



Executive summary

Being the best: Insights from leading finance functions

ADVISORY



About the research

KPMG International commissioned the Economist Intelligence Unit to write *Being the best: Insights from leading finance functions*. The report is based on the following research activities:

- The Economist Intelligence Unit conducted a global survey of 286 senior executives, 53 percent of whom came from organizations with over US \$1 billion in annual revenue. The survey reached a very senior audience, including 123 Chief Financial Officers (CFOs). Respondents were drawn from a cross-section of industries.
- The survey results from top performing organizations (defined by the Economist Intelligence Unit as those with an EBITDA average growth rate of over 10 percent in each of the last three years) were analyzed and compared with the wider survey sample, to shed light on how the most successful companies have organized their finance functions. This research report seeks to highlight those areas where finance functions within top performing organizations differ from the norm.

To supplement the survey, the Economist Intelligence Unit conducted a program of interviews with leading CFOs, as well as academics and experts in the field. We are grateful to the following participants for their valuable time and insights:

John Bogle

Founder and former CEO, Vanguard

Jean Dermine

Professor of Banking and Finance, INSEAD

Janice Fukakusa

CFO, Royal Bank of Canada

Ann Godbehere

CFO, Swiss Re

Andy Halford

CFO, Vodafone

Joshua Koshy

CFO, Air Canada

Rob McFarlane

CFO, Telus

Charles Pepin

Director of U.S. Equity Research,
T. Rowe Price Associates

John Percival

Academic Director, Wharton

Fabio Schvartsman

CFO, Ultrapar

Chua Sock Koong

CEO International and
Group CFO, SingTel

Jose Uba

CFO, Natura

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For almost a decade, CFOs of global companies have been striving to transform the finance function from an inward-looking organization focused primarily on financial reporting and controls, to one that spends more time focused on strategic decision-making and value creation.

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It is a major transformation that has been fraught with challenges and setbacks. Finance functions are being asked to assume multiple new responsibilities, some of which pull them in opposing directions. Recent pressure to control costs, coupled with regulators' and investors' heightened demand for information and tight controls in the wake of corporate scandals, have often focused finance back on traditional, accountant-like tasks. The long-term need, however, remains for finance to play a more strategic role in the business.

This research, which is based on a global survey of over 280 finance executives, conducted by the Economist Intelligence Unit, provides an insight into the state of finance departments today, including the progress they have made on key goals and the major hurdles that lay ahead.

It also goes further, though. By analyzing the habits of highly successful CFOs and the finance strategies employed by top performing companies, the report seeks to provide an insight into how finance executives can create leading finance organizations.

Written by the Economist Intelligence Unit



The main research findings include the following:

Top performers spend less time on cost control and more time on decision support

Many CFOs have clear aspirations to become a strategic partner to the CEO and play a central role in creating value, a goal that entails providing guidance and insight to the rest of the business.

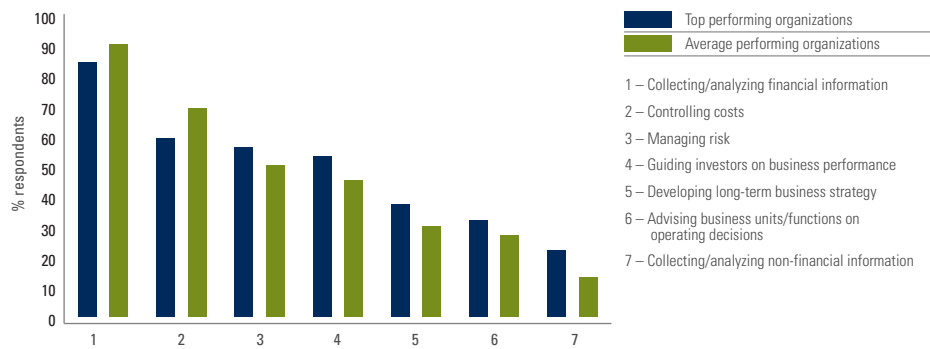
In reality, most finance functions surveyed continue to spend the majority of their time on traditional tasks such as controlling costs, reporting and advising on tax and treasury matters. Almost 80 percent of

CFOs at average performing companies in the survey see cost control as a major part of finance's role. In contrast, only 64 percent of top performing companies in the survey cite cost control as a key focus and they tend to spend more time on decision support activity. They are also more likely to have a strong vision for the finance function and to have communicated this clearly to the rest of the business.

"They want finance to use its knowledge and understanding of the numbers to provide the tools, the metrics, and the analytical insight needed to evaluate potential growth opportunities and to make decisions about resource allocation."

Janice Fukakusa,
CFO, RBC

Areas where finance performs a leading role



Source: Economist Intelligence Unit, 2006

Forecasting and management information: the two main priorities for improvement

Finance executives in the survey are confident in their ability to deliver historical financial reporting but are much less satisfied with their ability to deliver forward-looking insights. Fully 43 percent are dissatisfied with their ability to undertake planning, budgeting and forecasting tasks, and 42 percent express similar concerns over the quality of management information.

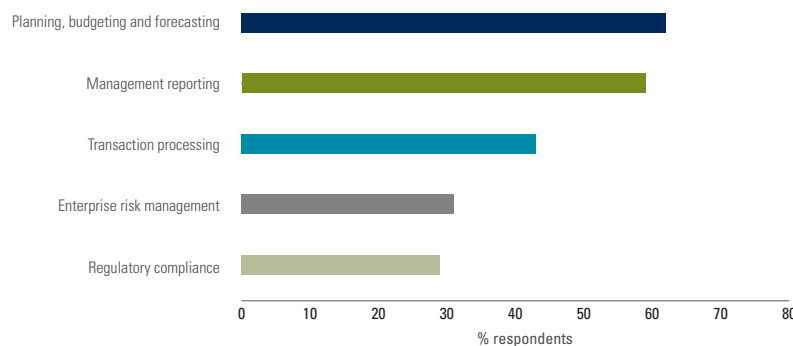
Tellingly, while many finance functions are using sophisticated IT systems for transaction processing and financial reporting, they continue to rely on manual processes for forecasting and decision support activities. There is more work to be done to upgrade and integrate legacy systems so the businesses can achieve consistent, accurate data that provides a single version of the truth. Finance needs

to be trained, not just to generate and consolidate financial data but to draw insight from it.

"As our finance managers move up the value chain, they need to use more sophisticated value-based analytics."

Chua Sock Koong,
CEO International and Group CFO,
SingTel

Priorities for process improvements in the future (top five)



Source: Economist Intelligence Unit, 2006

Shared service centers, not outsourcing, pave the way to new efficiencies

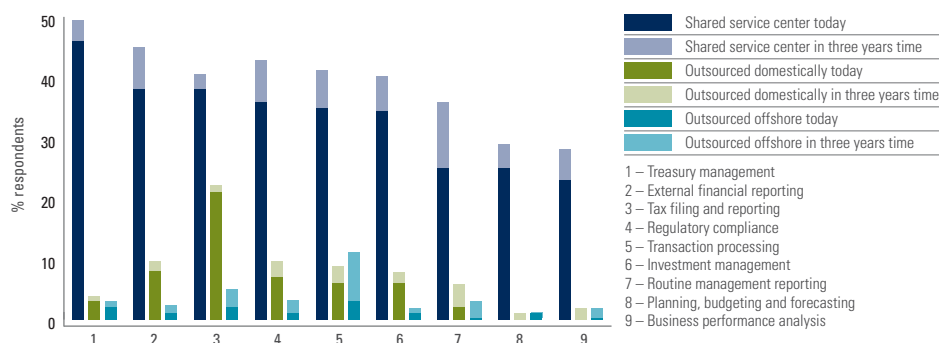
Finance functions are restructuring their operations, partly to save money but also to release more time for further strategic tasks. Shared service centers have become widely used as a way to increase cost-efficiency without some of the risks associated with outsourcing. According to the survey, between 35-50 percent of companies now handle their treasury

management, financial reporting and transaction processing within a shared service center. The numbers using such a model are likely to rise over the next two years.

Looking forward, routine management reporting is expected to be a particular growth area in the use of shared service

centers, as organizations seek to improve the quality of management information. By comparison, outsourcing strategies for finance are still in their infancy and less popular than other support functions such as IT, but do represent an emerging model for running routine finance processes.

Use of shared service centers, outsourcing and offshoring today and in three years time (by business process)



Source: Economist Intelligence Unit, 2006

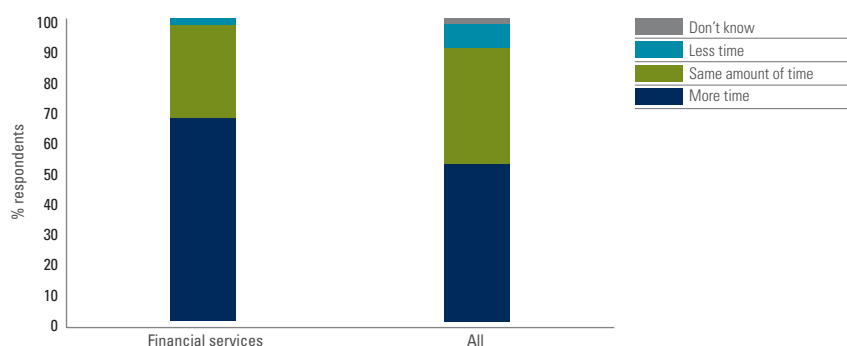
Compliance is a long-term challenge

Finance functions have borne the brunt of the major regulatory compliance projects of recent years. Inevitably, that has distracted them from other tasks, with 62 percent of executives in large organizations saying regulatory compliance has absorbed time that could have been spent profitably elsewhere.

There is no sign the burden will ease any time soon; indeed, among financial services companies in the survey, 67 percent of finance executives expect it to increase over the next three years. By investing in better information management and more robust standardized processes, finance functions

can prepare the groundwork for future compliance requirements and thus release time for more value-added activities.

Time that will be spent on regulatory compliance over next three years



Source: Economist Intelligence Unit, 2006

Leading CFOs are spending more time on investor relations

Investors, shaken by the recent corporate scandals and conscious of today's highly competitive business climate, are asking for better measures of economic value and more reliable guidance on a company's future performance. Much of the burden has fallen on the finance function. One CFO interviewed for this report spends between 15 – 20 percent of her time communicating with the organization's shareholders.

It remains, however, an area where many finance functions have more work to do.

Only 26 percent of executives from average performing organizations in the survey believe they are excellent at reporting business results to investors. In contrast, finance executives in top performing organizations are almost twice as likely to be confident in this area: 40 percent

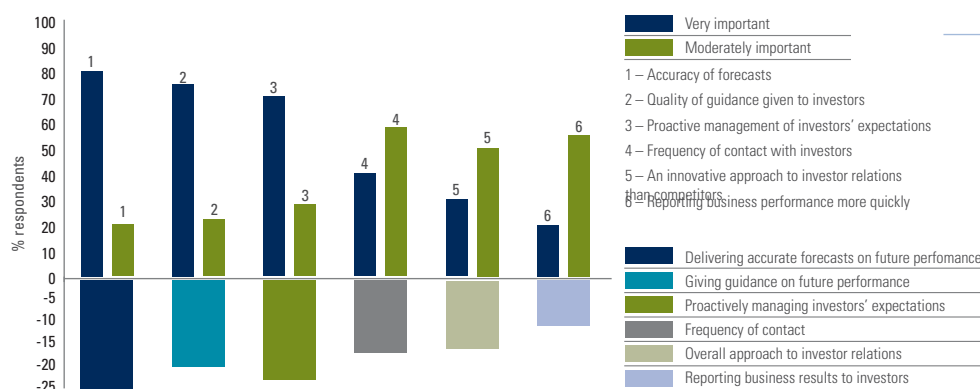
of them believe they are now excellent when it comes to investor relations.

Leading CFOs espouse better forecasting techniques and the use of value-based management concepts and tools as a vital step forward in improving the quality of investor guidance.

"At the end of the day, our role is to provide transparency and enhance investors' and regulators' understanding of our company, including how we manage and steer the risks in our business."

Ann Godbehere,
CFO, Swiss Re

In your opinion, how important are the following capabilities in building trust with the investor community?



Investor relation activities most in need of improvement

Source: Economist Intelligence Unit, 2006

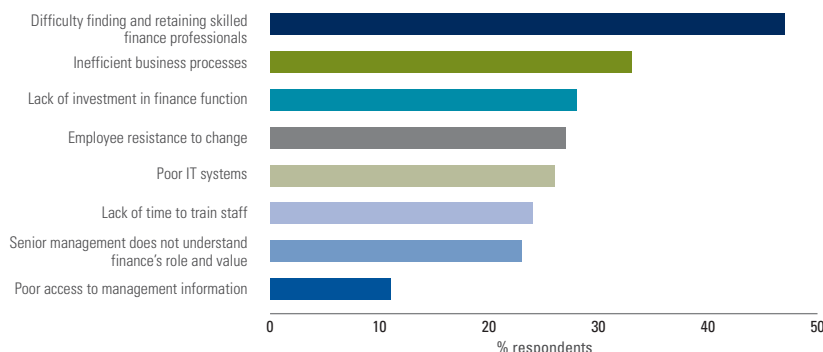
Finance faces a skills crunch

Today's overstretched finance organizations find themselves competing for talent. More than half (55 percent) of companies in the survey say they plan to recruit new finance employees in the next two years, but 47 percent also say that this will be one of the biggest obstacles to transforming their organizations.

The challenge is even greater because the profile of the finance professional is also changing. The new hires are expected to possess different capabilities focusing on softer skills such as communication, relationship management, change management and the ability to work in teams. They are also required to have more sophisticated analytical techniques and to

be creative problem solvers. To attract these talented individuals, leading finance functions are providing excellent training and career development opportunities, combined with rotational assignments that enable finance employees to develop a broader knowledge of the business.

In your opinion, which of the following problems are major barriers to change in the finance function at your organization?



Source: Economist Intelligence Unit, 2006

Companies must simplify and consolidate their global finance operations

Leading CFOs interviewed for this research report are reorganizing and centralizing their finance functions to help create a single view of finance across the company. Instead of having multiple country CFOs acting with a high degree of autonomy, companies are empowering Group

CFOs to take command of the global organization. Regulations such as Sarbanes-Oxley have accelerated this trend, as companies strive to impose standardized, high-quality processes and controls throughout the business.

"The amount of information for which there will be a common format will significantly increase."

Andy Halford,
CFO, Vodafone

The role of CFO has never been more demanding and, it should be said, rewarding. With a widening remit and greater responsibility for driving business strategy, it is not surprising that CFOs see the need to make major improvements in many areas of their operations. The task ahead, however, is not impossible.

Today's leading finance functions have streamlined their traditional finance processes and are already playing a valuable strategic role in the business. It is no coincidence that the top performing companies in the survey are those that spend less time on routine finance and more time on delivering strategic insight. By successfully establishing themselves as partners to the business, these CFOs have earned the respect of their peers and their investors and helped their organizations to achieve a significant competitive advantage.



Written by the Economist Intelligence Unit

To receive the full research report or for further information on issues raised, please contact:

KPMG in Asia Pacific

Wah Yeow Tan
Partner
Tel: +65 6213 2503
e-Mail: wahyeowtan@kpmg.com.sg

KPMG in Hungary

Peter Kiss
Partner
Tel: +36 1887 7384
e-Mail: peter.kiss@kpmg.hu

KPMG in South Africa

Carol Read
Director
Tel: +27 11 647 6844
e-Mail: carol.read@kpmg.co.za

KPMG in Australia

James Allt-Graham
Partner
Tel: +61 2 9335 7084
e-Mail: jalltgraham@kpmg.com.au

KPMG in India

Pradip Kanakia
Partner
Tel: +91 80 417 66100
e-Mail: pkanakia@kpmg.com

KPMG in the U.K.

Scott Parker
Partner
Tel: +44 20 7311 8895
e-Mail: scott.parker@kpmg.co.uk

KPMG in Canada

Diane Jeffreys
Partner
Tel: +1 416 777 8411
e-Mail: djeffreys@kpmg.ca

KPMG in Italy

Franco Perone
Partner
Tel: +39 34 82 70 88 49
e-Mail: fperone@kpmg.it

KPMG in the U.S.

Stephen Lis
Partner
Tel: +1 267 256 3260
e-Mail: slis@kpmg.com

KPMG in France

Guillaume des Rotours
Partner
Tel : +33 1 55 68 75 29
e-Mail: gdesrotours@kpmg.com

KPMG in Latin America

William M Foley
Area Managing Partner
Tel: +1 305 913 2715
e-Mail: wfoley@kpmg.com

KPMG in Germany

Jochen R Pampel
Partner
Tel: +49 40 32 015 55 50
e-Mail: jpampel@kpmg.com

KPMG in the Netherlands

Martijn van Wensveen
Partner
Tel: +31 20 656 4015
e-Mail: vanwensveen.martijn@kpmg.nl

Or your local KPMG contact.

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