WHEN THE GOING GETS TOUGH CALL THE CFO

Finance has played an important role in helping organisations across the economy manage their costs but many of the processes and tools designed in times of stability are no longer fit for purpose, as **Conor Mahon** explains.

Finance executives are taking on increased responsibilities and are becoming more deeply involved in the core strategy of the businesses in which they operate. In confronting the challenges of the last number of years, organisations were forced to become leaner and more efficient – and finance functions in particular became more flexible in responding to the challenges of the new environment. Companies have put increased focus on measuring, predicting and controlling costs and in charting a course to drive revenue growth in the context of tentative economic recovery.

According to a recent survey[1] of 273 companies by Accenture, only 11% were found to be fully satisfied with their planning capabilities, compared with 17% two years ago and 20% 10 years ago. This clearly demonstrates the need for change and an increased focus on enhancing the financial planning and forecasting capabilities of most organisations. Traditional budgets provide a level of detail that can help shape incentive-compensation plans and capital markets communications but often the end result of this time consuming, difficult and resource-intensive process is of limited use. The assumptions on which the budget is based change so rapidly today that many organisations view the output from the annual budgeting process as irrelevant.

That reality was driven home by the economic uncertainty of the past number of years, which saw many carefully prepared budgets rendered obsolete by volatile markets, commodity prices, and exchange rates.

Many companies now see the annual planning process as less relevant. There is an increased shift towards rolling forecasts which can provide more real time updates to business executives to enable them to get a handle on how the business is performing financially and in identifying 'early warning signs'. The increased volatility experienced across almost all industries means that the value of being able to accurately and dynamically forecast four to six quarters ahead is of increased importance, not to mention advantageous, in managing the business effectively.

Finance executives know that the need for change in financial planning and forecasting is an urgent priority. In many cases this involves redefining the process and investing in technology solutions that remove the dependence on spreadsheets and manual planning to include macroeconomic factors in planning and scenario analysis.

The processes, tools and approaches that were designed in times of stability are no longer fit for purpose: forecasting science and analytics are now to the fore. The use of more complex algorithms and systems to dynamically drive forecasting is becoming more common – this approach enables more frequent and sensitive forecasts and provides the organisation with the early insight required to respond to challenges and opportunities which the market presents.

COST MANAGEMENT

Almost all organisations have taken steps to get a better handle on their cost base and to deliver savings. Finance played a critical role in advising and driving these efforts across the entire enterprise.

The focus for finance now is on helping the organisation to sustain these cost savings – to steer their cost structure to adjust for changes, help manage costs, and support the organisation in moving toward a more variable cost structure.

Increasingly, organisations are recognising that changes to business processes and data management are key components in cost management. It is clear that those organisations who do not have well thought through systems, standard processes and well managed data struggle to cut costs compared to those that do.

Strong data governance, centralised control over data, fit for purpose systems and effective processes will enable more effective cost management. Organisations that can bring these elements together are much better positioned to analyse their cost performance and profitability at the level required to aid decision making. And finance has a clear role to play here – high performance in finance must be focused on business results, not merely financial reporting.

OPTIMISING THE WAY FINANCE SERVICES ARE DELIVERED

Initiatives to influence costs are to the forefront of finance executives' minds – over 40% of CFOs surveyed recently reported they had increased their use of outsourcing or shared services, while another 40% plan to do so in the next 18 months.[2]

Ireland has been growing its reputation as a destination for high quality shared services operations and value-add activities as the market has been evolving and maturing here. The benefits of Shared Services as a delivery model to drive efficient and effective back office service provision is now well established across many industries and geographies.

As Shared Services Organisations (SSOs) have matured, their scope of service has expanded. While excellence in transaction processing and customer service remains a core building block of a successful SSO – CEOs and CFOs are looking for them to do more, and to be more business relevant.

Initially, Shared Services were structured as functional silos (e.g. finance, HR, procurement Shared Services, all operating independently and separately) but have over time evolved to a more multifunctional approach (combining procurement, finance, IT and HR services in one Shared Services entity) with increased emphasis on end-to-end processes and regional/global coverage.

Shared Services 'masters' are pushing the boundaries of the model even further and embracing an Integrated Business Service (IBS) solution that relies on a defined service management framework to drive more service efficiency and better focus. As businesses have become more sophisticated, they are continually challenging what activities are core to their business. Non-core activities are to a much greater extent being transferred to a shared service model using multiple sourcing approaches.

> "FINANCE IS NOW A KEY ENABLER FOR ORGANISATIONS TO CHART THE JOURNEY BACK TO RESPONSIBLE, PRUDENT AND PROFITABLE GROWTH."

NURTURING FINANCE TALENT AN ONGOING CHALLENGE

Although most finance organisations maintain that attracting and retaining talent is one of their biggest challenges, most companies are lagging in implementing practices critical to building and sustaining an effective finance workforce.

Companies are especially trailing in: encouraging regular and meaningful communications between supervisors and employees; documenting business processes in such a way that employees understand them; investing money in training and time in mentoring; and implementing knowledge

Shared Services in Ireland
A continued success story

The first ever research report into Shared Services Organisations (SSOs) in Ireland reveals an industry where optimism prevails at a time of wider economic uncertainties. Over half the industry executives surveyed indicated their intention to expand operations - and employment - in the coming year.

The report, *Sustaining High Performance in Shared Services: An Irish Perspective*, authored by Accenture Ireland in partnership with the IDA and UCD Michael Smurfit Graduate Business School, affirms the attractiveness of Ireland as a location for shared services and highlights areas of competitive advantage. A key finding of the research is that 25% of Irish shared services organisations are deemed to be at 'mastery' level having world class operating characteristics compared with just 8% of their global counterparts - meaning they outperform international peers in terms of profitability, longevity, consistency and growth.

The research found that Ireland's shared services industry has been able to deliver and retain higher value work, with the focus on quality service, delivery excellence and ease of communication, making Ireland highly regarded internationally as a choice destination for the delivery of high-end services.

Crucial to sustained growth in the industry will be access to a skilled and educated talent pool, particularly graduates with finance and accounting skills. Almost 70% of Irish shared service organisations host finance and accounting activities, making it the most common function undertaken by shared services centres in Ireland ahead of areas such as IT, HR, customer service and order management.

It is important that Ireland continues to gain international recognition as a location of choice for shared services investment supported by the creation of cross-border Integrated Business Services and internationally recognised Centres of Excellence which can provide deeper levels of integrated and insight-based services. The Accenture delivery centre at Grand Canal Plaza in Dublin is one example of a centre which has evolved since its inception in 1999 to its current global role delivering high-value processes to Accenture offices and client organisations across the world.

management tools and processes to encourage the sharing of innovative ideas and to preserve institutional knowledge.

The competition for talent exists not only in Shared Services but for finance overall. Attracting and retaining the right employees – with the necessary skills and expertise to meet the growing demands on the finance organisation – remains a hugely important factor in driving high performance. And dedicated Talent Management is vital in achieving higher levels of performance.

ACHIEVING FINANCE MASTERY

For several years, Accenture has been tracking and documenting the performance of superior finance functions across the world, referred to as 'Finance Masters'. The most noteworthy characteristic about Masters is that they are highly adept at identifying the finance capabilities that are critical to supporting their specific business in pursuit of high performance. In other words, they get the biggest return on their scarce resources – and deliver the greatest value to the overall business – by focussing on the areas that matter most to them. They pinpoint the core capabilities that fall short of what's required, and aggressively apply their resources to close the gaps.

There's no question that the demands on the Finance function – to which enterprises turn to safeguard, manage and generate shareholder value – will only increase in coming years. As finance executives in Ireland and around the world continue to grapple with how to most effectively support their enterprises while maintaining sufficient control on costs, the following points are worth bearing in mind:

- Strategy matters – a lot. Without it, there is no way to know which finance capabilities are most relevant and which consume scarce resources unnecessarily;
- Superior finance practices can change the game. Finance organisations that can keep pace with the speed of change and effectively deal with complexity can drive substantial bottom-line results; and
- The status quo won't work. Today's CFO needs to develop new approaches to managing their function and interacting with the business at large.

While a superior finance organisation cannot guarantee that an enterprise will become a high performance business, there is little doubt that high performance will remain elusive to those companies unable to build a finance organisation that can find the optimal balance between 'accountant-in-chief' and strategic business partner. ■

[1] The Future Used to be Easier: Planning for Success in Dynamic Environments, *Accenture 2009*

[2] Sustaining high performance in shared services: An Irish Perspective, *Accenture 2010*

Conor Mahon is a Senior Manager in Accenture Ireland's Finance and Performance Management practice.