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Re-energizing Finance: The Organization Challenge

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In this series of white papers, PwC and faculty at Wharton focus on how CFOs can build top-performing finance teams. Topics include attracting and motivating the right talent; leveraging all parts of the finance organization; and what it means to be a high-performance CFO today.

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Like many other parts of companies, finance organizations haven't been spared recent belt-tightening. They've been trimmed down and streamlined, and in many cases, are shadows of their former selves. Doing more with less has become a new mantra. Yet whatever the size of their teams, the onus is on CFOs today to leverage every part of the finance organization to deliver value beyond traditional transaction processing and control. PwC and faculty at Wharton share insight on how top finance organizations can rise to the challenge.

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GARY APANASCHIK

While few balance sheets have been left unscathed by the Great Recession, some finance organizations have come to the fore—aiding their companies with forward-looking business insight that helped them ride out the toughest stages of the downturn, or even take advantage of it and grow. That was the case of Cox Communications. In 2008, shortly before the economic downturn, the Atlanta-based broadband communications and entertainment company decided to build on an already successful transformation program to draw its finance team closer to the business with new processes and systems. It was good timing, according to Bill Fitzsimmons, the company’s senior vice president of corporate finance and chief accounting officer. “You don’t want to wish for a downturn to happen, but we were ready to become more proactive in advising the business units,” he says.

“The finance organizations that are the best now are the ones that have been working at this for years … and have been able to adjust to the downturn and understand what levers they need to pull to support the business,” says Gary Apanaschik, a partner at PwC.

Yet are those organizations the exception rather than the rule? More often than not, CFOs lament that their finance teams are overworked and understaffed. They have spent the last three years surviving the Great Recession, cutting to the bone to maximize productivity and efficiency. One consequence: Many finance executives are retreating to their traditional number-crunching roles, becoming reactive rather than proactive while burnishing their reputations for being ace cost-cutters and not much else.

Wanting finance to become a more strategic partner to the rest of the company is one thing; actually becoming one is another, points out John R. Percival, a Wharton adjunct finance professor. He says research at Wharton has found that “finance people aren’t playing the kind of role their colleagues are hoping they would play” in providing more and better input during mission-critical meetings. “It is either that they don’t feel comfortable participating in those kinds of conversations, or if they do, their input isn’t particularly helpful,” he states.

Finance’s struggle to deliver on expectations is hardly a new phenomenon. “Years ago, when cost reduction came in, single ERP (enterprise resource planning) systems arrived, and things moved offshore, some of these organization were stripped down – and finance struggled to deliver value added decision support to the business,” recalls PwC’s Apanaschik. As a result, finance teams became more known for routine compliance and controllership activities – closing the books, processing invoices and so on – rather than for taking a broad view of how they could drive value.

Even if there were pockets of value-enhancing initiatives, the collapse of Lehman Brothers and the beginning of the long economic downturn in late 2008 caused another retreat. For finance executives, it was just one of many signals that being strategic partners would have to wait. Their companies were in survival mode. They were being called upon to lead swift retrenchments, leaving no stone unturned – not just in finance but across the entire company – to rein in spending and respond to plummeting businesses.

"When the recession started, you saw that drastic cost-cutting," recalls Don Rupprecht, a PwC partner focusing on finance transformation. Capital expenditure was frozen or slashed, projects were put on hold or cancelled, and across-the-board staff reductions were "indiscriminately" put into force, "without thinking whether it is really the right thing to do" says Rupprecht. In the wake of these staff reductions, finance teams have also had to make do with less. But whatever the size of their teams, the onus is on CFOs in a post-downturn world to leverage every part of the finance organization to work differently.

According to PwC and faculty at Wharton, the following steps can help top finance organizations rise to the challenge:

1. Reflect on where finance is and where it needs to be

CFOs can begin by making an assessment of where finance is today, and where it should be given the company's needs. One way to gain insight into how finance is perceived by the organization – and to learn more about what the company expects from it – is to initiate customer satisfaction surveys. Another, perhaps more critical, measure would be to hold individual discussions with other business units. Also, finance chiefs should gather information from the trenches – that is, find out from their own staff members what they think needs fixing, and solicit their suggestions on how to fix it. Armed with that information, CFOs can then create a roadmap to address gaps in performance.

To help build that roadmap, CFOs should consider the following questions:

- What is your vision for finance in your organization?
- How do your internal customers perceive finance today?
- How well is finance meeting the needs of the business?
- How is finance currently organized? What roles are staff fulfilling? Is there any redundancy?
- What should a future organizational chart look like in order to increase performance and service delivery?
- Does the organization's technology effectively enable critical processes?
- How mature and reliable are your finance processes?

2. Know when centralization is right, and when it isn't

"Finance is all about balance," says Wharton's Percival. "Companies make sense when the whole is worth more than the sum of the parts. What that means is that we have to get the pendulum between centralization and decentralization right. And frankly, you can swing the pendulum too far in either direction."

To understand how much to let the pendulum swing, CFOs may want to begin by looking for physical proximity of finance staffers to internal customers. "If you have accounts payable people in every location across the country, that is not efficient," says Rupprecht. "If you have all your financial analysts sitting in a central location trying to serve their customers thousands of miles away, that's usually not the best way to satisfy the needs of the business."

The result is that finance at most companies is a mix of functions that are outsourced or centralized in shared service centers or centers of excellence, according to PwC partner Mike Boyle. "It's not all or nothing," he says. But the days are gone of highly decentralized models, with multiple back-office operations. Top CFOs today have organized finance activities like accounting, compliance, tax and treasury in ways that are both cost-effective and efficient, and put them under the leadership of a team of experts. Only when that happens, he says, can a CFO free up his or her own time to hone a vision for finance.

3. Build in efficiencies to 'play ahead of the ball'

How does finance become a trusted adviser to the rest of the company? That was a question asked at Cox Communications, which began with the rollout of a new accounting and supply chain system in 2004, recalls Fitzsimmons. In serving around six million business and residential customers nationwide as one of the largest cable TV companies in the U.S., Cox had become decentralized, making it difficult for finance to collect, aggregate and analyze performance data transparently, consistently, and accurately.

"Once you start to execute on that vision and you can bring people along, it's amazing how much power you get from moving away from what I call 'playing behind the ball' and trying to catch up," says Fitzsimmons. "Now we're able to play ahead of the ball and have people ready who can help the business when they need us."

The new system enabled finance to centralize all accounting work from out in the field, while standardizing and automating much of the routine work. Within five months of the project beginning, Cox's finance team completed the company's first centralized closing of the books and has since been building on that efficiency. Closes are now completed in the first three business days of every month. That's fast compared with other companies, and it could be even faster, says Fitzsimmons. But there's a limit for the need for speed, he insists, particularly if it gives finance time to monitor the quality of the information they're providing and "make sure there are no surprises" when it hands off reports to Cox's business analysts.

Because of such changes, "people really do trust why we are advising them in a certain way," says Fitzsimmons. "We can help them interpret the numbers, but we're not there with the primary purpose to be that old-school referee standing on the sidelines."

4. Put the business first, finance second

Whatever the design of an organizational strategy, one thing is clear: Finance can't work in isolation. According to Fitzsimmons, having a physical proximity to the business has been critical for bolstering finance's knowledge of the levers to pull to sustain and grow the $9 billion of revenue Cox is generating every year. "What I've tried to instill in terms of the spirit of what finance does is to be more in the business," says Fitzsimmons. He reminds senior managers that "while finance may be the core expertise that you bring to a team, the focus should be on the business [by asking]: What are we trying to accomplish to advance our services to our customers?" The result? Finance "is a much richer job than it would have been historically," he observes.

That may give some finance managers a jolt, especially if they're unaccustomed to working in cross-functional teams. The key in that case, says Wharton's Percival, is for CFOs to remind their staff that their job is to make sure everyone is fully aware of the financial implications for what is being proposed. "Maybe deep down, as a finance person, you might not think what's being proposed is the right thing to do, and you can make that clear in your financial analysis," he says. "But if people go ahead and do it anyway, you still did your job."

There's also plenty that CFOs can do to help increase their team members' comfort level in working side-by-side with the business. Education is one. Rupprecht recalls how the CFO of a hotel group held a two-day, global conference for its finance leaders where the majority of the time was used to discuss a new multimedia brand campaign rather than, say, the latest accounting standard changes, as would have been the case in the past. "They had lots of people from marketing there, explaining the value proposition for each brand, [and] the CIO explaining the value of the investments they were making in technology," he says, giving the firm's finance leaders insight into the business that would be useful in providing day-to-day support.

5. Fill the leadership pipeline

A CFO's organization strategy also needs to consider the global leadership pipeline, notes Jason Wingard, vice dean of executive education and adjunct professor of management at Wharton. During the financial crisis, "organizations have had the luxury, if you could call it that, of having employees held captive," with widespread freezes on hiring and promotions, and "highly qualified people with lots of institutional knowledge doing more and more, and in some cases, being asked to double up on responsibilities when there were layoffs." As the job market slowly re-opens, over-stretched staff may be eager to look for work elsewhere, and Wingard's concern is that CFOs are at risk of encountering deep holes in their finance organizations, which will leave their companies ill-prepared for growth.

Old methods that CFOs once relied on to fill key roles may no longer be as effective as they once were. For example, a traditional way CFOs have attracted, developed and retained finance staff was to offer rotating assignments, often away from company headquarters at key international sites, in operations or other parts of finance.

While PwC partner Mike Boyle says rotations within finance are strategically important to develop staff, he sounds a note of caution when it comes to more specialized functional areas. Rotational assignments are "great in theory, but today's world is so specialized," he notes, using the analogy of an American football team. If a coach rotated a quarterback through all the positions on the team, "that person would fail, and the team would be terrible," he says. Likewise, in finance, if a CFO rotates a top-notch treasurer—one who understands cash management, banking relationships, currency risks and so on—to a post in controllership, he or she "might have a serious problem back in treasury," he notes. "A CFO needs specialists and experts to cover complex areas."

Still PwC and faculty at Wharton say there is plenty that forward-looking, innovative CFOs can do to ensure their finance teams have the expertise they need. (A subsequent white paper in this series will specifically address how CFOs can build the bench strength they need to increase performance today and in the future.)

6. Be ready for continuous change

So if CFOs have re-organized their teams to leverage all available resources, clean up processes, boost finance's business acumen and increase their input into strategic decision-making, what's next? More change, say experts. Just like the businesses they serve, the services and support that finance provides can't be static.

The way PwC partner Tom Archer sees it, any plans for finance's future need to take into account a major change in how, and where, companies generate revenue. In all sectors, he says, the "underlying tenets" of how companies engage with their customers, the way customers purchase, the pricing and contracting mechanisms, delivery vehicles, and so forth are transforming the "DNA" of revenue. "Every day, that DNA is evolving."

Finance needs to prepare business leaders for whatever the new DNA may be. By way of example, he cites technology's impact on sales and marketing. While companies generally spend 25% to 45% of their revenue on sales and marketing, "my perspective is that under the new model, with self-service purchasing, mobile engagement, social networking and digital marketing, it's going to significantly reduce that cost paradigm," he says. "And because business unit leaders don't wake up every day thinking about how they're going to significant cut their budgets, the CFO is going to have to lead that thinking."

What's more, where that revenue will be generated will also change. According to a global PwC survey of CEOs published in November 2011 (15th Annual PwC Global CEO Survey), 62% of the 200 respondents expect a greater share of revenues to come from emerging markets in the next five years. Archer says that when the aggregate GDPs of major emerging countries surpass that of developed countries – "something we're being told will happen during our professional lifetimes, give or take 10 years" – some very large emerging-economy companies "will have built new business models under that new DNA, with faster innovation cycles, lower operating costs and so on." Archer wonders how many CFOs are aligning their finance organizations now to be ready.

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