

# *Unlocking Potential:* Finance effectiveness benchmark study 2013

October 2013

*Today's top tier finance functions are increasingly called upon to fill diverse roles. In addition to their traditional accounting and reporting duties, today's modern finance groups must now provide thought leadership, generate insights from increasingly diverse data, spearhead finance-business partnerships, and assume a more central role in corporate business strategy. How are top tier finance functions evolving to meet these challenges?*



An aerial, high-angle photograph of a modern, paved plaza. The plaza features light-colored stone tiles and wide, white-painted pedestrian paths. In the upper left, a person in a dark suit is walking. Below them, two people are sitting on a low, white concrete bench; one is wearing a pink shirt and the other a dark jacket. In the middle right, a group of three people is walking, including a man in a pink shirt and a woman in a blue jacket. In the lower right, a man in a dark suit is walking while talking on a mobile phone. The scene is brightly lit, casting long, soft shadows.

# *Contents*

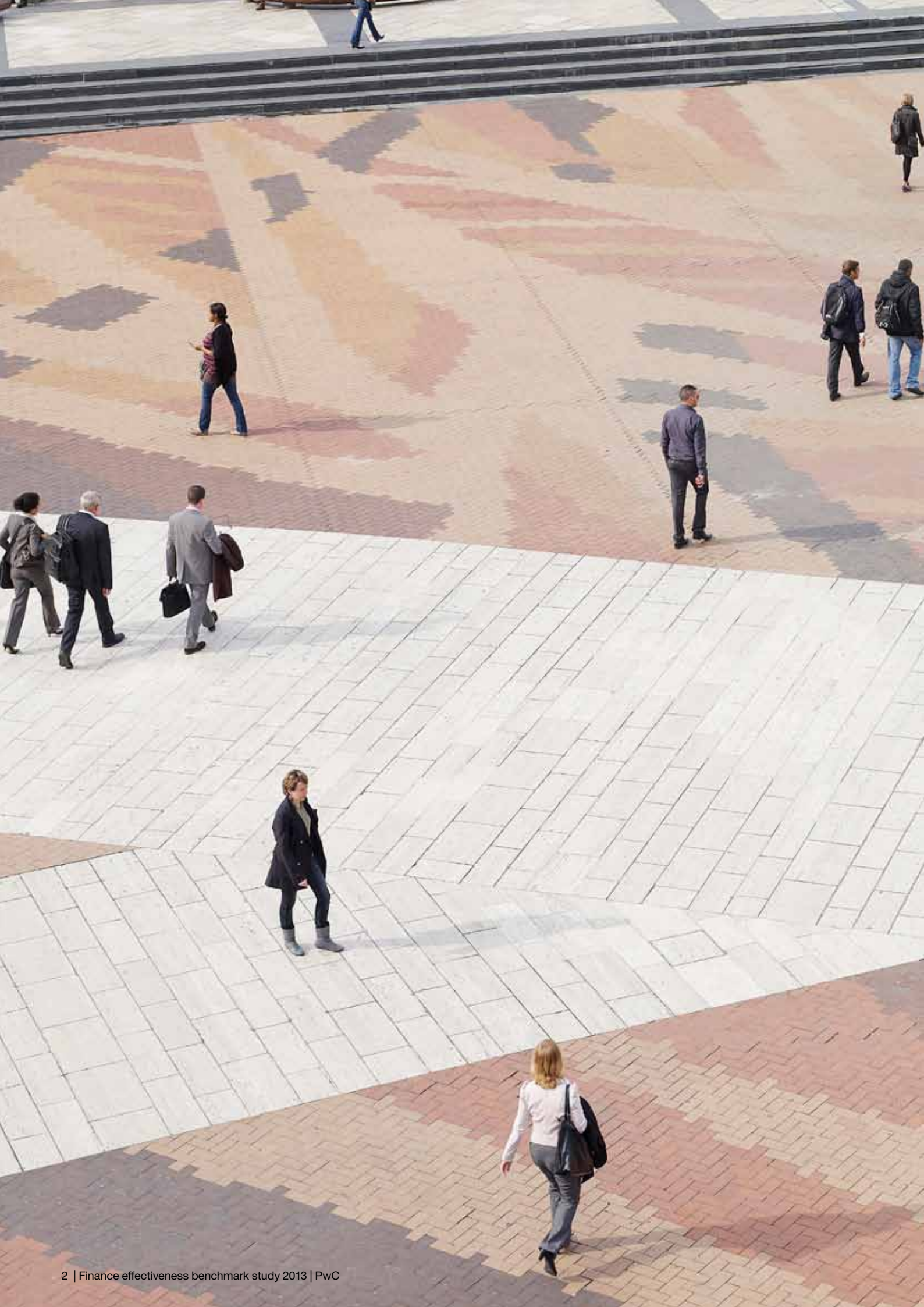
Introduction .....	4
Overview .....	7
Finance supporting the business. ....	8
Business insight. ....	12
Human talent .....	18
Technology .....	26
The key to future finance evolution .....	34
The nexus of insight, efficiency and human talent. ....	41
The model of success .....	44



## *Case studies & insights*

PG&E – Driving actionable insights .....	10
BD – Business leaders, not just partners .....	14
Facing adaptive challenges .....	16
Finding & nurturing talent .....	21
Workforce intelligence – Stepping stones to improved workforce ROI .....	22
British American Tobacco – Unlocking time and value .....	24
Skandia – Streamlining the system .....	29
A silver lining for every cloud? .....	30
Jaguar Land Rover – Cashing up the plan .....	32
Corning – Successfully bringing shared services to China .....	36
Treasury in emerging markets .....	38
Lean into finance – A different way to lead a finance organisation .....	42







*The cost of finance at average firms is more than **60%** higher than at top quartile firms.*

*Median budget reporting times have improved about **14%** in the past year.*

***80%** of finance professionals report that the accuracy of forecasts is critical to their business.  
But only **45%** believe that their company's forecasts are reliable.*

*Only **1 in 3** organisations indicate that employee development plans are standardised.*

*Top companies have automated more than twice the number of key controls vs. typical companies.*

*Only **6%** of finance leaders attending a recent PwC summit report being comfortable with the status of their current finance technology.*



# Introduction

**Welcome to Unlocking Potential: Finance effectiveness benchmark study 2013, PwC's fifth annual benchmark report, which outlines the latest findings of our analysis of more than 200 companies that have participated in benchmarking projects. The report draws upon detailed data from these organisations, together with observations of the leading practices that drive top performing finance functions.**

**The data confirm that the leading finance functions are different from the rest, and provide more valued insight to the business. They manage talent more effectively, and have the right people in the right roles. They spend less time gathering data, and much more time understanding what it means. And their costs are much lower than the average.**

## **Brian Furness**

Partner

+44 (0) 207 212 3917

brian.j.furness@uk.pwc.com

## **Andrew McCorkell**

Director

+44 (0)207 213 1509

andrew.s.mccorkell@uk.pwc.com

The challenge for finance has not fundamentally changed over the years. Providing more for less, streamlining and reducing transactional costs, providing an effective control framework, and helping the business make the right decisions to improve business performance – we know all this. The challenge is in execution. The PwC benchmark data confirm that the leading finance teams are achieving results that are very different from the norm. In this report, we focus on organisations that are achieving significant change and improvement.

---

*“Successful transformation starts with a measured baseline and assessment of the opportunity, and prioritisation of what is important to enable finance to better support the business strategy.”*

*– Andrew McCorkell, PwC EMEA, Director of Benchmarking*

---

The opportunities for finance to assume a more central role in corporate business strategy and planning are almost limitless, but the barriers to full partnership are many. Companies saddled with outdated technology and poor data quality struggle to fulfil traditional core finance responsibilities in an efficient way, leaving little time for insight generation. Many also have difficulty defining the skills needed for higher-value activities, and finding qualified professionals to step into these changing roles (or re-training existing personnel) remains a real challenge.

At the same time, the rapid evolution of data-gathering and advanced analysis presents the finance professional with an overwhelming amount of data that needs to be rationalised and turned into useful information for customers, both internal and external. This complexity is compounded by the continued

globalisation of organisations and new integration and risk management challenges.

This report draws together trends we observe in the benchmark data, and identifies practices that support top tier performance. We have also spoken to finance leaders in a number of organisations to explore what they are doing that makes a difference, what they have been able to achieve, and their future plans. We have included a number of these interviews in this year's study.

Organisations portrayed in this report have made real progress in a number of areas. Their challenges and successes are unique to their situations. There are many paths to success, but there are also common themes. The most successful finance organisations are providing more effective business partnership and business intelligence. They are changing their operating models to be streamlined and efficient. And they are using technology in innovative ways to provide better data and to break down departmental data silos. Companies are also re-evaluating their strategies in emerging markets – now valuable business opportunities rather than part of the supply chain.

This report looks at how finance is responding to these challenges and designing the finance operating models that are a fit for the future.

## How we rate finance functions

As finance functions seek to keep pace with mounting business and regulatory demands, our benchmark analysis can provide a clear assessment of strengths, weaknesses and areas for improvement – a baseline from which to measure progress. The analysis combines a qualitative assessment and comparative metrics across the complementary dimensions of business insight, efficiency, compliance and control.

**Business insight** looks at evaluations such as a comparison of time spent on analysis and data gathering and an assessment of budgeting and forecasting processes and the quality of their outputs.

**Efficiency** analyses transactional processes using a range of key determinants including the complexity of systems and time to close/report.

**Compliance and control** examines such areas as tax compliance, treasury, audit and risk management.

The resulting analysis not only compares these ratings against your peers, but also seeks to assess whether they are operating in equilibrium and are meeting the overall objectives of the business. For example, over-emphasising cost may, in some companies, inhibit the function's ability to provide insight and value.

Benchmarking is an important component of PwC projects, and involves gathering (in strict confidence) a full and accurate baseline of efficiency and effectiveness metrics related to the client's finance function. In each case, we work with clients on a process-by-process basis to understand how these results are achieved. The benchmarking of finance forms part of PwC's wider

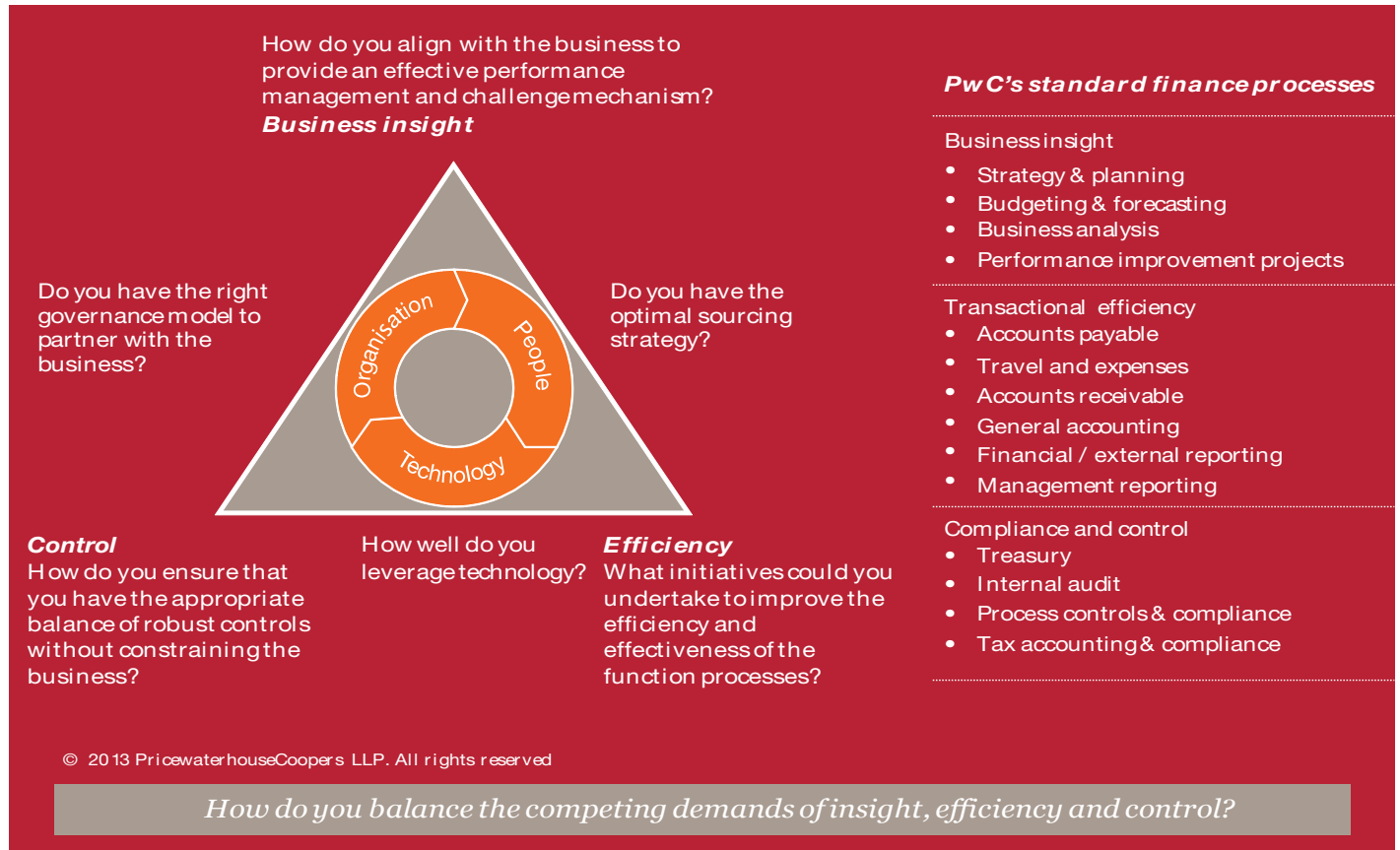
benchmark services covering a range of integrated support areas. In addition to finance benchmarking, PwC also provides benchmarking services specific to:

- SG&A
- Human Resources
- Information Technology
- Procurement
- Supply Chain
- Innovation

If you would like to complete a benchmark assessment or would like to discuss any of the issues raised in this report, please contact your local PwC representative.



## PwC's finance assessment framework





# Overview

The potential gains to be realised by the synergy between a fully evolved finance organisation and the business at large are compelling. Unlocking this potential is a task that requires attention to a number of critical components.

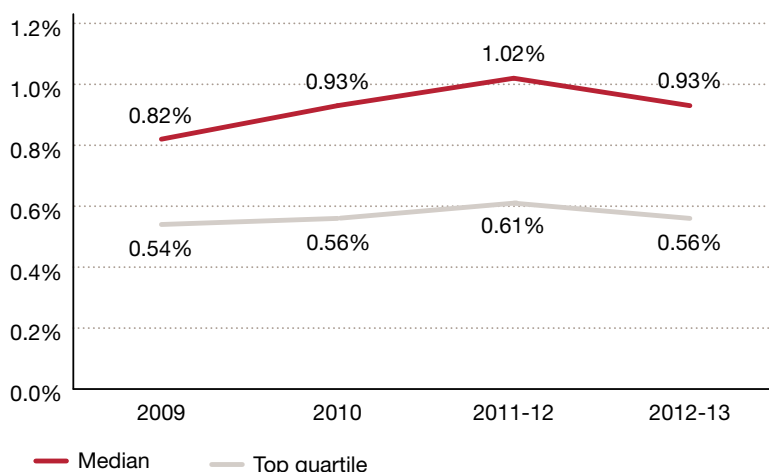
Companies that are able to lead this evolution will likely realise cost efficiencies, more timely and accurate forecasting, truly informative management reports, and significant operational gains through improved decision making and a real partnership between finance and the business units.

Achieving this leading performance does not necessarily mean that finance costs need to rise. Finance cost as a percentage of revenue has stabilised this year following several years of growth (see Figure 1) but still remains a significant investment for companies. Average performers are operating at 60% higher costs for finance than top quartile companies. Organisational efficiencies, such as outsourcing and shared services centres, are continuing to drive down the cost of finance while opening the door for an increased focus on business partnership and insight generation.

Gains are also being made in the drive toward efficient and timely reporting. Median budget reporting times dropped about 14% while small improvements were also seen in the forecasting cycle (see Figure 2). These gains are largely due to incremental improvements in technology and automation. The gap between median and top quartile organisations (which typically have more advanced technology and ERP systems) is significant. Across the years, companies with top quartile performance exhibit similar reporting times – these are stable thresholds or goals for companies striving for top-tier performance.

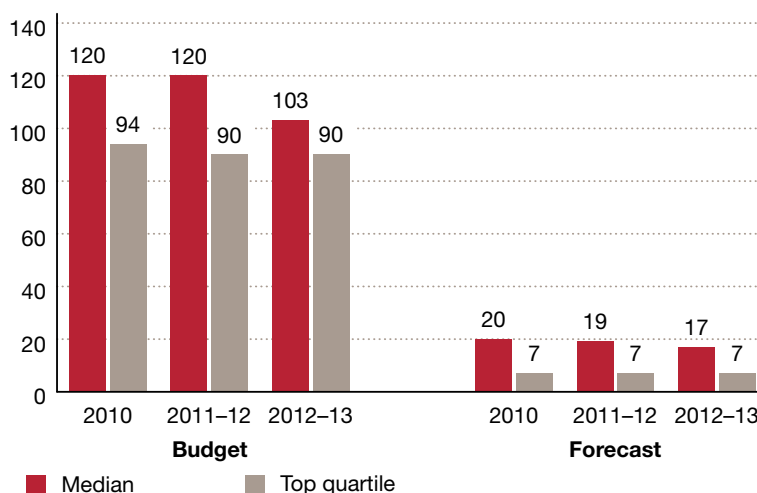
*The cost of finance at typical firms is more than 60% higher than at top quartile firms.*

**Figure 1: Finance cost as a percentage of revenue**



Source: PwC finance benchmark data

**Figure 2: Budgeting and forecasting cycle (days)**



Source: PwC finance benchmark data

# Finance supporting the business

Finance functions today are generally succeeding in their traditional role of supporting the business. Finance professionals and the consumers of their services within companies view finance departments as strong in their standard functions of general accounting (i.e., reconciling and consolidating corporate financial information) and external reporting (i.e., preparing consolidated financial information to meet external regulations). Three in four companies also see business and finance strategies sharing the same objectives and being closely aligned.

However, finance functions are struggling in two significant areas related to business insight. One place this is revealed is in PwC benchmarking engagements, where finance professionals and their ‘customers’ across the business are asked to rate the various services that finance provides for importance, and for performance. ‘Management reporting that informs decision-making’ is rated as one of the most important finance services. But performance in this area is rated much lower (see Figure 3).

The second finance area with a significant importance/performance gap is ‘providing analysis and support to business partners.’ Finance professionals and their clients consistently rate the importance of this area to be high, but performance is lower. Internal consumers of finance see a significant need for finance to step up and improve performance in formulating financial strategy and developing the organisation’s strategic business plan.

*“The C-suite and business line leaders are increasingly asking for their finance organisation to play a higher strategic role in the company’s overall business plan, evaluating and recommending changes to business models, and seeking innovative ways to improve profitability.”*

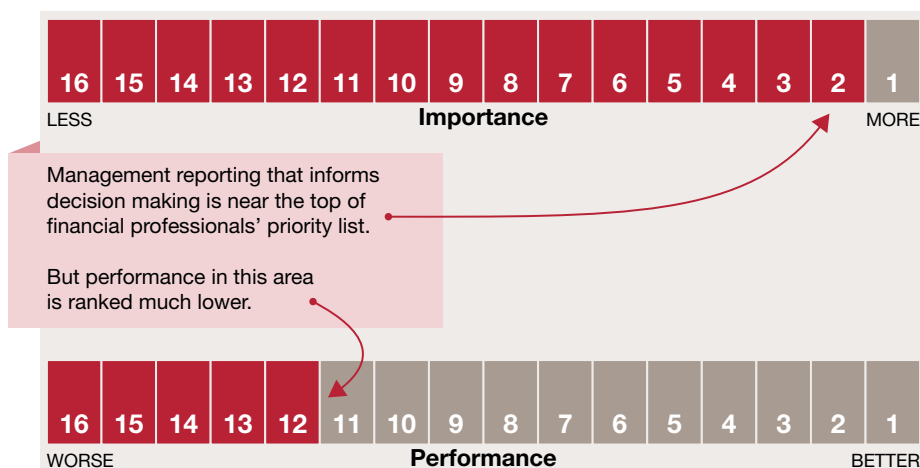
– Carol Sawdye, PwC US Vice Chairman & CFO

Although gains have been made, particularly among top performing organisations, the centralisation and distribution of financial and non-financial data is still not happening as effectively and efficiently as it might. In many organisations, whether due to deficiencies in technology or functional siloes, information does not flow as freely or quickly through the business as it needs to. Further advances in this area

will fuel finance’s continuing evolution in support of overall business effectiveness. Some organisations are already making real progress in tackling these data and technological challenges, and have a clear vision of where they are headed. Later in this report, we will hear first-hand accounts of how some companies are moving proactively to address these challenges.

**Figure 3: Finance professionals’ importance & performance rankings**

Management reporting that informs decision making



Source: PwC finance benchmark data

## ***Finance's evolution from support service to change agent***

Finance has traditionally served as a corporate support function, reacting to the company's tactical needs, rather than acting as the creative force behind insight and change. However, many companies have experienced finance taking a more active role in driving business performance and strategy. About 2 in 5 (42%) companies see finance as a facilitator in the strategic planning process, rather than merely playing a supporting role. Meanwhile, about half (53%) of benchmarking clients see finance working closely with the CEO in developing the company's business strategy.

Finance organisations are transitioning from a focus on accounting to advanced budgeting and planning. By successfully mastering the necessary closing tasks and increasing both speed and accuracy, finance has been invited to address broader questions, such as 'what are the best KPIs for measuring success?' and 'how can the organisation match the budgeting and planning process to client needs?'

Additionally, organisations are realising that they cannot effectively manage the business by finance metrics alone. Many additional pools of data are becoming available (both internal and external to companies). More insightful finance functions are increasingly using non-financial data (such as customer satisfaction and product information) to identify areas where company performance can be improved or costs can be reduced. The finance team at one innovative PwC client forecasts call centre traffic, and utilises that as one of the factors to optimise staffing levels. Other innovative clients track their consumer preference rankings, and conduct modelling to identify the factors that can improve their rank.





# PG&E – Driving actionable insights

***The finance organisation at Pacific Gas and Electric (PG&E) has evolved from a transaction-based reporting organisation to a provider of actionable business insights. Jason Wells, Vice President of Finance, talked with us about this transformation and about the benefits that PG&E is reaping as a result.***

PG&E is one of the largest energy utility companies in the United States. Approximately 20,000 employees carry out its primary business – the supply, transmission and delivery of energy. The company provides natural gas and electric service to approximately 15 million people throughout a 70,000 square mile service area in northern and central California.

PG&E has a leading finance organisation that has begun to reap the rewards of moving past governance and reporting to realise the benefits of truly partnering with the business to drive performance. Jason Wells explains that several years ago PG&E realised that the finance organisation was spending too much time on transactional activities, monthly reports, annual budgets and forecasts. This got in the way of providing actionable insights to the organisation.

Mr. Wells describes how two years ago they began to simplify the planning process. PG&E upgraded to a new SAP product and then took a step back to redesign the planning process, spending a year and a half on system performance and stabilisation to make both the processes and the technology work faster, better, and more efficiently. Through this transformation, Mr. Wells explains, the most significant improvements were process-driven, rather than technology driven. PG&E considered what was being tracked, as well as how.

For example, the finance organisation found that they had previously devoted substantial time to forecasting a number of items at a very granular level. However, the granular forecasts were not very accurate, and really not necessary for decision-making. Forecasting at a less granular level was very simple, much more accurate, and more appropriate for decision-making. Mr. Wells listed several processes that this granularity issue applied to: it's better to budget projects at a 'planning

order level' than at the detailed 'work order level,' and it's better to forecast overall ancillary employee-related costs and not items such as specific employee-level parking costs. The finance team changed the granularity of their forecasts and spent the saved time developing greater insights into the factors driving the costs.

Mr. Wells explains that PG&E has continued to build on this decision and centralised its finance personnel to create finance centre of excellence. This reduced costs and improved the sharing of leading practices. Now, the company continues to build on that success, rolling out new finance improvements quickly via this centralised centre. Mr. Wells stressed that, while the centre is centralised, finance personnel are encouraged to maintain a strong relationship with the rest of the organisation through field visits, ride-alongs, and trips to power plants and substations. This keeps the finance staff connected to the rest of the company and improves understanding, which supports finance's evolving role as a business partner.

PG&E has also adjusted hiring and training practices, as the new drive toward providing insight demanded employees with new skill sets. In addition to individuals with the core base of traditional finance, PG&E began to hire finance employees from different disciplines, creating a more diversified team. Individuals from operations research and IT backgrounds were hired to bring a more data-driven focus, as well as the background to improve systems and find more efficient methods of reporting.

The organisation also created a culture focused on staff development to help existing employees fulfil their career aspirations. Corporate-wide training was offered in areas such as ethics, management and completing employee reviews. In addition, targeted training

was also developed and offered in technical finance skills, as well as skills such as communicating vast amounts of data concisely and influencing effectively. Training was geared for employees at every level of the organisation, increasing in complexity as individuals moved through the programme. This was a significant investment for PG&E, but has allowed for steady improvement of the finance function.

### ***Finance as a strategic partner***

These changes throughout the finance organisation allowed it to become more of a strategic partner to the business units. Over time, finance is moving more and more into performance management and away from simple reporting of financial results. As a result, PG&E finance is evolving from a transactional organisation to one focused on generating actionable insights.

---

### ***PG&E finance is evolving from a transactional organisation to one focused on generating actionable insights.***

---

Initially, Mr. Wells explains, the finance organisation needed to reorient the image of finance as being a basic governance-focused organisation to that of a valuable insight-generating partner supporting the business. Finance needed to help stakeholders understand what they were trying to achieve operationally and that finance was looking at all avenues to help its partners in all business units. This took time, but finance slowly built credibility. They achieved this through pilot projects with

receptive business units. Initial successes built upon themselves and helped the broader organisation see finance in a new light.

One early project involved external benchmarking to identify areas where PG&E was not contracting effectively. This allowed the company to negotiate more favorable terms when contracts came up for renewal. Finance was also able to help guide the consolidation of contracts for better buying power. Through this effort, PG&E was able to drive \$50M in annual costs out of business. The success of this project enabled the business units to see finance as a partner, rather than simply a reporter of financial results.

Other successful projects involved optimising travel time for maintenance crews, unitising and optimising the costs of routine work such as electric pole replacements, addressing customer satisfaction issues, and gaining a better understanding of non-billable time. For this last project, finance noted that

the field to help them see which parts of their non-billable time acted as roadblocks getting in the way of them doing their jobs effectively. The new codes also resulted in better data. Now the business units and finance are better able to track productivity and determine what drives productivity problems, address those problems, and improve efficiency.

Risk management has also been a significant area of focus for the new finance organisation. Three years ago, the company's budgeting process was criticised for being too financially focused and not taking sufficient account of operational risks. Finance drove the effort to overhaul its budget process, more formally incorporating discussions of risk and operational strategy into the process. Today, there is a formalised budgeting process which deliberately examines operational risk well before the technical budget discussion occurs each year. Quantifying and reducing risk, and helping to inform a risk-based prioritisation of resources, have been significant steps forward for PG&E.

Through its efforts in the areas of organisation, automation, and employee development, PG&E has realised the transition of finance from a reporter of financial results to a provider of actionable insights. As a result, the organisation has realised significant gains in operational efficiency, strategic prioritisation, and revenue. However, Mr. Wells is also quick to point out that the finance improvement process continues, as the organisation applies these principles to additional areas. They have come a long way, but there is still a lot of work to be done.

maintenance crews had about a half billion dollars of non-billable time each year. However, the existing timekeeping system only allowed knowledge capture for about 35% of that time. Over 65% was bucketed in an 'other' category. Finance assisted the business in establishing better timekeeping codes. Finance partners spent time in each division to better understand the optimal balance of codes to capture activities without overloading employees with possible codes. They worked with employees in

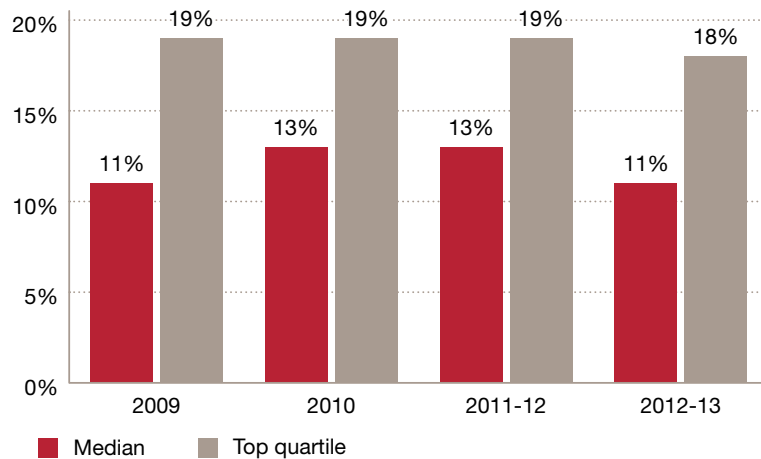
# Business insight

Today's CFO must move beyond budgeting and control and assume the role of a 'Chief Performance Officer' – to take responsibility for driving company performance and delivering strategic analyses to key stakeholders, both internal and external to the organisation.

In a recent PwC publication titled *'Finance Matters: Finance function of the future,'* we noted that finance leaders need to create the conditions for effective navigation, which means that rather than acting as a support function, leading finance departments must actively drive the organisation to its chosen destination, while at the same time acting as mediators to a much broader set of stakeholders, with varied points of view and differing expectations<sup>1</sup>.

PwC benchmarking shows movement towards this ideal, but remaining challenges as well. As mentioned previously, over 2 in 5 finance professionals currently see finance as a facilitator of strategic planning rather than being relegated to a reporting role or only performing the monthly accounting close. Yet, unrealised opportunities for increased coordination between the finance function and the business at large clearly remain, with potential gains in the areas of high-level corporate strategy and leveraging additional efficiencies within the finance function itself. Over 2 in 5 (43%) of nearly 1,500 finance professional benchmark participants surveyed believe that improving collaboration related to internal finance processes would help make the current finance process in their organisations more efficient.

Figure 4: Percentage of finance FTEs in business partnering



Source: PwC finance benchmark data

However, intention is often far ahead of achievement for most companies. The proportion of full-time equivalents (FTEs) focused on business partnering is relatively unchanged over the past 5 years (see Figure 4). What is apparent is that some high performing companies are out ahead of this trend, with top quartile companies allotting 30%-40% more FTEs to business partnering than the typical company. But the understanding of what business partnering means is evolving.

analysing it (see Figure 5). This figure has not changed much over the past several years, despite the promise of 'lights out' processing that has been an ongoing organisational goal. But there are organisations that have been able to be very efficient, taking positive action to reduce data gathering time to near zero.

Less than 1 in 5 (18%) benchmarked companies report that their organisation has a Performance Improvement Team. And where there is such a team, it was generally created for an ad hoc project,

*Despite efforts to increase efficiency, in typical firms, nearly twice as much time is spent on data gathering, compared to the time spent on analysis.*

Despite recent gains, finance organisations continue to get bogged down in standard tasks or 'crises of the moment,' rather than focusing on the long-term factors that drive business performance. Analysts are still spending (on average) nearly two-thirds of their time gathering data as opposed to

not as an ongoing role. Without specific, focused efforts to oversee and drive continual improvements in efficiency and quality of analysis, efforts to move forward in these areas often stagnate.

1 'Finance Matters: Finance function of the future', published by PwC, 2013

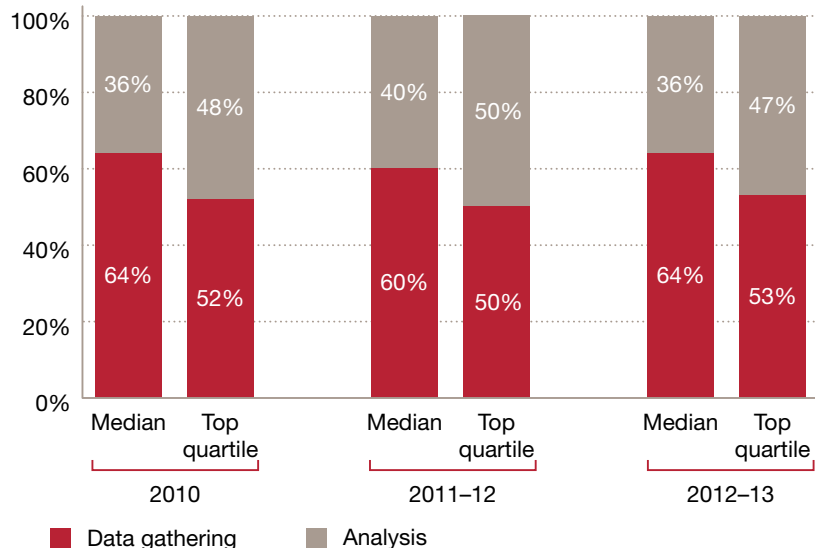


Since 2009, the percentage of time allocated to insight-focused activities has increased almost 40% (see Figure 6). There is also a widening gap between companies that are evolving toward a mature business partnership model and companies that are stuck in traditional reporting. Top quartile companies are currently spending nearly a third (32%) of their time on insight-related activities.

*Finance teams now devote  
25% of their effort to  
insight-focused activities – a  
40% increase since 2009.*

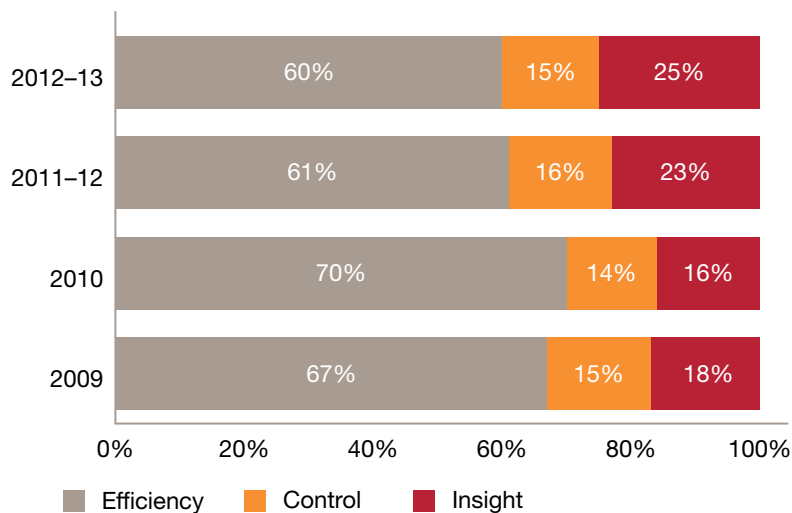
In 'Finance Matters: Finance function of the future,' the hypothesis is that by 2030, top tier companies will spend no time on data gathering. Financial data available to all stakeholders in real-time and from a robust data source.<sup>2</sup>

**Figure 5: Percent of time spent on data gathering versus analysis**



Source: PwC finance benchmark data

**Figure 6: Percentage of finance effort**



Source: PwC finance benchmark data

2 'Finance Matters: Finance function of the future', published by PwC, 2013

# BD – Business leaders, not just partners

***The finance function at Becton Dickinson and Company (BD) has evolved beyond business partnering to being business leaders within the organisation. Analyses of the drivers of shareholder value guide their focus. Recently, reacting to a slower growth environment, they have focused on cash metrics. Suketu Upadhyay, Senior Vice President, Finance spoke with us about the role of finance at BD, the positive impact of their finance leadership, and reactions from Wall Street.***

BD is a global medical technology company that is focused on improving drug delivery, enhancing the diagnosis of infectious diseases and cancers, and advancing drug discovery. BD develops, manufactures and sells medical supplies, devices, laboratory instruments, antibodies, reagents and diagnostic products through its three segments: BD Medical, BD Diagnostics and BD Biosciences. It serves healthcare institutions, life sciences researchers, clinical laboratories, the pharmaceutical industry and the general public.

In a recent interview with PwC, Suketu Upadhyay described finance's leadership and close partnering with the business units. Mr. Upadhyay explained that the finance function at BD is very committed to business partnering and approaches their partner relationships with the business on a concierge basis. They do a lot of ad hoc reporting for the business units in addition to standard reporting. They also tailor reporting to meet the needs of BD's six business units and eight global regions. Finance at BD has a lot of credibility in the organisation, which has been built up through their excellent work across several decades.

Now, Mr. Upadhyay states, finance personnel need to be business leaders, not just business partners. They have a stake in driving the strategy of the company. Their role is not just to provide insight, but also to formulate opinions and strategy, and help guide the company based upon their fundamental understanding of financials and how they are linked to investor return. With that in mind, finance personnel at BD have spent the past year analysing the factors which drive total shareholder return at the business. They observed

casual and correlational relationships and ran regression analyses in an attempt to link organisational metrics to overall enterprise value. They wanted to give BD the ability to focus on the right KPIs to ultimately drive shareholder value.

Previously, while the business was growing rapidly, finance's focus had not been on cash management. Now, however, in a slower growth environment, finance's shareholder value driver analyses revealed some surprising results: revenue and earnings per share growth are less related to shareholder value than cash metrics such as return on investment capital (ROIC) and return on total assets. Through their analyses, they discovered that ROIC is highly correlated with overall firm value ( $R^2 > 0.90$ ). To take action on this, BD's finance team worked to determine the levers that drive ROIC. They wanted to know what each business unit could do to improve performance. So they dissected the key drivers and partnered with the business units to determine actions individual employees could take to improve those metrics. Finance personnel then worked to communicate throughout the company why ROIC matters and that everyone has a part to play in its improvement.

Mr. Upadhyay explains that a year ago, employees would not have heard of ROIC. Today most employees know about ROIC, and that cash is related to shareholder value. In fact, he claims that most would be able to tell you the key levers will free up cash for investment. BD has developed reporting, increased reporting transparency, and even incorporated cash flow metrics into the organisation's employee incentive system.

---

Mr. Upadhyay believes that to successfully drive organisational change on such a large scale, one needs evangelism, creating a clear sense of purpose that the initiative is something that the company needs to do, coupled with clear, widespread communication. You need to give the leadership team and key employees the data that supports your initiative and keep putting the information in front of them. He states that you need to be able to tell your story in a meaningful, engaging and entertaining way, and you need to tell it every chance you have. You also

The current ROIC-focused initiative at BD has been quite successful for the company so far. Mr. Upadhyay described how BD managers have spoken with investment analysts about their new ROIC-based compensation metrics and Wall Street is excited about them. 'BD stock has appreciated this year, and while it cannot be directly attributed to the new focus on ROIC, if BD continues to out-index its peer group, it will ultimately translate into market capitalisation expansion.' Additionally, BD's peers and primary competitors have begun speaking the language of

---

*Traditionally, finance professionals are trained to acquire analytic skills which, along with contextual knowledge allow them to make key decisions for their organisations. These organisational challenges, which are solved via the application of knowledge and analysis of data, are known as technical challenges.*

---

need 'surround sound,' so that key employees are hearing the message from multiple sources. To this end, Mr. Upadhyay states that you need to have key members of the management team, the CEO, and the CFO on board early in the process. Creating the burning platform for change is a critical first step. Also, across the organisation, working on change management engagement is crucial. Without it, there will be widespread resistance that will ultimately decrease the effectiveness, or even the viability of any finance transformation initiative.

ROIC. There is growing awareness on Wall Street about the importance of cash flow metrics, and Mr. Upadhyay believes BD's finance initiatives have positioned BD well to excel in this area.



# Facing adaptive challenges

Mark Dawson, PwC UK Partner, has highlighted the distinction between technical and adaptive challenges. He points out that as the finance function evolves, finance professionals are increasingly presented with adaptive, rather than technical challenges. Traditionally, finance professionals are trained to acquire analytic skills which, along with contextual knowledge allow them to make key decisions for their organisations. These organisational challenges, which are solved via the application of knowledge and analysis of data, are known as technical challenges.

However, more and more, especially among the higher levels of finance organisations, professionals are required to make decisions about situations for which the data either doesn't exist, is contradictory, or is simply overwhelming. They must extrapolate beyond their data, sometimes making large strategic decisions, relying on their experience and intuition to choose an optimal solution among a series of possible solutions, some slightly better and some worse. They must learn to face these adaptive challenges – to manage this uncertainty and find a comfort level in decision-making in the absence of firm data.

The CFO of a global engine manufacturer spoke recently at a PwC event, describing an adaptive challenge that he faced more than a decade ago. His challenge was to bid on an engine contract for the next generation wide-body jets. There were several aspects of uncertainty that made the bidding decision a high-stakes adaptive challenge. First, at the time, airline manufacturers were driving a hard bargain on price. They were asking their engine partners to agree to prices that, using traditional analytic techniques, appeared to leave no potential for profit. Additionally, they required guarantees that the engines (which were in the design phase, so they did not yet exist) would meet certain performance standards. Further, they knew they would need to finance the airlines' ultimate purchases, which required projections about the financial markets several decades into the future.

The adaptive challenge was to incorporate uncertain future technological step changes into the cost and risk profiles that must underpin the best offer price. In addition, industry trends suggested that failure to enter the wide body market at the start of the transition to the next generation design would lock the company out of the fastest growing sector of its market for decades.

Despite a general lack of data enabling traditional analytics, the organisation decided that this contract had the potential to be extremely successful and profitable in the long-term. They went forward with their bid, and won the contract. Today, their engines lead the wide body market and the organisation has realised billions in cash flow for investors due to this courageous decision.

Mark Dawson confirms that today's CFOs require different skills to handle adaptive challenges. 'It is a paradox that we have more and better organised data than ever, but the nature of big decisions requires CFOs to move beyond using data to provide answers. Of course data is fundamental in supporting judgment, but this judgment often seeks to reconcile conflicting or incomplete data. The role of the CFO is to have the best-informed hunch around the executive table and to make explicit the decision making process of the whole team.'

.....  
**Mark Dawson** is a PwC UK Consulting Partner who advises boards and CEOs of FTSE 100 firms and global leaders in financial services, oil and gas, and retail industries seeking to align strategy and leadership with supporting business and HR processes and practices.

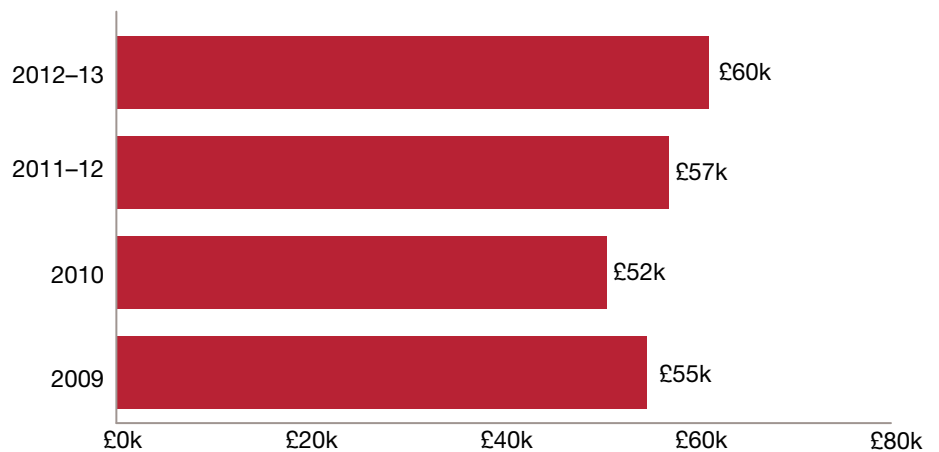


# Human talent

To build on reliable data and reporting and turn that in to real insight, companies need experienced, creative and highly skilled finance professionals. Yet companies continue to struggle to find and maintain the right mix of personnel for the finance function as it evolves. Salaries in finance continue to grow (see Figure 7) at least partially due to finance departments having an increasing number of people in higher impact, more highly compensated positions. This increased investment in high-level roles underscores the importance of ensuring that the right individuals fill these positions. Personnel who can glean insights from volumes of data and communicate effectively across a wide range of audiences are rare. Significant effort must be made to identify and train the right people.

*Finance staff with good insight and partnering skills are in heavy demand – innovative organisations are competing for talent, seeking non-traditional hires, improved training programmes, and increasing the use of shared services.*

Figure 7: Average cost per finance FTE (£GBP)



Source: PwC finance benchmark data

Among 1,500 finance professionals surveyed as part of our benchmarking activities, 'finance having the right skills and capabilities in place' received one of the highest importance ratings. Yet when asked about actual performance, finance professionals rated their functions' skills and capabilities to deliver very low. Internal consumers of finance agree with the finance professionals – there is a big gap between importance and performance in this area (see Figure 8).

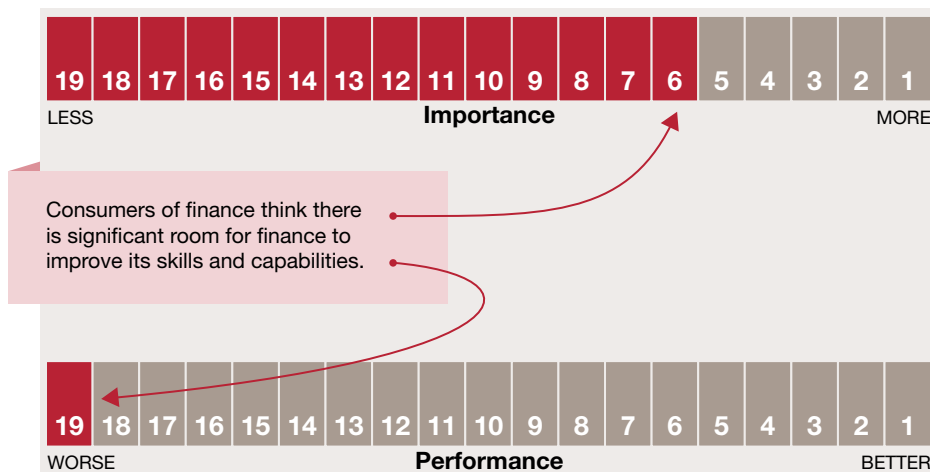
Additionally, 57% of finance professionals surveyed believe that upgrading the skills and competencies of people involved in the finance function is a primary vehicle for making finance processes more effective (second only to improving technology).

While the gap between the capabilities finance departments currently possess versus where they need to be is apparent, the commitment to bridging this gap is not. Only 1 in 3 (34%) benchmarking organisations indicate that employee development plans are standardised and linked to the goals of the manager or department.



**Figure 8: ‘Consumers of finance’ – importance & performance rankings**

Finance has the ‘right capabilities’ in place (i.e., critical thinking, technical skills, managerial skills, organisational discipline, etc.)



Source: PwC finance benchmark data

Developing internal talent to meet the challenges of more sophisticated analysis is daunting in itself, but without a carefully designed roadmap, it is a nearly impossible goal. Organisations need to assess the skill sets required, and look beyond the traditional model of a finance employee, not for specific accounting skills and backgrounds, but for individuals who are good analysts, intellectually curious, and good at building relationships.

Some organisations with a particular focus on continuous improvement. (e.g., The Coca-Cola Company and Diageo) are creating Finance Training Academies which help those in traditional finance roles develop abilities in the areas of business collaboration and insight generation. Another technique for enhancing the breadth of understanding and abilities

among key finance professionals is the cross-pollination of individuals within the firm. For example, at one company, a regional treasurer was rotated into a group audit and risk function in order to provide him with a breadth of

### *Many traditional CPAs are not naturally gifted as FP&A analysts.*

experience that would help him to understand his function in a greater context. Companies that think more about the strengths of each employee, and less about their specific role, have the opportunity to very effectively identify and grow talent internally.

While the development of internal talent can be a major factor in addressing staffing issues, many companies have found that trying to repurpose accountants to function as analysts can be challenging and potentially counterproductive. Organisations are recognising that many traditional CPAs are not naturally gifted as Financial Planning & Analysis (FP&A) analysts, as they are typically trained to follow rules and structure, rather than think outside the box, as would a skilled FP&A resource. Some PwC finance transformation assessments find that as many as 60% of people in the current finance organisation are not suited to the evolving roles that finance is being asked to fill.

This current shortage of financial professionals who match the changing needs of organisations for greater insight generation has left many CFOs displeased with their current mix of people. They see finance practitioners who are focused on governance and compliance versus business performance. Their staff has strong technical skills, but often lacks insight. The current market requires the identification and development of a

cadre of finance professionals who are more heavily biased toward learners and doers versus strategists and advisors. The ideal qualifications for a CFO have also shifted radically over the past several years. Some of the best CFOs do not have traditional finance backgrounds.



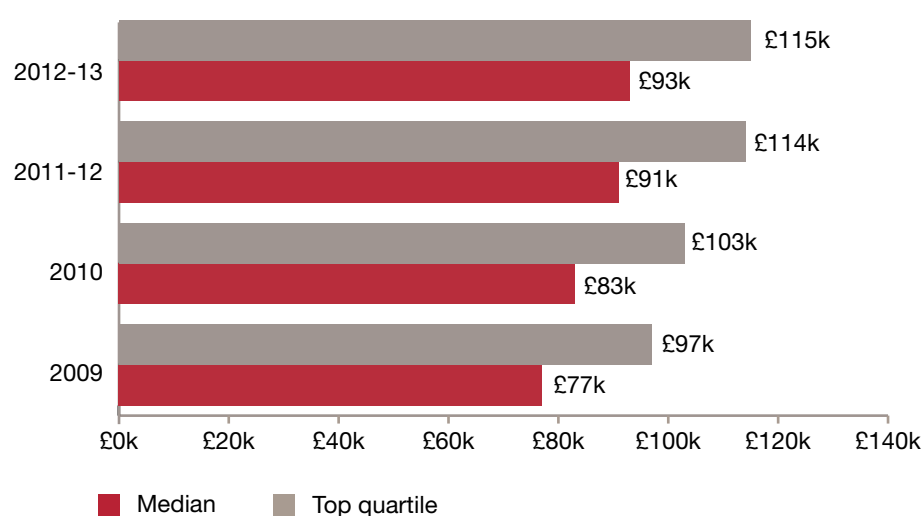
Meanwhile, the outsourcing of basic finance functions to shared services and lower cost offshore environments continues apace, as organisations look for ways to fund their increased need for insight generation and management. The need for lowering costs has never been more apparent: the average cost for a Finance FTE in the past year was £60,000 and the average cost for an ‘insight’ FTE was £93,000 (see Figure 9). While a movement toward shared services has provided some enhanced efficiencies, this evolution has not addressed the need for more efficient work flows to free up resources. In many instances, the long-term culture of the organisation is getting in the way of this evolution.

Often, shared services and outsourcing can partially offset the finance talent gap. As time is freed up to focus on insight, existing staff can be moved into these roles. Sometimes, lackluster performers are just in the wrong positions, and excel in a new role. That said, the difficult reality for many companies today is that a large number of existing team members are not able to function in the new finance environment that the company needs to build. Many just do not have the fundamental abilities needed for their evolving roles.

A few unique and forward thinking organisations are applying human capital analytics to forecast internal talent needs and identify skill sets not currently in the organisation. Some successful finance organisations are making investments in individuals with backgrounds in operations research,

data analytics and even traditional IT. These professionals often have greater proficiency in the identification of hidden opportunities in both financial spreadsheets and other organisational datasets which can lead to true forward progress for the business.

**Figure 9: Average cost per finance ‘insight’ FTE (£GBP)**



Source: PwC finance benchmark data

# Finding & nurturing talent

***As the finance function evolves, organisations have come under increasing pressure to attract, retain, and motivate top talent. Today, it is not enough for finance personnel to have strong accounting and transactional skills. They must be able to glean actionable insights from data, communicate well with business leaders and partners in the business units, and engage others to support change management company-wide. CFOs must learn how to find the right people and motivate them for the demands they will face in the finance function as it evolves.***

A 2011 staffing survey found that positions in finance and accounting were among the top 10 jobs that US employers say are the hardest to fill. CFOs say one of the key challenges is finding candidates with business knowledge and communication skills. Hiring in finance is made more challenging by the complex demands of rapid growth, acquisitions, and changing finance regulations. Additionally, CFOs' teams are bogged down with the finance essentials of transaction processing, compliance and control. They're often supporting overly complex business, management and legal reporting structures that may need to be simplified. Additionally, today's finance department is expected to spend more and more time outside of finance, lending their expertise to company-wide strategy and growth.

With talent shortages an ongoing concern, finance teams need to focus on staff development. Human resources experts often refer to a rule of thumb: 70% of learning transpires in the course of day-to-day work, 20% through informal learning and coaching, and 10% through formal classroom-based instruction. The good news is that there are a number of learning approaches that can be tailored to a CFO's team – and CFOs can delegate some responsibilities to other team members. Practical on-the-job coaching, for instance, can be provided through team-based learning – such as having junior staff 'shadow' senior managers.

CFOs must also work to find the right talent for the roles that need to be filled. Team members are needed who can build trust and 'collegial' relationships across the company, according to John R. Percival, a Wharton adjunct finance professor. They need a team that 'technically is very good but can think beyond the pure accounting aspects of the business, think about the future and deal with issues like organic growth versus acquisition.'

CFOs also need to meet the needs of a diverse pool of employees. Many hires will come from the Millennial generation and have career aspirations, attitudes about work, and knowledge of new technologies that are far different than those of older generations. The finance organisations that are the most attractive to this generation are able to provide a new

mix of financial and non-financial compensation – including flexible working hours, quick career progression and rotational job assignments, even outside finance. Organisations and their employees are also becoming increasingly global, leading to further challenges. Finance chiefs need to rotate their human capital resources across the globe, and embrace international talent as part of their people strategy.

Finally, building a strong finance team starts with the CFO. According to Percival, a 'strong' CFO is one who is proactive, seeking to build solid communication with other parts of the company, from the shop floor right up to the chief executive's office – in ways that clearly articulate the business expectations of the finance organisation. "Today, the CFO doesn't wait for the CEO or business unit manager to say, 'Here's an issue; I'd like you to go do some analysis,'" says Percival. "The CFO needs to decide (on his or her own) what the issues are, and bring them to the table and say, 'We haven't discussed this, but it's an important part of our future and we need to be talking about it. Here's an analysis and what some of the potential solutions are.'" CFOs also need to reinforce a sense of mission throughout their finance teams. Successful CFOs provide a vision that excites people about coming to work. A sense of purpose often motivates people more than money, and the CFO is responsible for providing that. Wharton management professor Adam Grant has examined what motivates staff in numerous settings over recent years and has found that employees who know that their work has a meaningful, positive impact on others are not just happier than those who don't – they are vastly more productive, too.

.....  
**Ed Ponagai** is a Partner in PwC's Finance Effectiveness practice, where he focuses on Finance Transformation and helping CFOs operationalise transformation priorities. This discussion is based on a previously published paper by PwC and Knowledge@Wharton entitled 'People Performance: How CFOs can build the bench strength they need today... and tomorrow.'



# Workforce intelligence – Stepping stones to improved workforce ROI

Workforce intelligence stands poised to deliver something finance leaders have all longed for – a way to manage, measure, and demonstrate return on investment for their largest cost – the workforce.

In our experience, a successful workforce intelligence programme requires building capability through a series of increasingly sophisticated offerings following a maturity curve model (see Figure 10). To create real sustainability of your talent resources you must systematically start at the beginning of the curve and work up towards full workforce intelligence. Most large, complex finance functions face numerous challenges, including data quality, source systems, standards and governance, talent processes, global availability, business partner capability, business case credibility, HR department inertia, operations expectations, and more. Consequently, you are better served by chipping away at basic issues first to create simpler workforce intelligence deliverables, and then using

trends and drill into detail. Typically, the move to analytics also requires you to move to a ‘single version of the truth.’ For example, it’s not acceptable for various stakeholders to use individual definitions for ‘turnover’ or for finance and HR to report divergent results for the same number.

**Benchmarking** – Provide a comparison of external metrics (comparing you to other companies’ results) or internal metrics (for example, comparing your hospital in a system to others in the system). Moving up the analytics maturity curve makes the benchmarking effort a valuable experience in understanding your own data. The comparison with market standards frequently exposes the lack of internal standards and data quality issues that might not otherwise surface.

**Dashboards** – Provide a summary-level statement of your results that allows for a quick assessment and serves as the basis for further conversation and inquiry. Typically, the

analytical techniques can deliver insights such as:

- Improving linkages between engagement results and business results. For example, what’s the engagement score for your client-facing teams, and what’s the linkage between the engagement of these teams and revenue growth, customer satisfaction, and the like?
- Performing statistical analysis of clusters by segmenting your crucial employee groups based on mindset or approach to work. For example, consider what patterns might emerge in classifying call centre employees into first-job, mid-career, second-income, and post-career groups.
- Modelling employee opinions across the lifecycle to determine, for example, if the discontentment of your high performers in the employee engagement survey matches the reason for separation identified in the exit survey, or considering how engagement might evolve as tenure increases.

**Predictive modelling** – Provides a statistical approach to modelling future outcomes based on prior outcomes. Individual models are developed for each outcome, such as models for predicting turnover, retirement, safety, health or absences, performance, engagement, and more. The models compile hundreds of pieces of information on individuals, often from a variety of sources or are calculated based on source data. For example, a flight risk model of a finance leader might evaluate pieces of information including bonus amount, performance rating, manager, commute distance, or salary against midpoint range.

Various statistical analyses are performed on your data sets to determine the impact that each piece of information historically has on outcomes, such as determining the influence of commute distance or time

---

*The models compile hundreds of pieces of information on individuals, often from a variety of sources or are calculated based on source data.*

---

the muscle developed from these exercises to address increasingly sophisticated uses of workforce information.

While you will mature to develop additional capabilities over time, the typical elements include:

**Reporting and analytics** – Provides a comprehensive list of results on a specific topic (classic turnover and headcount reports) allowing for summary, detail, and root-cause analysis. Reporting evolves into analytics when meaningful dynamics come into play, such as the ability to filter by demographic groups, show

dashboards that a workforce intelligence unit produces are oriented toward your company’s operational and functional leadership.

**Survey and survey analytics** – Provides additional insight into your workforce survey results beyond the standard reporting the survey might generate. Many organisations view engagement, exit, and onboarding surveys as stand-alone activities, when in reality, they are critical sources of analytical information. By linking survey data to classic metrics, you can create a far more robust set of information. These more sophisticated

since the last promotion. Once the model is built, it is applied to the workforce population to determine the likelihood of the outcome. Results can be viewed at an individual or group level. Results from the predictive modelling can be used in a few ways:

- As part of your employee review and coaching where finance leaders might identify a list of pertinent issues to discuss with the employee;
- Embedded in the workforce planning process;
- To provide insight into the action planning your finance leaders should take relative to dashboard or engagement survey analytics.

**Workforce planning** – Provides an approach and methodology for understanding your future workforce requirements and aligning the workforce to your business strategy. At its most basic, an operational workforce plan determines staffing needs for the coming year and provides

a hiring target. The crux of the workforce plan is an assessment of the finance function’s future demand for workers and the ability of the current workforce to supply talent.

Today’s finance leaders are looking to take workforce planning to the next level, pushing the planning horizon three to five years out. Finance leaders must consider mid to long-range business strategies, such as the impact of new technologies, expansions, and shifts in customer preferences. They should evaluate multiple scenarios in the modelling, and options for addressing gaps, including development, alternate work structures, alternative sourcing models, etc. As you are looking to extend workforce planning, it happens in two ways:

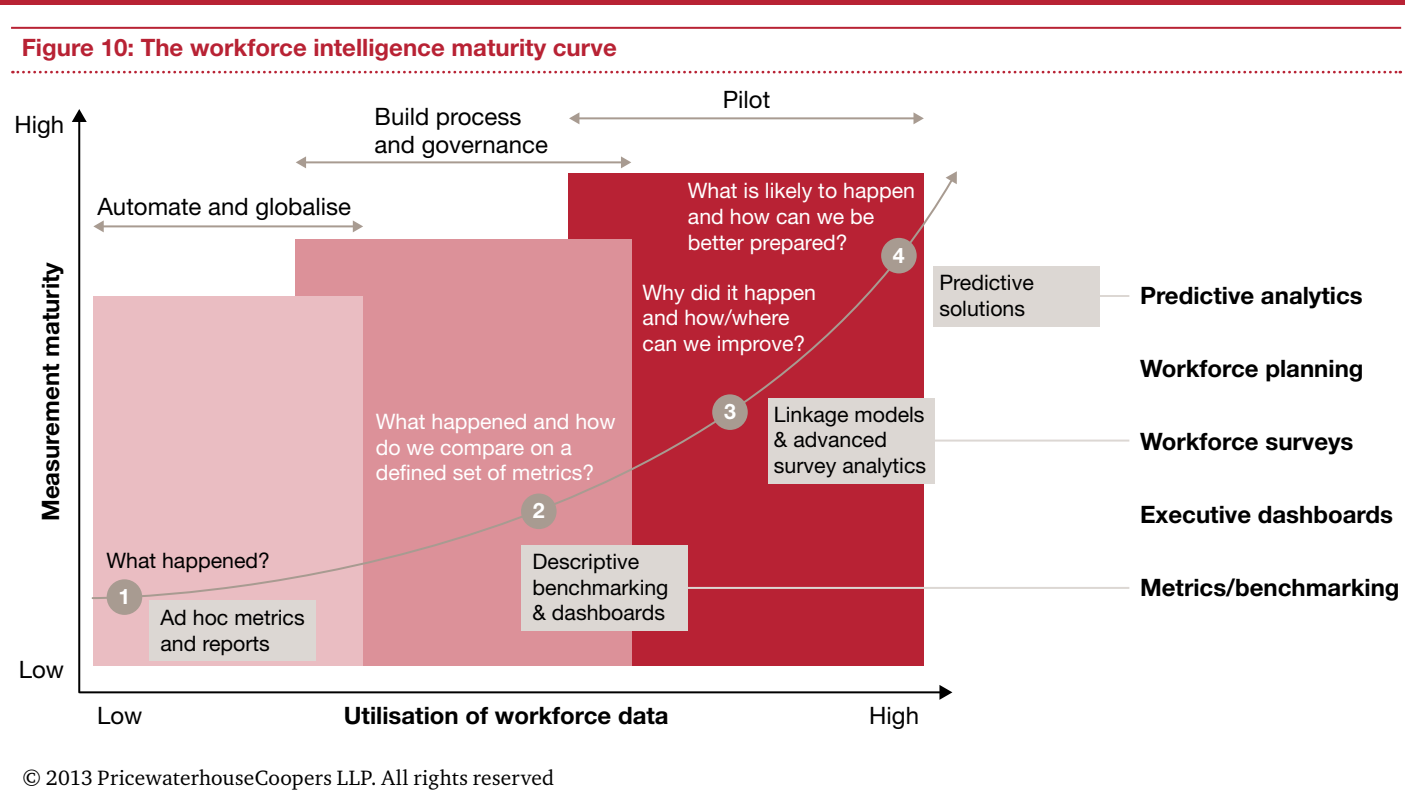
- Incorporate the financial impact of the plan in terms of labour cost and revenue impact.
- Incorporate employee skills and competencies into the modelling framework.

This full suite of workforce intelligence offerings represents a series of stepping stones for your maturity. By taking these programmes one at a time, you can deliver value to the organisation within an achievable framework and timeframes.

.....

**John Karren** is a Principal in PwC’s People and Change practice, where he focuses on the human resource dimensions of Finance Transformation such as organisation design, talent management and strategic change.

**Scott Pollak** is a PwC Principal and co-leader of Saratoga, PwC’s measurement, benchmarking and analytics practice. He works with clients to help them design workforce intelligence centres of excellence and implement their programmes and tools.



# British American Tobacco – Unlocking time and value

**British American Tobacco (BAT) is undertaking a transformational finance journey which has seen the company establish higher value-adding shared services centres as part of a complete restructuring of the finance organisation. The ultimate goal is to deliver value through service excellence and unleash time and value for the business by working more efficiently and effectively. Terry McConnell, Group Head of Finance Transformation and Shared Services, spoke with us about this journey and the key components which have enabled its success.**

British American Tobacco is one of the world's largest international tobacco companies, with 13% global market share and market leadership in more than 60 countries. BAT is one of the world's most international businesses with more than 200 brands sold in around 180 markets, and more than 55,000 employees. BAT produces cigarettes in 44 factories across 39 countries, and buys more than 400,000 tons of tobacco leaf per year from more than 100,000 directly contracted farmers.

Terry McConnell explains that BAT's finance transformation journey began in 2007 when it sought to increase efficiency across its global operations. The company began with a benchmarking study, which revealed significant areas of potential improvement. To address these opportunities, BAT established regional shared services centres in Romania, South Africa, Malaysia, and Costa Rica, plus two in-country centres in Brazil and Russia. All transactional finance activity was subsequently migrated to the new centres and a solid shared services foundation was created.

Through the current phase of transformation, BAT finance aspires to simultaneously achieve greater efficiency and effectiveness. They are seeking a path of continuous improvement, creating better business partnerships while reducing costs. They are planning to do this by working more intelligently, employing a high degree of automation, and building a more effective finance model through analysis and various process improvement techniques.

According to Mr. McConnell, Shared Services' ultimate goal is to unleash time and value for the organisation. They want to increase the ease and efficiency of finance planning and reporting in order to enable the rest of the organisation to better focus on value generating activities. By migrating higher value services such as planning and reporting to the shared services centres, finance's business partnering teams are able to achieve a sharper focus on supporting productivity and revenue generation value drivers, which include a focus on global resource allocation, pricing and tax, and analysis and insight on the end-to-end supply chain. Centres of excellence focus on

---

*“We passionately believe in delivering value through service excellence”*

*– Terry McConnell, BAT, Group Head of Finance Transformation and Shared Services*

---

Since 2011, BAT has been reviewing its target operating model, including how finance would best integrate with and contribute to the business. The resulting finance model includes the creation of centres of excellence for finance processes beyond the original transactional focus (i.e., audit, tax, treasury, and group financial control) and the shared service centres are being enabled to take on more advanced tasks.

driving working capital and operating margin initiatives. The establishment and articulation of these key value drivers enables BAT finance to explain to stakeholders that ‘this is where we plan to dedicate our time and focus’.

This has also enabled BAT finance to clarify the key business metrics it requires. In addition, a set of standard reports for use by the business has been developed. And today, BAT finance is working to develop a self-service capability, enabling business line staff who need information to access it themselves and work with it in the system.

## **Automation for the future**

Early on, BAT finance realised that a key enabler to efficiency and effectiveness would be high-level automation of planning and reporting. Automation enables value generation, releasing time to free up the business partnering organisation to focus on key value drivers within the business. Mr. McConnell explains that Malaysia, with both a strong retained commercial finance organisation and nearby shared services centre, was designated as a pilot site for the new finance organisation. Forecasting and consolidation are enabled through the ERP system and a common business planning and forecasting technology. A focus on integration and automation has enabled BAT to drive forecasting through the ERP system with great success.

BAT is ultimately working toward a Global ERP Template, which will allow for standardisation of data across regions. Data is currently fragmented across legacy systems, and the Global Template will allow BAT to collect information in a consistent manner and share it across regions and the business more effectively. Key data will flow from the single ERP system through the entire organisation so that data may be analysed worldwide in order to identify new areas for gains in efficiency.

Mr. McConnell stresses that data integrity is absolutely fundamental. Without it, the whole system falls apart. At BAT, all standard variance analysis will ultimately be automated. Materiality variances will be built into the system on a rolling basis. Throughout each reporting cycle, one will be able to see what level of material change has occurred, and warnings will be automatically generated if anything is out of tolerance. Data integrity roles are embedded in planning & reporting teams. Checks and balances will all be either automated or built into shared services.

## **The right people with the right skills**

BAT Finance understood that in order to achieve its goal of simultaneous efficiency and effectiveness, they would need to focus upon the capabilities of their finance personnel. Within Shared Services, BAT started by recruiting people with the skills required for their new vision of finance and embedding them throughout pilot markets. A strong focus was also placed on the onboarding process. Coaching, mentoring and career planning were reinforced for new personnel from the time of hire. Training programmes were developed to improve Shared Services staff's product knowledge. Staff were taken on field visits, and they worked alongside sales representatives to raise business awareness.

The focus on hiring at BAT is now a mix of mid-career professionals and younger professionals who are newly graduated or have shown strong promise in their school careers. Individuals with change management skills are also highly prized in BAT's fast moving and changing organisation. BAT works to find the right recruits and train them in both the technical and commercial capabilities needed for success. All shared services personnel are continuously exposed to the concepts of service excellence and are encouraged to deliver 'an extra one percent' on everything they do.

Mr. McConnell described how BAT fills certain key positions strategically by moving staff across various locations. Some of the best people from their local markets are moved to fill some of the key finance Shared Services roles. This allows BAT to bring in the knowledge of local market operations to the Shared Services Centre, thus enabling staff at the Centre to act as better partners for the business. This is increasingly important as the Centre is moving up the value curve, taking on more and more complex tasks.

By focusing on system enablement early in the process many of the tasks formerly carried out by accountants can now be filled through automation. At the same time, Mr. McConnell explains, it became clear more capable business analysts were required. Personnel with an IT background who can really understand the business bring a different skill set, and are invaluable to helping solve problems as they are identified. These personnel have become a key part of the process organisation at BAT.

## **Current status**

BAT reports great success with the transformation it has achieved in the Malaysian pilot and with the value provided to the organisation through the higher value services being provided from Shared Services. Shared Services is moving from a regional to a globally integrated organisation and is implementing a service management framework of service excellence and value generation. In addition to transactional finance, aspects of HR and IT have also moved to Shared Services, with the three areas working collaboratively to enhance synergies. Automation has freed up time, enabling staff to focus on new opportunities, such as analysing procurement strategies and evaluating working capital opportunities. There has been a huge transformation within finance from pure reporting to analysis and insight. Mr. McConnell believes that the orientation toward service excellence will continue to pay off well into the future. Five to ten percent improvements in operational savings might be achieved year over year, as the organisation finds new continuous improvement opportunities to prioritise. BAT appears to have found that sweet spot, where they are approaching high levels of efficiency, and unlocking time for business analysts to focus on providing insights and value to the organisation, not just gathering and manipulating data.



# Technology

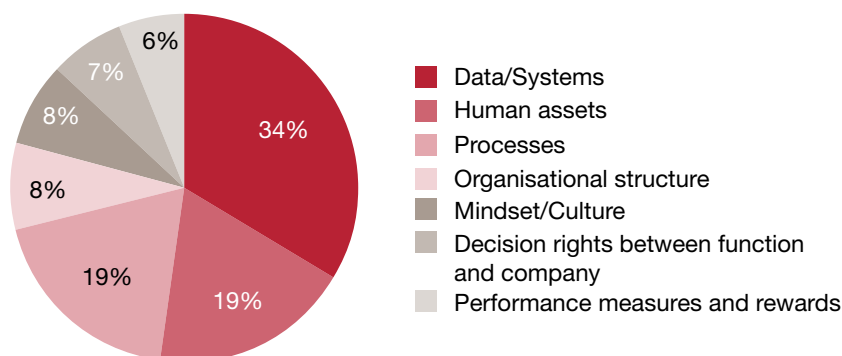
Maximising efficiency can be limited by the tools at hand, and financial professionals are acutely aware that their company's progress is bounded in many cases by investments (or lack thereof) in technology. When asked to hypothetically partition the use of improvement funds across seven areas, data/systems requests are by far the largest proportion, with over a third of targeted allocation requests (see Figure 11).

Despite the existence of many platforms designed to enhance reporting efficiency and accessibility, many companies are still mired in manually generated spreadsheets. Additionally, organisations find themselves struggling with multiple legacy systems which effectively silo crucial data. These limitations create a drag on reporting efficiency, sophistication and depth, consigning much reporting to traditional regulatory and management reports, with limited forecasting ability and little opportunity for insight.

Organisations must work harder to develop dashboards and other analytic tools to help them turn data into knowledge in time-efficient, accurate and insightful ways. The massive growth in available information is forcing finance to move beyond simple spreadsheets and rewarding those organisations that employ advanced visualisation. That said, only 17% of companies have a self-service reporting application, and nearly half are still loading information into spreadsheets which require manual manipulation.

**Figure 11: Preferred allocation of resources**

If the company were to focus on making improvements in any of the following areas and you were given funds for improvements, how would you allocate the funds in order to realise these improvements?



Source: PwC finance benchmark data

Companies are still struggling to complete high-quality reports, often due to two significant barriers. First, organisations are still taking an enormous amount of time just to get the data right. Hurdles include the technological challenges of interfacing

data models. Long-term embedded practices are often hard to abandon. It is not unusual during finance transformation assessments, companies find that significant effort is being put into generating ongoing reports that no one reads. The justification for the

*“For many companies, a crucial first step in insight generation is getting data out of departmental silos, where it can be available for larger analyses and strategic decision making.”*

*– Ed Shapiro, PwC Americas, Director of Benchmarking*

with legacy tools and siloed information. Nearly two-thirds of analysts' time is spent on the data gathering process, with only a third spent on actual analysis. Second, corporate management issues often hinder the operating and

report may be ‘because we’ve always produced that,’ or a one-time request may have inadvertently become part of the standard reporting process. Eliminating unnecessary reporting can lead to significant cost savings.

Even as finance technology evolves, the automation of key controls remains a relatively rare event. Only 11% of key controls are automated in a typical company (see Figure 12). However, top quartile companies more than double this percentage, automating 25% of key control functions.

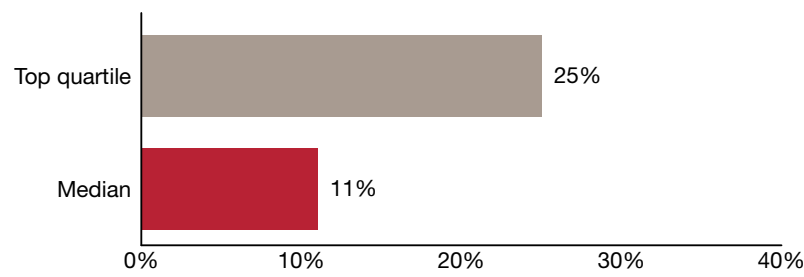
When asked how to create a more efficient finance process, improved technology was the most frequently cited suggestion, with nearly sixty percent (58%) of finance professionals surveyed indicating this as a need for their organisations. In terms of specific technology gaps, those areas that receive the weakest ratings for supporting finance functions involve workflow automation and systems integration (see Figure 13). Additionally, efficient and centralised data warehouses still remain an aspirational goal for many companies.

Only 6% of attendees at PwC’s 2013 Finance Leaders’ Summit indicate that they are comfortable with their current finance technology, and not looking to make changes over the next two years. While 39% are actively looking to make major changes, 17% are looking at minor changes, and 31% already have the change process underway.

Fifty-eight percent of the conference attendees believe that their organisations face substantial or critical cyber risk, yet only 13% indicate they actively manage to mitigate risk and have management intelligence tools to measure effectiveness. Fifty-three percent indicate they have very little or insufficient data to manage cyber risk well. Additionally, only 12% of PwC benchmarking companies indicate that they have a formal process for assessing risk in technology.

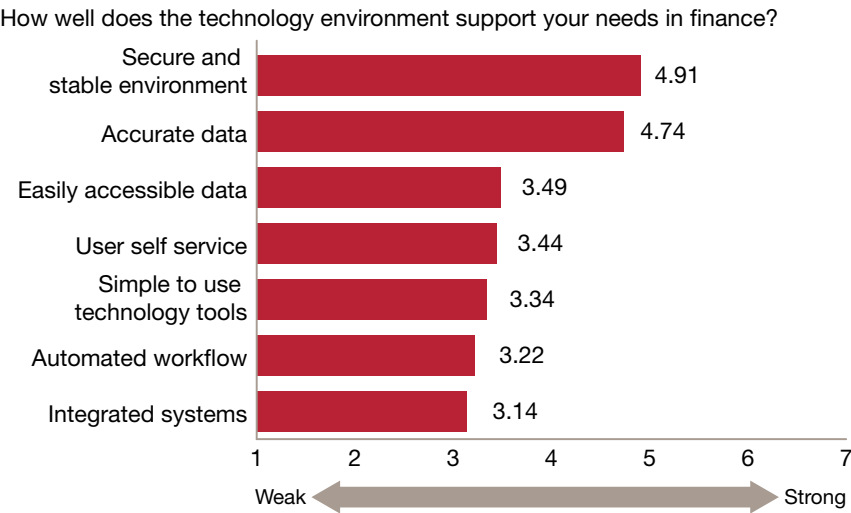
This is not to say that there have not been any recent improvements in technology and reporting. There has indeed been movement away from large and unwieldy finance reporting towards widely accessible and understandable metrics. Advanced dashboards are increasingly employed as a method of knowledge transfer that can improve focus and clarity in corporate thinking.

Figure 12: Percentage of key controls automated



Source: PwC finance benchmark data

Figure 13: Technology’s support of finance functions



Source: PwC finance benchmark data

Companies that effectively utilise such dashboards develop a common language for decision makers and other key personnel. They are able to not only track and critique performance, but engage in meaningful discussions about the likely determinants of these critical metrics. Business intelligence tools aid

in the centralisation of data and the automation of reporting. In addition, data visualisation tools provide deep and rich capabilities that can communicate an immediacy that is often lacking in traditional financial spreadsheet reporting.

*“In the coming years, some form of SaaS or cloud technology will play an important role in the finance organisations for many companies.”*

*– Carol Sawdye, PwC US CFO*

Jaguar Land Rover (JLR) has focused on moving from spreadsheet-bound data systems to shared information platforms. This has produced a deeper, more granular understanding of the business that is shared across functions. With sales in over 200 markets, JLR is now able to forecast by base model and variant across all countries, and has successfully addressed difficulties with predictability in volatile markets. One JLR goal is to be able to make decisions on the allocation of build slots based on total transparency of the cash impact of the model, variant and market.

### **Technology in the service of insight**

It is not enough to invest in technology alone. Technology must be directed toward insight. In order to free up resources for insight analysis, progress needs to be made in the standardisation and efficiency of data capture, analysis, and reporting. In our benchmarking survey, technology's ability to support the needs of finance was seen as strong relative to accuracy and security, but weak when it comes to simplicity, integration, and workflow. As stated earlier, the labour associated with manual data gathering proves a significant hurdle in moving toward more efficient processes, with approximately two-thirds of financial analysts' time spent in data gathering versus analytics.

Centralisation and standardisation remain challenges as well. Nearly 3 in 5 (57%) companies do not have a single enterprise database to satisfy management reporting requirements, and 3 in 4 (72%) do not have a single database to satisfy financial reporting requirements. Data is often siloed within individual business units or different regions of the organisation, making it difficult to reconcile numbers and to produce even simple company-wide financial reports.

### **Technology in Finance: It can be improved**

- Only **17%** of companies have a self-service reporting application.
- Almost **50%** have reporting processes that rely on manual spreadsheet manipulation.
- **50%** have data warehousing in place, but only **11%** have applied a standard data taxonomy.
- Improving finance technology is the **#1** method that finance professionals identify for making finance processes more effective.
- Only **6%** of finance leaders attending a recent PwC Summit report being comfortable with the status of their current finance technology.

Finance professionals also note that their current finance technology systems are weakest at creating an automated workflow and integration. Less than 1 in 10 (9%) have a mature Balanced Scorecard (BSC) developed. An additional 50% indicate a BSC is utilised but in need of improvement. Speed and accuracy of forecasting are also becoming increasingly central to success. Moving away from 'black box' predictions and understanding the specific drivers of these forecasts has become increasingly important. This is difficult to achieve without significant automation and integration.

Organisations working toward change encounter difficulties implementing new ERP systems, requiring significant staff time and a reconsideration or adjustment of legacy tools within the organisation. Among the primary hurdles are the existing levels of customised and intricate systems in place. Only 18% of technology systems are described as standard while a third (34%) are described as highly complex. Once these challenges are mastered, ERP systems can contribute significantly to insight generation and advanced planning. Cloud platforms

also present new opportunities for information sharing and efficiency as well as offering new risks that need to be managed. The movement toward using cloud technology varies widely as companies consider how to best leverage these platforms. But Carol Sawdye, PwC US CFO, feels that in the coming years, some form of SaaS or cloud technology will play an important role in the finance organisations for many companies. While many people assume that cloud technologies are always riskier, Ms Sawdye points out that too many businesses jump to the conclusion that their data is safer within their own walls. As many cyber security breaches have shown us, that is not always true.

Among organisations following better practices, advanced technology and analytics allow for more complex evaluation of potential business scenarios and their possible impact. Integrated systems and automated reporting free up the time and resources for finance professionals to create better budgets, more current and accurate forecasts, and offer the opportunity for a real focus on insight-generation.

# Skandia – Streamlining the system

Skandia, one of the Nordic's leading independent providers of solutions for long-term savings and investments, needed to radically overhaul its approach to financial planning. The company lacked integration in the areas of business planning and forecasting. These processes were extremely time consuming, manual, and completely dependent upon spreadsheets. Additionally, data was being pulled into spreadsheets from multiple sources, leading to questions of data integrity.

Skandia embarked upon a year-long project to create processes that were more consistent and efficient, and more driven by business needs and assumptions. They also aimed to automate planning to the extent possible in order to minimise the number of data streams and integration processes necessary for planning and forecasting.

To address these goals, Skandia designed and implemented Oracle's Hyperion Planning and redesigned the financial planning process using lean principles and driver-based calculation logic. Additionally, Skandia moved to continuous planning, integrating a number of key planning processes across all business units to create a common view and simplifying the data required for reporting.

The project began with a series of 'visioning' sessions designed to research the problem and agree upon a common

solution. Through these sessions, several key design principles were developed to govern future decision-making. These principles stated that processes had to be simple, consistent and 'lean.' Also, financial plans should be calculated using business drivers or assumptions and data integration would be automated (as far as possible) with all source systems. Workshops were run to discuss better practices in planning and budgeting and to define the key design principles.

Next, a Hyperion planning prototype was built, following the system design specification agreed to earlier, and used to clarify understanding of the business and educate stakeholders on the tool, including the look and feel of the end result. Skandia learned that this application would deliver the benefits required by the autonomous business units, while simplifying integration and management.

Implementation was overseen by a steering committee and divided into work streams. The solution architect had oversight across all work streams, ensuring a consistent approach and resolution of issues. A design authority group was also created to review the design and resolve issues across work streams. The original design and all change requests were held to the key design principles agreed to during the planning stage. Weekly team meetings also ensured consistency and helped the implementation stay on track.

Skandia Finance Senior Programme Manager, Bill Revellese talks about the improvements, 'Planning used to be a collection of linked spreadsheets across many departments. Now the organisation and processes are set up in a way that facilitates connection and communication between departments. Changes in the sales plans are easily imported to the financial plans with the click of a button. The financial plans for the insurance business are fed real time, enabling business rule-driven Market Consistent Embedded Value and reserve projections. In the past, you would have to wait for days to get something back from the actuaries. Today, they have all the information they need from the income statement and balance sheet – and subsequently run the calculations to produce their outputs in a fraction of the time. Common data structures eliminated the need for hours spent maintaining spreadsheets and updating links.'

Twelve months later, Skandia is spending 387 fewer person-days each year on planning and forecasting and saving over £330GBP annually. Planning is faster overall and people are much more confident in the results. For the first time, management can forecast based on where they are today rather than where they were a year ago.



# A silver lining for every cloud?

There have been many predictions over the years regarding the ways in which technology will transform the finance function. Whether it be through client server computing, empowering end users and putting businesses in control of IT, or the ERP integration of business processes from the front office to reporting. Many have welcomed these new technologies, the innovation they bring, and the potential they offer for improving the efficiency and effectiveness of finance processes. Others are naturally skeptical about the realities of such claims. They assume that the benefits are never quite as great, the costs never quite as low and the integration, flexibility and ease of use are never quite in line with expectations. Who's right?

This article will consider the skeptics' point of view and look at the impact of 'cloud' applications in client finance functions. Does cloud computing have a silver lining?

What is cloud computing and what does it offer the finance function? There are multiple definitions. From a technical IT perspective, cloud computing is a model for enabling convenient and on-demand network access via the internet to a shared pool of computing resources. From an end-user perspective, it means that finance applications no longer reside on the company server but on the computing resources of the cloud service provider.

Since interactions with cloud applications and the IT resources are through the internet, a primary benefit is the ability to access these applications from any internet-enabled platform.

Looking at what organisations have achieved so far, this new way of hosting finance applications has the potential to deliver immediate, tangible benefits. In talking to cloud application users in a wide variety of finance areas (including budgeting, reporting, business intelligence, transaction recording, consolidation, disclosure management and strategic financial planning) it is the infrastructure benefits that have had the greatest initial impact. Cloud computing can deliver speed of implementation, cost savings, convenience, and performance benefits to the finance function in the following ways:

- Cloud vendors are able to provide immediate application platform access for their clients. Instead of waiting to acquire new infrastructure to run the new application, cloud vendors have the bandwidth, server, and storage infrastructure already in place, though the client will still need to implement their own instance of the software. Still, this typically permits a faster start-up period for the application.
- Cloud vendors can provide elastic access to applications, meaning there could be 200 concurrent users accessing monthly consolidation applications on working days 4 to 6 and only 8 users from working day 7 and beyond. Vendors can provide the scalability to meet the demands of 8

users or 200, meaning it is no longer necessary to scale your infrastructure to support peak usage. This can produce significant hardware cost savings and represents a major change from the traditional in-house model.

- Cloud vendors can have much more scalable licensing models, which again, can reduce up-front investment in new finance software. Additionally, since cloud providers typically take responsibility for creating and managing application infrastructure and connectivity, this can significantly reduce the cost of IT staffing.
- Cloud vendors often take responsibility for upgrading the applications and infrastructure, sometimes invisibly to the end user, again reducing complexity, cost and dependency on internal IT resources.
- Cloud vendors offer various levels of resiliency in their infrastructure and will use mirrored solutions, advanced load balancing and advanced disaster recovery techniques to assure uninterrupted service delivery. This resiliency is often far greater than a company could implement within its own infrastructure.

As you can see, these potential benefits are compelling, but most relate to access, flexibility and infrastructure costs. While these are significant benefits, do we see enough evidence of transformational capability emerging from the use of cloud applications in finance to justify the enthusiasm?

The short answer is yes, but maybe not for the reasons you think. With cloud applications, there is typically a very modern application look and feel with an up-to-date user interface. While this can certainly speed adoption, it is not a unique characteristic of cloud applications. Similarly, the improved access and scalability of cloud solutions are proving very effective in ‘high participation’ processes where mobility and scalable access are critical (employee expense management, operational sales forecasting or employee-distributed analytics and performance management, etc.). But again, these are capabilities not unique to the cloud, but are more easily deliverable through current cloud-based technology.

Are cloud-based solutions always successful? No. And are the successes of all cloud-based transformations solely due to the cloud component? No. Adoption of cloud technology is often (very appropriately) paired with finance process transformation. So it is often impossible to untangle which benefits or problems are due to the cloud component or the process transformation and often it can be the synergy between the two that helps yield the benefit, or compound to produce a problem.

The concrete potential benefits that cloud-based solutions deliver, particularly in terms of cost, fall back on the infrastructure, access and flexibility, considerations already discussed.

It is also important to manage the risks associated with a third party cloud provider. Service levels, stability and scalability of the provider’s cloud platform are all key if they are to be trusted to deliver high availability and responsiveness for your finance applications. It is also important to validate how the cloud vendor is securing data, keeping in mind that the vendor may be using a third party to provide the cloud infrastructure. Interrelationships on service levels, security and disaster recovery can be complex and must be fully evaluated. But as Carol Sawdye, PwC US CFO, points out, data security is a top priority for cloud platform vendors – they know their whole business depends on it.

In conclusion, cloud computing could change the way we execute the finance function over the coming years. The cost savings, the access flexibility, scalability,

elasticity, and resilience of cloud-based solutions will continue to drive change.

To date, the benefits of cloud-based applications have largely been based on infrastructure advantages, and adoption has been driven by small and medium sized organisations or departments and functions in larger organisations that are focused on rapidly deploying tactical applications.

Going forward, as organisations seek to upgrade their existing capabilities, cloud-based solutions will increasingly be considered as a viable alternative during the evaluation process. This will result in the growing impact of cloud solutions in finance, particularly as all the large vendors move further into this space.

.....  
**David Jones** is a Director in PwC’s Enterprise Performance Management team. He is a thought leader as well as subject matter expert in the EPM space and speaks and writes regularly on the topic.

# Jaguar Land Rover – Cashing up the plan

***In many organisations, the recent finance challenge has been to respond to commercial pressures of a downturn. Jaguar Land Rover (JLR) is different – the business has transformed over the past 4 years, targeting new markets and investing in new products to become a remarkable success story. What is the role of finance in equipping the business to cope with this success, support this growth and to maximise returns? Adrian Cadman, Corporate Finance Controller, spoke with us about the challenges and about the evolution of finance that has helped bring JLR to this point.***

Jaguar Land Rover is a British multinational automotive company which became a wholly owned subsidiary of Tata Motors in 2008. It is responsible for the design, manufacture and sale of vehicles with the Jaguar, Land Rover and Range Rover brands, some of the most iconic in the industry. JLR operates six facilities for R&D, manufacturing and assembly in the UK, sells in 200 markets worldwide and is developing new manufacturing capacity outside the UK in emerging markets.

When asked in a recent interview what ‘magic’ Tata brought to JLR to turn around its fortunes, Ratan Tata, the recently retired Chairman, answered “I think the general change that I see in JLR now is that everybody has enthusiasm about what they are doing and has confidence and faith in the direction of the company. We are not the magicians, they are the magicians.”

While not claiming to be a magician himself, Adrian talked us through how finance is transforming in order to support the growth plans of the business and continue the recent success story. In 2009, Jaguar Land Rover embarked on a process of finance transformation to support its rapid growth, including system automation and integration. An ERP project was launched and is being implemented in waves. It will increase the finance function’s effectiveness via the removal of numerous manual tasks, allowing more time to be spent on high value activities, increased insight through access to an integrated set of data, a single version of ‘the truth,’ automatic reconciliation, and a clear line of sight back to the source data, as well as improving the whole control environment. This is seen as an important initial step in supporting the rapid growth of the business. As well as transformation driven by the ERP system renewal, JLR finance also set about refreshing its performance management processes.

In 2011, JLR sought to create an integrated solution for the collection and consolidation of actual, budgetary and forecast data. At the time, a variety of legacy systems were being employed for actual financial reporting, while

Microsoft Access and Excel were used for management reporting. The reliance on spreadsheets led to substantial manual work and resulted in a poor audit trail and lack of control over processes. Additionally, data was siloed throughout the organisation, and the reconciliation between financial results and management results was a significant manual exercise.

The new consolidation and management reporting solution, built on an EPM platform, was implemented in 12 months. It is now successfully embedded and is delivering benefits of improved transparency, quality and efficiency in this core finance process. Buoyed by the success of the project, JLR immediately turned its attention to the next performance management challenge, the integration of planning across the organisation.

Since joining JLR in 2011, Adrian recognised the need to develop the budgeting, forecasting and planning processes and systems that would facilitate a more nimble, transparent approach, enabling an improvement in the decision support capabilities for the business. Adrian commented, ‘this would allow the transition from the good old world of data collection and manipulation in spreadsheets, into a new world – deployment of a leading edge planning solution providing significantly improved commercial analysis and most importantly, visibility of current and future performance that would help support tactical and strategic decisions’.

JLR’s recent success has driven plans for future growth and hence, investment. In order to deliver plans for cost effective growth, as well as maximising profits and cash generation, JLR recognised the need for an improved and more integrated planning approach. So, in spring 2012 JLR began to design a more integrated business planning process. It first delivered a new solution called EMFASIS, based on the Oracle EPM platform, which integrates the central functions of pricing, volume planning, manufacturing directs costs, parts and accessories costs, and finance across nearly two hundred markets.

EMFASIS processes direct data feeds of volume forecasts over 36 months (by derivative and market), and then ‘cashes up’ these forecasts by applying pricing, direct and indirect costs (again by derivative and market). EMFASIS has revolutionised JLR’s ability to analyse volume and profit outputs, as well as KPIs. Automated processing also allows more time for analysis of market and model performance both at corporate HQ and also by finance teams across the globe, who can easily access the data for regional market analysis and scenario planning.

EMFASIS also benefits capacity planning, as it aids in the projection of future stock levels of key components. Additionally, management now has access to global profitability projections which help direct them to where they can add millions to company profit by changing the allocation of vehicles across global

According to Adrian, JLR’s move into emerging markets, such as Russia and China has also helped the organisation to more fully embrace the changes in the planning and forecasting process: ‘These new markets do not have legacy processes that they are wedded to, unlike the established markets, and are therefore more open to working in the new way. Their successes in turn show the rest of the organisation the opportunities of adopting the new processes and exploiting the new system.’

Today JLR is extending the planning integration process across the entire organisation. Along with EMFASIS, this project will provide a complete budgeting and forecasting process and supporting system, and will include functional budgets and forecasts on top of the information already held in EMFASIS. The new integration will replace

ramifications in a responsive way is the clear challenge that we are seeking to address.’ The integrated planning project helps bring JLR together as one finance team sharing one financial planning and forecasting process and one integrated set of information. This also will enable greater control and governance over master data, as well as offering a wide range of further analytic and business partnering opportunities.

While JLR is in the early stages of this transformation, they are already seeing the benefits of integration. Having access to more and better integrated data is creating greater transparency across traditional silos and enabling more collaboration. It is also creating opportunities for data analytics, which in turn is creating the need for developing the skills of the finance teams and the recruitment of new specialist finance people.

The ultimate goal is a ‘living business plan’ which will provide a link between target setting and integrated business planning, allowing for a longer term forecasting horizon, building on trends seen in the current 36 month view. This will allow for constant updates of the forecast and changes to the business plan as targets evolve.

In JLR, finance has been the driving force behind this revolution in business planning, seizing the opportunity to be the ‘organisational glue.’ The goal for finance in the future is clear – to continue the drive to be more influential in decision making processes, while providing functions with transparent and integrated information that allows full understanding of current performance and timely review of future options and overall commercial impact. Adrian knows that delivering on this vision will empower finance to fully support JLR’s continued growth. “I’m not bold enough to claim that the JLR finance team is full of magicians, but we are working hard to transform our key processes for the benefit of the whole business and to support its continued success.”

---

*“Improved data and data access is creating greater transparency across traditional silos, enabling more collaboration, and creating opportunities for data analytics.”*

*– Adrian Cadman, Corporate Finance Controller, Jaguar Land Rover*

---

markets. This new data draws people together and aids JLR in getting the right people in the room and encourages the business to ask the right questions of finance.

There are challenges to making this work. Master data is critical, and JLR is working to tighten data governance across the functions. The other challenge is cultural – departments were used to their own data and systems, and to making decisions in their own ways. Driving transparency of commercial outcomes means that in the future, teams will work together in a consistent way. Sponsorship of these initiatives has been key. For example, the CFO recorded a video to ensure that everyone across the global business had a consistent understanding of the benefits of the new ways of working, and that joining in with the new process is not optional, it is the way JLR is now doing business.

hundreds of planning spreadsheets in functional silos and create the opportunity to run far more scenarios, invest more time in the analysis of options, and eradicate significant amounts of manual data entry and reconciliation. This empowers finance to partner even more effectively across the business, to support and sustain further global growth.

Adrian explains that there are no legacy systems in place that naturally provide a company-wide view of how everything fits together, both actual results as well as forecasts. ‘There has been a culture in place of silo management that makes it very difficult to pull the pieces together. The ability to join the volume demand to the manufacturing and supply chain requirements with a single view, with clarity on issues and commercial



# The key to future finance evolution

## The global future

As companies expand their reach into new markets, challenges multiply and expanded insight and flexibility become paramount. Local differences in regulatory requirements require levels of adaptation which some companies have yet to face. Growth into emerging markets requires insight into the normative business ethics of the region, the sensitivity to risk, and robust financial governance capabilities. Carol Sawdye, PwC US CFO, points out that globalisation is not limited to large businesses. 'Both small and large companies are now operating in a global competitive environment. Increasingly, companies need their staff to be globally oriented, more nimble, mobile, and able to effectively use technology to shrink those distances and conduct business across geographic and cultural boundaries.'

Recent trends have moved away from country-based finance groups, with finance teams spanning entire lines of business rather than having a specific geographical focus. Movement has been more and more to global ERP systems, with companies such as Bristol Meyers Squib and Dow as early leaders in this area.

Globalisation is also leading to issues related to control. Even between the US and the UK, there are differences in the maturity of control functions that are largely influenced by regional regulatory standards. US benchmarking companies tend to have more evolved control functions than do those in the UK across several dimensions, reflecting the influence of Sarbanes-Oxley and other regulations. Three-quarters of US companies report that control ownership is clearly defined, while only one-third

of UK companies indicate control ownership is well-defined. Further, 59% of US companies indicate that their current documentation is optimised for risk management, while only 23% of UK-based companies indicate this is true. Countries thought to share much cultural overlap still experience dissimilar demands, given regulatory cultures which produce such procedural variations.

With further expansion into worldwide emerging markets, these challenges will become more acute and heighten the need for systems that maximise flexibility and insight. While China and other Asian countries (as well as South America) often receive much of the focus for growth opportunities, Eastern European countries such as Romania, the Czech Republic, Slovakia, and Poland can provide 15%-20% lower operational cost than those found in major Western European cities. Each of these environments will present their own unique challenges for finance organisations. Further, the traditional approach to exporting finance leaders

## Addressing unique industry challenges

Different industries face unique challenges and varying pressures to create efficient systems and optimally deploy their human talent. Consumer industries, which generally operate with low margins, must explore efficiencies wherever they can to preserve that thin profit margin. Meanwhile, technology companies in our benchmarking sample are paying a premium for human talent, about 30% more in average remuneration per finance FTE than the overall average across industries. Shared services and outsourcing therefore becomes an even greater priority for these companies.

Financial services companies live in a world of high regulation, and their deployment of finance FTEs reflects that – 21% of finance FTEs in financial services fall under the umbrella of compliance, which is 50% more than the average across all industries. Financial services companies also invest an average of 1.48% in finance cost as a

## The cost of finance is higher in the financial services industry, driven by heavy reporting and regulatory requirements.

from the centralised home office to remote offices is no longer a preferred or sustainable strategy. Companies need to find other ways to establish a common culture and approach to issues like compliance and control.

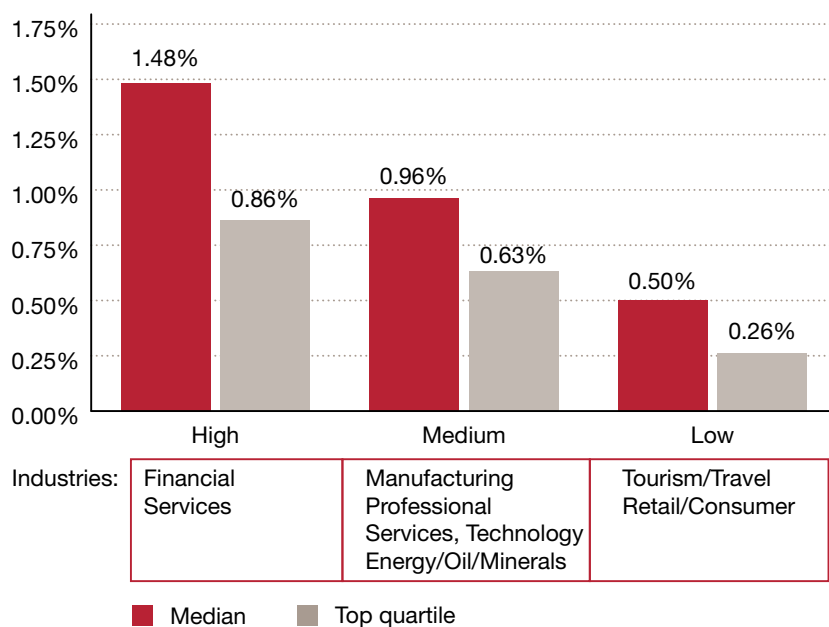
percentage of revenue, over 50% more than the overall median across all industries of 0.93% (see Figure 14). Yet, even within industry groups, there is a substantial gap between median and top quartile performance in each category. Efficiency is not driven solely



by the demands and parameters of an industry. Even companies in a relatively high-cost industries can develop systems and operational cultures that mitigate costs and accelerate performance.

In order to be successful in the future, organisations will need to effectively address challenges presented by their own industries, in addition to those common to all. As finance professionals are able to free up time for insight generation and analysis, they will increasingly be able to identify key drivers for their own companies which will keep them competitive with industry peers.

**Figure 14: Finance cost as a percentage of revenue**



Source: PwC finance benchmark data

# Corning – Bringing shared services to China

**Corning has established a Shared Services Centre in Shanghai. Debra Naylor, Division Controller, and Jesse Cates, Division Vice President, Corning Shared Services, spoke with us about the establishment and development of this centre and the many factors that have led to its success.**

Corning Incorporated is the world leader in specialty glass and ceramics. Corning creates and makes components that enable high-technology systems for consumer electronics, mobile emissions control, telecommunications and life sciences. Corning was on the leading edge in establishing a strong presence in China, and navigated the cultural and human resources challenges of global outsourcing in an emerging nation. Debra Naylor and Jesse Cates described Corning's establishment of a Shared Services Centre in China. First, they pointed out that Corning had pre-existing commercial offices in China, and they emphasised that their experience and reputation in China helped drive and support the success of the new centre. They also had a hiring, retention and employee rotation plan that supported their efforts in Asia.

Mr. Cates explained that in 2002 Corning began a transformation in which they targeted saving 25% of existing spend in HR, Finance, Procurement, and IT. They found at the time that their core finance activities were systematically inefficient and consistently higher in cost than those found in top performing companies. Additionally, the organisation had highly disparate systems, with multiple sets of data and data standards. There were more than 30 separate payroll systems around the world and 59 charts of accounts supporting 20 instances of 14 different financial software packages. Corning decided to attack these inefficiencies internally as a company, and their first step involved establishing Shared Services Centres around the world.

In 2003, Corning organised the Portfolio Group to manage the organisation's new functional initiatives which included setting up three Shared Services Centres, standardising data systems, creating a single dataset, and integrating work across regions. They began with the creation of a Shared Services Centre in the US and then worked to select a site in Asia. The staff reductions enabled by the Shared Services Centre in the US immediately reduced finance costs, and helped reinforce the company's commitment to Shared Services Centres.

Corning's approach to site selection was very methodical. The organisation believed that Asia was the area of highest growth for the company and thus wanted their second service centre in that region. They set up an importance matrix to analyse the benefits of establishing a centre in any one of multiple Asian countries, and cities within countries. They analysed each potential site in terms of available labour, labour skillsets, cost, existing infrastructure, and country-based incentives. Shanghai was determined to be very competitive from a cost perspective and Corning believed that there would be significant future growth in China. Also, Corning had set up a regional headquarters in Shanghai which earned the company experience in dealing with the Chinese government, culture, construction practices and procurement.

Ms. Naylor described how Corning learned a lot from the establishment of the US Shared Services Centre which helped ensure the success of the Centre in Shanghai. Additionally, Corning made the transition to the new Centre slowly, transferring one process at a time to Shanghai. Corning focused efforts on

ensuring the solid performance of each process before transferring the next. The transition to shared services in Asia began with fixed assets and then moved on to other areas of the closed report stream such as project costing and journal postings. Today the Shared Service Centre in Shanghai is processing all accounts payable, accounts receivable, and general accounting for Corning's Asia region. They have also begun to perform other Corning functions within Asia such as certain processes within HR and Supply Chain.

Mr. Cates explained that Corning has had to be flexible in its approach to staffing in Asia. The Shanghai Centres' first internal client was Corning operations in Japan. They quickly realised that the Japanese business unit would not cooperate in the transfer of transactional accounts unless they were able to work with employees in China who were fluent in Japanese. Corning was able to initially staff the Shanghai office by hiring Chinese college graduates who had majored in Japanese and sending them back to school to get accounting degrees. This strategy was very successful, and the trust of the Japanese business unit was achieved. Mr. Cates affirmed that change management is possible on a global level. While the cultural and legal barriers can be high, there are solutions for any problem an organisation faces when functioning internationally.

Like many international companies in China, Corning has had to address retention issues. They faced a 22% attrition rate three years after the Shanghai Centre went live. Mr. Cates attributes the high rate to a combination of the excellent training that Corning employees receive, and the Millennial Generation's penchant for moving across multiple jobs in the early part of their careers. In response to high attrition, Corning established employee retention strategies and ran focus groups to learn what employees sought from Corning. As a result, Corning altered benefit strategies and instituted other changes, such as

One of Corning's aims is to have in-country leadership for each Shared Services Centre, which will help to ease cultural differences and aid in employee retention. To that end, the Shanghai centre is now led by a Chinese national. Corning also invests in leadership development skills for international talent in order to prepare them to take on positions of leadership. The organisation invests in language, leadership, and process training for promising employees across the globe.

Today, Corning is promoting native employees in China and retaining key

---

### *Corning invests in global rotation for promising employees, as well as language, leadership, and process training.*

---

alterations in employee titles, in order to become a more attractive employer. Today the Shanghai Shared Services Centre has reduced annual employee attrition below regional averages.

One key to Corning's global expansion is its policy of employee rotation. Throughout the organisation, employees are rotated through a variety of locations, globally. US employees often spend time in other regions of the world, while foreign employees likewise spend time in the US, getting to know the headquarters and more about the organisation.

personnel. They have also established a Shared Services Centre in Budapest. The next challenge for Corning is moving toward even greater efficiency across their Shared Services Centres. The organisation is currently investigating the best route for further process improvement. The enormous efficiencies realised and valuable lessons learned through the deployment of Shared Services Centres have put them in a position to move forward on their continuous improvement journey.



# Grasping the treasury opportunities – An approach to treasury in emerging markets for global businesses

**So what role does the treasury management play in the development of a top-tier finance capability? Well, quite a bit. As companies expand into emerging markets to grow sales and lower operational cost, an important success factor is the ability of the treasury team to support business objectives. Key challenges in such markets include complex financial risks (FX, cash and commodity) a multitude of financial regulations and less developed banking systems.**

**Hear how David Stebbings, PwC's Head of Treasury Advisory in the UK recommends the adoption of a tiered approach to emerging markets.**

One of the most profound new challenges and opportunities for treasury is the increasing business focus on emerging markets. The world has changed and business growth for many companies is now often outside the traditional markets of Europe and North America, a trend that is likely to accelerate in coming years. Such markets have many and varied technical, operational and change challenges for the treasurer.

Many treasurers have adopted an ad hoc approach that focuses on the technical challenge at hand. However, we believe that given the resourcing constraints and the range and complexity of the issues, the treasurer needs an explicit treasury and cash operating model framework for emerging markets. This will free up time to grapple with those technical challenges while enabling the management of ongoing treasury risks and provide a template for how treasury in other emerging markets businesses should operate.

## **What does this mean for the treasurer?**

In order to support business growth, the treasurer should adopt an operating model that explicitly recognises the differences between traditional (Europe, North America, etc.) and emerging markets. Traditional markets tend to have well-developed treasury and banking environments and pressure on business margins and costs. Emerging markets, on the other hand will tend to have higher growth, with higher business risk, less developed treasury environments, more costly financial instruments, higher payment charges, growing currency strength particularly in relation to China, more complexity in business structures (JV's etc.), significant although reduced regulation, banking and exchange controls and a lower level of banking structure development.

To bring these together, a strategic treasury approach should be considered, where the treasurer has a global view, and is involved in all 'treasury' decisions – not just those that reside specifically in the treasury function. The treasurer needs to work within a tiered global standards model based on global policies which detail how to 'do treasury' throughout the company.

## **Tiered global standards**

All businesses have treasury standards based on policy principles, detailing how they manage and control key risks and activities (cash, foreign exchange, commodities, funding, banking, credit, etc.) down to a required level of granularity. An emerging trend is to see those standards tiered to take account of the factors that make non-traditional markets different.

A tier may include a series of businesses or one business. As the organisation grows, each new business would be assigned a tier and the standards set accordingly. There is no right answer as to how tiers are set. However, whatever the determining factors, there are generally a number of key attributes of the tiers in most cases:

1. Tier 1 would generally involve activities in traditional markets, and the standards would tend to be the tightest focusing on activity standardisation and efficiency to minimise time spent and cost. So, in this tier, hedging would tend to be more mechanical, activities more automated and cash more centralised.
2. Below Tier 1 there may be a number of tiers (down to the bottom tier) which would address those emerging markets where treasury activities are least standard and require the most diversity to achieve business objectives. It may not be possible to hedge risks or move cash easily in

this tier. However, control standards, particularly around cash and financial instruments, are likely to be just as tight if not tighter than Tier 1. Interestingly this tier may be the most important for business performance.

3. Businesses or locations will move up through the tiers when key attributes change – for example when ownership changes or exchange controls are relaxed. Hence, the tiers need to be reviewed on at least an annual basis.

An example is shown in Figure 15 of high-level standards for an energy business where the tiers are determined by business characteristics, location, level of ownership and the ability to pool business cash.

**Figure 15: Example of indicative high-level tiered standards**

The development of tiered standards			
	Sample business characteristics and treasury implications	Sample key group policies	Sample key tier standards
<b>Tier 1</b>	<ul style="list-style-type: none"> <li>• Full ownership and control</li> <li>• Located in open economies</li> <li>• Liquid markets to use derivatives and borrow cash</li> <li>• Group treasury has opportunity to centrally manage risk and treasury activities</li> <li>• More likely to use of global ERP</li> <li>• Use of global shared services centre for finance activities</li> </ul>		<ul style="list-style-type: none"> <li>• Maximisation of straight through processing in payment, cash and accounting activities</li> <li>• Payments via shared services centre</li> <li>• Use treasury system for all risks and instruments</li> <li>• Full cash concentration structures</li> <li>• Centralised bank account management</li> <li>• Group treasury provides analysis and full management of risks</li> </ul>
<b>Tier 2</b>	<ul style="list-style-type: none"> <li>• More control restrictions</li> <li>• Generally located in economies with some government monitoring and foreign exchange restrictions</li> <li>• Varied systems environment</li> <li>• Group treasury has opportunity to centrally manage certain treasury activities, although local execution and analysis may be required</li> </ul>	<ul style="list-style-type: none"> <li>• Protection of credit rating</li> <li>• Transaction FX risk hedged</li> <li>• Hedge Accounting applied</li> <li>• No commodity price risk hedging</li> <li>• Centralise cash as much as possible</li> <li>• Funding via public debt</li> </ul>	<ul style="list-style-type: none"> <li>• Partial cash concentration perhaps within region – as much as possible</li> <li>• Treasury transactions undertaken centrally but maybe on behalf of local businesses</li> <li>• Group treasury has a controlling role with some management activities</li> <li>• Potential use of global banks for funding</li> </ul>
<b>Tier 3</b>	<ul style="list-style-type: none"> <li>• May have local minority partners</li> <li>• Likely to be located countries with foreign exchange restrictions</li> <li>• Cash repatriation key issue. Agreement of other shareholders required to extract cash so limited cash concentration possible.</li> <li>• Central treasury more likely to have a more advisory role. Favours local execution and analysis.</li> <li>• Banking environment less developed</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on key banks who lend money plus key local banks</li> </ul>	<ul style="list-style-type: none"> <li>• Group treasury has oversight and control role – receives reporting</li> <li>• Treasury and cash transactions undertaken locally</li> <li>• Limited use of treasury systems controls</li> <li>• Centralisation of cash to key in country accounts at key banks as much as possible</li> <li>• FX conversion via central bank processes with key banking partners</li> <li>• Local funding from development banks</li> <li>• Some central visibility of cash</li> </ul>

© 2013 PricewaterhouseCoopers LLP. All rights reserved

Some companies have taken the tiering concept beyond the business to influence their view of looking at banking partners or funding providers – what the business is able to do with them and how they are viewed for credit risk purposes, for example.

### ***A strategic treasury approach to governance, organisation and technology***

Tiered standards in themselves will not meet the challenge. A more strategic treasury approach is also required. Key elements of this require that:

- Treasury standards encompass the entire scope of treasury and cash activities wherever they occur in the organisation – not just in the treasury function;

- There is a business focus to such activities;
- A global treasury organisation of some form and a global approach to managing risk (at least on an overlay basis) is put in place to include those treasury and cash management activities outside of the treasury function; and
- There is one source of the truth for treasury and cash information and analytics via a treasury management system and a SWIFT or bank-led solution for visibility of cash worldwide.

Of course, the organisational model needs to fit with the culture of the business, but the trend is clear that even if risks and positions are not managed centrally, they should at least be visible centrally and that management, whether regional or local, should conform to tiered standards and fall within the group-wide governance model.

### ***Conclusion***

Emerging markets are another opportunity for the treasurer to show value to the organisation. However, while there are many interesting technical challenges, many treasurers are often failing to maximise their effectiveness because they have not put in place the appropriate approach or framework to allow adequate focus on the key issues. Tiered standards and a strategic treasury approach will aid the treasurer in achieving this goal.

.....

**David Stebbings** is a PwC Director and Head of PwC's UK Treasury Advisory practice. He is also a member of the PwC UK Treasury Committee and has an oversight role for the PwC UK Insolvency Treasury Operations. David works with many multinational businesses on the treasury challenges of growing in emerging markets.

# The nexus of insight, efficiency, and human talent

## **Continuously striving to improve**

As with anything, a necessary condition for developing a top performing financial function is the desire to constantly strive to do better and be continuously mindful of the ‘art of the possible.’

Top tier companies are marked by a strong commitment to continuous improvement, with senior leadership focused on evolving process improvements, and incenting the organisation heavily to develop these improvements. These companies are constantly changing themselves stretching beyond the challenges of the present toward the opportunities of the future.

The first step toward this goal is spending the time to build a roadmap which reflects a clearly articulated vision. Organisations that execute change well tend to do it fast, avoiding requirements for perfection in exchange for tangible, measurable results. These companies frequently centralise the decision-making process into the hands of small teams of people who are adept in the techniques of change management and sustainability. One benchmarking participant was able to enact such swift change, integrating 37 systems into one common system within 12 months.

Forward-thinking finance departments will enact this internally shared vision by implementing models that increase the efficiency of current processes, but also by identifying where the most meaningful value-added changes can be effected. Increasingly, processes such as lean are taking hold within the finance function, adapting proven models

utilised in other areas of business to show how finance can execute with greatest impact.

Conversely companies that struggle with this tend to keep changing their vision and their perspective on how to assess their situation. When core metrics are consistent and repeatable, finance will be free to do more in-depth analysis and produce value-added insights. The evolutionary process in finance department growth tends to follow a set pattern. First, get good at closing books, then master forecasting, then incentive programmes, and finally enact driver-based planning tied to operational metrics. When this final stage is reached, finance can finally answer the ‘why’ behind the actuals and forecasts, and recognise the drivers of profit and loss. And more importantly, they can identify changes in the business and processes which will lead to improved outcomes in the future.

*“A hallmark of top tier companies is a strong commitment to continuous improvement. And organisations that execute change well tend to do it fast, avoiding requirements for perfection in exchange for tangible, measurable results.”*

*– Brian Furness, PwC EMEA, Partner, Advisory Services*





# Lean into finance – A different way to lead a finance organisation

The idea of lean is simple. Understand what the customer values and align the organisational resources to deliver just that, and no more. Let's think about a typical finance function. Countless hours spent generating reports that are not read, duplication of effort across teams, and custom-built processes that only a few staff can understand.

In other words, our finance functions are full of waste. We have found that by applying a holistic approach to lean, it is possible for finance functions to deliver between 25%-40% in increased efficiency, while improving customer service. The challenge for a finance organisation is not to replicate Toyota, the pioneer of lean manufacturing, but to understand the philosophy of the approach, and develop a methodology that fits the organisation's needs.

Working across a range of finance functions and industries, we have found four key requirements to unlocking the full potential of a lean finance transformation.

## 1. Understand what your customer really wants

Just what constitutes value adding work? In lean thinking this can only be determined by your customer. Working in a large banking organisation we found that one finance department could reduce its demand by 30% by stopping reports sent to internal customers. When we interviewed these customers we found that they did not actually read the full report. The original request was based on a highly specific issue at the time, and the finance function had continued to produce a report monthly for one year after the initial request.

By interviewing these customers, we asked specific questions to understand their real needs. What information do you really use? What action did this drive? Surprisingly, we found that stopping a number of reports had no impact on the business. In other cases it was possible to streamline the reporting requirements, thereby reducing the burden on the finance organisation.

The key when implementing lean for the first time is to calibrate your thinking with an eye toward seeing waste. Asking questions like, why do we do this? Does our customer value this deliverable? What difference are we making to our customers? Often this way of thinking allows organisations to make dramatic changes to the way they work.

Too often, large transformations focus solely on technology and structural changes. We have found that focusing on standardising on better work practices often delivers more improved results than large changes in technology. The true power of lean is getting the entire organisation thinking in a 'lean' way. When one starts to imagine the power of every individual in the organisation looking for better ways of working, focusing on adding customer value, one starts to realise the potential benefits lean can bring.

## 2. Leadership the lean way

There is a fundamental difference between manufacturing and finance processes. In manufacturing, the focus is on streamlining the flow of materials. Productivity is maximised by running machines as efficiently as possible. In

finance, people are the key asset. So to increase productivity, one needs to understand what drives human performance.

Rather than thinking of 'leaning' a process, it often works better to consider what it takes to improve the performance of people. Working with a large finance function in a recruitment services business, we discovered a large variation in the performance of individuals. In one team we measured a 70% difference in output between different team members.

We have found the key to driving performance is not to focus on traditional performance management techniques for individuals, but to focus on how leaders are managing. When we asked leaders where they spent their time, less than 10% was spent on activities that would increase the performance of their team. Spending time in meetings, email and reporting were the largest categories consuming leaders' time.

By contrast, lean leaders strive to spend a larger proportion of their time on value-added activities. For example, they typically spend 50% of their day on coaching, planning, problem solving and giving feedback. These are activities that will actually improve the performance of individuals. By spending time understanding the variation in performance of individuals, it is possible to leverage better ways of working across teams and departments. In the recruitment services business we helped increase the productivity of some teams by 50% by studying higher performers and sharing better ways of working.

### 3. Just in time resourcing

The idea of ‘just in time’ is well known in manufacturing and supply chain businesses. One seeks to build and use inventory just when it is required.

Supermarkets use the idea to re-order goods as they are purchased through the point of sale terminals. Automatic triggers re-order more inventory depending on consumers’ purchasing patterns.

In service-based departments this ‘just in time’ principle can be applied to our people. Again if the key asset is our people resources, it begs the question, how do we ensure we have the right amount of staff when needed? For example, in one debt collection department we found individuals incentivised to hit a collection value based on a percentage of outstanding debt on their personal allocated accounts. Staff might hit their target midway through the month and have no reason to continue working, even if their colleagues were struggling to meet their collection goals. With ‘just in time’ resourcing, staff are more fluidly assigned to where they are needed. In this example, staff were incentivised to move to other accounts and help their colleagues meet their targets.

We have found that it is often possible to dynamically assign people to processes or jobs that create the most value for the organisation and its customers. This untapped ‘latent capacity’ can allow leaders to achieve significantly more without having to increase costs. In the debt collection department example the client implemented a lean management system that enabled leaders to visualise areas to refocus efforts. The results were startling – debt reduced, cash collection increased and the Days Sales Outstanding (DSO) was reduced by 10 days.

### 4. The problem solving mindset

One of the challenges of lean transformations is sustaining the early gains. The initial excitement passes and the change agents move on to new projects. The organisation celebrates the success, but then leaders start to ask ‘what is next?’

Businesses that have sustained their gains understand that lean is not a one-off project but a long term journey of continuous improvement.

We have found that the key to sustainability lies not only in what an organisation does after their lean transformation, but that the activities before and during the period of change are equally important to sustained improvement.

Often an organisation invests heavily in change resources to support the period of transition. However, it is important that the change be driven by the business not the change agents. The agents working in a project fashion should focus on building the capability of line managers, so they can now lead in a lean way.

This new approach will require line managers to think differently about daily problems that occur. For example, we witnessed a senior leader of an organisation criticise a member of staff for not solving a problem that had been captured and visualised on a central information dashboard. Team members started hiding problems, since they feared the consequence of raising issues.

The problem solving mindset needs to be embedded across all levels of management. It becomes the job of leaders to encourage problem solving, reduce fear and understand that

problem identification provides an opportunity to improve.

Reduced costs, increased quality and engaged employees. The benefits of lean are clear. The challenge set forth for finance leaders is to first realise that this change must begin with their own way of thinking and behavior.

.....  
**Mark Hatton** is a Senior Consultant in PwC’s UK Consulting practice. He is a specialist in Performance Improvement in the private sector. Mark is leader of PwC’s ‘Perform’ solution, a methodology for transforming the operational performance of organisations.

# The model of success

Leading finance departments are emerging as a heterogeneous collection of professionals whose backgrounds and experience are matched to the diverse tasks at hand. Some will come from traditional accounting backgrounds, some will be MBAs, some will be IT experts, and some will emerge from even more remotely connected areas such as social science and operations research. Companies who can recruit the best talent into these new roles of business partnership and insight generation will find they have created a flexible, proactive, and resilient team that is able to respond to changes in markets, industries and corporate structures.

Pairing the need for the acquisition and development of human talent with the strategic use of shared services, outsourcing and centres of excellence, will help create efficiencies that will allow a depth of reporting that will go beyond traditional financial metrics to satisfy internal stakeholders' requirements for understanding business trends,

regulatory impact and compliance. Finance will provide greater understanding of how existing trends came to be and what factors are influencing their forecasts. Finance will collaborate in the strategic decision-making process, affecting key drivers of the business rather than being trapped in a supporting role. Finance departments of the future will find new ways of orchestrating better performance, offering more diverse and rewarding communication to stakeholders, enhancing resilience in challenging times and ultimately providing a more connected and cohesive finance offering.<sup>3</sup>

The companies that will be left behind in this evolution will be those that are held prisoner by the technological and management structures of the past. Finance needs to innovate in order to remain relevant. Without information and analytic platforms that can swiftly and accurately process transactional

data via centralised and automated systems, organisations will find that the grind of basic report production will serve as an ongoing impediment to progress. Management teams which trap the finance group within strict and unimaginative parameters will also produce limited and unimaginative outcomes.

Finance organisations today are poised to assume a greater role in corporate change than has been previously imagined. Increasingly, organisations are developing the tools and talent needed to realise this potential in powerful ways, allowing companies to leverage a comprehensive and holistic analytical perspective that draws lines of business out of their silos and eliminates regional boundaries in order to move the organisation forward into a more competitive future.

3 Finance Matters: Finance function of the future', published by PwC, 2013

***“Finance organisations need to continuously innovate in order to remain relevant – and to assume a greater role in shaping their company’s strategic direction.”***

*– Michael Boyle, PwC Americas, Partner, Advisory Services*



## ***Benchmarking evaluation***

As support functions seek to respond to new business demands, our benchmarking analysis can provide an assessment of strengths, weaknesses and areas for improvement, while providing a baseline from which to measure progress.

PwC provides benchmark analysis of the functions that comprise SG&A (finance, HR, IT, procurement, sales and marketing) for a wide range of leading UK and international firms. Using a consistent assessment framework for understanding the performance of the SG&A functions, the results allow you to compare your performance across your organisation and against other companies.

You can then identify areas for improvement and formulate a convincing case for change. Periodic updates allow you to chart progress and sustain the momentum of development.

If you would like to complete a benchmark assessment or would like more information please contact:

### ***Jeffrey Ford***

Partner  
+44 (0) 20 7804 9177  
[jeffrey.ford@uk.pwc.com](mailto:jeffrey.ford@uk.pwc.com)

### ***Andrew McCorkell***

Director  
+44 (0)20 7213 1509  
[andrew.s.mccorkell@uk.pwc.com](mailto:andrew.s.mccorkell@uk.pwc.com)



[www.pwc.co.uk](http://www.pwc.co.uk)

PwC UK helps organisations and individuals create the value they're looking for. We're a member of the PwC network of firms in 158 countries with more than 180,000 people committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com/uk](http://www.pwc.com/uk).

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.

131009-174042-LA-OS