

Finance
effectiveness
benchmarking
series*

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About Finance Effectiveness Advisory Services

The PricewaterhouseCoopers' Global Finance Effectiveness Advisory Services team helps organizations create highly controlled, disciplined, and compliant environments by enabling access to financial and operational information quickly, economically, and accurately, and improving performance-management analysis and planning through integrated standardization of people, processes, information, and technology.

About Global Best Practices®

The PricewaterhouseCoopers' Global Best Practices operating unit has been a pioneer in bringing the concept of best practices to the marketplace. Its proprietary offering--the Global Best Practices knowledge base at www.globalbestpractices.com--is a compilation of best practices, business risk and control information, and benchmarking tools for key business processes.

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Introduction

Finance Effectiveness Advisory Services and the Global Best Practices operating unit of PricewaterhouseCoopers (PwC) have launched a finance effectiveness benchmarking series that is designed to provide insight for chief financial officers (CFOs) who want to improve the efficiency and effectiveness of their finance functions. The three main goals of the series are to determine the most critical challenges confronting the finance function today, to discover how companies are addressing these issues, and to provide performance feedback to participants. The series, which is composed of five benchmarking studies to be rolled out in phases, covers key performance indicators that will provide finance management with an objective basis for assessing the cost effectiveness and structure of their finance function against those of their peers.

The Phase I benchmarking study measured performance in three areas: 1. the overall finance function; 2. the record-to-report process, which incorporates the financial reporting and intercompany accounting processes; and 3. the development of people. The more than 70 respondents represented a variety of companies, industry groups, and geographic areas, with 39 large, multinational respondents reporting annual revenues in excess of U.S. \$1 billion.

Phase I findings

Thirty-nine respondents reported annual revenues in excess of U.S. \$1 billion. The analysis of Phase I results is based on the aggregate data of this large, multinational group of companies.

The analysis of Phase I is based on the aggregate results of the large multinational companies that participated in the study. Highlighted are the differences in performance between the median results and the first quartile (25th percentile), the latter of which represents the best-in-class for each key performance indicator reviewed.

The primary findings of Phase I comprise three major themes:

- Decreasing the cost of finance
- Increasing the focus on strategic activities to meet organizational goals
- Increasing the focus on the development of finance personnel

The information that follows includes a description of these themes, specific study findings, and best practices' insights to support a company's improvement efforts.

Companies continually strive to create a finance function that provides extra value while at the same time being cost efficient. The results of the benchmarking study indicate that organizations have significant opportunities to decrease finance costs. For the purposes of this study, those costs include processes around order-to-cash, purchase-to-pay, hire-to-retain, record-to-report, performance management, tax, treasury, process controls and compliance, systems and tools, and development of people. The study indicates that the median spend is 0.91 percent of revenue, while best-in-class performers spend 0.48.

Steps to optimizing the finance function include a focus on the standardization and automation of key finance processes. These improvements enable companies to obtain better and faster access to data. They also free up the CFO and the finance team to focus more on analysis and decision making--basically, to function as performance advisers.

Results indicate that the median spend of total finance cost is 0.91 percent of revenue, while best-in-class performers spend 0.48.

Standardization

Today's finance function must be continually prepared to meet new challenges. The role of the CFO has expanded into new domains and, as a result, finance teams require more accurate, timely, and easily digestible information for managing, forecasting, reporting, and driving performance. Many senior finance executives cite excess complexity and organizational issues as major barriers that inhibit them from succeeding in an expanded role. Many finance organizations also say they are challenged to achieve sustainable business benefits from compliance-related initiatives such as the U.S. Sarbanes-Oxley Act.

Additionally, many companies are hindered by the complexity of disparate systems, a proliferation of spreadsheets, and a variety of management-level operational processes and controls. Companies that maintain multiple finance environments with different policies, business rules, charts of accounts, and finance systems in their varied operating units find the practice to be unwieldy, costly, and inefficient to manage. They also find such systems are difficult to consolidate accurately and swiftly. PwC promotes simplifying and standardizing finance processes and integrating systems to deliver accurate, reliable, and auditable information.

By standardizing accounting processes and data definitions, companies can establish a single, enterprisewide accounting methodology as well as a core general ledger. Standardization also enables organizations to eliminate nonvalue-adding steps in the finance function and to reduce the ambiguity that is produced when disparate business units and subsidiaries retain proprietary processes and charts of accounts. Consistent processes and definitions expedite the reporting and closing processes and foster a more rigorous control environment, both important considerations in an environment of growing demand for more timely external reporting and more stringent management accountability.

The solution to better reporting is enhancing integration across the reporting supply chain.

Specific to the issue of decreasing costs, the benchmarking study revealed the following:

- **Opportunities exist for application integration.**

The median number of instance of financial applications is 5, while best-in-class companies have found ways to integrate their applications and operate with 2 instances. (An example of an instance is a freestanding implementation, which may be a common enterprise resource planning (ERP) system or an accounting system.)

- **Opportunities exist for consolidating charts of accounts.**

The median number of charts of accounts is 2, while best-in-class companies maintain only 1 standard chart of accounts.

- **Companies can organize the physical locations of their finance functions more effectively and, thus, reduce costs.**

However, organizations with a wide geographic spread will generally want to consider having a support presence in each time zone. The median number of finance locations per business unit is 1.04, whereas, best-in-class companies have consolidated functions to 0.40 finance locations per business unit.

- **Organizing transactional functions as a shared service can lower finance costs.**

Overall, companies have a median of 12 percent FTEs in a shared service, while best-in-class companies have 29 percent in shared services arrangements.

Companies can enhance efficiency by standardizing finance processes. At leading companies, the close process takes 2 days. Companies can also improve turnaround times in the reporting process. The median number of days to submit general ledger balances for consolidation is 5 days, while best-in-class organizations submit their balances in 4 days. Preparing key monthly financial management reports takes a median of 8 days, while best-in-class companies take 4.5 days. Also, the median number of days for publishing financial results is 13 days, whereas best-in-class companies publish financial results in 6.5 days.

The solution to better reporting is enhancing integration across the reporting supply chain (data collection, subsystems, ledger close, consolidation, and analysis), automating key processes, embedding controls, applying standards, and leveraging fully the capabilities of leading tools.

Theme I: Performance measures (standardization)

Measure	Median	Best-in-class
Total finance cost as a percentage of revenue	0.91	0.48
Number of separate instances of financial reporting applications	5	2
Number of separate charts of accounts	2	1
Number of separate finance locations per business unit	1.04	0.40
Percent of record-to-report FTEs in shared services	12	29
Number of calendar days to submit general ledger balances for consolidation	5	4
Number of calendar days to prepare key monthly financial management reports	8	4.5
Number of calendar days to publish financial results	13	6.5

Best practice insights

The following insights from PwC's Global Best Practices research can help companies standardize their finance functions:

- **Standardize accounting and reporting processes.**

Leading companies evaluate and simplify their accounting and finance procedures to create common front and back office processes throughout the entire organization. By standardizing financial processes for all business units, they eliminate redundancies, identify steps without value, reduce head count, simplify IT systems, and streamline and expedite the closing and reporting processes.

- **Introduce uniform standards to accelerate the closing process.**

By using a structured methodology to standardize the closing process, companies ensure the quality and reliability of information well in advance, thus, compressing the amount of time required for the actual close. Standardization steps among leading companies include centralizing accounting functions, implementing a formal closing calendar, securing strong executive management support, assigning specific tasks by department, and training employees.

- **Establish the shared services center as a stand-alone business.**

The most effective shared services center (SSC) is completely self-managed--and set up to be that way from the start. To reinforce its stand-alone nature, an SSC is normally located away from company headquarters, where it could be perceived as merely another line of business. Management may choose a "greenfield site," one not previously used, to take advantage of a particular tax structure, labor pool, or proximity to customers. Or the company can take advantage of a pool of high-quality talent of its own by creating a center of excellence at that site.

Automation

Companies that automate processes and key controls can provide management with a complete and accurate view of the control environment. Finance professionals at these companies can also provide executive management quickly with the information it needs to manage and monitor the business effectively. In addition, automated business processes reduce costs and prevent violations and help elevate the confidence that managers and investors have in the company's numbers.

The benchmarking study found that the median annual finance cost per FTE is \$108,499, while best-in-class companies spend \$73,935. These figures suggest that companies can save approximately \$35,000 (or 32 percent) in finance costs per FTE. Further findings highlighted two key initiatives for decreasing finance costs:

- **Automating business processes**

The median number of manual entries posted per financial reporting FTE is 747, while best-in-class companies had only 304 manual entries. In addition, the median for manual entries as a percentage of total entries is 14 percent, while best-in-class organizations had 1 percent manual entries as a percentage of total entries.

- **Automating key controls**

Among companies overall, the median automate 15 percent of their key controls, with the opportunity to match best-in-class companies that have automated 28 percent of their key controls. Automated controls tend to be more reliable as well as more cost efficient.

Regulatory compliance requirements--most notably the Sarbanes-Oxley Act and IFRS -- are complicating efforts to reduce process complexity, lower costs, and improve responsiveness. To meet the challenge of maintaining cost-effective compliance, finance professionals are standardizing and simplifying processes and systems, including automation of key controls in IT systems.

Theme I: Performance measures (automation)

Measure	Median	Best-in-class
Total finance cost per finance FTE	\$108,499	\$73,935
Annual number of manual journal entries per financial reporting FTE	747	304
Number of manual entries posted to the general ledger as a percentage of total journal entries	14	1
Percentage of overall finance key controls that are automated	15	28

Best practice insights

The following insights from PwC's Global Best Practices research describe standards being deployed by leading companies in automation:

- **Build a web services-based infrastructure that supports financial transaction and reporting processes.**

Web services enable companies to link existing systems and databases to powerful analytic and reporting modules. They are programs based on open standards, such as XML (eXtensible Markup Language) and XBRL (eXtensible Business Reporting Language), which facilitate interaction between dissimilar applications in a seamless, "behind the scenes" fashion. By making an investment in infrastructure based on web services, companies can extract data from their various IT platforms--from mainframes to ERP systems--and store it in data warehouses so that critical information is accessible via web-based reporting and analytical applications. With the support of web services, managers are better equipped to make strategic decisions based on relevant, real-time business intelligence.

- **Strive to achieve candid and timely disclosure.**

Real-time reporting allows companies to "stop the clock" at any time and obtain accurate, current information on company performance. Companies intent upon achieving real-time reporting embark on what is often a long and difficult journey to marry technological innovations with business process improvements. Efforts to automate the close-the-books process are coupled with critical management negotiations about which performance measures to track on a daily or weekly basis. Managers also work to create a company culture that promotes full, transparent disclosure, even when information reveals disappointing results.

Theme II:

Increasing focus on strategic activities to meet organizational goals

Leading companies are primarily increasing their percentage of spend in analysis activities not by adding significant resources to decision support, but by streamlining efficiencies in transactional processing.

Companies are seeking ways to increase the involvement of the finance function in influencing business outcomes and helping key stakeholders apply financial data to strategic decision making. Although financial reporting and managing the day-to-day financial operations remain essential activities, finance is assuming a larger role in identifying and maximizing the drivers of shareholder value. In this expanded role, finance is reinventing itself as a strategic business partner and helping create profitable growth on the front end rather than simply analyzing historical financial results.

Companies generally try to decrease finance function costs, but in doing so, they also need to consider how they are spending the finance budget.

Specific to the issue of strategic activities, the benchmarking study revealed the following:

Leading companies allocate a higher percentage of their finance function time and resources to planning, analysis, and management activities.

- On average, companies allocate their finance spend as follows: 57 percent at the corporate or business unit level; 28 percent at the field level; 13 percent in shared services; and 2 percent in outsourcing costs.
- The median planning, analysis, and management cost as a percentage of total finance cost is 17.2 percent, while the best-in-class companies' costs are at 28.7 percent. Often, these costs can be found at the corporate or business unit level where more of the decision-making activities take place. In addition, leading companies are primarily increasing their percentage of spend in analysis activities not by adding significant resources to decision support, but by streamlining efficiencies in transactional processing activities and reducing the cost and time spent on these less value-adding processes.

Theme II: Performance measures

Measure	Median	Best-in-class
Planning, analysis, and management cost as a percentage of total finance cost	17.2	28.7

Best practice insights

The following insights from PwC's Global Best Practices research can help companies focus on strategic activities to support improvement:

- **Develop a vision of the finance function's role as value creator.**

At leading companies, the finance function no longer exists as a centralized, hierarchical silo, but, instead, disperses its people and skills throughout the organization. By integrating finance personnel into operating units, finance becomes a true partner with operations in shaping strategy and influencing business performance. But in order to identify and deliver more value-added services, the finance function may need to redesign its core processes. That can involve centralizing or standardizing information systems, which allows internal customers to access data as needed and reduces the burden on finance to process information requests. Likewise, outsourcing or shared services' opportunities may exist for certain business processes so that finance can focus more on value-added activities.

These companies also clearly segregate duties between finance staff who operate as business partners and finance staff who operate in control functions. In some organizations, the "control" staff report directly to financial control leaders to retain independence from the business units.

- **Structure the finance function to support strategic goals.**

As finance evolves toward becoming a true business partner with the operating units, the way the function is structured must change as well. Today's finance functions tend to be structured around a companywide focus as finance staff embed themselves literally in company operations. How far a company migrates from a traditional functional structure is determined largely by its own vision and by the need to balance the roles of financial steward and business partner. Financial leadership sets the tone and direction for the finance function and, by extension, for its individual members who work in the field. In leading companies, finance professionals are working onsite at manufacturing facilities or alongside marketing and sales staffs, where they bring their financial skills directly to bear on the problems faced by operations managers.

- **Ensure regulatory compliance through an effective organizational structure.**

Recent regulatory changes have had a profound effect on companies worldwide. The introduction of various governance requirements has encouraged companies to integrate compliance into their organizational structures as a way to ensure increased transparency, accountability, and responsiveness to key stakeholders. When making an organizational change, leading companies implement strategies that clearly delineate work flow, risk controls, and the compliance roles and responsibilities of all employees. In addition, they establish clear-cut relationships between key functional areas. Finally, the companies mandate training for all employees to help them develop the necessary compliance competencies and reinforce the belief that conducting business in an appropriate, ethical manner is the responsibility of every employee.

Theme III:

Increasing focus on the development of finance personnel

By investing resources to retain the most essential finance personnel from the start, companies are more likely to achieve their strategic objectives with less impact on the budget.

Organizations benefit when finance employees understand the company's operations, have the necessary skills to accomplish organizationwide goals, and possess superior interpersonal skills to lead and manage effectively. Other valuable skills for finance employees include business analysis, communication, and consultative problem-solving so they can translate financial data into strategy and decision support. Therefore, leading companies align training and development with these organizational goals.

Investing in staff can minimize employee turnover. When companies are unable to retain high performing finance employees, they lose years of experience and then have to spend time and money hiring and retraining others. So by investing resources to retain integral finance personnel from the start, companies are more likely to achieve their strategic objectives with less impact on the budget.

Specific to the issue of developing personnel, including recruiting, hiring, performance programs, training, coaching, and career planning, the benchmarking study revealed the following:

- The median spend for the development of finance personnel as a percentage of total finance cost is 1.24 percent. This figure is directly related to a shift in finance's focus from transactional to strategic financial activities.
- The median training spend per finance FTE is \$673. Companies will measure training allocations while considering the total cost of finance to determine the appropriate amount to spend for hiring, training, and retaining quality people.
- The median turnover rate for finance employees is 8.20 percent, while best-in-class companies have a turnover rate of 5.70 percent. Companies can improve their performance in relation to the retention of employees.

While an objective of companies might be to lower overall finance costs, organizations can also enjoy added success if they focus on developing finance personnel; however, development of personnel alone does not necessarily equate to lower costs.

Theme III: Performance measures

Measure	Median	Best-in-class
Finance employee turnover	8.20%	5.70%

Best practice insights

The following insights from PwC's Global Best Practices research can help companies focus more effectively on developing the skills and competencies of finance personnel:

- **Create a competency model for finance function employees.**

Competencies, which are the knowledge, skills, abilities, and behaviors that employees bring to their jobs, offer a highly descriptive means of discussing job performance. They go beyond traditional job descriptions because they focus on how employees perform their jobs, not simply on what they do. Competency development is catching on within finance functions because finance professionals need to broaden their skills. A common complaint is that finance staff is too narrowly trained or too technical. CFOs in leading companies are working to develop a finance staff that can understand the business better in a strategic sense, solve problems more creatively, and explain financial concepts in a way that enables better business decisions.

- **Implement programs for developing finance competencies.**

Well-designed, multifaceted development programs close the gaps between desired and actual performance levels by expanding the competencies of the finance function and individual employees. Such programs provide dual benefits: Companies have means of upgrading their workforce, and employees enhance their job security and prospects for career growth. Comprehensive development programs, which may include job rotations, succession planning, mentoring, internal or external education programs, and international assignments, also demonstrate a company's willingness to grow its own human resources. In addition, developing finance talent internally is a practical response to performance gaps and ensures that employees have the operational and cultural knowledge to be effective within the organization.

Conclusion

While the role of finance as a business partner may not be new, it is evident, that opportunities exist for improving the finance function. In particular, companies may be able to decrease the cost of finance, increase the focus on meeting organizational needs, and develop finance personnel that have the requisite skills and competencies to work with the business units.

Of course, many factors can contribute to a company's finance costs, such as an organization's complexity and size. Mitigating factors include where companies are spending their time and money, how effective they are at managing those costs, and how well they are managing the integration of new regulatory mandates. Companies are also confronted with redesigning their organizational structures to address these issues and increase transparency, accountability, and responsiveness to key stakeholders, all while effectively managing the finance function.

Companies can improve the efficiency of their finance functions by increasing the emphasis on planning, analysis, and management activities that have a more strategic focus and to decrease spending on transactional activities. Streamlining transactional activities, leveraging outsourcing, or creating shared services centers, where appropriate, allows companies to allocate more of their finance budget to strategic value-adding activities.

Focusing on decreasing finance costs, increasing the level of strategic activities, and considering how finance functions are organized requires that the right people are in place. Hiring, training, and retaining the right employees are critical factors affecting an organization's success. As such, while companies are striving to decrease finance costs, they must also consider spending more in the development of people. Increased spending in this area will directly impact the value finance employees contribute to the company.

For further information on these and
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