (including the planning function) are directly proportional to the rising expectations formulated by business and management. This is reflected in the opinions expressed by CFOs, who recognize not only the increasing role of financial departments in the past five years, but also predict a further increase in their importance in the near future.

The survey of CFOs conducted by KPMG indicates that high performers (net profit growth of over 10% in the last three years) are particularly aware of the importance of forecasting for business growth.

45% of respondents consider the process of planning, budgeting and forecasting as a strong point of their finance departments. It should be noted that among 25% of those who consider it to be their weakness there is a strong propensity for significant investments in improving the existing solutions. Within the next two years such investments are planned by as many as 50% of organizations dissatisfied with their planning, budgeting and forecasting processes.

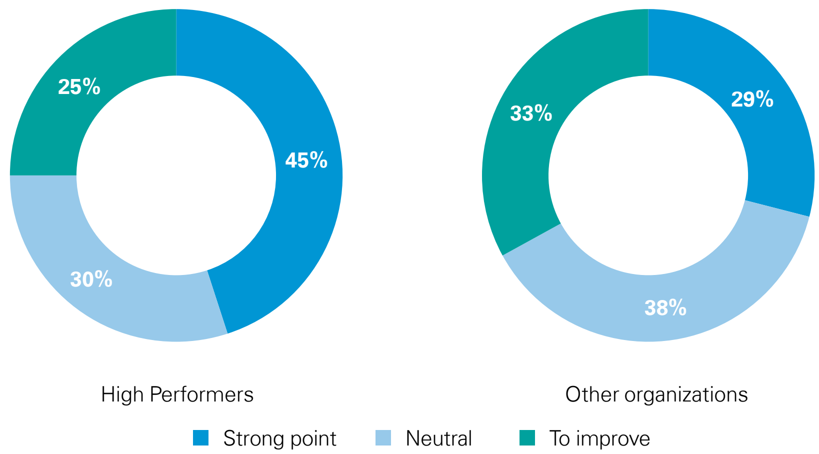
Respondents representing organizations characterized by lower performance are less likely to plan any significant expenditures to change processes.

The role of financial department five years ago and in five years from present



Source: KPMG in Poland CFO survey 2015

Assessment of the process of planning, budgeting and forecasting in the organization



Source: KPMG in Poland CFO survey 2015

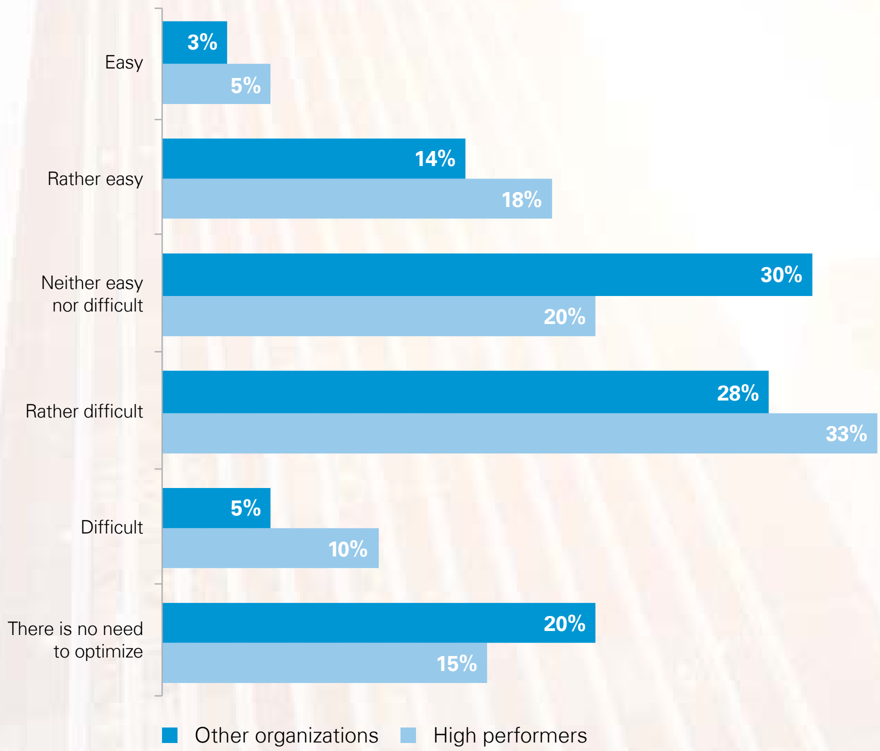
The KPMG experience shows that organizations must first concentrate on proper handling of transactional processes and financial reporting before their finance departments transform into business partners that create value.

Although most financial functions are ready to focus on the support of the business to a much greater extent than in the past, it is commonly believed that an adequate transformation is a serious challenge. As many as 43% of respondents from the group of high performers and 33% of other respondents perceive optimization of planning, budgeting and forecasting as difficult or fairly difficult to carry out.

This is undoubtedly related to the fact that planning, budgeting and forecasting is still perceived as a process where the finance function is the main owner, performer and controller. This challenge is compounded by the increasing amount of data and the need to analyze them in a dynamic environment, combined with the complexity of the organization. Success is available only for those organizations that incorporate planning, budgeting and forecasting into their organizational culture as processes which support development, build a competitive advantage and utilize the market potential. In that case, changes in processes, systems and models will just complement the change in thinking at the level of the entire organization, as business knows better…

> Within the next two years such investments are planned by as many as 50% of organizations dissatisfied with their planning, budgeting and forecasting processes.

How difficult it is to optimize the process of planning, budgeting and forecasting?



Source: KPMG in Poland CFO survey 2015

3.5 Talent – a top factor for success

Over the recent years the finance function has undergone significant transformation, in particular in such areas as technology, legal regulations, business processes, operational and structural processes. Accordingly, it is time for finance teams of best-in-class organizations to strengthen the process of building strong cooperation between managers and staff from other departments.

The modern CFO, as a business partner, plays an active role in the strategic decision-making and value creation and continues to play the traditional yet still very important and vital role of an company assets guard and a controller.

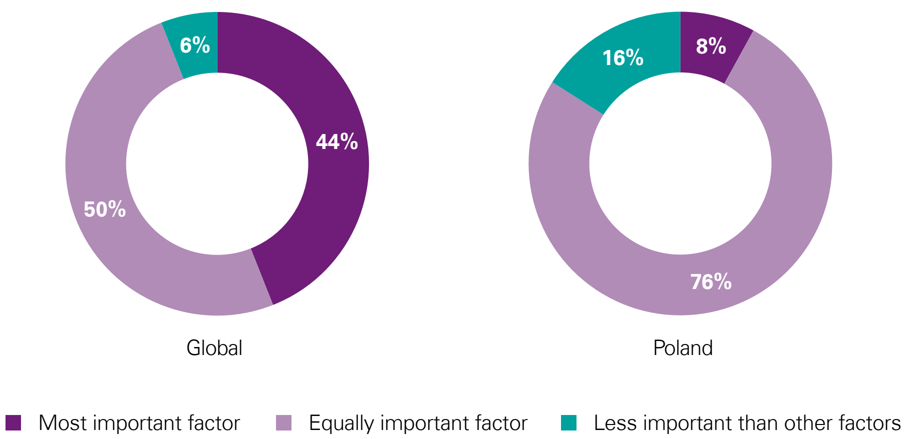
Challenges associated with the fast, complete and quality business support create a higher demand for a unique set of staff competencies. Managers of finance teams are finding out how important it is to have a perfectly prepared and executed recruitment process, to ensure effective talent management, and how maintaining a high level of commitment among teams significantly supports building a competitive advantage. In such a challenging and dynamic environment talent management turns out to be a success factor in the pursuit of ongoing and future business objectives.

It is one of the most important and also most difficult objectives to achieve.

In the survey conducted by KPMG in Poland among CFOs only 8% of all respondents feel that talent management is the most important factor determining the effectiveness of the finance function. Global finance leaders highlight the impact of high talent management standards on the success of the finance function much more strongly: 44% of all respondents of the KPMG International CFO survey 2013 considered this aspect as the most important one.

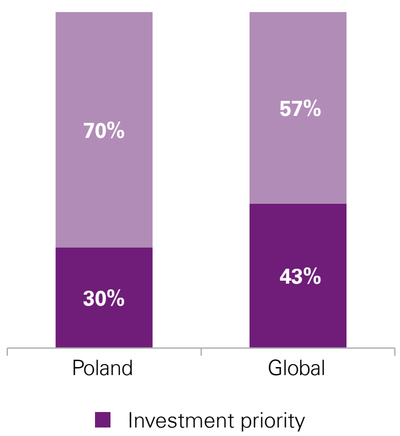
Even though the impact of talent management on the current condition of the finance function is relatively underestimated, the belief that the importance of this factor will increase is much more widespread. Improving talent management is high on the CFOs' agenda for the future and as many as 30% of CFOs participating in the KPMG in Poland survey confirmed that talent management was their priority investment for the next two years. What is even more inspiring is that more than 62% respondents plan a moderate or significant change in their existing talent management solutions in their financial function in two years' time.

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



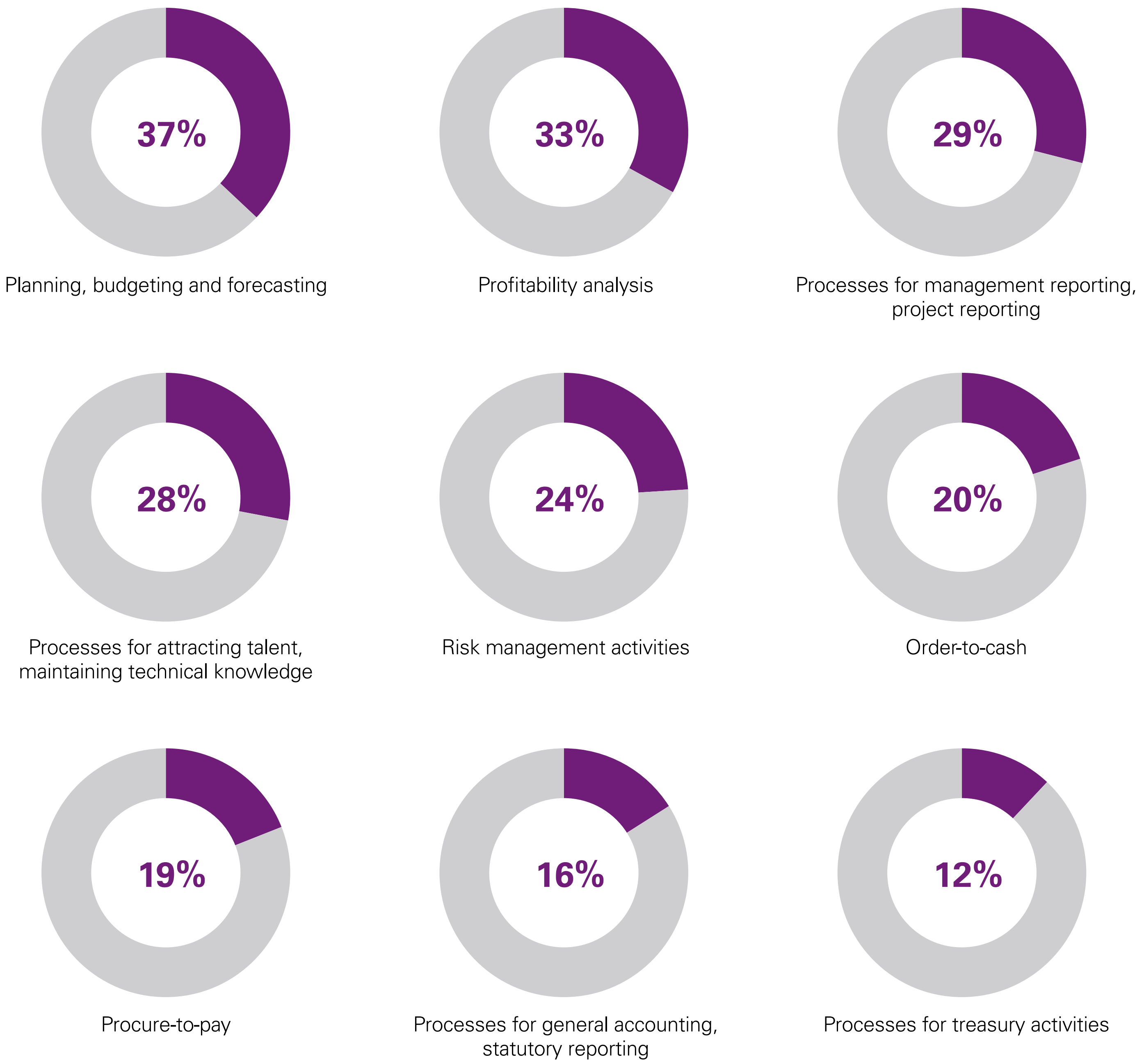
Source: KPMG in Poland CFO survey 2015

Improving talent management as an investment priority



Source: KPMG in Poland CFO survey 2015

Which finance function process is the most difficult to improve?



Source: KPMG in Poland CFO survey 2015

Training and retaining specialists to create a new generation of finance leaders is a key to the future success of organizations.

Attracting, developing and retaining talents

In such a complex environment of many internal and external pressures, CFOs are challenged to attract and manage employees with diverse skill sets. Given the high costs of recruiting, the long process of training and induction of new employees as well as challenges that potentially affect the quality of their work, it is critical to ensure motivation, effective talent and knowledge management. Talent development in organizations has become an important aspect of human resource management for continuous improvement of the efficiency of finance function. This comprises a clearly defined and attractive professional career path, including opportunities to be promoted to managerial positions, cross-training and posting options between functions, sites and geographies (also within finance shared service centers).

Building an optimal set of professional competencies in budgeting, forecasting, planning and management or statutory reporting is a challenge for finance teams, particularly considering the increased complexity of legal regulations. Considering the growing demand for skills in fields such as financial risk management, value creation, data analysis or Enterprise Performance Management, that challenge will become even more demanding. Training and retaining specialists to create a new generation of finance leaders is a key to the future success of organizations.

Only when talent management strategy is defined in the context of the entire company (group of associated companies with a national, regional or global reach) can employees in various finance functions be treated as a single yet diverse group of talents. A succession plan with clearly defined roles and responsibilities at each position and a career guide will become one of the most critical tools to build or strengthen competitive advantage. It is important to keep the organization's approach to career paths really wide to ensure job opportunities and mobility across finance teams and to encourage knowledge transfer across those teams. With this approach, it is important to maintain consistency in the approach to performance assessment through fully individualized and systematic evaluation.

> Given the high costs of recruiting, the long process of training and induction of new employees as well as challenges that potentially affect the quality of their work, it is critical to ensure motivation, effective talent and knowledge management.

> A succession plan with clearly defined roles and responsibilities at each position and a career guide will become one of the most critical tools to build or strengthen competitive advantage.

“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 management strategy, aligned to the needs of each organization. Only with such a comprehensive approach to building modern finance teams can the future business needs of the organization be addressed.

As your company’s business plan and its talent strategy are inextricably linked, the first step is to determine the capabilities your organization needs to win now and in the future.

The next steps involve the three traditional 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

DEVELOP AND CONNECT

ENGAGE AND RETAIN

Acquisition:
- Marketing
- Hiring
- Onboarding

Placement:
- Mobility
- Flexible workforce
- Sourcing
- Internal resourcing

Learning:
- Technical /professional training
- Business and leadership development
- Learning and development function optimization
- Academies

Careers:
- Competency/ capability frameworks
- Career paths
- Succession planning
- High potential programs

Connecting:
- 70/20/10
- Diversity and inclusion
- Social media

Performance & reward:
- Performance management
- 360° feedback
- Reward strategy

Engagement:
- Leadership communication
- Employee value proposition
- Retention strategy
- Exit and alumni

Source: KPMG International

> Business partnership means full awareness and involvement in all strategic and business activities in the organization coupled with the building and continuous maintenance of a stable relationships to build on knowledge and experience exchange with all departments in the organization.

A strong finance function's brand: how to build business partnership

Business partnership means full awareness and involvement in all strategic and business activities in the organization coupled with the building and continuous maintenance of a stable relationships to build on knowledge and experience exchange with all departments in the organization. This is the only way for CFOs and their teams to support the process of value creation for the organization, whether it is by identifying processes that must be optimized or by analyzing profitability of investment activities. Only then, the perception of the finance team will move toward that of a modern business partner and attracting and retaining new talents will become a natural process.

It means clear career paths at all levels (strategically consistent with firms development path in line witch each employee development plan) and highest quality and best communicated motivation methods to employees based on:

- A consistent and unified recruitment policy for the finance function globally,
- Optimal finance function indicators of effectiveness supporting success as a technologically advanced and process-optimized leading operational structure,
- Reward and incentive programs that motivate the right behavior and celebrate accomplishments (big and small ones),
- Training programs that address skills specified in the development profile of each member of the modern finance team, and promote knowledge transfer across all partners in the organization,
- A proactive, transparent approach to succession planning and execution.

The first step in building business partnership would be to build new or develop existing competences in the finance team to make sure that everyone understands the company's business model and actively engages in the exploration of areas that require their substantive support.

The next step is to solicit the need for financial consulting, i.e. creating a situation where business representatives will themselves start to look for a person who is skilled in finance processes and topics.

The third stage, which is very important in building a partnership, is about taking steps aimed at developing solutions. At this stage, the CFO will assume the responsibility for raising awareness among other board members and key managers of the benefits which may arise when the finance function is more involved in business decision-making.

Changing the business model is the fourth step toward the full involvement of the finance team in the day-to-day functioning of the organization by identifying benefits from such full cooperation with quick wins as a perfect example.

Quick wins lead directly to long-term solutions and the need to continue the search and propose changes in the continuous search for optimization and improvement, which is the fifth and the last stage of the implementation of change. Therefore, after reaching the fifth stage, modern CFOs with their teams will continuously seek internal projects they can support with their knowledge and through active participation in strategic discussions.

Building partnership is certainly a change, which depends on competences of the modern CFOs and their ability to overcome barriers, primarily organizational ones.

Effectiveness of this change, based on the five stage approach, is measured by the level of finance awareness across organization gained through the cooperation with the finance team as well as by results and benefits achieved. At the same time, implementation of the entire process may be disrupted by factors such as a strongly hierarchical culture of the organization which slows down the creation of partner-like relations between employees of different departments and levels, or a matrix-based structure of organization which should support cooperation but in fact might be creating uncertainty among employees who are not tied with official reporting lines.

Overcoming these barriers, although very difficult, is essential to achieve success in times when intellectual capital such as talent, value creation mindset and business-oriented approach determine the competitive advantage today, tomorrow and in the future.

3.6 Finance and risk alignment – the key to balanced business decisions

Undoubtedly, one of the causes of the global financial crisis in 2008 were mistakes in measurement and valuation techniques and in risk management per se. As a result, there is a rising pressure from regulators and owners, forcing organizations to find new ways to balance risk and benefits on a more sustainable basis. To meet this challenge, it seems necessary to align the activities of finance and risk.

Historically, organizational and systemic barriers were the main reason for dividing those support functions. Each of them had its own reporting line to the competent board member (i.e. the CFO and the Chief Risk Officer (CRO), respectively). In many cases, different IT tools and systems were used for the implementation of those tasks. It seems, therefore, that organizations which can break down those barriers can win confidence that their business decisions will be more balanced over both the short and long term, giving them an edge over their competitors.

According to the KPMG in Poland survey, respondents recognize the importance of risk management in today's complex market conditions. 53% of respondents declared their organizations had adequate procedures to effectively protect them from the key market risk. 62% of those interviewed believe that risk management optimization and risk alignment are not an easy task, and 24% consider it a serious challenge, describing the challenge as "fairly difficult" or "difficult".

Undertaking this challenge and proper alignment of the finance and risk functions as well as the right alignment of goals, activities and processes between the two functions may help to:

- Improve the quality of decisions based on balancing returns received with risks taken within risk appetite limits defined by the organization, rather than solely based on pure profit calculated in the business plan.
- Streamline risk-weighted capital allocation methods that are aligned with the organizational strategy and commercial opportunities (again, adjusted by risk appetite limits defined by the organization).
- Improve the understanding of true profitability across the business in terms of capital used and risk taken.
- Enhance cost savings for regulatory reporting, management reporting and capital management by integrating similar processes and activities (e.g. assumption setting, modeling, and reconciliation) and by optimizing and rationalizing technologies.
- Raise awareness of shareholders' needs, which may pave the way for more integrated reporting (also with other areas outside finance, e.g. HR, IT or Marketing).

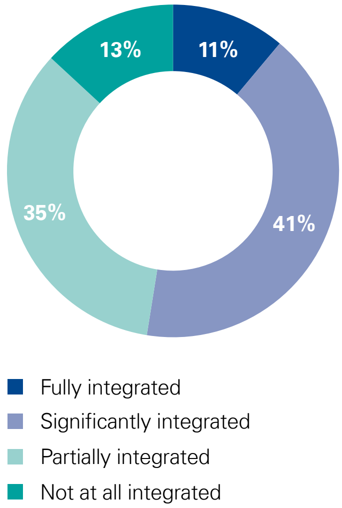
A shift toward integration...

As mentioned above, many challenges related to alignment of the finance and risk functions stem from their different historical roots and historical development. The finance function has a relatively long history and has undergone many transformations to date to become an efficient mechanism, equipped with a modern accounting and reporting system. It operates on the basis of clear and precise procedures that primarily focus on retrospective reporting requirements.

However, systematic approaches to risk management only emerged in the 1960s. Risk management teams primarily prepare prospective reports using statistical data that require processing and interpreting tools. Risk teams operate in an environment of dynamically changing regulatory requirements, market environment and business models.

The singularities of these functions mean that they can attract distinct, and not always compatible, types of

Finance and risk alignment



Source: KPMG in Poland CFO survey 2015

personality and competence. Over time, they have developed their own definitions, processes, data flows and systems, which can hamper their integration.

How to create the right conditions for the alignment of risk and finance functions? Based on the experience of KPMG leaders, the finance and risk functions in an organization should be carefully analyzed and defined before developing an optimal functioning model and fully exploiting their potential stemming from their integration. This desired end-state is best captured in the functional Target Operating Model (TOM), which should include (at least):

- A management model for integrated functions with clear roles and responsibilities that facilitate better alignment between finance and risk at all levels in the organization,
- Analysis of process and system interdependencies for each operational area,
- Indicating where improvements to functional process flows and/ or systems are needed to facilitate alignment,
- Indicating the training 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?

> Many challenges related to alignment of the finance and risk functions stem from their different historical roots and historical development.

Take care of mutual understanding and interdependence of performance

Both teams should be aware of the extent of overlap in their roles in providing and processing information needed for making business decisions. Developing a complex vision, including operating models, based on the responsibilities and activities of both functions is extremely helpful in identifying interdependence of processes carried out by different functions. Understanding which activities need to be performed by which function, and where those activities start, stop, interface and overlap with each other greatly facilitates the design of a more efficient and effective process approach and the implementation of adequate systems and management structure. In order to increase efficiency, 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 management, and Financial Reporting (FINREP).

A good practice to support the effectiveness of processes is to map the entire process chain and to define the needs and requirements of stakeholders participating at every step. This usually results in a better understanding of bottlenecks and helps point the way toward further, more effective 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 data warehouse should be designed so that only single data streams (from the transactional source system) 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 equally important to understand the current system, including what functionality resides where and any technical limitations to data sharing, to avoid issues down the road related to data traceability. For the risk management function the use of risk and actuarial models is critical. The data warehouse should provide the necessary data for models eliminating the need of manual work as much as possible. Similarly, reporting systems linked to the data warehouse should be able to address virtually all reporting needs, without excessive use of bespoke stand-alone systems or spreadsheets.

Clarifying roles and responsibilities – break the silos

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. A department-focused approach to the process should be replaced with a comprehensive approach based on the activities undertaken, and new functions should be organized around the job, not around people. This will help to break down the organizational silos and clarify functions of various departments.

Improving communication

Improved communication is needed to facilitate cooperation so that people can have a better understanding of their and their colleagues' responsibilities, tasks and competencies. Cooperation between risk and finance teams requires means that it is necessary to eliminate the obstacles that hinder smooth performance of common tasks and processes and limit the awareness and respect for the roles played by other employees.

Common goals and priorities

The management board should set shared priorities and areas which need enhanced collaboration to stimulate operational cooperation between risk and finance functions. Doing so will compel them to combine forces in their efforts to be a single business partner and ensure their efforts are better aligned with the strategic objectives of the business. This approach can also help ensure that the finance, risk and the business, rather than IT, take the lead in building a new integrated finance and risk systems architecture. 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.

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 co operational model where roles and responsibilities are clarified and well documented and overlapping activities are kept to a minimum. The next step could be the pursuit of an integration model, marked by deeper agreement. The ultimate alignment stage is the embedded model where the operations are truly integrated and support business in a comprehensive way. Whatever the preferred approach, companies that succeed in aligning their finance and risk functions will enjoy a more sustainable reporting environment, which results in an increased efficiency of these functions and, most importantly, allows organizations to make faster business decisions, more balanced in terms of risk.

> Companies that succeed in aligning their finance and risk functions will enjoy a more sustainable reporting environment, which results in an increased efficiency of these functions and, most importantly, allows organizations to make faster business decisions, more balanced in terms of risk.

4

On the path to success

implementing the intelligent finance function

Our report shows the surveyed organizations' aspirations to establish principles or continue to build an intelligent finance function. They are seeking to better integrate finance processes 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 survey results also suggest that the finance function faces many challenges in making this transformation a reality. In this report, we have explored key solutions and capabilities which, if implemented, will contribute to the success of the modern finance functions and their organizations.

Embracing modern organizational models using lean finance principles and shared service centers, deploying innovative data analytics 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 modern CFOs who build a team of business partners.

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.

Becoming a successful intelligent finance function is a big challenge. Only the best managed finance functions can find a way to reach that goal. And this path can be covered and the goal achieved only by change agents and values creators.

> Becoming a successful intelligent finance function is a big challenge. Only the best managed finance functions can find a way to reach that goal. And this path can be covered and the goal achieved only by change agents and values creators.

4.1 Transformation – critical factors of success

The previously discussed Target Operating Model helped to determine the development needs of future finance teams. A complete implementation of this model is complicated and takes up to several years. To ensure that this objective is achieved and sustainable value growth is ensured, it is necessary to adopt a carefully thought-over, clear and consistent approach to the change.

Based on KPMG leaders' experience in helping clients manage complex finance transformations, the most critical steps to success are as follows:

1. **Clear objectives and Management support:**
   A well-defined Finance TOM not only defines the future state of the finance function structure but also offers a road map on how to get there for everyone involved in the transformation.

2. **Broad engagement with partners across the business:**
   In order to communicate and maintain interest it is very important to highlight the benefits of alignment of the strategic goals between finance and business divisions and to stress the ability to continuously create value and competitive advantage through optimal cooperation. It is important to do so before and during the transformation.

3. **Realistic interim goals and timelines:**
   Any change/transformation means that the project must be broken down into stages, with deadlines for each milestone. Also important is to build flexibility into the plan so it can be adapted to address the internal and external changes that will inevitably occur.

4. **Clear "tone from the top":**
   It is crucial to obtain strong commitment from the CEO and the board, as well as management of other business units which can also benefit from the transformation. Business partners often have visions of more sophisticated and bespoke analysis, effective support and strategic partnership that the modern finance function can provide. At the same time, they find it difficult to give up on their traditional way of measuring business performance, which is especially important in rapidly changing business environment and market conditions.

5. **Transparent governance framework:**
   To make transformation of the finance function possible and to ensure sustainable growth of value, clear responsibilities and expectations should be set. Adequately designed benchmarks and KPIs will allow to monitor and measure the progress of the finance function transformation before its start, during the implementation and after the project is complete. To empower such a change, you also need to have a strong team to manage the project, focusing on the transformation activities, managing execution, reporting on progress and verifying the quality of deliverables.

6. **Building and managing the project brand:**
   For multiyear transformation projects sustaining momentum and involvement over the project life cycle is very difficult. It is the CFO, as a leader of change, who keeps up morale, maintains team support and understanding and fosters cooperation among business partners. This means regular sharing information, well matched with the needs of the team, with the necessary explanations about changes to the original assumptions.
   In order for a communication plan to become an optimal and efficient tool it should consists of the scope, the ownership and clear set of deadlines.
   To sustain commitment and support the project progress and ongoing successes should be regularly highlighted and communicated.
   It is also highly effective to use a multichannel approach to reinforce these messages, for example through conferences, training programs, webcasts and online portals (of course in addition to regular discussions and face to face meetings).

> Embracing modern organizational models using lean finance principles and shared service centers, deploying innovative data analytics 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 modern CFOs who build a team of business partners.

7. **Talent management during the transition:**
Changing the finance function model takes not only a lot of time but also absorbs a lot of team's energy since the "new" is being implemented while the "old" is still maintained. This is what characterizes the transitional period which needs proper treatment and efficient management with the right mix of skills and knowledge. Finance teams very often face competence challenges, and this should be incorporated into the project plan, including decisions as to whether to retrain the present staff and/or recruit from outside the organization. This approach helps the CFO to ensure optimal engagement of internal and external resources.

For complete optimization of the use of knowledge and competences, both inside and outside the organization, it is worth considering the use of knowledge and experience from external experts. KPMG consultants specializing in change management and finance management are well prepared to support organizations in the creation and development of implementation strategies. KPMG financial management team's experience in this field, complemented by the findings from the CFO survey, can certainly be a key success factor when it comes to planning and smooth implementation of such a complex transformation.

As mentioned earlier, KPMG in Poland research and experience also show that the benefits of finance transformation can be achieved only if supported by the entire organization. Success will only happen when a comprehensive future plan is developed on the basis of the Total Operating Model (TOM) and supported through flexible and effective change management.

4.2 Define, measure, improve – the case for Enterprise Performance Management (EPM)

Now, more than ever before, clients expect accurate, insightful and timely information for making effective business decisions and fully addressing the risks. Progress of new technologies have not bypassed the financial aspects of Business Intelligence (BI), and it even actively supports companies in the achieving real performance improvements. Over the past decade, most medium-to-large organizations implemented Enterprise Resource Planning (ERP) systems such as SAP and Oracle. These systems allowed companies to evolve away from the use of separate tools and legacy financial systems for their day-to-day transactional finance processing activities such as accounts payable/receivable, general ledger journal entries, end-of-month closing or accounts reconciliation.

Now, the new trends indicate ERP platforms as the basis and foundation for integrated Enterprise Performance Management systems. Typical advantages of these systems include:

- Finance and management reporting (including KPI dashboards),
- Cost accounting and management (e.g. Activity Based Costing),
- 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 the use of comprehensive approach that includes standardized defining of business goals, measuring their implementation and continuous improvements of business performance. By integrating and leveraging the existing ERP solutions with innovative data analytics tools (such as QlikView) and combining them with new cloud/mobile technologies, companies can not only actively support traditional areas of the finance function but also derive optimum value from effective strategy management and real-time scenario modeling.

Organizations effectively implementing their strategic vision and mission invest in human resources development, IT systems and processes optimization to create and develop modern finance teams. EPM systems play an important role in this transition since they provide a comprehensive analysis of the current situation and enable finance teams to support decision-making process and contribute to value creation.

Organizations effectively implementing their strategic vision and mission invest in human resources development, IT systems and processes optimization to create and develop modern finance teams. EPM systems play an important role in this transition.

The KPMG in Poland report "Business partnership: Inside the intelligent finance function" addresses all questions forward-looking CFOs might have in order to design and develop an intelligent finance function. The finance team of business partners supporting the organization in building and sustaining the competitive advantage.

The KPMG in Poland survey among 120 CFOs has clearly indicated the need to answer the following questions:

Is there a recipe for success? What does the road to success look like? How to build it? How to overcome problems? How to invest in the finance function to intelligently support business? How to assess such complex organizations? How to plan? How to use Big Data? How to process data for high-quality, complete and timely reports? How to return to simple solutions? How to reduce costs and improve process quality? And, finally, how to create an enthusiastic and committed team of finance business partners?

To find out more about how we can help you achieve your transformation ambitions, please contact our Financial Management and Shared Services & Outsourcing experts at KPMG in Poland who contributed to this comprehensive report. Contact details can be found on the last pages of this report.

4.3 On the way of building business partnership in 10 steps:

1. **Target Operating Model (TOM)**
(determines the finance function of the future and its key components, and provides a map of responsibilities and resources)

2. **Lean finance**
(describes the optimal, most efficient and value-adding approach to building and managing processes)

3. **Shared service centers and outsourcing**
(defines the optimal structure of the support function)

4. **Finance talent management**
(specifies a comprehensive approach to building a modern finance function, where future business needs of the company are addressed)

5. **Business Intelligence**
(provides reliable financial forecasts, accurately reflecting the future, its opportunities and risks)

6. **Finance and risk alignment**
(specifies a sustainable reporting environment, enabling faster and more risk-balanced and benefit-balanced business decisions)

7. **Enterprise Performance Management solutions**
(creates a comprehensive framework for defining, measuring and improving business performance)

8. **Change Management**
(ensures that the finance function has clear objectives, realistic goals and timelines, commitment from senior leadership, and broad engagement with partners across the business)

9. **Connectivity and collaboration**
(allows for optimal financial reporting, consistent with business expectations, and appreciates the role of the finance function in creating value)

10. **Clear finance vision**
(aligned with business strategy and key priorities for the coming years and presented to everyone inside and outside the finance function)

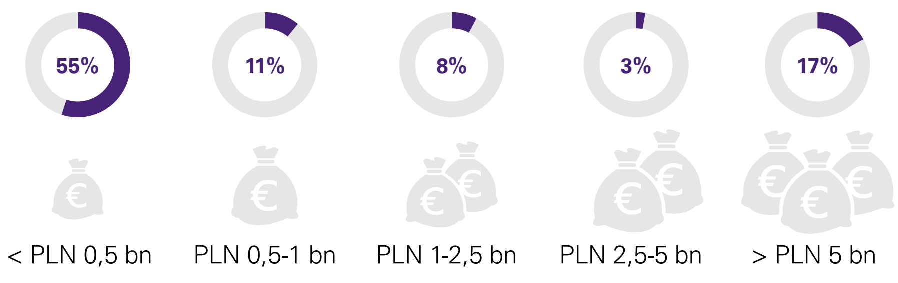
5 About the survey

The goal of the KPMG in Poland survey, entitled "Modern finance as intelligent business support", was to explore current trends in the finance function performance in Poland and to determine the direction of their development. As a result, the survey allowed us to assess the strengths and weaknesses of finance teams, identify areas for improvement and the greatest challenges those teams are faced with. The survey covered a group of 120 CFOs.

The survey was conducted by Norstat in April 2015 using the CATI methodology (Computer Assisted Telephone Interviews). The sample was purposive and covered major Polish organizations from all sectors of the economy, of which almost 30% reached a revenue of PLN 1 billion during the last financial year. During the survey we subdivided the respondents into high-performing organizations (with an average net profit level exceeding 10% in the last three financial years), and other organizations, with an average change in net profit falling below 10%.

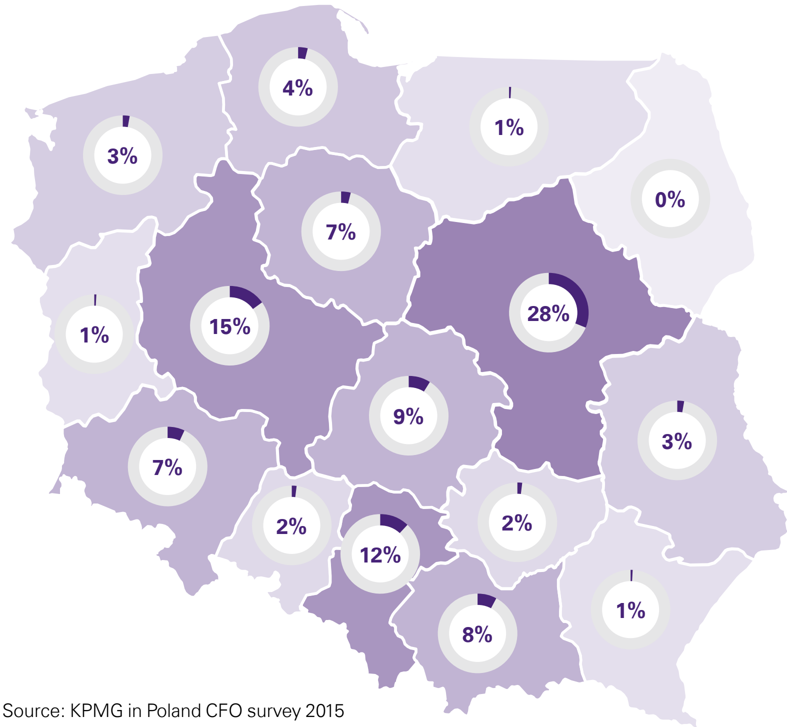
The largest proportion of the surveyed organizations were located in the Mazowieckie (28%) and Wielkopolskie (15%) provinces. In the majority of cases (52%), their business operations are conducted mostly in Poland while the shares of organizations serving customers globally, in a few countries or only in Poland are comparable, amounting to 38%, 35% and 28% respectively.

Revenues in the last financial year



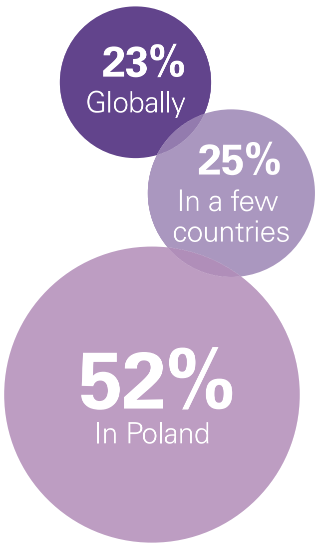
Source: KPMG in Poland CFO survey 2015

Location of organisations



Source: KPMG in Poland CFO survey 2015

Location of customers and business operations



Business operations

Customers

Source: KPMG in Poland CFO survey 2015

The report also used other data sources:

- HfS survey: „2013 State of Outsourcing"
- KPMG in Poland report: „Poland as the destination for Business Service Centres – 2015 Edition"

The report used extracts from the KPMG International report, entitled:

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

Authors

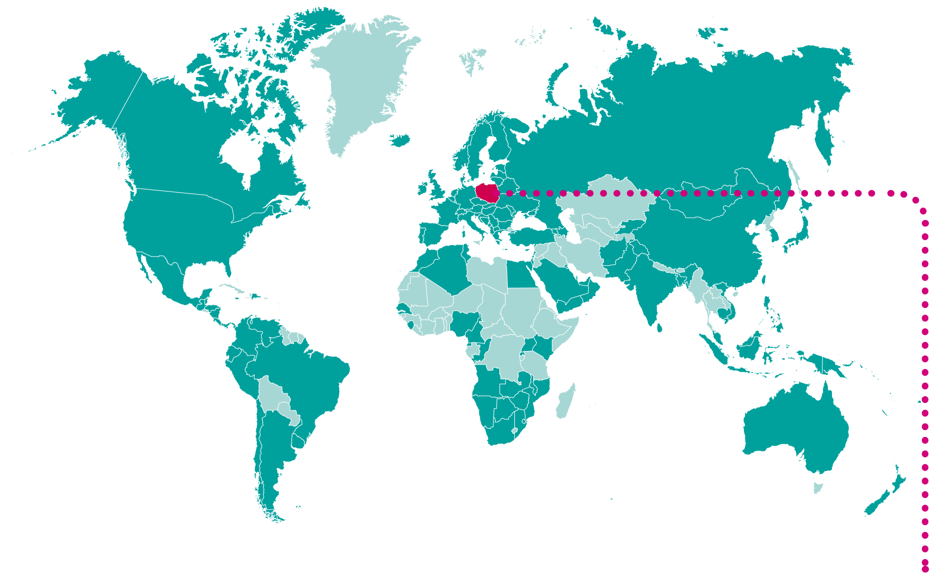
Violetta Małek
Advisory
Director
E: vmalek@kpmg.pl

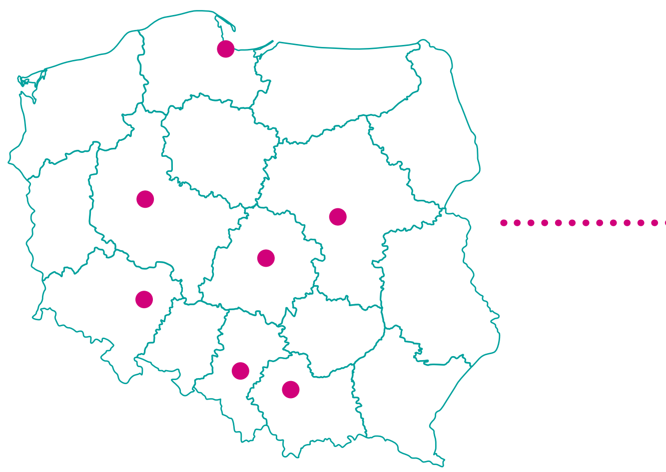
Paweł Rychlik
Advisory
Senior Manager
E: prychlik@kpmg.pl

Piotr Michniak
Advisory
Senior Manager
E: pmichniak@kpmg.pl

Paweł Młyński
Advisory
Senior Manager
E: pmlynski@kpmg.pl

About KPMG in Poland





Since 1990 KPMG in Poland has been providing Audit, Tax and Advisory services, while D, Dobkowski sp.k., a law firm associated with KPMG, has been assisting clients in a wide range of legal matters. Currently we employ more than 1 200 professionals in seven offices located in Warsaw, Kraków, Poznań, Wrocław, Gdańsk, Katowice and Łódź.

Fundamental to KPMG's approach is our focus on sectors from a wide range of industries including Consumer Markets, Financial Services, Private Equity, Automotive, Building, Construction & Real Estate, Technology, Media & Telecommunications, Transport, Shipping & Logistics, Industrial Manufacturing as well as government and public sector agencies. We believe that we can add value for clients if we truly understand their industry. Our industry-driven structure has enabled us to develop deep knowledge of clients' businesses and provide them with an informed perspective on the issues they face.

Our success is based on the high-quality of KPMG's services and more than 162,000 outstanding professionals working together to deliver value in 155 countries worldwide. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Each KPMG firm is a legally distinct and separate entity and describes itself as such.

We believe in an individual approach to each customer and we strive for providing the best possible quality. Customers appreciate our professionalism, innovation and proactive attitude in tackling their complex business issues.

At KPMG, we believe that businesses have a role to play in making the world a better place. Our commitment to our communities is one of our core values, and we embrace our corporate citizenship through many activities that support the community.

Based on our expertise, experience and local market knowledge, we have created Financial Management, Shared Services & Outsourcing Team which supports our Clients and helps them achieve strategic objectives in the area of finance function transformation. We offer products which support Chief Financial Officers to boost speed, flexibility and quality of financial information, to enable finance teams to deliver services of greater range and value, to create "on the way to excellence" mindset with continuous process improvement approach, to develop strong relationship and dialog between finance function and business, to build platforms and tools for intelligent data analysis and decision support, and finally, to build the future skills, capabilities and competence framework of intelligent finance function.

To find out more on how we can generate value for your organization, please contact KPMG Poland Financial Management, Shared Services & Outsourcing experts.

Services

Audit • **Tax** • **Advisory** • **Bookkeeping** • **Legal Services**

Foreign Desks

China Practice • French Desk • German Desk • Global Japanese Practice • Italian Desk • Korean Desk

KPMG offices in Poland

Warsaw • **Cracow** • **Poznań** • **Wrocław** • **Gdańsk** • **Katowice** • **Łódź**

kpmg.pl

Contact:

Available on the
App Store

KPMG Poland

KPMG Sp. z o.o.
ul. Inflancka 4A
00-189 Warszawa
T: +48 22 528 11 00
F: +48 22 528 10 09
E: kpmg@kpmg.pl

Violetta Małek
Advisory
Director
E: vmalek@kpmg.pl

Mariusz Strojny
Knowledge Management & Research
Senior Manager
E: mstrojny@kpmg.pl

Magdalena Maruszczak
Marketing & Communications
Director
E: mmaruszczak@kpmg.pl

KPMG.pl

KPMG offices in Poland

Warsaw
ul. Inflancka 4A
00-189 Warszawa
T: +48 22 528 11 00
F: +48 22 528 10 09
E: kpmg@kpmg.pl

Cracow
al. Armii Krajowej 18
30-150 Kraków
T: +48 12 424 94 00
F: +48 12 424 94 01
E: krakow@kpmg.pl

Poznań
ul. Roosevelta 18
60-829 Poznań
T: +48 61 845 46 00
F: +48 61 845 46 01
E: poznan@kpmg.pl

Wrocław
ul. Bema 2
50-265 Wrocław
T: +48 71 370 49 00
F: +48 71 370 49 01
E: wroclaw@kpmg.pl

Gdańsk
al. Zwycięstwa 13a
80-219 Gdańsk
T: +48 58 772 95 00
F: +48 58 772 95 01
E: gdansk@kpmg.pl

Katowice
ul. Francuska 34
40-028 Katowice
T: +48 32 778 88 00
F: +48 32 778 88 10
E: katowice@kpmg.pl

Łódź
al. Piłsudskiego 22
90-051 Łódź
T: +48 42 232 77 00
F: +48 42 232 77 01
E: lodz@kpmg.pl