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Effectiveness of the Finance Function in Slovakia

A Survey among CFOs conducted by PwC in cooperation with the CFO Club

PwC, in cooperation with the CFO Club Slovakia, has conducted a survey among CFOs on the topic, "Effectiveness of the Finance Function in Slovakia".

In recent years, we have seen that there has been pressure on increasing effectiveness in all aspects of business. The purpose of our survey is to offer a basic comparison of the finance function within organisations in Slovakia, and thus the opportunity to identify areas for improvement in effectiveness and productivity.

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CFO Club

Foreword

Productivity is the term currently resonating throughout the global economy.

In recent times, rising business costs in connection with the ongoing economic downturn have become a key measure for companies, which need to offset the increased costs of operating with a more than proportional increase in their underlying productivity.

The need to maximise efficiency and effectiveness are also reflected in the efforts to optimise the internal back office functions. In other words, the concept of productivity applies to all aspects of the business. The finance function is no exception, as it plays an important role in contributing to business value and profitability.

In the past, the finance function focussed on supporting the corporate function by reacting to events rather than serving as a proactive, creative force with business insight and an appetite for change.

Following on from the findings of our survey, finance functions generally succeed in their traditional role of supporting the business - also internationally. Finance departments are strong in their standard functions of general accounting, reporting and other routine procedures.

Nowadays however, we are witnessing a transition from the traditional focus of the finance function to activities increasing the value of the business. We often now see the finance function participating in addressing broader strategic questions, defining effectiveness parameters through KPIs, taking responsibility for their monitoring and interpretation, and being responsible for budgeting and planning.

The main challenges that the finance function is facing now include providing more information with fewer inputs, streamlining and reducing transactional costs, providing an effective control framework, and helping the business make the right decisions to improve business performance - in other words, to become a business partner to other departments within the organisation.

We are ready to discuss the new trends with you in person and help you find ways to achieve the goals you set in the area of finance function productivity. We will also be happy to share ideas on how to promote the finance function in your company to the role of a trusted business partner to the whole business.

Sincerely,

Ivo Doležal
Partner, Advisory

Contents

Major findings

Top finance teams spent less than ***5%*** *of time on data gathering compared to the typical time spent on data gathering which varies from* ***20-50%****.*

40% *of companies incur less than* ***1%*** *of total revenues on running the finance function.*

On the other hand, as much as ***1/5*** *of companies incur costs that exceed* ***4%*** *of total revenue.*

The smaller the size of the finance function, the more intensive the staff engagement in the role of ***business partners****.*

Almost ***50%*** *of companies do not have* ***formalised productivity improvement programmes*** *in place.*

75% *of respondents need* ***less than 6 days*** *to finish the month end close. The top* ***18%*** *companies take* ***up to 3*** *working days, which allows them to spend more time on higher added value activities.*

CFOs believe the way ***to enhance the productivity*** *of the finance function is through process optimisation, the use of new technologies and staff training.*

Finance functions should focus more on ***controls' automation*** *so that* ***prevention*** *naturally prevails.*

Almost ***50%*** *of companies spend* ***more than 2 months*** *on budgeting.*

Slovakia falls behind the global trends in using ***shared service centres:*** *only* ***22%*** *of respondents use this function.*

As much as ***63%*** *of companies use* ***standard finance systems.*** *Their disadvantage is seen as lower flexibility and longer response times.*

It has been identified that there is room for significant ***enhancement of automation*** *(data processing in* ***MS Excel*** *still* ***prevails****).*

Executive summary

Comparing our Slovak, Czech and other selected countries 'research survey results, we can clearly spot resonating trends and topics in finance function optimisation and development.

Apart from striving for automation, standardisation, efficiency and productivity, there is an emerging trend to leverage the information gathered by the finance function to the benefit of the business as a whole.

Finance departments are now more and more likely to be perceived as important business partners, helping with strategic planning and decision-making.

Many companies are also seeking opportunities for productivity increases through continuous improvement of processes and technology. Others see the main challenge in attracting and hiring capable staff to deal with the rising complexity of the operations and processes and new needs of the business on top of traditional financial accounting.

Although the overall management of the finance function is a very complex topic, based on our survey we identified a few main points which set the TOP performers apart from the others.

What do we mean by 'business partner' and 'business insight'?
'Business partners' are finance employees with the skills and experience to work alongside the business; influencing, designing and, increasingly, driving business strategy and performance. The value they bring to the business is underpinned by a number of 'business insight' processes including: strategic planning, budgeting & forecasting, business analysis, management reporting specification and performance improvement.

The market leaders take a forward-looking approach to keep pace with market developments and anticipate emerging risks and opportunities for the business, leveraging their knowledge of the business as a whole.

- They spend time and resources on activities that count – less time on data gathering and more on data analysis and interpretation.
- They deliver more for less – leading finance teams operate at around 40% lower cost (percentage of revenue) than typical functions.
- They focus on shared service savings through the development of "lean" approaches and multi-function services.
- They use technology in a smart way and focus on process standardisation.
- They set and frequently review up-to-date and actionable KPIs that allow management to track improvements and tackle bottlenecks and other problems.
- They reduce the risk of error – leading finance teams have automated 70% more of their key controls than typical functions.
- They avoid over-burdening the business with excessive controls. The controls are tailored to the business and assessed for risk assurance.

In other words, ***they are using a balanced combination of business insight, efficiency measures and control procedures.***

Main roles of the finance function

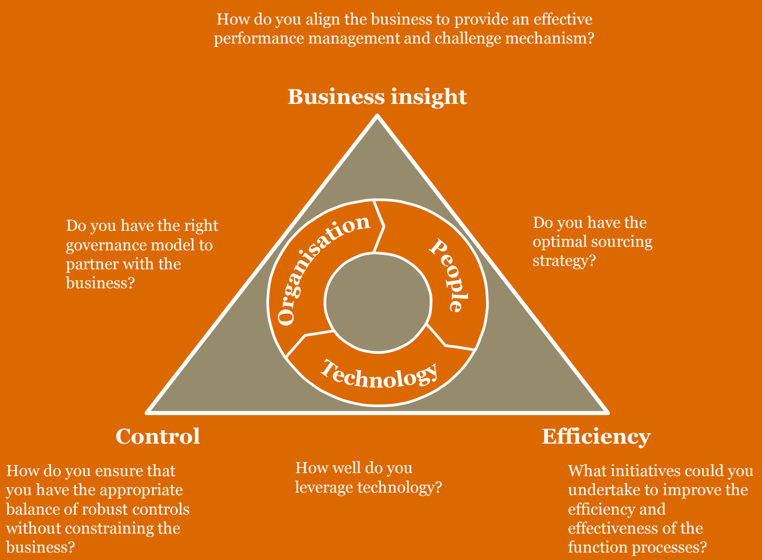
Productivity is one of the key parameters in the surveyed companies. In a global context, Slovak firms are not an exception and are also continuously under the pressure of reducing margins either as a result of increasing costs and/or reducing revenues. This pressure can be compensated by increasing productivity proportionally. Productivity increase can be used to safeguard growth and profitability of the organisation. Another objective that should be achieved through the increase of effectiveness and productivity is the availability of information in real time.

The concept of productivity is applicable in all business spheres including the finance function which should actively participate in creating added value and profit for the business. Due to its role as a provider of information and bearer of analytical views on the business, the finance function should act as a “productivity star” that provides support to management in analysing and identifying opportunities for improving productivity throughout the organisation. Therefore, the question is how the finance function sees consistent productivity improvement and what measures Slovak firms take in order to improve productivity and increase value.

According to PwC, the finance function plays three key roles:

- Business insight: the finance function helps interpret data, it works closely with the business with the aim of providing business insight and support in defining strategic direction.
- Effectiveness: the finance function should perform its responsibility of transaction processing in the most effective way.
- Oversight and control: the finance function helps manage and maintain an adequate control environment.

PwC’s Finance Function Assessment Framework



Standard finance processes according to PwC

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

Transactional efficiency
- Accounts payable
- Travel and expenses
- Accounts receivable
- General accounting
- Financial / external reporting
- Management reporting

Compliance and control
- Treasury
- Internal audit
- Process controls & compliance
- Tax accounting & compliance

How do you balance the competing demands of insight, efficiency and control?

1. Finance function in the role of a business partner

Section one of the survey deals with issues that examine, on the one hand the quantitative dimension of the finance function as expressed by the number of staff, and, on the other hand, looks into the qualitative dimension as expressed by the engagement of the finance function in decision-making.

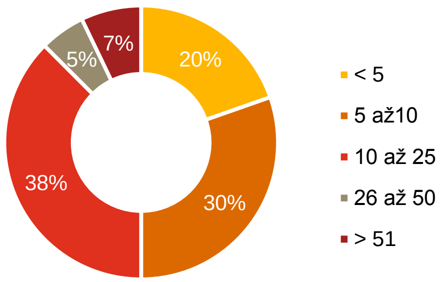
The survey shows that with increased turnover there is an increasing degree of complexity required from the finance function, which in turn has a direct effect on staff numbers.

1.1 Finance function staff

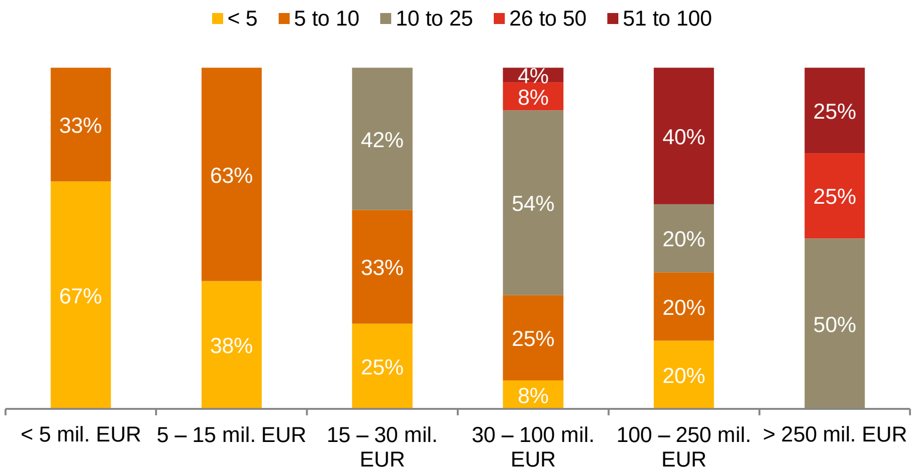
Number of finance function staff

Approximately 88% of surveyed companies have under 25 employees in their finance department. As far as size is concerned, they can be classified as smaller firms, and the analysis shows that this share corresponds approximately with the share of firms with revenues under EUR 100 million.

What is the number of staff in accounting and finance function in your company? (Includes those embedded in Business Units and excludes staff in outsourced SSC)



Distribution of finance function staff based on the turnover of respondents



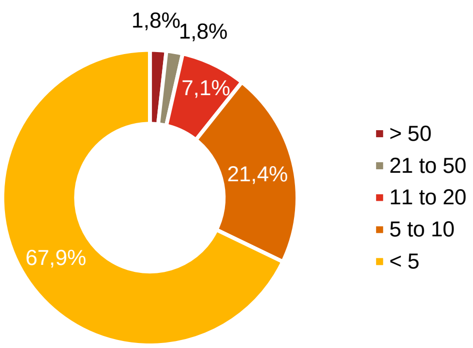
1.2. Finance staff engaged as business partners

Share of staff in the role of business partner

CEOs of companies are increasingly addressing finance function staff in order to get their business insight, whilst only a minority of them is involved in the role of business partner. Approximately 68% of respondents indicated that the number of their staff in the role of business partner is less than 5, which is disproportionate between the overall number of finance staff and the number of staff engaged in business roles.

Our survey shows dependence between the finance function staff number and the staff number in the role of business partners. With a reduction in size of the finance function, the number of staff engaged in the role of business partner increases. Contrarily, with an increasing number of finance function staff, the number of staff engaged as business partners does not fall, but rather an isolation from the business has been identified.

What is the number of finance staff engaged in business partnering roles? (Includes those embedded in Business Units and excludes staff in outsourced SSC)



Making business partnering work

In the past, many have described the role of finance as helping the business to understand the financial implications of operational decisions. This remains true, but there are additionally new perspectives: participation in guiding the operational decisions so that the company is able to meet its projected objectives. This not only requires the CFO to identify the right people, skills and roles to drive change, but also for there to be a genuine effort for ongoing honest and regular co-operation and dialogue across the business.

Effort spent on data gathering vs. analyses and planning

As follows from our survey, Slovak firms spend more time on data analysing and their interpretation compared to time spent on data gathering. This is a positive finding and it is in line with global trends.

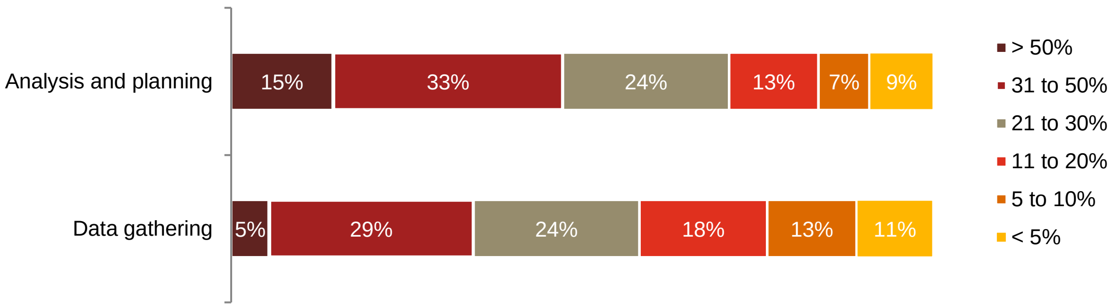
Despite this finding, it is evident that some firms spend significant time on data gathering which reduces time spent on activities with higher added value. One of the first steps taken in order to increase the share of value creating activities is to analyse the reasons for this disproportion. This should be a challenge for the respondents in this category who seek to improve the effectiveness of their business.

It is inevitable that in order to get close to the most efficient entities, it is necessary to identify possibilities to use time more effectively.

The benchmark shows that approximately 11% of companies already spend less than 5% of time gathering and processing information and approximately 15% spend more than 50% of their time analysing and interpreting information.

The majority of companies spend 21 - 50% of their time on data gathering activities, whilst the most efficient ones have reduced this time to less than 5%.

What is the percentage of effort spent on data gathering vs. analysis and planning by finance staff in business partnering roles?



2. The finance function – effectiveness and costs

Costs of running the finance department

The pressure on cost reduction has been one of long-term key trends in improving efficiency of a business as well as an essential part of a competitive environment. Our survey among respondents sought to identify finance function costs expressed as a percentage of the group's total revenues.

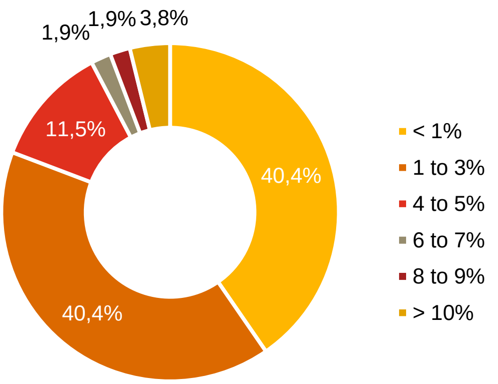
The costs allocated to running a finance function (regardless of overall significance of these activities for the business) is one of the basic finance function KPIs.

CFOs should focus on optimising costs of running the finance function. As much as 40% of companies is able to run the finance function at costs of less than 1% of total revenues, which is in line with global findings and the results achieved in the Czech Republic.

As much as 80% of companies are able to run the finance function at costs amounting to less than 3% of total revenues, and 40% at even below 1%.

As follows from the responses, costs of running the finance function in one-fifth of surveyed companies are relatively high (ie. 4% or more).

What is the cost of running finance department (includes remuneration, technology, outsourcing, facilities) as a percentage of the total revenue generated by the entire group?



Average number of business days for month-end close and availability of financial statements

The month-end close should be a focus area for finance function productivity, as the availability of timely results is essential for management.

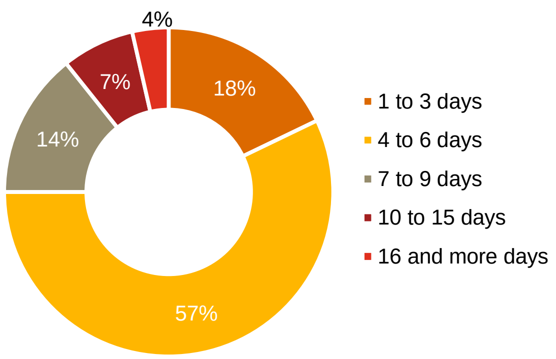
The month-end close seems to be time consuming for 25% of companies that need more than six business days to complete it. On the other hand, 18% of companies are able to complete it within three business days.

Another significant factor of effectiveness is the availability of statements of operating and financial performance after the month-end close. As follows from the survey, the sample of Slovak firms is fairly efficient, since as many as 71% of them cited that they are able to deliver the results to the management within three days. Another 16% need 4 to 6 days.

In cases where the overall process of the month-end activities and availability of the statements is more than 9 days, it would be recommended to analyse and standardise the process of the month-end close and reporting.

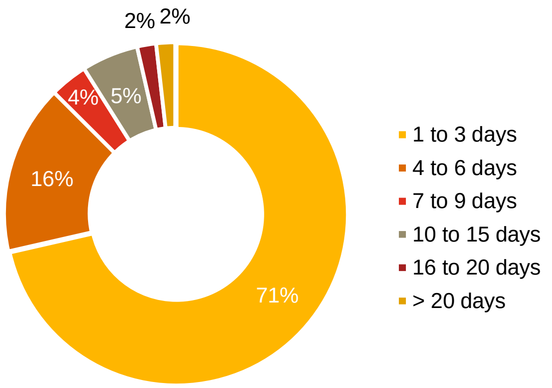
75% of respondents need less than six days for the month-end close. The top 18% of firms manages this activity within 3 business days, however, 25% still need more than 6 business days.

Please specify the average number of business days for month-end close.



71% of respondents need less than 3 days to prepare statements, however, almost 13% need more than 7 days, which significantly extends the entire month-end process and availability of statements.

How many days after month-end close does it take to report month-end operating results and other key financial/accounting reports to management? (number of additional days after month-end closing)



The budget is one of the key tools that helps manage the business and satisfy its strategic requirements.

Our survey shows that 55% of companies are able to accomplish this process within two months and 45% of companies need two or more months.

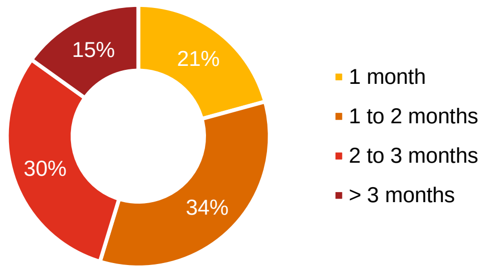
As indicated below, the use of MS Excel prevails in budgeting and planning – to some extent, it is used by as much as 90% of respondents.

Extensive use of MS Excel has some disadvantages, such as lower effectiveness, being demanding of time and increased occurrence of errors. This process can be significantly shortened and refined by implementing standardised ERP planning systems.

21% of firms require less than one month to be spent on budgeting.

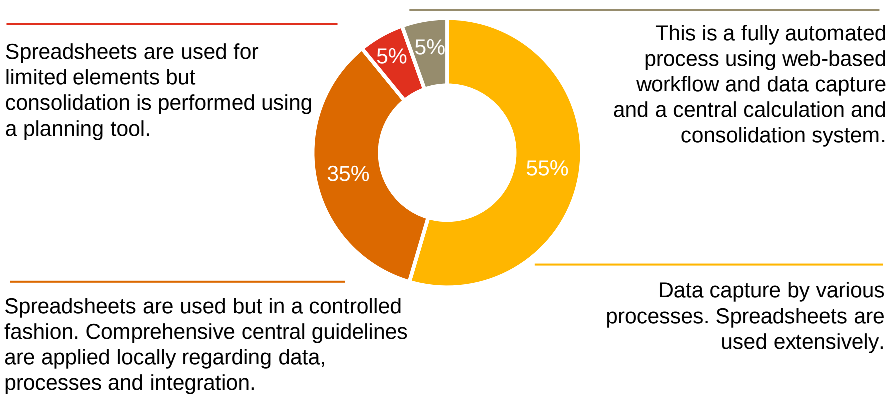
As much as 45% of companies devote two or more months to this process.

Please specify the average number of months taken for the entire budget process.



A high percentage of manual processing has been identified in the budgeting processes and as much as 90% of companies use at least a partial manual approach, and 55% of respondents indicated that manual data processing through MS Excel prevails.

Please choose what approach best describes budgeting and forecasting process in your company:



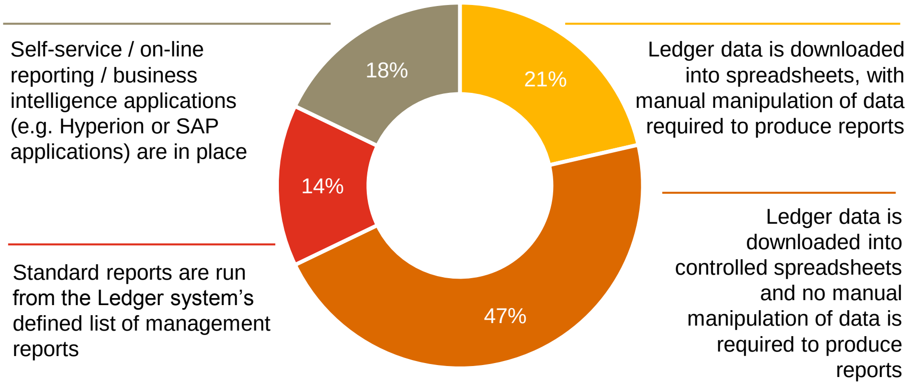
Automation vs. manual data processing

Manual data processing still prevails - 68% of all surveyed companies use MS Excel in some way.

On the other hand, almost 32% of all respondents implemented a high scope of automation and optimisation of reporting in order to improve effectiveness, accuracy, and optimisation of reporting for the users.

The findings of our survey show that Slovak firms still rely on MS Excel; approximately 68% of companies import data from their accounting books to Excel, where it is further processed manually.

Please choose what approach best describes the level of manipulation between ledgers and reports:



PwC SmartClose

PwC SmartClose is a methodology developed by PwC and is aimed at significantly reducing time and improving the process of the preparation of financial statements and reporting.

SmartClose passes through accounting systems and interface systems to ERP systems, financial and management reporting, planning, consolidation, organisational structure and through standardization and optimization of processes creates the basis for efficient and high-quality accounts and reporting.

By implementing SmartClose methodology the company will achieve a transparent reporting process, a better quality of information and data and will reduce unnecessary processes and costs.

3. Shared service centres and outsourcing

The findings of the global survey show that the leading companies managed to reduce significantly their cost base and improve effectiveness of their processes through outsourcing or shared service centres, and leveraging economies of scale.

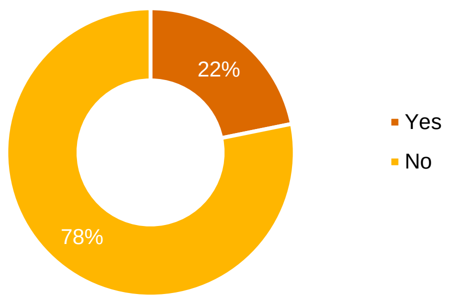
This trend still continues and a move towards the second generation of SSCs can now be seen, leading to a new level of service provision.

Despite a relatively small size of survey participants, we fall behind global trends with regards to leveraging SSCs compared to international companies and the Czech Republic.

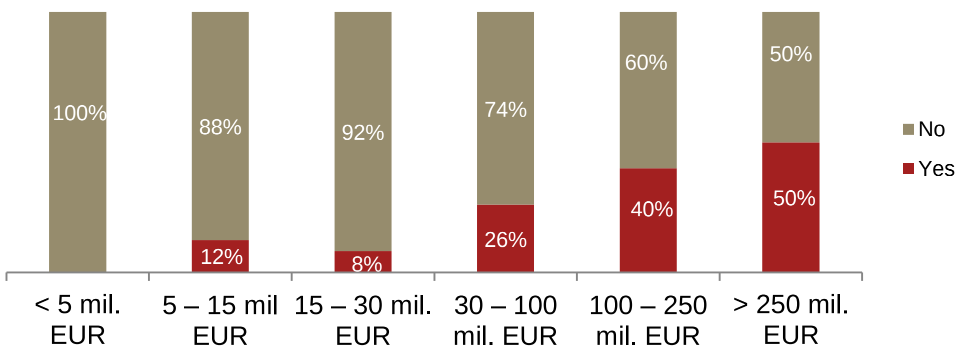
Our survey shows that only approximately 22% of respondents use SSCs or outsource such services, whilst at the same time 67 % do not expect to increase their scope.

Shared service centres are of value particularly for companies with higher turnover and a higher number of finance function staff. Specifically, the issue of implementing a SSC model is relevant for companies with turnover exceeding EUR 1 million. However, the use of SSCs is relevant also for member companies of international groups whose share in our survey is relatively high.

Do you have a Shared Service Centre (SSC)?



Percentage of companies with a SSC in place based on revenues



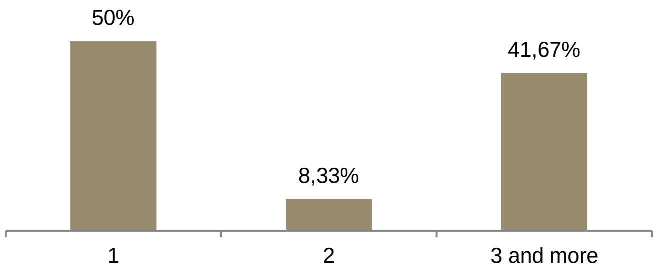
Number of shared service centres used

In our survey, we have focused in more detail on the use of shared service centres. The structure of services provided by SSCs as well as their placement depends mostly on the decision of the parent company, while there is a positive correlation between the size of the group, the complexity of services and the number of SSCs locations.

As the size of a group increases, we can see more complex solutions provided by shared service centres. In addition to routine operations, there is a move towards more complex processes, such as management or financial reporting or strategies and forecasting.

Half of the companies that use SSCs' services stated that they use one SSC and approximately 40% use the services of 3 or more centres.

How many different SSCs does your company have in place?



Shared service centres of the second generation

Leveraging benefits that SSCs offer in the long run require more than just a one-off effort. SSCs are developing constantly and the scope and complexity of their services grow in time.

PwC SSC maturity model

The maturity model allocates SSCs into one of four levels according to the degree of their evolution, where a SSC of the second generation is the highest possible degree. Allocation into four evolution levels is based on evaluation of the following criteria:

1. *Strategy*
2. *Organisation and its management*
3. *Continuous improvement*
4. *Business processes*
5. *Customer relations*
6. *Performance management*
7. *Human resources management*
8. *Systems and technologies*

You can find more information about our survey on www.pwc.com/sk/shared-services-centres.

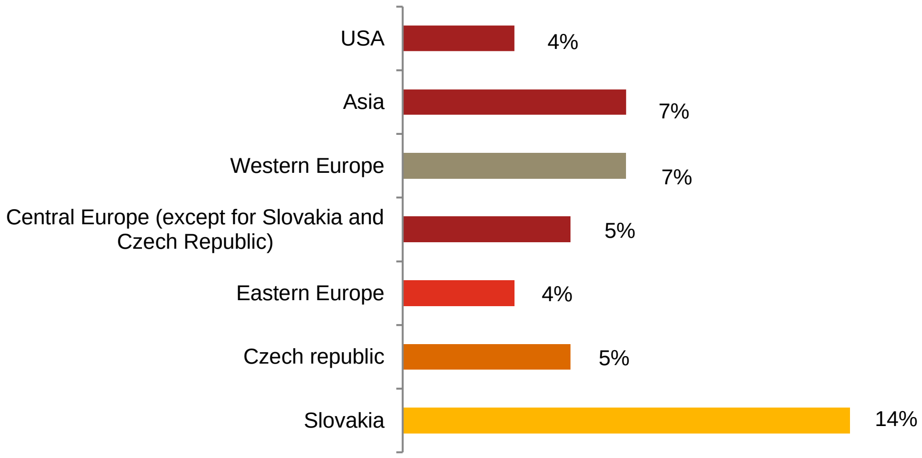
Location of shared service centres

The preference for locating SSCs close to the seat of a headquarters relates not only to operating costs, but probably also to the need to control the operation and quality.

A relatively proportional distribution of other locations is affected primarily by the number of international corporations participating in the research who may effectively use shared services within the group.

14% of respondents prefer to have SSCs within Slovakia and another 14% in the neighbouring countries.

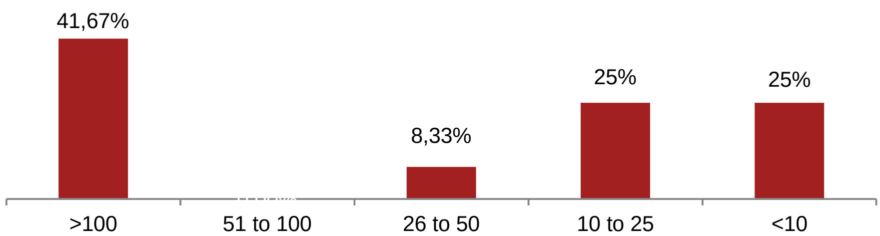
Where are the SSCs located?



Approximately 42% of survey participants have more than 100 employees in SSCs, and these are medium-sized and large companies. SSCs cover mostly the routine finance processes for several entities within the group.

Number of staff in the Shared Service Centres

What is the number of staff in SSCs?



Functions transferred outside the organisation

The main functions that are moved to shared service centres or are outsourced include accounting and treasury processes.

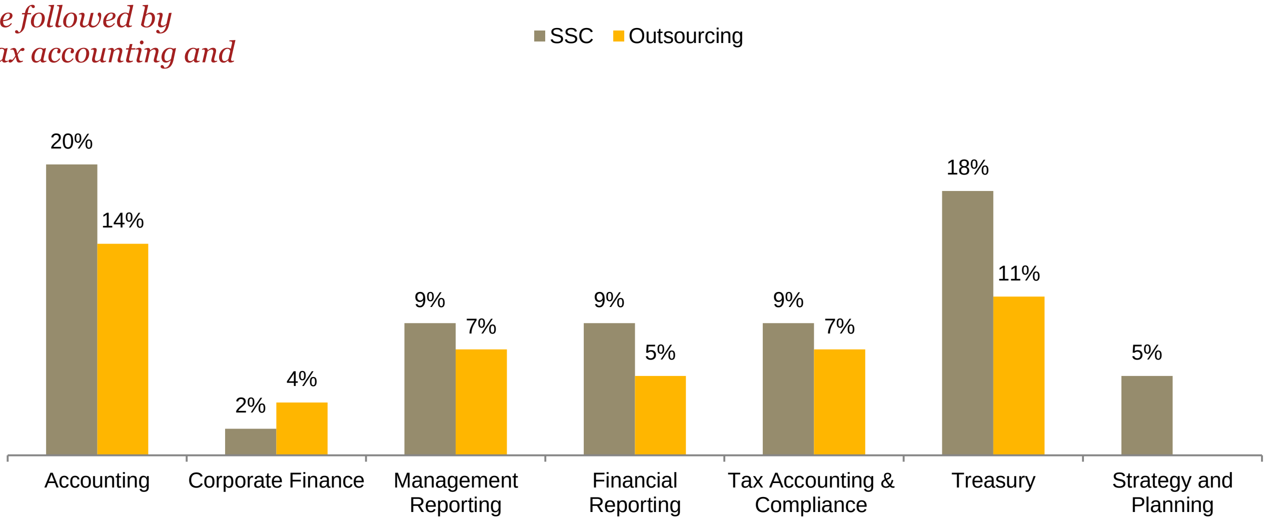
It is a common feature of functions moved outside the company that they are mostly standardised, routine processes.

Other moved functions include management reporting, financial reporting, tax accounting and compliance.

A larger scale of services is transferred to SSCs compared to outsourcing. SSCs are preferred to outsourcing probably because organisations still perceive SSCs as being " in-house" and outsourcing is seen to be more like moving functions outside the organisation.

The respondents indicated that most often routine accounting services and financial processes are transferred to SSCs. These functions are followed by reporting, tax accounting and compliance.

What functions are included in SSC? What functions have been outsourced?



Shared service centres outlooks

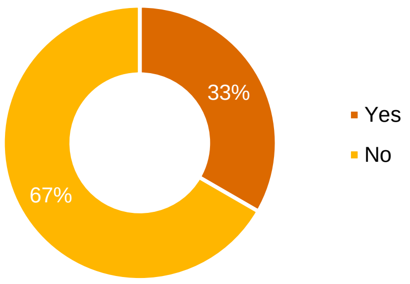
Our survey also included a question seeking to identify potential plans of organisations that operate SSCs or outsource some functions. The main objective was to identify future capacity outlooks of SSCs.

Only one-third of respondents plan to extend the share of services provided through SSCs in the near future. Compared to global trends and trends identified in the Czech Republic, this share is not sufficient.

Planned SSCs capacity changes

As much as 67% of respondents do not plan to increase the scope of services provided by SSCs in the next 12 months.

Do you intend to increase the scope of your SSC in the next 12 months?



Financial department reorganisation and the introduction of structure and principles by the shared service centre success story

The client was experiencing a fast growth period but the financial department was stuck in the structure of a small company. The financial function was not formalised, and communication was inefficient. As a result, management was not adequately supported by the financial function. PwC was asked to adjust the supporting services with a special focus on finance, e.g. controlling and treasury function) and the implementation of SSC principles.

PwC provided assistance in:

- Finance function governance model definition
- Defining job descriptions
- KPIs identification and set up
- Process improvement

PwC helped create a new operating model of the finance function which supports management in its decision-making processes and strategic planning so that the company can fully use its full growing potential.

4. Use of technology in the finance function

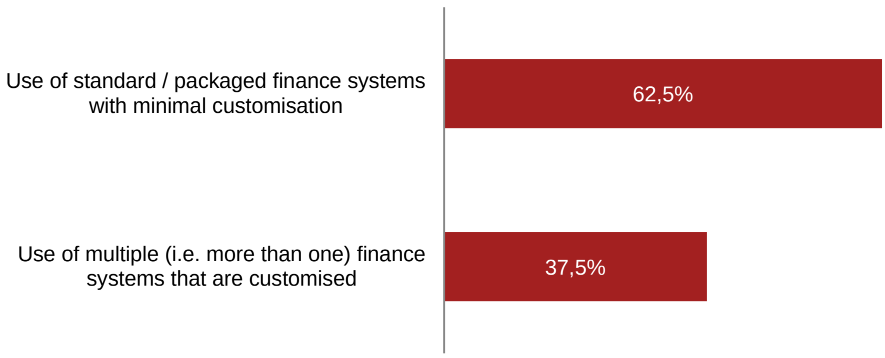
As much as 63% of companies use standardised financial systems with no customisation.

Among respondents, standardised financial systems with minimum customisation and a relatively low level of automation prevail.

Approximately 37% of all respondents use systems that are customised to a certain extent by the user, and thus accuracy and availability of information is improved and the time required to process additional information is reduced.

Complexity of finance systems

What is the complexity of finance systems across reporting group?

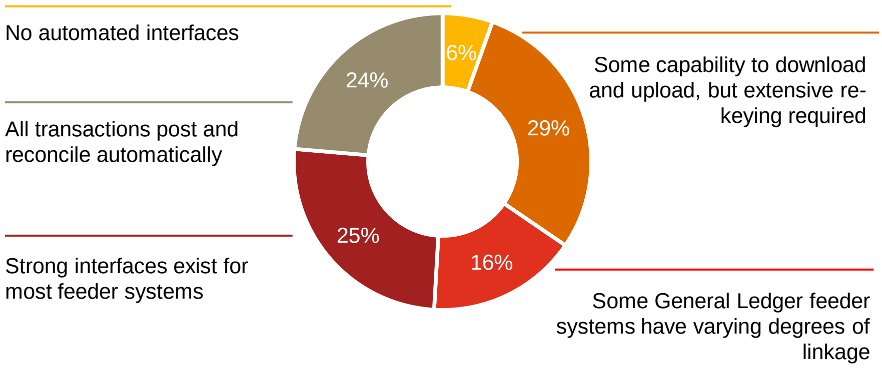


General ledger interfaces

More than 50 % of all systems have a limited general ledger interface which increases the need for manual data processing, and therefore the risk of errors and inaccuracy.

On the other hand, market leaders have fully automated processes that use a web-based system (workflow) for data gathering, calculations, consolidation and reconciliations between the systems.

What is the general ledger interface?

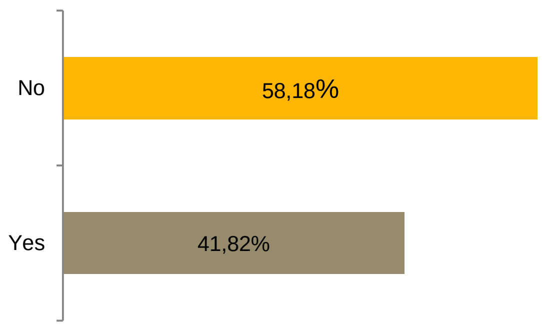


Decision support systems

The majority of companies do not use automated systems in order to support decision-making processes.

This is in line with existing findings that confirm a high degree of manual data processing and provides room for further optimisation.

Do you have any decision support systems in place?



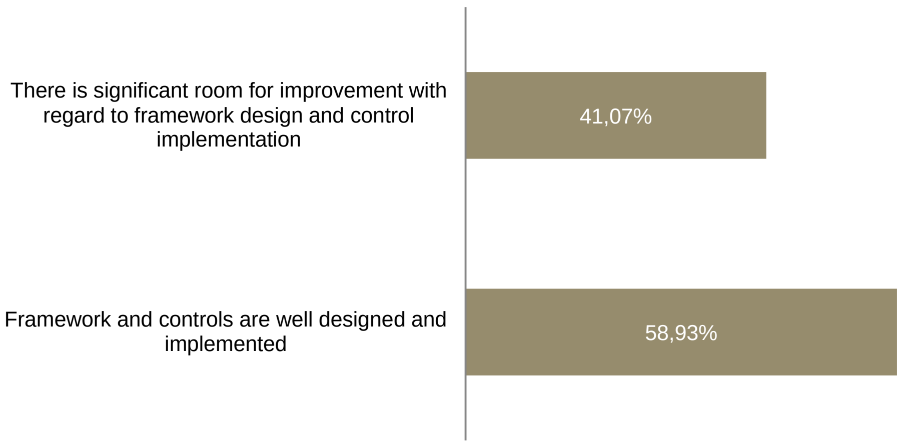
5. Risk management

Risk management and controls are important roles for the finance function. The following chart shows the state of risk management and controls across finance functions in Slovak firms, where as much as 41% of respondents indicated that there is significant room for improvement in the area of controls.

The finance function should focus more on controls' automation so that prevention prevails and the risk of errors and/or fraud be reduced automatically.

41% of respondents indicated that there is significant room for improvement in the area of controls

How is the overall risk management and controls (including IT) managed?



6. Productivity incentives

The set of questions relating to the increase of productivity were focused on understanding the extent to which finance functions use productivity incentives.

Productivity is not limited solely to technological solutions, it also relates to the need of organisations to attract, motivate and retain talents as well as utilise innovations or standardised processes.

In this area we see significant room for Slovak firms for improvements.

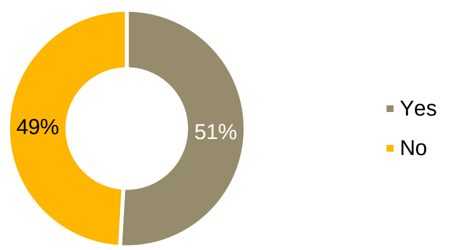
Productivity improvement is one of the key roles of the finance function.

Productivity improvement with no appropriately identified strategy is at least questionable. As much as 49% of all respondents do not have such programs in place.

Finance and accounting function productivity incentives

As much as 49% of all respondents do not have productivity improvement tools in place. It is clear that productivity improvement is limited if formalised incentives are not available.

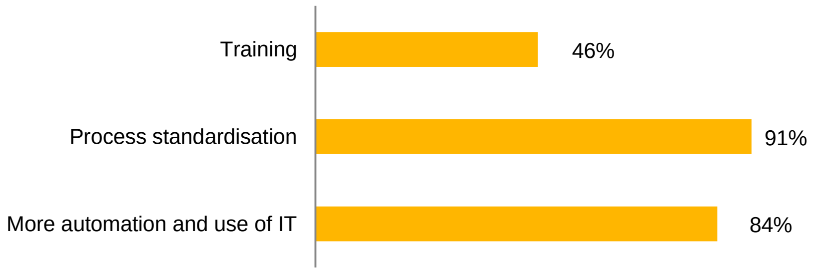
Do you have any productivity incentives in place (within the finance function)?



Most common initiatives used to improve quality

The most common initiatives to improve quality include process standardisation, a greater level of automation, the use of IT technology and the provision of training to staff.

What initiatives have you taken to increase productivity in your finance and accounting departments?



Future prospects

Finance function effectiveness is a globally resonating topic. Many Slovak companies strive to increase their finance function productivity through new technologies, standardising and optimising their processes or investing in human capital.

These trends are identical and in line with global trends. In the future, finance functions in Slovakia will be confronted with the permanent need to improve effectiveness.

The majority of survey participants are multinational companies and their business is influenced by global trends. Management of these businesses if often performed across geographic and cultural borders.

Ongoing pressure on measures to optimise costs allocated to the back office activities of the company leads to continuous outsourcing of (not only) the finance function activities to a shared service centre (local or regional) or to an external provider. Such activity further optimises the processes in Finance and provides Finance employees additional time to focus on more value-adding activities such as business partnering.

Top tier companies are marked by a strong commitment to effectiveness and a focus on evolving process improvement. Slovak CFOs are well aware of this process. They pursue the highest possible level of process standardisation and wider use of new IT technology.

Pairing the need for the acquisition and development of human talent with the strategic use of shared services, outsourcing and centres of excellence will help create efficiencies that will allow a greater effectiveness of the finance function

Finance will collaborate in the strategic decision-making process, affecting key drivers of the business. Finance departments will actively participate in ensuring higher effectiveness and efficiency.

Talent development and sourcing to satisfy the new role of the finance function is considered a challenge in the Slovak Republic as well as worldwide.

Annex 1

Survey methodology

Survey approach

This CFO survey was conducted in the period June – August 2014 by PwC in co-operation with the CFO Club.

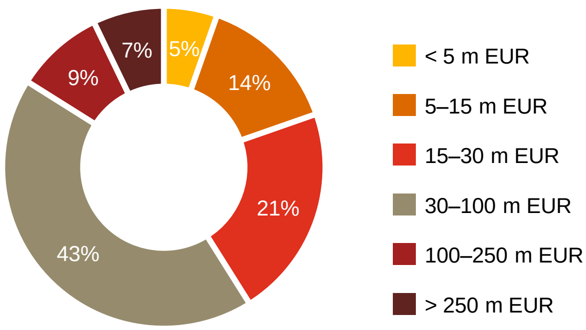
The survey was conducted through an on-line questionnaire among companies operating in Slovakia, of which 56 took part in the survey.

Profile of survey participants

The survey respondents include all types and sizes of businesses operating in Slovakia, from small and medium-sized enterprises to multinational corporations.

The main industry sectors and revenues of the participants are illustrated in charts below.

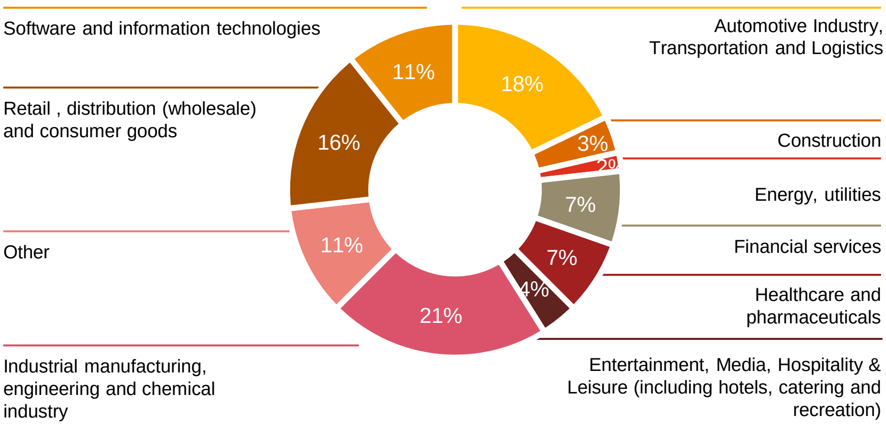
Respondents by revenues in EUR



Industrial structure of the respondents reflects the variety of companies and sectors they operate in. The following chart shows the sectors represented in the survey :

- automotive, transport and logistics;
- industrial manufacturing, engineering and chemical industry;
- retail, distribution (wholesale) and consumer goods; and
- software and information technology.

Industries represented in the survey



Main areas of the survey

The survey consisted of 19 questions from various areas relevant to the finance function and its aim was to achieve an objective view of each area.

The information gathered was subject to detailed analysis and was subsequently structured into 6 main chapters:

- engagement of finance function as a business partner;
- Finance function effectiveness and costs;
- Shared service centres and outsourcing,
- technology solutions and finance function;
- risk management; and
- performance improvement.

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CFO Club Slovakia

The Club of Chief Financial Officers „CFO Club“ is an association of top financial executives in Slovakia. Founded in 2013, the CFO Club aims to be the leading platform for knowledge transfer, professional education and the establishment of informal relationships.

The CFO Club Slovakia, as an upcoming IAFEI member (The International Association of Financial Executives Institutes, currently in registration process), will be cooperating closely with all financial associations worldwide.

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