

Outsourcing

Best in Class: How Finance Business Process Outsourcing can help create a High-Performance Finance Function



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Executive summary

Most of us recognize high performance when we see it. In fields as diverse as sport, exploration and science, truly exceptional performance stands out clearly for all to see. It's no different in the business world: high-performance businesses consistently out perform their peers over a sustained time frame, across business cycles, industry disruptions and cycles of leadership.

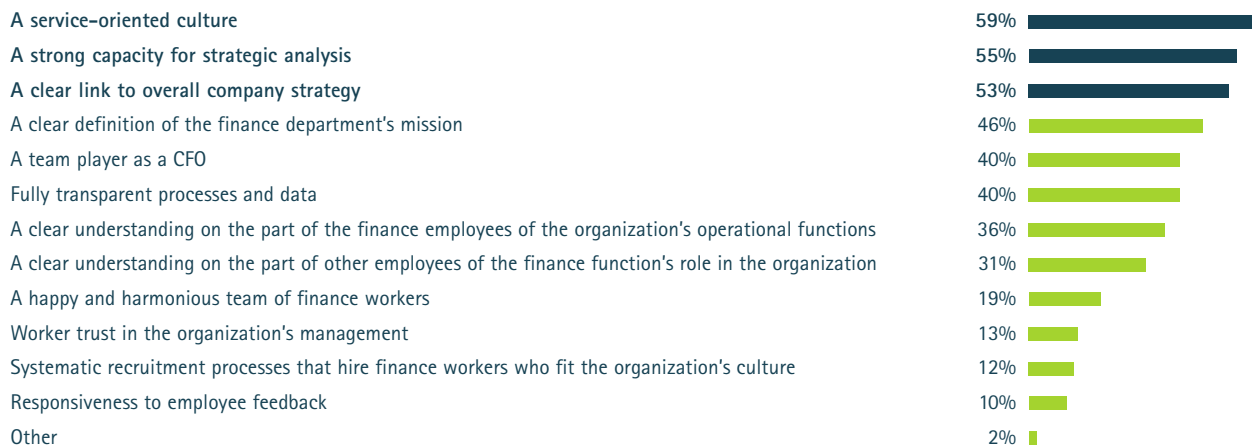
The signs of superior performance are clear. High-performance businesses consistently deliver strong returns to shareholders – achieving consistent and solid revenue growth and maintaining a high return over the cost of capital – and are rewarded with valuations that indicate strong growth expectations. And this doesn't come about by accident. Delve into a high-performance business, and a picture emerges of a leadership culture that unleashes the business's energies and capabilities, is skilled in not just developing strategies but executing them, and skillfully manages the balance between the tasks of today and the challenges of tomorrow.

The high-performance finance function has considerable appeal. But what exactly *is* a high-performance finance function? And how can businesses measure and monitor their progress towards it?

Accenture commissioned the Economist Intelligence Unit in March 2004 to explore the views of 182 senior executives on such questions. Spread across a wide range of industries, geographies, job titles and business functions, respondents to the online survey offered unique insight into the state of the high-performance finance function in 2004 – just as the global economy sets its sights once more on growth and expansion.

Taken together, their views confirmed some opinions, confounded others – and contained a few surprises. As desirable as it may be, attaining and maintaining, the high-performance finance function is a more challenging affair than many suspected.

Which of the following do you consider to be the most important attributes of a high-performing finance culture? Choose the top three priorities.



Attributes of a high-performance finance function

Take, for example, the attributes of a high-performance finance function. What should it be trying to achieve? The answers are intriguing.

Overall respondents felt that the high-performance finance function was defined by an ethos of service and strategy. Asked to identify the three most important attributes of the high-performance finance function, 59 percent of respondents included the creation of a service-oriented culture; 55 percent included the development of a strong capacity for strategic analysis; and 53 percent expressed the belief that there should be a clear linkage between the work of the finance department and the overall company strategy.

Less prominent among the leading candidates, but still popularly cited as important attributes, were a clear definition of the finance department's

mission, which was cited by 46 percent of respondents; leadership from a team-oriented CFO, cited by 40 percent of respondents; and fully transparent processes and data, again cited by 40 percent of respondents.

Significantly, most of these attributes are outward-facing. Inward-looking attributes, to do with the composition of the finance function itself, were not seen as contributing particularly strongly to the high-performance finance function. Just 12 percent of respondents, for example, felt that a high-performance finance function should have a recruitment process that hired finance employees who fit the organization's culture. Even fewer – 10 percent – regarded responsiveness to employee feedback as a significant contributory factor.

Which are the most important roles your organization's finance department performs?
Please rank each of the following roles between 1 and 3 in terms of their importance to the success of your business, 1 being most important and 3 being least important.

	Most important	Important	Least important	n/a
Manage cash flow efficiently	68%	27%	4%	1%
Secure lowest-cost capital	34%	42%	19%	4%
Enforce tight internal financial controls	55%	34%	10%	1%
Maintain accurate financial forecasts	48%	39%	13%	1%
Ensure transparency of financial data	51%	33%	14%	2%
Communicate significance of financial results to all employees	20%	45%	30%	6%
Enable senior management to make the best business decisions	69%	24%	7%	0%
Manage enterprise risk	34%	49%	15%	2%

The role of the finance department

Set against these aspirations, the actual role performed by the finance function in many of today's businesses is rather routine. Respondents were asked to score each of a number of possible roles on a spectrum of one to three, where a score of 1 indicated that a particular role was most important to the success of the business, and a score of 3 reflected the belief that it was of little importance to the success of the business.

Overall, the finance function's strategic value-adding potential came across as widely acknowledged: no fewer than 69 percent of respondents felt that enabling senior management to make the best business decisions was the most important role of the finance function.

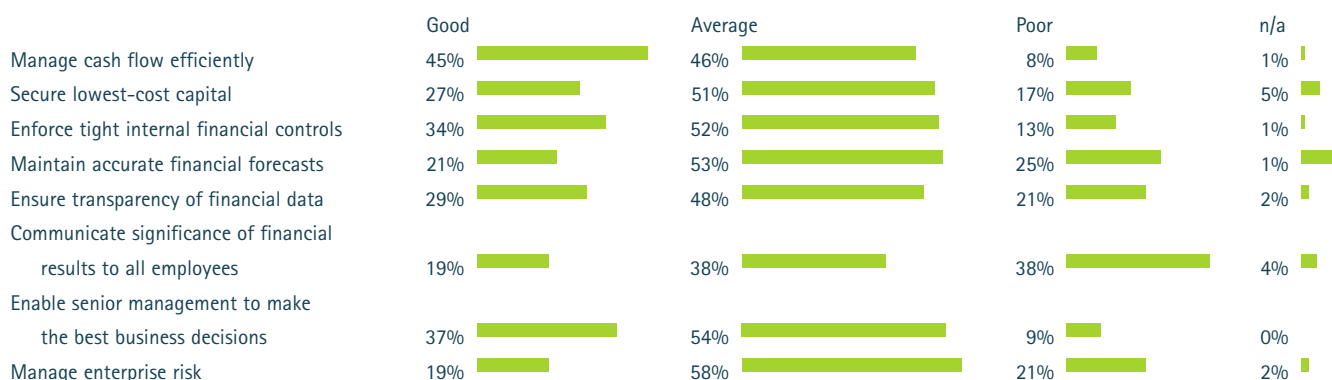
But the traditional, tactical role of finance comes through strongly, as

well. Almost as many respondents – 68 percent – felt that managing cash flow efficiently was of high importance to the success of the business. And 55 percent cited the enforcement of tight internal financial controls as highly important to the success of the business.

Two other roles of the finance function scored low, however. Just 34 percent regarded the finance function's role in securing lowest-cost capital as of high importance to the success of the business. And curiously, given its strategic importance, a similar percentage regarded the finance function's role in managing enterprise risk as of major importance to the success of the business.

The conclusion is clear: In a changing world, the would-be high-performance finance function must execute both its expanding strategic remit *and* its traditional tactical missions with equal aplomb.

How well does your organization's finance department perform these roles?
Please rank its performance for each of the roles between 1 and 3, 1 being good, 2 being average and 3 being poor.



How would you rate your finance department's contribution to achieving your organization's business goals?



Current performance

Set against these aspirations, though, how does the typical finance function actually perform? Overall it seems there is room for improvement.

For all of their strategic aspirations, most finance functions feel that their contribution to the achievement of the organization's business goals leaves room for improvement. In fact, just 14 percent of the executives surveyed rated their finance department's contribution in this regard as outstanding. Nearly half, 45 percent, describe their contribution as merely good, with 32 percent describing their performance in this regard as average and 7 percent describing it as below average.

The gap between potential and actual practice remains significant. Take the issue of enabling senior management to make the best business decisions. As we have seen, 69 percent of respondents rated this as a finance

function's most important contribution to the success of the business – potentially, at least. But in practice, a mere 37 percent describe their finance function's performance in this area as good, with 9 percent of respondents going so far as to characterize it as below average or poor.

In another area of acknowledged strategic value – managing enterprise risk – a disturbingly low 19 percent of respondents rate their finance function's capabilities in this area as good. Given that most respondents think that the CFO should take the lead in this area, the fact that only one respondent in five thinks that his or her finance function handles the task well is worrisome.

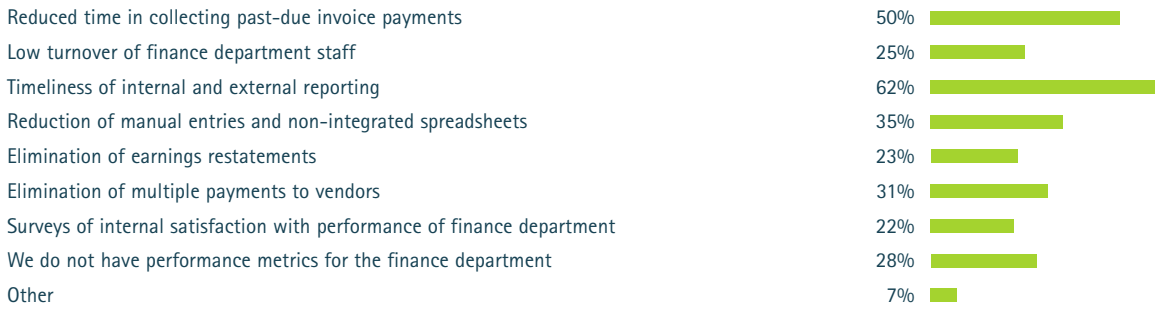
Indeed, as the table above highlights, this dissonance between priorities and performance levels is a recurring theme. For every single activity that was regarded by respondents as significantly contributing to the success of the business, fewer than

50 percent of respondents thought that their finance function performed well in this role.

For example, although ranked a most important role by 68 percent of respondents, only 45 percent of respondents thought that their finance function's performance in managing cash flow was good. A further 46 percent of respondents regarded their performance in this respect as average. And while 55 percent of respondents regarded enforcing tighter financial controls as a highly important contribution to business success, just 34 percent rated their finance function's performance as good when carrying out this task.

The conclusion is clear: While the high-performance finance function is an aspiration for many organizations it is far from being translated into reality.

Which of the following metrics does your organization use to measure the performance of your finance department? Please check all that apply.



Performance measurements

Why is achieving a high-performance finance function so challenging? One very obvious reason highlighted by the survey is that, in general, traditional measurements still drive the evaluation of a finance function's performance – where, that is, any measurements are used at all. Surprisingly, nearly a third of respondents – 28 percent in all – report that their companies do not use any metrics for assessing the performance of their finance department. Clearly, in terms of highlighting opportunities for moving toward the high-performance finance function, a coherent set of measures is essential. Today's measures, however, lack a strategic dimension. For example, the most commonly-deployed performance metrics are measures of the timeliness of internal and external reporting (used by 62 percent of respondents) and measures of reductions in the delays in collecting past-due invoice payments (used by 50 percent of respondents).

While these are doubtless very useful measures of certain aspects of the financial health of the business, they are not of any real strategic value. And nor, for that matter, are a series of other widely-utilized metrics that are found in finance functions today – measures such as the reduction of manual entries and non-integrated spreadsheets (measured by 35 percent of respondents), the monitoring of employee turnover in the finance department (measured by 25 percent of respondents) and the elimination of earnings restatements (monitored by 23 percent of respondents).

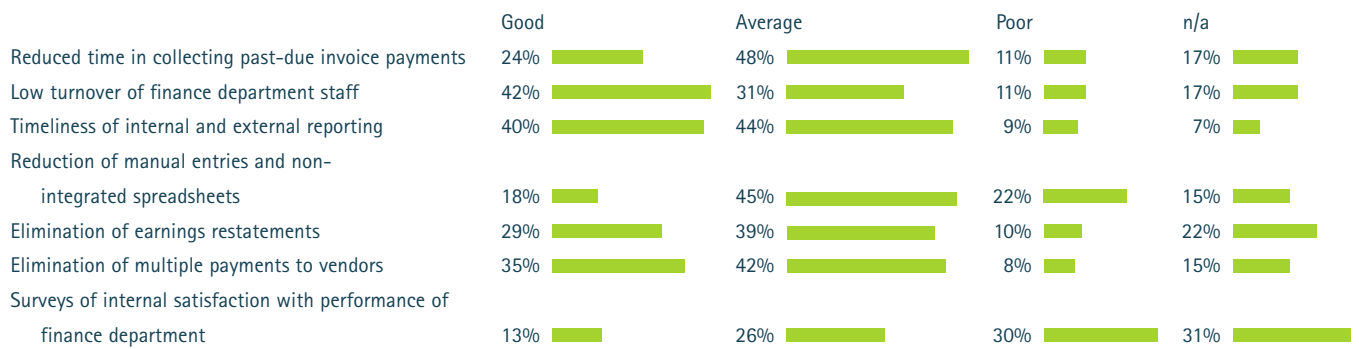
In fact, strategically-oriented measures remain the exception. For example, a mere 22 percent of respondents report that they use user surveys to measure the degree of internal satisfaction with the performance of the finance department. Given the lack of strategic measures, it is impossible to avoid speculating that the predominance of traditional measures of a finance function's

performance, coupled with relatively few strategic measures of performance, might well be a significant contributing factor to the gap between its desired role and the finance function's actual performance.

And even where measures are present, performance against them appears patchy at best. Take measures such as finance function employee turnover, the timeliness of internal and external reporting, and the elimination of multiple payments to vendors. These are not especially exacting capabilities, yet fewer than half of the respondents – 42 percent, 40 percent and 35 percent respectively – report achieving a level of performance in these areas that they characterized as good.

Even in those instances where surveys of internal satisfaction with the performance of the finance department were actually carried out, twice as many respondents reported that their department performed

On a scale of 1 to 3, where 1 is good, 2 is average and 3 is poor, how well does your finance department perform against these metrics?



poorly as reported that it performed well. On the whole, whatever the measure in question, the majority of respondents reported merely an average level of performance – hardly the achievement of a high-performance finance function.

Barriers to progress

So why, then, are finance functions so mired in mediocrity? While setting the challenge of meeting more strategically-focused performance measures will doubtless play a part in raising the game of finance functions, survey respondents reported that more fundamental impediments existed.

Approximately 55 percent of respondents, for example, expressed the view that a cultural resistance to change was the primary barrier to improvement. A slightly lower percentage of respondents, 51 percent, felt that a lack of clearly defined metrics for directing improvements in the finance function was the primary barrier holding them back from improvement.

Additional impediments to progress included a lack of understanding of the roles that define a world-class finance department (a view expressed by 48 percent of respondents); vested

interests within the company trying to protect jobs, budgets and power (a view expressed by 43 percent of respondents); an over-emphasis on the finance department's "enforcement" role (a view expressed by 36 percent of respondents); and a lack of understanding of what specific actions could be taken to improve the function's performance (a view expressed by 36 percent of respondents).

If you were appointing a new CFO, which of the following qualities would you seek in the candidate? Please choose the top three qualities.



Appointing a CFO

So who must take the lead in overcoming these barriers? The CFO. Yet when it comes to recruiting CFOs, views are mixed on the desired skill-set of the ideal candidate – at least when it comes to taking a hands-on role in driving performance improvements. When it comes to appointing a CFO, respondents emphasized the need for strategic vision rather than operational efficiency.

For example, when asked to identify the top three qualities sought for in an incoming CFO, by far the single most important attribute identified by respondents was the ability to think strategically, which was cited by 79 percent of respondents. Significantly, no other attribute came close to this degree of unanimity.

The next most commonly-identified attribute, cited by 40 percent of respondents, was the incoming CFO's readiness to challenge the

organization's assumptions – again an attribute with a strategic dimension.

Only in the third, fourth and fifth-placed desired attributes do we see an element of operational engagement. Thirty-six percent of respondents thought it important, for example, that an incoming CFO exhibit a willingness to be a champion of financial transparency, while 34 percent expressed a similar regard for zero tolerance toward accounting errors and fraud. Outstanding numeracy, it should be noted, made the list of top three requirements for a CFO for a mere 8 percent of respondents – an interesting sign of the change in attitudes towards the regard for numeracy within the accounting profession.

Conclusion

What, then do we conclude from all of this? Certainly, there is a high degree of consensus on what exactly a high-performance finance function comprises: rather than processing invoices, the function needs to be strategically-focused and externally-aware, working within the business as a whole to create value. That much is clear. Yet the role of the typical finance function today palpably fails to reflect this. There is a strategic element to its activities, certainly, but just as important is an operational element of dealing with what are in effect financial minutiae.

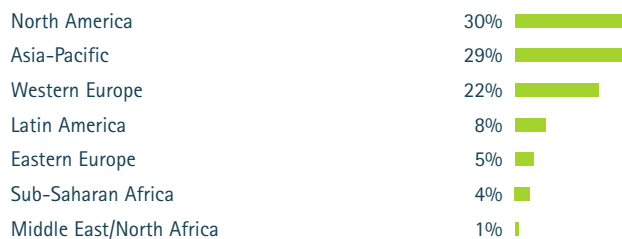
Perhaps as a result, when it comes to performance, the finance function is torn two ways. Where metrics are imposed to measure the efficiency and efficacy of the finance function – and in a disturbingly large proportion of instances they are not – we see measures that are chiefly operational, and which consequently fail to reflect the strategic and outward-looking aspect of the function. With micro-

level measurement, but macro-level aspirations, is it any surprise that the typical finance function performs poorly at meeting the operational goals that it sets for itself? Disturbing, certainly; but surprising, no.

But utilizing outsourcing providers to handle routine transaction processing, on the other hand, might make a difference. How? Firstly, it would free-up time within the finance function, thus allowing a greater focus on the more strategic and outward-facing aspects of the high-performance finance function. And secondly, by outsourcing transaction processing to companies for whom this is a core competency – and who would work to strict performance indicators – the approach would undoubtedly yield the sought-for operational performance improvements. For CFOs, the message is clear: outsourcing finance is one route to high performance.

Demographics

Where are you located?



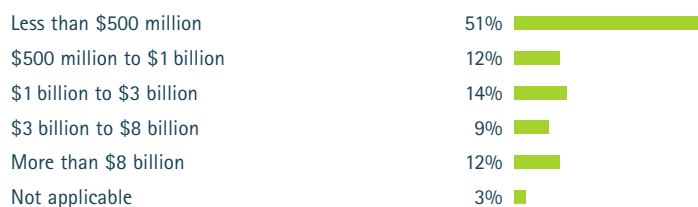
What is your industry?



Which of the following titles best describes your job?



What were your company's revenues in US dollars in the most recent fiscal year?



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This report on high-performance finance functions was written in cooperation with the Economist Intelligence Unit.

We would like to extend special thanks to the 182 senior executives from around the world who participated in the online survey.

