

A New Role for New Times

Opportunities and Obstacles for
the Expanding Finance Function

A report prepared by CFO Research Services in collaboration with KPMG



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In the years ahead, finance executives will seek to further improve their abilities to support the highest-value activities that lead ultimately to better business performance.





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This report examines senior finance executives' views on the role of the corporate finance function and their aspirations for the years ahead.

About this report

In the fall of 2010, CFO Research Services (a unit of CFO Publishing LLC) conducted a survey among senior finance executives at large companies around the world to examine their views on the role of the corporate finance function and their aspirations for the years ahead.

We gathered a total of 443 complete survey responses. Respondents work for companies in a broad range of company segments, as follows:

Annual revenue (in US\$)

Under \$500 million	22%
\$500 million–\$1 billion	24%
\$1 billion–\$5 billion	28%
\$5 billion–\$10 billion	9%
\$10 billion+	18%

Titles

Chief financial officer	34%
Director of finance	26%
Controller	10%
VP of finance	9%
CEO, president, or managing director	5%
EVP or SVP of finance	4%
Treasurer	3%
Other	9%

Regions

North America	45%
Asia	28%
Europe	23%
Rest of world	5%

Respondents work for companies in nearly every industry. The manufacturing, financial services, chemicals, energy, utilities, and consumer goods industries are particularly well represented.

Note: Percentages may not total 100%, due to rounding.

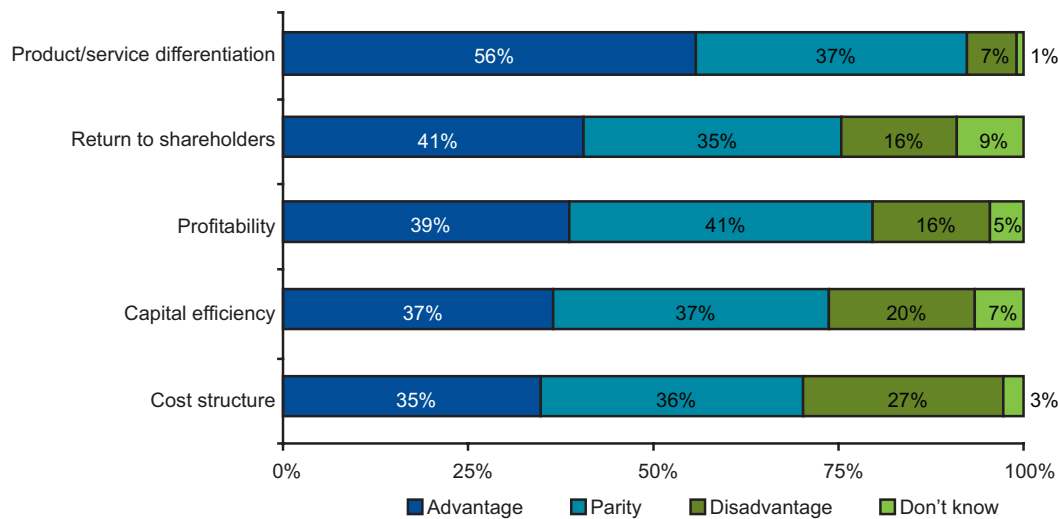
Introduction

Recent years of economic boom, bust, and now uneven economic recovery have brought about substantial change in the finance function at companies of all sizes around the world, broadening and expanding its role. The good news from this study: Senior finance executives generally give finance high marks for meeting recent economic challenges, citing their high credibility with the C-suite, the board of directors, and other stakeholders; good management of internal costs; and effective service to clients elsewhere in the company. In the years ahead, finance executives will seek to further improve their ability to support the highest-value activities that lead ultimately to better business performance.

In our survey on the role of the finance function, respondents see their companies in a strong competitive position that is tied to market-oriented innovation. More than half of finance executives surveyed say their company has an advantage over the competition in its product or service differentiation (see Figure 1). Three out of four say their companies have either achieved better shareholder return than their rivals, or are at parity with them, while four out of five say their companies enjoy either better or equal profitability. Responses are more evenly split, however, on the issue of cost advantage compared with their competitors. From these data, we infer that companies are most likely to generate value for customers and high returns for investors through renewed growth in their businesses, rather than through further cost containment in the years ahead.

Figure 1. Products and services, not cost structure, is most common source of advantage.

In your opinion, does your company have a disadvantage, parity, or an advantage compared with its competitors in the following attributes?



Note: Percentages may not total 100% due to rounding.

This survey of more than 440 senior finance executives around the world reveals the agenda for companies' finance teams—both within the finance department and in their relationships with other parts of the enterprise. This is the first of two studies to be published in 2011 through the KPMG–CFO Publishing collaboration on finance transformation.

Amid these expectations for growth, finance executives say their function is likely to assume an even bigger role over the next five years as companies strive to improve their performance and maintain their competitiveness. In open-text responses to questions about the role of the finance group, many finance executives describe their role either as a strategic partner to top management, or in the process of becoming one, spurred by changes in both their industries and the overall economy. Today's "fast pace of change and changes in the shape" of the company's businesses create a much greater need for senior management to react quickly to external market drivers, notes the CFO at a midsize company in Hong Kong. "People tend to rely on the past to predict the future," he says, and in this environment of brisk change, he calls on senior management to turn to the finance function to supply the timely and accurate data—both internal and external—that enables them to eliminate any delay in responding to market dynamics. Writing in from Singapore, the director of finance at a \$10 billion media and entertainment company says, "This role means to actively participate in decision making, providing high-quality analysis that is fact-based and objective. By and large finance is able to play this role, but it struggles with catching up with the constantly changing environment."

As we'll see in these pages, the challenges companies expect to face in the years ahead include improving their access to and management of human capital, making better use of information technology, and addressing challenges posed by globalization, government regulation, shareholder activism, and environmental concerns. Finance has the opportunity to play a key role in this process, for example by providing greater support to line-of-business management and to growth-oriented activities like mergers and acquisitions, through cost reduction across the organization, and by streamlining its own operations.

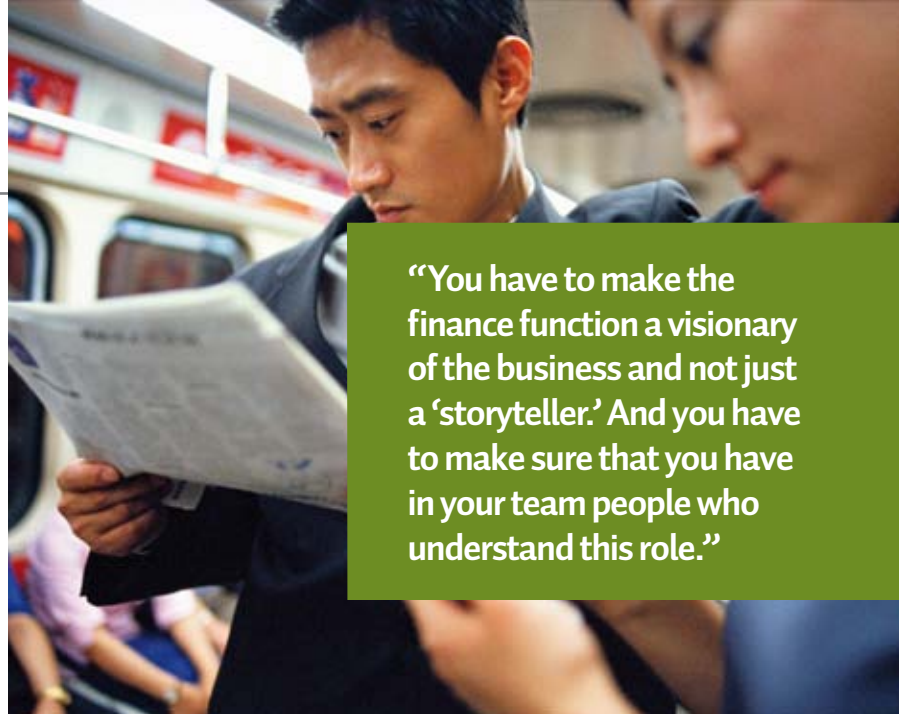
To make their best contribution, however, many senior finance executives believe they will have to address some important process weaknesses; foremost are methods for planning, budgeting, and forecasting. While executives will seek to improve these capabilities in the next two years, they acknowledge that such methods are also often the most difficult to transform. Executives see a need to improve finance's ability to collaborate with other areas of the business, including human resources, legal, risk management, and IT, and perhaps most pressingly, to update IT systems to make them more flexible and responsive to new requirements. Says the director of finance at a large South African process manufacturer, "Financial reporting, planning, and budgeting require investment in systems, training, and also the involvement of the different areas in the value chain to get relevant and meaningful business performance information to be automated." Similarly, a VP of finance at a US\$5 billion-to-US\$10 billion U.S. manufacturer says, "Business complexities make changing planning, budgeting, [and] forecasting difficult. That is, it's not finance's inability to change, but rather the demands of the businesses that finance supports that make changes difficult."

This picture of the opportunities and issues facing the finance function emerges from a survey that CFO Research Services conducted in the fall of 2010. Participating were 443 senior finance executives, of whom 34% are chief financial officers, 26% are directors of finance, and 13% are vice presidents of finance. Treasurers, controllers, and other senior finance executives make up the balance of the participants in this study. Slightly less than half the respondents are based in North America, and about one-fourth of respondents are from Asia and Europe, respectively. The companies they represent range from US\$10 billion-plus to less than US\$500 million in revenues, span a wide range of industries, and are a highly diverse group: from highly centralized to highly distributed, from closely regulated to less regulated, from geographically narrow to global in scope, and from single-industry to diversified.

Succeeding in a wider role

The finance function has come to contribute more substantially to developing and executing business strategy at a great many companies in recent years, say respondents to this global survey. Almost half of senior finance executives say their department played a smaller role in strategy development and execution five years ago than it does today, while only 13% say that its role has shrunk (see Figure 2).

That larger role is accompanied by greater complexity in many cases. An executive of a midsize consumer products company in Canada says he and his team seek “to address the growing organizational complexity with improved IT and communication between software programs to reduce labor and the opportunity for error. Some board and staff members are challenged to embrace the growth of the organization and the resulting changes.” Other executives in this study identify the finance function as a center of relief from complexity that has grown out of the recent economic crisis. “The CFO has to understand that his key role is ‘anticipation’ of the key factors that move the business he is in,” notes the finance director at a large U.S. company in an open-ended question. “You have to make the finance function a visionary of the business and not just a ‘storyteller.’ And you have to make sure that you have on your team people who understand this role.”



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The economic turmoil of the post-crash period has contributed to this complexity by forcing companies around the world to adjust to contracting demand, capital shortages, rising regulation, and uncertainty about the direction of tax policy, among other issues. Processes internal to finance are instrumental in helping companies manage their response to these forces, including cash management, bank relationships, and other treasury activities; general accounting and financial reporting; and risk management. Almost half of all senior finance executives responding to the survey regard these activities as strengths of their finance function, while very few cite them as weaknesses.

Figure 2. Finance’s contribution to business strategy has grown and will continue in the years ahead, say survey respondents.

The role of the finance function in developing and executing business strategy **five years ago** and **five years from now**

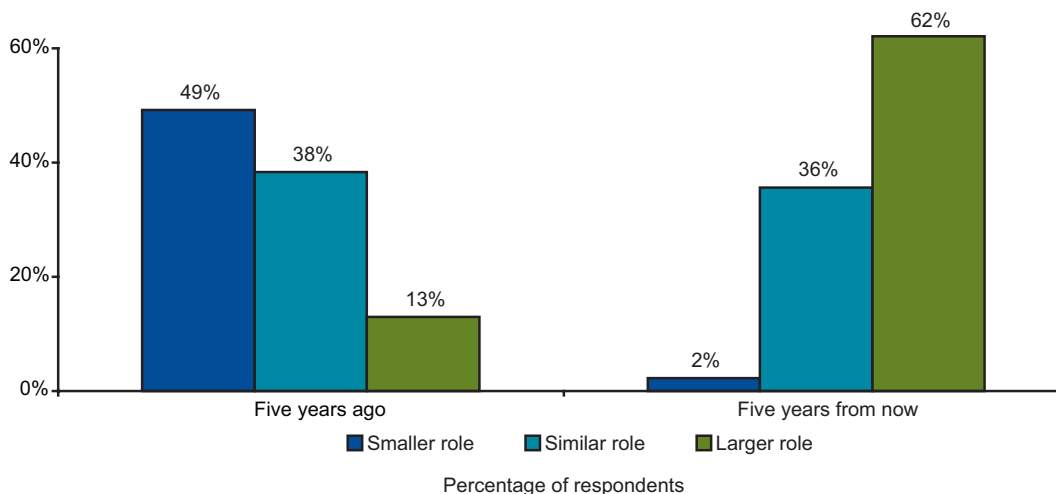
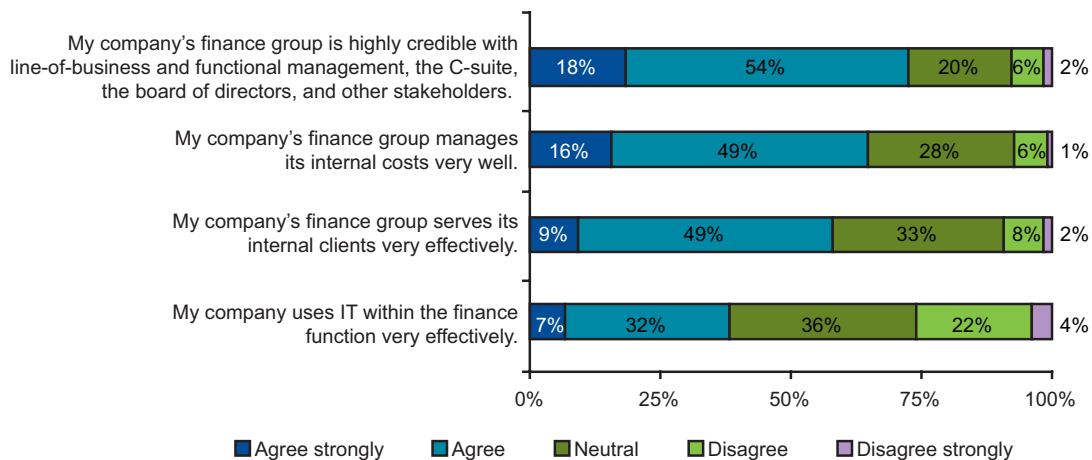


Figure 3. Finance is highly credible with its internal customers, but falls short in its use of technology.

To what extent do you agree or disagree with the following statements?



Percentage of respondents
 Note: Percentages may not total 100% due to rounding.

But as the world's economies have stabilized and begun growing again, the finance function's contribution extends far beyond internal issues such as smooth transaction processing, capital management, and risk assessment. "Increasingly, finance is involved in pivotal business events such as mergers and acquisitions, and major internal strategic investments or disinvestments, [and there are] shifts in emphasis from the beginning—from the planning stage—and not just coming in at the end when the decision has been made," says the CFO of a midsize Australian company. Finance has come to play an especially large role at big companies that have made major acquisitions or experienced capital crises in recent years and as a result have taken on bigger debt loads. Managing that debt to keep the cost low and ultimately shrink it becomes a major corporate objective, one in which the finance function must provide leadership, says this executive.

Many finance groups, it seems, have helped their cause by developing strengths at working with the C-suite and other areas of the company, according to survey respondents. Fifty-five percent say that communicating with the board of directors is a strength of finance, while half cite particular strength in their contribution to strategy development. Nearly half claim strengths at producing accurate and useful plans, budgets, forecasts, and management reports, and at supporting line-of-business and functional management. More than 4 in 10 say they are particularly good at supporting decisions on mergers, acquisitions, divestitures, and alliances.

How do they achieve this? Several key strengths appear repeatedly when respondents attempt to explain their success. "Nimbleness"—the ability to think on their feet in order to respond to changing conditions—is essential. Finance organizations that are best able to achieve this tend to be flat rather than multilayered in structure, with centralized accounting processes. Top management affords them enough independence that the CFO can express a straightforward, objective view on key issues.



The result is that at most companies—more than 7 out of 10—finance maintains high credibility with other parts of the company, from the C-suite, the board, and other stakeholders to line-of-business and functional management. Almost two-thirds of senior finance officers say they manage internal costs well, while nearly 6 of 10 agree that their service to internal clients is “very effective” (see Figure 3).

Finance-function skill-sets vary according to the profiles of respondents’ companies, and, unsurprisingly, it seems that companies have developed the finance activities that are closely aligned with their business requirements. Companies with US\$10 billion or more in annual revenue, for example, are more likely to have developed strong capabilities in order-to-cash, general accounting, and treasury management compared with smaller companies. And those with widely dispersed operations appear to have stronger processes in general accounting, treasury, planning, and risk management. Order-to-cash is stronger at companies with a more centralized structure. Companies in highly regulated industries report that finance has especially robust risk management capabilities.

Capabilities vary for activities that are less strictly internal to finance, involving more interaction with other parts of the company. Finance executives at larger companies are more likely to report strong abilities at managing mergers and acquisitions and responding to investors and analysts than are their peers at smaller companies. Why? Because they are more likely to acquire companies and to have large shareholder bases that need active management. At companies with widely dispersed operations, finance has devoted more attention to developing a somewhat similar set of skills—at supporting line-of-business management, M&A, and investor relations—again, because the company’s circumstances call for it.

Respondents from larger companies do not suggest they have greater capabilities at developing strategy or at planning, budgeting, and forecasting. But the finance function uses IT more effectively at more-centralized companies than at others, as would be expected, based on senior executives’ responses.

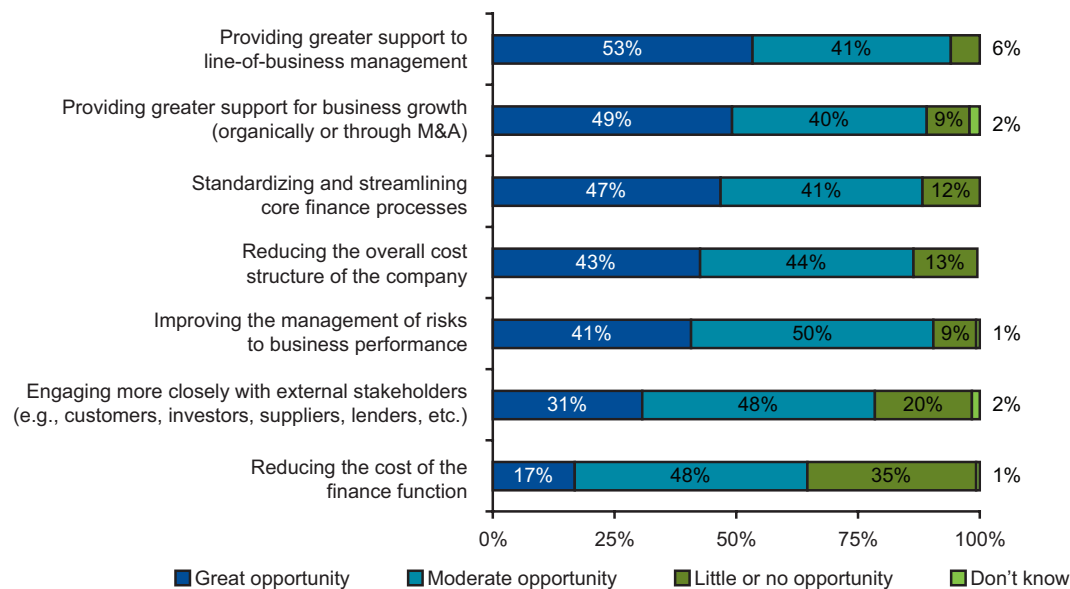
The finance function has the combination of skills, organizational scope, and analytical mind-set that will provide support central to overall business success in the next half-decade.

Opportunities for improvement

The role of finance is expected to grow further over the next five years, with 62% of senior executives projecting a larger role and only 2% expecting the opposite (as shown in Figure 2, page 5). Companies in North America and Asia and those in high-growth industries are especially likely to foresee an expanded role. Why? Perhaps because the finance function has the combination of skills, organizational scope, and analytical mind-set that will provide support central to overall business success in the next half-decade. Queried in the survey on the long-term impact of an array of broad business trends, finance executives identify the need to find and cultivate professional talent, to improve workforce skills, and to optimize IT processes and activities for finance as likely to be more important to their company’s business in the years ahead. Similarly, they see sustainability (in its various permutations, such as environmental concerns, green technology, and the so-called triple bottom line), globalization, and regulation as playing an increasingly important role in the years ahead. These are, of course, all activities on which the finance function is uniquely positioned to provide advice, counsel, data, analysis, and control.

Figure 4. Finance sees greatest opportunity to improve its support for helping lines of business manage performance.

In your opinion, to what extent do the following improvements pose opportunities for your finance organization to increase its contribution to your company's performance over the next two years?



Percentage of respondents
Note: Percentages may not total 100% due to rounding.

But to play this expanded role and provide what companies need, finance executives see significant opportunities and requirements to transform their organizations over the next several years. More than half say improving their abilities to support line-of-business management will help finance increase its contribution to the company's success, while nearly half see such opportunities in improving their support for business growth, either organically or through M&A; standardizing and streamlining core finance processes; and helping to reduce the company's overall cost structure. Driving further cost out of the finance function itself is seldom identified as an opportunity to improve company performance (see Figure 4).

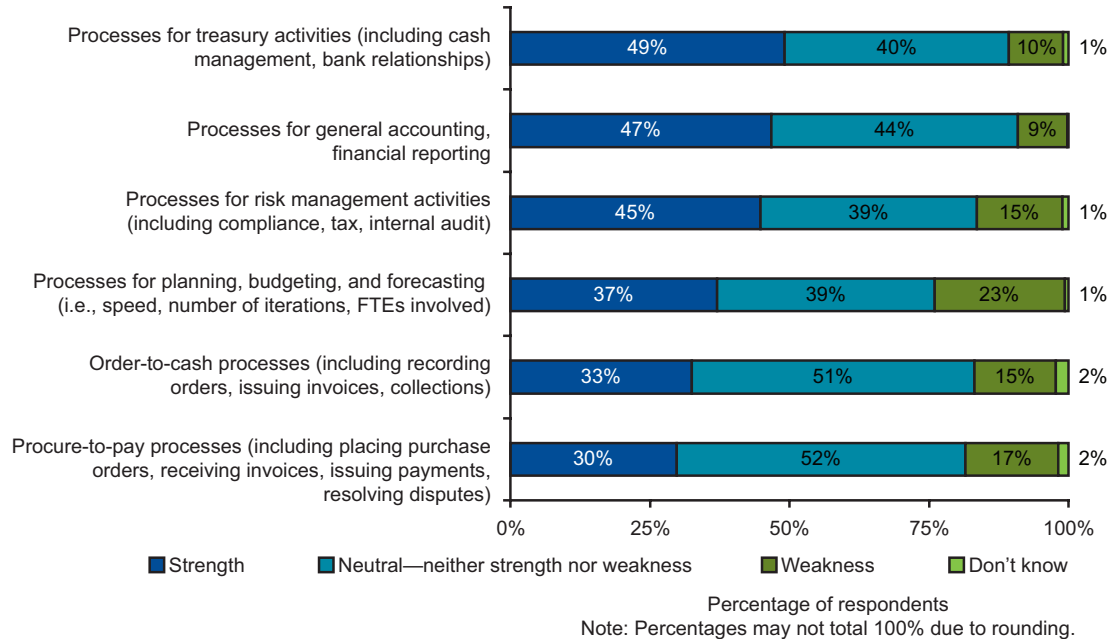
Executives at companies in highly regulated industries, however, see somewhat more opportunity to streamline and standardize and reduce costs of the finance function than do executives at other companies. "Standardization of the finance process is the greatest opportunity we have now," says the controller at a large French company. "Our plan is to move to a shared service for all finance support functions—that is, accounting, tax, and treasury—while keeping the controller function at the corporate level."

To realize such opportunities, companies across a range of sizes and geographies say they are implementing new enterprise software systems—or else revamping their existing ones or making plans to replace them. A great deal of this activity focuses on the key activities of planning, budgeting, and forecasting, and in most cases it requires further leveraging IT. Some companies merely want to automate further in order to eliminate duplication. Others expect that new investment in business-intelligence software will enable them to deliver more-comprehensive and timely analytic reports, or switch to rolling forecasts.

"Our greatest opportunity to contribute to company performance," says the finance director at a midsize U.S. company, "is to improve the link between strategic planning and rolling forecasting and use the resulting information to make more-impactful decisions regarding where to invest for top-tier organic growth and where costs need to be driven out of the organization."

Figure 5. Executives are least likely to see strength in their transaction processing activities with suppliers and customers.

In your opinion, which of the following processes are strengths or weaknesses of the finance function at your company?



Areas of weakness

Standing in the way of realizing these opportunities are a number of perceived—or potential—weaknesses in the finance function itself, say finance executives. One in five senior finance executives say their companies operate at a disadvantage to their competitors when it comes to capital efficiency, while more than one in four detect a competitive disadvantage in cost structure. Both measures are central to a company’s long-term generation of value for shareholders. And both are areas that the C-suite and line-of-business managers depend upon the finance function to monitor and often to manage.

Looking more closely at their own function, most senior finance executives credit themselves with maintaining good working relationships with other parts of the company—and, as we have seen, believe they manage costs well while providing good services to their internal clients. But a sharp divide appears over which *processes* within the finance function are sources of strength or weakness and which, accordingly, need to be improved in order for the company to remain competitive in the years ahead. Executives give themselves high marks when it comes to processes that are internal to finance. But they are less confident about areas that require more interaction, either with other parts of the company or with outside entities (see Figure 5).

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In total, 37% of executives consider their processes for planning, budgeting, and forecasting to be areas of strength, but nearly one in four find them weak. In open-text responses, finance executives at several companies trace the problems to cumbersome or overly complex management reporting systems, which in turn lead to inaccurate, incomplete, or opaque data.

“All finance functions should be aligned with a growth-of-business strategy,” says one CFO. To make that happen, “systems should be implemented for quick decision making.”

“We spend too much time worrying about minor allocations,” says the controller at one midsize U.S. company, which in turn relates to the status of finance as a “shared resource” for a group of very diverse profit centers. The need for better forecasting appears repeatedly in respondents’ comments, usually connected with concerns about a fast-changing business environment. “All finance functions should be aligned with a growth-of-business strategy,” says the CFO of a midsize Indian company. To make that happen, “systems should be implemented for quick decision making.”

Only 1 in 3 consider order-to-cash processes to be an area of strength, and only 3 in 10 express high confidence in their procure-to-pay processes. These findings are perhaps troubling in two ways: first, planning, budgeting, and forecasting are the most forward-looking activities in which finance engages, and as such afford finance the greatest opportunity to make a visible contribution to the company’s growth and profitability. Second, order-to-cash and procure-to-pay are principal areas in which finance interacts with parties outside the company and are at the heart of a company’s ability to fund itself through ongoing operating activities. Some of these issues may be intrinsic to the administrative and organizational structure of companies. Order-to-cash processes, for example, tend to be strongest at companies with centralized administrative functions, according to survey data. Thirty-seven percent of respondents from companies with administrative functions that are largely centralized say their order-to-cash processes are a strength, while only 24% of respondents with decentralized administrative activities hold such a positive view.

Nonetheless, across the full collection of companies responding to the survey, finance executives show less confidence in their ability to collaborate successfully with other parts of the company. Respondents are least likely to see strength in their relationships with staff functions such as human resources, IT, and legal departments (see Figure 6). Only 4 in 10 respondents consider their work with other administrative functions to be a strength, and even fewer hold such a view of their ability to collaborate with the IT function.

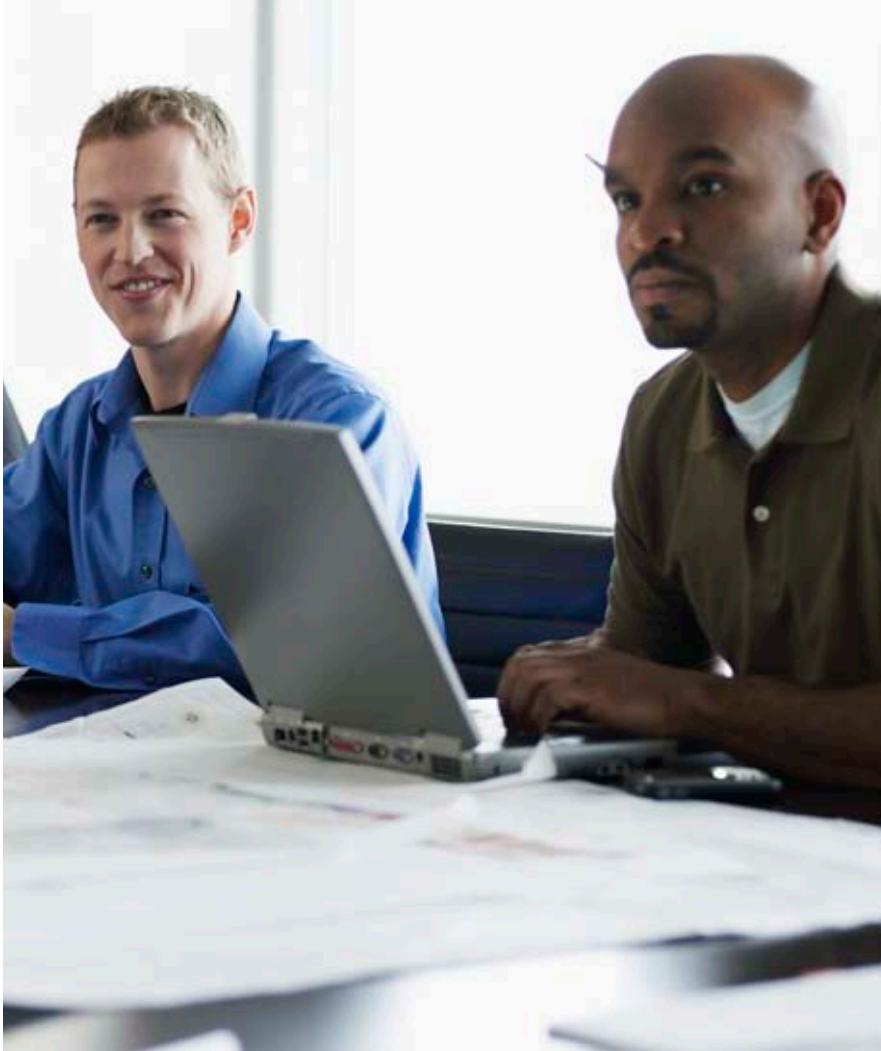
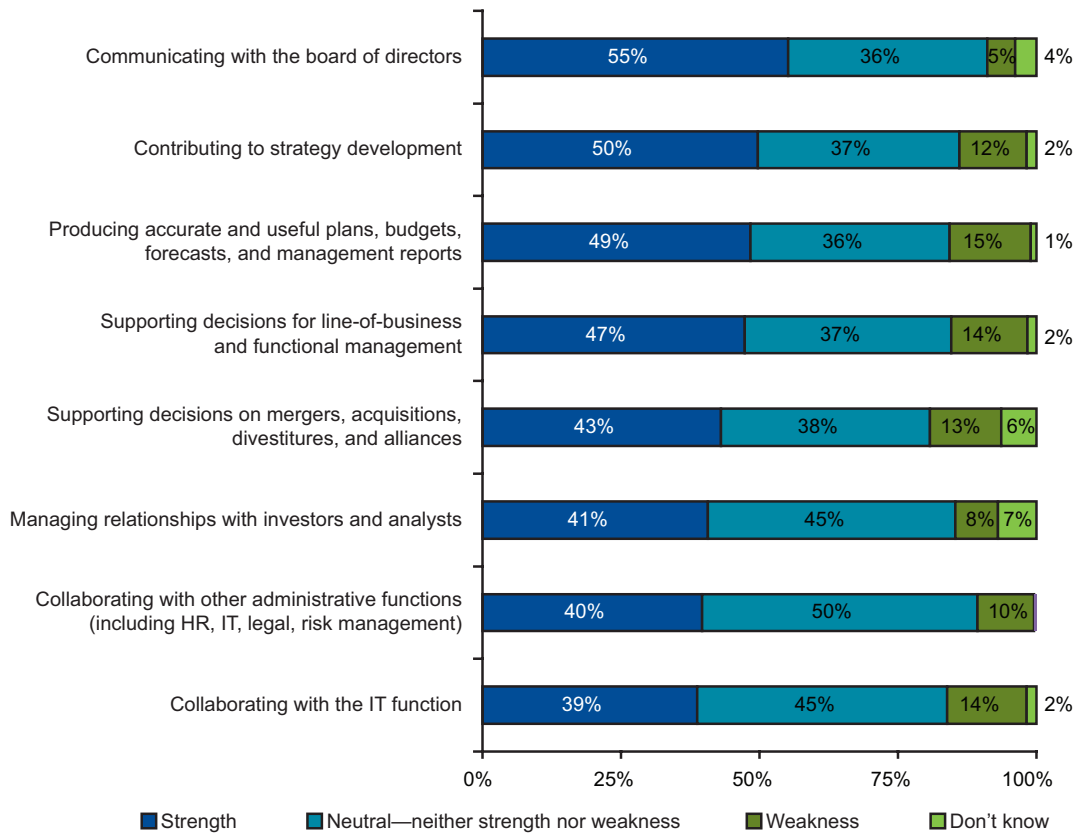


Figure 6. Finance rates its performance management capabilities more favorably than its collaboration with other staff functions.

In your opinion, which of the following activities are strengths or weaknesses of the finance function at your company?



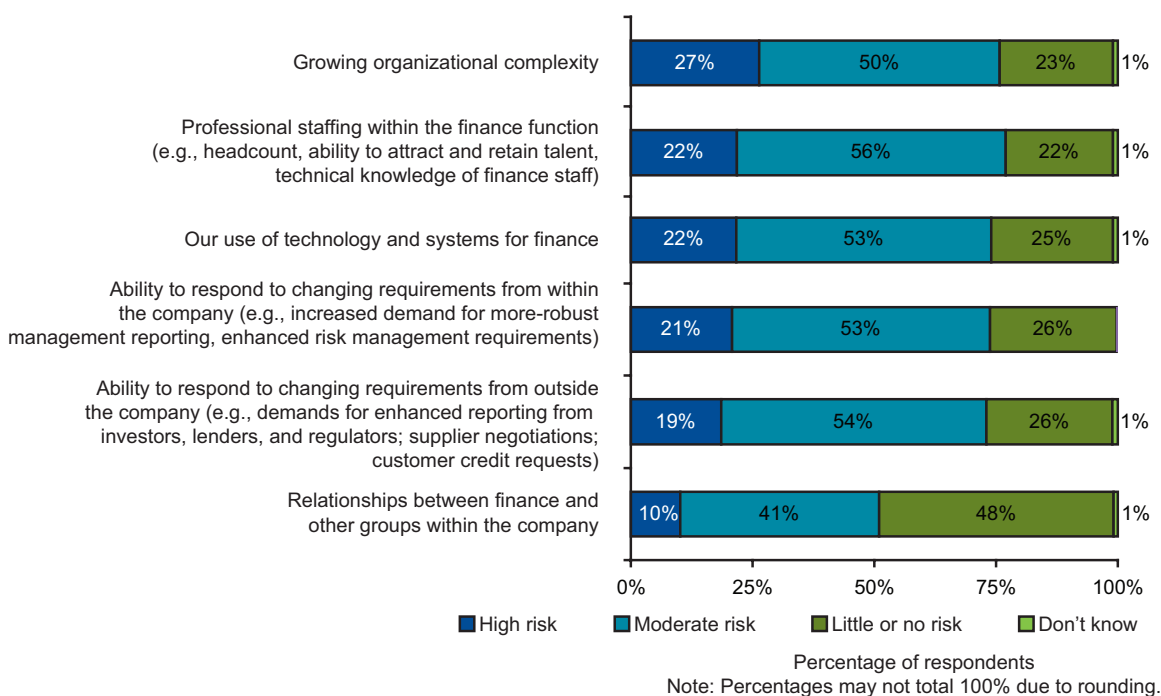
Percentage of respondents
Note: Percentages may not total 100% due to rounding.

IT and its relationship with finance emerge as an area of special concern across several questions in this research program. While 39% of respondents agree that their company's use of IT within the finance function is very effective, more than one in four disagree with this statement. This is troubling, given that finance activities increasingly are carried out in a sophisticated IT environment—indeed, the finance function at large companies may well come to rely on a strong, highly collaborative relationship with IT as it pursues its expanded role.

Many survey respondents cite concerns that their IT systems are not evolving fast enough to meet their changing needs, and their current systems are “antiquated.” Executives cite problems such as combining disparate legacy systems in the course of a merger or acquisition. The result, says a finance executive at a midsize North American company, is lower productivity in one of the key areas in which top management expects more from finance: profitability analyses.

Figure 7. Organizational complexity and human capital are most likely to pose risk to finance's effectiveness, say survey respondents.

In your opinion, to what extent do the following items put your finance function at risk of failing to achieve its objectives?



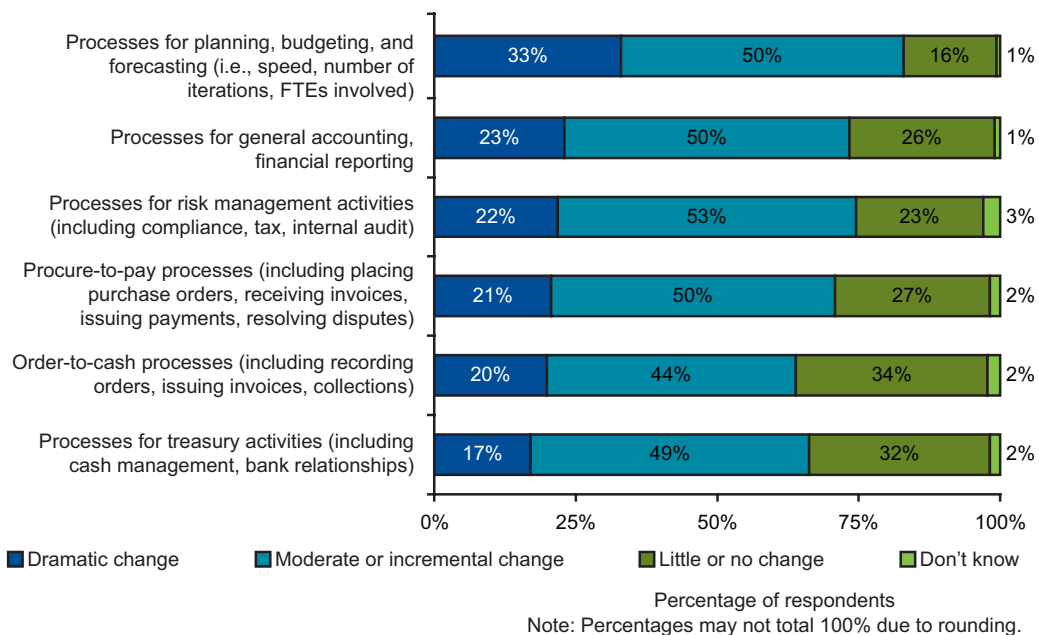
Queried on the risks that threaten their ability to be effective, finance executives identify “organizational complexity” as most acute (see Figure 7). More than three out of four respondents regard growing organizational complexity at their company to be a challenge to meeting the finance function’s objectives; this threat is especially present among respondents in high-growth industries and, unsurprisingly, those with decentralized administrative structures. Similar proportions see risks in the use of technology and systems by finance, reflecting the fact that a significant part of IT’s mission is to help overcome challenges posed by increasingly complex organizational structures.

These problems make it harder for finance to fulfill the larger role in strategic planning and execution, according to respondents. “We’re not strategic enough,” the CFO of one small Canadian company complains. “We’re in the weeds too much.”

Uneven performance in planning, budgeting, and forecasting could affect finance’s relationships both inside and outside the company. Three of four respondents identify risks in their ability to respond to changing requirements from within the company such as heightened demand for more robust management reporting and enhanced risk management requirements. A similar proportion of respondents see risk in finance’s ability to respond to requirements from outside the company such as the need for enhanced reporting to investors, lenders, and regulators.

Figure 8. Finance seeks to further develop its forward-looking view of the business, say finance executives.

Over the next two years, to what extent is your company likely to change its processes, controls, and systems for the following finance activities?



Finance executives mention one major area of concern that is less closely tied to IT: professional staffing within the finance function. Fifty-six percent of respondents cite “moderate risk” in their function’s ability to attract and retain talent and to develop technical knowledge within staff, and more than one in five consider this to be a high-risk area. Finance executives in mature industries are especially concerned about risks in professional staffing compared with their counterparts in high-growth industries. “The people we hire are excellent management accountants, strong in governance—and they can be hopeless at conceptual/analytical matters and business decision support services,” says a finance officer at a large South African consumer goods company. The need to improve and upgrade the skills of finance staff is mentioned by many respondents, and at some companies, the level of concern is quite high. “There’s a war for talent going on,” says the CFO at one midsize Australian company.

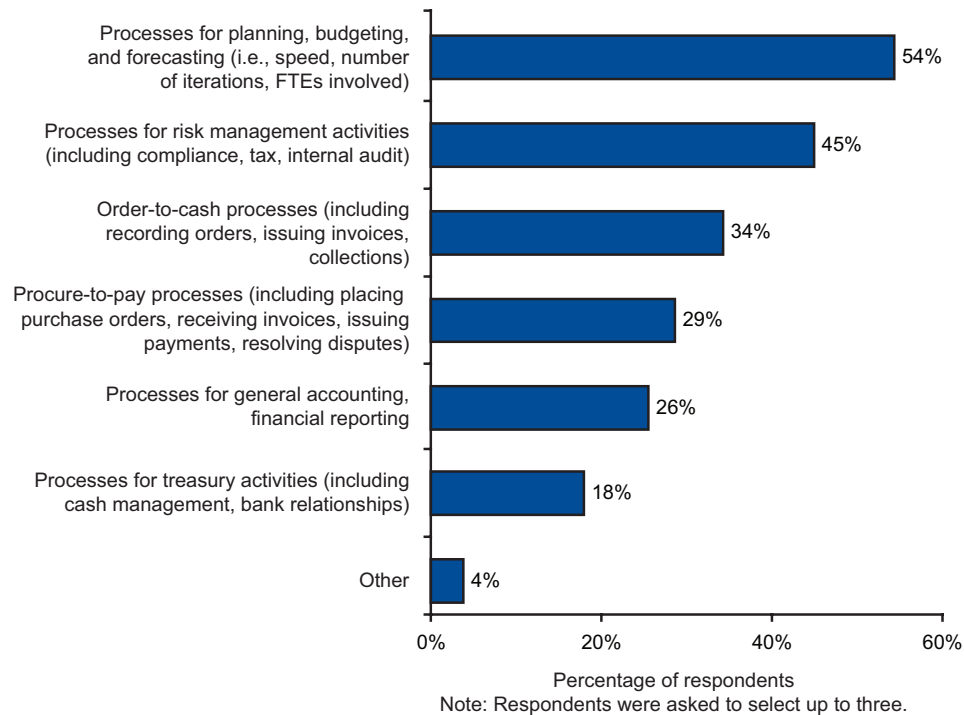
The path to progress

Areas where senior finance executives look to make improvements in processes, controls, and systems over the next two years are those involving the most interaction with other parts of the company. The process for planning, budgeting, and forecasting—which is among finance’s most forward-looking activities—is cited most often by respondents for change and by one in three as a target for “dramatic change” over the next two years (see Figure 8).

Interestingly, fewer respondents expect to make changes in procure-to-pay or order-to-cash processes, even though these activities are tightly linked to working capital management and a company’s ability to fund growth internally. Companies in mature industries, which tend to be more conscious of cash flow because their profit margins often tend not to rise rapidly, indicate notably less intent than others to make changes in these areas.

Figure 9. The forward-looking view is most difficult to improve.

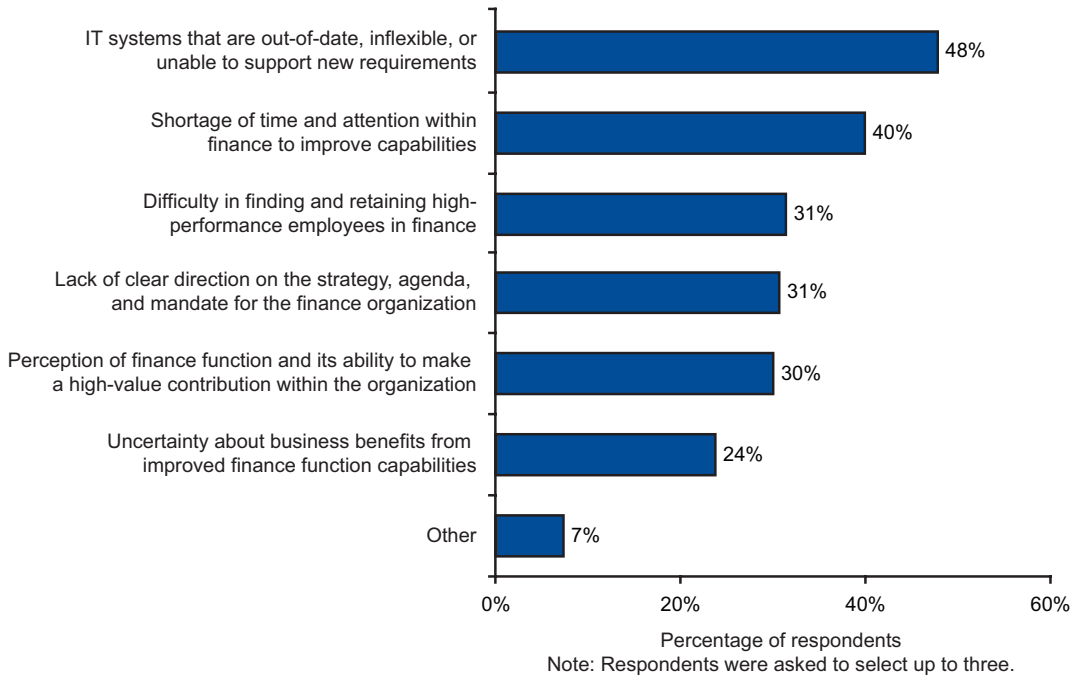
In your opinion, which of these finance processes, if any, are the most difficult to improve?



Unfortunately, the areas that finance executives are most likely to improve in the short term are also the ones they find hardest to change. More than half of respondents cite planning, budgeting, and forecasting as among the most difficult to improve. North American and Asian companies find these activities especially resistant to change, European companies substantially less so. Meanwhile, nearly half of respondents mention risk management processes such as compliance, tax, and internal audit as difficult to improve. Among the areas they are most concerned about, the only one that is relatively easy to upgrade, in their view, is processes for general accounting, which little more than one in four cite as among the most difficult to improve (see Figure 9).

Figure 10. Out-of-date information technology and resource scarcity are most likely to limit finance's ability to improve its effectiveness.

In your opinion, what are the greatest barriers to improving the effectiveness of your company's finance function?



Where do the problems arise? Here again, executives say that technology is the most formidable barrier. Almost half of senior finance executives complain that their IT systems are out of date, inflexible, or unable to support new requirements, and those from large companies in the US\$5 billion to US\$10 billion revenue range are especially concerned. Reflecting the mounting demands being placed on finance, 4 out of 10 respondents also mention a lack of time and attention within the function for carrying out improvements (see Figure 10).

For nearly one in three respondents, difficulty in finding and retaining high-performance finance personnel is a great barrier to improving finance's effectiveness, especially for large companies and those based in Asia. In open-text responses, organizational complexity is cited repeatedly, although several respondents chalked up the difficulty of improving performance at least in part to the fast pace of growth at their companies, accompanied by constant changes in the configuration of the company itself.

Factors outside the finance function itself may also be slowing the drive for improvement in some respects. Three respondents in 10 say they do not receive clear direction on the corporate strategy, agenda, and mandate for finance, while a similar proportion complain of a negative perception within the organization of finance's ability to make a high-value contribution to the company. "Improving forecasting," for example, "is not something that can happen overnight," says the executive vice president of finance at a midsize U.S. company. "It requires a complete organizational, cultural shift." Compounding the difficulty is the fact that activities in the finance function touch virtually all other parts of the company, making it more of a challenge in some cases to get buy-in for major changes in finance processes.

At one large U.S. company, for example, "these processes are significantly broken in customer service/order entry and procurement currently," the finance director explains. "First, we need to gain internal acceptance that we have a problem. Then we need to have everyone in the process become aware of the issues throughout the entire process and the impact their actions have on others. Then we have to instill a behavior change in each person so they never pass on a defect or ignore a problem they see. Then we have to reach out to customers and vendors with whom we have little leverage and ask them to help us fix the process. We have to accomplish this with reduced workforces and systems that don't provide the necessary data efficiently or effectively. This is a *lot* of work."

There is disagreement, too, on what is the best way to organize the finance function such that it can contribute optimally to top-level strategic work. The finance director at a large Singapore-based company says it has broken out the "business partnering role" from the basic accounting operations within the function. A midsize U.S. company, meanwhile, appears to be moving in the opposite direction, the controller complaining that at his company "the planning function is isolated from the accounting team (siload approach)."

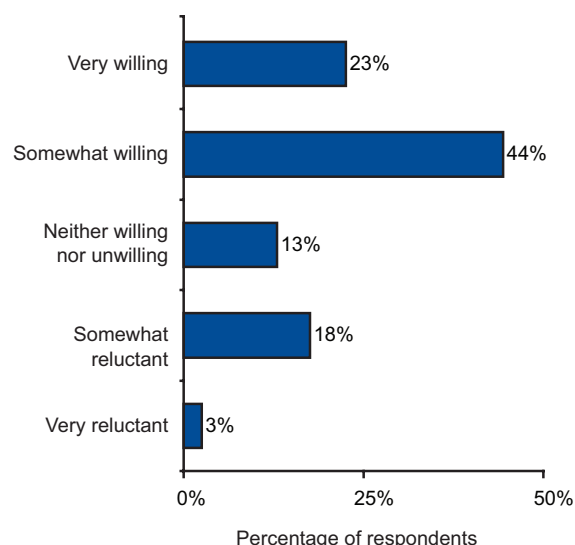
Buy-in from top management

What, then, are the odds that finance will be able to make the improvements necessary for it to continue making a valuable contribution to the company's growth and profitability? In most cases, the chances are good, as companies recognize the need and are prepared to devote resources to it. More than two out of three senior finance executives say their company is willing to spend money to improve the effectiveness of the finance function: very willing, in almost one in four cases. A mere 3% of respondents say their company is "very reluctant" to do so (see Figure 11).

Executives at large companies and those in high-growth industries are most confident about top management's commitment to improving finance processes, perhaps due to the highly complex organizations at many large companies and concerns that vital functions like finance are able to keep up with the rapid pace of change at those companies experiencing high growth. Similarly, those in highly regulated industries are especially likely to say their companies are willing to spend money on improving finance, perhaps in part because such companies are likely to face new regulatory requirements that will require finance's time, attention, and resources.

Figure 11. Resources for improving finance are available at a majority of respondents' companies.

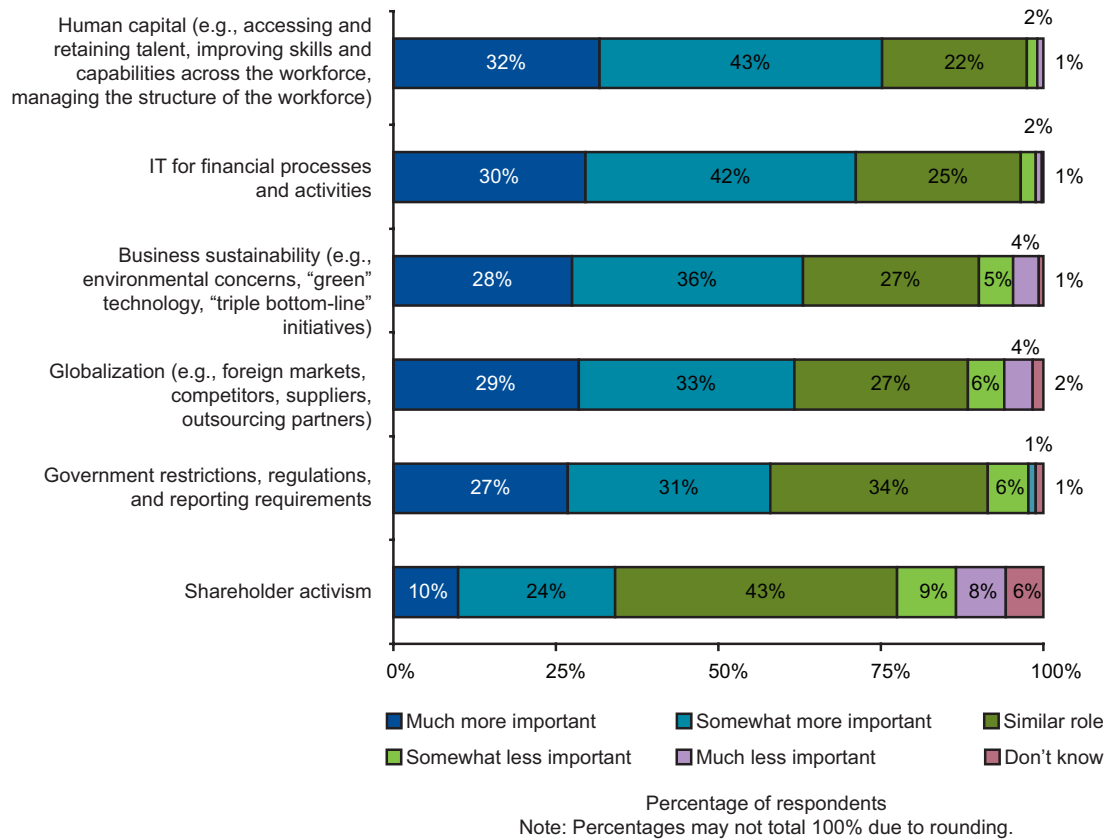
My company is _____ to spend money and devote resources to improving the effectiveness of the finance function.



Note: Percentages may not total 100% due to rounding

Figure 12. Human capital and technology for finance will become increasingly important to respondents' businesses in the next five years.

In your opinion, are the following factors likely to become more or less important to your company's business over the next five years, compared with today?



Another source for optimism among finance executives is the alignment between the factors that senior finance executives expect will determine the finance function's ability to improve its capabilities and those that will be most important to the company's business overall during the next five years. As we have seen, IT and human capital are at the top of finance executives' list of areas in which finance most needs to improve. In a separate question, finance executives ranked IT for finance and company-wide human capital management as the top factors that will become more important in their businesses over the next five years (see Figure 12).

Very large companies and those located in Asia are especially concerned about human capital management, owing perhaps to the increasing organizational complexity of the former and to the further development, sophistication, and interconnectedness of the latter. In both cases, finance is likely to have to improve its processes along with those at the rest of the company. Shareholder activism, another concern that requires significant involvement by finance, is also cited by the largest companies, highly regulated companies, and those located in Asia as a priority area for the entire company.



Conclusion

By one definition, the essential job of the finance function has not changed that much despite the upheavals of the past five years. “Finance and accounting should provide timely and accurate data reporting,” says the vice president of finance at a midsize U.S. company. The challenge for senior finance executives is that getting there requires engagement with and buy-in from other parts of the company, particularly the IT function. Meanwhile, changing economic conditions are continually expanding the information and analysis that top management requires from finance, and the strategic tasks and involvement flowing from them.

And so while the finance function is working to make itself more nimble and better align its activities with the company’s business growth strategy, this will not happen overnight. “The area is moving in that direction,” the same finance executive says. “It will take time and require a culture change.”



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Sponsor's perspective

At first glance, some of the conclusions in this report may seem to reinforce common wisdom: CFOs expect their contribution to business strategy to increase in the future; they give their division high praise for meeting recent economic challenges; and they recognize the need to focus on human capital and IT to deliver more value-added services to the business.

But reading between the lines, there are some interesting trends emerging from the finance function. On the positive side, finance is increasingly moving from the transactional, operational management role of the past, to become a center of cost-efficient and effective strategic value-add for the future. More than 80% of respondents plan to develop their forward-looking view of the business through changes to planning, budgeting, and forecasting processes; more than half acknowledge that improving their abilities to support line-of-business management will help finance increase its contribution to the company's success.

Many are making some headway in this transformation: half of all respondents believe that their contribution to organizational strategy development is currently a particular strength; almost as many cite their ability to produce accurate and useful plans, budgets, forecasts, and management reports; while 43% point to strengths in supporting strategic decisions on mergers, acquisitions, divestitures, and alliances. In open-text responses, many finance leaders echo the same sentiment, saying that they either already play a role as a strategic partner to top management or are in the process of becoming one.

This report also shows that finance excels at processes that tend to be internal to the function, such as treasury, risk management, general accounting, and reporting. Conversely, however, CFOs are less enthusiastic about their relationships with other staff functions, such as human resources and legal departments.

Of particular concern is the state of the relationship between finance and IT. Less than 40% of CFOs think that their company's use of IT within the finance function is very effective, and only 39% cite their relationship with the IT function as a strength. But if finance leaders are serious about transforming their organizations, they will need to embrace technology and find ways to collaborate successfully with IT to implement real and sustainable change. In particular, efforts to deliver more forward-looking and value-added services such as budgeting and forecasting, strategic analysis, or business intelligence will almost certainly require the partnership of IT.

At the same time, almost half of all respondents admit that their IT systems are out-of-date, and unable to support the new requirements that face finance. In our experience, this reflects a historic preference within the finance department for reducing internal costs rather than investing in future productivity and growth.

So while very few respondents saw any great opportunity to reduce the cost of the finance function further over the next few years, the question is how many are actually in the process of increasing their internal investment in order to deliver the host of new services and forward-looking analysis that is already being demanded by the business?

The strength of finance's relationships outside of the function may also affect its ability to steward sustainable change. CFOs are less likely to cite any particular strength in the areas where finance's interaction with other stakeholders is key—such as procure-to-pay and order-to-cash. Paradoxically, only about 20% of respondents expected to make dramatic changes to these business-critical processes, implying caution in taking on cross-functional change initiatives.

But this will have to change if CFOs are to deliver new services to the business. Much of the success of any transformation initiative—large or small—depends on the ability of finance leaders to understand the needs of the business and to engage cross-functional teams on sustainable change initiatives.

Another area that finance will need to focus on—and one that was much-cited by respondents—is human capital. Three-quarters of CFOs in this survey felt that they needed to do more in the future to access and retain talent, improve skills across their workforce, and manage their workforce structure. Indeed, CFOs will need to take a hard look at their current resources and capabilities, and realign these to deliver the services and competencies that are required as a result of transformation.

In response, many leading organizations are creating formal programs to grow this talent internally. Focusing on both technical skills and behavioral competencies, these career frameworks often include temporary assignments to business units to encourage greater understanding of the business' needs. This may also mean changing the mix of skills by bringing in a larger contingent of business analysts rather than chartered accountants, for example, or selecting new employees based on their technology backgrounds and familiarity with existing systems.

Clearly, most CFOs are keen to transform their function to respond to these heightened business demands. Respondents to the survey tend to cite a willingness to invest in transformation, a desire to enhance their forward-looking activities, and an expectation of the need to deliver more services in the future: all signs that they recognize the need for some form of transformation. The big question is how to manage that change to deliver real and sustainable value back to the organization.

This data provides many insights into the current challenges facing finance leaders around the world, and creates a strong image of a function that is increasingly taking the steps required to transform their services to deliver more value. And while more must certainly be done—particularly in the areas of IT integration and cross-functional cooperation—many of the responses show encouraging signs that finance leaders around the world are beginning to understand the careful balance that must be maintained throughout their change initiatives.

For many finance leaders, this research may serve as a wake-up call and may evoke a number of difficult questions: Are my current change initiatives aligned with the needs of the business? How will my finance function deliver value in the future, and what skills will that require? Are we transforming as quickly and as effectively as our competition?

Having helped clients through every stage of transformation—from planning and strategy through execution and implementation—KPMG professionals understand that transformation is a unique experience and that, while roadmaps and benchmarks are critical, every finance department needs to strike its own path in order to deliver the value its business demands.

We believe that this research acts as another critical piece of the puzzle, and hope that it will help guide finance leaders as they continue on their transformation journey.

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