

Putting your business on the front foot

Finance effectiveness benchmark study 2012

Top performing finance teams are on the front foot, successfully steering their businesses through the rapidly changing commercial landscape and capitalising on the opportunities this presents. Others have found themselves simply reacting to events. What sets them apart?



pwc



Contents

Introduction	5
Overview	6
What sets top performers apart	10
Making MI count	12
Planning ahead with confidence	14
How much use is the traditional annual budget?	16
Up to the task	18
Rexam: Building a platform for growth	20
Nurturing a new breed of finance professional	22
The talent to succeed	24
More for less	25
The consolidation and evolution of shared services	26
Balfour Beatty Customer Support Center	28
The next generation governance and delivery model for finance	30
Strengthening oversight and control	32
Firmer grip on exposures	34
Coming challenges	36



80% of participants say the accuracy of their forecasts is critical to the running of the business, but only **45%** believe the outputs are reliable.

Finance teams who regularly review the integrity and relevance of their MI only produce around a **third** of the standard reports of those that don't.

Leading finance teams are taking a more forward-looking approach to talent management with an average of **30%** more people in their talent pool compared with typical performers.

More than **90%** of participants believe they have established a governance framework to manage risk, but **less than a quarter** are truly confident that key controls are operating effectively.

Only around **30%** of participants have a formalized strategy to align technology to business needs.

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, while providing a baseline from which to measure progress.

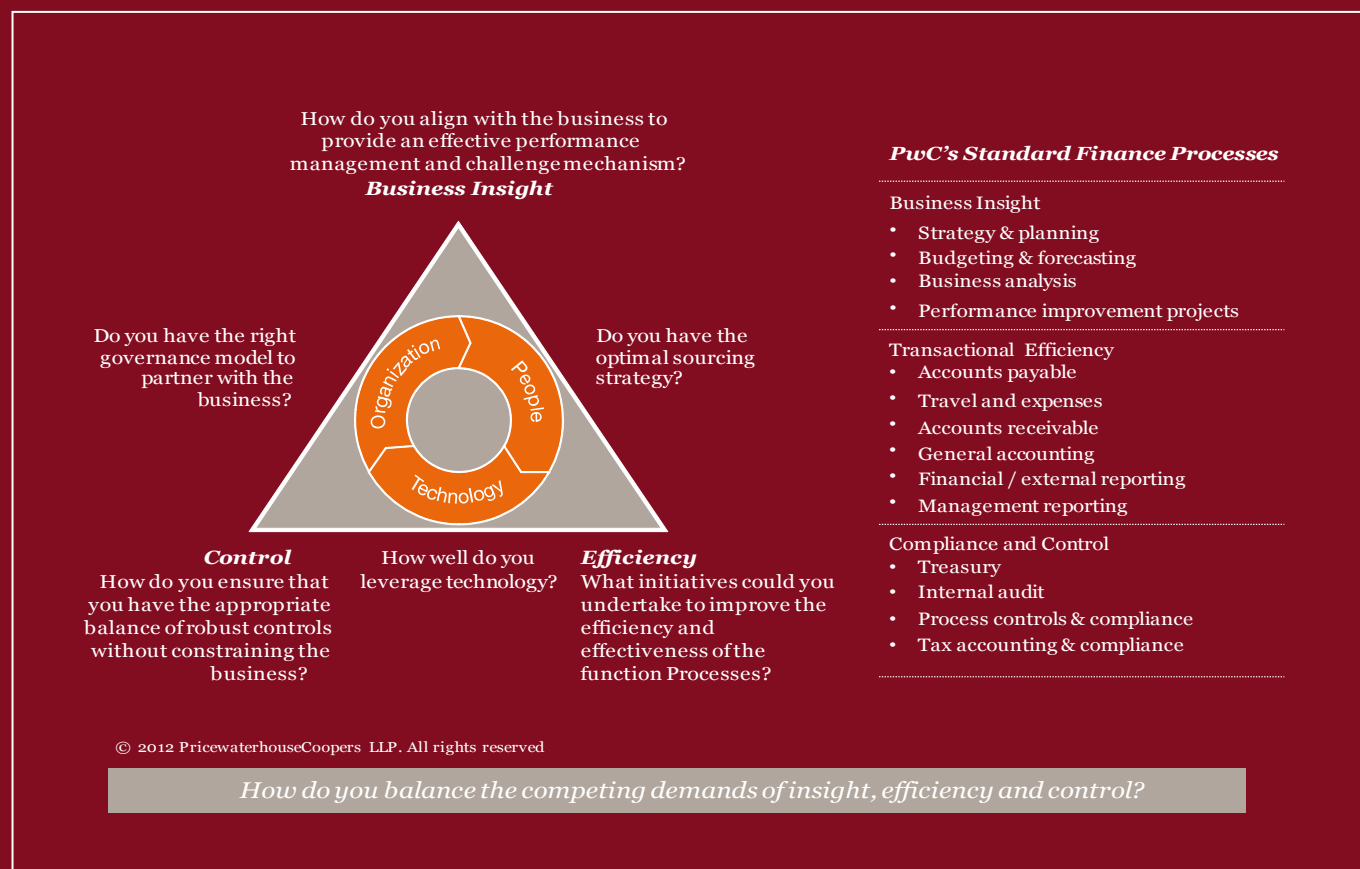
The analysis combines qualitative assessment and comparative metrics across the complementary dimensions of business insight, efficiency and compliance and control. **Business insight** looks at evaluations such as a comparison of

time spent on analysis and data gathering and an assessment of budgeting and forecasting processes and the quality of their outputs. **Efficiency** analyzes the 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 cost, accountability 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-emphasizing cost may in some companies inhibit the function's ability to provide insight and value.

PwC's finance assessment framework



Introduction

Welcome to *Putting your business on the front foot*, PwC's¹ fourth annual benchmark report, which outlines the latest findings of our benchmark analysis of more than 200 participating companies.

In this report, we examine the new demands facing finance functions and why some finance teams perform more effectively than others.

Organizations demand clear and comparable data and analysis to support the improvement and transformation of their finance and business support functions. The evaluations carried out by our benchmark practice are geared to meeting this need. Drawing on process-by-process assessments and interviews with the finance and business leadership, we work with clients to compare the demands placed on their finance teams with the efficiency of delivery and effectiveness of decision support.

performers in our benchmark analysis. Indeed, the finance functions that rate highest across the areas of insight, efficiency and control tend to run at lower cost as a percentage of revenue, reflecting both the efficiency of their operations and their success in helping to stimulate business growth. The top tier finance teams are distinguished by their ability to identify the insights that give businesses an edge and concentrating resources on these priorities. This is underpinned by timely

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Putting your business on the front foot is based on the detailed data gathered during such client assignments in more than 200 leading global groups². The report forms part of our wider benchmark services covering a range of integrated support areas including HR, IT and procurement.

The backdrop to *Putting your business on the front foot* is financial teams' increasingly crucial role in strategic decision making. Managing risk and uncertainty is an important part of this. Having become accustomed to operating in a volatile environment, what businesses most demand from finance is the forward-looking insights required to help them compete in local, regional and global markets.

While finance budgets have risen to meet the demands of a new and often unfamiliar business and regulatory environment, the companies that spend most as a proportion of their overall revenue aren't necessarily the best

and reliable data and investment in the people capable of providing commercially astute analysis. Effective automation, organization, and sourcing strategies also allow the best performing finance teams to focus more closely on decision support, while keeping a firm hold on costs.

Our analysis raises questions about whether key management information is sufficiently relevant or timely to be of real use and whether financial risks are being managed effectively. The underlying concern is the extent to which some finance teams have found themselves caught in the headlights of uncertainty and change, reacting to events in a defensive manner, rather than dealing with them in a sufficiently proactive or decisive way.

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 usual PwC representative.

¹ 'PwC' refers to the network of member firms of PricewaterhouseCoopers International Ltd each of which is a separate and independent legal entity

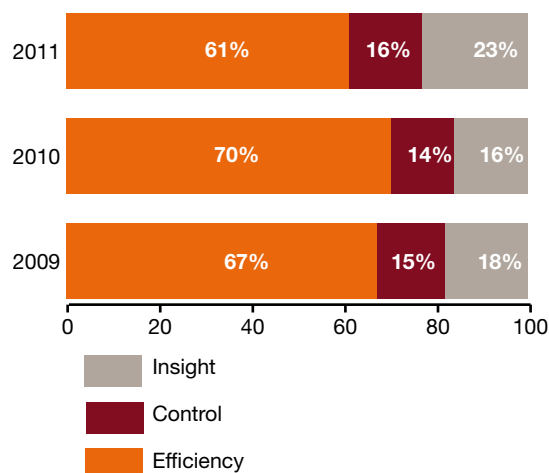
Overview

What marks out the finance teams that are performing in the top quartiles of business insight, efficiency and control is not how much they spend—indeed it's often less than average. The key differentiator is that they've been able to make their investment in people, systems and new operating structures really count.

CFOs are striving to sustain shareholder value and strengthen enterprise risk management (ERM) in the face of a new economic landscape that is emerging from the financial crisis. Most benchmark participants are also seeking to improve their internal and external reporting systems as they look to provide the information stakeholders need in a faster, more aligned and more cost-effective way.

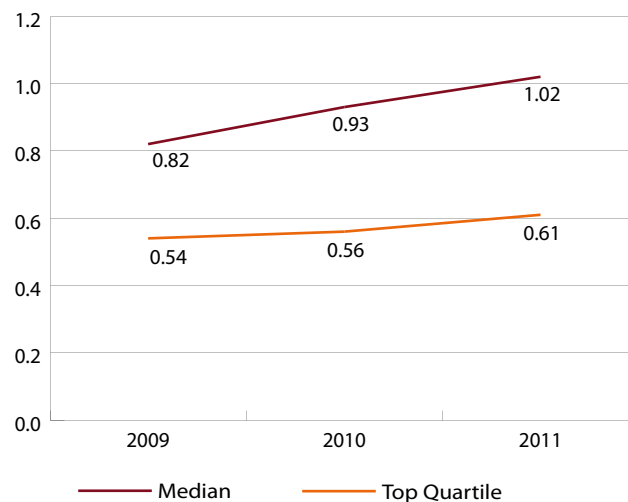
These objectives are reflected in the extra time and effort devoted to providing strategic and commercial insights, as well as strengthening control (see Figure 1). Investment in finance as a proportion of revenue is also increasing (see Figure 2). Yet, despite the increased resources, most finance teams are struggling to deliver the sharper, timelier and more proactive management information (MI) needed to enhance reporting, risk management and decision support.

Figure 1 – Percentage of Finance Effort



Source: PwC finance benchmark data

Figure 2 – Finance cost as a percentage of revenue



Source: PwC finance benchmark data



*Top performing finance teams spend **17%** less
time on data gathering and **25%** more time on
analysis than typical functions*

*Around **60%** of participants still rely on manual spreadsheet manipulation for reporting*

Reactive to proactive management information (MI)

Most finance teams believe their budgets, forecasts and period-end reports could be better. Most notably 80% of participants report that the accuracy of their forecasts is critical to the running of the business, but only 45% of these believe the outputs are reliable.

The time taken to complete budgets and forecasts is often too slow to provide a valid basis for decision making, with turnaround times seeing little improvement in recent years. The gap between leading and average finance teams demonstrates what is possible with the right data, people and approach and is likely to be a telling differentiator in companies' ability to improve the bottom line.

Regular dialogue with the business helps to make sure that finance teams' resources are being focused on MI that is genuinely useful and cut back on a lot of wasted effort. Nearly half of participants carry out such reviews.

It's telling that they only tend to generate around a third of the standard reports produced by the average company.

Distinguishing good and average

Finance budgets have risen across the board, but top tier finance teams are operating at lower costs as a percentage of revenue because they're not only more efficient, but their insights are also helping the revenue for their businesses to grow quicker than their running costs.

Clear identification of business requirements and making these outputs a priority allows them to focus resources more effectively. The front-runners are also developing the people and analytical capabilities needed to provide genuinely useful analysis and applying the controls needed to instil confidence in the underlying data.

Technology is no good without the right data feeding it

Many participants are relying on manual workarounds to meet increased reporting demands. Around 60% of participants still rely on manual spreadsheet manipulation for reporting. Others have made significant investment in technology, but have often seen little improvement in the speed and quality of MI and regulatory reporting.

The fact is that technology won't make a difference unless the data is right. A clear sign of the deficiencies is that while around half of the participants have a data warehouse, barely 10% have applied the

consistent data standards ('standard taxonomy') required for true comparability.

Distinguishing good and average

Top performing finance teams have adopted an integrated approach to planning and management reporting processes, systems and data, where fixing the data is the first step.

Strengthening enterprise risk management is proving difficult

More than 90% of participating companies have a dedicated risk management function in place. But only around half believe they have the necessary framework in place to monitor, manage and communicate enterprise-wide risks effectively. There may also be an element of over-confidence in how well controls are actually operating in the business. More than 90% of participants have established policies and governance structures to manage risk. But less than a quarter report that key controls have been effectively tailored and assessed for risk assurance.

Distinguishing good and average

Companies that are managing risk effectively highlight the importance of robust governance structures and close co-operation between risk and finance teams, underpinned by timely and reliable MI. They're also strengthening their ability to detect and manage emerging threats through more effective scenario and sensitivity analysis.

Keeping pace with rapidly evolving talent demands

Amid the prevailing shift of effort away from transaction processing towards greater decision support, the capabilities required by finance professionals are evolving and many traditional career paths which started out in transaction accounting and routine financial reporting are no longer an option. Companies are looking for people with the commercial acumen and interpersonal skills needed to work with different parts of the business. There is also an increasing demand for specialist finance expertise in areas such as tax and treasury. The challenge for many

is to recruit and retain the right combination of competencies for the different roles.

Distinguishing good and average

Companies that are managing talent more effectively aren't necessarily paying more to attract the right people in the short-term, but are developing forward-looking plans for what skills will be needed, how to develop them within the business and how to track delivery against objectives in a systematic way.

Shared service development gathers further momentum

The move to shared services continues to gather pace with a growing emphasis on the development of multi-function business service centers, which seek to integrate finance with other support functions such as IT, HR and procurement. Finance is often located around a number of inshore and offshore locations, depending on the role, with many companies now developing

centers of excellence in areas such as reporting and tax. Experience of how to make this 'next generation' model work underlines the importance of ensuring that governance structures and management skills keep pace with the growing scale and complexity of the shared service operations. Clear definition of responsibilities is also essential, both within the retained and outsourced elements of the business.



What sets top performers apart?

Insight

- A forward-looking approach, with rolling forecasts and analysis to keep pace with market developments and anticipate emerging risks and opportunities for the business
- Time and resources focused on activities that count – leading finance teams spend 17% less time on data gathering and 25% more time on analysis than typical functions
- Faster turnaround of key MI – leading finance teams deliver forecasts in less than half the time and prepare budgets 25% quicker than typical functions
- Freeing up finance resources to focus on more effective decision support – leading finance teams employ nearly 40% more people in 'business partnering' roles and pay around 25% more than typical functions to help attract quality professionals
- Forward planning on talent management - leading finance teams report on average 30% more people with special potential in their talent pool compared with typical performers

Efficiency

- Delivering more for less – leading finance teams operate at around 40% lower cost (percentage of revenue) than typical functions
- Faster period-end close to allow more time to analyse key financial information and its implications – leading finance teams report results 30-40% faster than typical functions
- Focusing on the next tranche of shared service savings through the development of 'lean' approaches, multi-function services (finance, HR, IT, procurement), and hybrid sourcing models which can combine outsourced and captive operations
- Smarter use of technology to drive process standardisation, deliver scale efficiencies and enable faster integration of new operations
- Up-to-date and actionable KPIs that allow management to track improvements and tackle bottlenecks and other problems



Control

- Reduced risk of error – leading finance teams have automated :70% more of their key controls than typical functions
- Effective review and adaptation, with key controls being tailored and assessed for risk assurance
- Avoid over-burdening the business with excessive controls. While top tier finance teams have got the

balance right, most others believe that they have an excessive number of controls and report that internal controls aren't fully integrated with compliance processes, which can create needless extra burdens

Making MI count

Businesses need proactive rather than just reactive management information to be able to keep on top of a fluid business environment and move quickly to seize opportunities.

The importance of clear group level visibility across the operations of the organization and its markets has never been more acute. To manage exposures and capitalise on opportunities, CEOs, CFOs and COOs need to be able to draw on a consolidated and forward-looking view of performance across markets, products and key customers. Yet many are still forced to rely on reactive rather than proactive MI.

Although we have seen a steady level of investment in finance systems in recent years, the anticipated

produce key information for internal and external stakeholders more quickly and cost-effectively. An area of focus is aligning risk and finance reporting, though in most cases this remains a work in progress.

Fixes create risks

As demands continue to mount, many finance teams are being forced to rely on system bolt-ons and manual workarounds to provide short-term tactical solutions, though these fixes can be expensive and prone to error. They may also hinder any subsequent

Larger companies are generally able to report quicker, despite greater complexity, allowing more time to analyse the implications and prepare market communications

improvements in the quality and speed of reporting have not materialised.

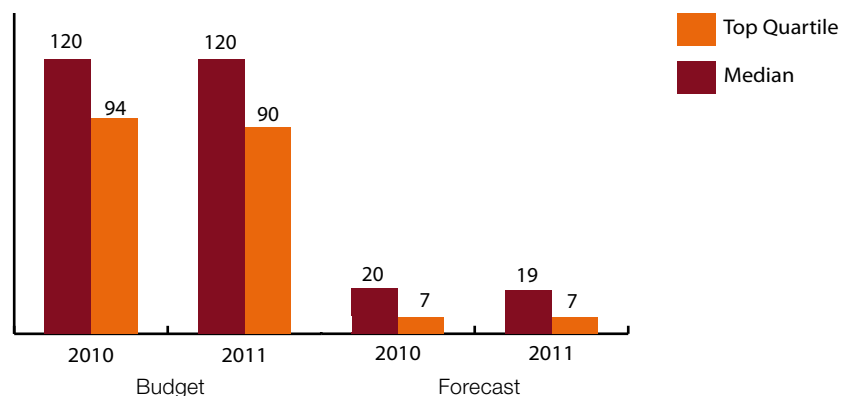
As Figure 3 highlights, turnaround times for budgets, forecasts and statutory reporting have barely changed. The benchmark data also reveals worrying concerns over the accuracy of key MI.

More than 60% of participants are engaged in various initiatives to

attempts to align reporting and planning systems in a strategic way. Only around 30% of the finance teams taking part in our benchmark projects have a formalised strategy to align technology to business needs.

Figure 4 highlights the consequences of this jumble of fixes and workarounds. Despite some improvement over the past year, most finance teams still spend more time on data gathering than actual

Figure 3 – Budgeting and forecasting cycle (days)



Source: PwC finance benchmark data

analysis. Even the better performers have room for improvement in this area, with the margin between the top and median quartile being one of the smallest in the analysis overall.

Larger companies are generally able to report quicker, though the top quartile take the same amount of time to close and report to executive management (see Figure 5). The faster finance teams can prepare key information, the more time they have to analyse the implications and prepare market communications.

Relevance filter

The better performing finance teams are also building their reporting solutions around MI that counts, rather than being led by technology. A key part of this is regularly reviewing what people within the business want and whether outputs are meeting these expectations. This ‘relevance filter’ allows finance teams to focus resources on the MI that is genuinely useful and cut back on a lot of wasted effort. This is evident in the fact that the 47% of participants who carry out regular reviews of business needs only tend to generate around a third of the standard reports produced by the average company. It’s also telling that

more than 50% of these reports are automated, compared to around 30% among average performers.

Reliable data

Although shortcomings in reporting applications are frequently blamed for the problems with MI, the overriding issue tends to be the gaps and inconsistencies in the underlying data – technology can’t deliver without the data to support it. A telling instance of this is that while around 50% of participants have a data warehouse in place, only 11% have applied the standard taxonomy required for true comparability across the business.

Developing sustainable solutions to reporting problems and making the most of technology requires an integrated approach to data, systems and processes, in which putting the data right is the first key step. It’s then possible to develop the assured data supply, governance and firm-wide consistency needed to provide timely, reliable and high quality MI.

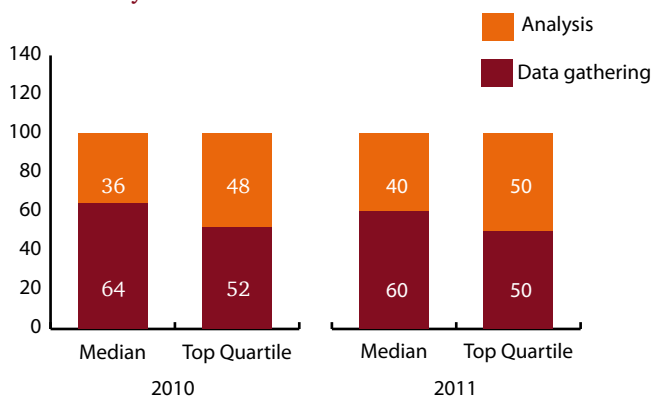
In turn, the quality of MI depends on the rigour of the compliance and control framework. This includes a combination of controls geared around past performance in areas such as

revenue recognition and more forward-looking risk indicators such as a rise in customer complaints.

Although we’re seeing increasing use of advanced consolidation tools at group level, many are designed to be Sarbanes-Oxley-compliant and therefore require greater controls intervention than sometimes necessary. This can be perceived as an unnecessary additional burden on financial controllers within operating companies. Ideally, the inputs for group MI should come from a streamlined organization-wide ERP system, supported by centralised governance, well-managed data supply structures and a single reporting platform.

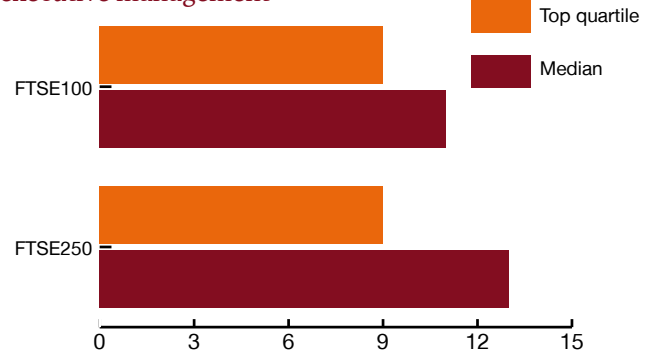
While the costs and effort of developing advanced consolidation capabilities are significant and are therefore mainly confined to larger groups at present, experience suggests that the demands on resources are outweighed by both the immediate and longer term benefits.

Figure 4 - Percentage of time spent on data gathering versus analysis



Source: PwC finance benchmark data

Figure 5 – Business days to close and report to executive management



Source: PwC finance benchmark data

Planning ahead with confidence

The financial crisis provided an acid test for the effectiveness of planning capabilities. Smart businesses saw the warnings and responded quickly, while others were caught out. Bringing planning capabilities up to scratch is going to be equally important in anticipating and making the most of the opportunities ahead.

While 80% of benchmark participants rely on the accuracy of their forecasts, only 45% believe they're materially correct. At 120 elapsed days for budgets and 19 days for forecasts, typical cycle times are also far too long to have much validity in today's fluctuating conditions (see Figure 3 on page 12). The more agile businesses are concentrating on the key business drivers (top-down) rather than spending time building budgets from the bottom up. Cash flow projections and scenario analysis are often an integral part of these forecasts, highlighting the increased emphasis on risk factors and probability of outcomes.

Most organizations are comfortable when forecasting in a stable environment. But the new business realities are anything but stable, leading to a gulf between projected and actual performance and reducing confidence in the planning outputs.

In turn, disjointed processes and approaches in different parts of the business are making it difficult to produce integrated plans and forecasts. Examples include the difficulties of bringing together sales and production forecasts as both sides often have a limited view of how the product mix and changing raw material costs affect margins and profitability.

A common drawback is over-burdening the financial planning process with excessively detailed customer and product level data, which can reduce flexibility, increase planning cycle times, and ultimately impact the ability to make timely business decisions.

Although the relative speed of finalising a budget or preparing a forecast naturally varies from sector to sector, most of our participants acknowledged that the time and effort their companies spend on

Top performing finance teams take just 7 days to produce their forecasts. The typical function needs 19 days

An underlying weakness is a tendency to want to beat the budget rather than seeking to create accurate and meaningful forecasts. Exceeding what are in effect artificial targets can be just as detrimental to the business as falling short.

financial planning is excessive. The fact that top performers can forecast in just seven days underlines what is possible if greater focus is employed.

Continuous forecasts

A move to continuous forecasting based on changing business conditions would provide an up-to-date view of whether goals are going to be met and the impact on targets and bonuses. It would also encourage business teams to look at risks and opportunities further into the future. This may be too much to adopt quickly for many companies. A reasonable first step would be to adopt a lean budget process, combined with an appropriate forecast horizon; five-quarter rolling forecasts are frequently used.

A zero-based budgeting approach would make this kind of thorough re-evaluation even more valuable. This process should ideally be supported by variance analysis and the ability to explain why forecasts have changed from period to period.

Useful tools

While recognising that spreadsheets will always be an essential part of the analytical toolkit, an increasing number of finance teams are now using integrated planning tools such as SAP BPC or Oracle/Hyperion Planning to streamline the overall financial planning process, introduce driver-based budgets and forecasts and

reduce manual planning. As a result, preparing sensitivity analysis, scenario planning and integration of forecasts and plans across functions has become a lot quicker and easier.

Technology is not an answer in itself and should only be deployed once other elements are in place. Successful transformation of financial planning

demands close collaboration between the corporate office, finance, functional areas and business units. It also requires a cultural shift as David Jones argues in *'How much use is the traditional annual budget?'*



How much use is the traditional annual budget?

David Jones, a Director in PwC's Enterprise Performance Management team, looks at how the latest crisis is likely to prove to be a catalyst for an overhaul of business planning and performance management.

Budgeting and forecasting are key pillars of good business management. Securing realistic and accurate planning information is critical, allowing senior management to quickly adapt to changing business conditions and maintain the confidence of external stakeholders. But when the real test of the financial crisis came, not enough companies anticipated it or had effective plans to deal with it.

In another example, a manufacturer's sales and marketing team kept under-estimating sales volumes and misjudging the forecast on product mix. In turn, the production team were targeted on meeting volume budgets, with very little visibility over product profitability and little confidence in the forecasts of their sales and marketing colleagues. The finance team was constantly being asked to close the gaps between

The gulf between projected and actual experience can only diminish the value of the budget process within the wider organization and bonuses based on budgets will keep driving inappropriate decisions.

Our latest benchmark data highlights the extent to which the traditional annual budgeting process continues to be a cornerstone of finance function output and consumes considerable resources across finance and the rest of the business. Yet, most of these budgets are failing to keep pace with fluctuations that are now the norm.

A typical example was a retail business, for whom, meeting the annual budget was always the key goal. Six months into the year they found that their economic growth assumptions were overly optimistic and that the budget targets were unachievable. The many hundreds of spreadsheets used to prepare the budget only made it harder to adjust and respond accordingly to the shift. A more agile and responsive approach was clearly needed.

marketing and production, but were themselves hampered by standalone systems and lack of standardisation and integration. The company realised that maximizing profitability demanded a more collaborative approach, supported by integrated forecasting processes and an appropriate driver-based planning platform.

The gulf between projected and actual experience can only diminish the value of the budget process within the wider organization and bonuses based on budgets will keep driving inappropriate decisions.

Giving up the conventional annual budget may be a wrench for some finance teams. But even if we eventually move back to a more stable planning environment, it's difficult to see how long such a process can survive when more reliable and less costly alternatives are available.

Focusing on business drivers

Smart companies are moving to a rolling forecast horizon (a five-quarter rolling forecast is popular in many industries). They use business driver-based integrated planning and forecasting techniques, as well as taking a lean and focused approach to the information that is planned and forecast.

A driver-based approach seeks to take full account of the future developments and scenarios that might affect the company's ability to meet its targets. For example, they might use external indicators to provide a perspective on internal business performance, with the emphasis being on how to forecast those few key drivers in the most accurate way. This helps to temper what may be inherently over-optimistic expectations among senior management, which fail to take sufficient account of uncertainty and adverse contingencies.

Quicker insights

Companies that have moved to rolling forecasting are able to turn around their annual budget (which is now also their third quarter forecast) much more efficiently and effectively than those who don't. The discipline of the rolling forecast helps build a more accurate picture of expected performance against which actual results can be more effectively judged. It also

encourages finance teams to base projections on objective analysis of statistical evidence and actual historical performance, rather than fitting them around senior management expectations. In our experience, businesses that favour forecasting accuracy tend to have more effective performance management processes and perform better as a result.

Cultural shift

The people, skills and systems are available to facilitate rolling forecasting. The main barrier appears to be cultural. Organizations that have moved to light touch budgeting or have even eliminated it altogether are using effective and accurate forecasts to steer the business. Meeting the budget is no longer the mantra; rather the focus is on forecasting accurately and meeting targets. In so doing, they have broken out of the traditional finance culture and moved to a more open and agile business partnering environment. Changing the culture requires leadership and vision.

Companies that have moved to rolling forecasting are able to turn around their annual budget much more efficiently and effectively than those who don't.

Up to the task

The capabilities needed by finance professionals are evolving and many traditional career paths are no longer available. Forward-looking finance teams are seeking to identify what skills will be needed and how to nurture them within the business.

Despite devoting more time and resources to providing strategic and commercial insights (see Figure 1 on page 6), most business teams are still not getting the level of meaningful analysis they need. We've already looked at the problems with data and systems. But the quality of the people carrying out the analysis is also crucial in providing effective decision support.

According to PwC's recent global CEO survey, business leaders believe that the people who are hardest to recruit and retain are the high potential middle managers that will be crucial in taking the business forward². Finance is one of the areas where the difficulties of hiring the right talent are especially marked.

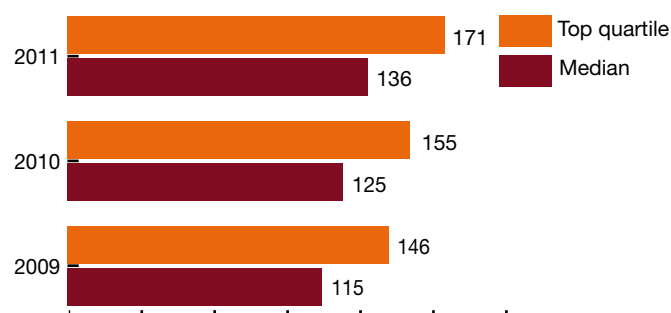
If we look at the companies that are most satisfied with the quality of the

Rewards are rising in line with the increasing emphasis on business insight. The annual cost for the average finance professional is now \$86,000, an increase of 10% over the past year. The average cost of 'insight' professionals is \$136,000, a rise of 9% over the past year

As Figure 6 highlights, the average cost of insight professionals continues to rise and is considerably higher than the average rewards for finance personnel overall (see Figure 7). Yet hiring and developing people with the right skills remains a challenge.

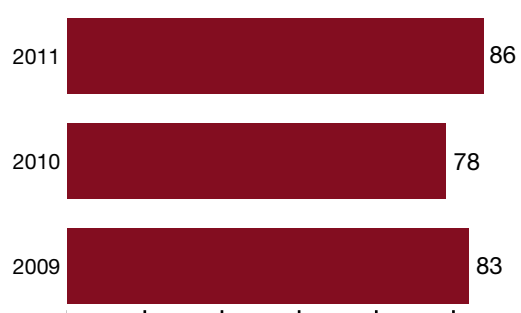
MI and insight provided by their finance teams, these middle managers play a key role. While many of these people aren't qualified accountants, they typically possess strong modelling skills, commercial acumen and the ability to translate

Figure 6 – Average cost per Insight FTE (\$)



Source: PwC finance benchmark data

Figure 7 - Average cost per Finance FTE (\$)



Source: PwC finance benchmark data

² 1,250 CEOs from 60 countries were polled at the end of 2011 as part of PwC's 15th Annual Global CEO Survey, published on 25 January 2012

data into everyday business language. Although hard to find and develop, this combination of business and analytical capabilities can provide valuable competitive insight and perspective. This includes bringing together financial and non-financial data in areas such as linking the impact of marketing campaigns to revenue or analysing net margin gains related to customer feedback and buying behaviours. The underlying attribute is the ability to translate endless streams of figures into compelling commentary and insight. A common feature of these people is that they have spent time in the business, either before joining finance or as part of a planned career development.

Developing business partners

While the number of dedicated business partners has remained largely unchanged over the past year (see Figure 8), many finance teams are looking to adopt more of a service-

oriented approach to their 'customers' within frontline teams. Business partnering is also coming to be seen as a core competency, which is applicable across a range of finance function roles.

Dedicated business partner roles are typically held by more senior finance staff. They're expected to have the skills and experience to work alongside both the business units and strategic head office functions to influence, design and execute strategy and planning.

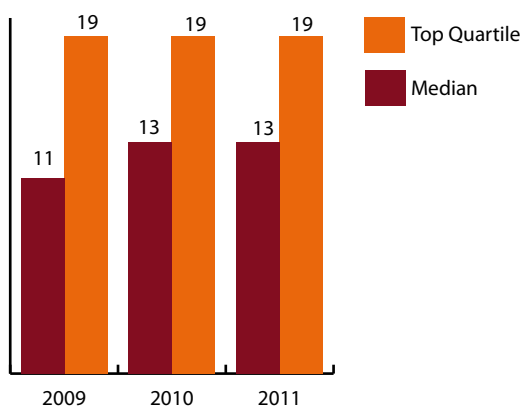
Business partnering as a broader competency requires an understanding of both financial and business drivers, along with the ability and readiness to challenge decisions and serve as a business advisor in a core technical specialism. This in turn demands agility of mind and the ability to collaborate with people across the business.

The findings from our benchmark data suggest that business partnering has yet to live up to expectations. More

than 80% of participants are actively promoting partnering with the organization, but only around 50% feel that the finance function plays an active role in influencing business strategy. The remainder see their primary role as providing analytical support to the business.

The challenge for many companies is not so much the capabilities, but defining the business partner role and associated expectations as these are likely to vary depending on where the professional is operating. For example, a business partner embedded in the business will need a combination of finance skills and commercial understanding to provide a full contribution to strategy and operational activities. In turn, a corporate business partner's primary focus is market communication and stakeholder management. They need to be able to translate specialist technical knowledge into a clear and compelling understanding of the business value.

Figure 8 - Percentage of Finance FTEs in business partnering roles



Source: PwC finance benchmark data

What do we mean by 'business partner' and 'business insight'?

Business insight is analysis and advice to support business planning, geographical expansion, effective use of resources and other key strategic and investment decisions. Business partners combine their financial and commercial skills to provide insight in order to guide business decisions and influence strategy.

Leading finance teams employ nearly 40% more people in 'business partnering' roles and pay around 25% more than typical functions to help attract quality professionals

Rexam

Building a platform for growth

Rexam has embarked on a project to transform its finance function to enable it to become an even more valued business partner, delivering greater consistency in processes and skills and strengthening its contribution to decision support. The transformation forms part of a wider program to share best practice and drive greater consistency across the Rexam business. We talked to Richard Smothers, Rexam Director of Group Finance, about how the transformation is taking shape and what are the key priorities ahead.

Rexam PLC is a leading global consumer packaging company, with plants in 25 countries worldwide. It is listed in the UK FTSE 100. The group focus is on delivering sustainable returns for shareholders by focusing on the three 'C's of costs, cash and returns on capital.

Rexam's finance transformation is based on a three year roadmap. The priorities are to introduce key frameworks to achieve greater consistency to a group that has largely been brought together by acquisitions; to further enhance control and to improve processes to release resource to focus on

decisions for Rexam as a whole,' said Richard. 'To that end, we're focusing significant investment on driving a degree of consistency across the whole business – and finance is a core component of this initiative,' he added.

Richard sees a key part of this drive within finance as building up planning and analytical capabilities to add more value to decisions. 'We're currently creating a group planning and analysis team to define and determine the right level of skills, processes and systems needed across the organization, drawn from existing experienced

Rexam is also looking to upgrade its budgeting and forecasting processes as part of the transformation program, moving from a detailed 'bottom up' to a simpler and more focused approach and integrating its budgeting and forecasting processes with its strategic plan.

decision support. 'The PwC SG&A benchmark study last year helped confirm that our priorities for change were broadly correct. We're actively increasing our investment in finance in a focused way to meet business needs, not only for today but for the future,' said Richard Smothers.

'As Rexam continues to strive for business growth and market share, there is recognition across the group that, while as a business we need to be flexible to meet differing customer needs and the markets in which we operate, as a group we need to develop standard frameworks, which will enable us to share best practice and to make the right business

resources,' he said. 'At the same time, we're evolving our business reporting and capital investment methodology'.

Richard believes that being a business in which transaction processes are generally high in value and low in volume, there is limited opportunity for shared services in any of the core finance processes. 'I still see processes being very much embedded in the business units, so don't foresee a move to a shared service model or center of excellence. But what we do want is a degree of consistency and shared best practice through standard frameworks in use across the business units,' he said.

Reporting and planning

The finance team has overhauled board reporting over the past year and the Board is now comfortable with the balance of detail both historically and forward looking. A key priority is creating consistently high levels of insight. 'The experience and skills of the individuals doing the supporting analysis determines how useful the analysis is. We're creating clear expectations about how the analysis should be carried out, so that it drives business decisions,' said Richard.

Cash flow forecasting is a further area of focus. 'We do have a variety of processes but we find that cash flow is hugely impacted by our working capital positions: AR, AP and inventory. We decided there's little benefit investing in a single system to try and improve our forecast without putting in better governance and reporting around it,' said Richard. 'We're currently driving improvements in our working capital management: stock management, DPO and DSO, and the processes that underpin them, by integrating working

processes as part of the transformation program, moving from a detailed 'bottom up' to a simpler and more focused approach and integrating its budgeting and forecasting processes with its strategic plan. 'Last year we moved to setting clear 'top down' expectations. As a result we didn't have a lot of changes because people knew what they were aiming for,' said Richard.

Talent management

Richard cites another key priority as developing the talent needed to enhance support for the business. 'The challenge is to define and find the right mix of business, analytical and technical skills, as well as having a more mobile workforce at the more senior level, who can transfer the values, frameworks and business skills as they move into new and developing territories,' he said.

Keeping pace with a changing business

Looking at the priorities for finance in supporting the business over the coming year, Richard highlights the importance of allocating capital

ensure we have cash to grow the business. 'The way we will achieve this is by driving consistency in how we do things—everything from controls, reporting and planning to skills,' he added.

Summing up, Richard said: 'We've achieved record profits, growth and returns; we have a plan to share best practice and drive consistency through common frameworks, and we believe this will ensure that the finance function is a valued business partner. In turn this will make a significant contribution to Rexam's success and create value for our shareholders.'

The challenge is to define and find the right mix of business, analytical and technical skills, as well as having a more mobile workforce at the more senior level, who can transfer the values, frameworks and business skills as they move into new and developing territories.

capital management across finance, operational, commercial and supply chain teams'.

Rexam is also looking to upgrade its budgeting and forecasting

in a disciplined way to enhance returns, challenging the cost base to maximize efficiencies and further improving our management of working capital to

Nurturing a new breed of finance professional

Changes to the demands placed on finance teams and how they're structured are transforming the career paths and core capabilities needed by finance professionals.

Nearly 80% of the business leaders interviewed as part of PwC's recent global CEO survey cited talent management as a key strategic priority.

Finance teams' more prominent role in business management is leading to a move away from basic processing and control, towards greater involvement in the development of corporate strategy. The skills they need to

Finance teams' more prominent role in business management is leading to a move away from basic processing and control, towards greater involvement in the development of corporate strategy. The skills they need to perform their frontline role are evolving rapidly.

Finance is an important part of the focus on talent with people strategies needing to be clearly aligned with overall business objectives. On the one side, businesses recognise that good finance professionals will play a vital part in managing risk and allowing them to effectively evaluate and capitalise on opportunities. On the other, they recognise that the shortage of talent overall and the difficulties of finding the right people for key roles are impeding decision support.

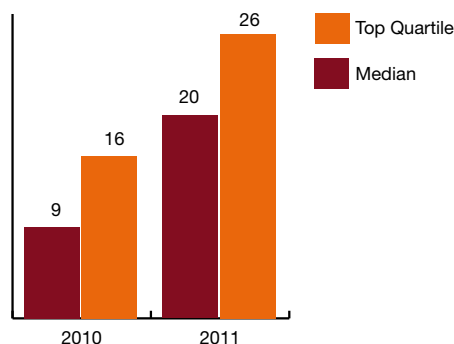
perform their frontline role are evolving rapidly.

Embedded business or country finance teams are being refocused to provide forward-looking analysis, performance challenge and commercial support to help business leaders make effective decisions based on calculated risks. While accountability for shared service center (SSC) activities continues to be retained by finance, the emphasis is on setting strategy and the need for transparency to maintain oversight and manage business risk.

In turn, finance's role in risk management is expanding beyond financial risk to include enterprise risk management. Compliance and risk management knowledge are increasingly rated as key competencies across all finance roles as they're required to provide greater challenge and create awareness across the business.

Another notable development is the greater demand for specialist skills in areas such as tax and treasury.

Figure 9: Talent group as a percentage of Finance headcount



Source: PwC finance benchmark data



*Succession plans are in place for more than **90%** of key finance roles in the top tier finance teams, compared to only around **40%** among the average performers*

Everyone, rather than just people working in business partnering roles, now requires a close understanding of the commercial drivers facing the business and the interpersonal skills needed to engage with frontline teams.

The challenge for many finance teams is how to recruit and retain the right combination of competencies for the different roles. Top performing finance teams are taking a more forward-looking approach to talent management. This includes marking out people with special potential (see Figure 9), using clear and consistent criteria to help nurture the right skills, competencies and behaviour for key future roles.

The leaders are also developing clearly defined career paths to senior positions, which are helping to strengthen the talent pipeline and encourage greater retention. Succession plans are in place for more than 90% of key finance roles in the top tier finance teams, compared to only around 40% among the average performers.

The better placed functions are also giving finance professionals the opportunity to gain experience within the wider business and develop the social networks, organizational know-how and understanding of its culture and values that will be so important in their future leadership roles.

Prepared for the tests ahead

Training supports the development of business critical skills by looking beyond narrow technical competencies at how to develop leadership, communication and organizational collaboration.

It's notable that top performing participants spend more than twice as much on learning and development as the average. Some have adopted a 70% (on the job training and experience)/20% (networking, relationships and feedback)/10% (formal training) approach. While the '10' and '20' are generally effective, developing a structured approach to 'on the job' training is proving to be more difficult.

Many of those who are doing well at the 10% formal training have developed in-house finance training programs, sometimes referred to as 'finance academies'. Our study shows that higher performing finance teams have tended to invest in ensuring their technical skills are kept up-to-date. Just as importantly, they have developed group training initiatives to instil the values of the organization and are nurturing leadership skills that enable people to interact and communicate effectively across the business.

Measuring success

While the importance of these premium skills is recognised and benchmark participants are prepared to pay for them, many are finding it difficult to know whether they're getting the corresponding value as the right KPIs and performance management frameworks aren't in place. For example, less than 60% reported that standardized employee development plans are an integral part of their performance evaluation process.

The talent to succeed

Jackie Gittins is the People and Change lead for PwC's Retail and Consumer team in the UK. She looks at how the fast changing environment within finance and the wider business is making it crucial for organizations to look beyond traditional requirements and performance management criteria to consider how skills and capabilities need to develop and adapt.

For many businesses, the immediate priority is how to respond to tougher regulation and more intense market scrutiny. A key part of this is developing a more systematic and consistent approach to compliance, control and risk management. This is most effective when it's built around a change in behavior and greater engagement among staff, rather than seeking to apply a new layer of control. Indeed, many recent control failures have been rooted in cultural rather than procedural shortcomings, which could be characterized by poor leadership within finance, low staff morale and high employee turnover rates. Up-skilling staff and encouraging them to take the lead in improving working

managing succession planning. This is underpinned by a consistent set of global criteria for assessing people with potential, and formulating personal development plans, which are ideally led by line managers as part of their performance management requirements.

The active rotation of managers plays a key role in nurturing more effective performance capabilities and shaping a corporate culture that is open to change, new ideas and the development of best practice. Indeed, the 'organizational know-how' that results from rotation, networking and broadening experience is a vital, but often under-estimated attribute in the development of agile and effective

While sustaining a strong talent pipeline is crucial, many companies are seeking to identify future leaders on the basis of performance in their current roles. This doesn't necessarily provide a good enough indication of how they would fare in more senior positions and how the demands are likely to change.

practices can play an important role in developing the necessary engagement and commitment.

Future leaders

While sustaining a strong talent pipeline is crucial, many companies are seeking to identify future leaders on the basis of performance in their current roles. This doesn't necessarily provide a good enough indication of how they would fare in more senior positions and how the demands are likely to change. The criteria for assessing future leaders are also often inconsistent across the different divisions and operating territories of the organization.

The companies with the greatest success in developing effective finance leaders and encouraging them to make a long-term commitment to the organization are using forward-looking tools for picking out future leaders and

leaders. This understanding of the distinct culture and workings of the business is especially useful in helping to gain support and bring the business along in times of change.

Finance academies are playing a key role in developing the necessary skills and behavior for today's finance professionals. These work best when there is active support and input from both leadership teams and the most important 'customers' of finance. The key focus is how to use finance people more effectively and prepare them for stimulating career paths within the organization. Group training can help the leaders of the future develop effective communication and team-building capabilities, while preparing them for managing the complexities and ambiguities of a rapidly changing and increasingly pan-global business environment.

More for less

Top performing finance functions are still managing to keep a tight rein on costs, suggesting that operational efficiency and quality of insight do run hand-in-hand.

Despite growing demands, the pressure to curb costs has intensified, forcing finance teams to strike a difficult balance between meeting increased expectations and cutting out needless expenses.

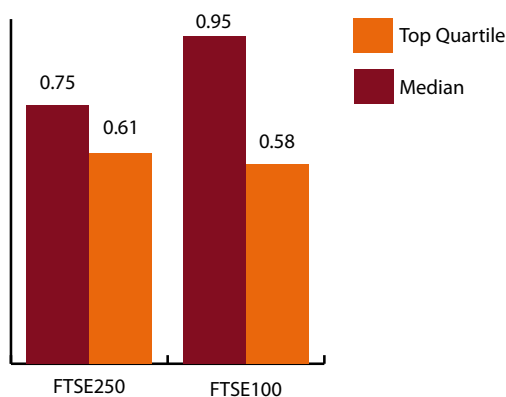
Finance costs have risen for the second year running. Among the companies we have benchmarked, the average increase is around 10%. Most of the extra effort has been directed towards expanding planning, analysis and other areas of insight. Most finance teams have also stepped up control and compliance work, which includes tax, treasury and internal audit.

The increasing demands are especially marked among larger organizations,

which are typically under greater market scrutiny than their mid-size counterparts and generally face more extensive control, compliance and reporting obligations. Figure 10 reveals how the typical FTSE 100 finance team is spending at least 25% more as a proportion of revenue than a comparable FTSE 250 function. However, as Figure 10 also highlights, the finance function running costs of the best performing FTSE 100 and FTSE 250 companies are comparable despite the differences in scale and complexity. This demonstrates that it is possible to hold down expenses without compromising the range, quality and value of the finance team's contribution to the business.

*Average finance costs for benchmark participants have risen by **10%** over the past year*

Figure 10: Finance cost as a percentage of revenue



The consolidation and evolution of shared services

The location of shared service centers is becoming less important to managing transition and realising objectives than the governance and relationship management that surround the operations.

Shared services continue to evolve as finance teams look at how to improve efficiency and delivery.

With finance taking the lead, many large companies (e.g. Proctor & Gamble, Anglo American, Syngenta and GlaxoSmithKline) are opting for multi-functional shared business service models, with an emphasis on lean processes, covering areas such as HR, IT and procurement. The benefits include common governance, greater operational integration and the ability to take advantage of economies of scale in areas such as investment in technology. The scope of shared services also continues to expand beyond transaction processing into more value-adding areas such as management reporting and data modelling.

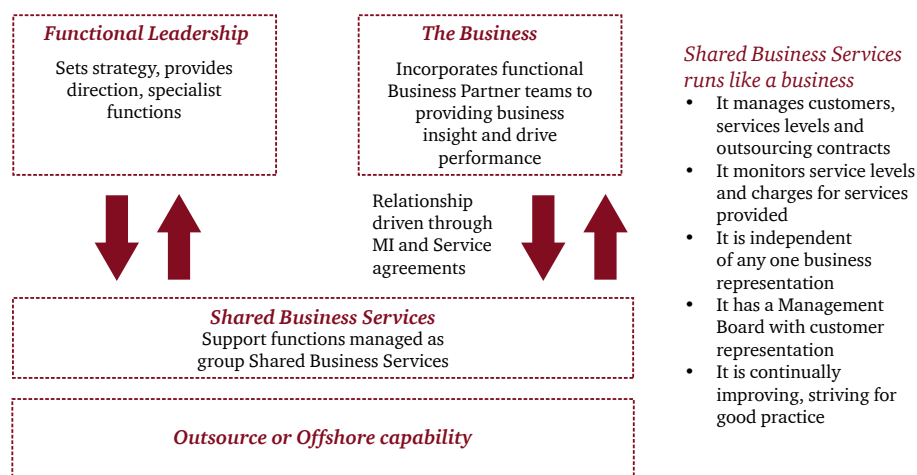
The lean philosophy seeks to balance the need to keep a tight rein on costs on the one side, while providing the decision support and operational agility needed to help businesses navigate through a changing environment on the other. The foundation is greater clarity over who

the users are, what they require and how finance could improve delivery. The finance team can then look along the critical path to identify and eliminate hold-ups and waste.

Making the business case

As a benchmark, the salary differential between existing and offshore locations is between 20% and 40%. The lean approach can also provide a strong impetus for operational rationalisation and simplification. For example, the service operations of a smaller subsidiary can in many cases be absorbed into an SSC without increasing its headcount. We're seeing the industrialisation of operational and surrounding compliance and control processes leading to savings of between 15% and 20%. Greater operational scale, standardisation and efficiency can also reduce future systems costs, enable faster integration of new operations, improve DSO performance and enhance the timeliness and reliability of MI.

Figure 11 – Shared Business Services model



Emerging trends

The better performers have significantly reduced headcount, improved the control and efficiency of back-office operations, while realising significant operational savings through standardized services and leveraging economies of scale. In turn, teams retained within the business have been able to refocus their efforts on decision support and play a much broader role in setting strategy and managing performance.

Many companies are now looking at how to take the efficiency gains to the next level by developing strong governance and common process models. Many larger global groups with mature shared service operations are also consolidating their business services into European, American and other regional centers, using onshore, near-shore and offshore delivery models.

Companies are increasingly implementing hybrid sourcing models (e.g. Microsoft, GE, Alcoa, BP and Syngenta), in which transactional processes previously provided by in-house shared services are outsourced, while higher value-added activities are brought into captive operations.

Many language-dependent operations such as cash collection and supplier queries are being located in near-shore centers, while non-language dependant operations such as accounts payables are concentrated in leading offshore locations such as India, China or the Philippines, along with the emerging locations in South Africa and Latin America. It would appear that few groups allocate all their outsourced operations to a single company.

Figure 11 shows a typical example of how multi-function shared services fit into the broader operating model. Functional leaders in areas such as finance and HR define the policies and standards governing both business partners and business services. Functional business partners are embedded within a business unit, developing strategy, driving performance and challenging decisions. Sound contract management and relationship management skills are crucial to making this work. Business services are responsible for the efficient operation of the worldwide service delivery platform and enabling the business to respond to change.

Managing the risks

Developing a compelling business case for taking shared services to the next stage can be difficult. As shared services become more integrated and extensive, some companies are wary about how to manage the operational migration and ensure effective service delivery. There are particular concerns over the risk of splitting end-to-end processes. Some organizations are also worried about the cultural and logistical challenges of full outsourcing and offshoring.

A clear definition of the end-to-end processes and making sure they're lean and efficient in readiness for migration are the keys to ensuring successful transfer. Experience also underlines the importance of systematic controls and compliance procedures across the end-to-end processes and underpinning this with a robust governance model in ensuring effective service delivery.

This has led to a fundamental shift in the skills required to manage global business services. While strong process and systems knowledge are still important, there's a growing emphasis on contract management, relationship management and business partnering skills. The challenge ahead is how to develop or acquire the necessary skills and experience to deliver effective partnerships, service levels and control.

Many companies are now looking at how to take the efficiency gains to the next level by developing strong governance and common process models.



Balfour Beatty Customer Support Center

From vision to reality in 18 months

The development and success of shared services can be as much of a cultural as a physical challenge. Balfour Beatty's ability to get its new centralized Customer Support Center (CSC) up, running and meeting key objectives in just 18 months underlines the importance of a clear vision, organizational collaboration and active buy-in from staff and users. We talked to Ian Dawson, Balfour Beatty's Business Services Director, who leads the CSC and David Osborn, Design Authority Lead, about the development of the CSC and the plans for the future.

Balfour Beatty is a leading global infrastructure services group. Divisions and operating companies have tended to operate within a federated structure. While there were shared service operations within the group, these had been largely focused on specific businesses or divisions and the benefits of implementing the shared service model had been varied.

The move to a single CSC was designed to standardize ways of working across the group and deliver costs savings of more than \$16 million a year. In parallel, Balfour Beatty was launching a US-wide implementation of Oracle 12.

The subsequent design phase centered on deciding the location, organization, governance, processes and IT enablers needed to make the CSC work to its full potential. The preliminary work also included an assessment of the impact of the changes on individual operating companies and the development of the transition plan for the move to common processes, and the transfer of activities to the new CSC. This helped form the basis for an updated business case.

With the blueprint in place, Balfour Beatty began fitting out the new building, recruiting the CSC team and implementing the service management framework. A key part of the construction phase was stepping up

The ability to move quickly, along with attention to the people and cultural issues, were fundamental to the success of the transformation.

The new CSC is a big change for Balfour Beatty in the UK, both cultural and operational. The ability to move quickly, along with attention to the people and cultural issues, were fundamental to the success of the transformation.

Making the business case

The project began with the development of an outline operating model, which was used to help explain the CSC and its rationale to senior management. A refined version of this model was presented to the management board at the end of this eight-week phase. During this period, the joint PwC/Balfour Beatty project team developed a baseline for evaluation and used internal and external benchmarks to assess the potential benefits and implementation challenges.

communication and dialogue with users across the organization.

Practical challenges included defining demand (e.g., number of inquiries to expect) and sourcing talent in the new location, which were heightened by the aggressive six-month transition schedule and tough deadlines for building an operation to deliver stable services. There was also the cultural challenge of moving from operations that were largely autonomous to a demanding centralized customer-focused operation. 'We did well in bringing in SMEs to help us with their knowledge and experience and we have built upon this since,' said Ian Dawson.

A year in, the CSC employs around 230 people and provides transactional finance, payroll, and procurement services to nine operating companies. During its first year, the CSC processed some 600,000 invoices and 90,000 pay slips in the year and recruited specialist staff to deal with around 15,000 calls a month

Aggressive transition

A year in, the CSC employs around 230 people and provides transactional finance, payroll, and procurement services to nine operating companies. During its first year, the CSC processed some 600,000 invoices and 90,000 pay slips in the year and recruited specialist staff to deal with around 15,000 calls a month. Call abandoned rates have fallen from around 15% to less than 5% over the year, indicating that management and staff have come a long way towards matching demand with supply despite having limited initial volume data to go on. 'Although we currently operate multiple system platforms, we continue to provide consistent, stable services across all our clients. Our center is built on a vision of operational excellence and customer service and we are seeing the results as we proceed on our journey,' said Ian Dawson.

Delivering against targets

The call abandoned rate is one of a number of key performance measures that are regularly updated and visible across the center. This encourages staff to work as a team to deliver targets and objectives, while allowing for swift intervention to tackle any snags and helping to increase confidence among both staff and management in their ability to deliver excellence. Despite the upheaval, voluntary staff turnover rates are less than 8%, underlining their buy-in to a model that while challenging can also provide greater motivation and development opportunities.

The CSC has not only been successful in realizing synergies between core finance and HR/payroll processes, but it has also allowed finance people embedded within the operating companies to get closer to frontline business needs. With the more routine transactional processes taken care of in the CSC, finance teams in the operating companies can spend more time providing relevant MI and further such improvements are in train. 'The benefits are not only visible at operating company level. Better information at group level is allowing senior executives to manage risk more effectively, providing a more informed basis for strategic decision making,' said David Osborn. Overall, the CSC can provide a solid platform for the growth and expansion of Balfour Beatty within the UK.

Dialogue and collaboration have been critical in overcoming initial operating company concerns over perceived risks, and fear of the unknown. There are monthly performance reviews between the CSC and operating companies, and business plans are jointly developed with operating company business strategy in mind. Service line directors are accountable for service delivery by interacting and planning jointly with operating company management teams, while customer relationship management teams (CRM) interact with the business on daily matters.

Performance and CRM are further bolstered by CSC's commitment to transparency and company 'values'.

With limited baseline data, the service center has been using a RAG status scorecard containing performance criteria, which have been developed in conjunction with users. With the first year under the CSC's belt, it now has baseline and a standard database of KPIs, which can help guide and track performance targets. 'We're about to launch a new performance reporting system, which will enable us to continue on our journey to operational excellence more effectively,' said Ian.

The second part to the transformation has been the introduction of a single Oracle platform across the organization. This will deliver significant benefits by harmonizing end-to-end processes across the different operating companies. It will also reduce the time and manual effort needed to generate key MI at all levels within the UK and help to develop a more consolidated UK-wide view of risk and performance.

Now in its second year, the CSC service management model continues to evolve. The Oracle application support team based in Edinburgh and Basingstoke have recently transitioned into the shared service organization, extending the shared service capability.

The clearest indication of the success of the CSC is the growing UK-wide confidence that shared services can work for their operating company, which is exemplified by the increasing requests to expand the scope of services to include such areas as management accounting and global mobility. 'We're aspiring for high results,' said Ian. 'We've had a good start on a journey to build a high performing organization, found an effective way to collaborate with our clients and gained the Group's confidence in our ability to deliver an excellent service, while establishing a platform to facilitate future change.'

The next generation governance and delivery model for finance

PwC Consulting Partner Nick Atkin looks at how companies are reviewing their finance operating model as they seek to get on top of the changing demands, enterprise risks and commercial opportunities they face.

Figure 12: Percentage FTE split of high performing finance functions



Source: PwC analysis

As finance functions' support for strategic decision making increases and shared service operations become more mature, a number of leading groups (e.g., Astra Zeneca, Unilever and Pfizer) are moving from a three-tier to a four-tier finance function model (see Figure 12). This is underpinned by the review and clarification of individual roles, expectations and how finance services are delivered. This often includes

redefining the role of business partners and how they engage with the business. The move also includes a review and upgrade of processes and systems to help improve visibility and the quality, consistency and value of MI. A key part of this is how to overcome the variable capabilities and quality of business partners, and the incompatibilities within many of the information systems being used.

As Figure 12 highlights, the split of activities between retained finance and shared business services reflects the evolving role of finance. Leading organizations have around 25-35% of the headcount within the retained organization. The remaining roles are moving to shared operations.

While finance is the dominant anchor, multi-functional business services including HR, IT and procurement processes are becoming more common in large organizations

Embedded finance teams are encouraged to develop a deeper and broader knowledge of the business and provide forward-looking analysis. Relationship management skills are an important facet of the role as business partners seek to engage with stakeholders and provide performance challenge and commercial support.

Business partners are critical and are thus embedded in all four tiers of the model. The necessary competencies vary by role depending on where they sit in the finance organization. For example, business partners in embedded finance teams advise on commercial strategy and operational activities, requiring a combination of finance skills and business acumen. In contrast, a corporate business partner's primary focus is external communication and stakeholder management. The key is being able to translate specialist technical knowledge into the tactical actions needed to protect and enhance business value.

Ownership and oversight

The more routine/process-driven tasks associated with specialist finance and decision support services, such as compiling budget baselines, reporting and tax filing are generally clustered within centers of excellence. These

typically report directly to the corporate center, which allows for improved efficiencies without compromising their strategic importance.

Business partners are critical in all four tiers of the finance service delivery model, although competencies will vary by role depending on where they sit in the finance organization.

Global business services operations are increasingly expanding from core transactional centers to higher value activities such as management reporting. These are often consolidated into regional shared service centers using on-shore, near-shore and off-shore delivery models.

While finance is the dominant anchor, multi-functional business services including HR, IT and procurement processes are becoming more common in large organizations. Benefits are driven by facilitating both greater technology enablement and end-to-end process ownership, underpinned by common cross-functional governance.

Group finance 'owns' the finance strategy, which business services and business unit finance teams apply and develop. Good transparency helps sustain corporate oversight, while allowing a high degree of autonomy on the ground in areas such as investment decisions.

Group finance also incorporates specialist teams in areas such as internal audit or tax planning – these are typically focused on protecting business value and managing enterprise risk.

The challenge is to fill these roles with the right skills and experience, making sure that business can make the most of the opportunities while sustaining effective service levels, assurance and control. It's important to ensure that performance management provides a

balance of objectives and indicators for both finance and the wider business, which are clearly defined from the outset. Systems investment in areas such as increased automation and self-service are clearly beneficial, but can only deliver if there is sufficient consistency and confidence in the underlying data. Other priorities include adapting training and career development to this new model.

Strengthening oversight and control

A combination of market instability and tighter regulation has heightened the need for CFOs to maintain rigorous oversight over operational risk and develop a strategic view of market exposures. Effective risk evaluation is also crucial in identifying opportunities that other less informed businesses may miss or be reluctant to pursue.

While bolstering enterprise risk management is a key priority for CFOs, our benchmark data highlights potential weaknesses in oversight and control. More than 90% of participants have a dedicated risk management function in place. But only around half (mainly FTSE 100 companies) believe they have the necessary framework in place to monitor, manage and communicate firm-wide risks effectively.

Integrated view of risk and finance

A particular challenge is how to generate an integrated view of risk and finance. The outputs need to be

Guardians of control

Finance teams are increasingly becoming the guardians of firm-wide controls rather than just financial controls, although ultimate responsibility still resides within the wider business. Our benchmark data suggests that most companies may have overestimated the effectiveness of these controls. While more than 90% of participants believe there is clear accountability for controls across the business, less than a quarter report that key controls have been effectively assessed and tailored for risk assurance.

Many participants have established governance structures and policies to

Leading finance teams have automated 70% more of their key controls than typical functions

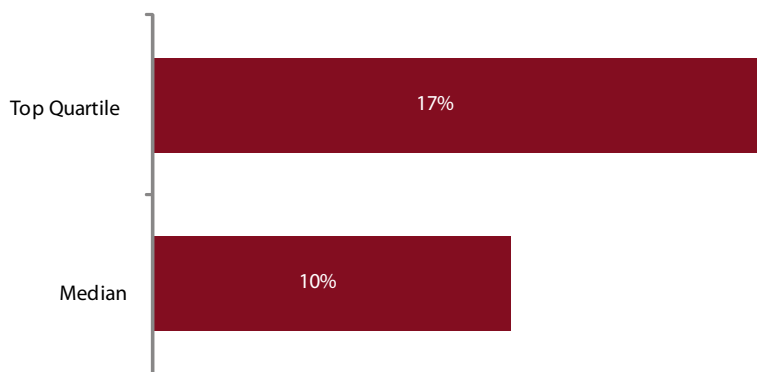
sufficiently quick, transparent and well-controlled to meet ever more exacting board, regulator and investor expectations. They also need to look ahead to provide an effective basis for regular forecasting, sensitivity analysis and scenario planning.

manage controls, but few are confident that these are operating properly. It's especially noticeable how few of the key controls have been automated (see Figure 13), despite the fact that this would make compliance easier and less costly to maintain.


Leading finance teams have automated 70% more of their key controls than typical functions, with evident impact, for example, accounts payable process error rates are around 45% lower in these organizations.

Moreover, in a legacy from Sarbanes-Oxley, nearly 60% of participants feel they have an excessive number of controls and 70% report that internal controls are not fully integrated with compliance processes. This suggests that there is a much greater burden on the business than perhaps necessary.

Figure 13 – Percentage of key controls automated



Source: PwC finance benchmark data



Finance teams are increasingly becoming the guardians of firm-wide controls rather than just financial controls, although ultimate responsibility still resides within the wider business.

Firmer grip on exposures

PwC Director Carl Sharman looks at how liquidity constraints and the heightened volatility in share values, currency/commodity prices and credit/counterparty risk are likely to provide the catalyst for a more informed and proactive approach to managing corporate financial exposures.

Financial risk is at the top of the agenda. Key challenges include predicting and mitigating market volatility and its impact on performance and liquidity. These movements are rarely correlated and span the whole supply chain of corporate finance and working capital, with a significant knock-on impact on margins, cash flow and profitability.

However, the prevailing response is still generally reactive. While there is some forecasting, the risks are projected using largely historic data and trends. In turn, purchasing decisions tend to be governed by price rather than a broader consideration of

the risks and there is little active monitoring to assess performance and hedge effectiveness.

Advanced finance teams recognize that more effective forward planning and more active risk management could significantly mitigate the level and uncertainty of their exposures.

Effective risk management can allow a company to outperform the market, minimize earnings surprises and support sustainable competitive advantage. The leading performers are therefore developing clearly defined frameworks for measuring and managing financial risks from exposure to execution. The effect is to

“Effective risk management can allow a company to outperform the market, reduce earnings surprises, bring a greater focus to converting cashbook transactions to centralized liquidity and ultimately support sustainable competitive advantage”

increase financial control, reduce volatility surprises and bring a greater focus to converting cashbook transactions to centralized liquidity (see Figure 14).

Integrating risk management

A key attribute of the leading performers is an integrated approach to financial risk management, which spans all the corporate functions including finance, treasury and procurement and applies a clear set of KPIs, reporting lines and formalized roles and responsibilities across the business. This in turn forms part of a broader, enterprise-wide approach to

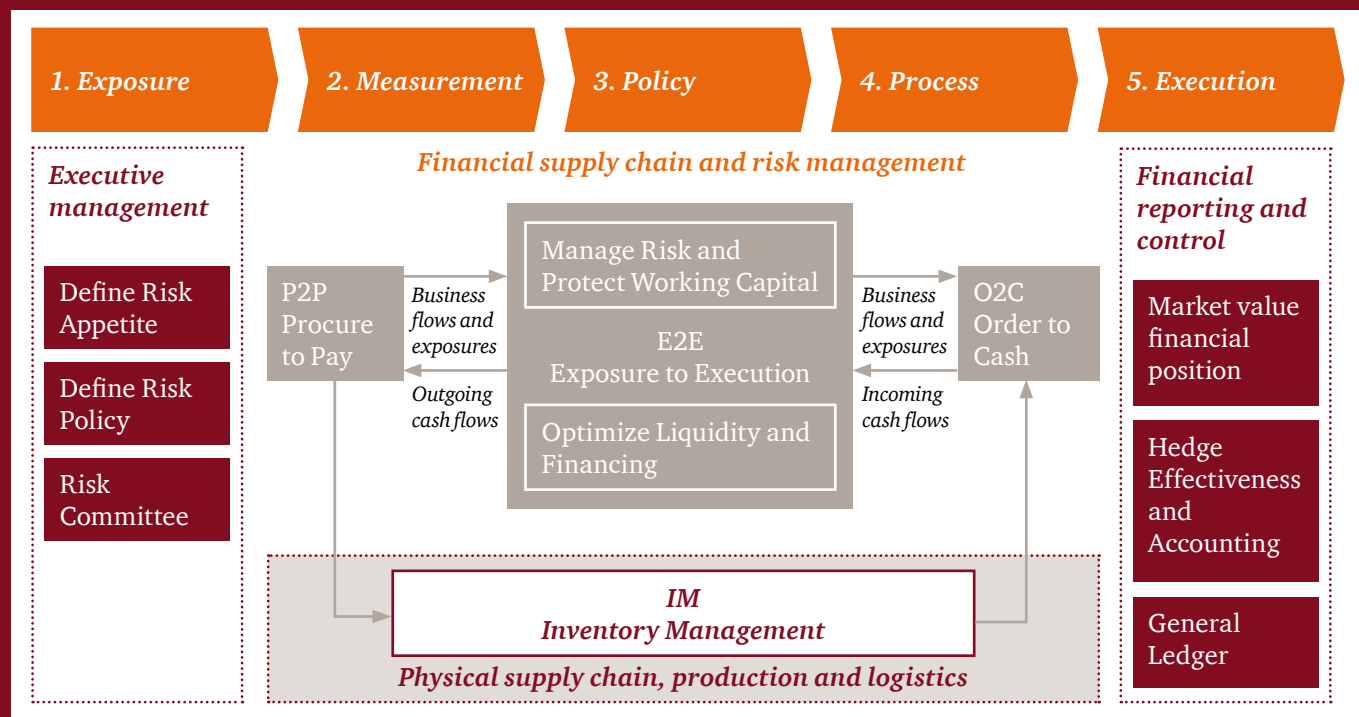
risk, in which the identification, evaluation and management of operational and technological risks are integrated with wider ‘macro’ external risks such as economic, environmental, political and reputational risks. This is supported by the development of more sophisticated and forward-looking analytical systems and scenario modeling.

There are a number of ways to strengthen risk mitigation including hedging, passing on price increases to customers or limiting the extent to which suppliers can pass on full price increases. Specialist risk and finance teams are becoming more involved in purchasing decisions. Scenario

planning can help to foster a more forward-looking evaluation of the potential risks and help management to identify and assess the options for mitigation.

It will be important for finance teams to establish a clear mandate as custodians of the group’s financial assets and liabilities and protector of shareholder value. Their core remit will also include being the forward-looking data and planning specialists, ensuring sufficient and timely liquidity and an acceptable level of results volatility, which are continually tested under extreme, but possible scenarios.

Figure 14 – Managing financial risks and optimizing liquidity



Coming challenges

A new model of finance function effectiveness and new breed of finance professional are emerging as complexity, volatility and ambiguity become the norm, growth shifts to new markets and strategic agility becomes the key competitive differentiator. The top tier finance teams are becoming sharper and more focused in their decision support and developing leaner and more efficient use of their resources to make sure they're delivering where it counts.

Just as the past has been shown by recent events to be a poor guide to the future, old ways of working may no longer be appropriate in a very different commercial landscape.

Many finance teams are making the shift, but cultural and operational hurdles remain. The front runners are concentrating on what the business actually needs rather than what they've traditionally produced. In these companies, the roles and expectations of business partners are clearly defined and they have the tools and training to bring them up to speed.

closer to the frontline of the business.

The underlying difference between the front runners and the rest is their ability to change their mindset and approach. There is little point in producing annual budgets that are largely out of date before they're even put before the board. Similarly, how can finance partners support the business if their training, career development and performance objectives are still confined to a narrow set of technical criteria?

Farsighted finance teams have taken the cultural leap. They're making sure

Farsighted finance teams have taken the cultural leap. They're making sure that forecasts are timely enough, accurate enough and sufficiently sensitive to business drivers to provide a clear and genuinely actionable basis for strategic decision making and performance management.

The underlying attribute of the leaders is the recognition that the capabilities needed to provide the most effective support for the business are changing. Leading performers are therefore taking a farsighted approach to identifying, developing and rewarding the right people and skills.

Further foundations for success include adapting organizational design and sourcing strategies to the changing environment. This includes the development of a 'next generation' hybrid sourcing model which combines outsourced and captive operations, and seeks to make the most of the synergies with other operational teams, while bringing decision support

that forecasts are timely enough, accurate enough and sufficiently sensitive to business drivers to provide a clear and genuinely actionable basis for strategic decision making and performance management. This is underpinned by close engagement with the business, a clear understanding of its commercial objectives and a willingness to challenge strategy where necessary.

These demands are going to take finance in new and potentially unfamiliar directions. The ability to quickly aggregate and analyse performance data from multiple operating territories will be crucial to the effective management of today's

global organizations. At a time when the way both boards and shareholders evaluate and judge performance is changing, this includes non-financial as well as financial information in areas such as risk, talent and sustainability. In turn, finance's traditional focus on financial risks is being broadened as the function increasingly comes to the forefront of enterprise risk management.

While many of the traditional roles and career paths in finance may be closing, these developments provide finance professionals with an opportunity to carve out a more influential and strategic role in the evolving world of modern business. The profile of the typical finance professional is also changing, with a growing expectation for well-developed business understanding and engagement skills, as well as sharp technical and analytical insights.







Benchmarking evaluation

As support functions seek to respond to new business demands, our benchmarking analysis can provide a clear 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 US 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 organization 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:

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