



■ Mastery II

Finance & Performance Management

A seat at the table

By Chris Rutledge and Rosanne Williams

New research shows that a measurably superior finance organization is a key attribute at 7 out of 10 high-performance businesses. These masters of finance play a critical role in their companies' leadership structure and are actively involved in defining the future direction of the business.





■ Each year, companies in the world's five largest economies spend more than \$200 billion on their finance functions. Nevertheless, many of these companies continue to be plagued by uneven financial results, stagnant growth and widespread frustration. By comparison, high-performance businesses sustain growth and results over time by investing in the appropriate mix of capabilities required in their competitive space. Accenture's contention is that finance is among the most critical of these capabilities.

In a recent study of 85 companies, we found that a measurably superior finance function is a key attribute at 70 percent of the 16 companies within this universe that we identified as high-performance businesses (see "About the research," page 30). These companies—which we refer to as "masters of finance"—use the function in a distinctive manner to drive differentiation and superior results.

Profiles in mastery

In particular, high-performance businesses build their finance organizations by focusing on five key sets of capabilities: the ability to create a value-centered culture; finance operations; business performance management; capital stewardship; and enterprise risk management. Two distinct profiles of finance mastery—based on the combination of these capabilities—emerged from our research: finance as an *intimate business partner* and finance as an *efficiency engine*.

The route to finance mastery—and, ultimately, to high-performance business—begins with a value-centered culture. In such a culture, employees live and breathe shareholder value in a way that enables high-performance businesses to

achieve that next level of results and outperform their peers in the market.

At the heart of a value-centered culture is the role that finance plays in a company's overall leadership structure. Our data show that in every company in which the finance organization has achieved mastery, finance management is actively involved in defining the future direction of the business. For example, these finance organizations are twice as likely to be involved at the front end of major M&A deals. In other words, finance exerts its influence on the most critical decisions the company faces, and the result is that masters of finance achieve a return on investments that measurably exceeds that of their peers.

This distinguishing cultural focus gives high-performance finance organizations a keen understanding not only of economic value but of customer value as well. Finance's key interaction with customers is through the revenue cycle, of course, and businesses that are masters of finance seek to make that cycle hum.

All organizations in our study have integrated order and sales systems to provide a more fluid and transparent customer experience. On average, they implement online customer access to account information 10 times as frequently as their lower-performing competitors, and they have half the error rate in the billing cycle. The result is a finance organization that actually contributes to enhancing the customer experience rather than detracting from it.

In our research, we considered five sets of capabilities of finance mastery that are important to any finance organization coping with today's business challenges. Interest-

ingly, finance organizations that have achieved a level of mastery do not outperform their peers in every aspect of finance; indeed, that does not even seem to be an objective.

- **Value-centered culture.** In its interactions with the business, the finance organization fosters a culture of shared beliefs and assumptions about the nature of value and how it is created in the company's industry.
- **Business performance management.** In its broadest form, business performance management is the ability to guide near- and long-term performance through insightful and adaptive management processes, including close integration from strategy to execution.
- **Finance operations.** This is the operation of highly effective and efficient finance and accounting services. Excellence in finance requires the use of technologies, organizational structures and process best practices that enable low-cost operations and foster a cost-leadership mentality.
- **Capital stewardship.** Debt and equity markets are harnessed effectively to access capital, manage liquidity exposure and optimize capital costs. Funds are invested wisely to create both near- and long-term value for shareholders.
- **Enterprise risk management.** Financial and insurable risks, as well as nonfinancial risks, are proactively identified and managed across the enterprise.

All of the organizations that have mastered the finance function excel at creating a value-centered culture, but the degree to which they have exploited the other capabilities

varies (see chart, page 28). Based on the way they used the remaining four capabilities, two distinctive profiles are evident from our study.

Finance as an intimate business partner

Thirty-eight percent of the high-performance companies in our study manage finance as an intimate business partner—that is, they use finance as connective tissue across all company operations. For this group, finance does not simply have a seat at the table; it is a trusted business colleague that brings future-focused reporting and credible financial forecasts to the planning process.

CFOs whose organizations fit this profile pay their people more than the average finance organization, making it possible to attract and retain seasoned and business-savvy finance professionals. These CFOs look beyond the accounting numbers to understand the whole business, using balanced scorecards that incorporate both financial and nonfinancial data.

To derive insight from the data, they are more likely than their competitors to arm their staff with sophisticated business modeling tools to allow more what-if and scenario planning for important business decisions, such as M&A. And, not surprisingly, finance professionals in intimate business partner finance organizations spend a higher percentage of their time than their competitors actually analyzing data, instead of just collecting it.

Consider how this finance profile has added value to the planning and execution of strategy at a global pharmaceuticals company. The CFO has been instrumental in building the company's top line through product development alliances. In contrast to

competitors that chose to bulk up through acquisitions, this CFO and her team structured imaginative, unique relationships that have built revenues and profit without mergers.

In another case, a global technology company sharpened its intimate

business partner finance capabilities to support its public offering, moving finance up the company's internal clout chart. As the company reorganized around product categories, it deployed finance directors to each organization to support the clear goal of growth with profits.

High-performance finance: Assessing mastery

Accenture's Finance & Performance Management service line considers five capabilities when evaluating a company's mastery level across finance functions. The chart below breaks down these capabilities into skill subsets and assesses mastery on a rough scale, from "Basic" to "Pioneering." Two levels of mastery are depicted, based on our experience and on a recent research study conducted with The Hackett Group: The symbol ■ indicates the average level of mastery for each skill subset; ■ indicates the highest level observed.



SOURCE: THE HACKETT GROUP, ACCENTURE ANALYSIS

It then increased financial discipline and implemented a more comprehensive performance management approach, but maintained an intimate partner profile throughout the change process.

Finance as an efficiency engine

Thirty-two percent of the high-performance businesses in our survey use finance as an efficiency engine, infusing an appetite for disciplined cost control throughout the organization. High-performance businesses that use finance in this way strive for standardized, streamlined, cost-effective operations across the enterprise.

Efficiency-engine finance organizations boast the lowest overall costs for financial processing and stretch out the accounts payable cycle to make maximum use of trade financing. Days-sales-outstanding and return on invested funds are also tightly managed.

In managing finance-related technologies, these companies are more likely to have well-integrated financial systems, to adopt one enterprisewide financial application and to use a single database for reporting and managing information. They make intensive use of executive information systems and high-availability ad hoc reporting.

By undertaking a number of organizational changes, Carrefour, the giant French retailer, has developed an efficiency-engine profile for its finance function. The company has more than 9,600 stores in 30 countries, and it operates in more countries than any of its competitors. In 2002, Carrefour reported consolidated sales of nearly \$69 billion and a market capitalization of \$31 billion. It employs nearly 400,000 people around the world.

Its goal is to expand geographically and to become the retail leader in each country in which it has a presence.

The complexity facing a finance organization in a company this large is obviously daunting. Historically, Carrefour had used local information technology platforms and financial processes as it expanded into new markets. To reach its ambitious growth goals and improve its financial performance, the company adopted a new global vision—to standardize systems, processes and practices to improve efficiencies across the globe.

Carrefour began with finance. It redesigned and standardized worldwide accounting processes and systems, established a shared services organization for accounting and procurement, and implemented a global data center to support finance operations.

The result? By moving its use of finance toward an efficiency-engine model, Carrefour has achieved lower operating costs, more efficient accounting processes and better customer service. In addition, the finance infrastructure is so robust and scalable that it is able to support the company's rapid expansion, including both new stores and acquisitions, without significant additional investment.

Short-term exceptions

These, then, are profiles of masters of finance. But what about the rest of the high-performance businesses in our research universe, the 30 percent that are getting by with only a basic level of proficiency in the finance function—or worse? While their success is an important subject for ongoing research, we believe that it is primarily a “point

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in time” phenomenon, and that companies cannot win over the long term with underperforming finance organizations.

Over the short term and during unusual periods, however, this basic proficiency approach can work. Most industries go through phases during which success depends on getting a few things right, rather than on strong performance in all areas.

Consider one high-flying publisher of software games. With annual revenue growing at better than 40 percent, and net income up 300 percent from the previous year, the company has a tiger by the tail. It wins by bringing hit products to market and by reaching the widest possible audience through expert sales and distribution.

This organization cultivates strong partnerships with Hollywood movie producers, game hardware companies and distribution outlets.

With gross profit margins topping 60 percent, the company recognizes the importance of establishing a solid financial foundation. But it also understands that in the current environment, its shareholders are better served when most of its senior management focuses on capturing a greater share of the booming market.

Companies riding the growth curve of explosive new markets, navigating the rough M&A waters during rapid industry consolidations or operating under similarly unusual circumstances will find they can succeed for a time

About the research

Accenture's research goal was to identify the distinctive ways high-performing companies manage finance. To achieve this, we teamed with The Hackett Group of Atlanta, which has collected finance benchmarking statistics on a large population of companies.

Accenture first used a shareholder value analysis to segregate high-performance businesses from non-high-performers in seven industries: basic materials and resources; computers and electronics; consumer goods; government and not-for-profit organizations; financial services; industrial equipment; and utilities. High-performance businesses were defined as those that outperform others in their industry in terms of total return to shareholders over a seven-year time frame.

Accenture and Hackett collaborated to understand how high-performance businesses manage their finance function differently from their less successful competitors. We analyzed 85 companies, including 16 high-performance businesses. We measured performance in five finance capabilities, and we also investigated finance mastery by industry. We used correlation analysis to identify the differences between high-performance businesses and their lower-performing competitors. For statistical integrity, data was normalized for complexity.

with some of their functional areas operating below par. Ultimately, however, these companies will find that to sustain their high performance, they will need to return to fundamentals and invest in mastering finance.

Looking forward

There are still some areas where masters of finance struggle just as much as average performers. While the majority of finance executives we surveyed are comfortable with their ability to look backward—for instance, to get a good grasp of actual expenses and revenues—fewer than one-third have confidence in their forecasts in these categories. And only one-quarter of respondents believe they have good mechanisms for managing intangible assets like intellectual property or brand equity.

We believe the finance organizations that take the lead in solving these challenges will give their companies a significant advantage. With the ever decreasing reaction times afforded by today's accelerated product cycles and just-in-time supply chains, the ability to sense and respond to the future is critical to sustaining performance over time. Given that intangible assets now represent more than 80 percent of the average company's assets, shareholders will require that business leaders find ways to manage those assets effectively and to harvest their value.

Executives around the world are taking action when it comes to finance. Faced with increasing complexity—and concomitant demands for better risk management, more predictable earnings and so on—they are investing in the function and often giving finance a seat at the leadership table. But some businesses don't stop there. They infuse their firm's culture with a focus on

value as well, driving differentiation within their industry. ■

About the authors

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