The True Measure of Finance Function Excellence: Deliver Value Efficiently

From major overhauls to specific process improvements, organizations featured in APQC's 2012 Financial Management Best Practices Report are boosting both efficiency and effectiveness.

The role of the CFO is analogous to the governor, an electronic device in automobiles installed to limit top driving speed. Current law in the United States holds CFOs of public companies personally responsible for what is analogous to not exceeding the speeding limit in a car—that is, vouching for the reliability of the firm's accounting processes and financial reports. But the comparison ends there.

A number of forces—from the dynamics of globalization to economic pressures in the United States and Europe—have converged to underscore the intense need for financial acumen in business decision-making. In many industrialized countries, the CFO's role has evolved well beyond traditional stewardship duties. CFOs are now expected to play a central role in crafting strategy and creating value for investors and other key stakeholders. The CFO, and the professionals under his or her wing, do this by serving as strategic business partners. And that involves collaborating with operating leaders throughout the organization to identify, quantify, and compare opportunities and risks.

A key point of this collaboration is to navigate safely toward performance destinations with constant mid-course corrections that reflect fast-moving marketplace dynamics. The work is predictive and fact-based—and it's enabled by advanced information technology tools and analytical techniques that are now the norm among large, complex organizations determined to compete effectively.

But what does it take to get from A to B—to evolve the finance function at a large, complex organization into an effective business partner? It is neither intuitive nor easy, and it's fair to argue that the majority of large organizations have more work to do. Although the topic of finance transformation has been around for more than a decade, APQC Open Standards Research still shows that there are significant gaps in cost-efficiency among finance organizations (Figure 1). The typical company, at the median, is spending almost 50 percent more on its finance function than the top performers.

Total Cost of the Finance Function as a Percentage of Revenue

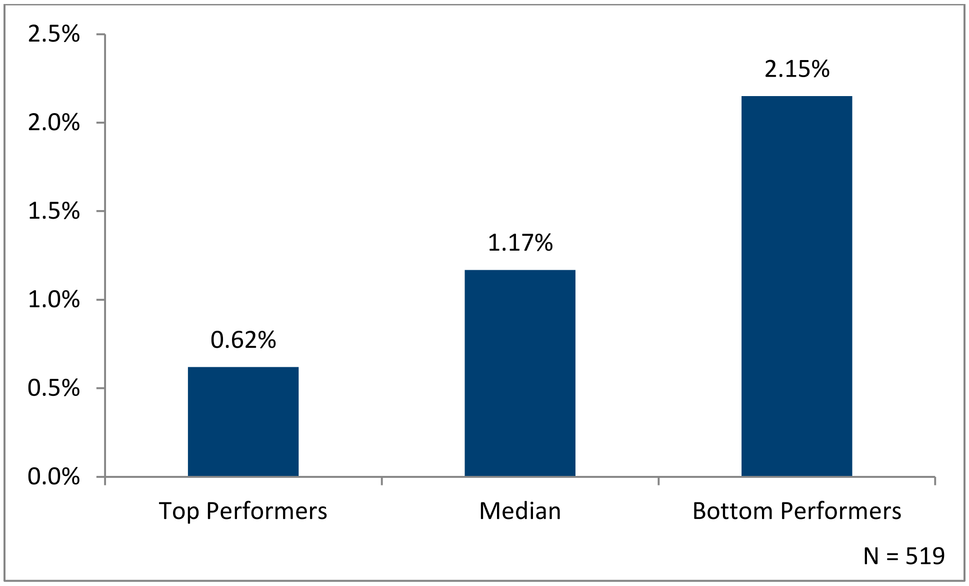

Figure 1

Given that approximately 60 percent of the cost of finance can be traced to labor cost, the argument can be made that what's holding finance back is the over-allocation of talent to low-value adding tasks such as manual data entry in core transaction processes such as procure-to-pay; order-to-cash; plan-to-re-plan; and close-to-disclose.

That's the efficiency side of the equation. When it comes to effectiveness—providing strong analytical support to decision makers—APQC research conducted in July 2012 shows that most finance organizations realize they need to invest in appropriate training programs.[1]

CFOs Now Investing in Robust Process Improvements

In April 2012, as a precursor to case study research, APQC conducted a survey that drew 145 responses from mostly large U.S. and European corporations.[2] The main finding was startling: eight out of ten organizations are now pursuing major financial management change programs. APQC defines a major program as one involving at least two of the following elements:

- IT applications to strengthen the business analyses generated by finance,
- process streamlining to boost labor productivity in a core transaction-based process,

[1] APQC. "A New CFO Priority: Talent Development with a Focus on Soft Skills." APQC Knowledge Base, August 2012.

[2] Driscoll, Mary. "Finance Improvement Programs Now Aim at Both Value and Cost." APQC Knowledge Base, March 2012.

- process automation to speed cycle times and/or reduce cost,
- an enterprise-wide effort to standardize accounting/reporting,
- changes in organizational structure, e.g., a new or different type of shared services environment, or
- concerted efforts to develop finance talent or leverage competencies to support decision makers.

The fact that eight out of ten organizations are now pursuing major process improvements is significant for three reasons. First, prior to the global financial crisis, CFOs by and large were mainly interested in incremental process improvements to save money. The slogan "do more with less" summed up the general attitude. But now we have strong evidence that CFOs want to deliver effectiveness—analysis that will help the organization meet financial performance targets when top-line growth is hard to come by. The overwhelming majority of survey respondents indicated they are now pursuing both higher levels of efficiency and effectiveness (Figure 2).

Most Important Goal for a Major Process Improvement Initiative

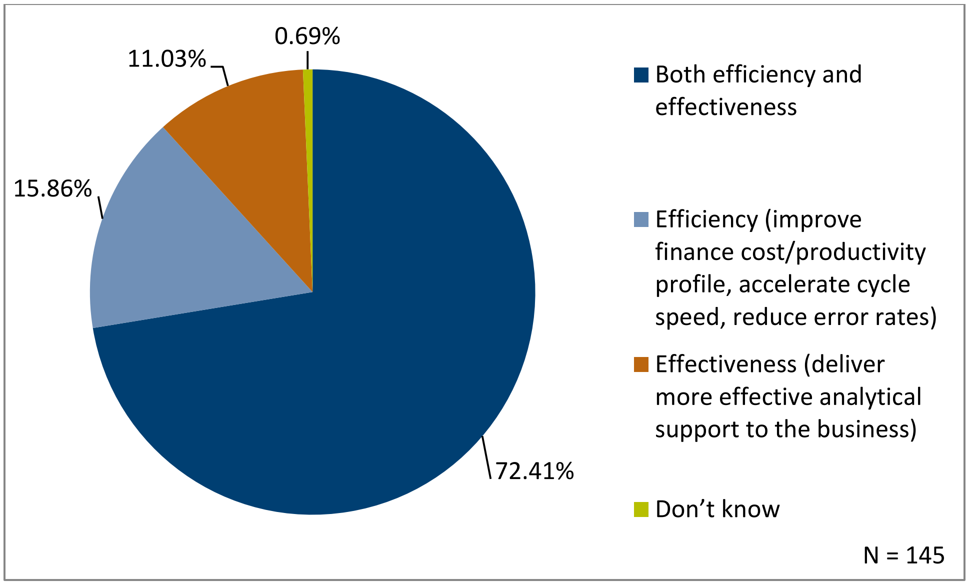

Figure 2

Second, due to the current patterns of consumer demand and competition, decision-makers realize they have to plan and reforecast at a very detailed level. They must know with certainty which customers, products, or regions deliver the highest net value. They must analyze the drivers of growth and profitability and devote more effort to modeling performance risks.

Finally, the business side, which needs to allocate resources precisely, is asking finance to step up and provide faster, fresher, and more granular analyses of vast amounts of data. The quality standard for business analyses has clearly been raised. Departing from the past, when the primary goal was cost-efficiency, finance improvement programs today will be judged successful based on the extent to which they help make the business an analytical competitor.

The Road to Financial Management Excellence

The best-practice organizations featured in this study are all committed to excellence in financial management. Some of the stories told in this study involve major finance transformation efforts that span a number of financial management processes. Others provide a close look at the maturity curve for a specific process such as procure-to-pay. Taken together, the case studies suggest that the journey to financial management excellence involves two dimensions: foundations and aspirations (Figure 3).

Foundations and Aspirations for Financial Management Excellence[3]

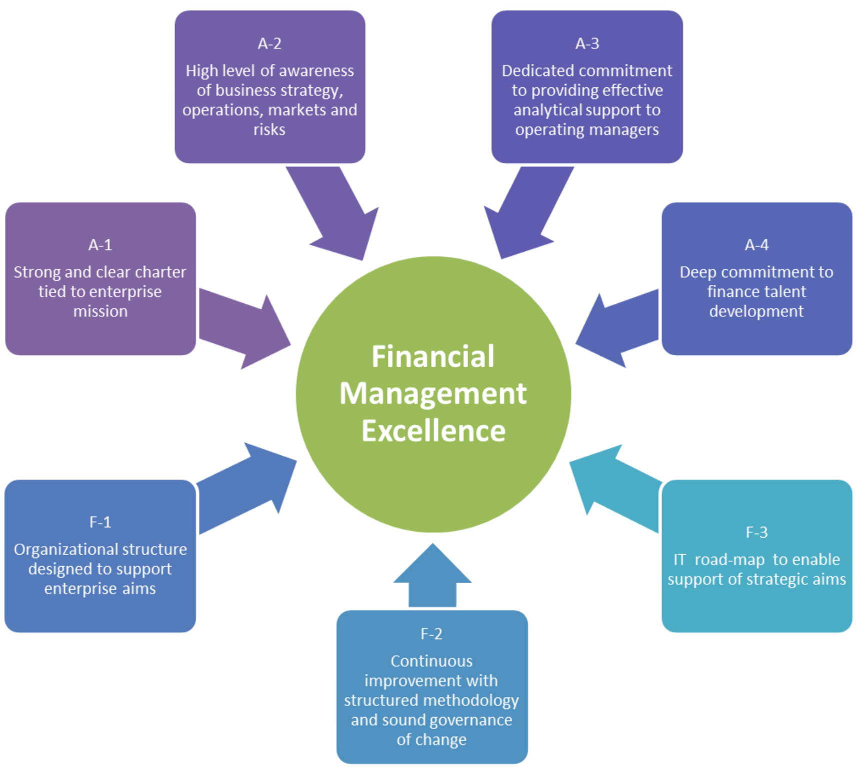

Figure 3

[3] Source: APQC.

The foundations are conditions that must exist to ensure that (a) targets for financial management process efficiency and quality are always met and (b) process owners are able to pursue productivity gains each and every year. Organizations that have successfully moved up the financial management process maturity curve have organizational structures aligned to their internal customers' needs for both transaction services and decision support. They tend to have designated process owners who drive for continuous improvement using reliable problem-solving and change-management methodologies. When it comes to enabling technology, these leading organizations have a good sense of what tools and platforms they have today and will need in the future.

The aspirational dimensions of the journey to excellence are characterized by clarity and commitment. The finance vision statement (some call it charter) is a powerful motivating force among the case studies presented. Employees know what their stakeholders expect from them, and their leaders provide them with the skills and knowledge needed to excel. There is clarity about what an effective partner does to provide analytical support to decision makers. And there is a deep and sustained commitment to talent development, knowledge sharing, and continuous learning.

Clearly, it takes fortitude to drive an organization to pursue and sustain functional excellence. But the cases at the core of this research report prove that the challenge did not stop the leaders involved.

The Best Practices

The APQC project team analyzed the data collected and generated the following 14 best practices for building a successful best-in-class finance function:

1. Create a clear, visionary statement that finance can live by.
2. Embed finance into the business.
3. Earn a seat at the strategy table.
4. Make an unwavering commitment to talent development and offer innovative opportunities for learning.
5. Regularly assess talent development progress.
6. Clearly define the organizational structure within the finance function.
7. Leverage shared service centers for finance functions.
8. Streamline back-office processes.
9. Maintain strong governance structures.
10. Invest in technology and automation.
11. Use quality and process improvement methodologies to measure and track performance.
12. Measure key performance indicators frequently.
13. Benchmark internal and external performance.
14. Communicate regularly and clearly with internal business partners.

Standing individually, the identified best practices might seem like global platitudes. But it is the cohesive execution of sound strategies and tactics that is the difference between average and best-in-class. Invariably, the best-in-class have a clear focus on what matters most to business managers and leaders as they strive to generate value for key stakeholders. It's not about improving finance for finance's sake.

Read in the full Best Practices Report Building a Best-in-Class Finance Function how each of the selected best-practice organizations exemplifies this ideal. The full report is available for download on APQC's Knowledge Base:

http://www.apqc.org/knowledge-base/documents/building-best-class-finance-function-best-practices-report

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