

## Finance & Performance Management

# What the finance masters know: Mastering the finance capabilities that support high performance

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Facing a growing number of internal and external demands, businesses and governments are increasingly turning to their finance organizations to help them on their quest to reach high performance. They are asking their chief financial officers to spend ever-greater proportions of their time on matters of strategy and leadership, while also intensifying their focus on finance and accounting basics in response to heightened regulatory scrutiny and transparency issues.

In light of this increasing reliance on finance, what essential capabilities and competencies must finance organizations master so that they make the most significant contribution to high performance? Based on a recent wide-ranging study\* conducted by Accenture of more than 200 organizations in the public and private sectors, we have identified a number of the essential capabilities that should be sought by those aspiring to be "masters of finance."

### Managing for value

Our research has demonstrated a high correlation between those companies that have worked to develop high-performance finance organizations and those that exceed their peers in overall business performance. The empirical evidence suggests that the best finance organizations contribute directly to the manner in which the organization as a whole maximizes its value in its industry.

Such value is not measured simply as earnings per share. In the marketplace, stock price is based on expectations of future cash flows adjusted for risk, not on traditional accounting

metrics. So finance executives must be able to discern what drives current and future value, and then help make the essential linkages between financial capabilities and long-term performance. In this way, the finance organization helps decision makers understand strategic, tactical and operational levers in economic terms. This is crucial to maximizing shareholder return—and it enables the finance organization to help the enterprise respond more effectively to changing business conditions.

High-performance finance organizations excel at both the macro and micro levels. On the one hand, they are able to drive finance excellence through multiple levels of an organization and its culture. On the other hand, most high-impact finance organizations have mastered the details, as well. Few of the high performers suffer the ill effects of highly distributed back office functions or disaggregated systems environments, for example. This suggests that getting the fundamentals right is a prerequisite for high performance. Cleaning up operations, standardizing processes and segmenting operations into shared services are necessary so that finance can move beyond its traditional focus on statutory and compliance issues, and instead can focus on driving overall business performance.

### Essential finance and performance management capabilities

Finance mastery incorporates a framework of five essential finance capabilities.

1. **A value-centered culture** is one in which employees make conscious decisions about which

\* Expanded case studies, as well as the essential capabilities of finance mastery, are explored in more detail in a new book from Accenture: *CFO Insights: Delivering High Performance*, by Mike Donnellan and Mike Sutcliffe (John Wiley & Sons, 2006).

strategies to pursue and how to deploy resources to optimize value for multiple stakeholders. Finance masters foster a value-centered culture that motivates and enables employees to make and quickly act upon decisions that create shareholder value. Such a culture removes many of the normal barriers to change and gets everyone marching in the same direction, adhering to the same agenda and the same priorities. Creating and sustaining a value-centered culture within their finance function and then extending it across their enterprise is considered by the CFOs we interviewed to be the single most critical element for success.

Marriott International, for example—a leading worldwide hospitality company—has fostered a value-centered culture throughout its enterprise. In this way, finance has become a close business partner to all areas of the company's diverse operations.

**2. Enterprise performance management** enables an organization to understand and refocus its competitive position to maintain its industry leadership. This requires management to measure performance at all levels of detail and to transform insight to action.

To ensure maximum impact from EPM, organizations must be able to advance to the next technology capability level and the next operating model before their competitors have even anticipated the next wave of change. Leading companies deploy fit-for-purpose, right-sized technology and invest in business analytics tools related to enterprise performance management. These tools help executives make better decisions about resource allocation, and they demonstrate a company's short- and long-term value to shareholders. Market leaders continually invest in technology at above-industry-average rates and secure higher returns than their counterparts.

**3. Finance operations** focus on cost and efficiency in operations and processes, including such competencies as transaction processing, financial and regulatory reporting, and internal controls. Although each company will prioritize capabilities differently, Accenture has found that achieving excellence in

finance operations is typically a prerequisite for making material improvements to the other essential capabilities of finance mastery.

Oil and gas leader BP is one company our study identified as possessing world-class finance operations. According to Russ Taruscio, BP's director for strategy accounting services, the company emphasizes several factors regarding finance control and accounting: delivering consistent, reliable and timely management information; providing a control environment that allows BP to be trusted internally and externally; and delivering cost-effective accounting services.

**4. Capital stewardship** is the ability to deploy, preserve and build capital resources by managing the income statement and balance sheet in an integrated way to maximize returns to shareholders. Related competencies include capital investment, capital structure oversight and working capital management.

Describing the importance of capital stewardship to his company, Pat Erlandson, CFO of health care company UnitedHealth Group, notes: "Our capital management process helps us figure out how best to deploy scarce resources. Capital management is critical in this business. Deploying investment across five businesses with \$45 billion in revenues in an efficient and effective way is central to making sure that we get good returns across each of these businesses."

**5. Enterprise risk management** is the monitoring and managing of financial and non-financial risk across an enterprise's portfolio of assets in support of its strategic objectives. Enterprise risk management is an increasingly important finance function and has risen to the top of the CFO's agenda. CFOs must tailor their finance organizations' approaches to risk management to best meet their enterprises' business needs. For example, Jones Lang LaSalle, a global real estate service provider, has implemented a global operating committee for risk review. The committee determines whether the risk is isolated or whether it needs to be addressed in a broader way.

## Making the necessary investments

One longstanding misconception about finance mastery is that driving down the total cost of finance as much as possible is the most important success factor. Our research suggests otherwise. Incremental savings through increased efficiencies are reaching the point of diminishing returns for many organizations. Companies are finding that they cannot save their way to prosperity.

Although not all finance masters exhibit exactly the same combination of distinctive characteristics, they share a common approach to deploying resources across the capability areas required for finance mastery. They exhibit similarities in the way they deliver support to the business and integrate their agendas with overall enterprise strategy. CFOs in these exceptional companies play a critical role in strategy, leadership and execution, and they are intimately involved in constantly redefining the future direction of their business. They and their finance organizations have become what Dave Burritt, CFO of construction and mining equipment manufacturer Caterpillar, describes as "masters of the business": finance teams that are proactive rather than reactive, and that influence results rather than simply being influenced.

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