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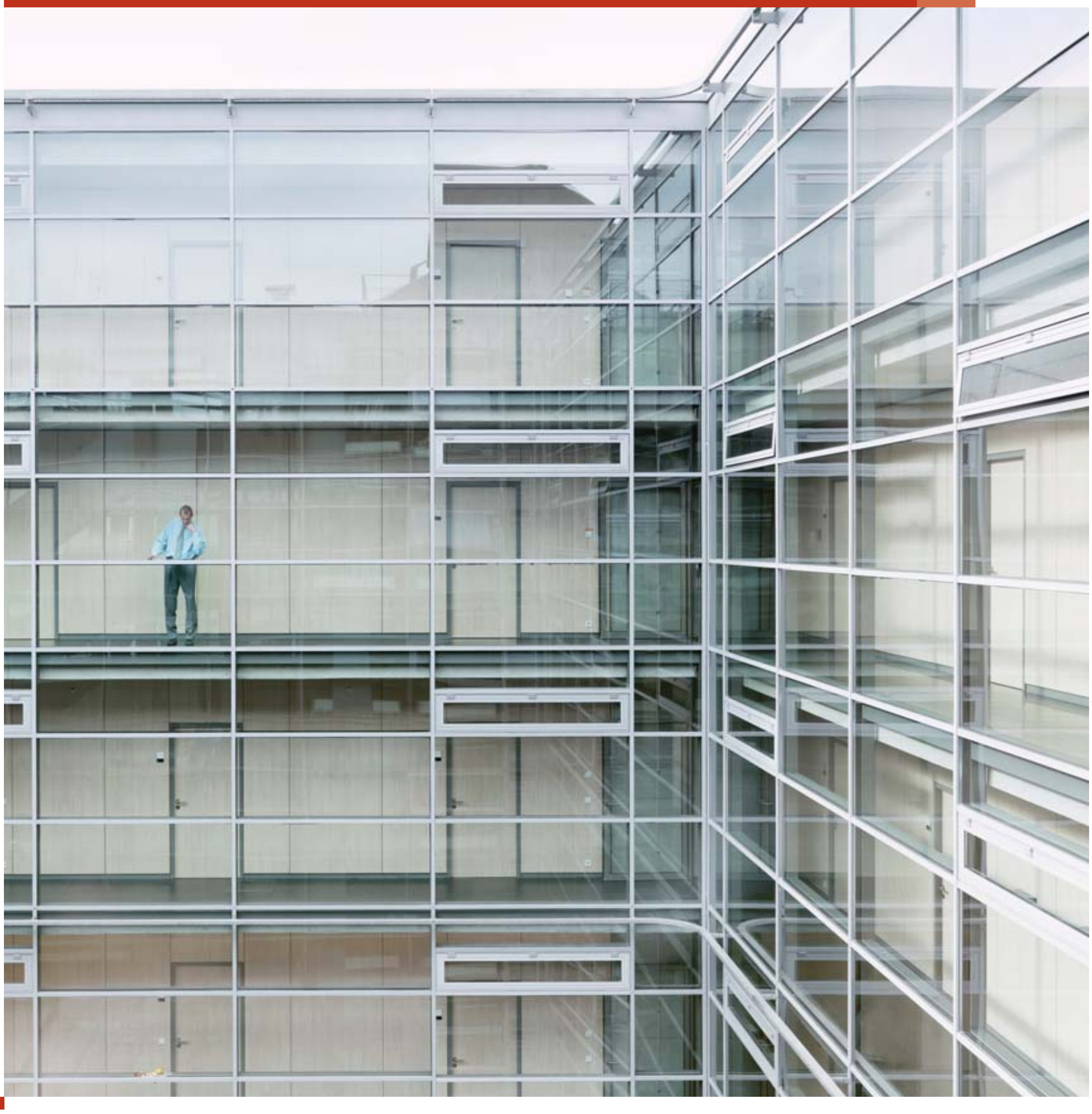
Finance benchmarking survey 2011

Executive Summary

The finance function has come to a crossroads. In today's tough economic climate, CFOs and their teams are being called upon to provide more insight to the business, while enhancing the cost-efficiency and control over performance analysis and reporting.



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The perfect balance
Finance benchmarking survey 2011

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Welcome to our new and innovative Finance Benchmark Survey. This is the first survey of its kind in the Kenyan and East African market to explore the need for today's CFOs and their teams to balance their challenging needs to provide the levels of insight, efficiency, compliance and control that add real value to their organisations.

In our first survey we collected detailed data from more than 50 finance leaders and their teams. Our analysis compares the performance of leading companies (top quartile) and typical companies (median) in Kenya against their industry peers and world class finance functions around the globe.

Areas covered range from management information and reporting to systems efficiency, talent and resource management to transactional processing efficiency, among others. This report also includes an overview of emerging best practice as companies seek to deal with a rapidly changing business environment, risk and regulatory landscape. This provides you with a 'baseline' to measure your change programmes by understanding where you are now, your gaps against targets and your ability to measure progress towards future goals.

What emerges from the survey findings as a whole is the wide gap between the front runners (top quartile) and typical (median) companies. The top performers are providing more useful insight and analysis for management in less time, making more effective use of their resources and managing risk in a more informed and assured way. The competitive benefits not only include more efficient operations, but also an improved ability to sustain profitable growth and capitalise on opportunities.

I hope you find this report interesting and useful. If you would like to discuss any of the issues in more detail, please speak to your PwC representative or one of the experts listed in our contacts section.

And finally, I would like to thank our survey participants for taking part and encourage those who did not take part to look out for the next edition of the survey. I look forward to working with you as our benchmarking data grows and grows.

Best regards,
Kuria Muchiru
Country Senior Partner

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Foreword

Our view of 'the perfect balance'

Jeff Aludo
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Today's CFOs and their teams are struggling to balance the increasingly competing demands being placed upon them by their organisations to provide the following:

- ***Business insight*** combines such evaluations as a comparison of time spent on analysis and data gathering and an assessment of management's reliance on the resulting forecasts.
- ***Efficiency*** includes a range of key determinants such as the complexity of systems and time to close/report.
- ***Compliance and control*** examines such areas as cost, accountability and risk management.

As your finance function seeks 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.

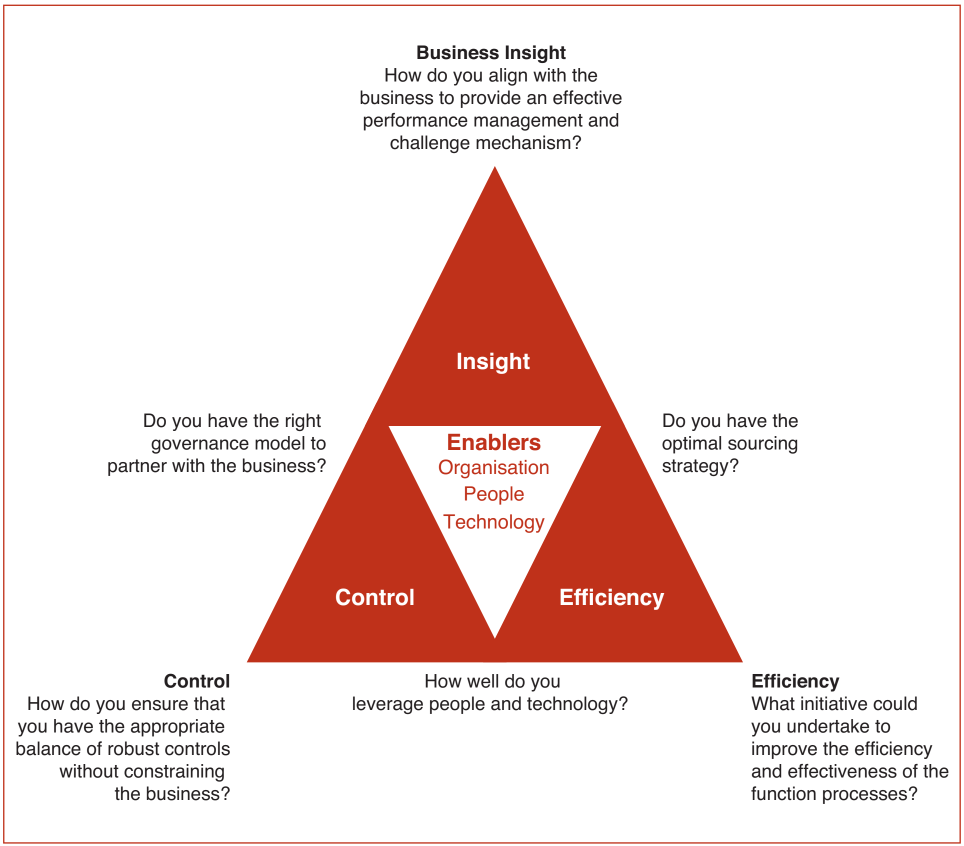
Using PwC's standard process framework for finance, the analysis combines a qualitative assessment and comparative metrics across these complementary dimensions of business insight, efficiency and compliance and control.

The resulting analysis not only compares these ratings against industry and your competitors, but also assesses whether they're operating in equilibrium and meeting the overall objectives of the business. For example, an over-emphasis on cost may in some companies inhibit the function's ability to provide insight and value.

The following results therefore assess the size, shape and nature of finance function, and the ability of the function to deliver the needs of the business. The benchmark can be used to chart progress and sustain momentum (for more details about the benchmark evaluation process, please see page 7).

The benchmark analysis is one of the services offered to PwC clients. If you would like to complete a benchmark assessment or would like more information please feel free to contact me or one of the contacts listed in the contacts section.

What is the 'perfect balance'?



PwC's standard finance model provides a consistent basis for comparison using the three dimensions below:

Business Insight Processes

- Strategy & planning
- Budgeting & forecasting
- Business analysis
- Tax planning
- Performance improvement projects

Transactional Efficiency Processes

- Accounts payable
- Travel & expenses
- Customer billing/credit management
- Accounts receivable / debt collection
- General accounting
- Reporting – Financial/external

Compliance & Control Processes

- Treasury
- Internal audit
- Process controls & compliance
- Tax accounting

As finance functions seek to develop their capacity and capabilities to achieve 'the perfect balance', our benchmark analysis can provide a clear assessment of strengths and weaknesses.

How we conducted the survey
PwC's finance function assessment framework

About the PwC Finance Benchmarking Survey 2011

We automated our research study for 2011, using an online survey as our primary research methodology. This year's study was supported by our PwC UK Benchmarking Survey Unit (BSU) which administers a wide range of financial and leadership research internationally, both for PwC and external clients, gaining considerable research knowledge and expertise.

The research was conducted using face-to-face interviews with 30 respondents as requested, while using our online survey to reach a wider audience. Through both channels, we reached a wider audience and increased the overall response rate to over 50 respondents. We envision undertaking similar survey assessments of the finance function every two years and we look forward to widening our research even further.

We assessed how finance functions balance the competing demands of insight, efficiency and compliance (control). We also assessed whether finance functions are equipped to handle the current financial challenges facing the economy, how they derive value from investments in technology and shared services and their perceived role in adding value and responding to change.

Additionally, we assessed how the function should be structured to best support the business. Other evaluation criteria included whether a finance function seeks external best practice and ensures that it has the right people and skills.

How we conducted the survey
PwC's finance function assessment framework

Online Registration

- Participants received an invitation to participate in the Finance Benchmarking Survey. Online registration for the survey was undertaken through our website www.pwc.com/ke.
- The registration page required participants to fill out the organisation's details as well as the details of the primary contact person for the organisation with whom PwC would liaise with during the entire survey process.
- As a confidentiality measure, Participant organisation's identity was encrypted.

Online Questionnaire

- Participants received an email with a link to the online questionnaire which contained a unique username and password.
- The online questionnaire was open for four (4) weeks to allow Participants to complete it at their own pace or to delegate to relevant persons within the organisation.
- The online survey process was further complemented by face-to-face interviews to provide support throughout the survey process.
- The questionnaire covered the sub-processes of the Finance function such as record-to-report, order-to-cash, purchase-to-pay, etc.

Data Analysis & Reporting

- The data analysis took four (4) weeks after close of the online questionnaire and was undertaken with support from the wider PwC network.
- Further commentary analysis took four (4) weeks and was incorporated into the report to provide insights from subject experts ; current trends and 'hot topics' in the market, as well as insights from subject matter experts from around the global PwC network with regard to global trends and best practices.
- The report also provides industry-specific thought leadership with practical examples from leading organisations operating within this market.

Survey Launch

- Participants then received an invitation to the breakfast survey launch where the detailed survey results and findings are unveiled.
- During the launch, there will be a panel of survey participants and subject matter experts to discuss the results and findings of the survey.
- Participant will receive a survey information pack with a CD containing bespoke/tailored survey report (for Participants) with specific information, recommendations and insights customised for their organisation (on completion of the order form).

Survey population

Total number of respondents	51

Revenue range	mKsh
Maximum	>1,000,000
Median	3,569
Minimum	1

EBIT Range	mKsh
Maximum	>18,000
Median	274
Minimum	<-9,000

Employee head count	Number
75th percentile	740
Median	350
25th percentile	89

Number of Locations	Number
75th percentile	19
Median	7
25th percentile	2

Industries represented	No. of respondents
Financial Services	23
Consumer and Industrial Products	13
Infrastructure	5
Public Sector	10
	51

Entity Types	No. of respondents
Government	5
Listed Company	10
Non-listed Company	24
Not for Profit	6
Multinational	6
	51

Executive summary

Executive summary
What sets top performers apart?

Finding 'the perfect balance'

The finance function has come to a crossroads. In today's tough economic climate, CFOs and their teams are being called upon to provide more insight to the business, while enhancing the cost-efficiency and control over performance analysis, reporting and transactional management.

Our survey shows that top performers operate at a much lower cost than typical performers while sustaining high levels of insight, control and efficiency. A number of key attributes set top performers apart:

- They play a more strategic role within the organisation—only 39% of finance teams in Kenya are perceived to play such a role
- They focus on process simplification and standardisation to drive down operating costs, thereby enabling them to operate at 250% lower cost as a percentage of revenue than the typical finance function in this region
- Resources freed up by efficiency gains are being re-invested in the core business and decision support, with about 19% more full time equivalents (FTE) in business partnering roles
- Process consolidation spans across functional lines rather than just focusing narrowly on finance (e.g. purchase to pay or controls processes) and into shared service centres (SSCs) or outsourcing arrangements
- The effective use of SSCs and outsourcing, underpinned by strong change and vendor management capabilities. Typically, over 40% of finance functions in Kenya have established SSCs or consolidated some element of their transaction processing
- Higher levels of automation—whereas less than 40% of finance functions in this market optimally leverage technology for management reporting
- They use smart planning tools, allowing finance functions to prepare budgets up to 30 working days faster than the typical finance function and
- They are committed to attracting and developing talent, with many top performers paying a significant premium for staff engaged in business insight roles.

Leading insights

Our benchmark study highlights four key hurdles that will need to be addressed to enable companies to leverage the full value of their finance functions:

- Finance functions should have the expertise, credibility and commercial focus to evaluate business options and inform strategic decision-making
- Management information should be clear and forward-looking enough to identify opportunities
- Processes should be standardised and technology harnessed to effectively match capacity and demand, while freeing up resources for value-added tasks
- An agile approach capable of accommodating business expansion and/or divestment should be reinforced

Executive summary
Overview of key survey results and findings

Role of finance in the strategic planning process

By virtue of his role and interactions with various facets of the organisation, the CFO is best placed to provide substantial input and insight to the strategic planning process. This is particularly critical in the current environment of strategic flux.

While it may not be possible to precisely forecast every change in the environment, finance functions can assist organisations to see the larger picture and provide insights and assistance to develop long-term strategies that take advantage of these changes.

Boards want finance teams to provide more active input into business decision making, yet only 39% of finance functions in Kenya are perceived to play a key role in the strategic planning process. Most finance teams—up to 48% of the survey population—are seen primarily as a reporting function.

It is clear that finance teams, in many cases, are struggling to meet expectations either because of a shortage of the right skills or under-investment in the necessary tools and infrastructure.

Our survey results reveal that the number of finance professionals engaged in business partnership roles does not appear to be keeping pace with the growing demand from business leaders for strategic input and support from their finance teams.

Questions to consider

Do finance functions take their rightful place in the strategy setting process?

Do boards consider their finance team a vital participant in the strategy and planning process?

How can finance functions deliver value to their organisation?

Questions to consider

Do finance functions constantly review their budgets and the assumptions they are based on to ensure they remain valid?

What measures do organisations put in place to monitor and react to any changes to your operating environment?

Do finance function monthly reporting processes allow for identification of changes in the environment and forecasting of upcoming trends?

Do finance functions consider the use of scenario planning as part of their budgeting process?

Budgeting and forecasting

Today's operating environment is becoming increasingly volatile and the assumptions that were relied on during the annual planning and budgeting process may no longer hold. Consider the Kenya shilling exchange rate to the US dollar which in October 2010 averaged Ksh 80 compared to the rate in the first week of October 2011 of Ksh 100, a 25% change. Inflation levels closed in 2010 at 4% compared to the levels reported in September 2011 of 17.325% (source: CBK).

These are just a few of the myriad indicators which demonstrate the volatile environment that organizations are operating in and the difficulty of relying upon static budgets and annual planning horizons. Value extracted from the budgeting and forecasting processes is a hot topic for many organizations in the current economic climate.

Volatility and the need for flexibility have resulted in many organisations reducing the time horizons of their budgets and forecasts. Our survey results show that the cycle time for completing budgets seems to be trending to between 30 and 60 days–a significant reduction and potentially the result of a greater focus on forecasting activities.

Driving down your finance costs

The recent CBK increase of the Central Bank Rate to 11% will inevitably lead to an increase in the cost of credit as banks transfer that cost to borrowers. Overdrafts and other similar lines of credit may be impacted negatively.

Already we have seen some banks in the market raise their base lending rates. The big question is how companies will finance their operations, including finance function costs, given this environment.

Our benchmark analysis reveals a significant gap between the capabilities and cost-efficiency of the top quartile and typical (median) finance teams. Typical (median) finance functions in Kenya operate at 0.7% of revenue, whereas leading (top quartile) companies are able to bring down their finance costs to 0.2% of revenue.

Questions to consider

Do finance functions drive innovative cost reduction initiatives?

Are finance functions fully leveraging relationship with their bankers for better financing terms?

Are organisations working capital requirements optimized to avoid unprofitable and unnecessary external financing?

Sourcing strategies

The Kenya shilling has shed about 26% of its value this year. Early this month, the rate was averaging Ksh.100. This has a direct negative impact on companies that import significant portions of their raw materials and related supplies. Indeed, some companies in the automotive sectors and oil industry have issued profit warnings or are anticipating reduced earnings.

In addition, many companies operating across East Africa are faced with unfavourable translation differences when consolidating financial results or reduced real values when making investments in their subsidiaries or receiving dividends from these companies.

Development of optimal shared service centres (SSCs) and outsourcing arrangements are effective responses, proven by top performing organisations to drive down finance costs. More than 40% of survey respondents have established SSCs or consolidated some element of their transaction processing.

Questions to consider

Are there opportunities to optimize organisations sourcing strategy so as to reduce costs?

Are there duplicate process that could be centralised and handled within a shared service centre?

Faster and more efficient reporting

In order to take advantage of emerging opportunities in the marketplace and deal with risks or deviation from plans, timely information is critical. Additionally, value-adding insights can facilitate informed management decisions.

The ability of the finance function to produce relevant, accurate and timely monthly information for management is seen as a fundamental must-have by the business community—and rightly so. Therefore the number of days taken to close the books and report results are KPIs for the effectiveness and efficiency of finance–and a critical check on the function's health.

Top performers deliver reports and analysis to management more than three days faster than typical functions, helping their companies to respond more quickly to market developments and freeing up staff time for more value-adding tasks.

A fast close and consolidation process immediately reduces the time finance staff have to spend on closing the books, an essential but 'backward looking activity', and frees more of their time to work in partnership with the business on new initiatives and more value adding activities.

Questions to consider

Is the speed of finance functions closing and reporting processes slowing down informed decision making?

What are the bottlenecks in the close and consolidation process?

Working capital management

Increases in the cost of credit, coupled with rising inflation may lead to declining spending power among consumers . This may result in longer outstanding receivables (and reduced sales) and tightening of credit advanced by suppliers, playing havoc on the working capital available to companies.

Overdue trade accounts receivables varied from 2% for the best performing companies to 15% (of total trade accounts receivables) for the average performers. Continuous improvement in working capital management (WCM) will reduce borrowing requirements and release funds for investment and growth.

Top performers are making sustainable gains in WCM through a combination of closer collaboration with suppliers and active monitoring and follow-up of receivables. This is underpinned by a strong cash culture that builds cash generation into the performance objectives and incentives of all those involved in the end-to-end process.

Questions to consider

Do finance functions consider opportunities to optimize their sourcing strategies?

How do organisations' finance functions debtors collection efficiency compare to that of their peers?

How do finance functions ensure that they are not paying suppliers earlier than necessary but still take advantage of early payment discounts?

Making the most of your people

The talent war is still on and as the 2011 Annual Global PwC CEO survey pointed out, this is one of the key challenges that business leaders are grappling with.

However, it may well serve as an opportunity for companies to get much-needed talent either from within their industry or returning citizens who have had exposure in other more developed markets.

Retention is also key if companies are to enjoy growth from within. With increasing competition in the market, CFOs are looking to retain the right people within finance. It is important for CFOs to understand the talent mix within their teams and accordingly employ strategies to build on performance and retention. However, most companies have yet to develop this kind of structured approach, which heightens the risk of key people being under-utilised, feeling under-valued and open to poaching by competitors.

Our survey results reveal that the attrition rates in the Financial Services industry is the highest (at 0.4%), with the lowest attrition rate recorded in the Public Sector. These results demonstrate that attrition varies across sectors, suggesting the potential for lower employee satisfaction and loyalty may be industry specific.

Questions to consider

Do finance teams have the requisite skills and competence to deliver sharper insights?

How do organisations support and equip their people to deliver?

Do organisations have a robust, forward-looking talent management strategy for their finance team?

Enhancing system value

Questions to consider

Are organisation's investments in IT and technology aligned to the corporate and finance vision?

Do finance function require significant work-arounds or manual manipulation of data in order to meet various reporting requirements?

Are organisation's ICT investments realising the envisaged benefits? What are some challenges?

The last few years have seen a tremendous uptake of enterprise resource planning (ERP) systems across various industries by companies keen to centralise information processing and 'border-less' organisations. As part of the finance transformation, leading finance teams are taking this to the next level through multi-function business systems, which integrate finance with other functions like administration, HR and operations.

This combined service approach allows companies to rationalise fragmented processes and improve the value and efficiency of their operations. The survey results show that median companies in Kenya are spending 0.16% of their revenue on IT architecture. Not surprising, the investment in IT systems is much lower in Kenya as compared to global companies.

Companies with the most efficient systems are not just focusing on their overall IT spending, but also effective ways to increase the return on investment and structure the organisational change needed to achieve their objectives.

Meet the key contacts in our team

Kuria Muchiru
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Kuria Muchiru is the Country Senior Partner at PwC Kenya. He has over 27 years of experience providing advisory and audit services to clients in both the public and private sectors within the Africa Central region.

Prior to taking up the Country Senior Partner role, Kuria was the Chief Operations Officer for the firm within our Africa Central network which spans over 9 countries. In this role, he gained sound hands-on experience in leading and managing large and complex finance function transformational projects which have significantly improved PwC internal finance operations.

Kuria also has diverse experience assisting clients with similar projects. In particular, he has been involved in overseeing engagements aimed at finance function transformations, shared service centre design, business process re-design and improvement, cost reduction initiatives and organisational strategy formulation and implementation among others.

Jeff Aludo
Director
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Jeff Aludo is a Consulting Director in the Advisory practice and he leads the Finance and Accounting Advisory teams in Eastern Africa. He has over 10 years experience in providing advisory services in Eastern Africa, USA, India and the UAE.

He has helped many clients to transform their finance functions to become leaner, faster, more agile, more efficient and more effective by diagnosing the areas of improvement and providing practical solutions ranging from strategic cost management, improving corporate performance management, finance visioning and strategic planning, setting up finance services shared service centres and outsourcing arrangements, among others.

Jeff has also led various large client assignments involving improving the quality of management information, finance function re-organisations, business process mapping and finance function effectiveness diagnostics (including deep dive finance assessment).

Alphan Njeru
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Alphan Njeru is a Partner in the Public Sector Group of PricewaterhouseCoopers, specialising in delivery of advisory services to Government ministries, Non-Governmental Organizations (NGOs) and development partners within the region.

He has over 31 years of extensive post qualification experience in financial management agency programmes and project implementation as well as budgeting, financial and management assistance to projects including development of operation manuals, financial system manuals, procurement manuals, curriculum development and training, monitoring, evaluation , review and improvement of internal controls.

He has in depth knowledge of Government of Kenya systems, having been the team leader on several assignments such as the ongoing Public Financial Management Reforms, the Land Reform Transformation Unit and civil society engagements such as the National Civic Education Programme.

Peter Mahinda
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Peter Mahinda is a Senior Manager in the PwC Finance and Accounting Advisory practice with over 7 years experience in providing audit and advisory services with the PwC Kenya firm and another reputable audit firm in the United Kingdom.

He has vast experience with helping clients to optimize their finance controls and processes such as record-to-report, order-to-cash, procure-to-pay, treasury and others. He has also helped several clients to manage growth and complexity and enhance their regulatory compliance during large M&A deals by providing due diligence and post deal support.

Peter also has sound hands-on experience in financial management gained during two full time client secondments, one as a Consultant in a reputable Private Bank in the United Kingdom and, the other, as a Senior Analyst in a finance industry regulator.

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