



# Being the best

Insights from leading finance functions

ADVISORY





“ Top performing businesses have top performing finance functions, but few finance functions are top performing. ”

Scott Parker  
Head of Financial Management  
KPMG LLP (U.K.)



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## About the research

KPMG International commissioned the Economist Intelligence Unit to write *Being the best: Insights from leading finance functions*. The report is based on the following research activities:

- The Economist Intelligence Unit conducted a global survey of 286 senior executives, 53 percent of whom came from organizations with over US\$1 billion in annual revenue. The survey reached a very senior audience, including 123 Chief Financial Officers (CFOs). Respondents were drawn from a cross-section of industries.
- The survey results from top performing organizations (defined by the Economist Intelligence Unit as those with an EBITDA average growth rate of over 10 percent in each of the last three years) were analyzed and compared with the wider survey sample, to shed light on how the most successful companies have organized their finance functions. This research report seeks to highlight those areas where finance functions within top performing organizations differ from the norm.

To supplement the survey, the Economist Intelligence Unit conducted a program of interviews with leading CFOs, as well as academics and experts in the field. We are grateful to the following participants for their valuable time and insights:

**John Bogle**

Founder and former CEO,  
Vanguard

**Jean Dermine**

Professor of Banking and Finance,  
INSEAD

**Janice Fukakusa**

CFO, Royal Bank of Canada

**Ann Godbehere**

CFO, Swiss Re

**Andy Halford**

CFO, Vodafone

**Joshua Koshy**

CFO, Air Canada

**Rob McFarlane**

CFO, Telus

**Charles Pepin**

Director of U.S. Equity Research,  
T. Rowe Price Associates

**John Percival**

Academic Director, Wharton

**Fabio Schvartsman**

CFO, Ultrapar

**Chua Sock Koong**

CEO International and Group CFO,  
SingTel

**Jose Uba**

CFO, Natura

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# Foreword

In a time of immense change, many CEOs are realizing that to achieve their goals, they need the support of a finance function actively engaged in addressing strategic issues. In an effort to determine how organizations can achieve these goals, KPMG International commissioned the Economist Intelligence Unit (EIU) to conduct international research, which examines how finance executives are improving the effectiveness of the finance and accounting function and how they interact with business units and external stakeholders.

The EIU's research shows that top performing businesses have top performing finance functions. When an organization has a leading finance function, it benefits in a number of complex ways but the research shows few finance functions can be referred to as leading. The report discusses this and other research findings as well as their implications for organizations. It offers insights CFOs and their teams cannot afford to ignore.

I encourage you to circulate this report within your senior finance leadership team and think about how these

findings can help you identify your organization's key priorities.

I believe this report can serve as a route map in two ways: first, it can help the finance function understand how to become a leading finance function and thereby help the business deliver its strategy; and second, it can offer insights to finance professionals seeking to develop themselves and their careers.

I hope you find this report useful in your efforts. I look forward to talking with you about it.

**Scott Parker**

Head of Financial Management  
KPMG LLP (U.K.)

# Executive summary

**For almost a decade, CFOs of global companies have been striving to transform the finance function from an inward-looking organization focused primarily on financial reporting and controls, to one that spends more time focused on strategic decision-making and value creation.**

It is a major transformation that has been fraught with challenges and setbacks. Finance functions are being asked to assume multiple new responsibilities, some of which pull them in opposing directions. Recent pressure to control costs, coupled with regulators' and investors' heightened demand for information and tight controls in the wake of corporate scandals, have often focused finance back on traditional, accountant-like tasks. The long-term need, however, remains for finance to play a more strategic role in the business.

This research, which is based on a global survey of over 280 finance executives, conducted by the Economist Intelligence Unit, provides an insight into the state of finance departments today, including the progress they have made on key goals and the major hurdles that lay ahead.

It also goes further, though. By analyzing the habits of highly successful CFOs and the finance strategies employed by top performing companies, the report seeks to provide an insight into how finance executives can create leading finance organizations.

The main research findings include the following:

## **Top performers spend less time on cost control and more time on decision support**

Many CFOs have clear aspirations to become a strategic partner to the CEO and play a central role in creating value, a goal that entails providing guidance and insight to the rest of the business.

In reality, most finance functions surveyed continue to spend the majority of their time on traditional tasks such as controlling costs, reporting and advising on tax and treasury matters. Almost 80 percent of CFOs at average performing companies in the survey see cost control as a major part of finance's role. In contrast, only 64 percent of top performing companies in the survey cite cost control as a key focus and they tend to spend more time on decision support activity. They are also more likely to have a strong vision for the finance function and to have communicated this clearly to the rest of the business.

## **Forecasting and management information: the two main priorities for improvement**

Finance executives in the survey are confident in their ability to deliver historical financial reporting but are much less satisfied with their ability to deliver forward-looking insights. Fully 43 percent are dissatisfied with their ability to undertake planning, budgeting and forecasting tasks, and 42 percent express similar concerns over the quality of management information.

Tellingly, while most finance functions are using sophisticated IT systems for transaction processing and financial reporting, they continue to rely on manual processes for forecasting and decision support activities. There is more work to be done to upgrade and integrate legacy systems so the businesses can achieve consistent, accurate data that provides a

single version of the truth. Finance needs to be trained, not just to generate and consolidate financial data but to draw insight from it.

## **Shared service centers, not outsourcing, pave the way to new efficiencies**

Finance functions are restructuring their operations, partly to save money but also to release more time for further strategic tasks. Shared service centers have become widely used as a way to increase cost-efficiency without some of the risks associated with outsourcing. According to the survey, between 35-50 percent of companies now handle their treasury management, financial reporting and transaction processing within a shared service center. The numbers using such a model is likely to rise over the next two years.

Looking forward, routine management reporting will be a particular growth area in the use of shared service centers, as organizations seek to improve the quality of management information. By comparison, outsourcing strategies for finance are still in their infancy and less popular than other support functions such as IT, but do represent an emerging model for running routine finance processes.

## **Compliance is a long-term challenge**

Finance functions have borne the brunt of the major regulatory compliance projects of recent years. Inevitably, that has distracted them from other tasks, with 62 percent of executives in large organizations saying



regulatory compliance has absorbed time that could have been spent profitably elsewhere.

There is no sign the burden will ease any time soon; indeed, among financial services companies in the survey, 67 percent of finance executives expect it to increase over the next three years. By investing in better information management and more robust standardized processes, finance functions can prepare the groundwork for future compliance requirements and thus release time for more value-added activities.

### **Leading CFOs are spending more time on investor relations**

Investors, shaken by the recent corporate scandals and conscious of today's highly competitive business climate, are asking for better measures of economic value and more reliable guidance on a company's future performance. Much of the burden has fallen on the finance function. One CFO interviewed for this report spends between 15 – 20 percent of her time communicating with the organization's shareholders. It remains, however, an area where many finance functions have more work to do.

Only 26 percent of executives from average performing organizations in the survey believe they are excellent at reporting business results to investors. In contrast, finance executives in top performing organizations are almost twice as likely to be confident in this area: 40 percent of them believe they are now excellent when it comes to investor relations. Leading CFOs espouse better forecasting

techniques and the use of value-based management concepts and tools as a vital step forward in improving the quality of investor guidance.

### **Finance faces a skills crunch**

Today's overstretched finance organizations find themselves competing for talent. More than half (55 percent) of companies in the survey say they plan to recruit new finance employees in the next two years, but 47 percent also say that this will be one of the biggest obstacles to transforming their organizations. The challenge is even greater because the profile of the finance professional is also changing.

The new hires are expected to possess different capabilities focusing on softer skills such as communication, relationship management, change management and the ability to work in teams. They are also required to have more sophisticated analytical techniques and to be creative problem solvers. To attract these talented individuals, leading finance functions are providing excellent training and career development opportunities, combined with rotational assignments that enable finance employees to develop a broader knowledge of the business.

### **Companies must simplify and consolidate their global finance operations**

Leading CFOs interviewed for this research report are reorganizing and centralizing their finance functions to help create a single view of finance across the company.

Instead of having multiple country CFOs acting with a high degree of autonomy, companies are empowering Group CFOs to take command of the global organization. Regulations such as Sarbanes-Oxley have accelerated this trend, as companies strive to impose standardized, high-quality processes and controls throughout the business.

The role of CFO has never been more demanding and, it should be said, rewarding. With a widening remit and greater responsibility for driving business strategy, it is not surprising that CFOs see the need to make major improvements in many areas of their operations. The task ahead, however, is not impossible.

Today's leading finance functions have streamlined their traditional finance processes and are already playing a valuable strategic role in the business. It is no coincidence that the top performing companies in the survey are those that spend less time on routine finance and more time on delivering strategic insight. By successfully establishing themselves as partners to the business, these CFOs have earned the respect of their peers and their investors and helped their organizations to achieve a significant competitive advantage.

Written by the Economist Intelligence Unit.

The CFO's journey towards becoming a strategic partner and advisor to the business can be traced back to the mid 1990s. Back then, CEOs on the hunt for growth in fast-expanding markets "made a series of costly mistakes, including a large number of bad acquisitions," explains John Percival, co-academic director of *The CFO: Becoming a Strategic Partner*, an executive education program at the Wharton School of the University of Pennsylvania. "They began to recognize the need to have the CFO sitting at the table with them, providing a financial perspective."

## The evolving role of the CFO

Since then the need for finance to play a more strategic role has only increased. CEOs and Boards today expect the CFO to contribute to almost all major decisions, including growth and acquisition strategy, risk management strategy, and the evaluation of investments. "They want finance to use its knowledge and understanding of the numbers to provide the tools, the metrics, and the analytical insight needed to evaluate potential growth opportunities and to make decisions about resource allocation," comments Janice Fukakusa, CFO of Royal Bank of Canada.



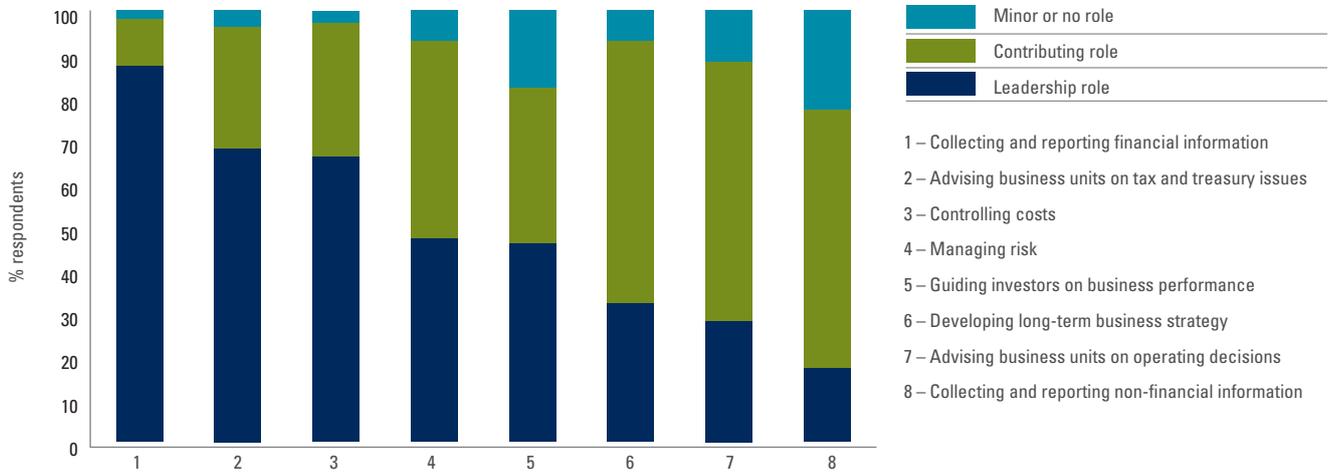


It is a trend that has caused many CFOs to see their roles in a new light. Fabio Schvartsman, CFO of Ultrapar Holdings, a Brazil-based industrial conglomerate, says he now spends 100 percent of his time on "improving the future value of the company". His primary focus is on growing the company through an active, global acquisitions program based on innovative approaches to financing transactions and minimizing the parent

company's risk exposure. Many CFOs hold similar aspirations. For example, one-third of finance executives in the survey expect to play a leadership role in developing long-term business strategy. A further 61 percent say they will play a contributing role on strategy over the next two years.



Roles performed by finance function



Source: Economist Intelligence Unit, 2006

It is equally clear that while many CFOs may aspire to play a more strategic role, many say they struggle in practice. As the table above clearly illustrates, most spend the majority of their time on traditional finance tasks: for example, reporting historical financial information, controlling costs and advising on specialist issues such as tax and treasury. They are much less likely to play a leading role in advising on strategic/investment decisions.

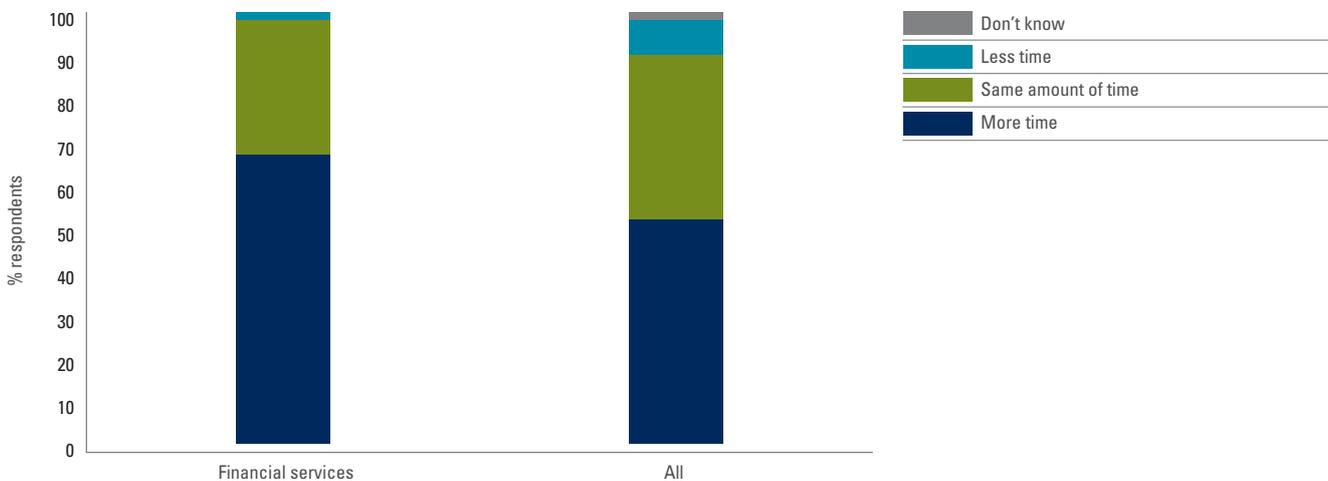
Whereas 90 percent see themselves playing a leading role in collecting financial information, only a handful (17 percent) make a major contribution to the collection of non-financial performance data.

While many CFOs may aspire to play a more strategic role, many say they struggle in practice.

**Compliance has slowed progress in other areas**

Regulatory compliance and corporate governance initiatives have placed a major burden on finance functions in recent years and, in some ways have distracted finance from achieving its wider aspirations to become a strategic business partner. New regulatory requirements and accounting standards such as Sarbanes-Oxley, Basel II, and IFRS have required finance to devote

Time that will be spent on regulatory compliance over next three years



Source: Economist Intelligence Unit, 2006

significant resources to improving controls, procedures and processes to ensure compliance.

Investors have also demanded increased transparency, more frequent reporting, improved guidance on corporate strategy and more accurate earnings forecasts. More than any other figure in the corporate world, CFOs are leading the charge in restoring trust and accountability with the company's stakeholders.

Regulatory compliance in particular has absorbed time that, according to 59 percent of executives in the survey, could have been spent profitably elsewhere. For good or bad, however, it is clear that regulatory compliance initiatives will continue to be a major focus for the foreseeable future. Over half of all financial executives in the survey expect to spend more time on regulatory compliance over the next two years.

The burden is particularly heavy for CFOs in the financial services sector. For example, banks now find themselves needing to meet regulator and central bank requirements in multiple countries. CFOs are lobbying for an easing of this heavy burden but a solution is nowhere in sight.

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### Over half of all financial executives expect to spend more time on regulatory compliance over the next two years.

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"Globalization in the banking industry is moving far ahead of the pace at which central banks around the world can come to agreement on the proper oversight and reporting requirements of the large, international institutions that are being created," says Jean Dermine, Professor of Banking and Finance at the graduate business school based in Fontainebleau, near Paris.

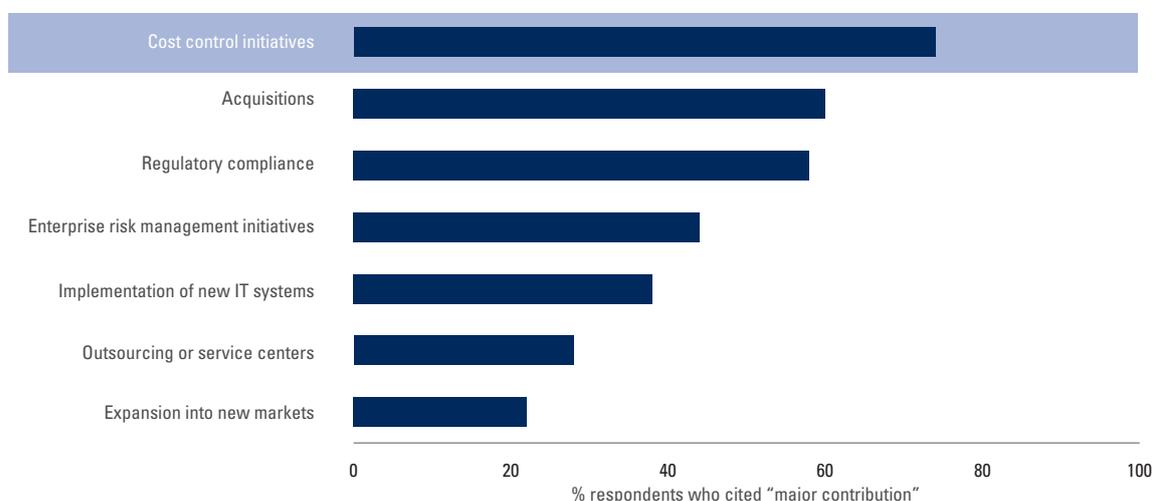
The sheer complexity of the global regulatory environment helps explain why 67 percent of financial services companies in the survey expect to spend more time on compliance over the next three years.

### Focusing stretched resources

These tasks come on top of finance's traditional responsibilities, which include financial reporting and a vital role in controlling costs. In the current global business climate, which is characterized by fierce price competition and historically narrow profit margins, the ability to drive down costs remains a critical factor for success. Having to juggle these various demands with limited resources can leave many finance executives feeling severely stretched.

"Finance is being pulled in many different directions," says Joshua Koshy, CFO of Air Canada. "It continues to fulfill the legacy functions of cost containment, budgeting, and financial reporting. And, it is now taking on new leadership roles in long-term planning and risk management."

Finance's contribution to corporate initiatives (percentage respondents who cited "major contribution")



Source: Economist Intelligence Unit, 2006

Given these conflicting demands, how should CFOs divide up their time? Comparison between top performing and average performing organizations in the survey is instructive. Finance executives from top performing organizations said they would focus less on cost-control initiatives over the next two years than their counterparts in average performing organizations.

**In the current global business climate, the ability to drive down costs remains a critical factor for success.**

While cost control remains universally important, CFOs within top performing companies release more time to spend in other areas, such as advising business units on operating decisions and guiding investors on business performance.

They are more likely to be comfortable stepping out of the traditional finance roles and helping their organizations to develop a long-term business strategy, investing more time in providing guidance to investors.

Almost twice the number of respondents from top performing organizations play a leading role in gathering and analyzing non-financial information than is the case for respondents in average performing companies. In interviews, leading CFOs cited value-creating activities such as planning, budgeting, and forecasting, decision support and business performance analysis, as areas where they will spend significantly more time over the coming years.

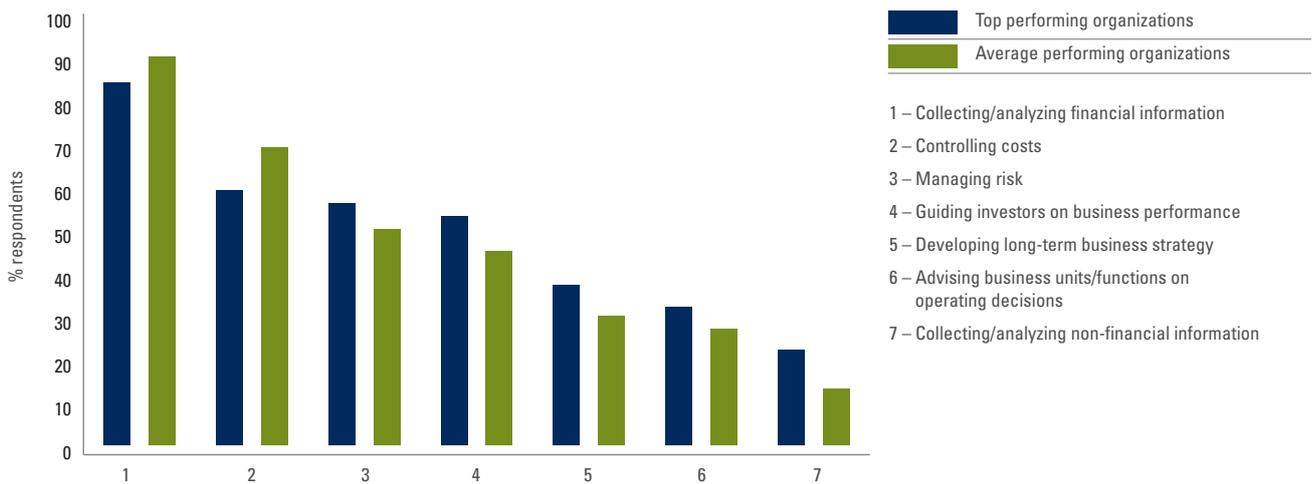
**From vision to value**

Another distinguishing feature of successful finance departments is they will have developed a clear vision and

well-defined objectives that are communicated throughout the organization. Moreover, the vision tends to emphasize a broader role for finance. “The statement – *one global finance team driving value creation* – reminds everyone in the organization that the primary objective of the company’s global finance function is to support the business units in driving value,” says Andy Halford, CFO of Vodafone.

The need for clear goals is obvious but has been difficult to achieve, given the upheavals of recent years. Forty-four percent of CFOs say their finance function does not have a clear vision and strategy statement. One result is the role of finance is often misunderstood and undervalued. This can be a vicious circle: CFOs who fail to articulate their role and demonstrate their value to the business can find it more difficult to win the resources required to create a leading finance function.

Areas where finance performs a leading role



Source: Economist Intelligence Unit, 2006

## Creating a global model for finance at Swiss Re

*Global reinsurer Swiss Re's recently formed global finance function highlights the leading practices that are enabling top CFOs to become leaders in driving value for all stakeholders.*

Three years ago Ann Godbehere was stepping into her new role as CFO of global reinsurance company Swiss Re; she took responsibility for the reorganization of the company's finance departments around the world into one centralized global finance function.

The restructuring, which makes Swiss Re one of the first companies in the insurance and reinsurance industries to adopt a global model for finance, was part of a much broader corporate effort to rationalize the company's operations. "Our focus is to steer capital to the parts of the business with the most potential to generate sustainable high returns. It is, therefore, useful to have a single view," Godbehere explains.

Prior to the reorganization, Swiss Re was divided into three main business units – Life and Health, Property and Casualty and Financial Services – each of which had its own CFO and finance function. In many respects the different finance functions operated independently and, at times, it was difficult for the Group CFO to roll out programs consistently across the organization.

The arrival of Sarbanes-Oxley in particular, acted as a further catalyst for change, as the Group CFO was suddenly made much more accountable for ensuring consistent financial controls across the entire organization. By strengthening the role of the Group CFO, and appointing regional CFOs that report directly into the center, Swiss Re has overcome some of the internal silos that had previously impeded efficiency and consistency across its finance operations.

Another feature of Swiss Re's approach is that it is increasingly turning away from traditional, accounting-based performance metrics – which, as recent history has shown, can be easily manipulated – and focusing on economic measures of value. "Investors and other stakeholders are trying to understand the true economic value of our business and they need more accurate, economically based measures of the drivers," says Godbehere.

Economic measures of value have also become the basis for allocating capital throughout the company. "They are better [than accounting measures] because they tell you whether you have added value for the shareholders." Godbehere and her team have developed a proprietary economic value methodology (EVM) –

a version of economic value added (EVA), adjusted for the insurance business. The finance team uses the model to measure profitability of the company's products – after adjusting for all frictional costs, including the cost of capital and taxes. Finance also relies on this model to allocate capital to the business and uses it to determine pricing.

The Swiss Re finance function's swift response to investors' and regulators' requests for more economically-based performance measures and its incorporation of these measures into its internal methodology for allocating capital, highlight its tendency to embrace new regulation and investor demands. "At the end of the day, our role is to provide transparency and enhance investors and regulators understanding of our company, including how we manage and steer the risks in our business," Godbehere says.

Written by the Economist Intelligence Unit based on an interview with Ann Godbehere, CFO, Swiss Re.



## KPMG comment:

### When finance functions lag, they can hamper CFO growth

The EIU's survey shows that CFOs who are able to drive business value for their organizations do so by focusing on the business and its external stakeholders. When CFOs are unable to turn from routine internal matters to the increasingly complex environment they face externally, they may be prevented from reaching their goals.

As investors and analysts demand more access to information, and as Board expectations grow, CFOs within leading finance functions will increasingly serve as an organization's public face. In this capacity, the CFO must be a business partner to the CEO and to the senior management team.

With quarterly reporting becoming the norm, the CFO will spend increasing amounts of time marketing the organization and should be skilled at presenting a variety of information to third parties. Timeliness of information and value-added commentary on the business will be increasingly vital as will the technology that helps turn information into insight.

As the research indicates, many organizations are not yet prepared

to evolve. In fact, a lack of confidence in the finance function may be preventing the CFO from developing his/her role into one that drives value for the business. A key challenge is the current focus CFOs have on meeting the demands of regulation (e.g., Basel II, Sarbanes-Oxley, and IFRS) and in producing the basic information needed day-to-day by the business.

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In organizations with leading finance functions, CFOs are not spending time questioning data or reworking spreadsheets.

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A CFO who lacks a robust finance function – one that supports his/her new role and can handle routine tasks with ease – cannot always deliver the interpretive, business-focused information needed by the CEO, the Board, and third parties. To help address these challenges, as the CFO grows into his/her new role, he/she will depend heavily for survival on a strong second-in-command – the Financial Controller, who in turn should be supported by a strong finance team.

In many ways, the Financial Controller of the future will assume many of the CFO's traditional finance and accounting responsibilities. In this capacity, the Financial Controller will free the CFO to work more closely with the CEO in decision-making efforts across a broad spectrum of issues and areas of the business.

To be effective, the entire team should be armed with the tools and technologies that can support development and delivery of robust business insights. In organizations with leading finance functions, CFOs are not spending time questioning data or reworking spreadsheets to meet specific needs. Instead, they receive routine information in a timely, consistent, reliable way, so they can then devote their time to review and analysis and, thus, business decision-making.

Leading finance functions are empowered to support the business in other ways. Their staff are increasingly business literate as well as financially adept. They communicate the importance of business knowledge within a culture that values business and technology training. They provide mentoring as well as secondments for finance staff within various business teams. In this way, the finance function no longer lags. Instead, it can be a valued partner with a focus on the future of the business.



Today's overstretched finance functions should seek to streamline their processes to reduce costs and free up time for more strategic tasks. Increasingly they turn to alternative service models such as shared services and outsourcing to perform standardized processes such as transaction processing, financial reporting, tax filing and regulatory compliance.

## Achieving operational excellence

According to the survey, shared services are by far the preferred model at present. Their use significantly dwarfs that of on and offshore outsourcing combined. For example, 45 percent of survey respondents use shared service centers for treasury management, compared with just 4 percent that outsource this activity. More than one-third (35 percent) use shared service centers for transaction processing, compared with 8 percent that outsource it. Top performing organizations in the survey have progressed further down this route than the average and have restructured a wider range of processes: for example, 42 percent of them use shared service centers for regulatory compliance tasks, whereas only 33 percent of the average performing companies in the survey do so.





Several executives interviewed for the report can see major advantages in the use of shared services. During the past year, Royal Bank of Canada (RBC) has shifted many high-volume, repetitive processes, including accounts payable and fixed asset ledger control, to shared service centers in its operations group, which CFO Janice Fukakusa, says "is better at managing high-volume, large-scale environments". Among the benefits RBC's finance function expects to realize are improved information quality (because of a reduction in processing errors) and the release of time for finance to focus on strategic

analysis, decision support and other value-enhancing activities.

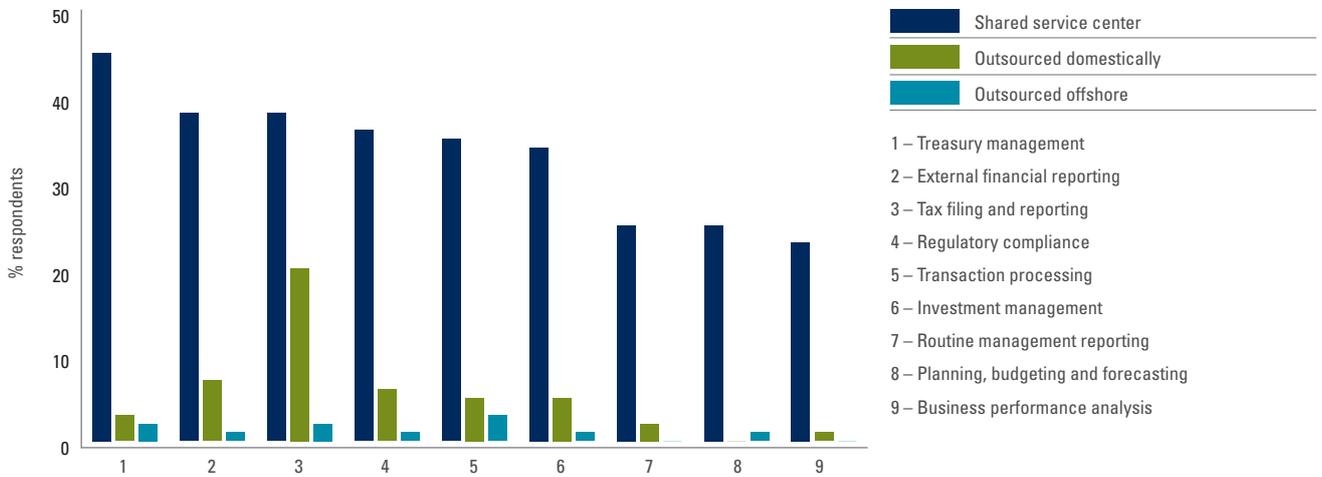
#### **Growing use of shared services**

The use of shared services is also expected to grow significantly, particularly in the areas of routine management reporting, regulatory compliance processes, investment management and transaction processing. In the first of these, routine management reporting, the use of shared service centers is forecast to grow by 42 percent over the next two years as they expand the scope of services that they provide.

The use of shared service centers is also growing for less standardized processes such as business performance analysis and investment management, suggesting that there is increased confidence and sophistication in the shared services model. Although the use of outsourcing may also grow over the same period, this is from a low base and it is likely to continue to be a peripheral strategy for most organizations in the survey for the foreseeable future.

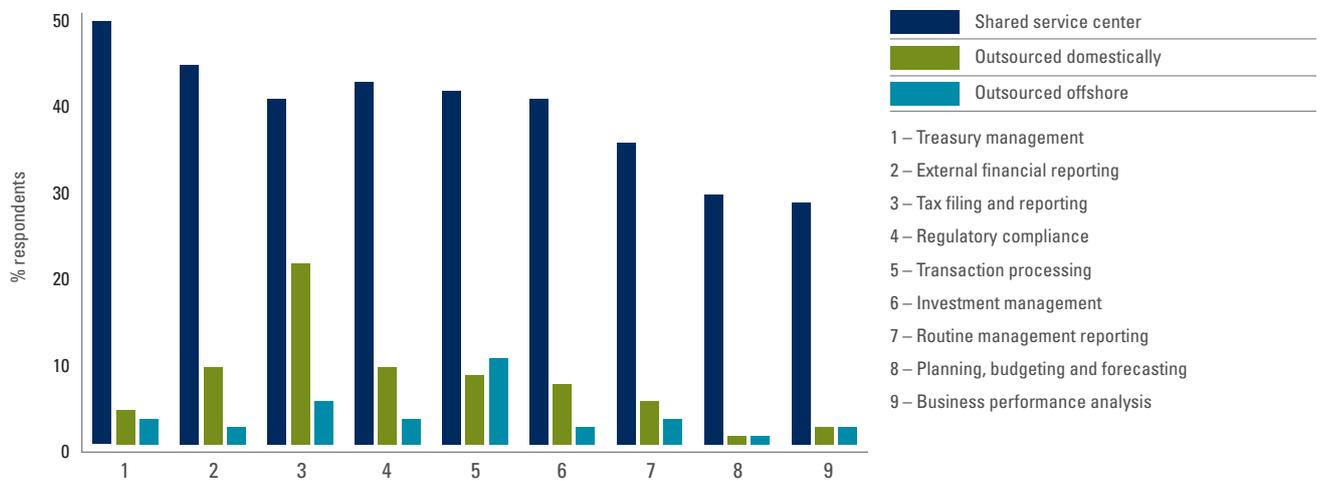


Use of shared service centers, outsourcing and offshoring today (by business process)



Source: Economist Intelligence Unit, 2006

Use of shared service centers, outsourcing and offshoring in three years time (by business process)



Source: Economist Intelligence Unit, 2006

## Leveraging technology

Technology is also playing a vital role in helping finance functions to achieve operational excellence. Leading CFOs have been intensely focused on building the technology infrastructure that can enable them to streamline processes, eliminate redundant tasks, improve data quality and consistency and, ultimately release staff time that can then be spent on value-creating activities.

This process has involved replacing disparate legacy systems with the latest systems that integrate processes across the enterprise. "It's not simply about automation," says Vodafone's Andy Halford. "It's about streamlining – making processes more efficient and effective by eliminating redundant and low value-added activity," he says. It is also about data integrity. Legacy systems always produce imperfect information and multiple versions of the truth. Enterprise wide systems, in contrast, can provide "a more accurate, single version of the truth."

Implementing new technology will continue to be a priority over the next two years for about half the organizations in the survey sample, as finance

functions turn their attention to acquiring technology solutions for analytical processes, including decision making, planning, budgeting and forecasting, value-based performance measurement, and risk management.

According to the survey, more than three-quarters (77 percent) of finance functions still use spreadsheets (or other manual processes) for ad hoc decision support, and 54 percent continue to use them for planning, budgeting and forecasting.

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**"It's not simply about automation, it's about streamlining – making processes more efficient and effective by eliminating redundant and low value-added activity."**

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Many organizations are beginning to seek more sophisticated tools for performing these activities. For example, Jose Uba, CFO of Brazilian cosmetics manufacturer and distributor, Natura Cosméticos, says his finance department is investing in "a broad, comprehensive business analytics solution" to support decision making and performance measurement.

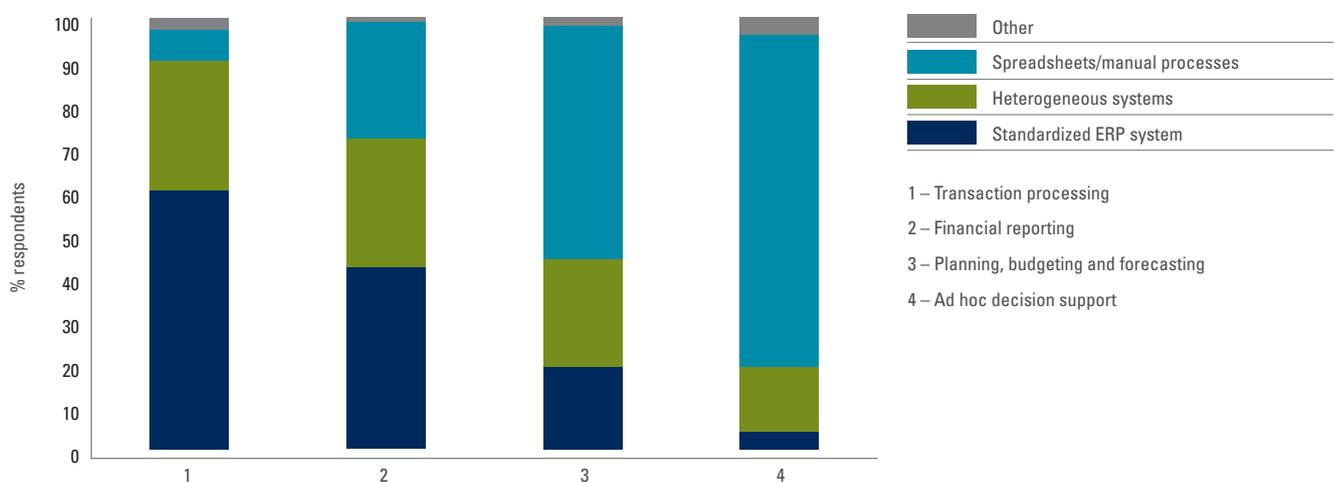
Purchasing analytical technology alone is not enough, however. Finance executives need to know how to use the new IT tools effectively and this is an area in which 36 percent of companies in the survey feel improvements need to be made.

## Improving processes

Shared services and the IT initiatives discussed above are part of a wider trend to simplify, standardize and improve processes and to break down internal silos. From an organizational perspective, this is reflected in a move by several of the executives interviewed in this report to create a single global finance function (see case study on Swiss Re).

Centralized functions help to strengthen finance's ability to evaluate investment opportunities across the enterprise, enabling capital to be allocated to activities that offer the highest returns. A central global finance function can also generate significant time and cost efficiencies through the standardization of procedures and systems worldwide.

## Use of technology



Source: Economist Intelligence Unit, 2006

## Setting global standards at Vodafone

*Vodafone, the global mobile-telecommunications giant is standardizing its finance processes as part of a larger effort to integrate disparate business units around the world into a global company with a single vision.*

Andy Halford, CFO of Vodafone since July 2005, says the primary objective of the finance function he spearheads is to support the company's business units around the world in achieving their objectives. "Our team exists to enable other parts of the organization to implement strategy and to allow value creation to occur," Halford says. "At the end of the day, we are all here to create value for our shareholders, our customers and our employees."

Vodafone historically ran many separate operating businesses but is now very focused on operating as one integrated business. Short-term

actions must also be aligned with longer-term strategic objectives. To this end, Vodafone's finance function is leading the effort to standardize systems, procedures and processes throughout the enterprise. "We have a considerable amount of work to do to introduce globally consistent transactional processes," says Halford.

As the company strives to become one integrated global business, it is increasingly seeking to give one look and feel to management information across the enterprise. "The amount of information for which there will be a common format will significantly increase," he says.

Vodafone has now created a new position to address this challenge: the Chief Management Information Officer. This individual is charged with developing and implementing a

consistent information architecture across Vodafone's operations (both financial and non-financial). Benefits include more focus on genuinely key business information; more consistency and comparability of data across businesses; greater depth and sophistication of information; and more cost efficiency, for example through a standardized approach to data management.

By improving the quality of management information, Halford believes the finance function can spearhead thinking on what the company will need to do to address market changes over the coming years.

Written by the Economist Intelligence Unit based on an interview with Andy Halford, CFO, Vodafone.



## KPMG comment:

### Standardization is a pre-requisite for a leading finance function

For all the attention outsourcing has received, it has not yet become a choice for many organizations. It can be a practical means of cutting costs in certain cases. For those organizations that have not transformed their processes prior to outsourcing or as part of the transition, the value derived from it is yet to be proven. Moreover, many of those that have chosen to outsource have found it distracted management's attention from critical priorities. Particularly significant among these is the standardization of procedures and systems.

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The use of shared service centers is expected to grow in the next few years as is the breadth of services they offer.

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Standardization is critical to an organization's ability to achieve operational excellence and thereby progress in its development as a leading finance function. The survey findings support the view that shared services are a key enabler in standardization and thus make a more popular alternative than outsourcing.

Furthermore, as the survey results indicate, the use of shared service centers is expected to grow in the next few years as is the breadth of services they offer. These shared service centers can be an essential step in a journey towards outsourcing.

CFOs within leading finance functions are able to effectively manage risks, reduce costs and achieve operational efficiencies by placing routine tasks into an internal shared service center.

Use of business standardization techniques and centralization of

activities such as financial reporting, tax filing, and regulatory compliance within shared service centers enable CFOs to free up their own time for more value-adding and externally focused activities.

When organizations evaluate the effectiveness of outsourcing, they tend to blame its service providers for failures – and they can be at fault when they do not understand their clients' business or their own.

Nonetheless, organizations themselves may often be the real culprits when outsourcing efforts fail to deliver. They may fail to plan appropriately, especially when developing or implementing a sourcing strategy, or they may not focus as much effort on developing the retained organization as on the transition to the new provider. Leaders must address these issues if outsourcing is to ultimately fulfill its potential for their organizations.

As finance moves out of its silo and steps into its new role as an advisor to the CEO, the Board, and the operating units, it is recognizing the need to develop a deeper understanding of the business and the multitude of variables that drive value. “Finance executives need to know enough about the business to be able to interpret the numbers and provide insight to others in the organization,” says Robert McFarlane, CFO of Telus, a leading telecommunications company.

## Partnering with the business

Today's finance managers not only need to report the numbers but, more importantly, to use their understanding of the data to formulate insight about the value of the business and how various, alternative courses of action are likely to impact on it. “Our role is to guide the business to the best opportunities and to steer capital resources to activities that will provide a high, sustainable return,” says Ann Godbehere, CFO of global reinsurance company, Swiss Re.

All of this requires finance to have a good understanding of the company's operations; how its products and services are produced, marketed, and delivered; the factors that drive customer demand, both positively and negatively; and the day-to-day operating challenges. “Being technically strong in accounting has become a given for senior finance professionals,” says Vodafone's Halford. “What really sets one financial professional apart from another is a solid understanding of the business and how it works.”





### Improving finance's understanding of the business

Forty-five percent of all CFOs in the survey recognize the serious gaps in finance's understanding of the business and are taking steps to close them. Many are placing finance professionals in rotational assignments within operating divisions, such as sales and marketing, to allow them to obtain a first-hand understanding of the inner workings of the business and its day-to-day challenges.

Many CFOs have also launched initiatives aimed at changing the mindset of finance

professionals, encouraging them to improve their working relationships with business units in the organization. These initiatives include training in communications, team management and the use of vision statements communicating that the goal of finance is to serve the enterprise.

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**“What really sets one financial professional apart from another is a solid understanding of the business and how it works.”**

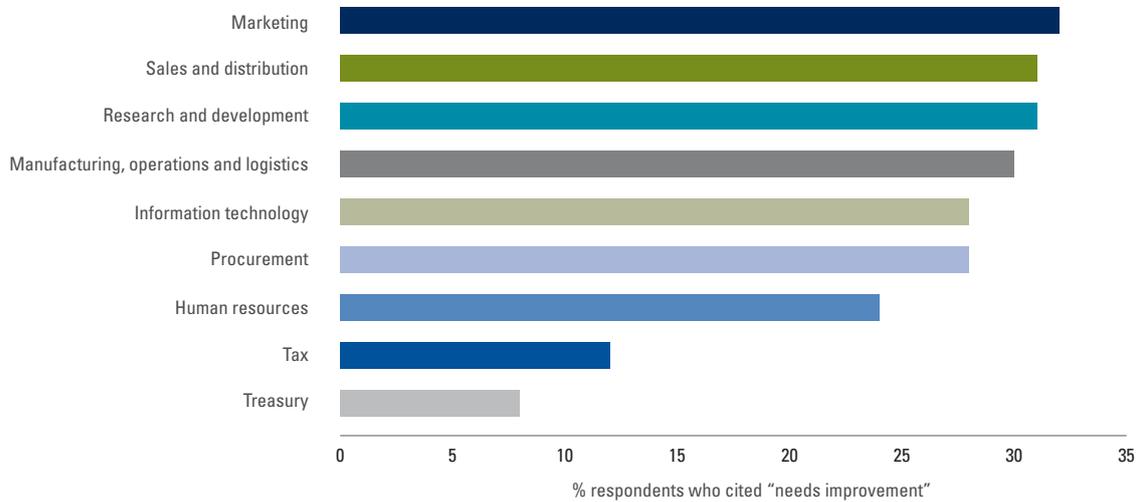
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Swiss Re's Ann Godbehere stresses the notion of “one group, one capital base” to continuously remind her staff to avoid silo thinking.

Most organizations in the survey feel that they could do more to improve collaboration and understanding between finance and other business units. Approximately 42 percent report that they have not communicated finance's vision and strategy to the rest of the organization. A full 55 percent say that they do not ask stakeholders (other than investors) for feedback on the finance function's performance.



How effective is the collaboration between the finance function and the following business functions in your organization? (percentage of respondents who cited “needs improvement”)



Source: Economist Intelligence Unit, 2006

The quality of finance’s collaboration with business units – particularly marketing, research and development, sales and distribution – leaves plenty of room for improvement. This keeps finance isolated and prevents it from being pulled in to assist other units in the organization – even where its understanding of the numbers could be of great use. One consequence of this, according to the survey is that finance is often excluded from important negotiations with suppliers and business partners.

### Forecasting and management information: the two main priorities for improvement

To succeed in its new role, finance must also earn the trust and respect of senior executives and business unit managers by providing them with the information, analysis and insight that they need to achieve their growth targets. This will require finance managers to learn to look

forward rather than backwards and to anticipate change rather than react to it.

All of this represents a “sea change” in the way finance professionals have traditionally approached their jobs and is requiring them to acquire an entirely new set of skills and analytical tools. These include better tools for planning, budgeting and forecasting; more sophisticated techniques for monitoring risks; new metrics for measuring financial and non-financial performance and benchmarks for measuring performance against competitors.

As measures of economic value increasingly replace traditional accounting metrics as the key indicators of performance, finance needs to identify, measure and monitor key growth drivers, including many non-financial aspects of the business (such as customer satisfaction, product and service innovation, and investor perceptions) and

to understand the impact of changes in these factors on the future value of the enterprise.

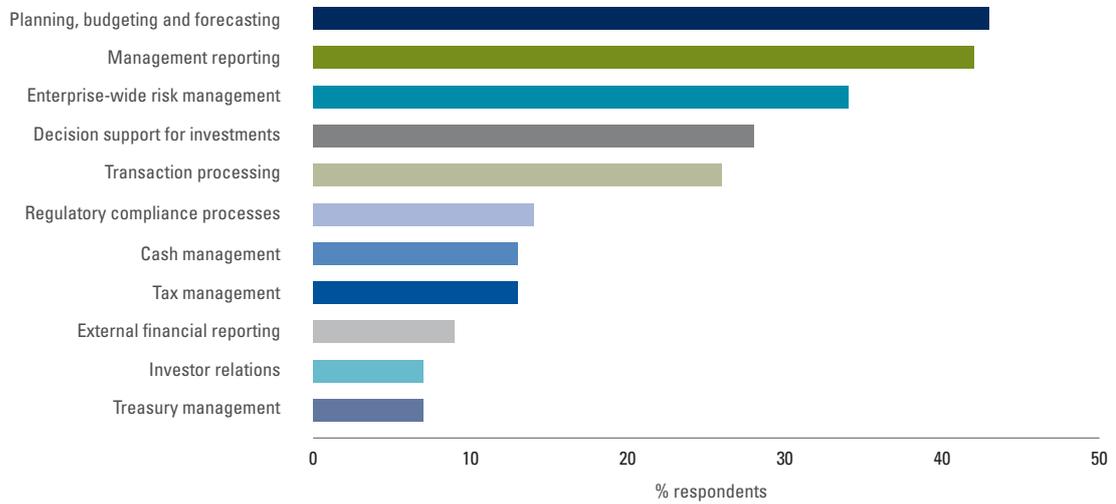
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**Finance needs to identify, measure and monitor key growth drivers, including many non-financial aspects of the business.**

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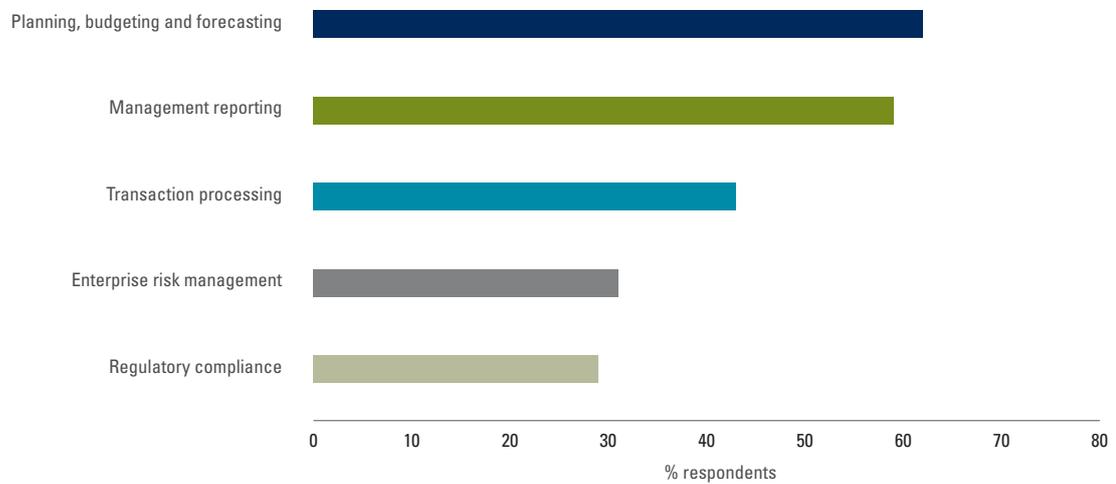
For now, however, many finance functions appear to be struggling to provide management with the information it needs. Fully 43 percent of finance executives in the survey cite forecasting, budgeting and planning as an area where they are dissatisfied with their companies’ current capabilities, while 42 percent express similar concern over the quality of their management information. These are also the two areas where they feel they need to make the greatest improvements.

Where is finance most dissatisfied with its current capabilities?



Source: Economist Intelligence Unit, 2006

Priorities for process improvements in the future (top five)



Source: Economist Intelligence Unit, 2006

## Partnering with the business at SingTel

*For SingTel, a Singapore-based telecommunications group, the finance function's next challenge is to improve its understanding of the business.*

Having streamlined and automated (and in many cases outsourced to lower cost regions) all routine processes, SingTel's finance function is now focused on partnering with the business. The company's finance managers are positioned alongside the business-unit managers to help them make decisions that can help maximize shareholder value.

Success in this role hinges largely on finance's ability to establish a solid working relationship with the business units – a partnership based on trust. Forging this kind of relationship is much more easily said than done. “We have to earn the trust of the business units over time – through the quality of our work and communication,” says CFO Chua Sock Koong.

For finance to achieve the level of trust it needs from the business-unit managers, it must first improve its understanding of the business.

“This currently is our biggest challenge,” says Chua. “Finance cannot be effective without understanding the day-to-day challenges the business managers face,” she adds.

Helping business managers make decisions that can help maximize value requires an understanding of the business strategies and the multitude of variables driving costs and revenues. It also requires the right analytical tools. “As finance professionals move up the value chain, they will require new analytical tools and methods,” Chua says.

In keeping with the company's overriding objective of maximizing shareholder value, SingTel's finance function is increasingly using value-based management techniques in day-to-day decision making.

“Our focus is not just on the top-or bottom-line growth but on return on capital,” Chua explains. “We are primarily interested in measuring the impact of decisions on the medium- and long-term value of the firm.”

Other critical factors for finance's success in its new role include the ability of its managers to lead teams; to ensure that the objectives of all team members are in perfect alignment; and to facilitate good communication. “The group must be totally aligned in its vision,” says Chua. Ultimately, the key determinant of finance's success in building trust with the business units lies in its ability to provide advice that leads to decisions that create value.

Written by the Economist Intelligence Unit based on an interview with Chua Sock Koong, CFO, SingTel.



## Providing business insight in Natura

*Natura, a Brazilian cosmetics company, is using specialist skills within the finance department to better understand the behavior of its 500,000-strong sales force.*

Leading finance teams are playing a key role in collecting and analyzing operational data. One example is Natura, which has been drawing on the data analysis skills of its finance department to help boost sales performance. As Jose Uba, CFO at Natura, puts it: “we are trying to escape from this more conventional silo of the financial function and be a part of management in the company”.

Rather than sell through a traditional distribution network, Natura sells directly through a network of

approximately 500,000 independent sales representatives, or consultants as it calls them.

The company has been investing in business-analytics applications, in order to achieve a more rigorous analysis of the business and support the company's sales and marketing function. These quantitative methods and statistical analyses are directly provided through the finance function. “We are trying to get better insights on the behavior of the consultants, how they react to the price discounts we offer, how they react to other marketing tools we use in the field,” says Uba.

This analysis also helps to provide the company's management with key

insights into the organization's performance. “We are adding more and more variables and indicators to measure and gauge our performance,” says Uba. This encompasses market share, the average productivity of each consultant, portfolio penetration and a growing list of other factors.

By exploiting this information more effectively, the finance function is playing a significant role in driving improved performance in Natura's business.

Written by the Economist Intelligence Unit based on an interview with Jose Uba, CFO, Natura.



## KPMG comment:

### Finance functions should lead in integrating management information

In many cases, finance functions are failing to deliver the business information and insight their organizations need to compete. One of the two key areas of organizational dissatisfaction is the finance function's provision of management information – and survey respondents do not expect this problematic situation to change in the near term.

Yet the business remains hungry for insightful information and the finance function should take a lead role in meeting that need. Some companies mistakenly believe that providing non-financial information is not the role of the finance function. We believe differently. Finance is not the natural “owner” of information pertaining to, for example, customer satisfaction, product and service innovation or investor perceptions.

Nonetheless, in our firms' experience, the finance function is well positioned

to gather, integrate, analyze and disseminate such information with the same degree of integrity it does financial measures.

Indeed, our firms' experience shows that CFOs within leading finance functions have eliminated any potential gap between insights required by the Board and the overall business and what the finance function is able to provide.

The business remains hungry for insightful information and the finance function should take a lead role in meeting that need.

The leading finance function is supported by a strong infrastructure, including robust technology and a business-literate staff. Consequently, the management information provided by a leading finance function is both performance driven

and a business enabler. The metrics used in management reporting are tied to business metrics and specific key performance indicators.

The finance function can help ensure that management information is robust and insightful.

The leading finance function provides both historic information and predictive information as well as recommendations on actions to take. The information enables effective performance management by suggesting, for example, how scarce resources should be allocated or how people should be remunerated.

By taking on this role, the finance function can help ensure that management information is robust and insightful. A single finance function capable of consolidating a complete range of financial and non-financial measures can bring important business value to an organization. Many organizations have work to do in this area.



Faced with a sharp decline in investor confidence in the wake of the recent corporate scandals, CFOs increasingly are stepping in to play a leadership role in managing investors' expectations and growing need for information.

## Enhancing investor relations

Swiss Re's Ann Godbehere estimates that she spends between 15 to 20 percent of her time communicating with the company's shareholders – significantly more than the time spent by her predecessors on investor relations, which she estimates at less than 10 percent. In the survey, three-quarters of respondents view the proactive management of investors' expectations as important and almost 46 percent say they will play a leadership role in guiding investors on business performance in the next two years.

For their part, investors and analysts are asking companies to provide more frequent and accurate reporting with a much greater level of granularity. "Analysts are asking for a higher level of detail so they can understand the assumptions underlying management's forecasts," explains Charles Pepin, Director of Equity Research for T. Rowe Price Associates, a U.S.-based investment management company.





### Measuring performance

Performance is also being measured in different ways. "In our recent era, there's been more focus on the price of the stock than the value of the corporation," says John Bogle, founder of Vanguard, one of the largest mutual fund families in the U.S., and president of the Bogle Financial Markets Research Center. Quite often however, a stock's price is based on accounting estimates of earnings, and the problem, Bogle concludes is that "pro-forma earnings are meaningless."

As a result, investors are struggling to understand the true economics of the business.

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**Forty-six percent say they will play a leadership role in guiding investors on business performance in the next two years.**

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Moreover, as investors strive to get a better handle on the true economics of the business (in particular, cash flow), they are increasingly asking finance to provide better measures of economic

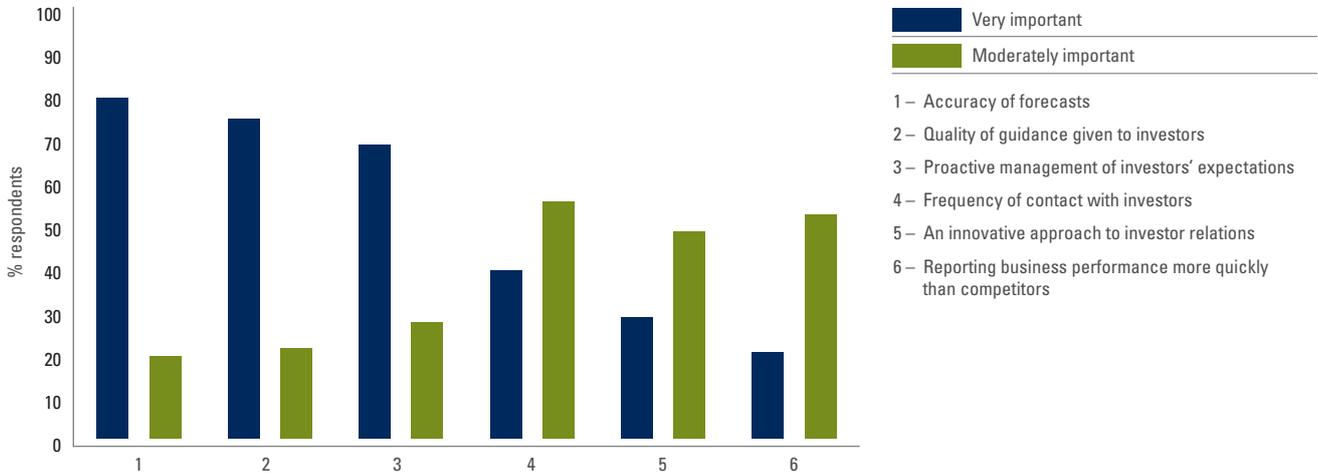
value. This is requiring finance to develop a solid grounding in value-based management concepts and tools.

Most (79 percent) of CFOs see the ability to provide accurate forecasting as key to establishing investors' trust. Many admit however, they currently do not have the ability to do this well.

CFOs are also dissatisfied with their ability to provide investors with insight into the value of the business. Only 17 percent of organizations in the survey believe they do an excellent job of this.



In your opinion, how important are the following capabilities in building trust with the investor community?



Source: Economist Intelligence Unit, 2006

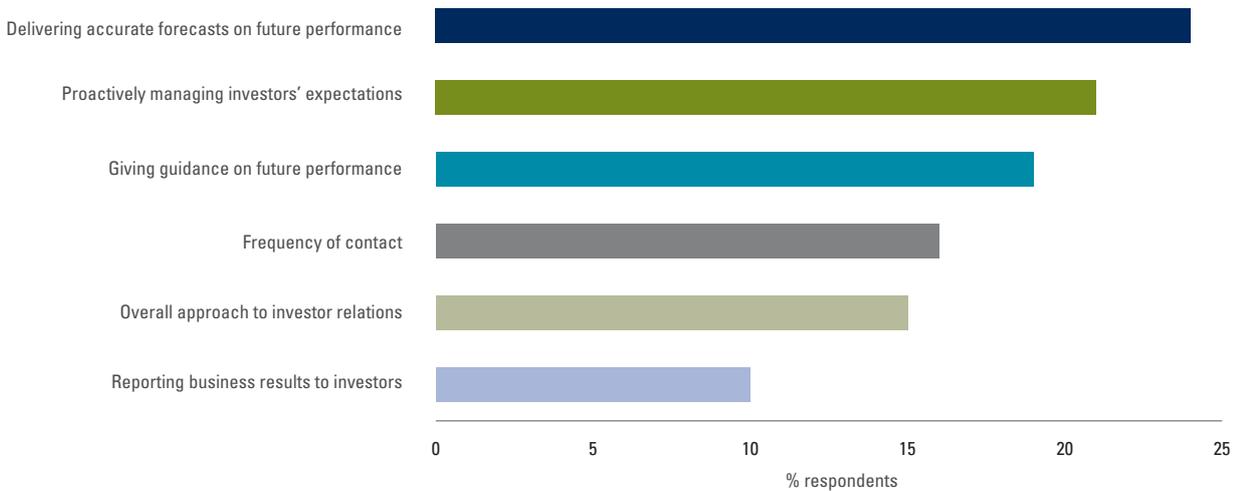
CFOs are dissatisfied with their ability to provide investors with insight into the value of the business.

More top performing organizations are confident about the quality of the insight

they provide to investors. Forty percent of them say they are excellent at reporting business results to investors compared with 27 percent who claim excellence in this area among average performing companies. Roughly twice as many executives from top performing organizations felt they were excellent

at proactively managing investor expectations and at delivering accurate forecasts of future performance than was the case with lower-performing companies.

Investor relation activities most in need of improvement



Source: Economist Intelligence Unit, 2006

## Finance and acquisitions at Ultrapar

*Strongly established in its home market and seeking new areas of growth, Brazilian conglomerate Ultrapar has been expanding into new markets abroad. The finance function has been at the forefront of the company's innovative acquisition strategy.*

During the 1990s, the Brazilian economy not only started to open its markets to new international competition, but also paved the way for strong local companies to expand abroad. Ultrapar, with interests in liquid petroleum gas, specialty chemicals and integrated transport, storage and handling services for chemicals and fuels, was actively looking for new growth areas.

Ultrapar's CFO, Fabio Schvartsman says a listing on both the local Brazilian bourse and the New York Stock Exchange provided the necessary capital for expansion. The Board however, was concerned about the possible dangers of overseas expansion and exposing the business to risk.

Looking for attractive acquisitions in the same industry, Schvartsman decided to focus on conducting leveraged transactions that were not guaranteed by the parent company. "We are doing it in a similar way to how private equity funds do it," he says. The deals are created inside the finance department and are specifically structured to protect the company. "So the only risk [Ultrapar

takes] when investing abroad is the equity portion," explains Schvartsman.

A model for this strategy, says Schvartsman, was German industrial gas company Linde's US\$15.5 billion acquisition of U.K. rival BOC earlier this year. "Linde was able to buy a company that was much bigger than it was by using a leveraged transaction, guaranteed by the asset that was acquired and not by the parent company," he says. In Schvartsman's view, it was a transforming event, much as his planned acquisitions will transform Ultrapar.

Written by the Economist Intelligence Unit based on an interview with Fabio Schvartsman, CFO, Ultrapar.



## Reforming investor relations – an investor’s perspective

*John Bogle, founder and former CEO of Vanguard, a mutual funds group, argues for reform in the way companies report information to investors*

John Bogle has been a major force in the U.S. finance industry for decades, ever since introducing the first-ever index mutual fund that invested in a basket of stocks, rather than relying on fund managers. He has done much to champion the restoration of integrity in industry practices and argues vigorously for governance structures in which owners’ capital, that has been put at risk, is used in their interests rather than in the interests of corporate and financial managers.

Bogle is one of the biggest advocates for the argument that companies

need to rethink the way they report earnings and account to stockholders. “We’ve lost sight of fiduciary duty. We’ve forgotten that the stockholder is the owner of the company” he says.

In a recent book, *The Battle for the Soul of Capitalization*, he outlines a series of measures to reform the information that companies report to the market. For example, he argues that companies should give the market more detailed information about the financial decisions they have made, and detail what the impact on earnings would be if they had made the decision differently. “Open the books to inspection by analysts and tell them the cost of alternative courses of action,” he says.

In addition to advocating reform within companies, he advises analysts to dig deeper, beyond just the reported numbers. “The single biggest question analysts have is: are you going to make your number? We live in a world with all this accounting flexibility, of course we’re going to make our number,” he says. “They should be talking about real information, what the company is making or doing, what the competition is doing, what are they doing about their labour costs.”

This focus on forward-looking performance metrics will be one of the key challenges for CFOs going forward.

Written by the Economist Intelligence Unit based on an interview with John Bogle, founder and former CEO, Vanguard.



## KPMG comment:

### Leading finance functions can help to develop investor trust

Accurate forecasting is a critical aspect of building trust with the investor community but as the EIU noted previously, few think they do an excellent job of it. Across KPMG firms', we believe organizations can and should take steps to improve in this area.

Considering the significance of forecasting – and the extent to which it is a fundamental aspect of building outsiders' trust in the organization – this area should be the responsibility of highly trained and informed staff within the finance function. Most of the time however, forecasting is performed by individuals who may not understand the business as thoroughly as they should and who rely on inadequate technology.

Leading finance functions have developed an important level of trust between their organizations and the external community. They provide analysts and investors with sufficient information to engender their confidence in the health of the business as well as in its leaders. The challenge is to keep these stakeholders appropriately informed in good and bad times. One potential

benefit of transparent communication is that when the business must communicate bad news, investors and analysts may be less likely to overreact.

The development of trust is fundamentally dependent on the ability of the organization to provide robust forecasts of performance.

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**Leading finance functions have developed an important level of trust between their organizations and the external community.**

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A leading finance function seeks to help investors and analysts understand both the value and the drivers of the business. It should be focusing its forecasting on performance drivers and the external factors that could influence them – including market share, turnover, profitability and cash flow. IT-enabled tools are also critical to the provision of rigorous analysis.

The CFO and his/her team understand where the business is going, what investors want and what information

the organization wants to give them – capabilities that have their foundation in accurate forecasting.

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A leading finance function seeks to help investors and analysts understand both the value and the drivers of the business.

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Inadequacies in finance's infrastructure or technology can result in the CEO and the CFO endeavoring to "sell" the business to analysts with a lack of sufficiently robust information. The CFO may be left out on a limb in such a situation. Problems can be explained away in good times but when difficulties develop, the organization must have an infrastructure in place that enables delivery of robust data.

The leading finance function enables the CFO to create a clear line of sight between investors and the key drivers of performance. It thereby gains the "permission" it needs to focus on delivering its strategy rather than constantly responding to investor concerns.

Finance lacks many of the skills needed to fulfill the demands of its new role but it is working hard to acquire them. Leading CFOs are investing considerable resources to retrain their staff to think proactively, to sharpen their communication skills and to collaborate with the commercial side of the business. Improving finance managers' ability to understand the business is a priority for all companies, especially the large ones where 51 percent see this as a priority for further training and development.

## Developing skills and talent

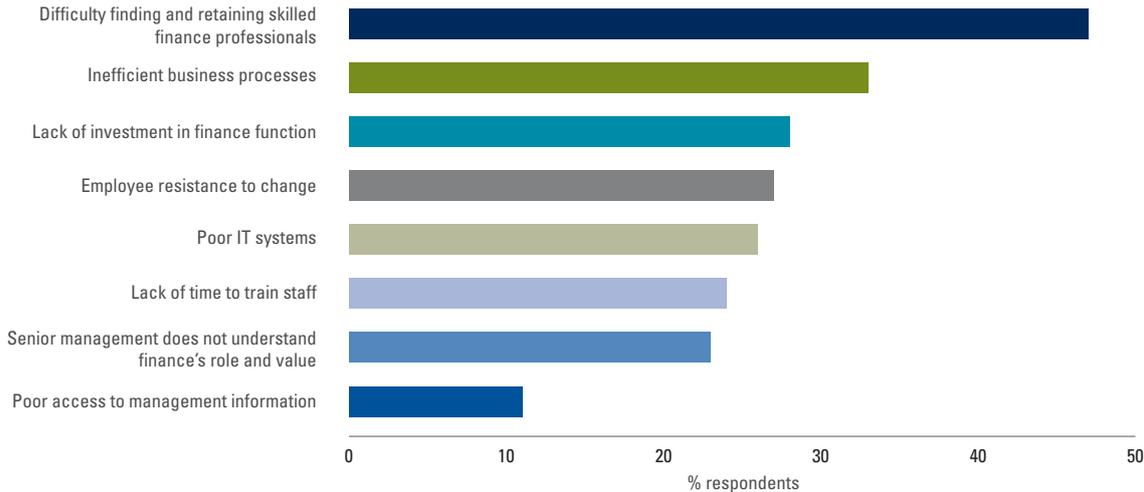
Change management skills are seen as a vital area for larger organizations, while most companies see a need to improve finance managers' skills in using non-financial performance measures, according to the survey. Finance executives who are equipped with these broad-based skills tend to be more valued by the rest of the business.

"At the end of the day, the real measure of a CFO's success is whether the rest of the business is actively recruiting finance staff," says Telus CFO Rob McFarlane, adding, "if finance truly is adding value, it will be a source of leadership talent for other parts of the business."





In your opinion, which of the following problems are major barriers to change in the finance function at your organization?



Source: Economist Intelligence Unit, 2006



In addition to progress on business-related skills, several CFOs and experts interviewed for the report cited the need for higher-level analytical tools and concepts in decision making. "As our finance managers move up the value chain, they need to be able to use more sophisticated value-based analytics, such as discounted cash flow and capital asset pricing models," says Chua Sock Koong, CFO of SingTel. SingTel is currently in the process of providing training to its finance managers to enable them to measure the impact of all operating decisions on the value of the business.

**"If finance truly is adding value, it will be a source of leadership talent for other parts of the business."**

Finance is also looking to strengthen its skill set by hiring new talent. More than half (56 percent) of CFOs say they plan to recruit new finance employees in the next two years. Many CFOs, such as Air Canada's Joshua Koshy plan to hire MBAs with the ability to think out of the box. Increasingly, finance is valuing professionals with the ability to be agile over those who resist change.

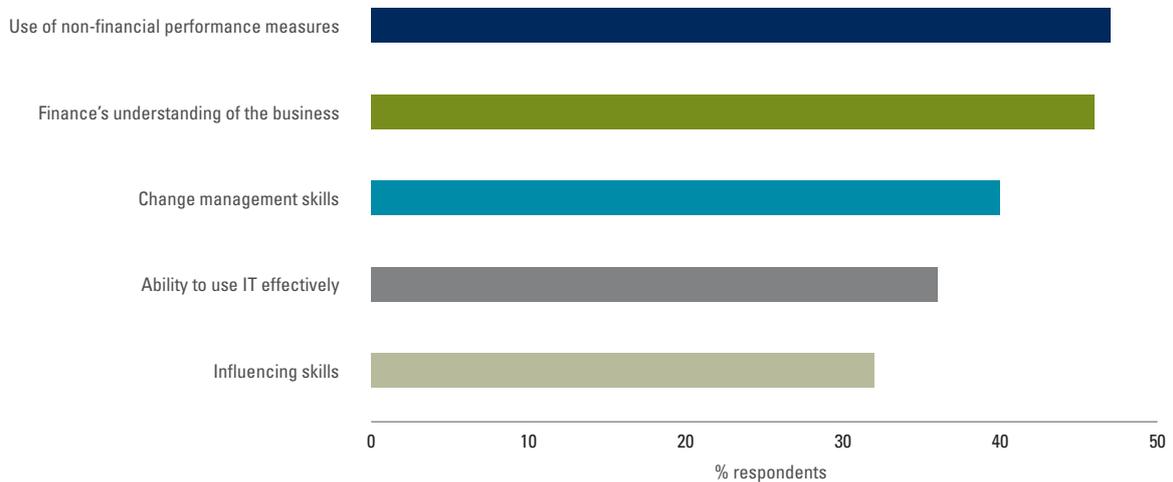
The recruitment process, however, is not expected to be easy. Nearly half (47 percent) of CFOs say difficulty finding and retaining skilled finance professionals is a major barrier to change. Slightly more top performing organizations are confident about their ability to recruit and retain skilled professionals than their lesser-performing counterparts.

This will be a challenge for all companies, but not surprisingly top performing organizations have an advantage.

**Finance is valuing professionals with the ability to be agile over those who resist change.**

Approximately 40 percent of top performers say difficulty finding and retaining skilled finance professionals is a barrier to change, compared with 50 percent of the average-performers.

Skills in need of improvement (top five)



Source: Economist Intelligence Unit, 2006

## Refining skills and optimizing operations at Royal Bank of Canada

*Royal Bank of Canada, Canada's largest bank, has spent the last few years laying the foundation for regulatory compliance and streamlining traditional processes. Its finance function is now acquiring the new skills it will need as it shifts its focus to value-creating activities.*

Like many of its counterparts around the world, Royal Bank of Canada's finance function has spent the last few years building a solid framework for regulatory compliance, streamlining traditional procedures and automating routine tasks.

In the last year, the bank has shifted high-volume repetitive processes, such as accounts payable and fixed asset ledger control, to shared service centers in its operations group, which CFO Janice Fukakusa says are much better at managing high-volume processes. "We've been getting our house in order and our processes in

place so we don't have to worry about mistakes or being able to handle the latest regulatory or accounting requirement," says Fukakusa.

Finance is just now beginning to realize the fruits of its labor. Its first priority was to get the error rate down and to streamline more processes. The bank has now achieved these goals, and expects greater time and cost efficiencies as more routine work is migrated to the shared service centers.

As the intensive work of the last few years begins to free-up resources, Fukakusa is turning her attention to acquiring the new skills and talent finance will need as it steps into its new role as a partner to the business. A key priority for Fukakusa is for her finance team to acquire a "softer" skill set, including communication and team-management skills.

The department's top managers are now required to participate in a six month managerial excellence course designed to develop leadership skills.

As with other companies, there is also a big focus on helping staff to acquire analytical skills to support decision making and performance measurement. In particular, Fukakusa's finance professionals need to be able to offer insights into the impact of change on the value of the business. "We need to acquire the skills and tools that will enable us to proactively gauge how a change in a key driver will transform into a revenue or expense and impact value," Fukakusa says. "Increasingly, the role of finance is to anticipate change, rather than react to it," she adds.

Written by the Economist Intelligence Unit based on an interview with Janice Fukakusa, CFO, Royal Bank of Canada.



## KPMG comment:

### Talent management: leading finance functions can do it best

Not surprisingly, many organizations find it difficult to attract and retain strong finance staff. In our firms' experience, many of them tend to recruit the equivalent of highly skilled acrobats whom they then keep tethered firmly to the ground.

Organizations will continue to be challenged by morale issues when they compel finance professionals to do traditional "number-crunching" when those individuals are capable of using value-added analytics. Inadequate IT systems and lack of standardization can often contribute to the problem.

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Most finance functions tend to recruit the equivalent of highly skilled acrobats whom they then keep tethered firmly to the ground.

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To attract, retain and challenge strong people, the CFO must fundamentally transform how the finance function goes about its work. Once organizations have hired financial

people, they are then challenged to provide them with interesting work, retain them with the promise of good career prospects, proper training and development and enable them to take pride in committing their time and talents to the organization. Improved technology and standardization can support these important retention efforts.

Externally, an ongoing challenge will be the constraints of a market hampered by a lack of appropriate talent. Organizations need technical people who also have a commercial focus and relationship management capabilities as well as IT literacy. Leading finance functions develop these capabilities internally through training programs and by rotating professionals in and out of finance and deploying them within the business.

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The second-in-command should now have the skills and capabilities formerly required of the CFO.

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Leading finance functions take talent management more seriously, specifically by developing role profiles, competency frameworks, a finance curriculum and 360-degree feedback, interviews and appraisals to help ensure desired outcomes. Leading finance functions have also recognized the changing role of the Financial Controller. The second-in-command should now have the skills and capabilities formerly required of the CFO, who is now more fully focused on important efforts to "market" the organization to its stakeholders, both internal and external.

Thus, leading finance functions have learned how to professionalize the career path for their people. The CFO and other leaders have overcome an inherently cautionary approach both to their perception of needed skills and their efforts to work with the business.

By embedding their team members in the business, leading finance functions can take steps to improve cross-discipline collaboration and understanding across the organization. All in all, these leaders have essentially put their houses in order. They know how to recruit good people as well as nurture and thereby retain the people they have on board – thereby improving talent management as well as business performance.



The responses to the Economist Intelligence Unit's survey on creating a leading finance function – together with information gleaned from in-depth interviews with some of the top CFOs around the world, academics and investors – sheds much light on the progress CFOs are making in transforming legacy finance departments into major sources of strategic information and insight.

## Conclusion: Lessons from top CFOs

Although there is no standard template for creating a leading finance function, the analysis of the survey responses reveal distinct trends that highlight the path many are taking to drive change and equip their finance teams for the future. The results help to paint a clear picture of many key features and common practices of leading finance functions. These include the following.

- **Clearly defined objectives that mirror the long-term goals of the enterprise.** Leading finance functions have a clear vision and well-defined objectives that are communicated throughout the organization. This not only helps to keep finance attuned to the company's wider goals but also increases the value of finance in the eyes of the business.
- **A centralized global finance function.** Many leading organizations have reorganized, forming a single centralized global finance function to facilitate optimal resource allocation and consistent procedures, processes and systems. The goal is to create a single, tightly integrated finance function where information and resources are managed more efficiently worldwide.





- **Providing insight.** With more efficient processes and systems in place, leading finance functions spend less time gathering data and performing basic “number-crunching” tasks. This leaves more time for analyzing results to identify and understand key business trends. In turn, this enables finance executives to provide fresh insights to their business colleagues and the investor community.
- **The latest, integrated IT systems.** Leading finance functions have completed the process of replacing disparate legacy systems with enterprise-wide systems for high-volume routine processes, ranging from the general ledger to financial reporting. These organizations are now beginning to realize meaningful benefits in the form of cost and time efficiencies and improved data quality.
- **Strong investor and regulator relations based on trust.** Leading CFOs are more likely to have put in place strong compliance and financial-reporting processes. They are now able to focus more on providing better quality information to external parties. In particular, they are beginning to look at how to give investors forward-looking economic measures of value. This is based on a solid understanding of investors' information requirements and a clear desire to satisfy them.
- **Smarter use of alternative service-delivery models.** Leading finance functions have shifted many routine high-volume processes to alternative service providers in order to free-up time for activities that drive value. A popular alternative service-delivery model is shared service centers. Outsourcing is significantly less popular today but is expected to grow rapidly in the next two years.
- **Developing new skills for a new role.** Leading CFOs have developed a good understanding of the knowledge, tools and skills finance will need to succeed in its new role and they are taking the necessary steps to address the deficits. In particular, they will be focusing on improving their finance professionals' experience and understanding of the business, and on developing the analytical skills required to turn information into insight.

Many CFOs are keen to address these individual issues, but one of the real keys to success is being able to juggle the multiple demands placed on the finance function and deliver an effective response. Asked to describe a leading finance operation, Wharton School's John Percival says: “it's when you have a CFO who is doing a good job of balancing all the different forces pulling him or her in different directions; there are no problems with the integrity of financial information; the CFO is working closely with the CEO and the Board in developing strategy; and he or she is using state of the art tools for risk management.” It is about being good at all of these things – not just one or two – that makes a leading CFO.

*Written by the Economist Intelligence Unit*

## Back to business after compliance – an academic's perspective

*After spending the last few years ensuring rock-solid compliance with new regulatory requirements, leading CFOs are resuming their efforts to play a more central role in strategic decision making.*

Nearly a decade ago, CEOs and Boards began to recognize the need for finance to play a central role in strategic decision making. In the absence of organic growth opportunities, companies around the world were searching for new ways to create value. In the process they made a lot of bad decisions, recalls John Percival. Many companies diversified into businesses they did not understand. Others overpaid for acquisitions, which, in many cases, made little strategic sense.

In hindsight, CEOs and Boards realized the CFO probably should have been sitting at the table with them, looking at the financial implications of their decisions. Almost as soon as finance began to assume a more central role in evaluating potential growth opportunities, it realized the need for new tools and skills. "Historically, the role of finance has been to look

backwards and report on past performance," comments Percival. Providing forward-looking analysis requires an entirely new tool kit.

CFOs were heavily engaged in helping their finance teams develop the new capabilities they needed to provide forward-looking financial insight to the strategic decision-making process. Those efforts, however, were interrupted by the introduction of new regulations (for example, Sarbanes-Oxley, Basel II), which required them to switch gear and refocus on strengthening compliance capabilities.

Having spent the better part of the past few years implementing tighter controls and new procedures and systems to ensure compliance with the new rules, CFOs are just now resuming their efforts to join the CEO, the Board of Directors and the business units in strategic decision making.

Once again, they are focused on strengthening the capabilities they will need to succeed in this new role. The most important of these,

according to Percival, are developing the analytical skills for forward-looking decision making and acquiring the latest risk-management tools. Communication with business units is also beginning to improve. For example, Percival notes that historically there has been tension between finance and marketing but "we are now seeing much more awareness of the need to bridge the communication gap."

Finance must also improve its understanding of the business. "We are seeing much more of a tendency for finance executives to spend some time in operations – actually running the business," Percival says. He adds "to make good decisions about the future of the company, it's important to have a finance perspective. But you also need to have met a few customers and understand how the products and services are put together and delivered."

Written by the Economist Intelligence Unit based on an interview with John Percival, Academic Director, Wharton.



## KPMG comment:

### Building a leading finance function

KPMG firms' professionals agree that one of the keys to building a leading finance function today is the ability to balance all of the different challenges a CFO faces. For us, there are three key areas that should be in balance if the finance function is to achieve leadership. First, the need to develop and maintain trust with all stakeholders; second, the need to simplify and run an efficient operation; and third, the need to provide insight to the business on its performance. Leading CFOs are able to achieve this balance.

KPMG firms' have met with CFOs from many organizations who have struggled to transform their finance functions and thereby get the balance right. Their struggle is not surprising given the complexity involved.

In our firms' experience, the struggle can often be attributed to a lack of clarity and alignment on the finance vision.

We have found that the transformation journey is a little easier and the chances of success are more likely if the vision and strategy are clear from the start.

#### An Approach

An appropriate approach challenges the finance function while respecting current capabilities. The finance function needs to build consensus and commitment around a common vision and then translate that vision into a viable strategy and pragmatic plan.

Creating a clear finance vision and strategy begins with articulating (and documenting) how the finance function supports the business strategy. The team should evaluate senior management's requirements of finance and the finance function's perceptions of these, comparing them with established leading practices.

The challenge is then to determine how to close identified gaps. The work focuses on processes, systems, information, people and governance.

The finance function needs to build consensus and commitment around a common vision and then translate that vision into a viable strategy and pragmatic plan.

#### Results

Creating or updating the finance function strategy can result in:

- alignment with and support for the overall business strategy
- optimal balance of trust, efficiency and insight
- rational allocation of resources and capability development
- objective understanding and measurement of current and targeted performance
- an empowered and committed finance team

Across KPMG firms', we wish you well as you create a leading finance function.

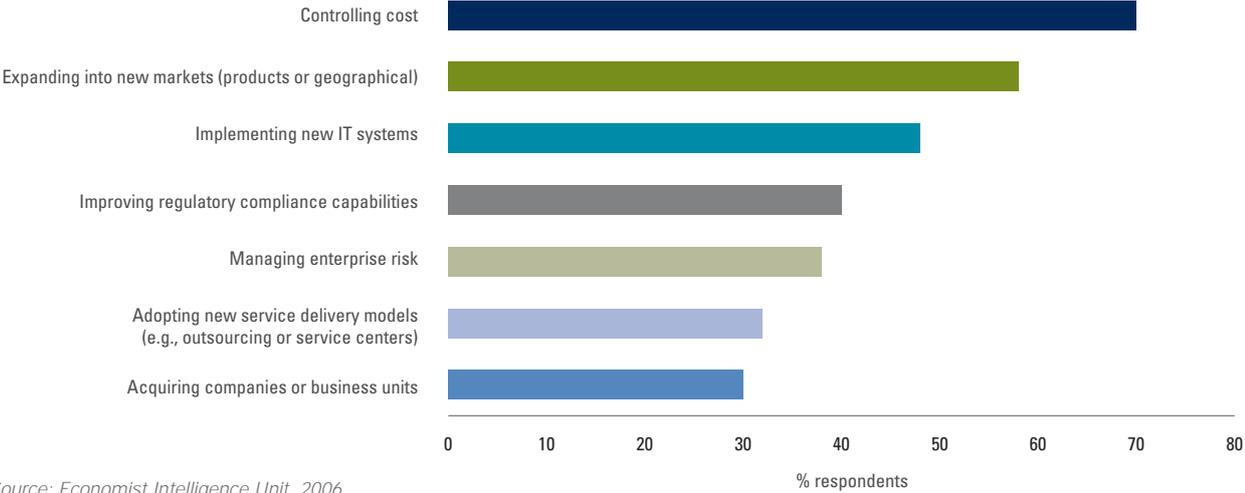
## Appendix: Survey results

This research was conducted by the Economist Intelligence Unit in 2006. The 286 senior executives who responded to the survey were drawn from a cross-section of industries and included 123 Chief Financial Officers. What follows is a compilation of the survey results as well as detail about the respondents and their organizations.





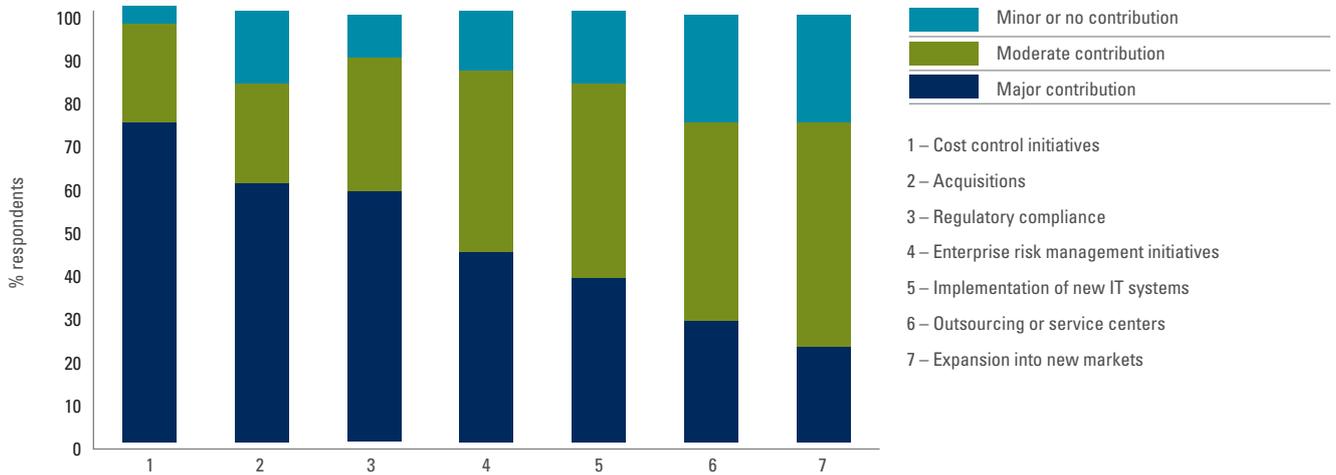
1. Which of the following business initiatives will be a priority for your organization over the next two years?



Source: Economist Intelligence Unit, 2006

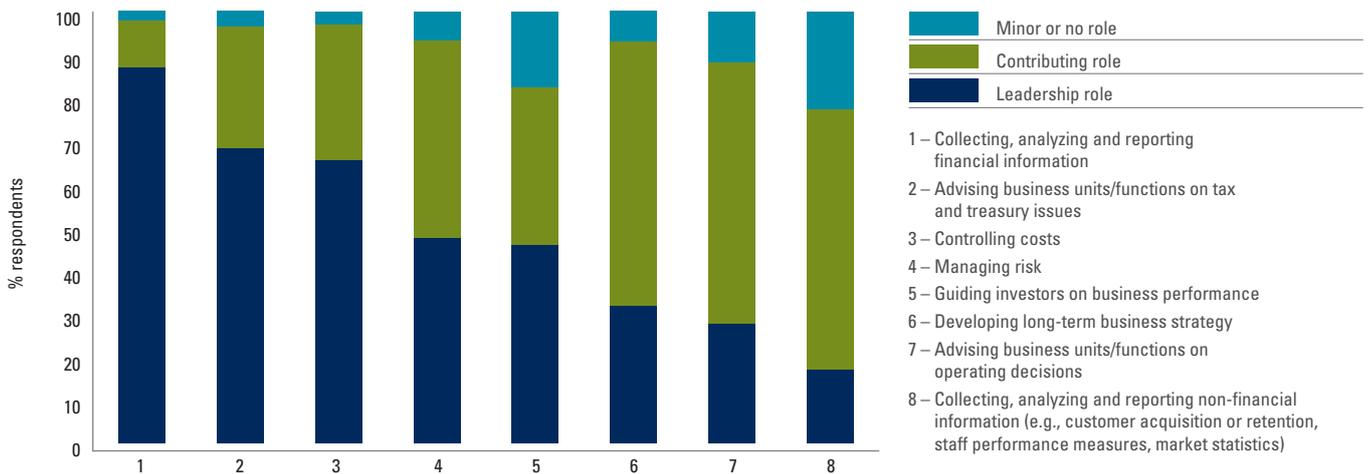


2. How great a contribution does your finance function make to decisions in the following areas?



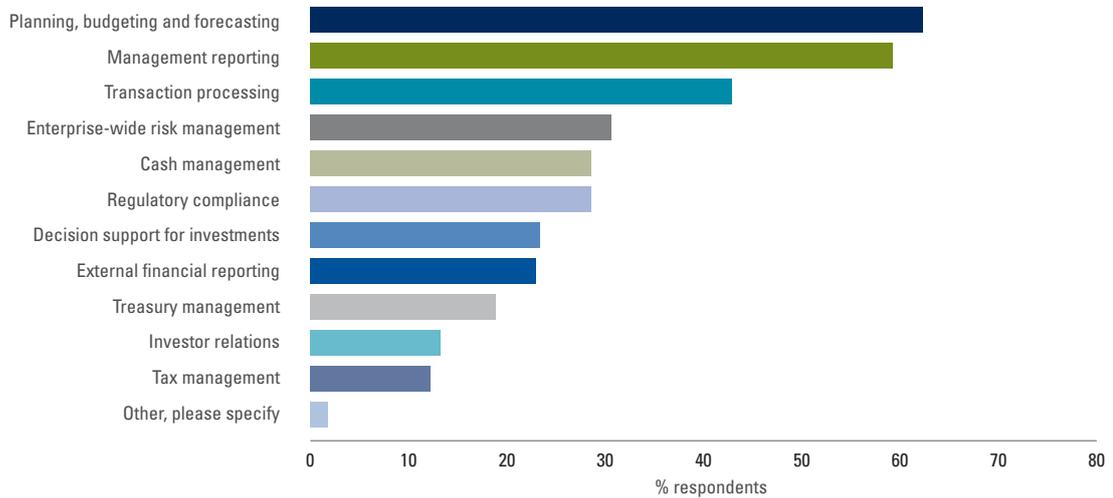
Source: Economist Intelligence Unit, 2006

3. How great a role will the finance function have in the following tasks in two years' time?



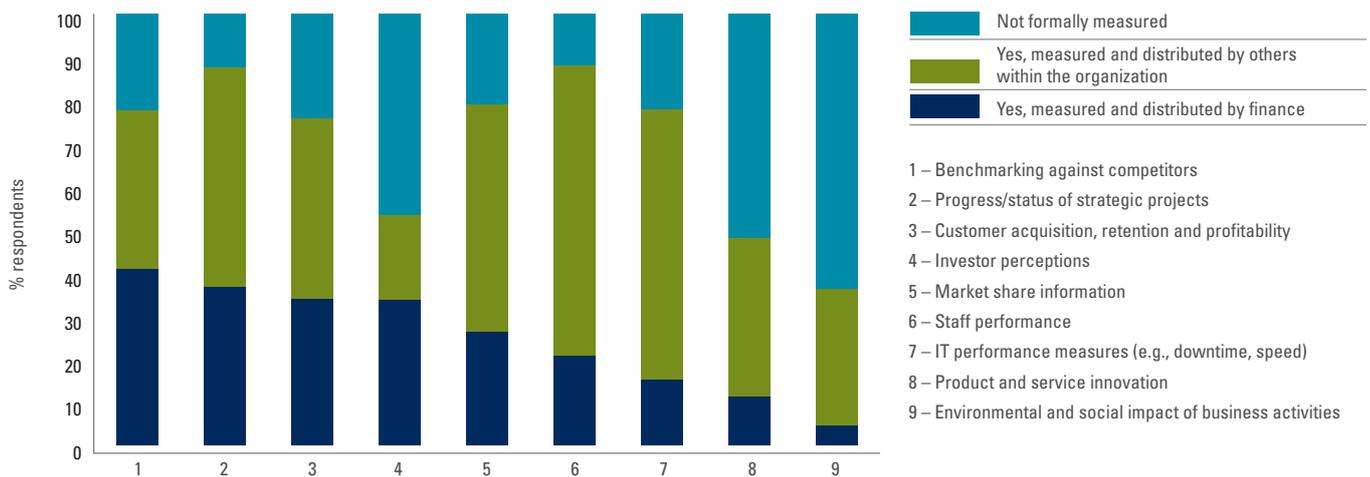
Source: Economist Intelligence Unit, 2006

4. Which of the following finance activities and processes is your organization most likely to improve over the next two years?



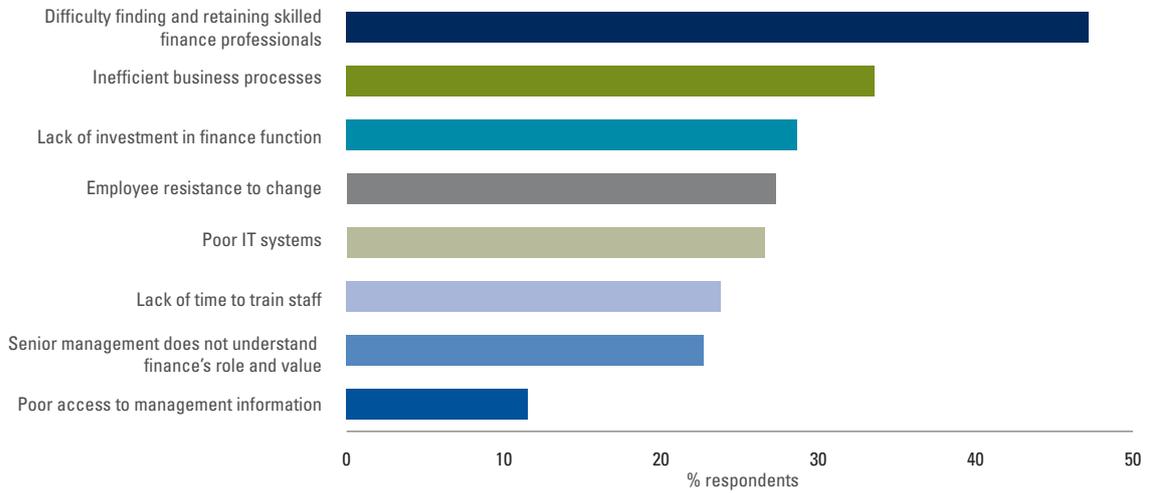
Source: Economist Intelligence Unit, 2006

5. Does your organization have formal metrics for the following attributes of its business? If so, who is responsible for developing and distributing these metrics?



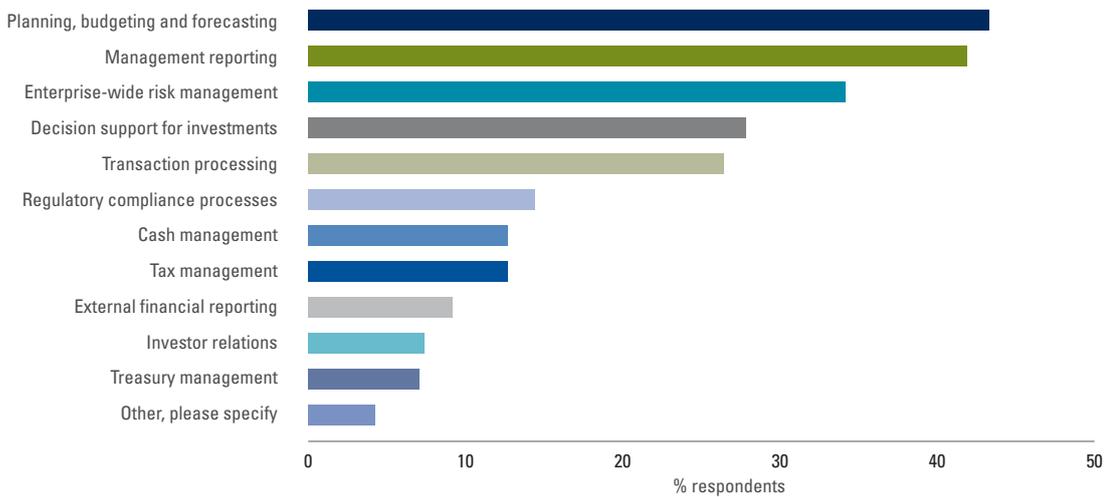
Source: Economist Intelligence Unit, 2006

6. In your opinion, which of the following problems are major barriers to change in the finance function at your organization?



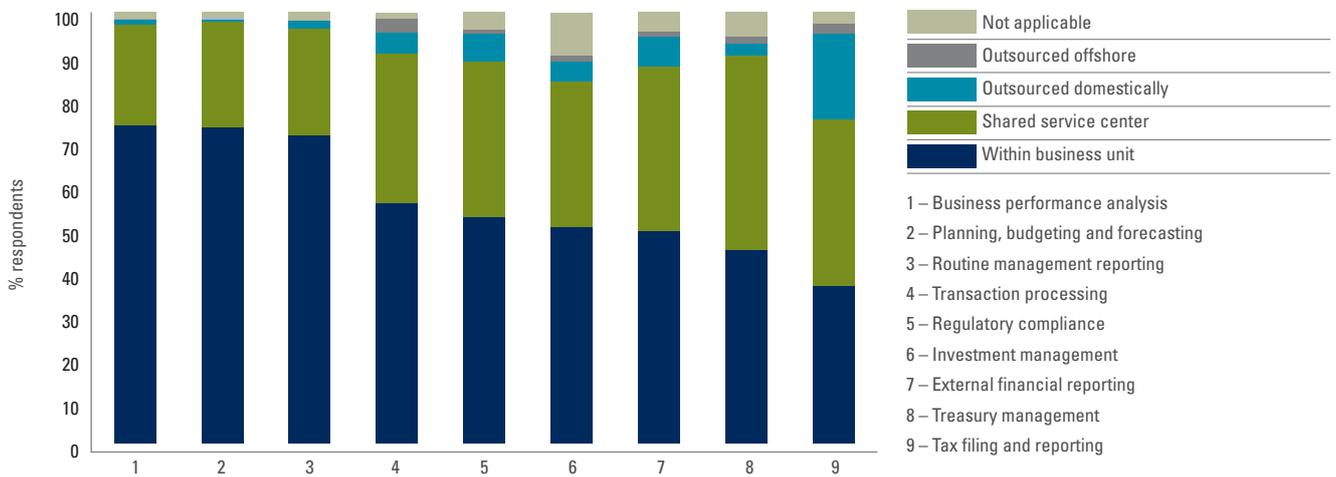
Source: Economist Intelligence Unit, 2006

7. With which of the following aspects of your finance function are you currently most dissatisfied?



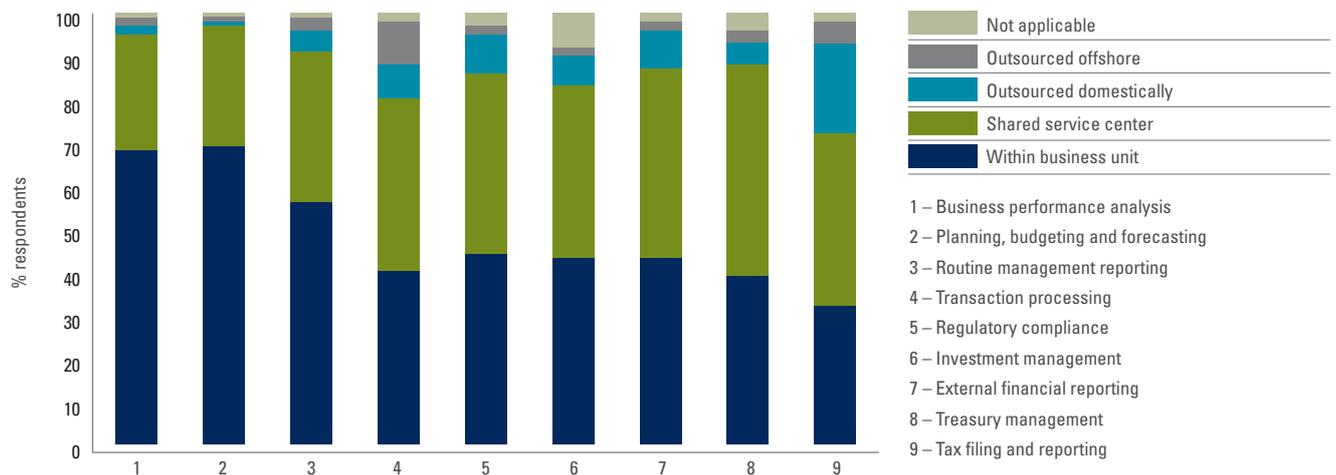
Source: Economist Intelligence Unit, 2006

8. Where does your organization currently perform the following finance activities?



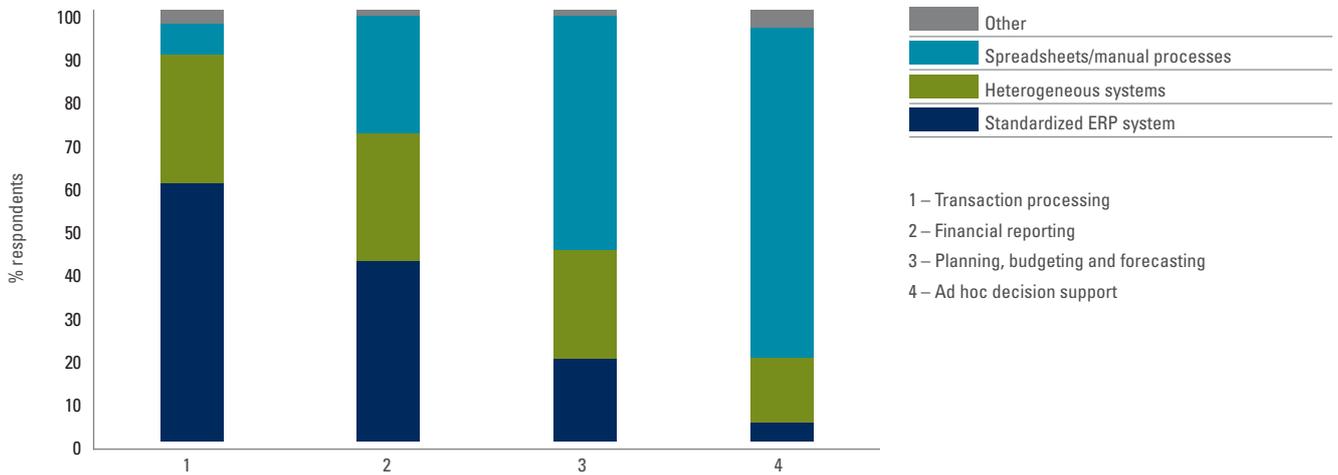
Source: Economist Intelligence Unit, 2006

9. Where do you expect to perform the following finance activities two years from now?



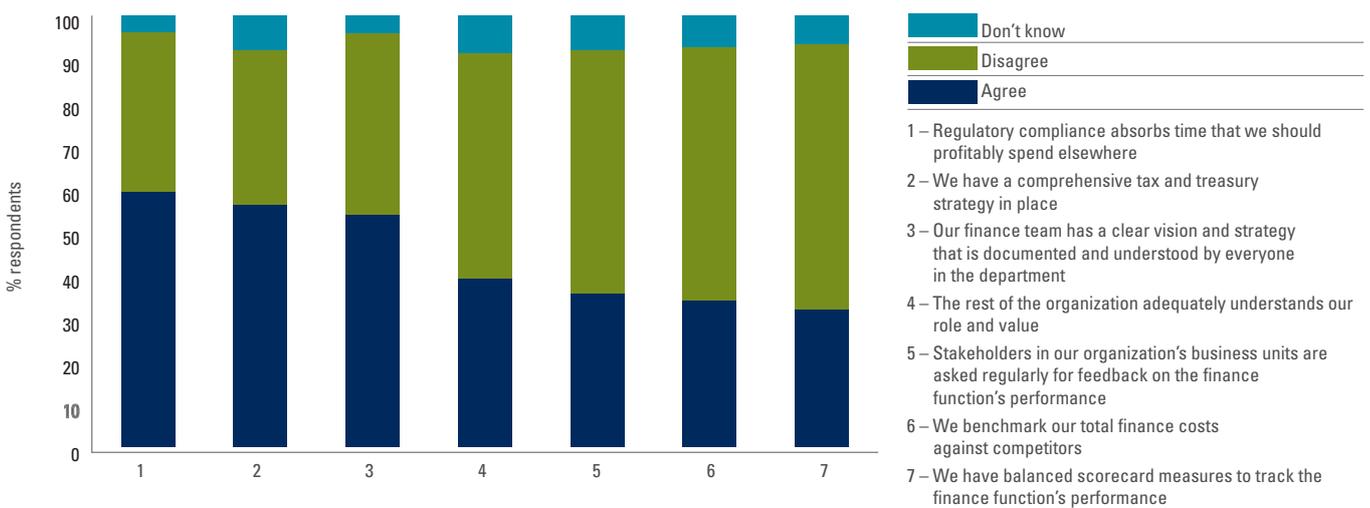
Source: Economist Intelligence Unit, 2006

10. What type of IT system does your organization use to support the following tasks?



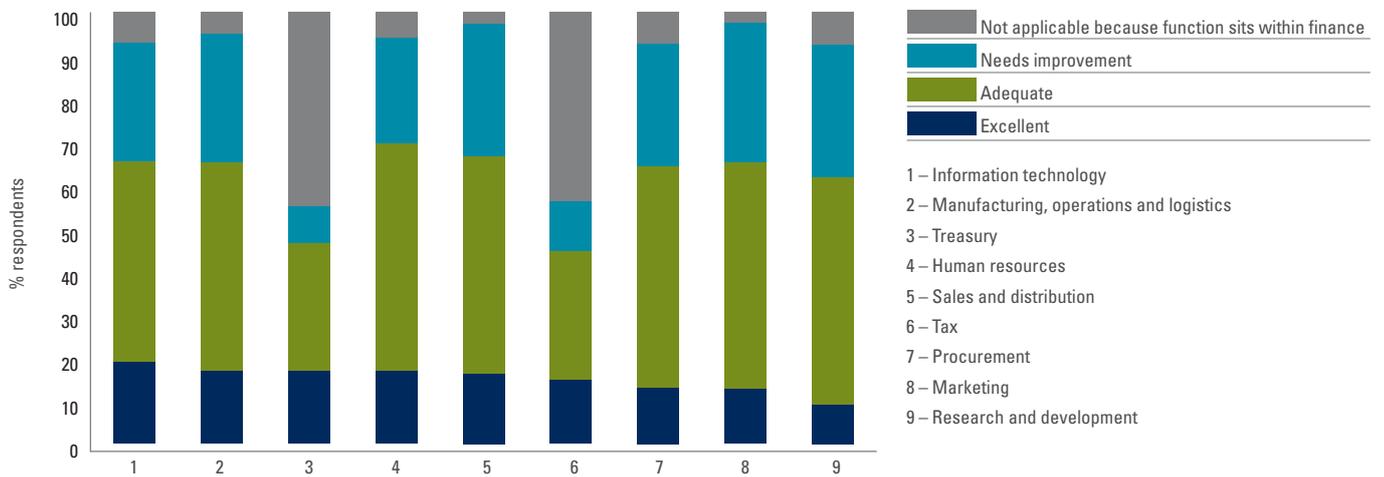
Source: Economist Intelligence Unit, 2006

11. Do you agree or disagree with the following statements as they relate to the finance function?



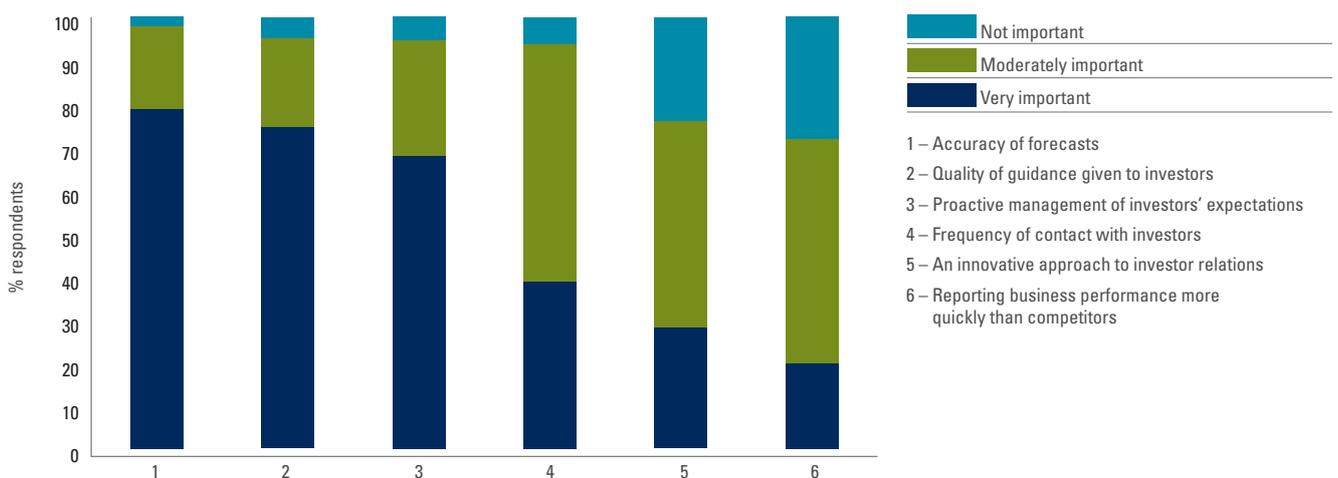
Source: Economist Intelligence Unit, 2006

12. How effective is the collaboration between the finance function and the following business functions in your organization?



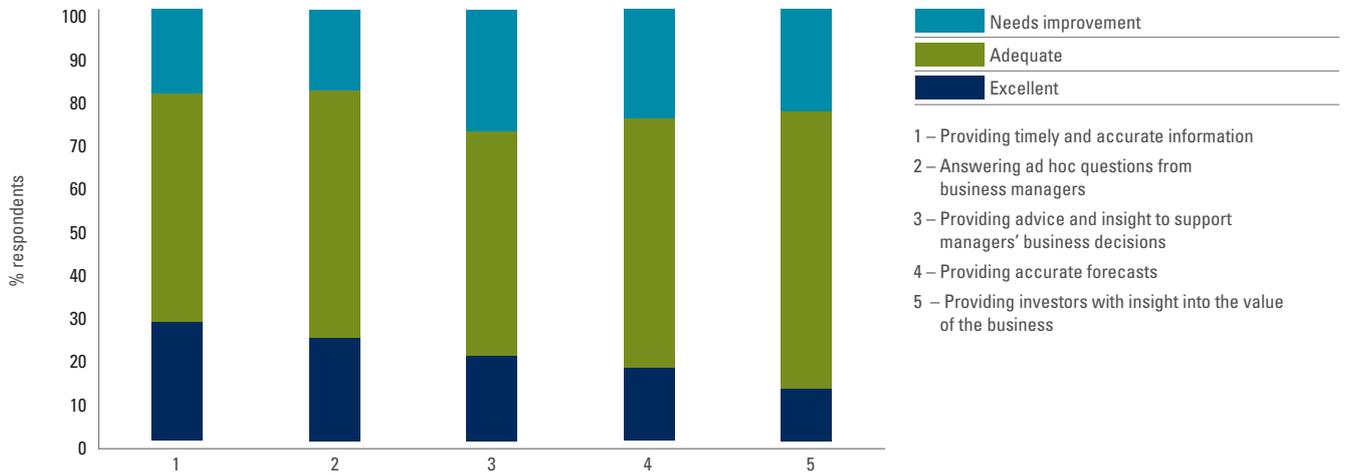
Source: Economist Intelligence Unit, 2006

13. In your opinion, how important are the following capabilities in building trust with the investor community?



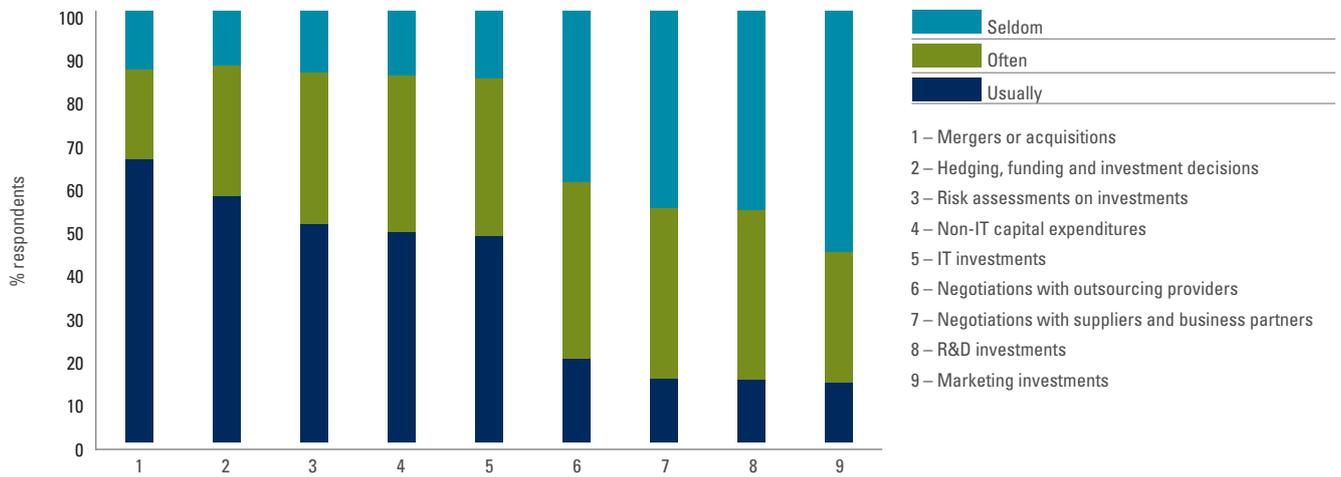
Source: Economist Intelligence Unit, 2006

14. How effective is your finance department at providing the following services to other stakeholders in the business?



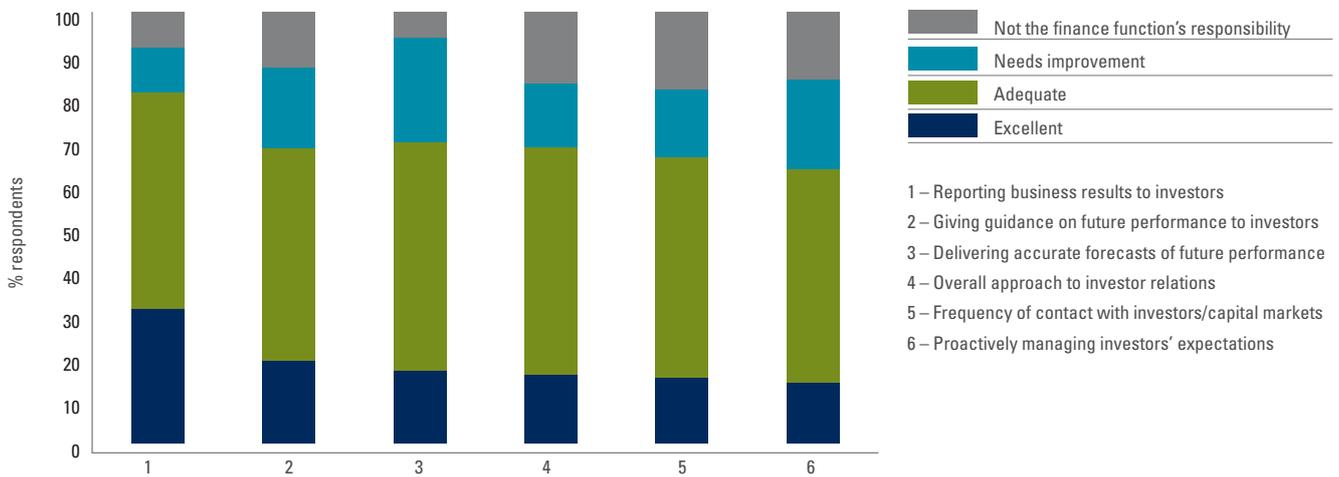
Source: Economist Intelligence Unit, 2006

15. How often does the finance function at your organization participate in the following decisions?



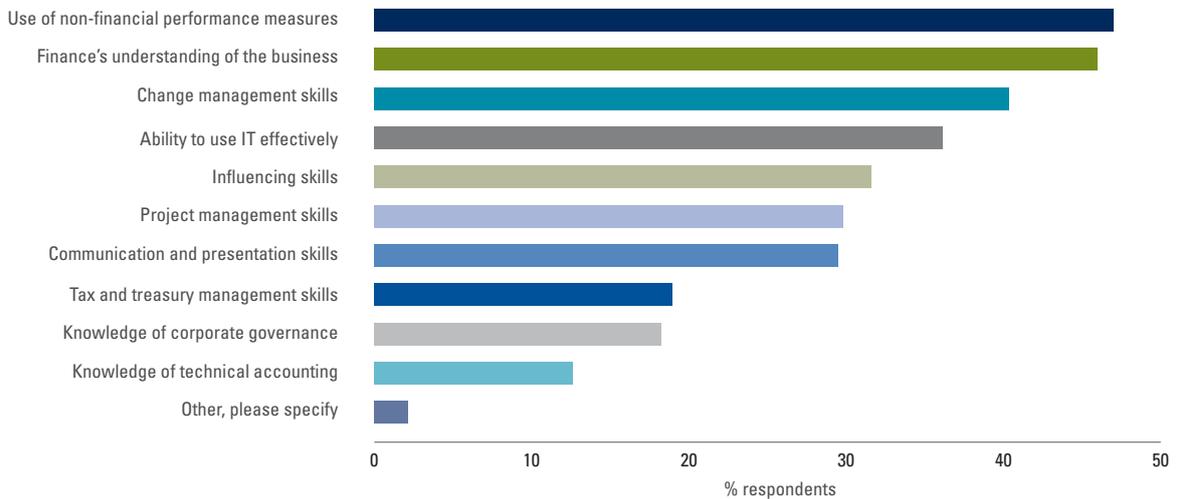
Source: Economist Intelligence Unit, 2006

16. In your opinion, how effective is your finance function at the following tasks?



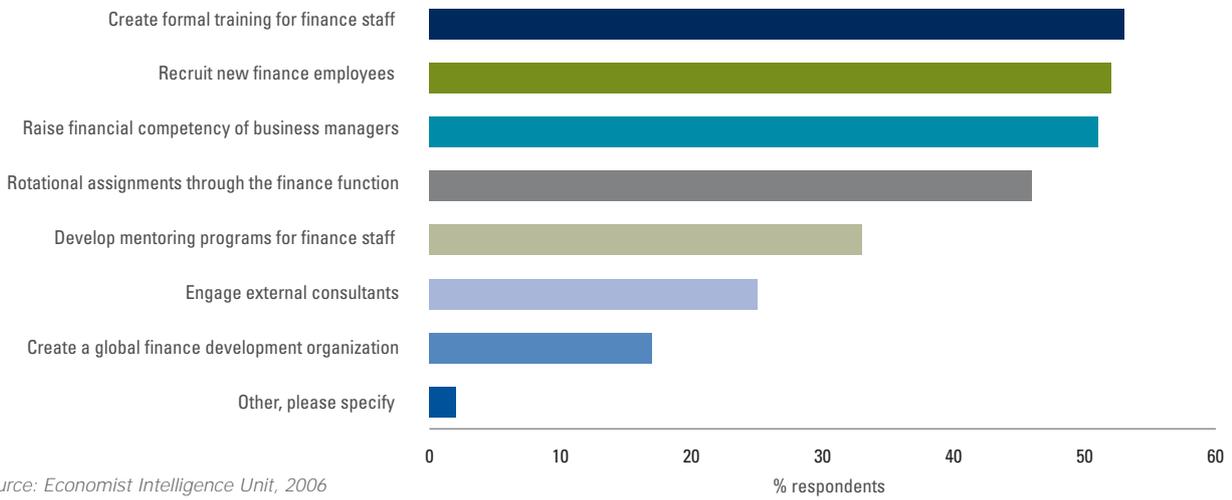
Source: Economist Intelligence Unit, 2006

17. Which of the following business skills do you believe your finance department needs to improve over the next two years?

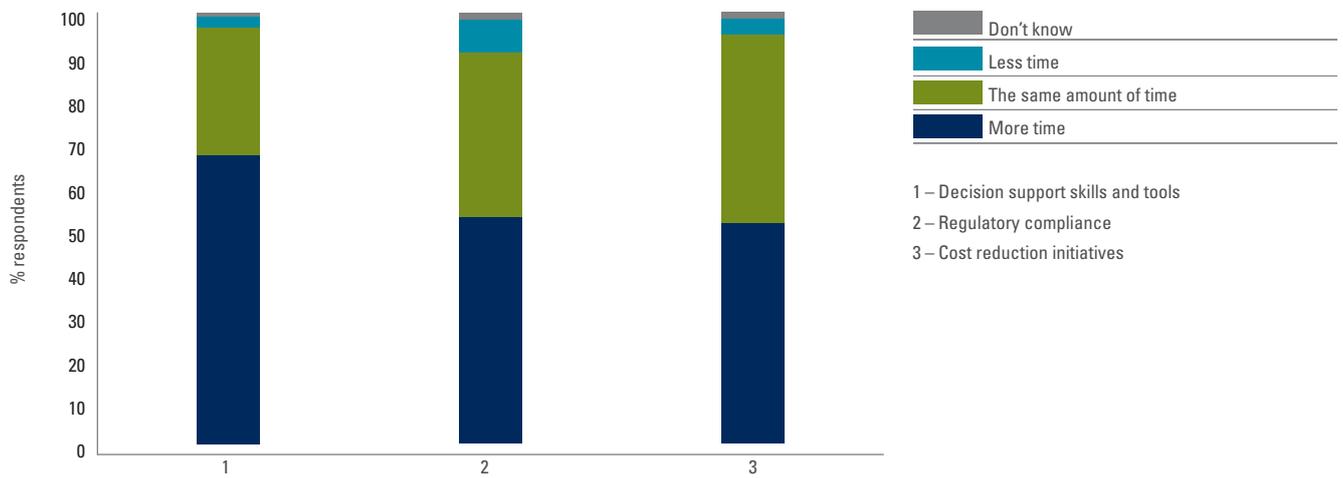


Source: Economist Intelligence Unit, 2006

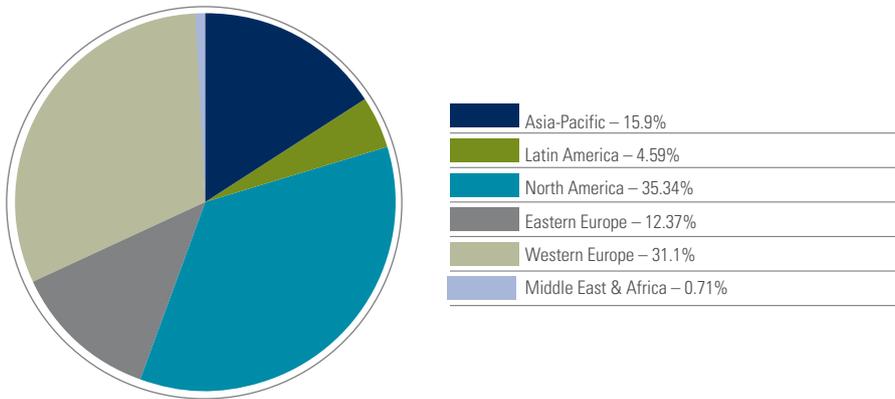
18. Which of the following tactics will your organization use to improve skills in the finance function over the next two years?



19. Do you believe your organization will spend less time, the same amount of time, or more time on the following areas over the next three years compared with the past three years?

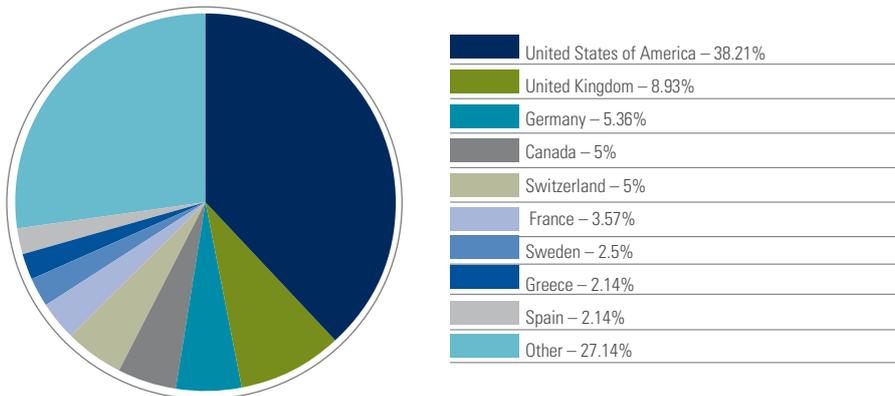


## 20. In which region are you personally based? (% of respondents)



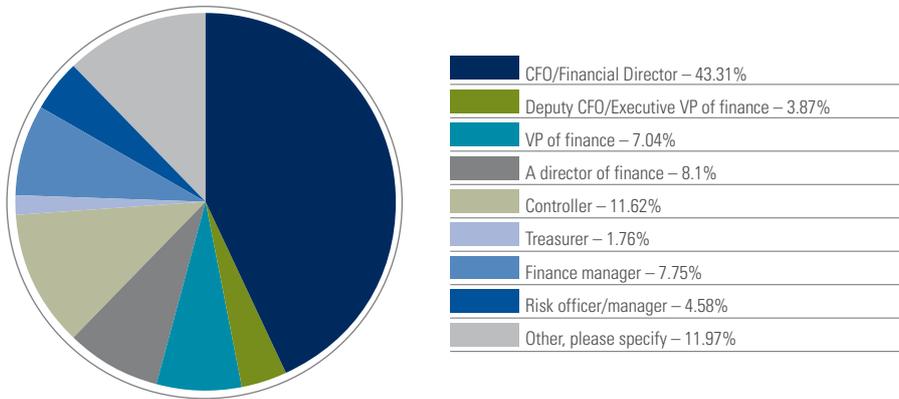
Source: Economist Intelligence Unit, 2006

## 21. In which country is your organization headquartered? (% of respondents)



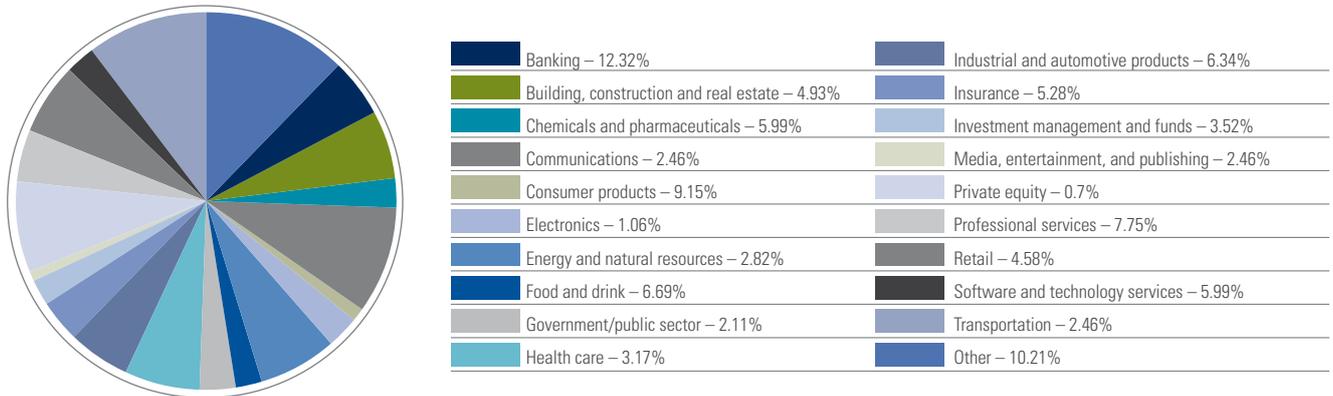
Source: Economist Intelligence Unit, 2006

22. What is your title? (% of respondents)



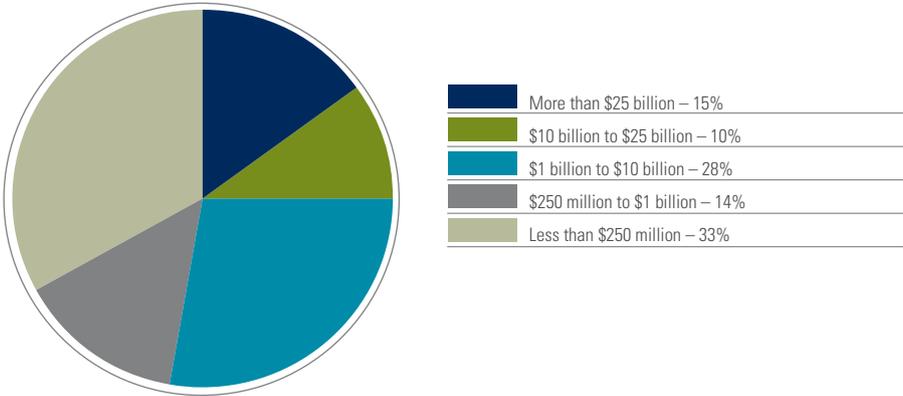
Source: Economist Intelligence Unit, 2006

23. What is your organization's primary industry? (% of respondents)



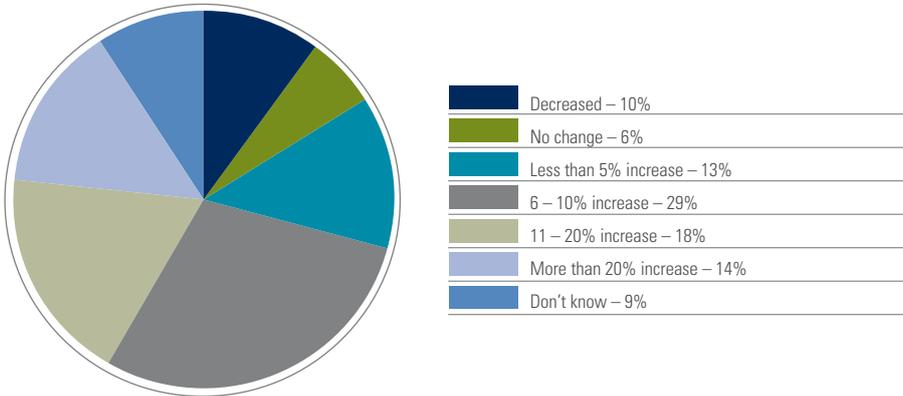
Source: Economist Intelligence Unit, 2006

24. What are your organization's annual revenues worldwide in U.S. dollars? (% of respondents)



Source: Economist Intelligence Unit, 2006

25. How has your organization's EBITDA changed each year, on average, over the past three years? (% of respondents)



Source: Economist Intelligence Unit, 2006



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