Effectiveness of the Finance Function in Slovakia

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

"The finance function is becoming a business partner to other departments at companies and proactively and continually provides insights and in this way finds new opportunities to improve a business and maintain its market position."

Additionally, the finance function requires fast adaption skills to new trends, and the ability to recognize the need to move faster."

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CFO Club Slovakia

Finance function faces changes, therefore the need for adaption is clear

New global trends in technologies, data gathering, processing and analysis and ever present pressures for cost reductions are creating new challenges and opportunities for business development. Productivity must be increased across the whole organization for companies to remain competitive.

In the past, the finance function was perceived mostly as a support function. However, today a transformation of the function is in progress.
A bigger role for the finance function can generate insights for the business as a whole. Finance departments of companies are also taking the role of a business partner and are involved in improving the decision-making process.

Finance departments are employing more staff and are investing in new software, which has led to an increase of total running costs of the finance department. However, the pressure for cost reductions is also felt by finance departments. Cost reductions are needed for departments to be efficient. The current trend for a shift from the utilization of simple spreadsheets to create reports to the use of new more sophisticated software can be observed and this trend is likely to continue, as currently we are seeing a relatively slow transition towards greater automation. The use of spreadsheets is evolving as companies apply pred efined tables to improve efficiency. Efficiency can be improved further by implementing automated systems, which allow full leverage of the latest trends in data processing and analysis.

Data collection should not be the main focus of finance departments and it is important to deliver added value by analyzing the data. Access to analyzed data helps finance departments generate insights and for maximum utility they need to be available as fast as possible. This is reflected by pressures to reduce the amount of time taken for month-end closing and the preparation of relevant reports.

Changes are occurring in the use of technology and digitalization in finance departments. Whereas in the past, companies mostly used standard finance systems, today the majority of companies use customized systems. The transition to automated systems is necessary to achieve greater efficiency. Automatization means less errors and less processing time. Less manual data processing leads to a better decision-making process.

Another challenge faced by companies is the growing importance of risk management. Companies realize there is room for improvements to risk management. We also see a connection between tax and corporate reputation, as the tax authorities expect that firms will manage their tax risk. We often see that a potential risk can be converted into an opportunity if the company develops a tax strategy.

The effectiveness of the finance department does not solely rely on technology. The abilities of employees is a significant factor as regards higher productivity and effectiveness. Consequently, organizations need to introduce productivity-based incentives to attract, motivate and retain talented employees.

Current finance trends ultimately rely on people and their skills. However, the finance environment is ever changing, and there is a significant need for the development of required skills. Therefore, companies should focus on continuous training and development of staff to remain competitive and efficient.

Sincerely,
Ivo Doležal
Partner, Advisory

The finance function survey brings new applicable information

It is still true that too much ***time*** is ***spent*** on ***data collection***, rather than on analysis and planning.

75%
of firms ***do not*** have a ***tax strategy.***

36%
of companies spend less than ***1% of total revenues*** on running the finance function.

Only *63%* of respondents are able to complete budgeting **in 2 months**.

23%
of companies surveyed incur costs for the finance function that exceed ***4%*** of total revenue.

61%
of Slovak companies surveyed prefer to use ***customized finance systems*** to standard systems.

75%
of the surveyed companies employ ***less than 5*** finance staff in a ***business partnering role.***

64%
of respondents are unsatisfied with the risk management in the company.

32%
of all respondents complete the ***month-end closing and reporting*** processes ***in 3 days.***

MS Excel
is still **the most used system,** but often data needs to be reworked manually

The purpose of the survey is to offer a basic comparison of the productivity of the finance function at Slovak companies. It provides the opportunity to identify areas for improvement as regards effectiveness and productivity.

The report draws upon detailed data from 111 organizations, from which 54 were surveyed last year and 56 from 2013. The comparison between these two periods gives a picture of changes over the time period.

The nature of the finance function has changed in recent years. In the past, it supported the corporate function by reacting to events.

Today, the function is transforming into a proactive and creative element that cooperates with other company departments.

These changes affect the approach to finance function. Slovak companies, and companies around the world, need to adapt to this new situation to stay successful on the market.

The survey focuses on 5 areas: finance staff and finance business partnering cost efficiency, month-end closing and reporting efficiency, technology in finance, risk management and tax strategy implementation and productivity. Below, each area is presented separately.

Digital transformation has been changing the role of the CFO

The world is changing and business is changing too. Digital transformation means the role of the CFO is changing from just accounting to being a major driver of change in business.

In the past, 90% of the CFO's role was about getting the numbers. Today, some of our CFO Club members are proud that accounting only takes up 10% of their time. They know that today it is crucial to understand the source of the numbers and the business drivers behind the numbers.
CFOs can provide enormous value with correctly-analysed data and predictive analytics, and need to be a strategic adviser to the CEO. The CFO is probably the most exposed position in any business, usually they are managing several departments (accounting, controlling, procurement, IT, HR, etc.). This combined with the right techniques can make the CFO a powerful business driver of company growth.
CFOs should not be primarily focused on minimising the number of days required for closing the books, but rather what is important is understanding the numbers and analytics. There is now so much data that the human mind cannot deal and comprehend with all of it.
CFOs are being forced to rethink how work is done. The rise of smart data is providing business leaders with access to more information than ever before, and globalization has opened up new opportunities and new risks for businesses. Following our talks with CFOs during the most prestigious conference for financial executives, CFO Forum Slovakia, push on agility will see rolling forecasting take on an even more important role in 2017. Top-performing organizations mitigate risks related to volatile business conditions by continuously updating forecasts to better reflect reality.

Based on the survey conducted with EBCG, cyber-security increasingly falls under the purview of the CFO. The logic is clear - they control the most sensitive and important financial and operations data. It is crucial for all financial executives to play a driving role in preparing for and addressing potential cyber-risks related to long-term company growth.

What's the next step for CFOs? Dealing with AI and machine learning and defining trends, providing predictive analytics and introducing the relevant measures, while not forgetting their biggest asset - people.

Zuzana Slovincová
Executive Director
CFO Club
www.cfoclub.sk

Contents

"One of the success areas we are beginning to see is an increase in the amount of time finance professionals are spending on analysis rather than data collection."

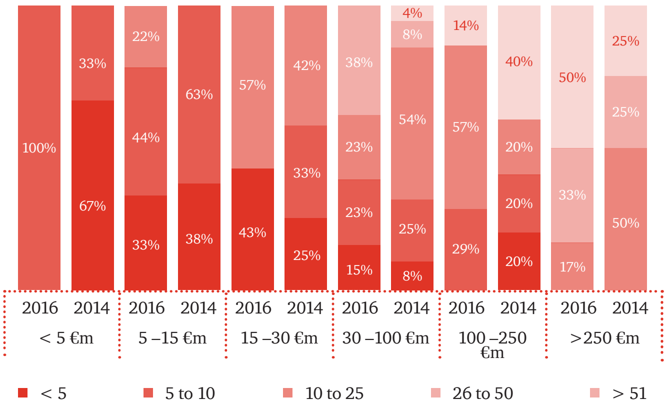
Source: PwC global finance benchmark report 2015: Breaking away: How leading finance functions are redefining excellence

Respondents require more financial staff, but less of them contribute as a business partner than in 2014

1. Finance function as a business partner

Section one of the survey deals examines the quantitative dimension of the finance function as expressed by the number of staff, and the qualitative dimension as expressed by the engagement of the finance function in decision-making.

Approximately 85% of surveyed companies have less than 50 employees in their finance department. Compared to the 2014, higher revenues among the surveyed companies were reported (see appendix). 86% of the respondents have revenues below EUR 250 million in 2015, while in 2014 this figure was EUR 100 million.

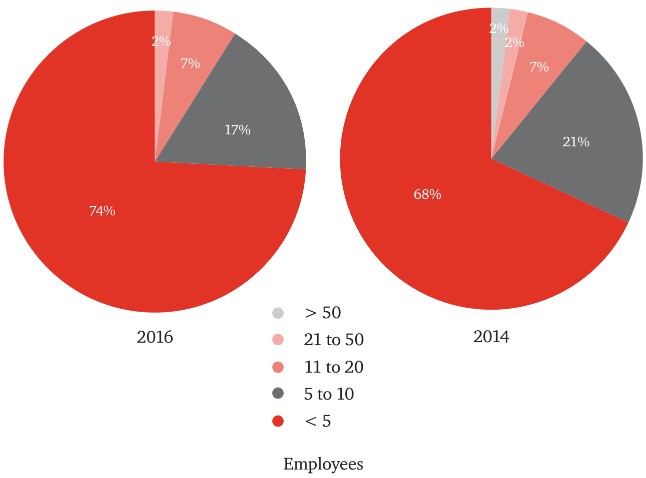


How many staff are there in the accounting and finance function in your company (including those embedded in business units and excluding staff in outsourced SSCs)?

Finance staff need to be engaged in business partner roles. The need for a continual connection between business and finance is increasing. A finance business partner helps businesses improve performance, and should interface with all other departments in the organization.

CEOs of companies are increasingly using the finance function staff to obtain business insights, while only a minority of them are involved as a business partner. Approximately 74% of respondents stated that the number of staff in the role of business partners is less than 5%.

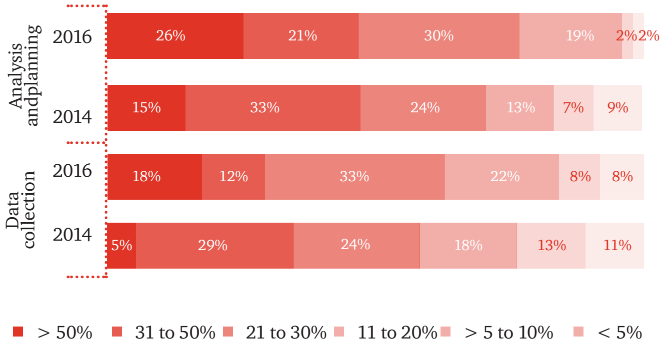
There is a disproportionate total number of finance staff compared with the number of staff engaged in business roles. Compared to 2014, financial staff were more employed in the role of business partner.

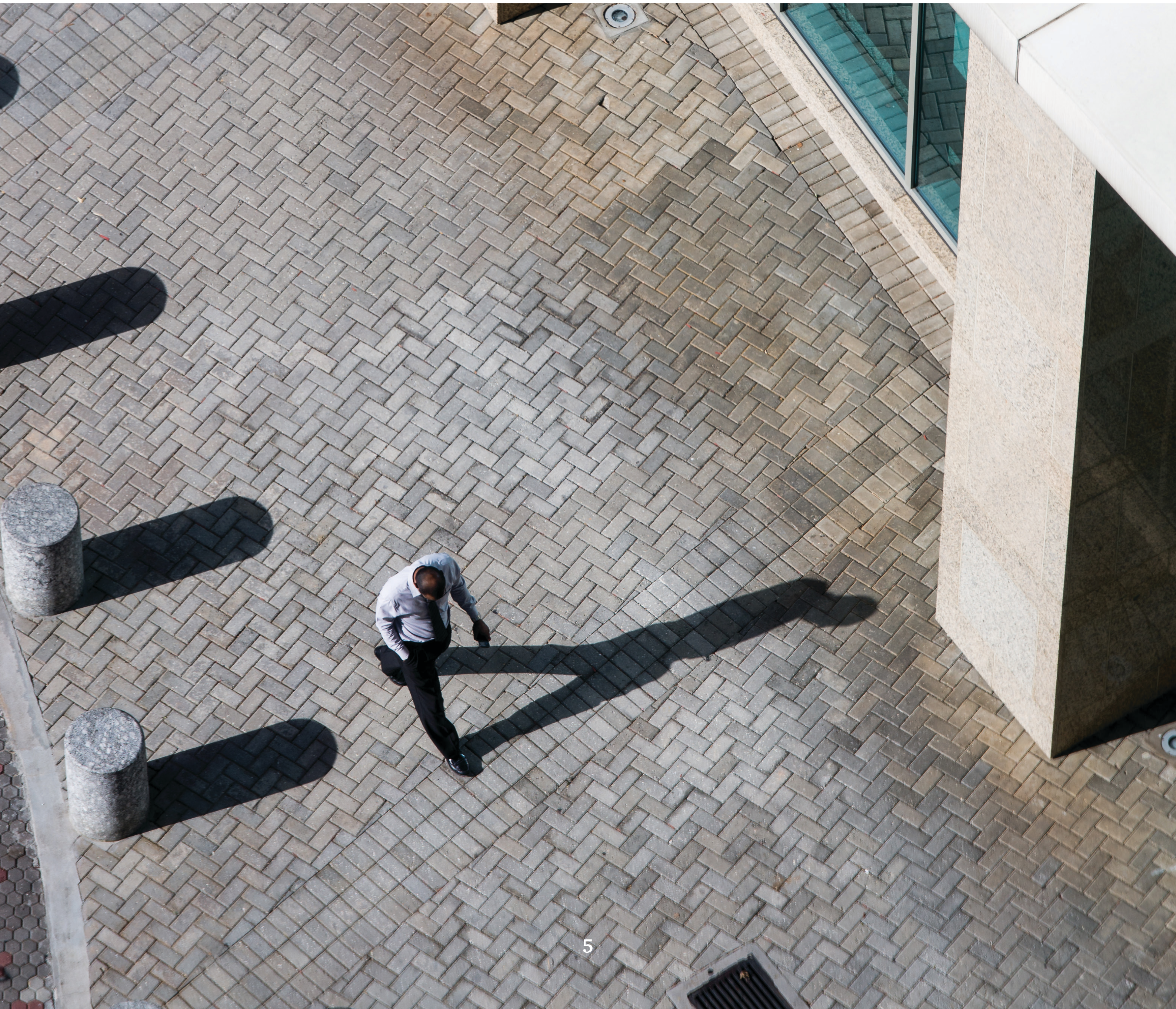


What number of finance staff are engaged in business partnering roles (including those embedded in business units and excluding staff in outsourced SSCs)?

Approximately 8% of respondents’ business partners allocate 5% of their time to data collection, but the majority of business partners spend 11-30%. Only 47% of respondents’ business partners spend more than 31% of time on analysing and planning, as was the case in 2014. Business partners at companies in Slovakia still spend a great deal of time on data collection, rather than higher added value business tasks. Slovak companies still have a lot of room for further improvement in this area to achieve higher efficiency.

What is the percentage of time spent on data collection compared with analysis and planning by finance staff in business partnering roles?



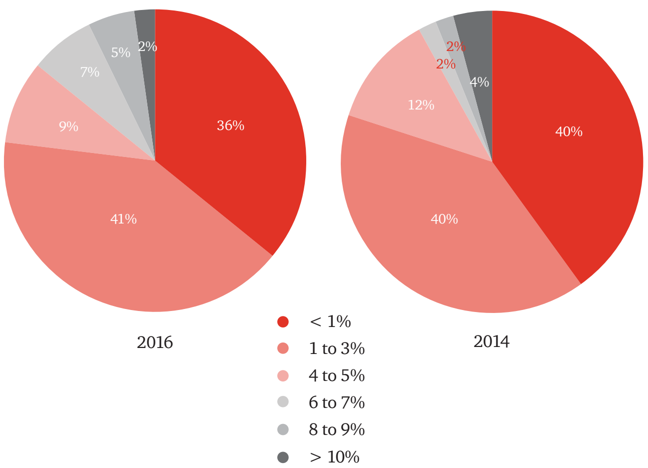


Running costs of the financial function are increasing and MS Excel is still the primary method used for reports, planning and budgeting

2. The finance function – effectiveness and costs

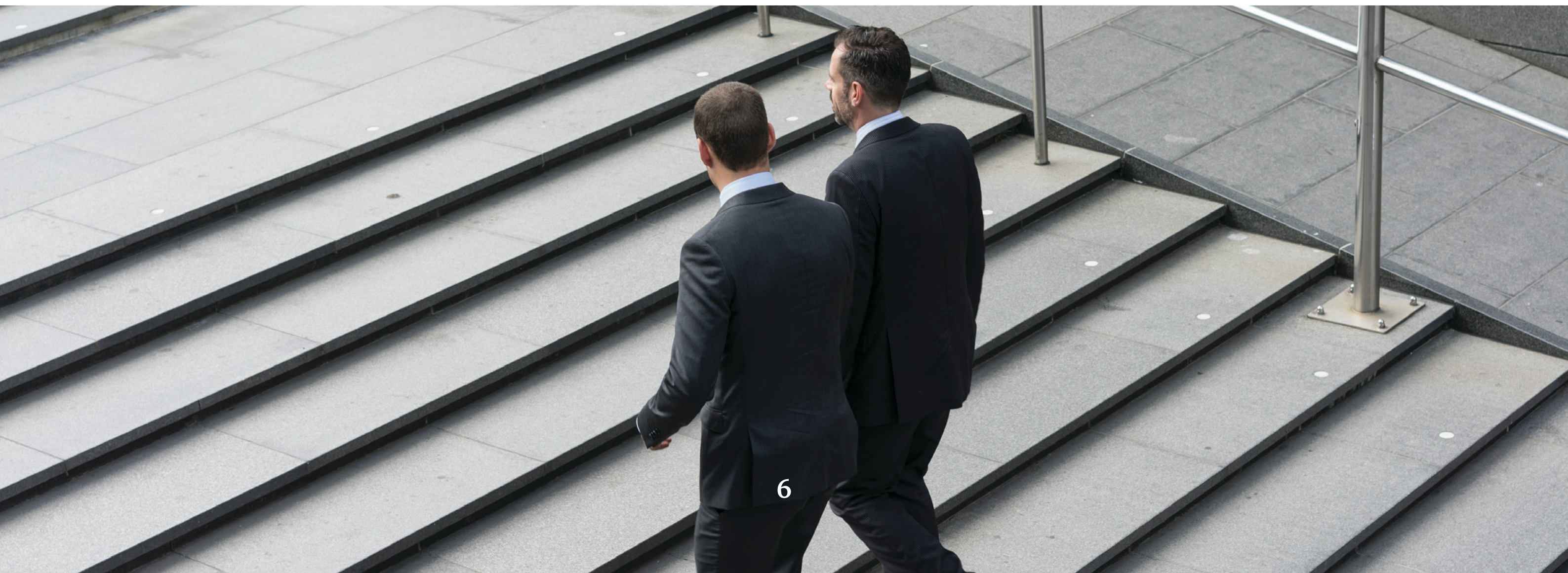
The pressure for cost reductions has been one of the long-term key trends in improving efficiency of a business and an essential part of the competitive environment. Our survey identified finance function costs expressed as a percentage of the group's total revenues.

Despite the trend of decreasing costs of running the finance function, the cost increases in comparison to the year 2014. 36% of the surveyed companies spend below 1% of total the revenue, which is 4 percentage points lower than in 2014. The ratio of companies, that spent more than 4%, increased from 18 to 23%. Nowadays the new trend of digitalizing finance may be the cause of the cost increase. It reflects the investments into new software and updates. This is pictured in the running costs as depreciation. However, CFOs need to continue focusing on optimizing costs of running the finance function.

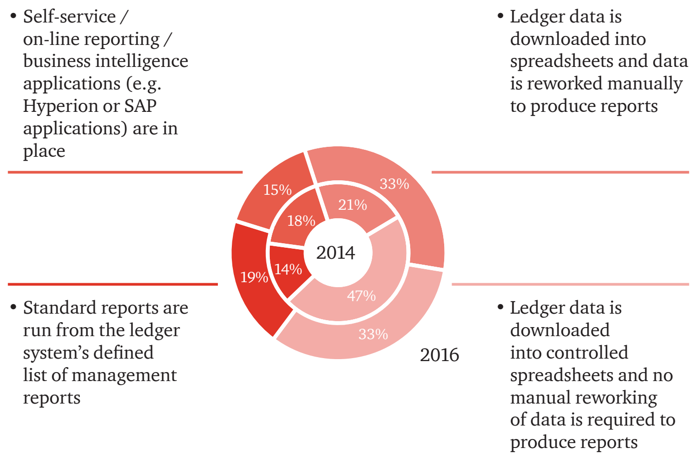


What is the cost of running the finance department (including remuneration, technology, outsourcing, facilities) as a percentage of the total revenue generated by the entire group?

The survey shows a slow migration from MS Excel to more sophisticated programs, but respondents still rely heavily on MS Excel spreadsheets. In 2014, 68% of respondents used MS Excel to produce reports, this figure decreased to 65% in 2016. The extensive use of MS Excel has some disadvantages, such as lower effectiveness, extensive time requirements and higher error probability. This process can be significantly shortened and refined by implementing standardized ERP planning systems.

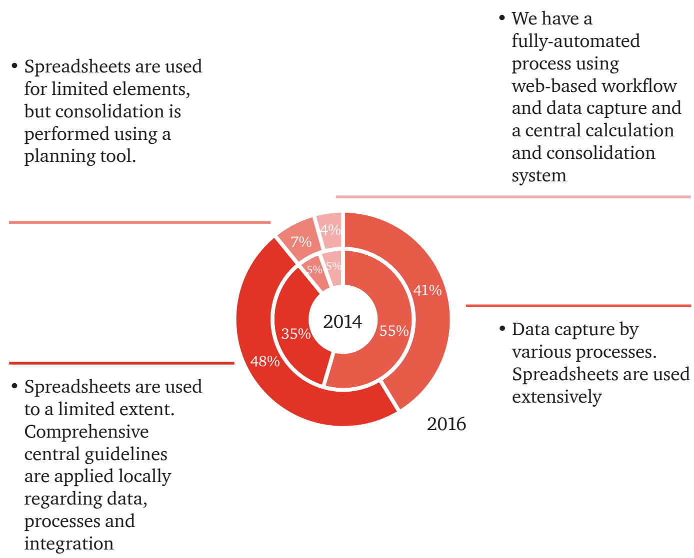


Please choose what approach best describes the level of work between ledgers and reports:



The survey found that during budgeting and forecasting, 89% of companies use MS Excel, the same figure as for 2014. An identified change was that the way of processing spreadsheets has changed. Respondents apply predefined tables, which reduces the time needed to process reports. However, a lot of time is still required, so companies should focus on automation.

Please choose what approach best describes the budgeting and forecasting process used at your company:



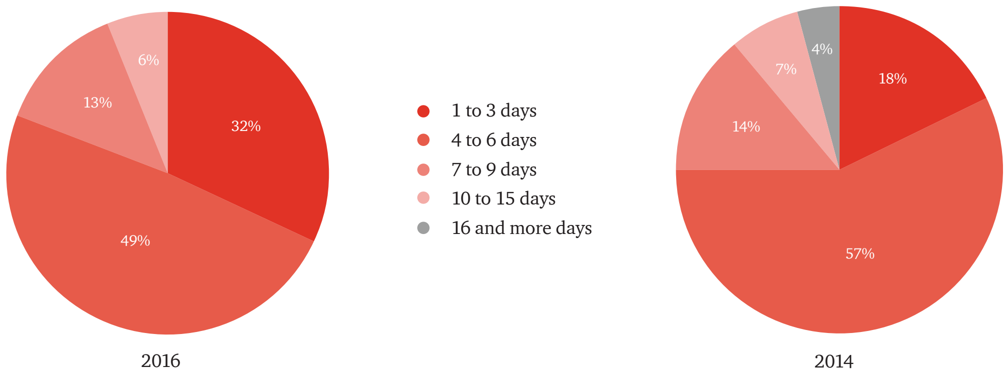
The increase of time needed for reporting is compensated for by time savings during month-end closing and budgeting

2. The finance function – effectiveness and costs

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

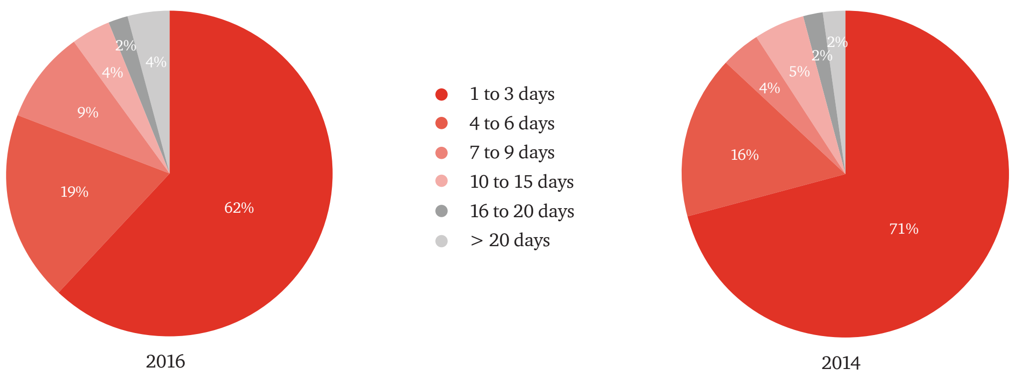
Less than six days are needed to complete the month-end closing of 80% of respondents – 5% higher than in 2014. 32% are able to complete closing in three days. The surveys reveals an improvement in month-end closing time efficiency.

Please specify the average number of business days for month-end closing:



While the number of days required for the month-end closing have decreased, the number of days needed to prepare all the relevant reports has been increased. 80% of respondents complete all reports within six days of the month-end closing, compared to 87% in 2014. For more than 10% of respondents, more than 9 days are needed.

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

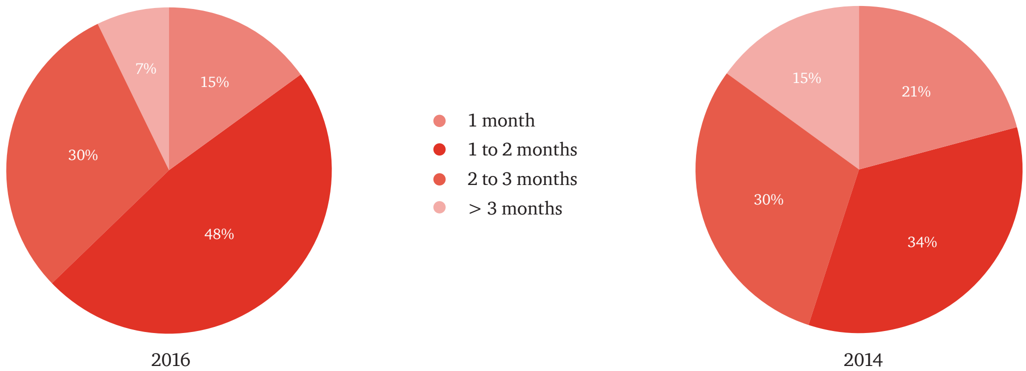


Only 21% of respondents complete the closing and reporting process in 6 days. Companies should focus on faster closing and reporting to keep up with the benchmark. In the future, a higher pressure on shortening the time needed for this process is expected.

The budget is one of the key indicators that helps to prioritize spending and manage the business and meet strategic requirements.

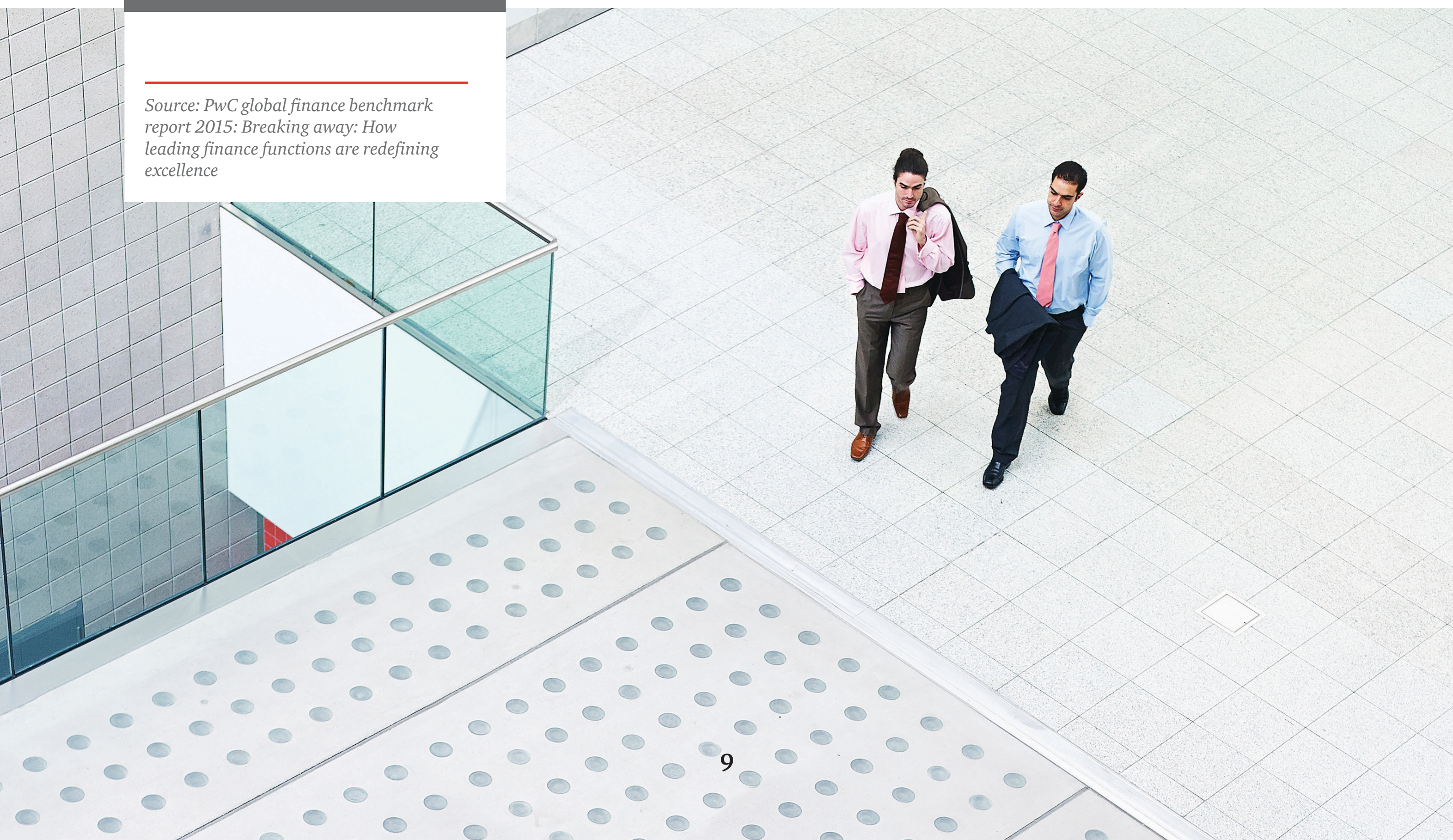
The time needed for budget planning is decreasing, which is seen from the graph below: 63% of companies spend less than 2 months on planning. The time was also reduced by utilizing the spreadsheet tables, as the survey shows on the previous slide. However in 2014, 21% of respondents accomplished the task in one month. According to the survey, in 2016 only 15% complete the budget planning in this timeframe. 37% of all respondents need more than 2 months to complete budgeting, which is considered an under-performance, and can lead to cost disadvantages compared to the benchmark.

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



"Median budget reporting times continues to drop. In 2013-2014 it took 95 days."

Source: PwC global finance benchmark report 2015: Breaking away: How leading finance functions are redefining excellence

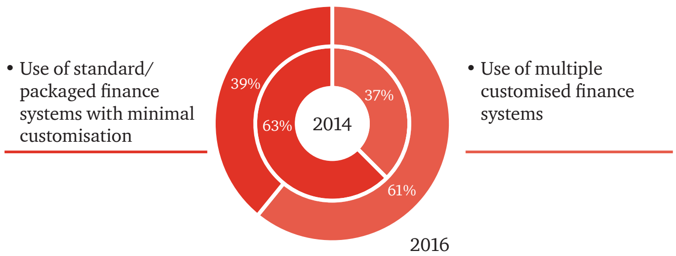


The advantages of customized systems attract firms, but the potential is not fully utilized by interconnecting with technology

3. Use of technology in the finance function

Recently, the use of technology and digitalization in finance has grown. The key is to improve financial, managerial and other reports to meet the expectations of the market and stakeholders. There are a number of ways to reach the goal. One is via advanced technology in finance by automating and interconnecting systems.

The approach to finance systems has evidently changed in comparison to 2014. Until recently, standard finance systems with minimal customization were applied. The survey findings show that the trend has changed. Today, 61% of all respondents use customized finance systems, which helps to prevent errors, and reduce time spent by eliminating manual procedures and by facilitating access to the required information.



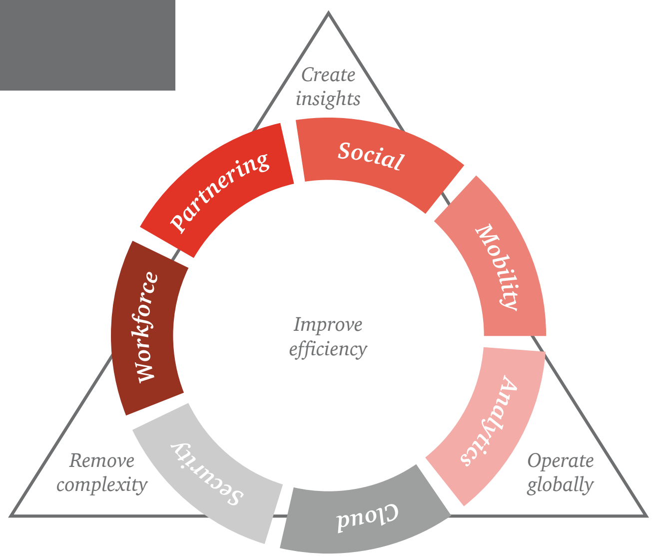
What is the complexity of finance systems across the reporting group?

"There is a huge potential for cost savings that can be generated by automation and waste reduction across a number of finance activities."

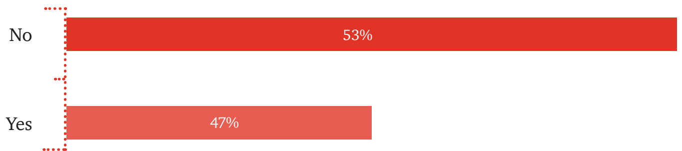
"It is not only technology which provides improvement, but also finance staff, by interpreting the insights and understanding the situation."

Source: PwC global finance benchmark report 2015: Breaking away: How leading finance functions are redefining excellence

"The digital finance transformation consists of changes in seven areas which ensure your company has an advantage on the market."



The majority of companies do not use automated systems to support decision-making processes. This is in line with findings that confirm a high degree of manual data processing and suggests there is further room for optimisation.

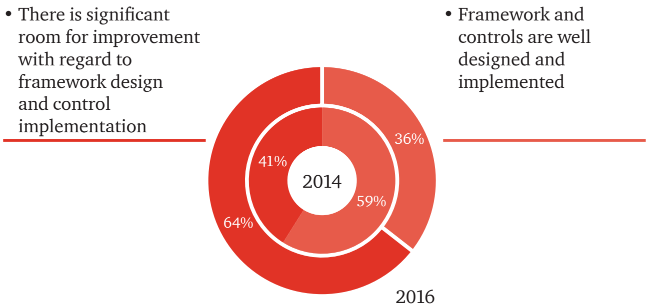


Do you have any decision support systems in place?

Companies understand the necessity of risk management improvement and there is also a need to include tax strategy

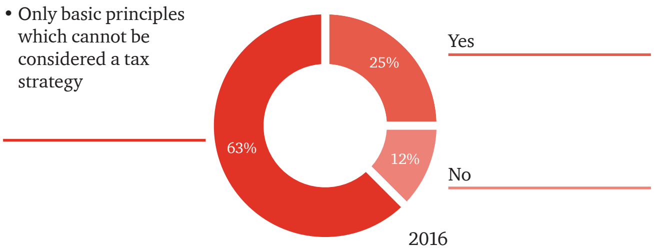
4. Risk management and tax strategy

Risk management and controls are important roles for the finance function. These days the success of a company is determined by the ability to face new challenges quickly – without additional costs. Risk management eliminates the likelihood of a threat and the magnitude of the threat's impact. In some cases, it can even turn a threat into an opportunity.
The following chart shows the state of risk management and controls across finance functions at Slovak firms. Overall, the importance of risk management is increasing, but only 36% of respondents consider their framework and controls to be sufficient, while in 2014 approximately 59% considered this to be the case. For these companies, risk management is inadequate and their finance function should focus more on control automation, to ensure better prevention and that the risk of errors and/or fraud can be reduced significantly.



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

A tax strategy contributes to risk management efficiency. Recently, tax has become more closely tied to corporate reputation as tax authorities expect organisations to manage their tax risk. This is the reason for a strong emphasis on the tax strategy requirement. The strategy should be aligned to firms' commercial goals to perform as planned and, thus, as expected. Only 25% of respondents have principles implemented which could be considered a tax strategy. 12% of companies do not have a tax strategy in place mainly due to a lack of capacity, or because the strategy is set at the parent company level. Firms with basic principles, or none at all, should focus on completing their tax strategy to improve and simplify the taxation process and improve transparency.



Do you have a company tax strategy?

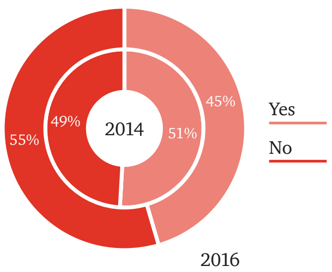
"There is a shift from trying to control risks, to learning to manage uncertainty and enhancing resilience."

Source: PwC - Finance matters: Finance function of the future

To reach the productivity increases, incentives are required, according to the survey, this needs to be improved

5. Productivity incentives

Questions relating to productivity increases were focused on understanding the extent to which finance functions use productivity incentives. Productivity is not only limited solely to technological solutions, but is also related to the need of organisations to attract, motivate and retain talent and to utilise innovations and standardised processes.
Financial departments face important decisions that affect the productivity of financial functions. Nevertheless, only 55% of respondents do not have any incentives to increase productivity. In comparison to 2014, this figure decreased by 5%.



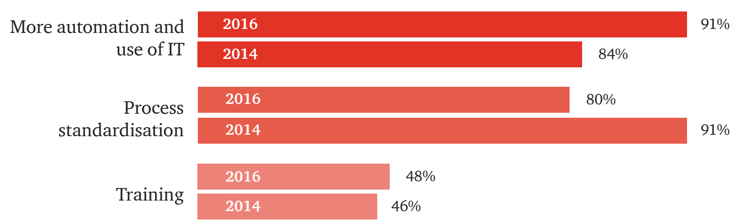
Do you have any productivity incentives in place (within the finance function)?

> *"The digital revolution means that finance technology is not only becoming more advanced, but cheaper to acquire and more accessible and interactive in its use."*

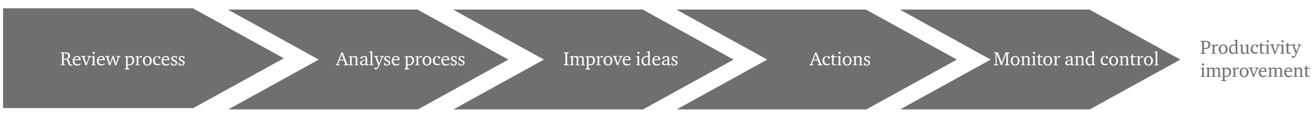
> *"Waste in one step of the process can lead to further inefficiencies downstream."*

Source: PwC: Raising Finance Productivity and Capability: The Lean Approach

Overall, a positive approach to the need of increasing productivity is seen from the graph below. In almost all the stated initiatives, the increase of applying initiatives to increase productivity was recorded. The survey shows that 91% of companies have increased productivity by automating and using IT. This fact confirms the trend towards finance digitalization. With a lower increase of 2%, training still plays a role in improving productivity. In comparison to 2013, a lesser emphasis was given to process standardization, however, 80% of all respondents still use this initiative.



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



Source: PwC global finance benchmark report 2015:Breaking away: How leading finance functions are redefining excellence;PwC: Raising Finance Productivity and Capability: The Lean Approach

PwC partners companies to help them quickly adapt to new trends in finance

“Finance organizations need to continuously innovate to remain relevant and to assume a greater role in shaping their company’s strategic direction.”

Michael Boyle, PwC Americas, Partner, Advisory Services

Strengthening the firm’s finance function can be done by implementing all the above-stated areas from engaging the finance staff in business partner’s roles, and improving the reporting to the implementation of digital finance. All functions are interconnected and must be improved synchronously to obtain the best improvement gains.

The survey shows a decrease of finance business partners. Their position is important for a business to benefit from insights.

Overall, the time needed for month-end closing decreased, but reports were generally delivered later than was the case in 2014. The availability and transparency of financial reports is a cornerstone of keeping a company ahead. This is why we recommend on focussing on key areas for time improvement: month-end closing and completing reports. Efficiency can be improved by automation. This leads to higher efficiency and lower costs due to errors.

Cost efficiencies decreased in comparison with 2014. The improvement of the finance function by automation and training, etc. decreases running costs in finance departments.

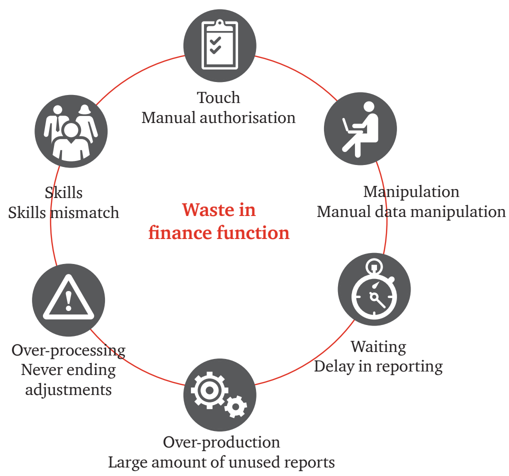
Today, the importance of a risk management and tax strategy has increased, due to increasing economic uncertainty. Risk management and tax strategy prepare a company for changes and soften their impact.

Good execution means that risk management can turn a threat into an opportunity. The survey reveals there is room for improvement with regard to risk management and controls. However, tax strategy is still to a degree underestimated.

Changes to the finance function will not be fully effective if staff are not prepared for their new roles. Company staff represent added value and their development is strategically important.

PwC has extensive finance experience and helps its clients improve the efficiency of the finance function. We help to increase the productivity of the finance function by interconnecting company departments and moving away from so-called “silo-thinking”. We help companies understand the complexity of the whole process and help them with changes needed to take advantage of the opportunity.

Find out more, and tell us what matters to you by visiting us at: ***www.pwc.com/sk.***



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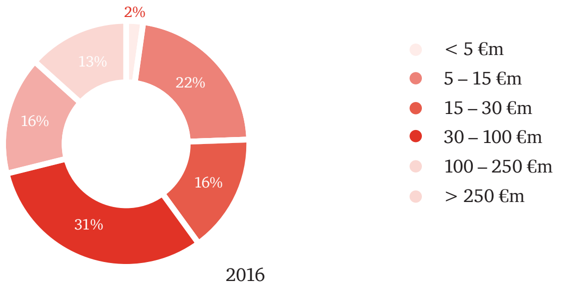
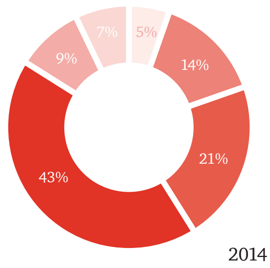
The survey included respondents from all areas and sizes to eliminate factors related to industry or volume

Appendix: Sample details

This CFO survey was conducted from September – November 2016 by PwC in co-operation with the CFO Club. The survey was conducted mostly via an online questionnaire completed by 45 companies operating in Slovakia. The respondents includes all types and company sizes in Slovakia.
The surveyed companies in 2016 are larger in regard to revenue than in 2014. Only 2% of the surveyed companies have revenue of less than EUR 5 mil. Most of the companies have revenues of between EUR 31 – 100 mil.

Respondents by revenues in EUR





Industries represented in the survey

The industrial structure of the respondents reflects the variety of companies and sectors they operate in. The below chart shows the sectors represented in the survey. 20% of respondents are from the automotive industry, transportation and logistics. The second best represented sector is financial services.