Business Advisory

CFO Agenda 2007
Slovakia

Stability and the euro

Content:

Key findings

The main results of this survey could be summarized in two terms: “stability and the euro”. Because this is how to characterize most of the answers to questions that Slovak CFOs have about their future in 2007. According to the results, they see their position as a business partner for the CEO and they do not expect any considerable changes in the future.

Regarding the future of areas of finance, such as performance management, business risk management, reporting and standard working operations, the biggest emphasis was on the last two (supporting) areas. In the area of company management (first two areas), CFOs in Slovakia are active mainly in budgeting and partly in internal audit. This makes sense, because many of the companies that participated in the survey do not have their headquarters in Slovakia; they are more or less subsidiaries with limited functionality in the area of company strategy. Regarding points which Slovak CFOs have in their agenda for the next period, the first one is definitely conversion from the Slovak crown to the euro in the Slovak Republic. A CFO in Slovak companies becomes automatically responsible for preparing a company for euro conversion. Our company has experience of projects in which we prepared or cooperated on the euro conversion readiness of companies. Our partner was always the CFO. Survey results are shown in detail in the parts dealing with individual areas of finance.

Considerable changes in Slovak legislation, particularly the tax law, business environment improvement, technological changes and strong economy growth have had an impact on competition intensity, service quality and business models that are used by Slovak companies. The objective of this survey was to find out how these factors affect finance, its organization and status in the company, and what the expectations of the financial community in Slovakia are.

Experts from PricewaterhouseCoopers asked CFOs of large Slovak companies what their vision for the future is, what challenges they face today and what challenges they expect next year. International and Slovak companies participated in this survey, both private and state-owned ones from the various industry segments.

The objective of this survey was not to provide a complete statistical analysis, but rather to gain an understanding of the situation financial departments are in today and to identify trends that have an impact on their decisions. During discussions with CFOs, we tried to determine what their position (or the position of their department) is in the company today, what challenges they face and what topics they want to address in the future. The survey was focused on the basic processes that we believe are part of the financial department:

- performance management
- business risk management
- reporting
- operations.

We were also interested in some basic quantitative parameters, which describe the performance of the financial department itself, such as the number of its employees and monthly closing duration.

We would like to thank those institutions that participated in this study for the time they gave us and for the openness with which they discussed individual problems and areas. Our findings, which are identical in many areas for the majority of companies, create quite a good image of Slovak CFOs current situation. We believe the findings below are informative and useful, and that they will serve as a spur to discussion about this area.

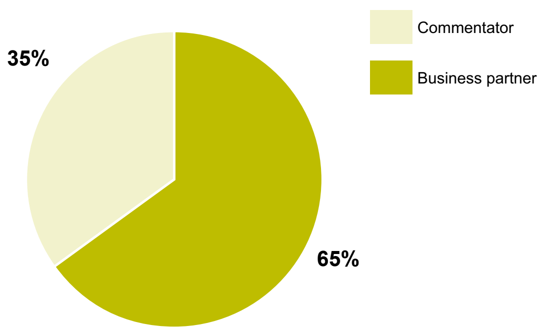
Current position and vision

CFOs in Slovakia almost unanimously understand their role as a business partner for company management. Only one-third of the respondents stated that they understand their role as “a Commentator” (chart No. 1). They are also considerably involved in decision-making processes of the company, as 75% of respondents stated that they have a medium or high degree of participation (chart No. 2). This result, on the other hand, corresponds very well with the assessment of their responsibility for meeting goals (chart No. 3), where a medium to high level of responsibility had the same weight (75%), with a strong move to a high level one. These findings, not surprisingly, have confirmed the traditionally very strong position of CFO in the management of Slovak companies (usually No. 2 in the company).

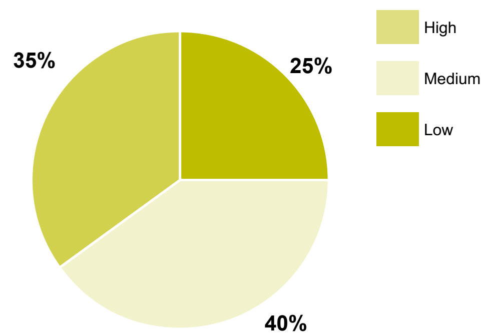
According to their expectations (chart No. 4), this position will not change in future, since more than one-third of respondents stated that they do not expect a change on their position, and another one-third of respondents stated that their position in the company will change only slightly.

Regarding the key topics on their agenda (charts No. 5 – 7) euro conversion clearly predominate, which is because the financial department is the first one that is aware of the seriousness of this step for company processes, systems and documents. Other important topics, which will be interesting for finance managers in the future, are the consolidation of IT systems, outsourcing and centralization.

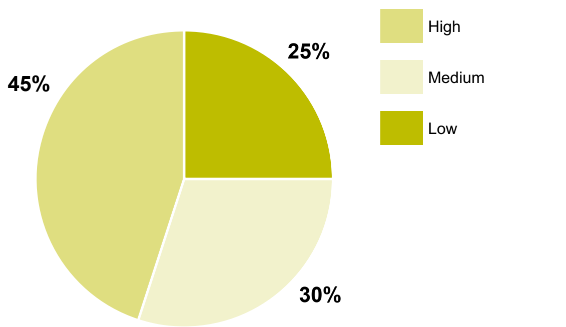
1. CFO characteristics



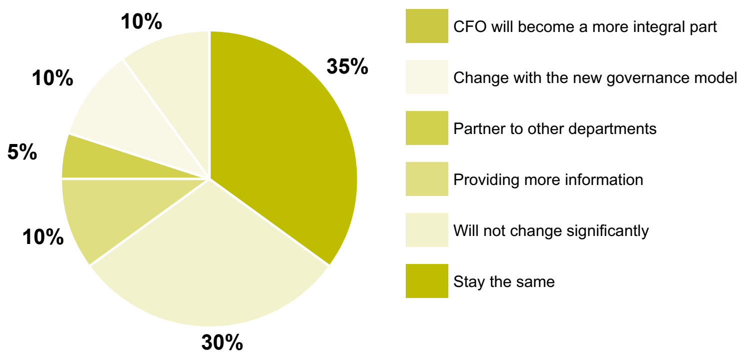
2. Participation of CFO in decision making



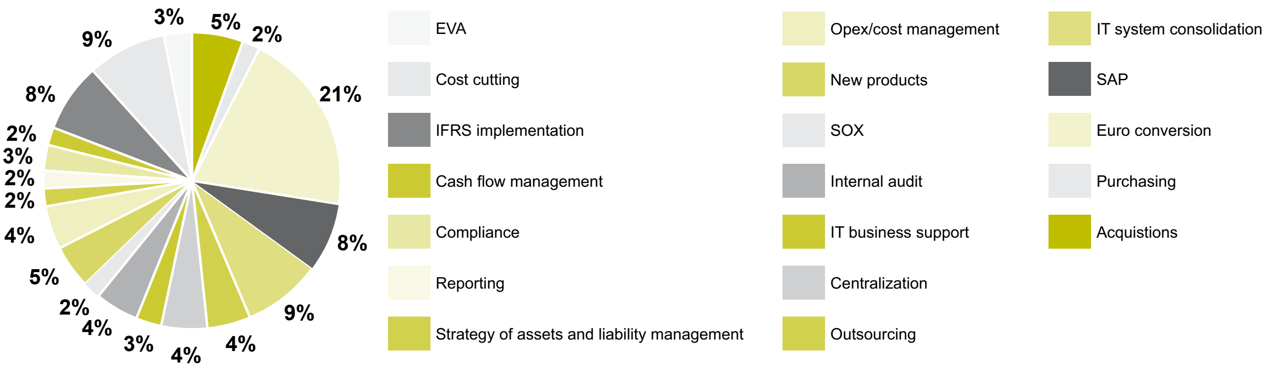
3. FD participation in meeting goals



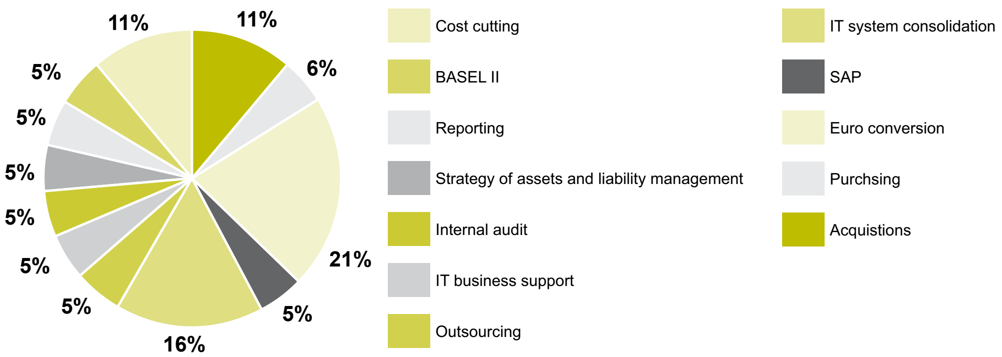
4. Change of CFO role



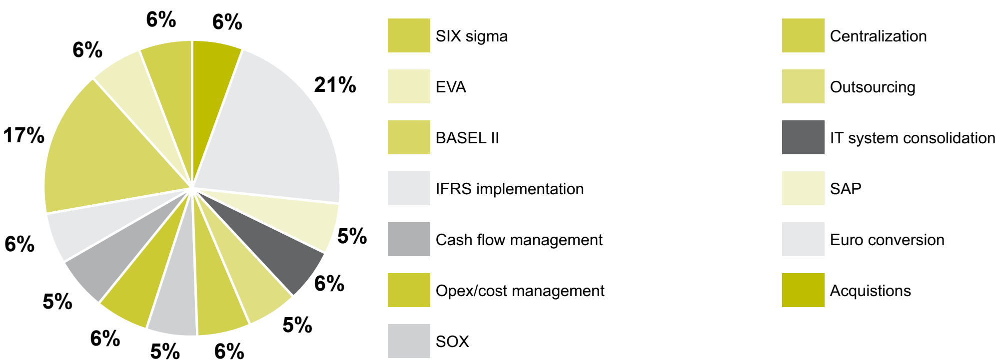
5. Key Topics

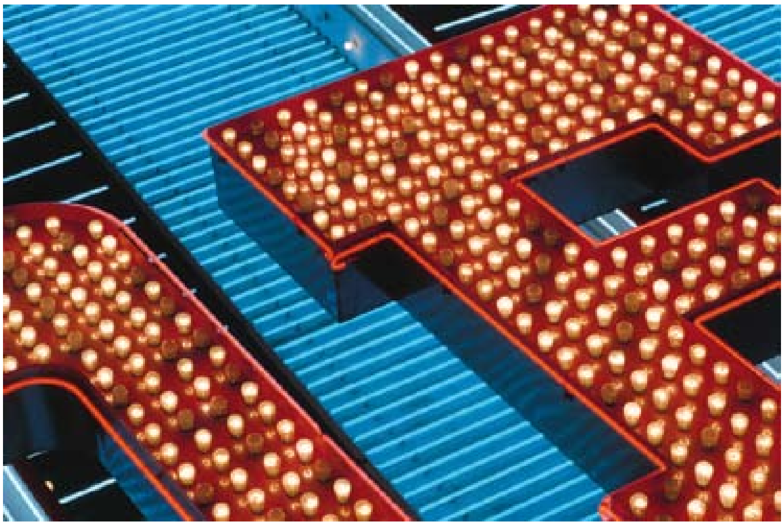


6. The most important topic



7. The next most important topic

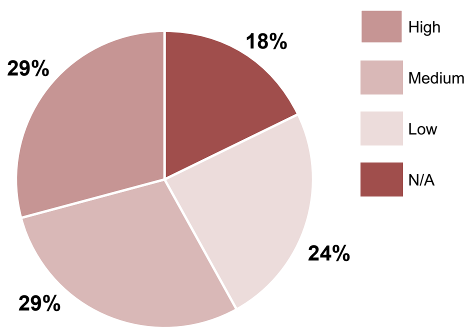




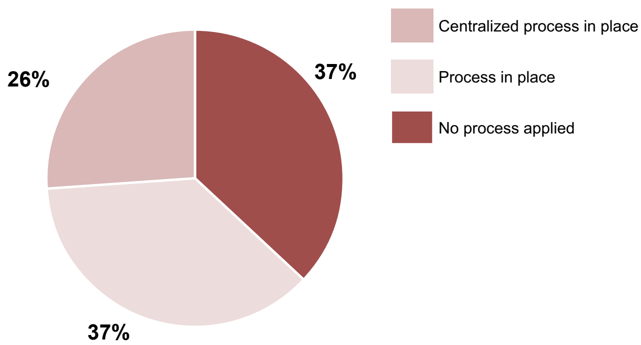
Performance management

According to responses made by CFOs, PM is not considered their strong point. This observation is taken from the following comments made by CFOs: every department has a different approach for performance measurement and remuneration; the implementation of a centralized approach for measuring the company's goal fulfilment is currently being considered as one possible approach (for example, Balanced Scorecard and Economical Value Added). In total (chart No. 8), about a third of respondents (29%) were very satisfied with the work performed within the controlling department, and about a third (29%) were less satisfied. More than half of CFOs (63%) stated that their company has a managed cost reduction programme (chart No. 9). The two areas for improving the quality of work performed in the controlling department (41%) are mainly improvement of their people an increase in the quality of data (chart No. 10). In the area of corporate finance, the majority of surveyed companies (78%) have no standard process (chart No. 11), which is related to other findings, where 83% companies have no defined plans or targets in the area of acquisitions (chart No. 12).

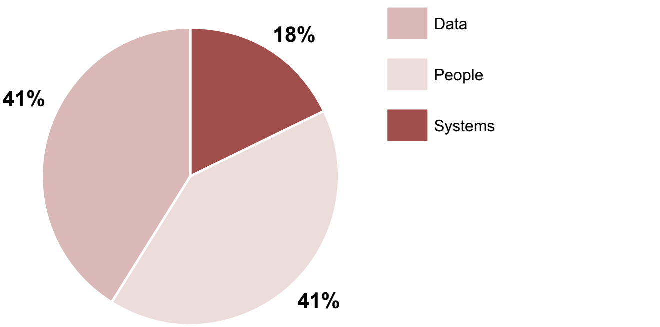
8. Performance of Controlling if under FD



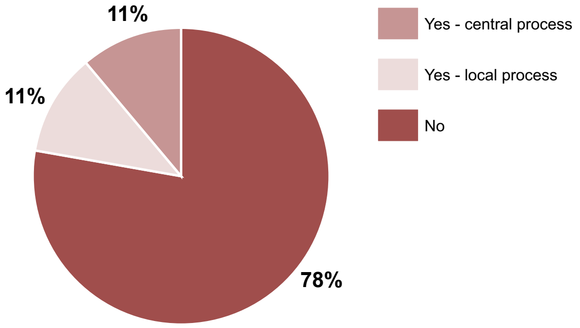
9. Cost cutting setup



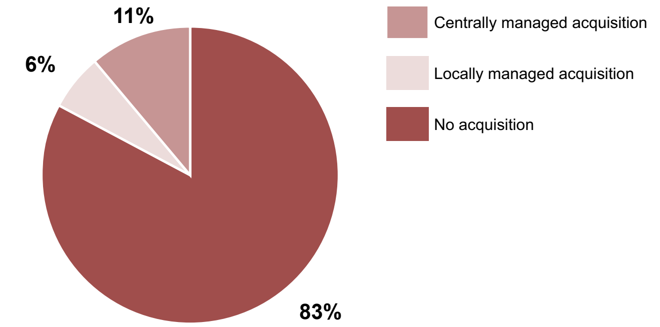
10. Areas for improvement within the controlling department



11. Acquisition process specified



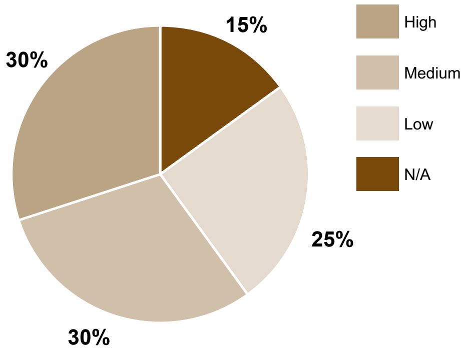
12. Acquisition plan



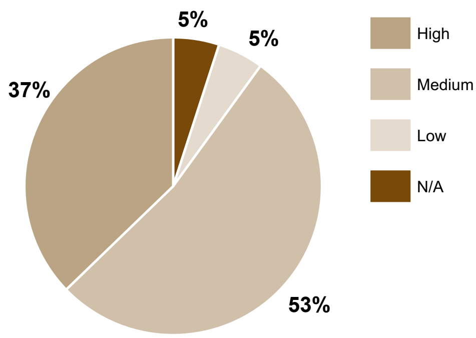
Business risk management

More than half (60%) of CFOs who participated in this survey listed a medium or high level of involvement in this part of the company's strategic management process (chart No. 13). It is important to state that business risk management was, in most cases, understood as the anticipation of fraud, which is demonstrated also by survey results (chart No. 14) about the level of controls around potential fraud management in the company (90% of participants consider this level to be medium or high). There were various answers to the question, "How are other business risks (not fraud) managed?" - varying from a "decentralized" approach, where individual departments are responsible for the management of their own risks, to a model in which the mother company, sometimes abroad, has a central internal audit and risk management function. Therefore, we can state only the fact that CFOs are not responsible for central management of business risks (such as, in budgeting).

13. Utilization of risk management function



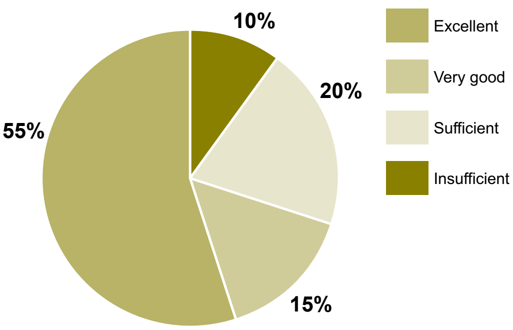
14. Level of controls for frauds



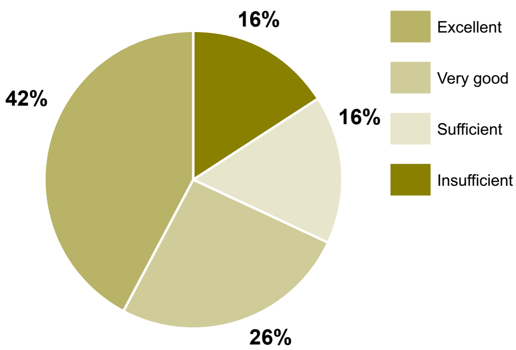
Reporting

According to the responses made by the CFOs in Slovakia, they consider the area of management reporting to be their best (chart No. 15). Most of them (68%) consider the reliability and quality of management reports to be very good or even excellent (chart No. 16). The quality of forecasted results (chart No. 17) was positively evaluated and considered very reliable by 84% of respondents. For areas where CFOs are most confident about, it would be interesting to ask the opinion of their counterparts or their 'customers' (such as directors in other departments). One of the areas which CFOs think need to be improved is external reporting (the preparation period of reports), especially in the area of data quality and IT systems (chart No. 18). One of the greatest barriers to doing this that they see is the degree of cooperation with other departments (such as with the sales department and logistics), as well as the lack of a single, central data source (chart No. 19).

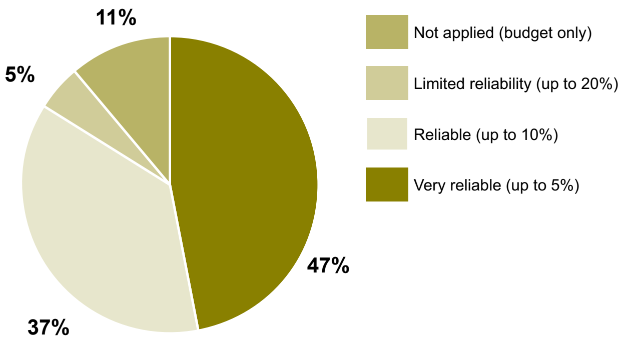
15. Reliability of management reports



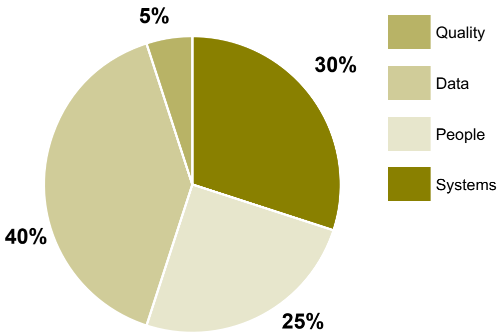
16. Quality of management reports



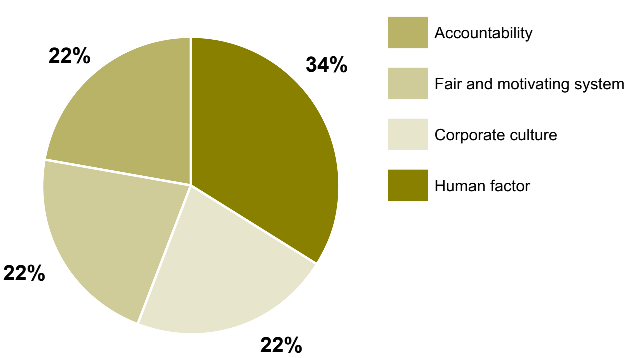
17. Forecast accuracy level



18. Areas for improvement in external reporting



19. The biggest slowdown factor in the reporting improvement



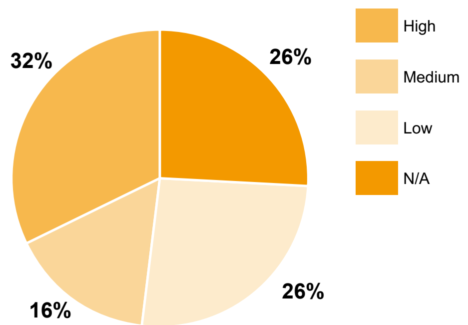
Operations

In the area of ordinary, daily transactions, Slovak finance managers assessed the area of working capital optimization rather critically (chart No. 20), where the percentage of answers showing a high level of confidence about working capital optimization (32%) was almost equal to answers showing a low level of confidence (26%). In connection with working capital, the next finding is also very interesting (chart No. 21), because it states that more than half of participating companies do not have an independent treasury function. Those companies which have this function in place assessed the quality of work very critical (only 32 % of participants assess the quality of work as very high – chart No. 22).

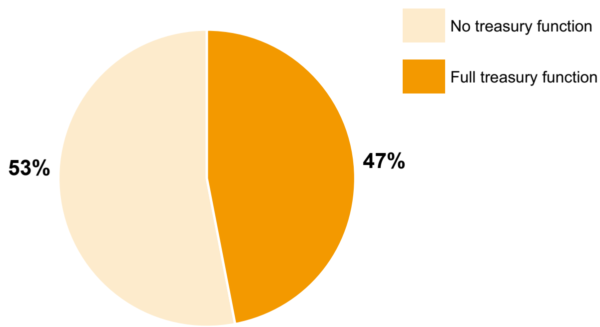
The level of process centralization was assessed as high 16% of those questioned cited completed centralization of processes, and almost half of participants (47%) cited completed centralization of selected management processes.

More than half (53%) of finance managers state that they do not use any centre of shared services (chart No. 24), and 42% of participants stated that they outsourced only selected activities. Leading activities for outsourcing (chart No. 25) are SAP, salaries and accounting.

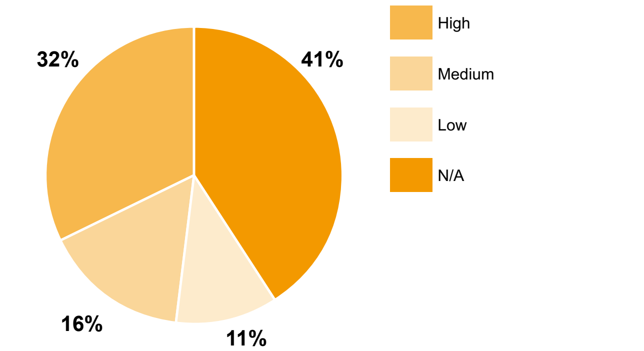
20. Level of confidence about working capital optimization



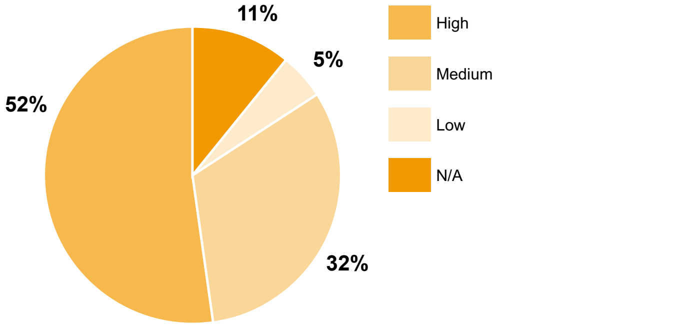
21. Treasury function



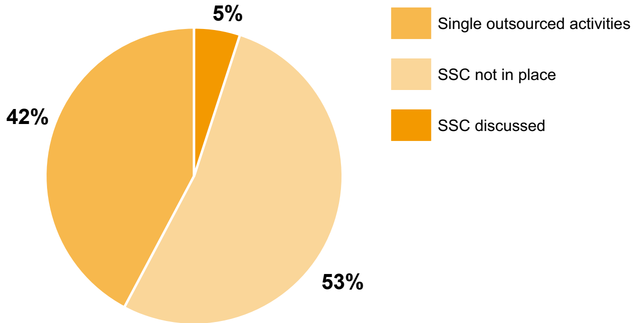
22. Level of satisfaction with treasury function



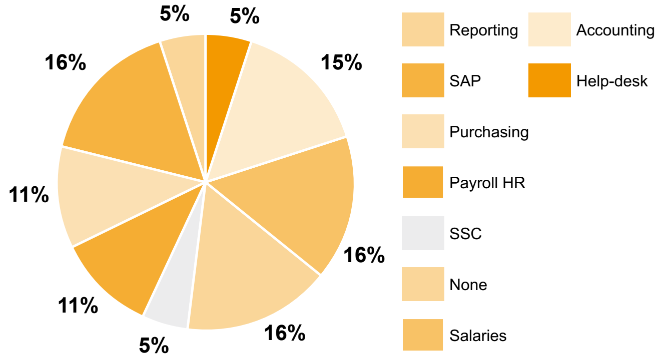
23. Level of function centralization



24. SCC integration level



25. Outsourced activities

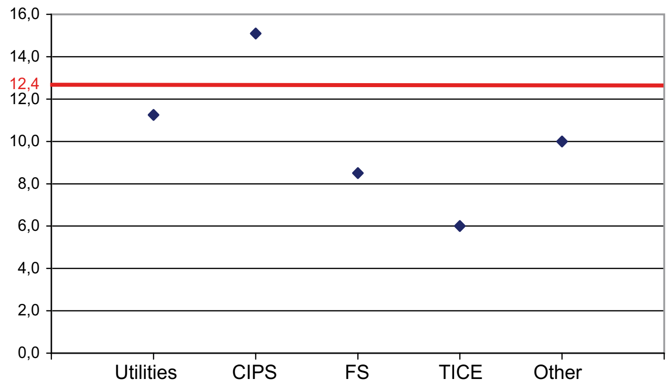


Interesting quantitative findings

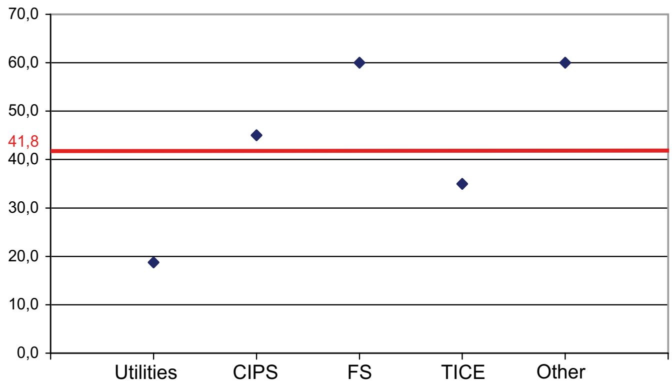
An interesting finding in this part is the number of days (chart No. 26), needed by financial departments (and other departments that provide inputs), on average for monthly closing – more than 12 days. Companies in the Telco, IT and entertainment industries are exceptional, because they need only half of this time. Despite this, financial managers expressed satisfaction with reporting quality (see the reporting part). The period for preliminary report and annual report preparation is, on average, too long (charts No. 28 and No. 29) in comparison with best practice, which we can find in other economies (www.globalbestpractices.com). However, it is different in various industries. It also seems that the budget process is especially slow, because companies stated an average of five months (chart No. 30).

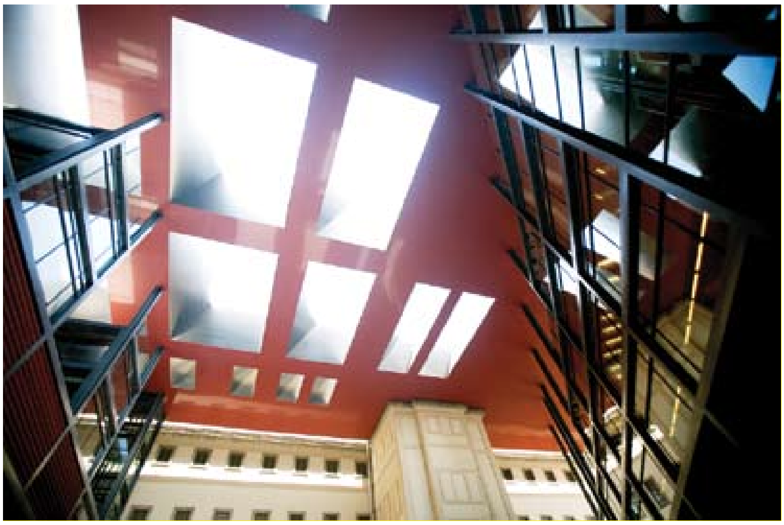
Regarding the number of financial department employees, collected average data are not very comparable, because individual companies have different financial department organizations. Depending on the area in which companies conduct their business, the number of financial department employees varies from 1.4 to 5 for every 100 employees.

26. Monthly closing duration

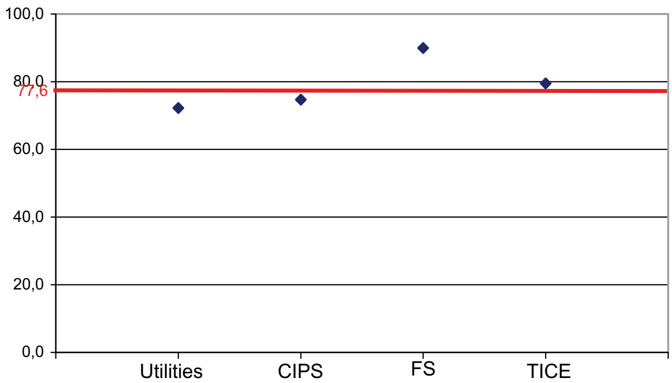


28. Preliminary report preparation

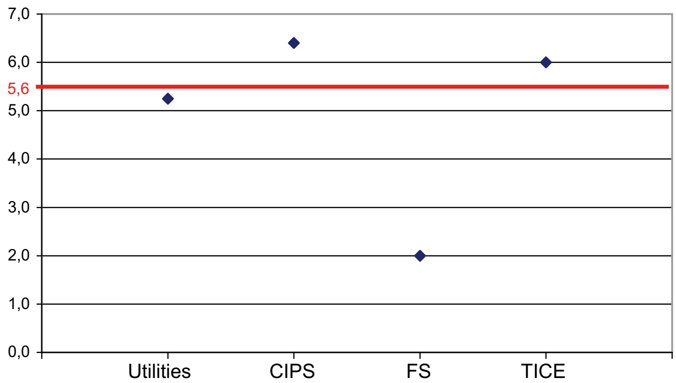




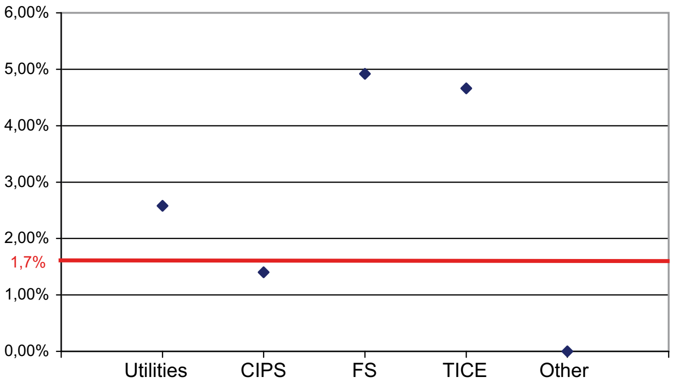
29. Final report preparation



30. Duration of budget preparation



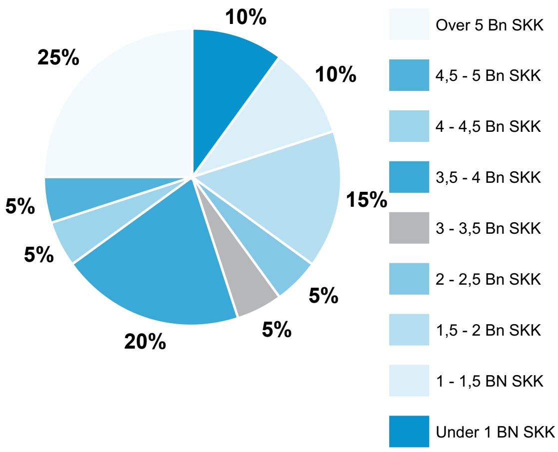
31. Percentage of FD employees from total number of employees



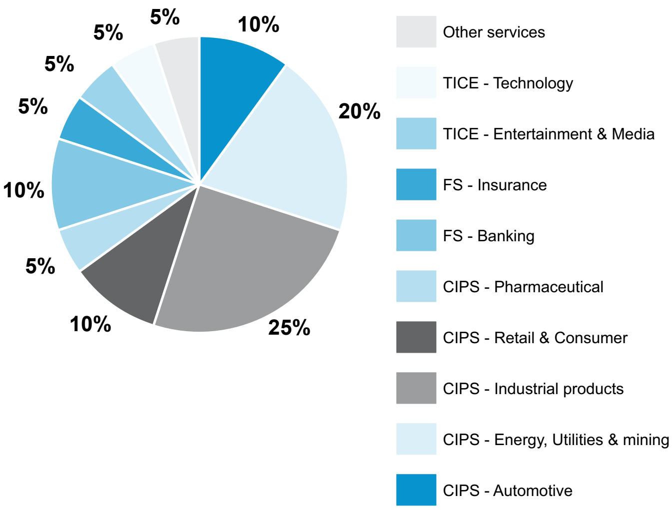
Survey participants

As mentioned, the sample of companies that participated in our survey did not have exactly the same structure as that of the Slovak economy. Rather, big companies (chart No. 32) with revenue over SKK 5 billion mostly participated in our survey, companies dealing mainly with industrial production, energy & utilities and retail (chart No.33). In most cases, they are a market leader (chart No. 34) in their industry or play a very important role. Therefore, they are relatively good representatives of their respective industries.

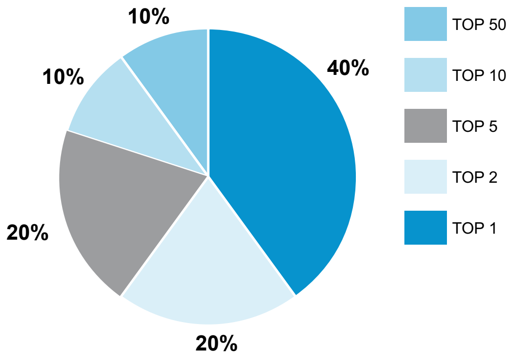
32. Revenue



33. Industries



34. Market position



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