FINANCIAL MANAGEMENT

Transforming Finance

Challenges and breakthrough solutions for CFOs

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Finance transformation isn’t easy. There are no silver bullets to successful transformation, and no one-size-fits-all roadmaps to follow. Each journey is unique and every organization’s ultimate destination is different. For some, transformation is about delivering new processes, services and analysis that fundamentally changes the way the finance function interacts with the business. For others, it is about leveraging new technologies and business models to deliver more efficient and effective services.

At the same time, the environment in which CFOs operate is constantly changing and increasingly disruptive: market fluctuations and credit turbulence create game-changing opportunities and challenges; new technologies such as cloud computing radically change operating models; and increased shareholder scrutiny and public demands for transparency put new pressures on the finance function.

KPMG member firm professionals have helped transform many of the world’s leading finance functions and – while our work has reinforced our belief that every CFO’s transformation journey is unique – it has also uncovered a number of common elements and enablers that must be balanced in order to successfully transform the finance function.

This publication does not claim to be a finance transformation roadmap. Rather, it represents some of the insights that our professionals have found to be consistent across geographies and industries. We hope it provides a helpful guide to CFOs embarking on their own transformation journey, and acts as a catalyst to those who may be more wary of change.

I encourage you to contact one of our member firms to discuss any of the topics found within this publication, or to explore your own unique transformation challenges.

Jochen R. Pampel
Global Head of Financial Management
Partner, Advisory
KPMG in Germany
The role of the CFO

The past decade has not been easy on the CFO. Erratic markets, disruptive technologies and a complex web of new regulations and compliance issues have forced the finance function to redefine its role in the organization. Long gone are the days of simply ‘collecting, paying and reporting’. For years, CFOs have been struggling with their processes and models in an effort to deliver faster, more accurate and more insightful analysis and reporting while – at the same time – appropriately managing risk and reducing cost.

But ultimately, the race to remove cost and complexity can only achieve so much, as a threshold is eventually reached where further gains in efficiency can begin to erode the function’s overall effectiveness. Facing rapidly changing market and economic conditions, the modern finance function has had to be both nimble and reliable to respond to a myriad of internal and external market pressures. And while cost reduction initiatives can certainly represent change for the finance function, they do little to deliver sustainable value to the organization.

Finance leaders should be seeking to transform their functions to deliver not just efficient services, but – more importantly – effective services as well. From supplying more insightful business intelligence and forecasting to anticipating and responding to sudden market disruptions, today’s CFO is expected to be as much a business strategist as a financial expert.

To respond to these rapidly evolving pressures, the finance function must undergo a fundamental change and realignment in order to transform it from the transactional operational management role of the past, and into a centre of cost-efficient and effective strategic value-add for the future. By necessity, this requires CFOs to also transform their own role, assuming a more significant part in the organization’s decision making process, strategy and program delivery.

But this type of transformation doesn’t happen in isolation. It requires both the high-level support of the C-Suite and collaboration between multiple functions to design, execute and maintain real and valuable change initiatives. In fact, the most successful CFOs will quickly find themselves leading cross-functional teams and building consensus throughout the organization to instigate real change and sustainable value.

Source: KPMG International 2010

When starting to look at finance transformation challenges, KPMG recommends using a model similar to the one above to identify, discuss and present the key issues with stakeholders at a very high level. Using this model, it is possible to plot where you are today and compare this with where you want to be tomorrow. The model looks at six specific challenges, ranging from alignment of finance services with business strategy, through organizational and cultural needs, to process and system requirements.
The roles of the finance function

The contribution made by the CFO is generally based on three core attributes: the CFO's ability to build relationships with key stakeholders based on trust, the ability to simplify financial information by 'cutting through complexity' and the ability to provide relevant insights to key stakeholders for decision making.

But value is as unique as the transformation journey itself. Indeed, each CFO will need to work within their organization to properly define what value their function can provide throughout the enterprise.

Simply put, value comes from the provision of any finance service that enables the business to better achieve its long-term objectives. The more efficiently and effectively these services are provided, the more value is driven into the organization.

Take financial reporting for example. Simply providing the same reports in a faster and more cost effective manner – while laudable – derives only finite value. Instead, finance departments should be finding ways to turn that information into forward looking and insightful analysis that assists the organization in planning, strategy and decision-making.

Value can be added in many ways: it can come by working with Operations to leverage financial insight to find new ways of doing business; or from assisting the organization in complying with regulation in the most cost-efficient manner; it might flow from the organization's enhanced ability to respond to opportunities like M&A as a result of better financial insight and forecasting.

So how do CFOs create a more effective finance function, thereby creating sustainable value opportunities for their business, while at the same time delivering an ever-broadening scope of services, all in a cost efficient and risk-appropriate way?

The truth is that there are no easy answers. For each organization, the objectives, methods and design of finance transformation should – and must – be tailored to their own unique situation and environment. There are no 'off the shelf' transformation solutions and no universal roadmaps to success.

Instead, CFOs will need to apply vision, determination, a steady and methodical pace and – above all – a keen sense of balance. Rather than a head-long rush across the wire, finance transformation requires CFOs to balance risks and priorities, leading to a series of deliberate steps towards achieving a transformation vision. In some cases, these will be incremental steps that slowly and methodically build momentum across the organization; in other cases, change will be disruptive and rapid, creating sudden and expected benefits across the organization.

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Balancing: The efficient and the effective

To ultimately be successful, transformation initiatives must instil structural changes that both reduce overall complexity and provide greater flexibility, insight and value throughout the organization.

All too often, finance transformation initiatives either focus on creating ‘efficiencies’ (i.e. strategies that reduce costs, automate processes and remove non-core functions), or on becoming more ‘effective’ (i.e. delivering more insightful analytics, providing better business intelligence and enhancing financial flexibility).

But the effective and the efficient are not mutually exclusive strategies: transaction processing, for example, must be conducted effectively to reduce potential lost revenue or to identify areas for improvement at the business level, but must also be efficient to minimize cost and complexity.

In the same way, transformation objectives must be designed to achieve both efficient and effective results. While some initiatives will have a bias towards effectiveness, and others towards efficiency, both must be balanced in order for the global finance function to properly transform.

Indeed, many of the most successful transformation strategies focus on increasing the overall effectiveness of the finance function while simultaneously reducing costs and complexity. But efficiency-driven objectives such as the reduction of headcount must be balanced against the potential value creation opportunities that could be generated by those people through – for example – better management of the spend volume being processed through the cycle.

The challenge facing CFOs, therefore, is to properly define the objectives of their transformation efforts to include both value creation and efficiency outcomes.

In some cases, this may mean investing in the function over the medium term rather than focusing on short term cost-cutting or more practically, redirecting savings derived from efficiency gains to fund investments needed to drive effectiveness. To do this, CFOs will need to understand what services provide the most value to their customers, and strategically invest in strengthening those capabilities. This will also require CFOs to be able to communicate the true value of initiatives designed around efficiency gains in order to build a business case to secure the appropriate budget, people and resources required for their transformation strategy.

Key Considerations
5 Questions to Ask Yourself

<table>
<thead>
<tr>
<th>Internal pressures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there opportunity to reinvest savings from efficiency initiatives into creating an effective finance function?</td>
</tr>
<tr>
<td>Can you change the focus of your people from data gathering to analysis of information?</td>
</tr>
<tr>
<td>Do you have the right people and the right operating model for effective service delivery and processing?</td>
</tr>
<tr>
<td>When taking a global view of the finance function, is there duplicated work?</td>
</tr>
<tr>
<td>What do your internal clients expect from the finance function?</td>
</tr>
</tbody>
</table>

Source: KPMG International 2010
**Balancing Act: CFOs must find a balance between strategies that are both Effective and Efficient**

<table>
<thead>
<tr>
<th>People</th>
<th>Effective</th>
<th>Efficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• The right people doing the right jobs</td>
<td>• No duplication of work or down time</td>
</tr>
<tr>
<td></td>
<td>• Long term development and training</td>
<td>• Low cost locations</td>
</tr>
<tr>
<td></td>
<td>• Focus on analytics and customer service</td>
<td>• Shared service centres and outsourcing</td>
</tr>
<tr>
<td></td>
<td>• No duplication of work or down time</td>
<td>• Focus on transactional operations</td>
</tr>
<tr>
<td></td>
<td>• Long term development and training</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Focus on analytics and customer service</td>
<td></td>
</tr>
<tr>
<td>Systems</td>
<td>• Cloud computing and in-memory computing</td>
<td>• Single system reporting</td>
</tr>
<tr>
<td></td>
<td>• Full utilization of existing systems</td>
<td>• Reduction of manual spreadsheets</td>
</tr>
<tr>
<td></td>
<td>• Leverage financial tools for planning, consolidation,</td>
<td>• Common chart of accounts</td>
</tr>
<tr>
<td></td>
<td>financial process</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Creating ‘one version’ of the truth</td>
<td></td>
</tr>
<tr>
<td>Processes</td>
<td>• Enhance flexibility</td>
<td>• Increase automation of back-office process</td>
</tr>
<tr>
<td></td>
<td>• Meet and leverage changing regulatory requirements</td>
<td>• Rapid response to external change</td>
</tr>
<tr>
<td></td>
<td>• Reduce complexity</td>
<td>• Standardized and well understood</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>• Detailed analysis and reports aligned to ‘real’ KPIs</td>
<td>• Faster analysis and reporting</td>
</tr>
<tr>
<td></td>
<td>• Ad-hoc analysis</td>
<td>• Less complexity</td>
</tr>
<tr>
<td></td>
<td>• Business support</td>
<td>• Reduced cost</td>
</tr>
<tr>
<td></td>
<td>• Self service portals</td>
<td></td>
</tr>
</tbody>
</table>

Source: KPMG International 2010

“**Asking the finance function’s internal clients what they want can produce interesting results. We often find that senior finance people are surprised that their clients want, and need, information in a particular way.**” KPMG partner, Canada

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**Case Study**

### Being efficient and effective: A developing world financial institution achieves WD5

For the finance department of a developing world financial institution, integration into a global acquirer posed a significant challenge: rigorous compliance. In the past, their local and independent status allowed them to turn a blind eye when reporting deadlines were missed or when errors occurred. But as a new division of a global multi-national, the CEO was now expected to adhere to ‘Work Day 5’ (WD5) reporting, and eliminate errors and abnormalities.

In response, the finance department went into overdrive. Using their traditional methods, the team put in massive amounts of overtime. To get the job done, many members ended up fulfilling non-finance functions and job roles became increasingly undefined. High levels of manual intervention were required, resulting in inconsistent and unreliable reports. At the same time, the organization’s IT infrastructure inhibited performance, with bandwidth issues and low systems utilization.

Suffering from exhaustion, high turn-over and a growing reputation for inconsistencies, the finance department needed to find ways to start working more efficiently and effectively. They needed to fundamentally transform.

Working with KPMG’s Financial Management practice, the team set about mapping all of the existing processes, job roles and systems to identify and respond to a number of ‘quick wins’ and bottlenecks. The team then explored a number of long-term improvement opportunities and barriers which they used to redesign the month end close process. This allowed the department to clarify and formalize roles, conduct a skills assessment and identify areas where further training or support was required. A new organizational structure was proposed to reduce levels of management oversight while maintaining rigorous and appropriate controls.

IT infrastructure also posed challenges to achieving reliable WD5 reporting. Through the transformation, access to financial systems was broadened and coupled with appropriate training and support. Bandwidth was also quickly increased across the board. Project management was keenly applied, with weekly status updates and progress reviews to identify and remove barriers, and to ensure project milestones and goals were being achieved.

As a result of their transformation, the finance department easily achieved a shortened reporting timetable, met their WD5 requirements, improved the quality of their reports and virtually eliminated the need for overtime hours. Most importantly, the CEO was finally able to rely on the reports being generated by the finance department and be confident of compliance within the larger organization.
Balancing: The transactional and the transformational

While the main goal of transformation may be to evolve the finance function into a centre of strategic value for the organization, it does not release the finance department from their day-to-day tactical duties. In fact, without the flawless execution and stewardship of these (more transactional) services, many CFOs will find it difficult – even impossible - to gain the level of trust and confidence from the organization that is required to successfully undertake more value added and strategic activities.

Indeed, throughout a transformation initiative - and long after – the finance department will be expected to conduct ‘business as usual’ with little (or no) disruption or loss of service quality. For CFOs, finding a healthy balance between managing these increased strategic responsibilities and executing regular tactical processes will require a deep understanding of the organization’s goals and business, a strong adherence to processes and policies, and a new and different set of skills.

From a cultural perspective, finance leaders will also need to wear two very different hats. On the one hand, the finance department must create and enforce the rules and controls of the organization. On the other, they must also be able to work with their internal customers to find ways to turn those same rules into vehicles that enable growth and lead to competitive advantage. This creates a natural and healthy tension between the controllership activities of the function and the financial analytical support activities that must be recognized and balanced appropriately.

Exactly what constitutes the ‘right balance’ of strategic services and tactical execution will differ by organization, industry and internal capacity. In each case, CFOs will need to take a long-term view of their service models and ensure that their technology, people, processes and structures are appropriate to meet the evolving needs of their organization.

The ultimate goal of transformation is to reduce cost while increasing the speed, quality and value of the finance function in the organization. This requires a new look at all the key functional areas of a typical finance function (represented by the pyramids in the figure with transactional processing at the bottom, control and reporting in the middle and decision support at the top).

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Balancing Act: CFOs must find a balance between strategies that are both transformational and transactional.

<table>
<thead>
<tr>
<th>Transformational</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People</strong></td>
<td></td>
</tr>
<tr>
<td>• Driving business strategy</td>
<td>• Processing back office transactions</td>
</tr>
<tr>
<td>• Better knowledge of the business</td>
<td>• Relentless adherence to policies and rules</td>
</tr>
<tr>
<td>• Job rotations</td>
<td>• Defined roles between BU controller and BU Financial Analysts</td>
</tr>
<tr>
<td><strong>Systems</strong></td>
<td></td>
</tr>
<tr>
<td>• ERP systems enhancements</td>
<td>• Reliable data conversion</td>
</tr>
<tr>
<td>• Standardized data models</td>
<td>• Fall-back plans (continuity)</td>
</tr>
<tr>
<td>• Access to data to run reports</td>
<td>• Single system upgrade</td>
</tr>
<tr>
<td>• ‘One version’ of the truth</td>
<td>• Finance System consolidation</td>
</tr>
<tr>
<td>• Adopting real-time financial systems to accelerate financial</td>
<td></td>
</tr>
<tr>
<td>close (Consolidation, planning, GL)</td>
<td></td>
</tr>
<tr>
<td>• Closing supply chain and transfer pricing inefficiencies</td>
<td></td>
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<tr>
<td>through system integration</td>
<td></td>
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<tr>
<td><strong>Processes</strong></td>
<td></td>
</tr>
<tr>
<td>• Better forecasting</td>
<td>• Transaction processing</td>
</tr>
<tr>
<td>• Enhanced detail</td>
<td>• Financial reporting</td>
</tr>
<tr>
<td>• Reliable scenario planning</td>
<td>• Standardized processing</td>
</tr>
<tr>
<td><strong>Service Delivery</strong></td>
<td>• Regular budgeting and forecasting</td>
</tr>
<tr>
<td>• Growth strategy</td>
<td></td>
</tr>
<tr>
<td>• Business intelligence</td>
<td>• Reporting on past</td>
</tr>
<tr>
<td>• Strategic finance options</td>
<td>• Enforcing rules</td>
</tr>
<tr>
<td>• Enhanced Management reporting</td>
<td>• Ensuring compliance</td>
</tr>
<tr>
<td>• Services on-site at business location</td>
<td>• Centre of excellence in Accounting Policies and disclosures</td>
</tr>
<tr>
<td>• Outsourcing</td>
<td>• Shared Service centres</td>
</tr>
</tbody>
</table>

Source: KPMG International 2010

Case Study

The power of finance transformation: An American utility’s story

For an Americas-based power utility, deregulation presented a host of new challenges and opportunities. With a sizable fleet of power generation assets, the company saw new opportunities emerging to raise capital, build new capacity and drive enhanced value by effectively managing each of their individual plants as separate assets, rather than as a combined ‘fleet’ as in the past.

The finance department immediately started to dig in to the complex task of carving out the individual financials for each plant from their historical transaction base in order to better understand the value and opportunities aligned to each asset. To ensure minimal disruption to the division’s day-to-day duties, this process required dozens of temporary employees and a significant investment of time and budget.

The CFO recognized that to create value and deliver flexibility to the business, these reports would need to be produced on a regular basis with increasing levels of depth and sophistication. The current manual process was simply inefficient and ineffective.

Instead, working with KPMG’s Financial Management practice, a technology solution would be implemented that would allow the organization to create separate P&L centres for each of the individual assets. Transactions would be coded and allocated to individual plants, thereby providing valuable insight into the actual costs and value of each asset on an ongoing basis. Rather than employing 40 staff to manually input data into spreadsheets, the new process would require the attention of two staffers to conduct limited manual reviews and allocations at each month-end.

As expected, the finance transformation resulted in a number of challenges for the team. For one, staff required sufficient training on the new system to ensure that allocations were appropriately coded and analyzed. Difficult decisions also had to be made to identify which transactions should be pushed down to the plant level, and which should be attributed to corporate budgets. The distribution of taxes across multiple jurisdictions also created complexities that needed to be identified, balanced and resolved.

In the end, the enhanced insight and flexibility delivered by the finance function enabled the business to identify certain assets that could be divested, others that could bear increased leverage, and others still that could be mothballed or idled to drive profitability. For this power utility, finance transformation powered business growth by reducing complexity and headcount, delivering more effective analysis to support management decisions, and creating the flexibility required by the organization to take advantage of new opportunities in their competitive landscape.
Balancing: The incremental change and the disruption

CFOs should be accustomed to disruption. Sudden market swings, ever-changing regulatory and accounting requirements, constant cost pressures and advancing technologies all conspire to disrupt the normal business routine and processes. But disruption can create opportunity, both inside and outside of the organization.

Finance transformation – much like any other change agenda – will also be disruptive. The difference is that transformation can be managed and contained with the help of the proper governance models, modular plans and vigilant monitoring. With transformation, change and disruption are not a reaction to uncontrollable external forces, but rather a proactive choice on the part of the organization to embark on a journey that – if well planned and managed – will deliver measurable and recognizable benefits along the way.

At the same time, some disruptions – such as leadership changes or sudden market reversals - can also be a catalyst for change, creating an environment under which transformation becomes not just a strategy, but a necessity. Indeed, in situations where external environments have changed, the disruption caused by transformation has often led to ‘innovations of necessity’ in processes and services that –in turn–have resulted in unexpectedly efficient and effective finance functions.

Rather than a sprint towards transformation, CFOs may sometimes be better served by instigating a methodical and continuous change process that manages disruptions within a controlled environment, taking either incremental steps – or giant leaps – towards achieving their vision of transformation.

<table>
<thead>
<tr>
<th>Key Considerations</th>
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</thead>
<tbody>
<tr>
<td><strong>5 Questions to Ask Yourself</strong></td>
</tr>
<tr>
<td>What is the organization’s ability to absorb change?</td>
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<tr>
<td>What system changes are required and what resources will be needed to realize these changes?</td>
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<tr>
<td>How will you keep the momentum moving forward during long transformation projects?</td>
</tr>
<tr>
<td>What is the potential disruption and risk to the organization (and to the finance function) if things don’t go as planned?</td>
</tr>
<tr>
<td>What other competing initiatives or priorities are already underway in the organization?</td>
</tr>
</tbody>
</table>

**Balancing Act: CFOs must find a balance between strategies that are both**

<table>
<thead>
<tr>
<th>People</th>
<th>Transformational</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Exhibiting a culture of challenging existing preconceptions and better practices</td>
<td>• Exhibiting a culture based on trust, respect and safety to make mistakes</td>
<td></td>
</tr>
<tr>
<td>• Change the team – hire and fire</td>
<td>• (R)e)train current staff</td>
<td></td>
</tr>
<tr>
<td>• Leverage existing staff complement</td>
<td>• Undergo significant restructuring</td>
<td></td>
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<table>
<thead>
<tr>
<th>Systems</th>
<th>Transformational</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reliable data conversion</td>
<td>• Phased roll-out of new system over regions/ BU’s/etc.</td>
<td></td>
</tr>
<tr>
<td>• Big-bang roll-out scenario</td>
<td>• Conducting tweaks over time</td>
<td></td>
</tr>
<tr>
<td>• Wholesale new system implementation or replacement</td>
<td>• Upgrades</td>
<td></td>
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<table>
<thead>
<tr>
<th>Processes</th>
<th>Transformational</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Achieving a new way of doing things</td>
<td>• Achieving a better way of doing things</td>
<td></td>
</tr>
<tr>
<td>• Complete overhaul of processes to achieve ‘leading practices’ and exceed expectations</td>
<td>• Individual and isolated process changes to ‘meet’ requirements</td>
<td></td>
</tr>
<tr>
<td>• Focus on change</td>
<td>• Focus on improvement</td>
<td></td>
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</tbody>
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<table>
<thead>
<tr>
<th>Service Delivery</th>
<th>Transformational</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Innovation to thrive</td>
<td>• Innovation to survive</td>
<td></td>
</tr>
<tr>
<td>• Gradual improvement/ expansion of services over time</td>
<td>• Add new services based on value and organizational priorities</td>
<td></td>
</tr>
</tbody>
</table>

Source: KPMG International 2010
Organizing transformation, a model structure

Steering board

Program Board

Design Authority

Program Director

Change management

PMO

Development and Implementation

Business management Team
- Finance Vision and Strategy
- Finance organization
- Process-wise focused on:
  - Financial Accounting
  - Regulatory Reporting
  - Management Accounting

Development Team
- Technical design (Finance architecture)
- Technical design principles
- Release

Implementation / Project Team
- Template development
- Preparation of roll-outs
- Management and support of roll outs

Global Support
- Operational support
- Operational control group
- Test co-ordination
- Security administration
- SLA management

Shared Service Centre
- Sourcing Strategy and SSC Design
- Business Design of SSC
- Technical Design of SSC
- HR work stream migrations

Finance Transformation must be well managed. The program organization might look like the one above, with clear sponsorship defined at the top in the SteerCo, challenging expertise, quality assurance and the project office centrally organized and various clearly identified work streams/sub-projects. The actual transformation model will vary according to the nature and culture of the organization and the phase of the project.

Source: KPMG International 2010
Balancing: Risk and reward

Transformation involves risk. So does maintaining the status quo. Thankfully, transformation risks - unlike most market risks - can mostly be mitigated and controlled through rigorous project management and oversight frameworks.

Ultimately, the long-term rewards of finance transformation must be balanced against the short-term risks inherent in the change process. In most cases, transformation strategies based on the stringent measurement of both the risks and rewards, and created with meticulous planning, should be able to mitigate and manage any missteps and stay the course.

At the same time, less tangible benefits such as ‘improved effectiveness’ can be difficult to measure and communicate, so careful consideration should be given to promoting those benefits that are measurable versus those that are more intrinsic.

Finance leaders will also need to foster a culture of innovation and risk-taking in a department well-known for their aversion to mistakes. Transformation requires a certain amount of calculated risk-taking, and – as with any risks – there will be failures. Organizations that allow employees to make mistakes, help them learn from those mistakes and encourage them to move ahead will achieve greater value from their transformation program.

The ability to take on additional risk, however, requires the buy-in of the CEO, Risk Managers and other executive-level stakeholders. CFOs who are able to clearly communicate the benefits, risks and controls of a transformation agenda should be able to gain the necessary support, while others may need to successfully complete a number of smaller transformation projects to better demonstrate their rewards.

“In Finance, change management often takes a back seat to ‘just get it done’. This doesn’t work for a transformation. A good stakeholder analysis is critical both inside and outside Finance.” KPMG partner, Canada

Balancing Act: CFOs must find a balance between strategies that focus on both

<table>
<thead>
<tr>
<th>Risk</th>
<th>Reward</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People</strong></td>
<td></td>
</tr>
<tr>
<td>• Transformation will ‘burn out’ top performing employees and de-motivate rank and file</td>
<td>• More productive employees</td>
</tr>
<tr>
<td>• Low adoption by employees</td>
<td>• Reduced headcount and overhead</td>
</tr>
<tr>
<td></td>
<td>• Improved use of highly skilled resources resulting in a more motivated and engaged workforce</td>
</tr>
<tr>
<td><strong>Systems</strong></td>
<td></td>
</tr>
<tr>
<td>• Technology will fail</td>
<td>• Increased efficiency and reduced cost</td>
</tr>
<tr>
<td>• Technology will increase complexity</td>
<td>• Stronger compliance and analysis</td>
</tr>
<tr>
<td><strong>Processes</strong></td>
<td></td>
</tr>
<tr>
<td>• Process does not support change</td>
<td>• New processes that enhance efficiency</td>
</tr>
<tr>
<td><strong>Service Delivery</strong></td>
<td></td>
</tr>
<tr>
<td>• Customers reject change</td>
<td>• Better service delivery</td>
</tr>
<tr>
<td>• Service continuity is jeopardized</td>
<td>• Improved strategic and operations decision-making</td>
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<td></td>
<td>• Competitive advantage</td>
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Source: KPMG International 2010
Key Enabler: Technology

Be wary of anyone offering technology as a pure-play ‘solution’ to transformation. The simple truth is that - while technology is certainly a key enabler of transformation - it is not a panacea. Since no two organizations will embark on the same transformation journey, it stands to reason that each organization will need to identify, combine and integrate the most appropriate combination of technologies to best achieve their goals.

At the same time, the technology market is constantly changing, with new platforms and programs being introduced at a dizzying rate. CFOs must be able to see past the enhanced functionality and ‘cool apps’ to select the most appropriate technology to achieve each transformation objective. And while this may require a number of different platforms to interoperate, CFOs who select technology based on its ability to perform a certain end-to-end business transaction rather than its immediate compatibility will better serve the organization.

Finance leaders should – however – embrace technology as a key enabler of transformation. Indeed, when combined with improved and efficient processes, innovative technologies have the potential to deliver quick and simple advantages. For example, the continual integration of operational and finance systems with redefined processes can greatly enhance the speed at which information flows throughout the organization and may enable the CFO to better manage inefficiencies or regulatory penalties.

When considering technology as an enabler, CFOs must work closely with IT to ensure that any resulting technology spend is aligned and compatible with the current system. After years of M&A, globalization and ad-hoc implementations, most organizations have been left with a series of fragmented and incompatible technology infrastructures across business units that may not support seamless functionality.

Indeed, technology consolidation is a critical step in understanding and designing the transformation journey, as opportunities in – say, cloud computing – may not be achievable on older or outdated platforms.

Case Study

Finance in the Lead: Reinvigorating Transformation

Transformation must be business-led. That was certainly the lesson for the CFO of a large European-based multi-national financial institution. Having suffered through almost 10 years of non-stop systems implementations, the finance department seemed no closer to achieving its goal of implementing a more standardized reporting framework in order to increase the quality and speed of the reports.

As an IT-led project, the existing ‘transformation’ project had focused solely on achieving a single source system for financial accounting, internal and external financial reporting and analysis. Implementation of the ‘best-fit’ platform had been conducted over a decade on a region-by-region basis, which often resulted in individual countries maintaining slightly different or upgraded versions of the program than others.

Most importantly, the systems implementation had been approached as a systems-only project, with little planning put towards the organizational changes that would be required to drive real and sustainable value from transformation. It was becoming increasingly obvious that the IT-led approach was not delivering the value that the finance department required to meet their objectives. Something had to change.

Working closely with KPMG’s Financial Management practice, the finance function began a collaborative exercise to define the outcomes and strategies that would provide the most value across the various geographies while achieving the set business objectives. Due to regulatory requirements that varied from country to country, not every operation or process could be standardized without losing the flexibility and control required on a local level. But other key activities, such as the general ledger system or financial data warehousing, could.

Based on these findings, a new operating model was created that articulated and formalized the target structure and processes for both the regional and central finance departments. This formed the basis for a realigned and redesigned IT model that better responded to the specific needs of the department.

The operating model also highlighted a range of people, process, control and governance challenges that needed to be addressed in tandem with the systems roll out to increase compliance and reduce risk. In particular, the team focused on identifying opportunities to involve a wide cross-section of regional participants in the development of the operating model to ensure greater applicability throughout the organization, and enhance adoption.

While the financial crisis of 2008-09 may have dampened the organization’s appetite for additional change initiatives, the transformation is quickly approaching the implementation stage. The project has been placed under the direction of a finance-appointed (yet IT educated) lead, who is able to better advocate for the needs of both the department and the business.
Key Enabler: People

There is no doubt that many transformation initiatives can be made more efficient and effective by implementing (and fully utilizing) the right technology. But technology can only be as good as the people who operate it and interpret the outputs. Indeed, an increasing reliance on technology may – in fact – lead to more complexity, as traditional finance skills fail to match the new technology requirements.

CFOs will, therefore, 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 the transformation. This may mean 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.

With an eye to the future, finance leaders will want to consider establishing formal career frameworks to identify and develop key talent within the organization. Focusing on technical skills and behavioral competencies, career frameworks must be aimed at developing well-rounded finance professionals who are able to adapt their technical knowledge to deliver a new suite of value-added services to the business.

Finance leaders will also need to be mindful of the impact that transformation will have on the end-users within the business. The roll-out of new services and delivery models will require the organization to change the way it interacts with finance and may mean existing clients taking on new processes and responsibilities. At the same time, with a suite of new value-added services, finance will also start to work with a broader cross-section of the business who will also require training and education in order to extract the most value from the transformation gains.

As employees, the finance department also requires the guidance of strong and visionary leadership. They must feel motivated and committed to the transformation, following a clear and unified vision of the goals and fully engaged in the process of change. As a result, CFOs will frequently find themselves communicating the need and benefits of transformation to the finance department, and the wider organization in order to build support, morale and confidence.

Case Study

Cutting through Complexity in the Public Sector

An absolute necessity for good government is good quality information on the progress and effectiveness of policy initiatives. But if corporations are finding it hard to collect and manage the information necessary for good decisions, how much more difficult can it be for governments trying to guide whole economies?

KPMG’s financial transformation work for governments has focused on bringing rigor and reliability to the information available to officials and ministers. For many countries, this has meant facilitating a move away from financial management techniques that may have been appropriate in former times, but are just not adequate for a modern, global economy.

In one country, an incoming president with a successful background in commercial management found that even relatively minor financial transactions required to implement government policy needed central approval by the ministry concerned.

This might suggest that there should be a central source of accurate information within the ministries, on which these approvals would be based. But the officials making the decisions were not primarily concerned with the effectiveness or otherwise of the policies they were implementing. Their main aim was to prevent fraud and embezzlement.

KPMG’s Financial Management practice worked with the president, his finance minister and his advisors to develop a new Financial management framework, a new more streamlined financial approvals and reporting process including the selection and implementation of a new integrated software application. At the same time, the opportunity was taken to carry out a thorough overhaul of the type of information that was being gathered to feed into the decision-making process, and the way the information was analyzed for clues on the impact that policies were having.

This was a necessary prerequisite for the adoption assisted by KPMG of IPSAS, the widely recognized International Public Sector Accounting Standards.

Transformations of this kind are rarely easy processes, and while in the corporate sector it might be possible to make changes by top-down decision implementation, in the public sector there is always much more debate, argument and persuasion necessary before real improvements can be made.

But it helps when the benefits of more streamlined and effective government can be clearly demonstrated by an external endorsement. In this instance, a long period of hard work on government systems and economic reform was rewarded when the country achieved its first ever investment status grade from an international ratings agency.
About KPMG’s global finance transformation practice

At KPMG, our multidisciplinary teams are dedicated to helping member firm clients achieve efficient, effective and sustainable transformation by focusing on the business and people impact of technology rather than just systems implementation. In each case, we deliver pragmatic solutions – not just leading practices – that cut through complexity, bridging strategy and execution to create measurable and sustainable value. And with no restrictive ties to any hardware or software suppliers, our advice is always independent and tailored to the specific needs of each client.

Our clients rely on our deep industry experience and insights to help them overcome the root causes of some of their most complex transformation challenges. As advisors on organizational change, we understand how to successfully enable business objectives through technology, aligning vision and action to help clients achieve their transformation objectives.
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