

Breaking away: How leading finance functions are redefining excellence

***PwC global finance
benchmark report 2015***

The global business landscape is changing rapidly. The leading finance teams help their organizations stay ahead by providing the insight and direction needed, at almost half the cost. Are you keeping up or falling behind?





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“Rather than finance operational metrics, the objectives and performance evaluation of this new breed of business partner is centered on business outcomes.”

“Transforming finance can be successfully achieved in 18-24 months and can keep up with the pace of change.”

“Leading finance functions are moving fast, and recognizing the need to move faster, as market trends dramatically shift. Those that don’t may hold their organization back in the drive for new markets and business.”



Introduction: Delivering more for less in a digital age

Welcome to PwC's sixth annual finance effectiveness benchmark study, *Breaking away: How leading finance functions are redefining excellence*.

Ed Shapiro

Finance Benchmark Director, PwC, US
+1 (678) 419 4513
ed.shapiro@us.pwc.com

Andrew McCorkell

Finance Benchmark Director, PwC, UK
+44 (0)20 7213 1509
andrew.s.mccorkell@uk.pwc.com

This year's benchmark study represents our most up-to-date insight into finance function performance in different industries worldwide, and looks at what distinguishes the front-runners across all aspects of finance activity, including business insight, efficiency and control (see page 6 for an overview of our approach to benchmarking). The report not only discusses what defines 'excellence' now, but how to keep ahead of the accelerating pace of change in how businesses compete and what they expect from their finance teams. At a time when globalization, new technology and shifting customer expectations mean that corporate empires are rising and falling faster than ever before, the ability to keep pace with change is critical. The accelerating rate of corporate decline and fall is reflected in that more than 50% of the Fortune 500 has been acquired, gone bankrupt or ceased to exist since 2000.¹ Finance functions need to be far faster at predicting the changes that will present the most opportunity for businesses, but which could also jeopardize the existence of those that don't see these changes coming.

The report draws on more than 400 PwC benchmark engagements across a broad range of industry sectors. These benchmarking engagements provide our clients with a detailed and comparative 'health check' for their finance teams. Taken together, these engagements enable us to build up a comprehensive, global set of quantitative data and qualitative insight, consisting of

- 5,600+ individual finance teams
- In more than 100 countries
- From over 400 companies

Further analysis and insight comes from interviews with over 100 finance leaders and PwC subject matter experts across the Americas, EMEA and APAC. We have also included nine interviews with finance leaders, describing what they have achieved, the challenges that they have overcome, and their plans for the future. These include innovative approaches to the operating model, to developing talent, delivering real business insight, and grasping the business opportunities presented by social and demographic change. We've also spoken to some of the leaders of business change—strategy and economics specialists from PwC and our global strategy consulting team Strategy&, in addition to CEOs of a number of our clients as part of the PwC CEO survey.

¹ Forbes, 19 November, 2014

Redefining excellence

What's new in this report? Leading finance functions are moving fast, and recognizing the need to move even faster, as market trends dramatically shift.

Efficiency—As a percentage of revenue, top quartile finance functions are running at 40% lower cost than their median peers (see Figure 1 on page 11). In our view, finance leaders need to look at the best practices from other industries too. As a percentage of revenue, retailers run finance at approximately 25% the cost of financial services firms, and retailers are starting to operate in other sectors such as financial services. We believe there is an urgent need for finance leaders to look across all sectors and learn from the latest innovations and best practices, since these front-runners could soon be competing in their core markets.

Speed—Boosting performance doesn't have to involve large scale programs that take years to deliver. For example, businesses have looked at how they manage teams, and found that they can generate a 25% increase in capacity in 12 weeks. On page 42 we look at how Lloyds Banking Group is approaching this. Transforming finance is often seen as a daunting task that will take years, but in reality, it can be successfully achieved in 18-24 months, as can be seen in the example of Nielsen on page 14.

Real-time information—The innovative use of new, low-cost technologies is transforming the analysis that finance can deliver to the business, leaving behind big data warehouses and multimillion dollar projects. Customers, investors and stakeholders expect near-real time information, yet most companies still spend more than 80 days producing a budget (see Figure 2 on page 11). We believe that this slow turnaround is unsustainable, since leading organizations are investing in technology to access data in real time, and the expectations for finance are already increasing. We believe finance functions that aren't already responding to this will see their role as custodians of trusted data analysis taken over by other parts of the business.

The big challenges—Megatrends are changing the world we live in. Some businesses are thinking of megatrends as long-term challenges, but leading

finance functions are already helping their organizations understand the implications of megatrends for their businesses, and turn what could be a threat into a competitive advantage. The illustrations below and opposite summarize these trends. Interserve (see page 60) is an example of a business where the CFO is already leading the agenda, making sustainability a core value for the business, influencing the culture of the organization, and making his company a more successful and interesting place to work.

Is it enough? Well known, long established businesses have failed over the past months and years by not adapting fast enough. Finance leaders should challenge themselves now—they are changing fast enough to protect and strengthen the businesses? The evidence in this report suggests only a few are, but there is a lot to learn from them.



A world in flux: The megatrends reshaping business

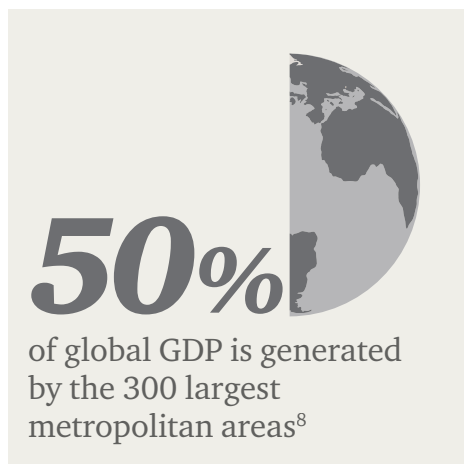
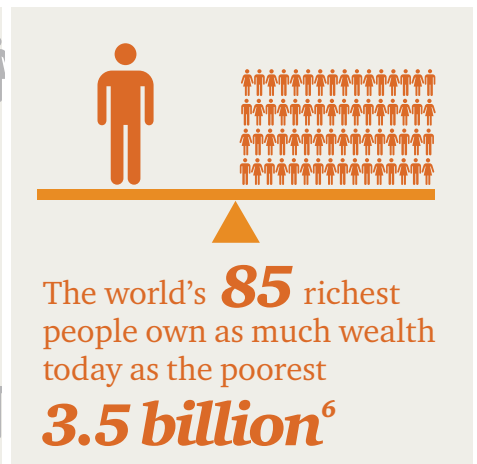
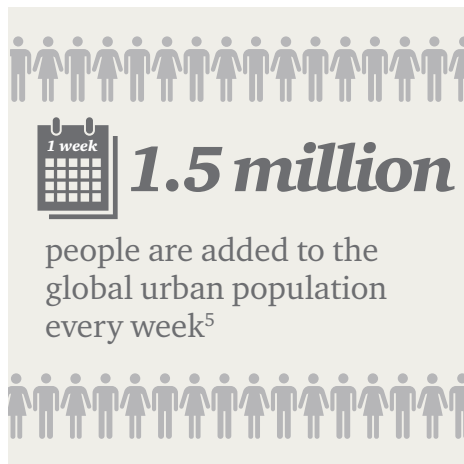
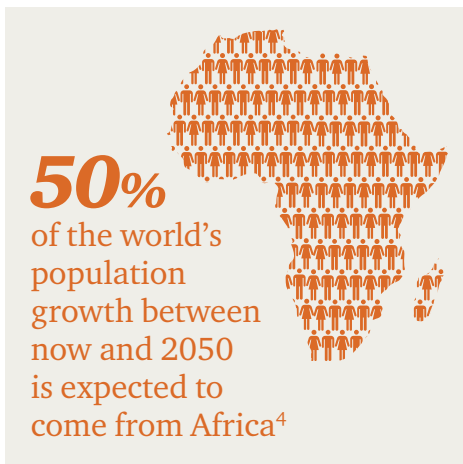
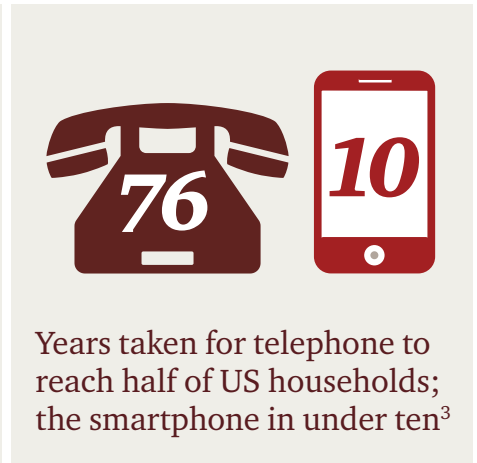
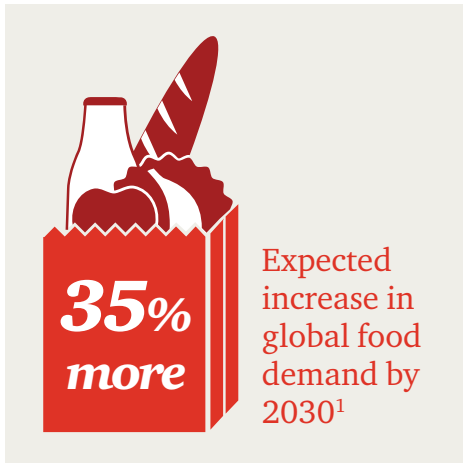
- Demographic and social change
- Shift in global economic power
- Rapid urbanization
- Climate change and resource scarcity
- Technological breakthroughs

For more perspectives on the implications, challenges and opportunities visit <http://www.pwc.com/gx/en/issues/megatrends/index.jhtml>

The megatrends

Did you know?

Nine facts and predictions on the megatrends. What do they mean for business and society today and what do they mean for finance?



The above predictions come from the following sources:

1 'Global Trends 2030: Alternative Worlds', National Intelligence Council (2012) • 2 PwC World in 2050 Projections (2013) • 3 PwC analysis based on 'Are Smart Phones Spreading Faster than Any Technology in Human History?', MIT Technology Review (2012) • 4 UN Population Division, World Population Prospects (2012) • 5 United Nations, Department of Economic and Social Affairs, Population Division (2012) • 6 Oxfam (2014) • 7 PwC analysis of OECD projections (2010) • 8 Brookings Institution (2012) • 9 'The Future of Employment: How Susceptible are Jobs to Computerisation?' C. Frey and M. Osborne (2013)

How to use this report

It's clear that examples of top performing finance functions are found in all industries, and both large and small businesses. They aren't there by accident—what links these different organizations is having a clear vision of where they want to get to and the ability to execute. This report can be a first step to challenge your own performance, and see what's possible.

- Use the data in the report to determine how you compare, and what you could be achieving.
- For benchmark data that is tailored to your business, go online to the Data Explorer (www.pwc.com/us/breakingaway/explorededata).

By inputting the characteristics of your business, you will see headline metrics that are relevant to you, and the difference between median and top quartile performance. What does this mean for your business? Please use our Data Explorer to compare your profile to your peers by revenue and industry.

- The report explores the leading practices that drive performance, and explores the emerging challenges. Use these themes to test where you are already matching the leaders, and where to focus efforts to improve.
- The finance leaders' interviews reveal the personal stories of what has been

achieved, the challenges that have been overcome, and future plans.

These stories help to bring the theory to life, and can be used to explain to others what can be achieved. Let us know if you would like to get in contact with other peer organizations.

To really understand where the opportunities lie in their own finance function, clients often start with a benchmark assessment. To discuss how that would work in your business, or to learn more about the challenges and successes described in the report, please contact the PwC team (see page 67 for details).

What we're seeing

As expected, costs rise in line with the complexity of the organization, including the number of countries it operates in. Costs also vary across sectors (financial services generally being the highest and retail the lowest). But when like-for-like businesses are compared, the difference in cost between top and median quartiles is just as great and the opportunity is clear. The developments in standardization, rationalization and automation we've seen in previous benchmark reports have all played their part in cutting through complexity and speeding up cycle times. A further sharpening in performance and efficiency is coming from a combination of leading edge

Lean management on one side and the use of new technology to speed up data sourcing, analysis and communication on the other. While the cost per full-time equivalent headcount (FTE) in finance is increasing, especially among top quartile finance functions in business insight areas, companies are making progress in efficiency, and as a result, fewer overall FTEs are required. In short, top people cost more, but deliver more, and are worth more. As part of this report, we look at the levers your business can pull to enable it to move up into this top quartile.

The search for new and more effective ways to operate and support the business has been given fresh impetus by the changing demands businesses are facing and the need for finance to help navigate through these challenges. Externally, these include how to prime the business

for transformational developments ranging from hyper-connectivity and more exacting customer expectations, to accelerating urbanization and resource scarcity. The box on page 2 lists what we believe are the biggest megatrends facing businesses and public sector organizations and the societies in which they operate.

The relentless pace of change is spurring a move away from lengthy, complex forecasts and budgets towards a more flexible and creative approach to analysis and insight within finance. In turn, conventional finance business partners are giving way to more visionary architects and navigators of adaptation and transformation, capable of judging how whole business models rather than just budgets might need to change, and mobilizing the organization to quickly respond.

“Are traditional finance qualifications still relevant? Is there a risk that others could take over finance's role as the owner of analytics and performance?”

But some finance teams are going further by moving treasury, tax and reporting to dedicated centers of excellence, leaving select professionals to manage enterprise-wide performance and provide strategic insight and direction. Rather than finance operational metrics, the objectives and performance evaluation of this new breed of business partner is centered on business outcomes. The big question for finance is what kind of people, skills and career paths are needed for such roles. Are traditional finance qualifications still relevant? Is there a risk that others could take over finance's role as the owner of analytics and performance? Conversely, does finance, or at least what it evolves into, have an opportunity to emerge stronger and more influential within this more analytically-driven and fast-shifting approach to strategic management?

What really matters?

In this report, we examine eight differentiating focus areas that define leading finance functions generally, with a closer look at leading finance teams and practices in Asia. We have found that these focus areas help enable finance teams to be proactive in addressing the changes affecting their businesses and to position their organizations to better respond to the global megatrends shaping our world. These differentiators involve resource utilization, cross-functional transformation, business partnering, Lean approaches to finance, people management, technology, competitive intelligence, and how the organization responds to change.

1. Setting the standard for excellence: Top tier finance teams operate at lower cost, but make more effective use of their resources. And the differential is growing. How is this being achieved?

2. Cross-functional transformation: Finance transformation is often part of larger multi-function transformation initiatives. This section explores multi-function transformation, the role of the CFO in driving the administrative agenda, and the impact of IT, HR, procurement and other transformations on the finance function.

3. A step up in business partnering: Improved business partnering is often cited as a key driver of improved business performance. Yet questions frequently remain about the processes, tasks, skills, and organizational components of successful business partnering. This section explores leading practices and client experiences with business partnering, the benefits of finance insight and advice for the organization, and how companies measure and benchmark the contribution of finance teams.

4. Reaping the real potential of Lean finance: Like their counterparts in manufacturing, many finance functions embraced Lean practices long ago as a general methodology for identifying and eliminating waste, and focusing on activities that provide the most value. Some companies have seen success, but many aren't realizing the expected benefits. This section explores the new wave of companies applying Lean with startling success.

5. Leading edge people management: Changing mindsets and behaviors in the team is key to uplifting productivity—delivering gains of 15-25%, improving quality and strengthening relationships with the business. This resolves key problems at the root cause and enables simpler solutions to drive change.

6. Technology that delivers business benefit and reduced costs: Many companies have made large finance technology investments. But some report they are not receiving the benefits they anticipated. This section explores the relationships between data governance, data quality, and the return on investment in technology.

7. Turning management information into real competitive intelligence: Finance functions are finding new and innovative ways to analyze, visualize and manipulate data to fulfill the familiar demand for forward-looking insight. This section explores better practices, with examples of companies combining financial and non-financial data with external data sources to make a real difference for their businesses.

8. Navigating through a new business landscape: This section explores how rapid changes in the marketplace are reshaping business, and how leading finance functions are adapting. We explore the threat to finance as we know it today, and show examples of finance leaders responding to these changes now.

“We have found that these eight focus areas help finance teams to be proactive in addressing the changes affecting their businesses.”

Our approach to benchmarking

“Clients increasingly ask for insights on why they may be under-performing and how they can improve.”

As your finance function seeks to keep pace with mounting business and regulatory demands, our benchmark analysis provides a clear assessment of strengths, weaknesses and areas for improvement, and establishes a baseline from which to build the business case for change and measure progress. The approach focuses on the critical data, rather than extensive data requests, and is designed to be completed quickly. Tools are provided to make sure that data is consistent, and that it can be extracted directly from client systems where appropriate.

All the data comes from client engagements rather than third parties. Our approach to benchmarking continues to evolve, as in addition to performance evaluation and comparison, clients increasingly ask for insights on why they may be under-performing and how they can improve.

Our benchmarking approach encompasses four modules. All companies complete the first module and then subsequent assessments are customized around the remaining three areas:

1. Benchmarking

The analysis combines a qualitative assessment and comparative metrics across the dimensions of business insight, efficiency and compliance and control.

- Business insight focuses on finance’s ability to guide the business. The benchmark assesses factors including the proportion of finance effort spent on business partnering, time spent on analysis vs. data gathering, and an assessment of the quality and impact of processes such as budgeting and forecasting.
- Efficiency analyses transactional processes using a range of key determinants including cost, speed, quality and process complexity.
- Compliance and control examines the effectiveness of the controls framework, and the cost and efficiency of controls.

2. Activity analysis

Examines the role and activities of staff. It helps determine the relative value created within a process, and identifies opportunities to eliminate waste and increase the capacity of finance teams.

3. Performance survey

Assesses effectiveness and finance performance by surveying select finance staff and internal customers – senior managers and executives from across the business. The survey covers customers’ views on the expectations of finance versus performance, and correlates those views with finance’s own views.

4. Executive interviews

Views from the business and finance leadership to understand the business context, together with direct feedback about leadership, technology, support, people and organization.

Our benchmark analysis can also look at other functions, either separately or as part of a cross-functional assessment, covering:

- Human Resources
- Information Technology
- Supply Chain
- Procurement
- Legal
- Sales
- Marketing
- Contact Center
- Real Estate
- Innovation

PwC's finance assessment framework

Going beyond improving efficiency in your finance function: these are the key areas of focus to build a finance function that's truly integral to the success of your business.

PwC's standard finance processes

Business insight

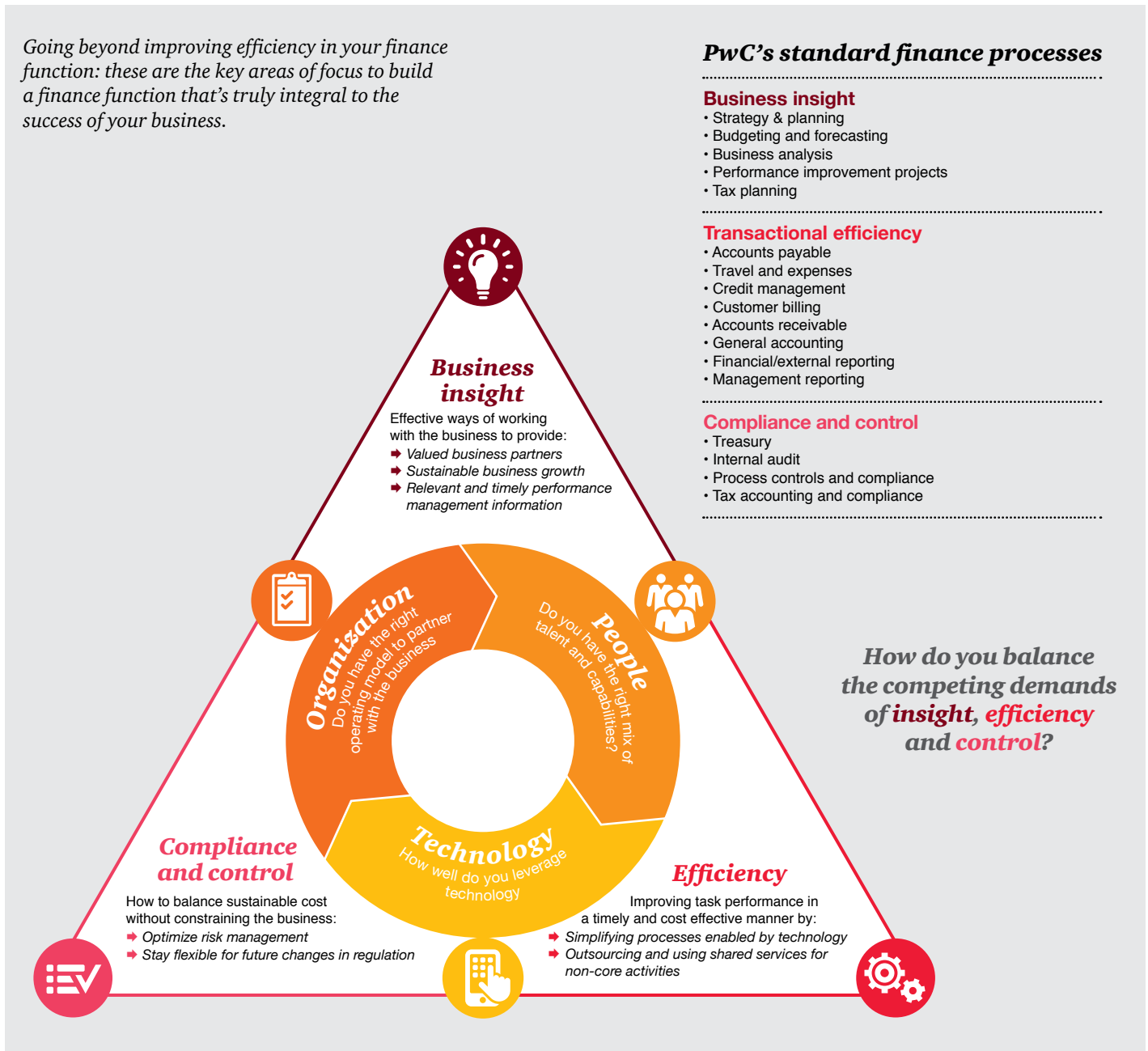
- Strategy & planning
- Budgeting and forecasting
- Business analysis
- Performance improvement projects
- Tax planning

Transactional efficiency

- Accounts payable
- Travel and expenses
- Credit management
- Customer billing
- Accounts receivable
- General accounting
- Financial/external reporting
- Management reporting

Compliance and control

- Treasury
- Internal audit
- Process controls and compliance
- Tax accounting and compliance





Overview: What sets top performers apart?

Cost-efficiency: A combination of automation, more efficient use of capacity and shared services or outsourcing means that the cost of finance as a percentage of revenue is 40% lower in top quartile finance functions.

Faster turnaround: Budgets are delivered 15 days faster than average companies. Expensive and unwieldy IT infrastructure is giving way to more flexible, adaptable and easily updatable cloud-based platforms. Concerns over security are now being addressed as a priority, opening the way to 'rented' IT in larger organizations. The new systems are also cheaper and easier to use.

Sharper insight: While the proportion of finance staff in business partnering roles has remained much the same, finance professionals spend more time on analysis as opposed to just gathering the data. The quality of what they deliver is also more highly rated. Why?

1. Insight professionals are paid more and are worth more, but fewer are needed;
2. Recognition of the need to look beyond routine budgets and forecasts towards a more radical and challenging view of business threats and opportunities;

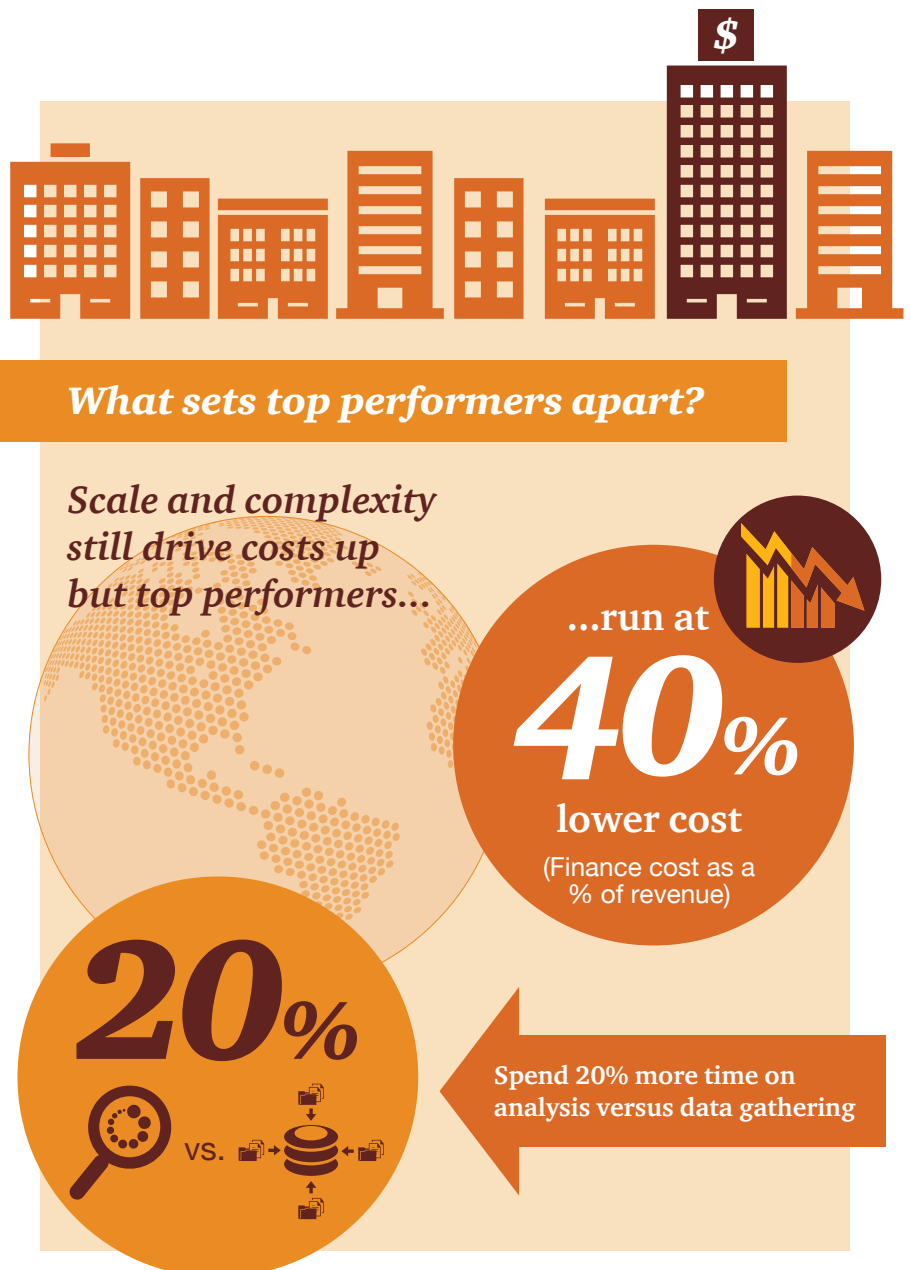
3. Helping the business to identify priorities and cut out needless reports;
4. Close collaboration with the business to ensure data quality and consistency;
5. Investment in technology to speed up analysis and delivery of management information;
6. Use of visualization and on-the-go tablet communication to bring management information (MI) to life and make it more accessible;
7. Business partners are freed from operational duties to focus entirely on frontline insight. Some companies are going further by creating a new breed of business partner, whose performance and rewards are measured primarily on business outcomes.

Leaner operations: Front-runners recognize that the benefits of Lean processes can only be achieved if the foundations of automation, standardization and rationalization are in place. They are also looking beyond systems and processes at ways to foster better understanding of user needs to reduce waste and cut down on repetition, duplicative work, and errors.

Setting the standard for excellence

Our benchmark data reveals some clear messages. Cost efficiency is improving across the board, though much more quickly within top performing finance teams, whose average finance cost as a percentage of revenue is continuing to decrease below pre-crisis levels. How are the leaders managing to pull ahead?

Top tier finance teams operate at lower cost, but also make more effective use of their resources. Rather than simply cutting spending, they adjust how they target resources. Enhanced efficiency means they can dedicate more FTEs to business partnering roles and spend a greater percentage of their time on business insight. They pay a premium for top talent, especially in critical areas where finance intersects with business operations. Internally, they continue to drive waste and inefficiency out of their processes, leverage technology and sourcing in innovative ways, and focus on being more aligned with internal customer priorities. They continue to develop their organizational design and invest in their people. Leading teams also have a keen eye on the future and are able to more successfully anticipate where they will be required to add value. Moreover, these finance organizations continually challenge the status quo and have a comprehensive view of how they can drive the business forward.



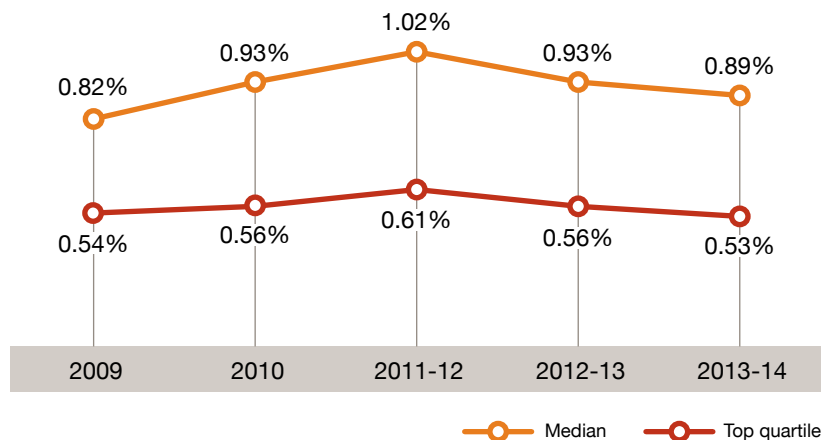
Source: PwC finance benchmark data

Our latest benchmark findings show continued progress on cost (see Figure 1). Although finance will always require significant investment, the fact that top quartile costs are 40% lower than average performers indicates that some organizations have been able to better manage finance costs through a variety of methods, including automation, shared services and more efficient use of capacity. The benchmark data shows us that top quartile performance is seen in all types of businesses, and in our view, there is no reason why all businesses can't operate in the top quartile. Otherwise, the business is squandering resources, and not able to drive performance across the business.

Continued improvements are being made in timely and efficient reporting. As an example, median budget reporting times continue to drop (see Figure 2). These gains are being driven by companies fundamentally rethinking the process, as well as by improved technology and automation. But there is still work to be done. We believe that 80 days to complete the budget is unsustainable, as leading organizations are investing in technology to access data in real time.

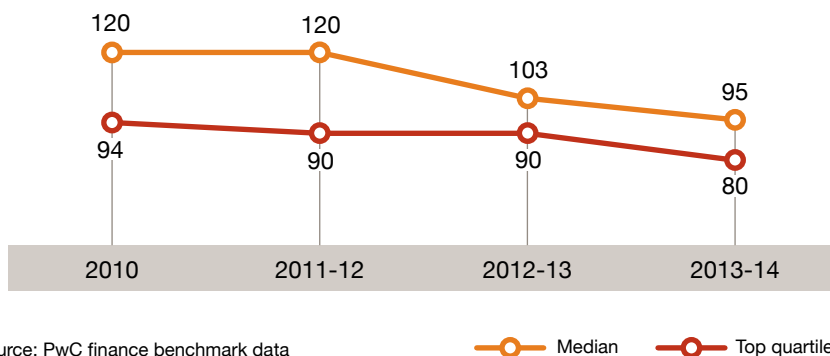
Some organizations are questioning the need for a budget at all. Finance leaders need to be far more ambitious—other areas of the business are making dramatic progress in fast data analysis, and finance risks losing credibility if it persists with 20th century thinking. Our benchmarking engagements show that finance teams generally give relatively low rankings to their own performance in management reporting (see Figure 15 on page 52) compared to the importance they feel these areas deserve. The recognition of this gap among finance professionals themselves, points to a large area of opportunity to refine and expand the power of budgeting and forecasting tools as a dynamic of business growth.

Figure 1: Finance cost as a percentage of revenue



Source: PwC finance benchmark data

Figure 2: Budget cycle days



Source: PwC finance benchmark data

“Leading finance functions continue to drive waste and inefficiency out of their processes, leverage technology and sourcing in innovative ways, and are more aligned with internal customer priorities.”

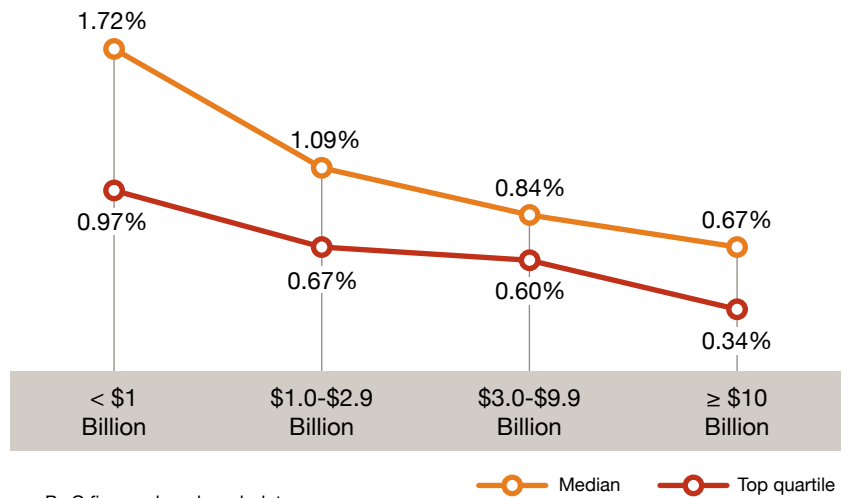
“Moreover, these finance organizations continually challenge the status quo and have a comprehensive view of how they can drive the business forward.”

Making sure the benchmark data are relevant

When comparing metrics, care needs to be taken to make sure that benchmark metrics are relevant, and take into account the size and complexity of the business. These factors, even more than industry, drive relative performance. Small to medium-size enterprises don't have the advantages of economies of scale that larger companies do. Finance functions in companies with less than \$1 billion in annual revenue, are running at more than double the cost of those with revenue over \$10 billion (see Figure 3). Conversely, companies handling operations across multiple countries typically have a significantly higher cost of finance than those operating in a single country (see Figure 4). Smaller companies are affected more—the cost of finance is especially high among small companies operating in multiple countries.

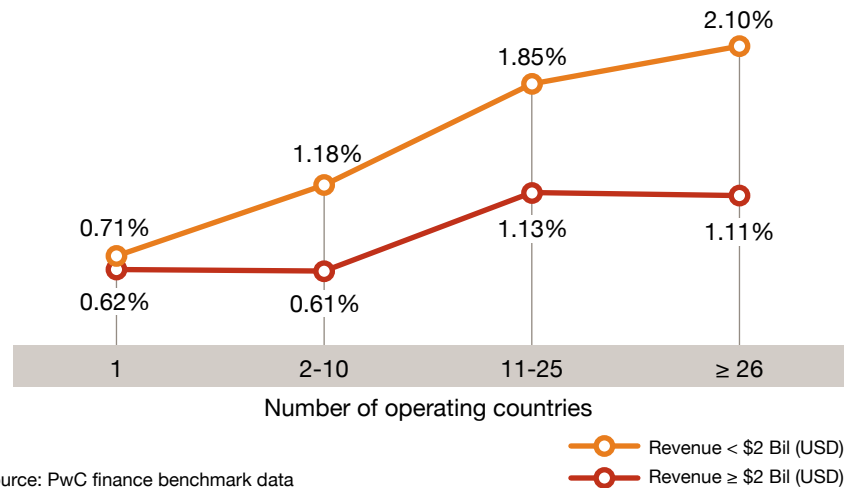
The demands of different industries also drive the cost of finance and necessitate creative and targeted solutions to moderate expenses. High transactional volume and low margin industries such as retail have inherent advantages in being able to keep the costs of finance low (see Figure 5). At the other end of the spectrum, financial services organizations typically see finance costs three to four times higher than the lower cost industries as they deal with the consequences of regulation. Importantly however, whether a high-cost or a low-cost industry, the gap between average and top quartile is often similar, and the opportunities to address cost are just as significant. As a result, it is crucial that you compare yourself to a relevant peer group of companies of similar size, complexity and industry grouping.

Figure 3: Cost of finance by company revenue



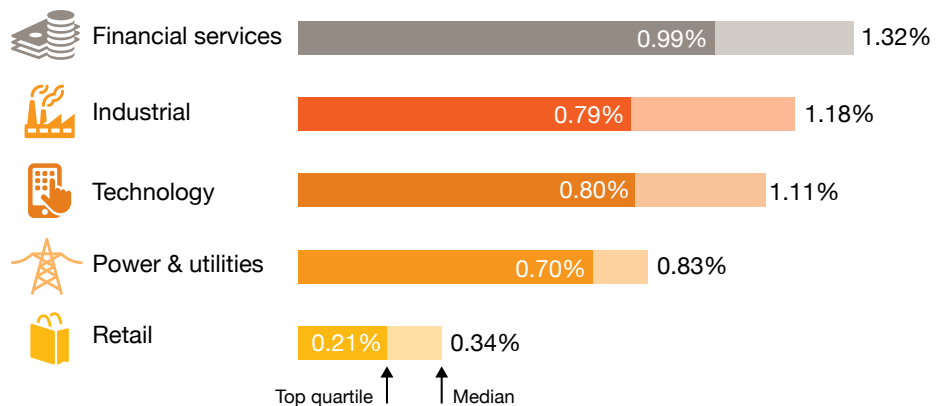
Source: PwC finance benchmark data
Notes: Cost of finance as a % of revenue. Company revenue in \$USD.

Figure 4: Median cost of finance by revenue and number of operating countries



Source: PwC finance benchmark data

Figure 5: Cost of finance for selected industry sectors



Source: PwC finance benchmark data
Note: Cost of finance as a % of revenue



Nielsen: Transforming finance through simplicity, efficiency and business partnering in 18 months

Nielsen has achieved a major transformation of its finance function, designed to increase process standardization, save costs, and improve business partnering. We talked with Fredrik Hedlund, Nielsen Europe Senior Vice President of Finance, about the transformation process, the challenges faced, and the keys to the company's success.

Nielsen is a global information and measurement company with a presence in 106 countries, including 43 European markets. Nielsen's mission is to provide clients with the most complete understanding of what consumers watch (on TV, online, or through their connected devices) and buy (in retail stores or through e-commerce).

In 2009, Nielsen's finance model in Europe was not operating too effectively. Teams worked in silos. There was a lack of process harmony between countries. Complexity abounded. Nielsen's senior leadership recognized that there was a clear need for improved standardization and coordination, and an opportunity for better service quality and reporting. Nielsen set out to transform the European finance organization from a costly and fragmented function to an integrated model which would serve Nielsen's business units consistently and with high quality across all European markets.

Nielsen European Finance SVP Fredrik Hedlund came in and saw the opportunities for change. In early 2010, he began by organizing a benchmarking initiative to understand how the existing finance function performed and to identify the potential for transformation and cost reduction across the

function. He then worked with his team to create an aggressive roadmap, spanning the next 18 months, designed to transform the function into a high level of service, yet low-cost, service, low cost, efficient system. The strategy focused on building a new operating model rooted in the strategic objectives of simplicity, efficiency, and business partnering. The transformation moved finance from an organizational model that mirrored the company's decentralized business structure to one with standardized continuous processes, delivering insights to the business in the key areas of risk, growth, and performance. The transformation established an integrated European finance operating model that enabled effective execution through process standardization, improved communication and transparency, effective business partnering, and enhanced controllership.

Mr. Hedlund outlined how the new finance organization would now execute three main functions:

- Finance business partners in each major European territory would become the interface for the sales and operations people in that country.
- European centers of excellence would be responsible for financial planning and analysis; internal procedures and internal controls; and transactional finance processes.

- The transactional finance processes, such as accounts payable, accounts receivable, T&E, and fixed assets would be successfully offshored to a third party vendor, with operations in India and Hungary.

The new operating model clearly distinguished responsibilities between business partnering, compliance and control, and transaction processing.

Today, Nielsen's leadership is very satisfied with the performance of the newly-transformed European finance function. But Mr. Hedlund reveals that the journey was sometimes difficult, with significant challenges that had to be overcome for the finance transformation to be successful.

Challenge #1—Concurrent ERP implementation: In conjunction with the finance transformation, Nielsen Europe had a large SAP ERP system implementation. This was necessary to achieve the required efficiencies and standardization of processes, but running both change programs together made the change particularly difficult. Lesson learned: Careful planning can help to mitigate the impact, but a co-occurring organizational change and ERP implementation will always present challenges.

Challenge #2—Data and system errors: Mr. Hedlund described a data migration issue that resulted in improper and delayed billing and a major cash flow problem that required six months to resolve. Lesson learned: More robust KPIs and careful oversight of new systems and data are essential and need to be a high priority.

Challenge #3—Tough stretch goals without proper monitoring: To transform Nielsen's European finance organization quickly, tough stretch goals for Nielsen leadership were

required. Mr. Hedlund learned that these need to be accompanied with close measurement and monitoring over time. Only with clear monitoring can senior leadership know which aspects of the program are on track, and know when to step in when progress towards goals is not being realized at the right pace.

Challenge #4—Offshoring of financial planning and analysis processes: Nielsen Europe initially offshored a large part of its financial planning and analysis processes to India. However, this presented several challenges. A large part of the offshored work was ad hoc in nature which made process standardization difficult. There was also high turnover on the Indian team due to the competitive marketplace in India for people with valuable finance skills. All of these things hurt the efficiency and the quality of the output. So, in 2014 Mr. Hedlund decided to pull the plug on the Indian financial planning and analysis offshore team. He transitioned the work to a captive shared services center team of Nielsen employees, which was established in Poland. Nielsen controls all hiring, compensation, training and development. Turnover is much lower now, and quality is higher.

Finance target operating model and transformation projects are often driven primarily by cost, but it is interesting to see that the effects of Nielsen's finance transformation have been particularly pronounced in the business partnering role. In the previous function, there had been a lack of clarity regarding the role or mission of business partnering. As a result, business partnering activities were largely ineffective. Prior to the finance transformation, responsibility for business partnering

fell to country finance directors with many other responsibilities—they were essentially mini-CFOs, responsible for the full delivery of all finance functions in their area. Business partnering was only about 20% of their responsibility, while the majority of their time was devoted to overseeing transactional processing, leading a team and reporting. So, without a specific focus on business partnering, the activity suffered.

Today there are a number of dedicated business partners in the new organization. They are senior talent reporting directly to the European CFO, Mr. Hedlund. The business partners have no direct reports, and are not responsible for executing regular finance work. They have a 100% focus on being business partners, and it is the sole basis for their performance evaluation. This has led to a much more effective and engaged business partnering practice.

As a result of the overall transformation, Mr. Hedlund and his team have reduced the cost of finance for Nielsen's European operations, while also realizing significant improvements in how the finance organization serves the business community within Europe. They have built a dynamic team of business partners who better understand the new requirements of business in Europe and are able to respond flexibly to changing business circumstances. Finally, they have improved consistency and quality while reducing the costs of the financial transactional function, creating a much lighter and more efficient organization.

Mr. Hedlund feels the Nielsen success story results from both outstanding planning and execution. He outlines several keys to the success and speed of their finance transformation:

“First, and most importantly, I was given a crystal clear mandate to drive change, with full authority and support from the global CFO—stakeholders understood that none of the program was optional. Second, our senior transformation team devoted sufficient time up front to careful planning, beginning with a benchmarking process and including a detailed roadmap for the transformation. We defined both the factors that needed to be addressed, and the desired end-state for the transformation. Third, we identified and acquired the absolute best talent available for the transformation team.”

Post-transformation, leadership of the finance organization is a mix of the best Nielsen home-grown talent and finance superstars brought in from outside the organization. The final key success factor Mr. Hedlund outlines is that he aligned everyone's goals and compensation to the success of the transformation. “Every person in the finance organization had goals, performance plans, performance measurements, bonuses and salary increases tied the success of the Finance transformation.” And Mr. Hedlund emphasized this point: “EVERY person, not just the senior people.” He feels this helped enormously to get universal buy-in to the plan and to get everyone working together to make the transformation a success.

Looking toward the future, Mr. Hedlund believes benefits similar to those realised in Europe can now be achieved on a global scale. The European finance function is now highly regarded at Nielsen and other regions are interested in exploring changes to their finance organizations similar to those achieved in Europe.

Foundations for success: The building blocks for finance transformation

Every company is different and transformation can therefore take many different paths. The building blocks are well known, but many organizations fail to get it right. (It's not impossible however, as we saw with Nielsen on page 14.) We see that there are some fundamental elements of the transformation plan that most companies find critical. These typically include a clear vision to unify the organization, a baseline assessment to clarify the platform for change, a target operating model to define where the journey will lead, and a robust roadmap to explain how the organization will get there. We advise our clients to build for the future, not just for the near term, involve people from across the levels of the organization and across the geographic and functional divides. The best solutions are often those where people collaborate and the senior and more experienced staff don't have a monopoly on good ideas.

1. Creating a Vision

Agreeing on what the organization is trying to accomplish through the transformation will help align leadership and help determine how the new organization should be structured and how initiatives will be prioritized.

Organizations in the process of developing this vision might consider common catalysts for change such as:

1. Improving decision support or business partnering;
2. Achieving cost out or scalability targets;
3. Improving integrated financial planning;
4. Integrating new businesses, markets or business models;
5. Enabling new or upgraded systems and processes.

An effective vision extends beyond simplification or standardization to describe what value the finance team will provide to the organization, in line with strategic goals. For example, an organization focusing primarily on creating cost opportunities may choose to develop a transformation strategy

focused on process standardization, enabling shared services, and evaluating third party or hosted solutions for IT support. Alternatively, a company focused on developing better business partnering would want the talent and analytical systems to achieve this. For example, a leading telecommunications operator set the vision for its performance management transformation by stating that the finance team would "discuss business drivers rather than dollars" when setting annual targets. This direction provided a clear standard by which new planning models, processes, and systems could be judged.

2. Developing a data driven baseline

The rationale and baseline for change can be established through a detailed activity analysis, benchmarking exercise, process review, gap analysis, and/or a 'voice of the customer' survey.

By reviewing benchmarking outputs on a periodic basis, you can identify where transformation efforts have been successful and where they still need to be improved. One company identified underperforming invoice processing, and as a result decided to install a new optical character recognition system. However, after implementing the new system, measurement against the baseline hadn't changed significantly. This information allowed the company to quickly identify areas where redundant manual processes were still being performed due to lack of trust in the new system and to put measures in place to better embed new processes.

As one CFO put it, the measures put in place to track transformation success "cut through the update slides and give us the truth quickly, so we can reflect and adjust to the ever changing environment."

3. Creating a target operating model (TOM)

The TOM defines organizational structure, roles, and supporting technology. A leading consumer products company leveraged a clearly outlined global set of processes, roles,

and IT standards to accelerate their transformation by eliminating non-strategic projects, and dedicating corporate resources to help lagging business units catch up to the new corporate standards. The TOM forced the company to move beyond quick fixes to realize lasting, transformational change.

In our experience, TOMs are generally developed iteratively, starting with a hypothesis model that can be tested in one location or business unit and then applied to the rest of the business, based on lessons learned. This approach tends to yield a better final product while also building buy-in before embarking on an enterprise-wide transformation. A leading industrial products company used such a pilot to demonstrate how finance and analytical planning business partners could benefit the business and what capabilities were needed for the role. Feedback from the business is vital in developing a consensus around the TOM design and ensuring appropriate enterprise-wide buy-in.

4. Develop the Roadmap

A transformation roadmap sets out priorities, dependencies and timing, helping to improve communication across the business and helping to identify and overcome potential hold-ups.

The consolidated business case is a critical element in the roadmap, not just in securing funding, but also conveying the benefits to the business and overcoming resistance to change. One company faced challenges gaining buy-in for a large scale shift to shared services as the charges deterred some business units from using the center. The original business case became a mechanism for measuring whether the expected value was being delivered at a total company level and communicating these benefits to the business. Ultimately, this discussion helped the team learn how to adjust the change process.

The implementation plan or roadmap provides clarity on how an organization will achieve the projected new structure. Most companies look for ways to build quick wins during initial phases of the transformation to help build momentum, validate designs, and realize initial cost savings that can fund future phases of the transformation. Successful plans tend to include some common elements:

- A documented set of stakeholders including key sponsors and other impacted parties;
- A high level plan that shows how initiatives relate to each other and where dependencies exist;
- A clear communication plan setting out how key messages will be conveyed (a multipronged approach tends to be best) when they will be delivered, and to whom. Given the potential resource impacts of large scale transformation, HR and legal departments should be consulted in the development of this plan;
- A simple and trackable method of accountability that ties directly to change objectives.

Most failed transformations can trace their lack of success to the neglect of one or many of these key considerations. One organization found itself half-way through its transformation agenda with considerable skepticism about whether the plan was on track. After re-evaluating the baseline, the team discovered that the primary metrics being tracked were overly focused on getting new processes and systems underway rather than whether these new mechanisms were driving out complexity or increasing value of services provided. A new plan was put in place to adjust metrics and incentives.

Ed Ponagai, Principal (US); Brian Updike, Director (US); Robert Demeter, Director (US); Michael Vanderburgh, Manager (US) and Simon Seymour, Director (UK); are members of PwC's Finance Effectiveness practice. They focus on finance transformation and helping CFOs strategize, plan and operationalize their transformation priorities.

How to maximize the benefits of an activity analysis

As we have discussed, for successful finance transformation, it is essential to start with a baseline and benchmark. Understanding how individuals spend their time, identifying duplication and waste, provides valuable additional data, and is quickly achieved through “Activity Analysis.” But for this to be valuable, there are pitfalls to be avoided. A leading diversified products manufacturer conducted a detailed time and motion study across more than 900 activities for all finance employees in the company. Initially the data was used to identify activities that could be moved to global shared service centers, but teams found difficulty in using the data to actually move the work, much less to inform the design of their new target operating model. A few useful lessons from their experience may be helpful to others embarking on the same journey.

Couple the analysis with benchmarking data at a higher level to identify focus areas. For this company, finance cost was in line with competitors, but comparison to other leading indicators such as span of control and cost per resource indicated that they had a potential continuity and scalability problem. Follow up analysis looked to identify whether excessive demands were leading to ‘key person’ dependencies, and contributing to a disruptively high turnover rate.

Group activities by future state role. For this company, the activities selected for the analysis were not informed by the new role descriptions it was planning to work toward. As a result, the level of detail was excessive in many areas that would remain unchanged through the transformation and too light in other areas that were heavily affected. Even so, the company was able to make the best use of the data by grouping activities by future state role, with emphasis on activities that would be impacted or shifted as part of the transformation.

Understand potential weaknesses in the data. In most cases, detailed activity data is gathered via self-reporting, the accuracy of which can and should be appropriately challenged. Questions should be asked about the data, and these questions can lead to improved standardization and improved data quality. Although every employee completed the survey reporting a full day’s work, often activities such as checking personal internet sites, talking at the water cooler, or waiting for the next assignment are not included. Similarly, since this company’s survey was completed on a percentage of time basis, employees who worked 80 hours per week appeared at the same capacity as those that worked 35 hours per week. Process walkthroughs with a focus on roles and responsibilities helped this company validate the baseline information, identify weak spots in the data, and ultimately leverage the baseline to implement their new target structure.

Overall, we find activity analyses critically important, but would advise that you: 1) combine them with other peer group data, 2) consider the activity structure and level of detail, and 3) recognize inherent weaknesses that may arise based on how information is gathered.

Nedbank: Creating a center of excellence by focusing on people and quality, not just cost

Nedbank, a leading South African banking group, is entering the final stages of what has been a long journey towards the creation of a multifunctional group business services organization. We asked Ian Fuller, Executive Head of Business Transformation, who has led the evolution and growth of the service center for the past ten years, to share his experiences in bringing functions together and making them work successfully.

Nedbank Group is one of South Africa's four largest banking groups, providing a wide range of wholesale and retail banking services and a growing insurance, asset management and wealth management offering. Its international business includes operations in other parts of Africa, as well as in the UK.

The journey to a shared services center began with the centralization of accounts payable in the late 1990s. By the time Ian Fuller took over the development of the center, it had grown into a finance shared services operation for all transactional finance activities. "We wanted to raise efficiency and service levels, so we brought these activities into a shared service center that was able to improve the management of people, processes and data," he says.

Now Nedbank has moved most of the finance, procurement, HR and corporate real estate functions into its 800-person Group Business Services (GBS) organization, at the same time replacing a host of legacy systems with a modern enterprise platform.

"For finance, the center now produces financial and management accounts as well as transactional services, serving internal stakeholders across the organization," says Ian. The only parts of the finance organization other than business-specific finance processes that are not in the GBS are specialized functions such as tax, investor relations and the financial controller function, which are managed within centralized centers of excellence.

Describing the foundations for the GBS operation, Ian says, "In our group business services model there are four functional towers of finance, human resources, procurement and corporate real estate, which are focused on providing group wide shared services. Then there is what we call the support and infrastructure layer, which supports all four towers with functions they all need, such as application support, process management, master data management, risk management and people practices. We are leveraging some specialized skills there. Finally, we have a service management layer that comprises a web portal, service desk and self-service options, and enables us to interact with the business."

Quality as the key priority

The initial focus was primarily on how to improve efficiency through economies of scale, standardization and improved capacity. Rather than reducing staff numbers, Nedbank was looking to its GBS to absorb and rationalize acquired operations and provide the necessary back office operational platform for Nedbank to grow and move into new markets. "The bank has grown, and the GBS now handles much higher volumes, providing many more services with only a modest increase in staff," says Ian. "When we acquired several banks in 2003, it was a nightmare. But by 2009, when we acquired Imperial Bank, the capabilities within our shared service center enabled us to transfer the back office functions in just two months."

Service quality rather than cuts in costs and staff numbers continues to be the overriding objective. "One of the things we had to decide was whether to go for a pure low-cost operation, a 'just enough' type of operation, or value-added services. We went down the value-added services route because we had learned over the years that people are prepared to pay more for good service but nothing for bad service," says Ian.

The focus on service quality has had a strong bearing on the investment strategies and organizational design within the GBS and its interactions with its 'clients'. "The reality is that, while many organizations focus solely on efficiencies, I think we've shown over the years that there are two other major

components of delivering services to the group. They are the quality of that service and the management of the risks associated with that service,” says Ian. As an example he explains how the ability to leverage scale and invest in technology has enabled the GBS not only to improve the efficiency of a service such as payroll, but also to cut down massively on paper, errors and queries. “Before we brought in payroll, there would be at least 2,000 queries the day after payday, and many of the pay slips wouldn’t have arrived at employees’ desks. A couple of years later we have that down to 20 post-payday queries, with pay slips delivered electronically to desktops two days before payday for people to just click on a button,” he says.

Investment in people

Ian believes that quality can’t be delivered without investment in people. “You definitely have to be adding value and innovating all the time, but the critical success factor that really differentiates us is our people practices,” says Ian. “We had a very specific people practices team that would make sure that, whenever we integrated a new function, everybody was taken care of, everybody knew what their job was, everybody had a scorecard, everybody’s performance was appraised, everybody participated in the recognition processes, everybody had a training plan, and everybody was growing and learning at the same time.”

A key part of the focus on people is career development. “We try to balance the fact that a lot of what we do is a factory-type operation by ensuring that people have career paths and are developing as individuals while helping to improve the quality of the services,” says Ian. “There are some real success stories of young people who joined us ten years ago to carry out basic processing tasks. Through normal technical and life skills training, bursaries, self-study and so on, they became proficient in their tasks, rotated to different roles, moved up into a supervisory role, then into a managerial role, and today sit in a general management role.”

Measuring success

So how is performance measured? Ian describes the “hard metric” as the cost of providing the service. “We cost every single service. Business gets a bill every month saying ‘these were your volumes; this was the unit price; and this is what you paid.’ They can compare that with what they paid last year. We end up with no costs at the center and the businesses effectively pay an at-source charge for all of these services.” His team also uses net promoter score to gauge service quality. “We monitor that across the services every month as well. That’s more of a qualitative measure of whether our clients are happy.”

The next step for Nedbank is to incorporate functions that currently reside outside South Africa to create a global GBS. “We have a number of businesses in various African countries, as well as in London and on the Isle of Man. We’re looking to see how we can provide certain services, particularly with the enterprise resource planning (ERP) system in place, across the world, with one HR system and one directory where people can see who’s who and contact them. Obviously, there are some localization challenges on the payroll side, but we want to incorporate the payroll systems that are currently used in all of those countries, and various other services onto our platform as well,” says Ian

So what does Ian see as the key to getting business buy-in for moving services to the GBS? “Success breeds success,” he says. “We didn’t set out to bring all the functions into the center, but over time, people suggested that we have a look at other functions and processes, since GBS was doing so well. Our shared service center gained quite a reputation for itself. Even now, as we’re expanding into further services, we’re doing it from a position of strength and with a good reputation. It’s absolutely fundamental to have good people, to manage them well, to reward them appropriately, and to deliver a superior service.”

Intel: Improving processes and reducing costs for shared services success

We spoke with Marc Graff, VP, Finance and Director of Finance and Administration, Asia Pacific and Japan; Jim Campbell, VP & Head of Global Finance & Accounting; and Alvin Miyasato, Regional Manager, Learning and Leadership Development—Finance, about advances in Intel's finance function. They described the successes Intel is having with its multi-function Regional Shared Services Center in Malaysia. They also described how Intel's finance leaders are working closely with governments in China and other Asian nations to proactively influence new trade and customs regulations.

Intel was founded in 1968 and is now the largest semiconductor company in the world. They are headquartered in Santa Clara, California and employ over 100,000 people worldwide, with 45% of employees working outside of the US. Intel's finance organization has undergone an exciting journey, creating shared services centers (SSCs) in Malaysia and Costa Rica, and systematically migrating increasingly complex finance operations to these centers. Following finance's lead, other Intel functions have moved support services to the SSCs model. These multi-function SSCs have now realize significant efficiencies and cost savings for the company.

Marc Graff and Jim Campbell outlined how prior to 2003, Intel had finance resources deployed across multiple countries in Asia, supporting various operations or regional on-site offices. Intel had discrete finance support functions that were co-located in each location. None had sufficient staffing levels to support a full organization, and talent turnover was a significant problem. Mr. Campbell explained: "We were relatively thin. If a person was the only one in a small finance

team with a particular skill, and they left for another opportunity outside of Intel, I lost 100% of my capacity in that office. There was no structural redundancy built into these different locations because they were so fractured across the region and there isn't a great deal of inter-region, natural mobility. Additionally, each location had different ways of accomplishing the same tasks, and employed different systems to manage their data. As a result, the cost of finance in Asia was very high, consistency of reporting was low, and consolidation difficult."

In order to manage and maintain control over the cost structure in the region, Intel decided to create a regional SSC. They determined that strategically it was best to co-locate with an existing Intel presence in the region. Intel considered a number of locations, and there were a number of factors that came into play. Cost was one of them, but it wasn't the most important. Intel was more concerned with the availability of skilled resources, ongoing geo-political stability, and employee attrition rates. They also considered the risk of doing business in each country and the overall operating risk in the region.

Ultimately, Intel chose Penang, Malaysia as it met the criteria and an established Intel factory existed at that location. Intel had a very large manufacturing site in Penang, and was also investing in product research and development. The existing Malaysian accounting group formed the seed, and it was expanded to become the Shared Services Center. Intel then consolidated its finance function country by country. It first incorporated finance activities from Singapore, then from Hong Kong. Japan and Korea followed. Finally, finance activities from the Philippines and India were incorporated into the Malaysian SSC in 2006.

Intel has been particularly mindful of talent development for the Malaysian SSC. Mr. Campbell told us: "We seek organic growth and encourage leadership development at the Shared Services Center. We tend not to hire senior and mid-level management from the outside, as we've realized better outcomes when we have a hand in a professional's development." Additionally, Intel works hard to recruit talent with a wide variety of skills. In Asia, Intel seeks talent with a strong

knowledge of local markets and fluency in both English and the local language. The group also strives to find employees who understand the local culture, but also share the Intel culture and ethics. Finally, its people are expected to exhibit strong technical, business and strategic capabilities. In return, Intel provides significant skill development and training for its SSC employees to help them develop their talents in higher-level finance activities, and possibly move into management. The group also rotates employees through different areas within the SSC, so that they expand their skills and capabilities across functions.

Many Malaysians seek higher education in Australia and the UK. Intel found that they are able to find Malaysians who left the country for college but are interested in finding work back in Malaysia. It has now actively partnered with the Malaysian government in a program to assist Malaysians who leave the country for education, but want to come back to live and work. Intel finds that combining staff who are educated outside the country with people who are educated within, offers a good mix, both in terms of diversity of approach and capabilities.

Over time, as the Malaysian SSC earned credibility, gained experience and developed additional skills, management has gradually worked to bring higher value work into the center. Initially, the SSC handled strictly transactional work such as paying bills, posting recurring entries, maintaining the general ledger, the entity structures, and the chart of accounts for those entity structures. Today, the Malaysian SSC handles all of Intel's entity financial statement filings. The compliance aspects of channel management and various revenue incentive programs are now also centralized in Penang. Other functions at Intel have studied the success of Finance's Malaysian SSC, and as a result, have now also consolidated their regional functions at this same SSC facility. In addition to housing finance, the Malaysian SSC now encompasses IT, HR, and procurement. SSC management and overhead is shared across functions, further improving efficiencies.

Since the creation of the Malaysian SSC, Intel's cost of finance in Asia has gone down significantly, attrition has improved, and the company has created a depth of talent that was not possible when finance was spread thinly across the region. This has afforded Intel the opportunity to place intense focus on process management and the systemization of work flow. The group

has realized differential advantage not only from the quality and cost of labor, but has seen significant reductions in the head count per activity required. This, in turn, has been a big contributor to driving down the overall cost structure for the organization. Alvin Miyasato emphasized that the wider set of opportunities at the entire SSC, both across different finance processes, and across the other non-finance functions, help provide learning and career growth opportunities for the SSC staff. As a result, attrition rates are well below industry standards. The success of the Malaysian SSC has led to the establishment of a second SSC in Costa Rica which is responsible for finance activities in the Americas. Today nearly all of the accounting functions that support US GAAP are in either Malaysia or Costa Rica, leading to significant efficiencies and cost saving for the company. Marc Graff sums it up: "Finance costs are growing significantly less than revenue—we call that success. We benchmark periodically—that's critical. Our costs are among the best in class. As long as we're keeping costs relatively flat as the rest of the company grows, we are doing great!"

Cross-functional transformation

Finance transformation cannot be achieved in isolation. What role can other functions play in delivering successful finance change? How is the relationship between finance and other functions evolving and how can the benefits of these developments be maximized?

The close understanding and collaboration between finance and other functions is a key feature of top performing finance teams. This integration at all levels of the organization stretches from the efficient and timely processing of functional information to the exploration of data-driven insights that move the business forward.

Increasingly, organizations are turning to finance professionals as they consider transformation processes. As technology continues to advance and businesses demand more flexibility, efficiency and capability from their people, transformation projects often require the coordination of finance, IT and HR departments to ensure their success.

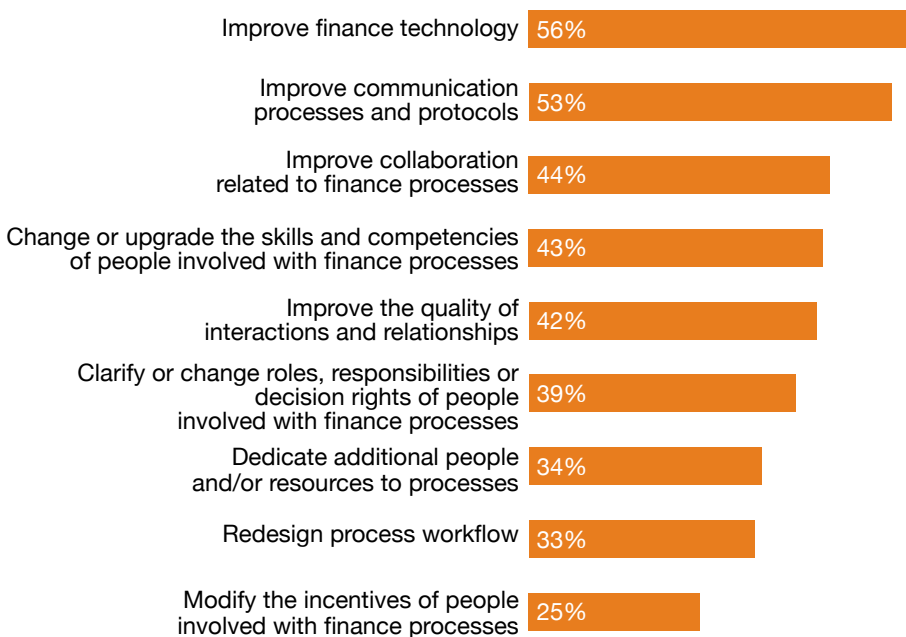
In order to be successful, business transformations should align all support functions around common organizational goals, as well as internal stakeholder needs. Support functions need to work together, sharing information and processes. They also need to reallocate existing tasks to the most efficient location and use the latest technologies to improve processes, reduce costs, and make better decisions. Finance professionals recognize that the nexus of improved technology, communication, and collaboration is critical if they are all going to be more effective in carrying out their functions (see Figure 6).

Bill Gilet, Partner, PwC US, explains that “as finance teams look at how to transform their capabilities, they need assistance from IT in evaluating their systems and data quality and developing plans for an upgrade. Finance also needs to involve HR as it plans for change management and determine how best to hire and train finance staff for the new systems and resulting changes in finance workflows.”

Adopting new technologies typically requires significant process transformation and active finance involvement throughout the technology implementation. Catherine Zhou, Principal, PwC US explains: “It is important to understand that technological advances are not something that IT does to finance, or for finance. Finance needs to partner with IT and take an active role in system setup and be part of the design

Figure 6: Priorities for making finance more effective

Which of the following do you believe would make finance processes more effective?



Source: PwC Finance benchmark data, Performance surveys - finance feedback



and implementation process.” Ms. Zhou sees the biggest change that organizations need to make as they go through technological transformations is to push more interaction, involvement, and partnership with sales operations, manufacturing, production, and marketing—all the organizations that are responsible ultimately for numbers and for reporting, especially more detailed management reporting about products and customers.

It is important to remember that new technologies are being used for everything from sales forecasting to workforce planning, operational planning, and analytics. New tools are coming on stream across many different parts of the organization and

are being used by sales, operations, corporate functions, and others to do their own financial analysis and planning. Finance teams of the future will need to determine what new tools are being used by whom and what control can be maintained over the validity of the organizational data. CEOs are aware of this risk and want to see a strong connection between digital investments and business objectives. Most of the business leaders taking part in PwC’s latest global CEO survey (86%) say a clear vision of how digital technologies can help achieve competitive advantage is key to the success of digital investments, and 83% say the same for having a well thought out plan—including concrete measures of success.²

Mike Greig, Partner, PwC UK, explains that “successful cross-functional transformations can lower costs by up to 50%, increase quality and control through simplification and standardization, and allow business partners to focus on relationships and insight generation, rather than data gathering.” Shared services and outsourcing are frequently used options to support such transformations.

The most successful companies see all transformations as cross-functional, cutting across all processes and operations. Moreover, they consider processes on a global basis, allowing them to promote change much more effectively than if they were simply trying to limit transformation to the finance function in a single location.

² 1,322 CEOs in 77 countries were interviewed for PwC’s 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

Nordstrom: The customer comes first through business partnering transformation

Nordstrom is in the midst of a major technological transformation throughout the organization. We talked with Jim Howell, Executive Vice President of Finance for Nordstrom, and Brian Cimprich, Vice President of Technology Finance, about the transformation process which has enabled Nordstrom to bring their industry leading customer service into the digital era.

Nordstrom, Inc. is a \$13 billion US-based fashion specialty retailer founded on the value of industry-leading customer service delivered historically through its full-line store experience. About a decade ago, Nordstrom recognized that as the retail landscape changes they would need to incorporate new, innovative technologies into its multiple customer channels, including Nordstrom, Nordstrom Rack and Nordstrom.com, to support its commitment to the customer. Early on, Nordstrom recognized a greater need for a business-focused approach to assess technology investment, including measurement of goal attainment, return on investment, and value creation. The finance department played a critical role in enabling this approach.

Nordstrom has always had a reputation as an industry leader in customer service. In recent years, it noted that customers desire greater speed of delivery, convenience and

technology enabled experiences that meet their expectations. Nordstrom recognized that its customers are diverse and require different shopping experiences—some want a fast, convenient in-store experience that maximizes their time, others desire a high-touch in-store experience that may take several hours, while others want a fully digital experience. In order to maintain a high-touch experience while competing with lower cost entrants into the retail market, the company needed to make the investments in technology necessary to give their customers what they were asking for—and do so quickly and nimbly.

Jim Howell, Executive Vice President of Finance for Nordstrom explained that in late 2013, the Nordstrom senior leadership team responded to its evolving customer demands by going through a cross-functional strategic deep dive on how best to leverage technology. This initiative included goals around flexibility, reliability, productivity, business and technology

alignment and measurement, spanning functions from retail business units to merchandising, sales, IT and finance. With public commitments to invest in technology, as well as business acquisitions such as HauteLook and Trunk Club, Nordstrom's leadership sees the company's future growth as being enabled by the success of its technology investments.

In order to successfully complete such a significant technological transformation, Nordstrom recognized that the business, finance, and technology teams all needed to be jointly committed and accountable, and in communication on a more regular basis. This approach required both finance and IT professionals to align closely with business units more than ever. These 'three legs of the stool' did not come without challenges, noted Jim Howell. First, the teams realized that in order to successfully initiate this degree of change, they would need to bring in new talent from outside the organization. They needed business people who were more comfortable with new technology, and IT people who knew how to work as business partners. Second, they needed a new operating model that would support a high level of business partnering among finance, IT, and the lines of business. And finally, they needed a better way to

define the requirements, successfully engage with both internal and external customers throughout the change process, and to measure themselves before, during, and after their investments were made.

A more effective and collaborative technology finance organization was needed to support these organizational changes and offer a stronger focus on technology and business partnering. The journey has led to a more efficient and productive finance department that is able to move more nimbly and make faster decisions. Further, it has provided more opportunity for finance staff—who are coming from more diverse backgrounds as the business has expanded—to take advantage of rotations and project work for career development. Finally, acknowledging the need for tighter finance and IT integration, the Technology Business Office was created to run technology more like a business, and while that office reports directly to the CIO, its leader partners closely with Brian Cimprich, VP of Technology Finance, to ensure the finance integration happens.

As Nordstrom has adopted new technology, the group has been able to incorporate practices from its brick-and-mortar past into its technology governance. A focus

on rigorous post-project reviews and measurement, a staple of the full-line store capital process, has allowed the group to ensure that new functionality and features have delivered value for the organization. Every technology investment over a certain threshold is rigorously post-tested. What was spent? Did the delivered project meet expectations? Were there scope changes? What are the financial and non-financial benefits? The finance department coordinates this process, working with IT and business lines as key contributors and committee members to ensure people are held accountable. This governance process is still evolving, occurring in a ‘lookback’ manner 12-18 months after project completion, but Nordstrom is continuously moving towards more real-time and on-going measurement of return on invested capital.

A year and a half after starting the initiative, Nordstrom is still moving through this enormous transformation, but is already seeing results, both in marketplace performance and internal effectiveness. Talent has been brought in from outside the company and rotated from other areas within to ensure the strongest possible team to lead this effort. Business partnering among technology, finance, and the lines of business is now the rule at Nordstrom rather than the exception.

Most importantly, Nordstrom customers are seeing the benefits of this transformation. New mobile point-of-sale devices were tested and deployed in both the Nordstrom Rack and full-line stores, enabling a better customer experience through mobile checkout. With ongoing improvements to the online experience, customers can now view products with customer reviews including fit ratings to show how product sizing compares to actual fit (e.g. runs small, runs large, etc.), receive recommendations based on past purchases, and free shipping and free returns every day of the year. Nordstrom also developed a mobile application to make searching and purchasing on a mobile device easier. The experience has evolved in such a way that customers looking for a fast, convenient in-store experience are able to buy on-line and pick up in store, while those desiring a more personalized in store experience can be served by a salesperson or personal shopper. Jim Howell summarized the benefits: “The tighter integration of business units, IT, and finance teams working together on technology planning, development, and testing has enabled quicker evaluations and nimbler adjustments that maximize the positive impact on customers, better manage costs, and improve the Nordstrom brand in the marketplace.”

BBC: From efficiency to effectiveness

The BBC has recently completed a large “finance effectiveness” initiative, which has enabled it to realize both significant efficiencies and more effective support for the business. To enable this, the BBC undertook a review of the entire finance operating model, which has included clearer definitions of business partner and service center roles and closer engagement between embedded and service center personnel. We spoke to Ian Haythornthwaite, BBC Finance Director, about the original restructuring phase and the continuous improvement that has followed—changing operations, aspirations and expectations within BBC’s finance team.

The British Broadcasting Corporation (BBC) is the world’s oldest national broadcaster, an iconic brand whose commercial operations are becoming increasingly global and now have revenues in excess of £1bn—up 59% over the last 10 years—in addition to license fee income of nearly £4bn. Cost and value are critical in an organization that has to justify expenditure to its license fee payers and remain true to its charter—to inform and educate as well as entertain. It also faces the challenge of sustaining relevance and appeal in a media sector being transformed by digital proliferation and rapidly changing audience habits.

The evolution of the finance function at the BBC has unfolded across two decades. In the 1990s, the BBC began to reduce the cost of finance by outsourcing transactional activities and implementing SAP. Then, in the mid-2000s, the organization sought to cut the cost of finance in half by creating a shared service center, standardizing platforms, and offshoring transaction processing through a second generation outsource arrangement. Among other efficiencies realized, it reduced over 30 separate ledgers to a single set and cut the cost of finance from approximately 4% of revenue in the 1990s to around 1% by 2006.

The most recent changes incorporated results from benchmarking the finance function to highlight opportunities, followed by a structured program of change to

simplify the organization and support a further significant reduction in costs and headcount. This restructuring included extending and refocusing an existing internal service center to create a new Center of Excellence for Accounting and Reporting, which included all divisional controllership, routine reporting, management accounting and close activities, together with management of finance systems and the outsourced transactional and routine accounting processes.

But cost-efficiency hasn’t been the sole driver. In 2011, the BBC’s licence fee income was frozen for a five year period, meaning the real term funding for UK public services has been cut by 26% (when the freeze and new obligations placed on the BBC by the Government, such as broadband roll-out, funding the World Service, S4C and local TV are taken into account). At the same time that finance’s own costs were in the spotlight, the finance agenda of the BBC rapidly shifted to improving the overall effectiveness of finance to support the business through a period of unprecedented efficiencies, which included disposal of the iconic BBC Television Centre building in London, W12. Finance has played a crucial role in supporting and delivering the BBC’s ongoing “Delivering Quality First” initiative, which will release £700m per year for reinvestment and new obligations—some 20% of the total cost base.

Starting with what was in effect a blank sheet of paper, the BBC finance team engaged with the business and program

makers to determine exactly what they wanted from finance and how it can maximize the value it delivers to frontline teams. “A lot of people think that finance effectiveness is simply about taking cost out of the business. But we think it’s also about ensuring we are as effective and efficient as possible in doing the things that make a difference to our business,” says Ian Haythornthwaite.

Clarifying roles

At the heart of this process is a clearer definition of who does what and why, now that the restructuring has moved a lot of staff into the service center, while others have remained embedded in the organization as business partners.

“Initially the finance business partners would say to me, ‘So what’s my job? You’ve taken away all of my spreadsheets, and you’ve taken away all of my monthly accounting. What am I supposed to do?’” says Mr. Haythornthwaite. “I said to them, ‘You’re now the financial controller for your business, so the health of your business is in your hands. Your job is to help the business be successful, provide advice, provide guidance, help them develop plans, rather than just produce and present information.’ To do that, you’ve got to understand what the issues are within your business. You’ve got to talk to the business about what’s getting in the way of their ability to develop new strategies, new ideas, move forward, and move at pace. It’s not about, ‘Leave that with me. I’ll go and develop a spreadsheet,’ because business partners now have a dedicated team in the service center who are able to provide a quality service.”

As an example of the shift from simply generating information to what Mr. Haythornthwaite describes as using it “imaginatively,” he describes how a business partner might have come in to tell a unit chief that savings are needed. Now the business partner has to take direct responsibility for working out how these savings can be made. Similarly, the business partner might have come in to tell the unit chief that they are (for example) six people down on their budget. But this is something that he or she is perfectly aware of. What they want to know from finance is how well they are performing without these people (i.e., do they really need them) and if there’s been no impact, how could the budgeted money be diverted to where it could generate more value. Mr. Haythornthwaite describes this as “the difference between finance people repeating the reasons why you have what you have, to interpreting and advising on the options. That way they start to become part of the business team.”

How do business partners measure success? Rather than specific metrics, the finance team’s ability to fulfil business expectations is the key measure of performance. “Our objectives are based around asking the business, ‘What did you expect from us? Did you get what you wanted from us? What would you like to see change and improve?’” says Mr. Haythornthwaite.

Rationalizing and enhancing reporting has also improved efficiency and reduced needless costs. Mr. Haythornthwaite encourages his team to ask the recipients of reports whether they remember receiving them and how did the information contribute to their decisions? If they can’t answer these questions, the reports are no longer prepared, allowing finance teams to concentrate on analysis and insight that really does make a difference. “Not only did

we achieve significant savings in head count and in money terms, we saved an inordinate amount of hidden staff time in doing work that wasn’t necessary and providing information that was never read or that people didn’t trust,” he says. “The number of reports has been halved, and halved again, with those that are still provided really tuned to what the business needs”.

Keeping the team engaged

Mr. Haythornthwaite believes that rather than seeing service center teams as somehow divorced from this business-facing role, their engagement is vital. “The lesson we learned from moving all that activity out of divisions, is that the people we’ve moved can quickly lose connectivity with the business. They can feel that they aren’t part of any business community other than their own,” he says.

A key part of the transformation has therefore centered on how to re-connect business partnering and service center teams, clarify who does what to eliminate duplication, and encourage them to understand how they can best work together. “We brought in a new director to lead the service center whose immediate priority was ‘how do I get my teams to develop as teams? How do I get them to identify what the issues are and work in a completely different way?’ He encouraged his staff to spend much more time in the business, understanding the business, but also communicating two ways. We’ve got divisional financial controllers who now work in both the business and the service center. In turn, he made people like me spend a lot more time with his staff,” says Mr. Haythornthwaite. “As a result, service center staff have come to see themselves as part of a bigger division. We refer to all our operations as ‘finance.’ We invite them into our meetings and we go to their meetings, ensuring we are fully aligned around the same objectives. The service center just happens to be in a different location. And the teams use

techniques to keep real focus and energy in the teams. It’s amazing to see.”

This more integrated approach is creating new opportunities for service center personnel to develop and move up within the organization. This includes going beyond the old way—simply advertising vacancies, selecting candidates and holding interviews. They talk to staff that may not be qualified now but who have potential, about the skills and experiences they need to develop to be considered for the position in the future. “In order to allow progression, we’ve got to say to people that these are the sets of skills that we require; these are the ways of working that we expect. This is the culture that we expect you to be able to demonstrate that you’re doing the work in. If you do what we expect, then we will look to invest to help you achieve your potential,” explained Mr. Haythornthwaite.

The BBC is ahead of most in understanding how to really harness talent, and embracing neurodiversity is a powerful example. Mr. Haythornthwaite cites a project designed to attract more people with Asperger’s Syndrome: “The website doesn’t lend itself to people with Asperger’s, as it’s not visual. Traditional interview processes can also be intimidating for people with the syndrome and make it difficult for them to express themselves, but these are often highly innovative people. So we are building a new website that’s more inclusive, and we make sure our employment methods are as widely accessible as possible.”

Thus, the cornerstone of the new model is opportunity as well as effectiveness. By looking at how to deliver more value, finance is gaining increased credibility and influence within the BBC. Creating more opportunities for people within the finance team, both business partners and service center personnel, has in turn boosted engagement, opportunity and, ultimately, finance effectiveness.

From shared services to global business services

In the 1990s, finance organizations created shared service centers (SSCs) to rationalize low level transactional finance services (processing expense reports, for instance). These were typically captive, in-house initiatives, with centralized, pooled resources. Over time, these functions were moved to lower cost offshore locations, and eventually these activities were completely outsourced.

Over time, other areas of the business such as IT, HR and procurement caught on and set up their own centers along the finance model. Gradually, these centers were co-located so they could share infrastructure and enjoy certain cross-functional synergies. These centers were often called business service centers and began to perform a range of slightly more value-added services. The goal of a global business services strategy was not only to source globally, but also to leverage shared services, outsourcing and third-party investments in the best interests of the organization. Finally, organizations began to form centers of excellence, where all of the talent involved in a very complex area, such as tax or treasury are co-located (often virtually) to provide highly expert services at scale across the organization (see the BBC interview on page 26).

Figure 7: Drivers of shared service deployment



Source: PwC finance benchmark data

Over the last 20 years, the average cost of finance has continued to fall, with over 65% of global organizations having achieved cost savings through shared services, moving offshore or outsourcing some part of their operations.³ But many finance functions fail to tackle the underlying nature of the work involved and apply this approach to only one finance process at a time. This results in a jumble of operating models and technologies, poor support levels, and the inability to focus on the important things, such as driving growth, profitability and efficiency.

Businesses recognize that SSCs have a potential that goes beyond simply cutting costs to improving standardization and compliance, and even (to an extent) influencing corporate growth and strategy (see Figure 7). However, setting up an SSC is a huge transformational program, involving multiple businesses, multiple countries, a significant reorganization of the finance function, and a huge recruiting effort. Done well, SSCs lead to not only reductions in cost for the organization, but improved service for stakeholders, as well.

“Finance teams of the future will need to determine what new tools are being used by whom and what control can be maintained over the validity of the organizational data.”

³ PwC, “Evolving your business support functions: Moving to an integrated Global Business Services Model (GBS),” 2014.



Today, leading organizations have established multi-function global business service (GBS) centers and capitalized on the savings derived from process improvement, simplification, automation, and global sourcing. Successful GBS centers help drive corporate strategy, adapt to changes in the market, and invest in innovation. To reap the greatest benefits, companies are finding that they need to break down barriers between functions that had operated in silos within the SSCs. Marc Sterk, Director, PwC US advisory, explains: “Companies that are considering a

move for their financial analysis or Big Data and data mining functions are setting up centers close to where their IT operations are managed. By doing this, they build a support center that enables synergies between both data mining and report production. When done right, the use of common infrastructure, a shared service management layer, and shared technological capabilities leads to a highly efficient business unit.”

Rather than focusing on the transactional activities, the new generation of centers of excellence

house specialty finance processes such as treasury, tax, or analytics. As these higher end shared services centers mature, they are expanding their services, and moving up the value chain into areas such as actuarial analysis, billing for media and entertainment companies, and plant reporting for manufacturing companies. The challenge of this new structure is how to ensure a full understanding of the businesses that they are supporting, which can be difficult in a centralized corporate environment.

Tax departments can transform to become a strategic asset

The tax function plays a crucial role in tax reporting and compliance. But if it is not working efficiently, it could result in needless extras costs, financial statement errors and unnecessary controversy, as well as delays in the financial statement closing process.

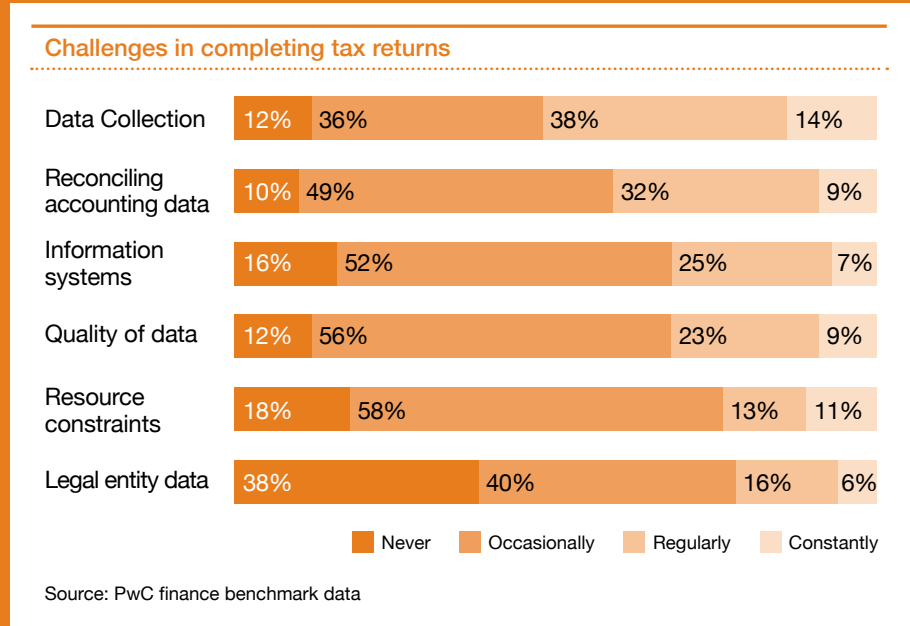
While there is no single driver for change, a number of developments are coalescing to create a growing rationale for the operational re-engineering of workflows, data flows, capabilities, and resource management:

Doing more with less

Tax compliance tasks and responsibilities are generally becoming more complex, extensive and time-consuming. At the same time, the tax function must also continue to address financial-statement tasks, including the income tax provisions. However, organizations are demanding that their in-house tax function deliver high quality services while staffing levels are holding steady or falling. Moreover, significant time is spent on simple data-related activities and there is increasing pressure to perform the same responsibilities while also engaging in more real-time, value-added analysis. These demands are encouraging tax teams to look for ways to work smarter and faster.

Reaching the ‘tipping point’ for automation

Tax functions have long grappled with manual and inefficient processes. Among many examples is the time spent on reviewing data that is gathered from the field (e.g., so-called tax packages). The data may often not be at the right level of detail for tax purposes, requiring additional manual intervention. A proliferation of disparate spreadsheets may also be used to capture and report such data and it is typically loaded into compliance tax software tools by hand. Moreover, many manual custom reports are usually needed to satisfy numerous ad hoc requests. Todd Bixby, PwC Principal explains: “Many of our clients struggle with spending too much time manipulating data in order to meet their specific needs. They are looking for ways to minimize these manual



tasks and concentrate their resources on more analytical, value-added type tasks.”

Our benchmarking shows that over half of companies consider data collection to be a regular or constant challenge when completing tax returns. PwC benchmarking also highlights that there are significant automation opportunities with respect to tax accounting tasks. The bottom line is that many tax functions have either reached or are reaching their ‘tipping point’ for automation—the point where automating processes becomes critical to accomplishing core tasks with high quality and in a timely manner. This is especially the case where non-tax personnel are preparing tax packages or alternative staffing models like shared service teams are being utilized.

Managing the shifting global tax landscape

Tax functions have to navigate a fast changing global tax landscape. Key developments include demands for greater transparency to ensure companies “pay their fair share” of tax in the countries where they operate. As an example, under new ‘country by country’ reporting, multinational companies would have to disclose to tax authorities detailed information

related to their business globally and in each country where they have a presence—not just for activity in that government’s jurisdiction.

Moreover, governments are engaging in unprecedented information sharing between taxing jurisdictions that will enable them to better assess risk and identify targets for audit. Tax audits and controversies are expected to rise dramatically as many governments seek more revenue, requiring the tax function to take a more proactive approach to ensure their readiness, such as being able to compile data requested by a taxing authority in a very short time frame. The challenge is not just focused on compliance, but how to ensure in-depth understanding of the information before, during, and after it is delivered.

Further developments include real-time engagement with taxpayers to ensure speedier and more certain compliance. This type of real-time engagement demands a robust tax control framework because tax authorities will want to analyze and confirm the company’s competency with respect to risk management and compliance. This includes an ability to perform near real-time analysis of supporting data.

Re-evaluating risk management approaches

Senior management is increasingly focused on how tax risk is being managed and how that aligns with the overall goals of the organization. Risk appetite can no longer be set in isolation from the wider business due to the potential for unexpected tax errors, exposures, or even reputational damage. An organization's tax control framework must now include strong tax governance, which clearly reflects the expectations of stakeholders, an in-depth understanding of where key risks lie, effective and efficient controls, internal and external communication strategies, and on-going monitoring for all of these areas. Michelle Lee, partner, PwC US explains, "Globally, especially in Europe, boards are becoming increasingly concerned about how their decisions around tax matters will potentially impact the company's reputation."

Business models evolving at a hectic pace

Operating models are changing more frequently in response to the emergence of the digital era and increased regulatory complexity around the world. Among many examples, there is an increasing need for more virtual business teams enabled by technology. Tax teams need to continue to have in-depth knowledge about the business and gather appropriate data to perform compliance and analysis tasks to support the release of financial statements on a timely basis. The result is that the tax function must find more creative ways to use resources, engage in better collaboration, and seek technological or other means to maximize efficiencies.

Reshaping the tax function for a changing tomorrow

The tax function of the future may look surprisingly different—its design shaped by the need to manage the challenges described above and ensure that tax compliance, financial statements, and other responsibilities are completely performed. Historic practices and processes will need to

be revamped and fresh, innovative approaches utilizing technological know-how will be crucial. Certain key elements will define this future state, including:

Automation takes center stage

Time-consuming and error-prone manual tasks will be automated. This trend promises to permeate many different tax function processes and tasks. As an example, the preparation of the income tax provision will be completed via the enterprise-wide financial or consolidation systems thereby replacing spreadsheets and or traditional tax technology solutions. With respect to analytical tasks, a vast majority of tax functions will be utilizing professional data analysis tools to assist in decision making processes. So, for example, automation will help identify risk areas for audit as well as perform projections and scenario planning.

Enhanced quality of data flows

Data is the new business currency—the quality of data gathered from business operations will need to be greatly improved. The majority of tax functions will receive all information in a "tax ready" format from either their enterprise-wide financial systems or a dedicated tax data hub. Dedicated tax data hubs will become mainstream and be developed internally, licensed from a third-party vendors or accessed through an accounting firm as part of a co-sourcing arrangement. Data security will be high on the agenda due to concerns over confidential information being inadvertently released or shared publicly.

Efficient workflows enable cost-savings

Streamlining workflows within the tax function will be a critical step to generate efficiencies and cost savings, freeing up time to perform more value-added analysis and support. For example, integrating on-line collaboration tools will automate document management and internal controls. A shared service center or other co-sourcing option will also improve cost savings for tax compliance

and reporting functions such as data collection and forms preparation.

A technology roadmap can help chart the course

Tim Lapetina, partner, PwC US explains, "A critical first step to developing a technology roadmap is to evaluate the current state of the tax function's operations including data flows, its people, its processes, and the technology it is using now. This assessment is an important piece of information when the tax function is seeking support or buy-in for its desired change from others within the organization such as Finance or the C-suite."

The ideal result is a tailored, multi-faceted roadmap (not a one-dimensional solution) that pinpoints the specific capabilities that the function is striving to meet as well as the benefits and costs savings that will result. This roadmap should not be created in a vacuum—the tax function is a vital element to the broader finance function and the pursuit by both teams to achieve efficiencies should go hand-in-hand. Working in tandem and leveraging enterprise investments in technology and overall transformation synergies will be the basis for a new era tax function.

The road to transformation may not be easy—many practical hurdles must be overcome. But the return on investment will have a significant impact for the organization to realize for many years to come. The potential benefits will not only impact above and below the line costs, but also enterprise-wide risk management, improved cash flow, and better governance. The transformation will enable the tax function to be viewed as not only a critical compliance function, but an even more valuable strategic organizational asset.

Michael Shehab, Principal and Leader of the US Tax Reporting & Strategy practice where he assists clients in creating industry-leading tax organizations. Giovanni Bracco, Partner, leads PwC Tax Risk Assurance in the UK.

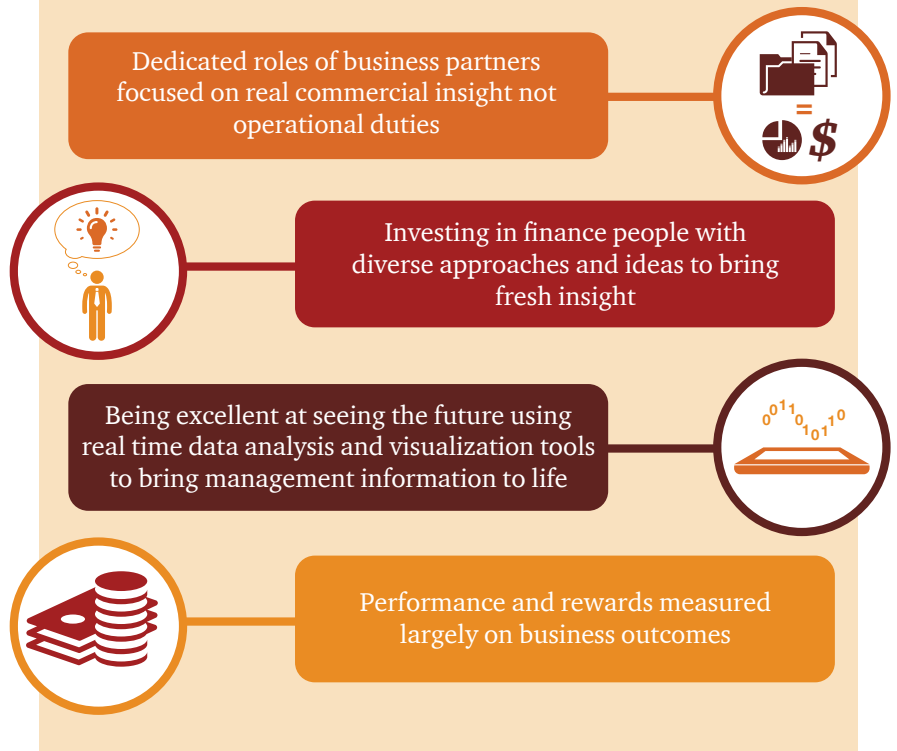
A step up in business partnering

Business partnering is making its next big leap as the focus moves from decision support to actively setting the direction of the business and managing performance against these objectives. Yet this is not a role that's reserved for finance professionals and could be taken up by others with well-developed analytical skills. So how can finance professionals develop the business acumen and credibility needed to assure their place at the table?

Historically, the role of a finance director was to manage the finance function in his or her organization. This involved a lot of reporting and quick statutory closing. The classic CFO was less involved in and aware of frontline business operations. Today, however, the role of the finance business partner has evolved significantly. Darioush Zirakzadeh, Director of value chain transformation, PwC Switzerland, explains that the modern finance leader is expected to be much more knowledgeable about the business, to actively participate in business meetings, to challenge decision making processes and to weigh in on issues like investment, profitability and margins. He or she also needs to be curious and flexible, and to be able to learn and evolve as business situations change over time.

Sharper insight

Business partnering – new type of finance professional is needed with the right business skills and credibility to implement change.



Source: PwC finance benchmark data

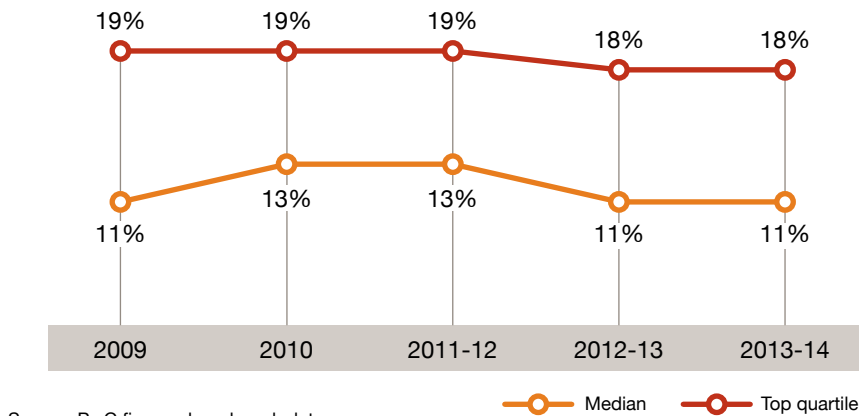
“Forward-thinking companies are measuring the success of finance leadership teams on the commercial outcomes of the businesses they support.”

Forward-thinking companies are measuring the success of finance leadership teams on the commercial outcomes of the businesses they support. If finance is doing a better job helping the business make good decisions, the firm will see results in terms of market share or revenue. Mr. Zirakzadeh reports that some companies are even incentivizing the finance leadership based upon business results. However, across most businesses, the deployment of finance professionals to business partnering roles has remained at consistent levels over the years (see Figure 8) with only about one in ten finance FTEs working in business partnering roles.

While the proportion of finance staff in business partnering roles has remained much the same, we are beginning to see an increase in the amount of time finance professionals are spending on analysis as opposed to less value-adding data gathering (see Figure 9). Advances in automation, the standardization of data, and innovative and low-cost data analytics tools are reducing the time spent on data gathering, and at the same time, we're seeing companies emphasizing the importance of data analysis. These factors are allowing analysts to turn greater attention and time to analysis and generating insights.

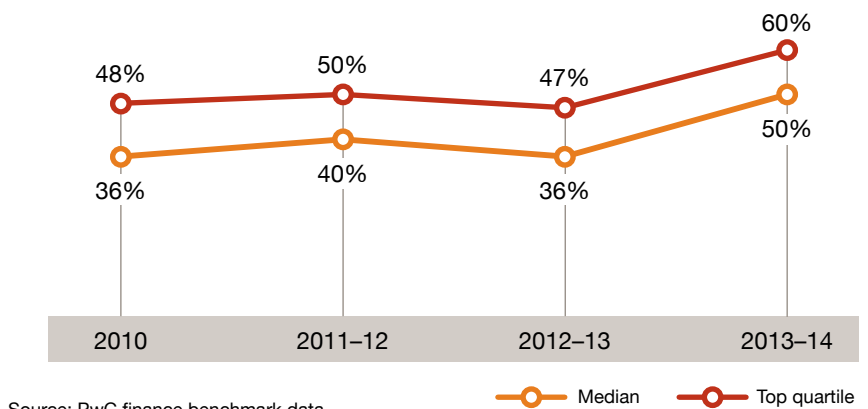
Leading companies are making their investments in business partnering more successful by clarifying and focusing the role of their finance business partner staff. Other finance staff are responsible for capturing the standard management information, while the business partner's role is to understand what this information means and the commercial implications for the business. Leading organizations (such as the BBC and Nielsen) have complete clarity on the business partner role—focusing on the commercial outcome and using management information provided by the center of excellence. What we've

Figure 8: Finance FTEs in business partnering roles



Source: PwC finance benchmark data

Figure 9: Percent of time spent on analysis (vs. data gathering)



Source: PwC finance benchmark data

seen through our benchmarking and consulting engagements is that business partnering is less successful when business partners get mixed messages about their roles and responsibilities and are unclear about how they should be adding value to the organization. In many companies that adopt business partnering, business partners are still given many operational finance tasks, so only a portion of their time is devoted to business partnering. In others, those chosen as business partners do not have the right strategic and people

skills to succeed in that role. As Steve Killick, Partner, PwC South Africa, explains, “to be an effective business partner you need to have relationship skills, business skills, advisory or consulting insight, and a big picture view. You need to be able to advise the business tactically, but also strategically. Many of the people who are placed in business partnering roles are still quite tactical and operational in nature and thus unable to take on the significant strategic challenges of the role.”

Driving the business forward: The progressive business partner

Over the past few years, business partnering has become a centerpiece of the finance function. PwC benchmark data shows that nearly 50% of finance professionals see finance as a facilitator for corporate-wide strategic planning. Top performing finance functions have over 50% more finance staff focused on business partnering than the average organization. Looking ahead, the business partnering services offered by finance departments will become increasingly important to a company's success in the marketplace.

Technological development, and opportunities arising from the abundance of information, challenge the traditional perception of finance business partners (FBPs). The question arises whether this role is even required in the future, as powerful analytics technology makes sense of Big Data and mobile, self-service tools bring information to executive's fingertips. However, feedback from high performing organizations indicate that the FBPs are required more than ever—but the requirement of the role is changing quickly and it is clear that many finance leaders are not keeping up.

Progressive FBPs focus on helping organizations navigate market and financial information to create commercial value. FBPs work with businesses to combine, orchestrate and transform financial and non-financial information into insight. This includes interpretation of management information and analytics, but more importantly FBPs also develop business scenarios and understand the value drivers for the financials that are affecting the performance of the organization. In a digital age, FBPs own the insight agenda and optimize enterprise-wide information structures to deliver forward looking information that impacts the value position of the organisation. Not only should they challenge the business but many can become key communication brokers between business teams and other functions. Finally, FBPs need to facilitate change within businesses based on the information that they have gained.

Companies reap the value of good FBP in a variety of ways; from enabling pricing decisions that optimize return on investment, to improving regulatory

controls which mitigate against regulatory penalties. To illustrate this inherent value potential, an FBP at one of our clients lowered the required capital reserve by better aligning organization-wide target setting, forecasting and planning, driving increased accuracy in performance forecasts. At another client, an FBP identified cost-saving opportunities for the organization by providing pricing insight across multiple regions based on a center of excellence report. A third FBP assisted a key pharmaceutical company in identifying ways of better meeting consumer demand while maintaining profitability.

Our interview with Fredrik Hedlund from Nielsen provides a good example of how a clear and focused FBP role definition can help to generate value for the organization. By excluding all production and control responsibilities from regional financial directors as well as replacing their local analysis support team with support from an FBP center of excellence, Nielsen was able to maximize time spent on commercial decision making and challenging the business. Appropriate measures of success may then include the perceived value the FBP has to the business as captured via structured feedback, and indeed, the business's performance. Our interview with Ian Haythornthwaite from the BBC illustrates where this approach has been extremely successful.

What makes a progressive FBP—synthesizing analytics and business acumen

The ideal FBP has deep analytic skills and possesses the ability to synthesize financial data with forward-looking business information that allows them to transform information into real insight for the organization. The finance skills of budgeting and forecasting, planning knowledge, business case development, and strategic analysis – together with a general depth and breadth of finance knowledge – remain important but need to be supplemented with market and product knowledge as well as general business acumen. The FBP needs to have acquired knowledge about the business value chain, its strategy, and insight into the key drivers of revenue.

The FBP needs to be adaptable and an enthusiastic, continuous learner. The ideal business partner will also have a strong set of soft skills, such as the ability to build relationships, be flexible and collaborative, and be able to adapt to the requirements of the business organization. Finally, the FBP needs to have leadership qualities and credibility so that the business will be open to acting upon the insights he or she generates. As analytics tools and self-service technology emerges the traditional role of the FBP is challenged; to be successful FBPs will increasingly need to focus on ensuring that robust and relevant information is delivered to decision makers in a timely manner.

Good FBPs can create competitive advantage for an organization, unlocking value that might otherwise be overlooked. The FBP may help “navigate” inside and outside the business—act as a mediator to stakeholders, create better connectivity with the finance function, and provide foresight, protecting the business from shocks. Better practice FBP services include:

- **Fact-based decision making:** making commercial decisions with the business based on accurate and timely financial and non-financial information;
- **Business planning:** developing and deploying business targets based on financial information in alignment with business strategy;
- **Act on forecast variances:** providing the key interface between the wider business and the finance operations team to ensure alignment and accuracy of planning, budgeting and forecasting processes. This includes understanding variances and initiating mitigations;
- **Analysis:** providing insight and challenge to business managers and decision makers, including business and investment appraisal analysis;
- **Risk and performance management:** Identifying and mitigating risks, monitoring performance against targets, understanding the reasoning behind variances, challenging the business on recovery actions and the consequences, and assessing risks and opportunities;

- **Change agent:** Identifying opportunities and supporting the drive for process and performance improvement throughout the business.

How FBPs are organized – focusing on value

There is no “one size fits all” operating model for FBPs. The form and size of the FBP organization and services are shaped around the particular industry’s market forces, the complexity of regions operated in, as well as organizational maturity. A common success factor for building effective relationships with the business is to locate the FBP geographically close to the business.

We see a progressive FBP role being relieved of all direct reports and all control and production responsibilities. Their sole performance objectives can then be directed at driving commercial value. This is model working well for Nielsen where country CFOs have become FBPs and are being measured based on business leader feedback. However, this model requires technological enablement and a close linkage with information suppliers including finance operations, and FP&A (finance planning and analytics) centers of excellence.

As we seek to forge the future of finance, CFOs and CEOs will need to empower the FBPs to play a pivotal role, and FBPs

will need to rise to the challenge and earn that role. Those organizations that can identify and deploy the right FBPs and employ better business partnering practices will be well positioned to reap the benefits that high quality business partnering offers.

Marc Rufo, Director (UK), Rod Maxwell, Director (UK), and Colby Connor, Partner (US) assist PwC clients in creating industry-leading business partnering organizations.

Mr. Zirakzadeh explains that it is very important to develop business partners that are credible. It is good for senior people working in the business unit and the finance business partner to have experience working and being together, so the finance person is not seen as being on the outside. “One way some companies are achieving this is to send business unit people and finance partners to common training. Executives, finance people, supply chain people, and others spend two or three days in an executive

course in order to share common experiences and challenge each other. This cross-functional teaming assists in creating a community within the company, making it easier for people at the same level to communicate and to understand one another’s roles,” he says. But most importantly, finance business partners need to spend time in the business, working in the factories or with sales people, so that they really understand the language and concerns of the business. Otherwise they will never be able offer

significant value. François Jaucot, Partner, PwC Belgium, explains the importance of “work shadowing” to the success of business partnering, describing it as almost an internship for the business partner, enabling them to better understand other aspects of the business. Mr. Jaucot also emphasizes the need for finance business partners and the business units they support to have common goals and financial incentives.

“Your job is to help the business be successful, provide advice, provide guidance, help them develop plans, rather than just produce and present information. To do that, you’ve got to understand what the issues are within your business.”

– Ian Haythornthwaite, BBC

Integrated Business Planning—The evolution of budgeting and forecasting

Integrated business planning can best be described as the connection and synchronization of various planning activities across the organization in a way that clearly demonstrates bottom-up operational support for top-down financial plans. And what CFO wouldn't want that and what business wouldn't benefit from it?

From a foundational perspective, data accuracy is a given (or should be). Finance leaders and their companies cannot survive without accurate data. The real game changers for planning are agility and timeliness, and agility drives timeliness. Agile finance functions are able to integrate financial and non-financial factors in their analyses (as well as input from external influencers) which gives them an added dimension of depth, insight and value. Accurate data, agility and timeliness in the context of integrated business planning are a powerful combination.

With integrated business planning, management is more confident—leaders know their strategic direction is supported by bottom-up operational plans. Decisions become easier, be they around structuring, sourcing, new products, go-to-market strategies, acquisitions or divestments. Stakeholders, from employees to shareholders are keenly aware that the organization is focused on the future and has a clear understanding how execution will deliver future results.

Leading indicators

To develop better financial plans, CFOs realize they must be as focused on forward-looking business drivers as they are on P&Ls and balance sheets. Users, eyeballs, subscriber growth, new stores, book-to-bill ratios, supply chain performance, capital funding and new product introductions are just some of the typical business drivers that CFOs seek to understand and link to their financial plans in an effort to develop confident projections they can share with the market.

But translating forward-looking indicators into predictable future financial results is a challenge and setting goals that strike the right balance between

The budget—evolution or revolution?

The typical approach to financial planning has always revolved around the annual budgeting exercise, which seeks to secure agreement on top-line revenue and profit targets and drive the development of bottom line cost models that would provide the capacity to support these targets. Forecasts were produced quarterly or monthly to recast the annual budget into a current view that would take into consideration the performance to date plus anything that had changed.

The problems with the typical model are well known. Budgets take too long to develop and are stale before the fiscal year even begins. Forecasts are developed in haste, taking short-cuts and allowing operational and financial plans to diverge and contradict one and other. Plans lack a rolling time horizon leading to marginal utility near the end of the fiscal year. All this results in plans that lack accuracy and do not provide actionable information required to optimally run the business.

Over the last ten years, there have been some prominent examples of companies who sought to improve their financial planning process by eliminating the annual budget altogether and implementing a more fluid form of continuous planning. This has delivered good results in a few cases, but the approach has more commonly proven problematic or impossible due to the disruption it can cause to the fundamentals of the business such as how salaries, bonuses or contracts are defined or how an organization is structured.

Aside from the occasional revolutionary success, most finance organizations are opting to evolve the typical approach to financial planning through a reduced emphasis on the budget, better business partnering and better integration of planning activities across the organization. Financial planning is evolving into more comprehensive business planning that consists of a broader set of integrated activities across planning cycles and time horizons that best support the business. Annual budgets and fiscal period forecasts are still developed, but what's changed is how they are developed. These evolutionary trends are now commonly referred to as integrated business planning.

risk and opportunity requires more than simply good financial planning—it requires the integration of operational planning and financial planning and the coordination of many people across the company. This is far from easy. Many CFOs feel uncomfortable providing guidance to the public around future financial performance, not because of a lack of confidence in the business or the market, but because they lack sufficient faith in how deeply their financial plans are connecting the dots across the organization.

How does integrated business planning help?

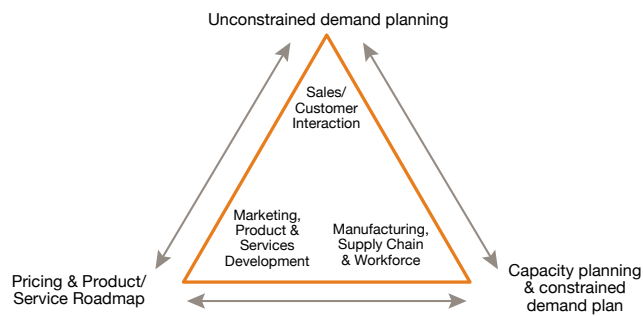
For the finance organization, integrated business planning delivers the following benefits:

- Driver-based plans that clearly show the link between forward-looking business drivers and financial results;

- More accurate planning with better ability to reduce and explain variances to plan;
- Less effort for finance in their roles as aggregators and reconcilers of plans;
- Better ability to turn around ad-hoc requests for “what if” scenario models.

Beyond the finance organization the benefits for the broader company are significant. We have observed that the typical value cycle for successful integrated business planning develops as follows:

- A. Integrated business planning reduces duplication and fragmentation of the planning processes by better aligning the right planners to the right activities;
- B. By taking an integrated approach that synchronizes operational and financial planning processes around common and consistent business



Integrated business planning has its origins in improving the sales and operational planning processes by developing better integration. The approach is to reorganize the communication and dialogue between various groups of operational planning teams and optimize the planning calendar so that plans will obey interconnected rules and result in consistent end-to-end operational plans. The focus is across sales teams (that own demand forecasts), product teams (that own pricing and product service roadmaps) and operations teams (that own supply chain, workforce and production planning).

drivers, decision making forums and planning calendars are optimized. Better decisions are made faster.

- C. Plans are developed faster and more frequently with less effort, improving agility to respond to changing market conditions, risk and opportunities.

What are the ingredients for success?

Integrated business planning isn't a new concept, but up until recently it has focused more on operational planning than it has on financial planning. As integrated business planning concepts have taken off operationally, many companies have realized that to truly deliver value, the financial planning processes must be a central component to govern the end-to-end integrated business planning process and maintain the link between strategy and execution.

In working with clients across various industries, we have observed that the following are key focus areas (listed by priority) for finance organizations driving integrated business planning initiatives.

Talent: Integrated business planning is underpinned by a finance function that excels in business analysis and modeling. Often these are organizations that have successfully shifted transactional activities towards lower cost shared services and have been able to invest in more and better high value staff that can focus on business insight, planning, and modeling.

Business partnering: Developing transparent communication around company-wide planning cycles and leading the development of planning calendars that factor both top-down

and bottom-up priorities have proven to be some of the most effective business partnering approaches to support integrated business planning. Finance knowledge of and involvement in both strategic planning and operational planning also makes the creation of new integrated planning processes smoother. Key to business partnering is the ability to establish trust with partners on an individual level that then supports more integrated organizational behaviors.

Data quality and governance:

Integrated planning succeeds due to the availability of better quality operational data from a myriad of systems, including ERP modules, cloud services and vendor/customer integration platforms. This data delivers a host of non-financial business drivers and allows plans to be developed at all levels of detail and across all dimensions of the business. However, without adequate governance, it typically delivers no value. Finance organizations are best placed to act as a neutral party to help determine the criteria for data quality and facilitate the determination of where best to manage master data. As aggregators of the plans, finance can also play an effective role of traffic cop when governance breaks down.

Technology: Advances (such as Big Data, analytics, and EPM tools) help to integrate various plans across the organization. These technologies create data integration points that enforce common planning cycles and consistent versioning, but allow different plans with differing levels of detail for different purposes. They also provide algorithms to support scenario modeling and what-if analysis and establish close integration with

reporting and analysis of actual results, making it easier to develop plans.

What can go wrong?

Better planning technology is where most companies wish to begin integrated business planning improvements and that makes some sense because technology investments are often the easiest and most tangible aspects of business transformation. But integrated business planning is a transformative process. Without addressing talent, business partnering and data quality and governance, we have seen technology investments increase the cost of planning processes significantly and add no material value to the business.

Where have successes been seen?

Successful early adopters of integrated business planning have been companies in retail and consumer products, industrial products, technology, telecommunications, pharma, primary industries such as energy and mining, and financial services. Generally the larger and more complex the planning processes are, the bigger the benefit can be to implementing better integrated business planning. Conversely, we observe many younger companies who are unencumbered by traditional approaches implementing integrated business planning as a way to support operating in a Lean staff environment and prevent planning process complexity from taking hold.

Nicholas Kaposhilin, Director (US) and Steve Crook, Partner (UK) are members of PwC's Finance Effectiveness practice where they on financial planning and analysis, process transformation and enterprise performance management.

Reaping the real potential of Lean finance

Many finance teams have tried to implement ‘Lean’ processes, but the results have been mixed. Why are some organizations doing better than others and how can the lessons be applied to ensure the full benefits are realized?

There has been a lot of talk about Lean processes in recent years, principally in the context of manufacturing. Lean approaches have been adopted by other parts of the business as well, and the word often arises when companies seek opportunities to reduce waste and cut down on repetition, duplicative work, and errors. Finance departments are seeing that the time spent on manual reporting is restricting the time that they have available for business partnering and insight generating activities. A Lean approach helps top performing companies streamline these activities, freeing up time and money that can be better applied to adding real value within the business. In our experience, the companies that have been most successful in applying Lean principles are ones that have been able to mold it to their own purposes and build it into the wider culture and objectives

of the business, incorporating change management and embedding continuous improvement to effect lasting change.

One of the success areas we are beginning to see is an increase in the amount of time finance professionals are spending on analysis versus data gathering (see Figure 9 on page 33). Lean strategies have played an important role in cutting down on the needless effort that had been swallowed up by data gathering, and at the same time we’re seeing companies emphasizing the importance of data analysis. A combination of Lean principles, automation, and the standardization of information storage, are allowing analysts to turn greater attention to generating the top-line reporting metrics that mark a company’s health and growth, while still leaving time to seek strategic insights.

“One of the success areas we are beginning to see is an increase in the amount of time finance professionals are spending on analysis versus data gathering.”

Overcoming the obstacles to Lean process improvements

So what are the common obstacles to realizing these benefits? Our finance benchmarking engagements often reveal a lack of process standardization and technology infrastructure that is failing to provide the necessary support. (Figure 10 highlights these as among the weaker areas of the assessments.) Without these twin foundations, Lean processes may struggle to make a real difference to how finance teams perform. Companies that are successful with Lean put pressure on their internal customers to adopt standardized reporting. They create dashboards where users can access the data and create self-service reports in a standardized way. They no longer present the same basic data in different ways to different internal customers. They also standardize areas such as account codes and charts of accounts across the entire organization.

There is significant variation in what companies mean by “Lean.” Some companies have a much simpler interpretation, based on the concept of 5S (Sort, Straighten, Shine, Standardize, and Sustain). They do the work to make everything more organized, but the focus is on the workspace, or the literal workflow. They may miss the larger end-to-end processes that are key to actually effecting improvements.

Other companies try to improve entire processes without first cutting waste out of the system. Bill Gilet explains “that wasted time and effort then gets built in to the new system, limiting any gains to be achieved. If, for example, a company is looking to automate a 400 page management reporting package, it is absolutely crucial that they first consider which of those reports add value for the business and eliminate the rest. Then, the focus should be on automating just those reports that positively impact key performance indicators that are central to the business.”

Even where partial automation is present, there are typically further opportunities to streamline processes and reduce both waste and the time spent conducting tasks that could be automated (see Figure 11 for median data). Many functional areas are still seeing 25% or more of their FTE time spent on waste or performing processes manually that could be automated. And in the areas of billing and management reporting, inadequate systems and processes result in over 40% of time spent on waste and activities that could be automated. Figure 11 illustrates the huge potential cost savings that can be generated by automation and waste reduction across a number of finance activities.

Figure 10: Views of finance processes

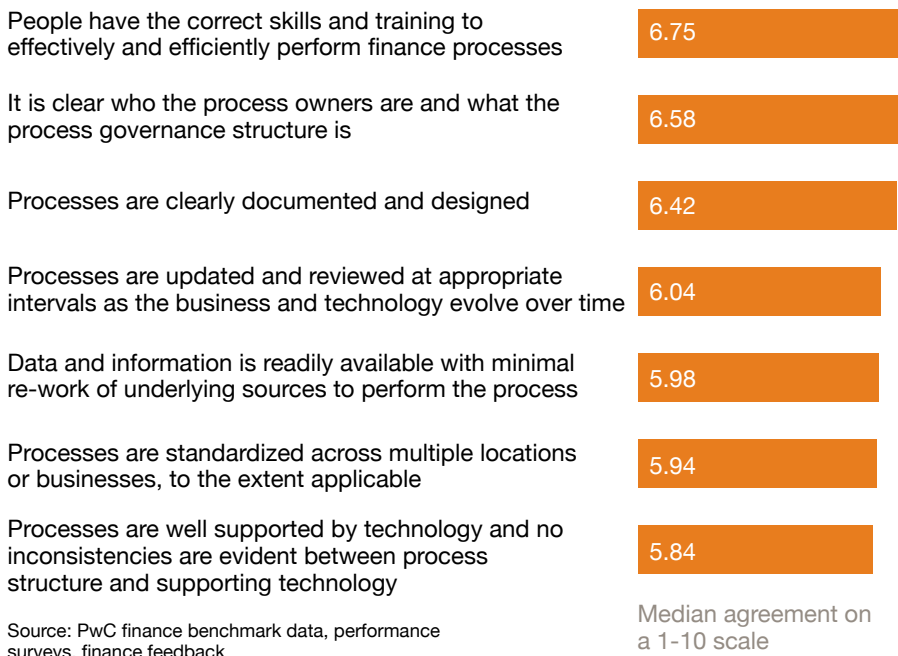
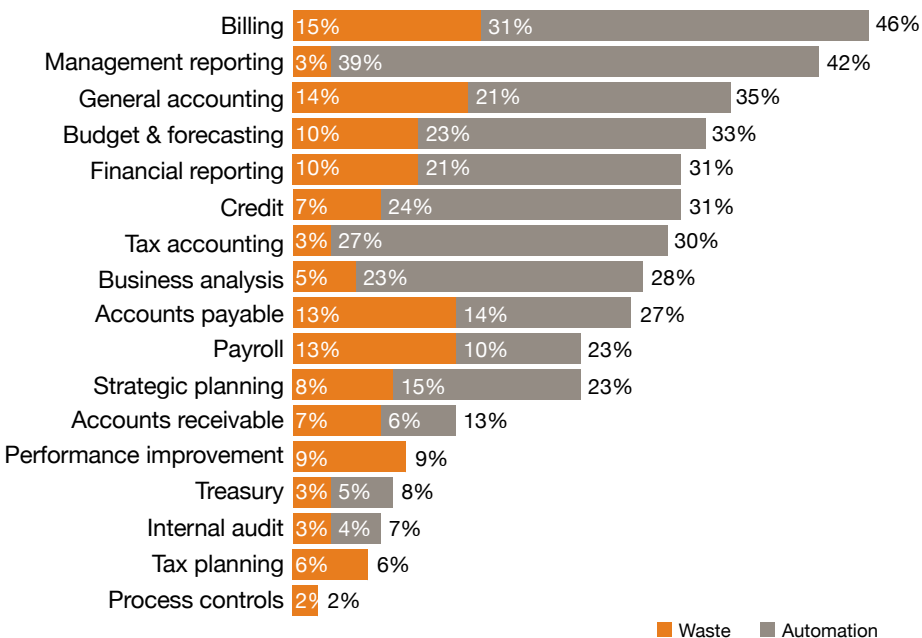


Figure 11: Waste reduction & automation potential (proportion of finance activity)



Source: PwC finance benchmark data, activity analyses

Lean approaches

Some top performing companies have had success with the Lean-based approaches that focus on long-term continuous improvement. These approaches are designed to assist organizations in getting more out of their existing staff, getting them more engaged to improve performance in a way that will deliver sustainable benefits. In an ideal case, Lean principles are embedded in day-to-day operational roles and become everyone's responsibility.

Other Lean principles that can greatly enhance organizational performance and efficiency include "voice of the customer" analysis, the in-depth process of capturing a customer's preferences and expectations. If a finance function is spending the bulk of its time focused

on its own internal concerns while their stakeholders are crying out for faster transaction processing, the mismatch can be fatal to the effective functioning of the department within the organization. Voice of the customer surveys and discussions will uncover this mismatch and allow for better business alignment.

Top performing finance organizations have also discovered that measurement is the key to a successful Lean initiative. Mr. Gilet explains that if companies don't take time to measure the baseline, there is no way to monitor whether any improvements have resulted from the project. Scorecard approaches enable continuous monitoring of a finance team and give team members targets to strive for. Teams are motivated to stay out of the red, and thus more likely

to engage in the change process. Mr. Gilet says, "scorecards also allow for the pinpointing of bottlenecks and the identification of areas where a new system may be breaking down, allowing for further process improvements. A continuous improvement mindset, when embedded in the organization, will reap great benefits to the company in the areas of efficiency and effectiveness of processes."

"If companies don't take time to measure the baseline, there is no way to monitor improvements."

Want to drive greater efficiency? Trust your people to deliver.

Recent years have seen extensive changes in finance systems and processes as organizations look to rationalize operations, cut costs and speed up delivery. But there is still more to do.

A few years ago, PwC began to notice just how many companies were operating with markedly different performance levels despite having very similar systems and processes. It quickly became apparent that the variation between teams came down to the leadership and performance capability of the people, their organization and their management.

Common problems included activities that were heavily reliant on a few key people, creating inevitable difficulties when these people were unavailable or there was a spike in activity, with the monthly reporting cycle being a clear case in point. Many teams were working in silos with limited interaction with other teams. As a result, people may have been unaware of what others further down the line might require such as the information needed from business teams for financial reporting. Another consistent theme was management spending so much time

firefighting, there was little time or scope left to identify and tackle the underlying root causes of the problems. We also found that many organizations had a high turnover of staff, especially in call centers, shared services and in production operations. This, when coupled with managers (on average) only dedicating around 5-10% of their available time to actively coaching performance on a one-to-one basis, was allowing for errors, rework and other issues to grow and become "business as usual."

Clarifying expectations

This recognition of the pivotal importance of people in driving efficiency led us to develop a new approach to performance improvement based on developing managers within teams to enable them to manage their teams more effectively, and in turn, drive productivity through their teams. Management may have different issues to overcome, be it sharpening efficiency or improving quality or customer service, but the foundations for change are very much the same.

The first step is to focus the managers and teams on their key priorities, making performance visible, understanding the true workload across teams, the types of work, and opening channels of communication. The focus is then to create structure around the resolution of problems and start to bring consistency to the way activities are carried out every hour of every day. Enabled by effective planning and cross-skilling between teams, peaks and troughs in demand can then be better anticipated and managed to allow for greater flexibility and sustainability in how demands are met.

Fostering empowerment and creating 'positive consequences'

The concept of the "daily huddle" around visual data may be familiar, but really embedding discipline around this is key. They must happen at the same time each day. Staff themselves, take turns in leading the discussions, and feel empowered by the process. Issues and obstacles are transparently shared and

performance is discussed on a daily basis. Achievements are recognized too, so those involved are enthusiastic to contribute. They can look at what they can do to help each other out at peak times, with a clear and updated skills matrix to make it clear who is cross-trained and where more training is needed. Through routine involvement of team members in decision making and problem solving, a sense of accountability and empowerment is fostered throughout the team.

This employee empowerment means that management no longer needs to be the reactive firefighter or reward the “usual suspects” or the individual that always beats the target. Instead, managers can concentrate on coaching and inspiring their people—getting out of their offices and away from emails and out of endless meetings. They not only offer support but help by providing resources when necessary, challenging poor behavior and rewarding the individuals that help the lower performers to improve because they now understand and attack the variation across the team—they monitor and celebrate the much improved average that comes for free. The “new” skill is for the manager or team leader to “create the positive consequence” to encourage everyone on the team to take part, to make mistakes and then coach them to learn and try again—a much better way to deliver performance.

In an example of the dramatic improvement that’s possible, Lloyd’s Bank highlights the boost in engagement that has come from this more collaborative approach. “You come into our offices and there’s a buzz and energy that doesn’t feel like a typical finance department,” says Elizabeth Raffle, Lloyds’ Head of Finance Community. “People are now looking up from their laptops to see what they can do for each other.”

Within the BBC, management is out on the floor much more. Staff at all levels of the finance service center are encouraged to spend much more time with business teams and managers often working across both embedded and service center operations. The result is higher engagement, morale and performance.

Leading edge people management

Leaders are focusing on empowering their teams and transforming how they are managed, increasing capacity, quality and customer satisfaction with more engaged people.

It’s about a change in mindset

15-25%
increase in team capacity

Source: PwC finance benchmark data

As Lloyd’s Bank has found, this approach can be rolled out to high-value added areas such as treasury and tax, with staff and management deciding what they want to get out of the program.

All the managers we spoke to recognize that they still have more to do to get the most from their people. There is also a strong sense that once the power of collaboration is unleashed, it creates its

own momentum for performance and change, and that change happens very quickly and happens in a permanent way.

Viv Long, Director (UK) and Bill Gilet, Partner (US) are members of PwC’s Finance Perform team, where they help clients optimize what managers do, how they do it and the tools they use.

Lloyds Bank: Increased productivity and up to 20% efficiency savings by unleashing the power of collaboration

While process engineering has dominated the finance change agenda for many years, behavior and engagement have often been dismissed as ‘soft’ issues, with a limited and difficult to sustain impact on service and performance. But many finance teams are now taking a fresh look at how to release the untapped potential in their people. Lloyds Bank has seen transformational results from a “service excellence” program that combines improved collaboration with employee empowerment. And the program is now reaching beyond shared services into tax, business partnering and other higher value-added areas. “You come into our offices and there’s a buzz and energy that doesn’t feel like a typical finance department,” says Elizabeth Raffle, Lloyds’ Head of Finance Community. We asked Ms. Raffle to explain how this transformation has been achieved and how the finance team is looking to sustain and build on the gains.

Lloyds Bank is the UK’s largest financial services group. Like all major banks, Lloyds has faced seven years of dramatic and unrelenting change. The challenges have included the acquisition and integration of HBOS, another major bank.

The developments in group finance have mirrored the restructuring and strategic re-orientation within the business. This has included significant rationalization and transfer of finance processes to shared service centers in Bristol and Edinburgh. With most of what could be achieved through new structures, systems and policies already in place, the focus began to gravitate towards the people side of transformation. “Our people had gone through massive process re-engineering. They were exhausted by change. While our processes were more streamlined, we still had a lot of key person dependencies and meeting peaks in demand was still challenging,” says Ms. Raffle.

Having seen the impact in other businesses, Lloyds began initial trials of Perform, a PwC approach designed to improve efficiency and use of the resources within all teams, not just finance. The methodology focuses on a number of key areas including greater cooperation and balancing of workloads to help boost capacity and encouraging people to take more responsibility for getting things right first time, which would in turn allow managers to focus more on coaching and less on fixing.

From me to us

“Our initial focus was making better use of capacity by deploying people more efficiently within our shared service centers,” says Ms. Raffle. As part of the more collaborative approach, information boards were developed to show what colleagues were working on and track performance against the annual plan. Daily huddles give teams an opportunity to review performance, priorities and issues, and to identify where colleagues might need support. “It took a while to work out what the teams needed to measure and track, but it was worth the effort and within

three months we’d achieved what we wanted to in terms of capacity. People are more productive. As a result of greater skills sharing, we’re also much less dependent on a few individuals. The people we serve have noticed the difference, through quicker resolution of problems, for instance. This is because people have a better understanding of the wider process and how what they do fits into it,” says Ms. Raffle. “But just as significant has been the boost in engagement that has come from this more collaborative approach. People are now looking up from their laptops to see what they can do for each other.”

Ms. Raffle cites the example of the annual re-certification of the SAP license. “This created a huge spike in the workload and people were working evenings and weekends to get it all done. We then said hang on, we know this is coming, so why can’t we look at who has spare capacity and bring in people from other parts of the team to help? The demands are still big, but there has been a considerable easing in the hours. The people who’ve come in are delighted to be able to help their colleagues and acquire new skills,” she says.

Winning buy-in

This renewed sense of engagement encouraged Ms. Raffle and her team to look beyond shared services at how this approach could be applied to higher value-adding areas of the finance department. The program has now been rolled out to cover Group Tax and IT business partnering, and it will be extended further over the coming months and years. “I felt passionately about what was possible, though this wasn’t always shared at first. A lot of managers and their teams regarded behavior and collaboration as soft issues or felt that this kind of program is only really applicable in transactional areas. This was compounded by a general sense of ‘we’ve been here before and there has been a lot of upheaval for not a lot of gain,’” says Ms. Raffle. “The key to gaining buy-in is making this voluntary. Teams come to us to ask if they can become involved, rather than this being a requirement. They have the support of coaches, but this is very much something they lead. They decide what they want to get out of the program, be it better use of time or greater portability of skills and then determine the KPIs to track this. They also keep the capacity gains to themselves, so if fewer hours are needed in an operational area, the time saved can be used to provide more advice for the business or even go home a little earlier. Once we’re underway, this empowerment helps to sustain the momentum of the program and build it into business as usual.”

“We’re changing people’s behavior in a way I’ve never seen done before. It’s like discovering that you’ve been working in the dark when someone switches the light on. The clarity of purpose, empowerment of people and collaboration between teams have transformed the culture and performance of the finance community.”

– Elizabeth Raffle, Lloyds Bank

Ms. Raffle emphasized the cultural dimension of this kind of change. “The junior staff love it as it allows them to have a bigger voice in how things get done. But some people aren’t so sure. It’s not because they don’t want to support their colleagues, rather they’re reluctant to seek or accept help,” she says. To overcome this, it’s important to stress that this isn’t about people not being able to cope, but making better use of time and working better as a team.

Self-sufficient

Since the Perform program was launched at Lloyds in 2013, 1,000 members of the finance team have taken part so far and a more than a 1,200 are coming on board over the coming year. Increased productivity and up to 20% efficiency savings have been achieved.

Lloyds has trained and expanded its own team of coaches so it doesn’t have to rely on consultants. Steps to support the sustainability of the program include regular refresher days and a new champion’s network to raise awareness and encourage people to share ideas and experiences.

Systems and processes are more tangible than the seemingly softer people change, and it’s therefore easier to concentrate on the former at the expense of the latter. But an empowered workforce is the key to delivering and living with change, so transformation is impossible without it. And people change can actually be achieved in much less time and at much less cost than major systems implementation and process re-engineering.

Technology that delivers business benefit and reduced costs

The digital revolution means that finance technology is not only becoming more advanced, but cheaper to acquire and more accessible and interactive in its use. Leading organizations are now understanding the drivers of performance and are identifying business opportunities that would not have been visible previously. Businesses not doing this now will be left behind. How do you compare?

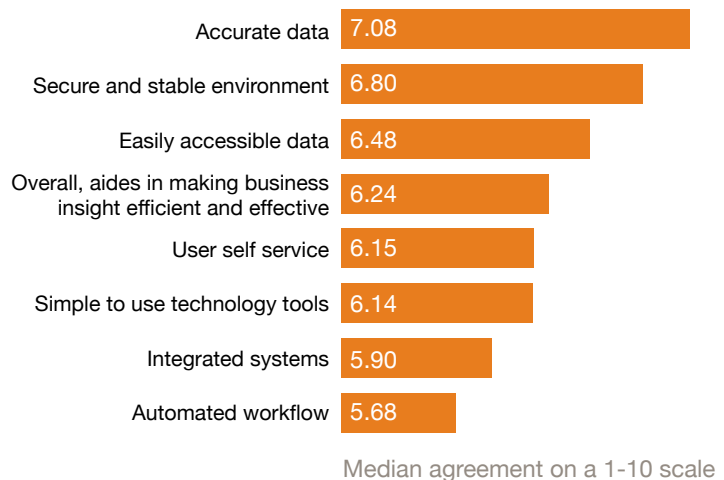
Finance was an early adopter of hardware and software designed to streamline and automate its core processes. The result has been real improvement in finance operations. More recently, there have been great strides in the areas of enterprise performance management (EPM) and data warehousing. Organizations are making connections between financial planning, operational planning, and sales planning to create better integrated processes and are considering how new tools can assist in that endeavor. The resulting finance system simplification should mean a more integrated finance systems roadmap. But the leaders are now doing far more.

The difficulties of data fragmentation often remain, with information sourced and stored across multiple locations and in multiple formats. While accuracy, stability, and accessibility are critical factors that technology has tried to address, challenges with integration and automation continue for many organizations (see Figure 12). Many finance teams struggle to cleanse and aggregate the data they need to provide meaningful analysis for the business.

Advances in digital technology are transforming this process. So what do we mean by “digital”? Digital in this context refers not so much to the traditional software applications and associated hardware platforms (which are certainly enablers of digital) but rather, the ability of digital technology to deliver services with an unprecedented degree of personalization, ubiquity and platform independence than was possible in the

past. Tablets and smartphones, cloud computing, very high-speed network infrastructure, pervasive wireless access, online collaboration, new EPM applications, etc., have all opened up new ways for finance personnel to interact with the data, their customers, and each other. The reality is that we now operate in a digitally immersed business environment and that has important implications for the finance function.

Figure 12: Technology’s ability to support finance’s business insight needs



Median agreement on a 1-10 scale

Source: PwC finance benchmark data, performance surveys - finance feedback

“Many finance teams struggle to cleanse and aggregate the data they need to provide meaningful analysis for the business.”

Top performing finance teams are today using these technologies to open up new styles of working that are more flexible and a better fit for certain segments of the population. Mobile computing, online collaboration tools and cloud computing allow greater freedom for finance personnel to work any time, any place, rather than being chained to a traditional office setting. That flexibility in turn reduces turnover among key segments of the finance population. Business leaders taking part in PwC's latest CEO survey report that investments in digital technologies have created value for their business in a range of areas including innovation and customer satisfaction.⁴

Targeted tools with quick implementation and low skill requirements allow for easy implementation by finance professionals. Paul Morton, Partner, PwC UK, explains that if an organization acquires a new business or has a new brand, new applications allow companies to replicate information based on previous work right through their finance models. "A finance professional can then start planning against those brands within minutes. Models can be instantly deployed to sales teams who can put their sales forecast against those new brands. Finance can then roll up profit within minutes. Meanwhile, with traditional EPM systems, finance would need to raise a project request and involve IT, costing thousands of dollars and taking three months."

Garrett Cronin, Partner, PwC Ireland, notes that the impact of apps and smart devices (such as smart thermostats in the utility industry) increase the need for better data

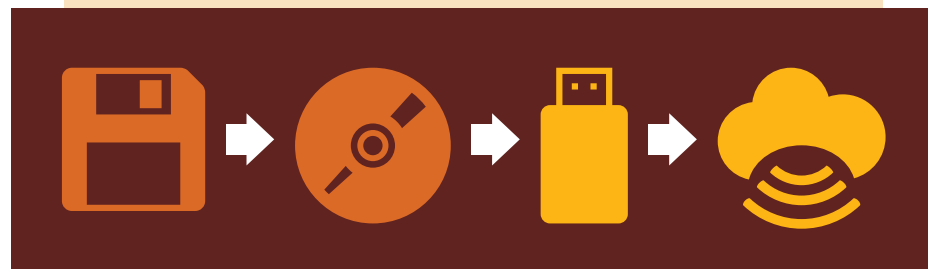
integration by companies. "As the source information becomes more automated and available online, companies have to process this data in a way that removes the manual intervention, and allows more efficient and effective service delivery to customers," he says. Digital apps and smart tools are spreading throughout the marketplace, from telecommunication services, to utilities, to banks. Finance functions which can capture and use the data generated by these devices will have better information for future forecasting.

In the last few years there has been a transition as more companies come to believe that the flexibility that comes with essentially renting their

technology can also enhance rather than compromise security. There are significant cash flow benefits to renting versus investing in technology solutions. Recently, cloud adoption in particular, has accelerated among small and medium businesses. Bob Woods, PwC Director, US software & internet advisory, explains that for start-ups, it's often a very clear decision, a cloud ERP solution for under \$10,000 a month, is almost always a better decision than spending over \$1 million on a traditional ERP solution. And for a fast-moving start-up, there is another advantage in that cloud ERP systems can be up and running in weeks, not the multiple months that a traditional ERP implementation typically takes.

Rethinking technology

More advanced, lower cost and easily accessible technology is changing the rules—making sense of complex data.



Better data increases productivity in the business



In the areas of billing and management reporting, we see over 40% of time spent on waste and activities that could be automated.

⁴ 1,322 CEOs in 77 countries were interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

Source: PwC finance benchmark data, activity analyses

Legacy and security

Larger companies with existing infrastructure and legacy systems have been more reluctant to use cloud for ‘core processes.’ However, as systems come to the end of their useful life, they are seriously considering making the shift to cloud technology. Carol Sawdye, CFO of PwC US, emphasized that cloud service providers are often in a better position to make the necessary investments in security infrastructure and to stay up-to-date with security trends, since security is often at the core of their service offering.

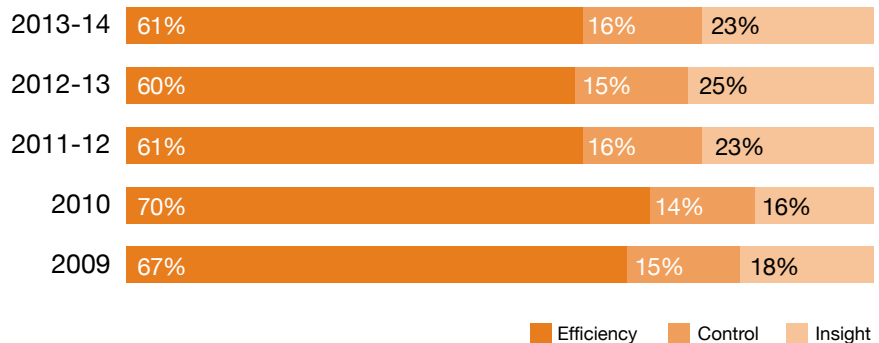
There are still some problems that need to be solved. Many cloud-based application providers have built platforms that are fully optimized for organizations that are based in the US, use US standards, and serve only US customers. They may have yet to address global issues concerning data security, standards and compliance.

Faster and smarter management information (MI)

Digital advances are also opening the door to timelier and more insightful management reporting, with the latest business intelligence and data visualization packages being brought into common use at many top performing companies to better enhance MI. As a result, there is notably more self-service reporting, allowing users to be more agile and to access business information where and when they need it, rather than waiting for distribution of a static “management report.” The leading finance teams are already spending a lot less time moving data between spreadsheets to prepare information. Their role is focused on interpreting data and presenting insights to the CFO and other stakeholders.

Our benchmark analysis sees little overall change in the amount of time finance teams devote to insight activities (see Figure 13). However, the leading finance organizations are able to deliver more commercial impact by making the insight-focused FTEs more productive and even more focused. They use their skills to interface with large datasets, interpret them, and understand the commercial implications. They can then be proactive as they engage with the business, and have the ability to discuss options and outcomes with confidence. As an example, finance is increasingly a key component in winning business, providing innovative thinking about how to make the deal more profitable or compelling to the customer.

Figure 13: Percentage of finance effort



Source: PwC finance benchmark data

“Cloud service providers are often in a better position to make the necessary investments in security infrastructure and to stay up-to-date with security trends, since security is often at the core of their service offering.”

Governance, quality, and ROI

More sophisticated companies are beginning to realize that technology isn't a silver bullet. To realize the intended ROI, technology implementation and upgrades need to be accompanied by process changes. Successful organizations are looking toward greater standardization of management reporting across the organization and seeking to remove redundant or unneeded reports. Our benchmarking reveals that almost 80% of companies review their management reporting at least annually. However, there is room for improvement with only about half of those companies conduct their reviews with a focus on eliminating redundant reports—a major priority for the leading finance functions. Companies are also exploring new technologies to help translate the masses of data into information that can be leveraged for the benefit of the organization.

Organizations that fail to see significant technology ROI are often unclear about what they want to achieve through the use of technology. Alexander Staal, Partner, PwC Netherlands, notes that when companies fail to consider their goals in advance of technology transformation, they can implement a new system but ignore the fact that they should have rethought their data structures and processes. In the end, these companies will have processes, data structures and reports similar to what they had before, but embedded within new technology. PwC's latest CEO survey highlights five behaviors that accelerate value for companies making digital investments (see Figure 14).

Successful companies also understand the importance of change management for the successful adoption of new technology. If internal adoption and alignment of the business process is uneven, initiatives involving new technology suffer. Bob Woods explains that “technology will never be the solution for bad processes.” Therefore the proper allocation of money and time for change management are key to achieving ROI on any technology investment.

Finally, organizations are seeing a real generation gap in employees' comfort level with new technologies. Typically, millennials are digital natives and adapt more quickly to working in the cloud and using new technology tools. In general, people often need more time and training to adjust to these technological shifts.

Figure 14: Leveraging digital technologies

How important are the following factors in helping your organization get the most out of its digital investments?



Respondents who stated “very important” or “somewhat important”

Source: PwC 18th Annual Global CEO Survey

“Our benchmarking reveals that almost 80% of companies review their management reporting at least annually.”

Wisconsin Energy: Transparent reporting in a matter of minutes through finance and IT collaboration

Wisconsin Energy Corporation's (WEC) Finance Department underwent a significant technology transformation in order to realize process efficiencies and improve reporting. We talked with Matt Johnson, Program Manager Continuous Improvement, about the impact of new technology on WEC's finance organization.

WEC is the largest electric and gas company in Wisconsin. With 1.1 million electric customers across Wisconsin and the Upper Peninsula of Michigan, as well as 1.1 million natural gas customers, the company maintains total assets of approximately \$15 billion. WEC's electricity is generated by a mix of coal-fueled power plants, natural gas-fueled peaking plants, several hydroelectric dams, and various renewable energy sources, including wind and biomass.

In 2013 and 2014, WEC engaged in a major finance transformation, with a large technology component. The goal was to simplify and automate the regulatory (FERC) accounting process, as well as upgrade an aging transaction system to lay the foundation for additional transformation initiatives. Prior to the transformation, WEC was heavily invested in an SAP platform. However, as its business model continued to evolve, and management pushed for more transparent reporting, WEC's approach of maintaining two separate reporting processes, one for financial reporting and another for Federal Energy Regulatory Commission (FERC) and state ratemaking reporting, had become unsustainable.

As Matt Johnson recalled, "Going into this project, I assumed we would encounter many technical challenges because WEC had been in maintenance mode for so long. While we did encounter technical issues, they were the result of our attempts to unwind old customizations to take advantage of current functionality without negatively impacting the system's outputs. Since our design was over a decade old, identifying staff members that could describe the strategy for the current application architecture was key to our success."

WEC had experienced a number of issues as a result of their previous technology solution. Regulatory information was not available on a real-time basis. Additionally, users relied on manual mapping tables to reconcile GAAP and FERC accounts. As a result of these factors, hours of manual reconciliation slowed down the close process.

WEC therefore created a cross-functional team with members from finance and IT with the goal of streamlining FERC reporting by designing a "real-time" FERC solution, enabled by a FERC based Chart of Accounts (COA). WEC then endeavored to integrate the solution into WEC's close process.

Corporate and business unit finance members worked together to develop a new account structure that aligned FERC accounts and natural accounts, establishing the data foundation required for the technology solution. Further leveraging their investment in SAP, WEC customized SAP standard derivation rules that allow users to switch views between FERC and GAAP account line items. The company also modified its process by automating FERC-GAAP translation activity and scheduling the jobs to run nightly, rather than at month end.

WEC also understood the importance of finding skilled resources throughout the organization to contribute to building the new processes and take ownership of the solution. They therefore created a project transformation team to oversee and govern the projects necessary for this transformation. The project manager had full access to key personnel, including the corporate CFO, controller, treasurer, and director of IT.

WEC also understood the need for change management for such a significant transformation and created a transition plan from the original FERC solution to the new real-time solution and from the old COA to the new COA. This plan included a cross-functional testing audience, formal training sessions, and a change agent network that participated throughout the initiative.

The returns on this initiative will be significant for WEC. The company has achieved increased transparency, with better access to managerial vs. regulatory numbers, and improved data reporting. It has started to realize increased efficiency, with better FERC drilldown, a standard set of derivation rules, and elimination of month-end FERC processing. WEC also has access to information, such as overheads and settlements, on a daily basis, rather than monthly, enabling more timely reporting. While previously, due to the number of customizations and manual interventions in the old system, the FERC closing process took an hour and a half or more, now the process takes mere minutes.

A side-benefit of the transformation has been greater clarity of roles between the finance and IT teams regarding data ownership and responsibility. This process has forced finance and IT to come to the table and clearly define the roles and responsibilities of each function within the organization relating to the data. They have been able to work more collaboratively as a result.

The next steps in WEC's journey include the development of a new consolidation reporting system, which will reduce the number of reports generated to support the consolidation process by fifty percent. These reports were deemed either unimportant or have been replaced by user generated reports from their new consolidation system. The easier interface in the new system allows finance to build and populate their own templates, rather than requiring the assistance of IT.



Taking the lead: Finance in a digital age

Boards and business teams are looking to finance to help them navigate through a digital age. If finance can't provide the necessary insights, it risks being bypassed and sidelined. The solution doesn't just lie in technology, but in ensuring that finance asks the right questions and provides actionable insights. Finance needs to secure the people who can establish direction and foster the ambition to drive change as rapidly as the organization and the business environment demand.

Companies don't need a digital strategy; they need a business strategy for a digital age. This is a time of innovation and rapid change. From the moment we wake up to the moment we sleep, nothing remains untouched by the influence of digital. This presents finance with both opportunities and threats. When we asked the CFOs attending our latest annual Finance Leaders' Summit whether digital developments will change how their firm does business on the one side and the role of the CFO on the other, nearly 70% said yes; but only 20% believe they're equipped to deal with the challenges.⁵

The challenges for finance include new revenue models, product fragmentation and designing KPIs that drive customer rather than channel profitability. Finance teams need the technology and people to make sense of an unpredictable world and turn a phenomenal torrent of data into insights that can give the business a real advantage. 81% of CEOs believe technology advancement is the key global megatrend that will transform business over the next 5 years.⁶ And of course all this has to be achieved while curbing costs.

While in some ways the twin challenges of new technology and changing business expectations are familiar, what is new is that a lot of the data and the technology to analyze this data are now essentially commoditized and open to anyone in the business.

In-memory computing is speeding up report queries and new visualization reporting tools are allowing business users to model scenarios with minimal reliance on the IT department. For example, a large UK retailer has taken an innovative approach that has allowed them to identify the strongest KPIs for store performance, link them to behaviors and develop improvement plans for each store. It measured the impact of their 1000+ KPIs on performance. It found that 70% of KPIs were not driving profitability. These KPIs were dropped, and the remaining 30% were placed visually in the hands of store managers. Store managers are now empowered by what the data is telling them, and are re-focused away from a predominance of tracking salary costs. This redefines the stakeholders who hold companies and finance accountable and places increased demands on what companies are reporting—and how quickly.

If business teams can get off-the-shelf programs to take care of their market analysis, what role does finance play? Finance therefore has to provide the business intelligence that others can't. This fundamentally changes what people expect of finance, and finance needs to change the way it operates to meet these expectations. So how can finance meet these demands?

1. Get up to speed

In this digital world, the ability to process and react to information quickly is as important as brand, product and distribution network. Finance should ensure:

- The flow of actionable reliable data to where it is needed, when it is needed.
- Analytics, linked to behaviors underpinning every product, pricing, channel, marketing and servicing decision.
- Managing uncertainty, increasing agility and taking advantage of unfolding opportunities quicker than the competition.

Innovation is not just internally focused. Companies are tapping into social media and interactive graphical data tools for external reporting and communications. Leading corporate Investor Relations (IR) teams have pioneered the use of digital tools to enhance their financial reporting. They remove static material from the website and instead present information in an accessible, interactive and digestible format— anyone can interact with their financial performance data online. Fast forward to the future, we believe this more accessible and transparent approach will be widely adopted and the publication of annual financial statements will become a thing of the past.

⁵ <http://www.pwc.co.uk/finance/finance-matters/insights/finance-leaders-summit-2014.jhtml>

⁶ <http://www.pwc.com/gx/en/ceo-survey/2015/key-findings/technology.jhtml>

Competitive intelligence is becoming readily available. The SEC has made available the filings for all US listed companies via XBRL. Simple XBRL analysis tools interrogate this data, providing a rich set of consistently structured market information at an individual company level. Transparency and structured data offer insight, control and economic stability. There is nowhere to hide.

2. Lead analytics in the organization

Analytics is moving from what happened and why to what will happen and how can this be influenced. This is an opportunity for finance to take the lead. For example, at a service company, finance led a modelling initiative to predict customer attrition. The models identified patterns and assigned an attrition risk score to each customer. Tactically, this information enables targeted retention campaigns. Strategically, it drives financial projections – more accurate revenue projections by customer segment – and a variety of other strategic decisions. For example, they have re-directed sales resources away from customer segments with low retention.

A further development is the formation of a central analytics group to coordinate the generation and communication of business intelligence across the organization. However, many challenges still remain: shortages of skilled analytics talent and explaining analytics to business line staff unfamiliar with the concepts are two that stand out. Other key questions to answer are, should the central analytics group primarily serve finance, operations, or both? Will this enable a slim team of finance business partners to exclusively focus on interpretation and strategy rather than production and analysis? Can

finance adequately control data across forever expanding sources and ensure that it remains accessible and consistent?

Given that the insights are only as valid as the data they're based on, and given that finance has the core skills, discipline, and mindset to control the data and keep it relevant and meaningful, we would argue that finance leaders should lead enterprise-wide analytics. Analytics should be one of the central priorities for a CFO for the foreseeable future, with the potential to drive operational performance and give companies a competitive edge.

3. Be pragmatic in mixing the cloud with legacy systems

The cloud is lowering running and implementation costs, though this only part of the story. Emerging cloud vendors are quick to point out their many other advantages in areas ranging from improved functionality and agility to faster customer feedback and response. What does this mean for the CFO? Is the legacy system redundant? Our clients' finance transformation roadmaps are becoming more evolutionary and agile. They are increasingly characterized by a mix of cloud-based and hosted technologies, integrating with their existing on premises ecosystem and deploying a mix of familiar software vendors and interesting new players. They are developing pilot launches to test and refine ideas before bigger investment decisions are made. What this all amounts to are stronger working relationships with the CIO, and business cases that deliver earlier and keep on giving.

4. Make sure everyone is fully digitally literate

The last decade has seen huge shifts in the way finance functions operate. New digital technologies offer competitive advantage and rich opportunities for the finance function to take a lead in driving business performance. However, talent remains the life force of a finance function's capabilities. In addition to having excellent core finance skills, and being inquisitive, ambitious, and business-minded, finance professionals will need to become more data-literate than ever before. The finance function of the future will be characterized by navigation, mediation, resilience and connectivity.

Ashley Chapman, Director (UK), Jemma Ingham, Director (UK) and Bob Woods, Partner (US) are members of PwC's finance consulting practice. They share their EPM and ERP experience and knowledge of the latest cloud and analytics enabling technologies for finance. They focus on helping our clients match their finance function performance to their most ambitious business strategies in a digital age.

Turning management information into real competitive intelligence

The explosion in data availability and advances in the technology to analyze it have the potential to take management information (MI) to a new level and the leading finance functions are harnessing it as a competitive advantage. But our benchmark analysis reveals that in many businesses, the performance of finance MI is falling way below expectations. How do you compare?

Valuable and effective management reporting is a critical component of finance’s role in any organization, but business users rate it far below what could and should be achievable (see Figure 15).

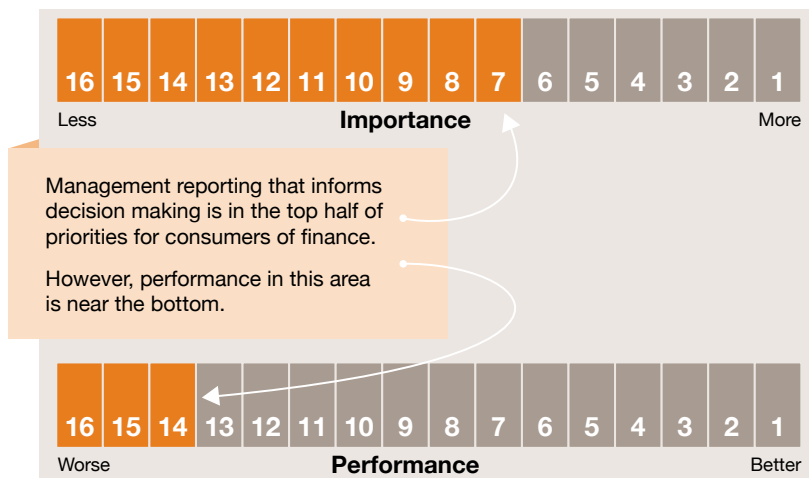
The finance function often isn’t working with the business to understand what key insight is needed to make business decisions. Many finance initiatives aim to cut down the number of MI reports without understanding the value the reports they bring to the business, causing a waste of resources, without improving the efficiency of the outputs. Higher quality and less MI reporting leads to more effective use of budget on other initiatives, bringing more value to the business.

Top performing finance functions are developing advanced ways to deliver MI using new technology and data visualization. And they are often blending new information sources together with traditional finance data to uncover new insights and tell an actionable story. Examples of how they are pushing back the frontiers of MI range from the granular behavioral

and predictive analysis needed to identify and capitalize on new niche markets to the development of a much more effective understanding of the interdependencies between marketing, cost and returns. In short, they are creating MI that can be translated into actions on the ground, be this new market entry or the product mix and offers in a store.

Figure 15: Business users’ views on management reporting

Management Reporting: The compilation and creation of management reports as required enabling managers to make decisions.



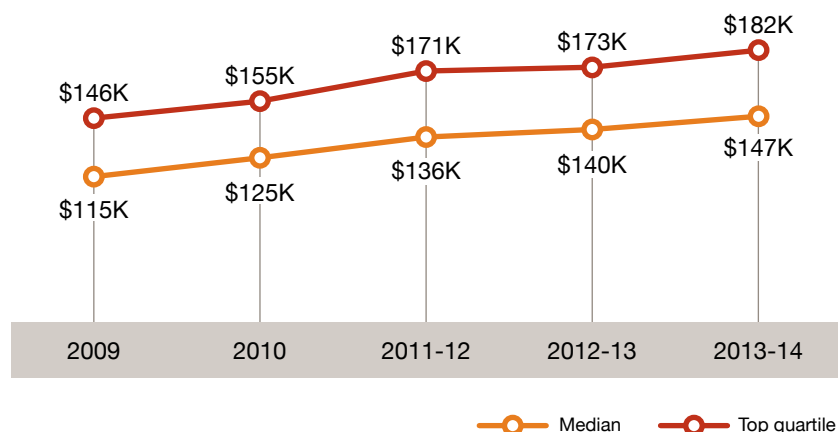
Source: PwC Finance benchmark data, Performance surveys - customer feedback

“The finance function often isn’t working with the business to understand what key insights are needed to make business decisions.”

Richard Wyles, partner, PwC UK, explains that some top performing companies today are combining the projections from predictive models of customer acquisition and attrition with classic revenue and P&L data to better forecast future revenues. The combination of financial and non-financial data allows for a better view of the future. “Data visualization tools then bring that story to life for the management team,” he says. Other organizations are merging production and manufacturing data with revenue information to allow a company to test price variances at a market level and determine where they are making a profit. Operational KPIs are also being integrated into reporting with data on things like production hours, number of incidents, and production delivered-on-time metrics. François Jaucot illustrates this point by describing a company he’s working with that is integrating weather reports into their inventory planning. Another of his clients is a chocolate maker who sources from Africa, which now includes information about the stability of the governments in their raw ingredient pricing and availability projections.

Finance staff with well-developed business insight skills are more expensive than other finance staff, and salaries of “insight staff” are increasing (see Figure 16). But many companies report that the cost is well worth it. In fact, in many places globally, companies report that there is an increasingly competitive landscape for recruiting and retaining finance insight staff.

Figure 16: Cost of finance “insight” FTEs (\$USD)



Source: PwC finance benchmark data

The digital revolution is also affecting management reporting. Technology is being used to get information out to a wide set of people in an impactful manner with increasingly rich data visualization, often using mobile devices as a platform. Richard Wyles describes one high performing pharmaceutical company where the CFO carries a tablet and can drill through all of the classic P&L data, as well access an enormous set of KPIs covering the performance of the entire business wherever he is. “The CFO can access data around research and development effectiveness, sales team effectiveness, and can interpret it very rapidly because of how it’s been visualized and how he can interact with it through the tablet. Digital access allows management to assimilate and digest information in a much more consumable manner. As a result, decision making is much more agile, and finance is playing a more crucial role in driving the business.”

Analysis is clearly only part of the story. Insight professionals need business understanding and visionary perspective. Finance teams also need to be working closely with the business to understand what is real “insight” and what is just another report. The challenge of how to turn data into insight isn’t new. But the challenge has been intensified by the “democratization” of business intelligence, in which relatively unskilled personnel can now do what had been the preserve of finance. The first step is therefore for finance to cut out all the information (and associated drain on resources) that isn’t really necessary. The next consideration is what can we deliver that others can’t? Finance’s bird’s eye view of the organization and its market is still critical. But as outlined earlier, there may also need to be closer interaction and crossover between finance and other teams as business intelligence continues to evolve.

“The combination of financial and non-financial data allows for a better view of the future.”

Navigating through a new business landscape

Industry and commerce are in flux. More than 50% of the Fortune 500 has been acquired, gone bankrupt or ceased to exist since 2000. And changes are accelerating as businesses face a perfect storm of digital disruption, product fragmentation and shifting customer expectations. Finance leaders can no longer debate whether they need to adapt, but decide how—and how quickly.

PwC has identified five megatrends that we see as the biggest developments facing businesses today:

Shift in global economic power

Technological breakthroughs

Demographic and social change

Rapid urbanization

Climate change and resource scarcity

These are the developments that have seen well known global brands fail before our eyes, sometimes astonishingly quickly. The overhaul of sectors such as travel and music shows just how quickly market leading businesses can be swept aside by a combination of technology and shifting social attitudes.

These developments are also transforming the role and reach of CFOs within their businesses and wider society. Seeing the world through short-term incremental shifts is no longer enough when whole markets can be turned on their heads in a matter of months. The focus has to be broader and more creative, with whole business models rather than just budgets and forecasts up for review and discussion. This broader scope

is an opportunity for finance. As we explored in the previous section, CFOs are ideally placed to provide the hard analysis and clear insight into what all this change actually means for individual businesses. This will in turn change the way finance operates.

Technology is changing customer expectations and production. It's also transforming finance. From tax reporting to transaction processing, more and more routine responsibilities are being automated. Off-the-shelf programs are now beginning to take over budgeting and analysis. Some tools offer natural language search so that an unskilled user can discern which market segments offer the best prospects or who is most likely to leave your company, for example, all presented back through interactive data visualization.

The advantages of such artificial intelligence (AI) aren't just increased speed and lower costs, but its ability to constantly learn and adapt. AI is also likely to be the only feasible way to make sense of the torrent of data flowing through today's organizations, which could very soon begin to defy human comprehension. Tellingly, an Oxford University study has found

that the probability that accountants, auditors and budget analysts will see their jobs computerized is more than 90%.⁷

But freed from the routine and with ever more advanced analytical tools at their disposal, the value and performance of finance professionals will increase. The numbers of people employed will be much less. But the value, satisfaction and reward for those that remain will have been greatly enhanced. We've already seen this in a company in which virtually all traditional finance operations are outsourced, leaving a single professional per division to manage performance and be incentivized on results.

The demographic megatrend is reshaping the talent pool for finance. David Lancefield, Partner, PwC UK, who leads our megatrend analysis, explains: "The pace of this change will vary immensely across different regions. Africa's population is expected to double by 2050, while Europe's should shrink. The average age in Japan in 2050 is expected to be 54—and just 21 in Nigeria." In some areas people are retiring and there's a shortage of skilled labor to replace these workers.

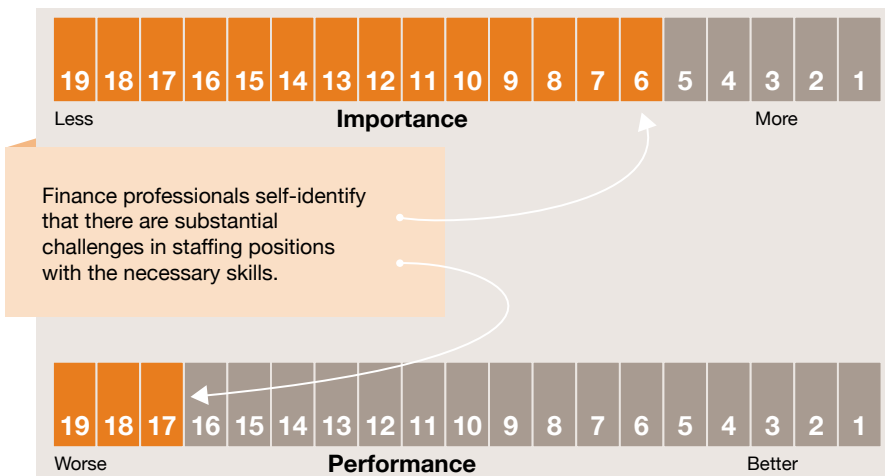
⁷ "The future of employment: How susceptible are jobs to computerization?" Carl Benedikt Frey and Michael A. Osborne, September 2013

But in other regions unemployment is expected to remain high. Additionally, as populations become increasingly diverse, corporate inclusiveness increases in importance. “A growing body of evidence connects workplace diversity to improvements in business and economic performance. The most innovative companies are already adapting to tap into the growing diversity of their workforce in terms of gender, geography and age - as well as feelings and values,” he says. For example, the BBC is an organization ahead of many in considering neurodiversity in hiring the best talent.

Changing demographics are also driving changes in organizational communication. Tim Haywood, CFO and Head of Sustainability at Interserve, reports that to reach the younger generation of finance staff, Interserve has begun to communicate through Twitter, email, and Facebook. However, the generation currently in finance senior management positions has not typically created a digital presence. Mr. Haywood suggests that if one views digital fluency as a form of business literacy, then this is clearly a cause for concern. He recently emphasized this point at the PwC 2014 Finance Leaders’ Summit, referring to a study that showed that 90% of Fortune 500 CEOs had no digital presence, and asked the question, “Is anyone surprised?” No one at the summit expressed surprise. However, Mr. Haywood then asked, “what if I told you 90% of the Fortune 500 CEO’s are illiterate, what would you think then?” This got people’s attention at the summit, and in the following conversation there was a lot of

Figure 17: Gap in finance capabilities

Finance has the “right capabilities” in place (i.e., critical thinking, technical skills, managerial skills, organizational discipline, etc.)



Source: PwC Finance benchmark data, Performance surveys - finance feedback

agreement that there needs to be more efforts to combat “digital illiteracy” among top executives. Mr. Haywood said “it’s not easy, but old dogs can be taught new tricks,” and it’s important for the competitiveness of companies that their senior leadership better understand the rapidly developing digital landscape.

Another talent issue is the increase in students opting for finance degrees and MBAs versus accounting. Bob Woods explains that this has created a paucity of talent with the skills needed to physically run operational finance versus financial analysis. “The difficulty is that if you have an accounting degree, you can train to become a finance professional. But if you’re a finance professional, it is not always easy to become an accountant.

It’s harder to ‘train back’ to accounting. And this is leading to gaps in the talent base.” Finance professionals recognize the existence of this gap—PwC benchmarking reveals finance professionals’ own ratings of their finance function’s performance on “having the right capabilities in place” are often relatively low compared to the importance they place on having these capabilities (see Figure 17).

Finally, finance is becoming a much more data-driven organization than it ever was before. Having people who have core IT knowledge that also are accountants or finance professionals is increasingly important. Professionals that can bridge the two areas bring significant value to their organizations.

Creating competitive advantage from demographic megatrends

Carol Sawdye, PwC US Vice Chairman & CFO, has spoken widely on the role of finance in a changing world. She recently described the dramatic changes in demographics throughout the Western world and the impact of those changes on the workforce.

The population in many developed countries is aging rapidly, causing the highly skilled workforce to shrink, and therefore be in much higher demand, costing organizations more. Additionally, the rising predominance of the millennials in the workforce is requiring organizations to address this generation's demands for work flexibility and emotional connection.

Nearly three-quarters of the business leaders taking part in PwC's latest global CEO survey are concerned about the availability of key skills.⁸ CEOs identify it as a key threat to their organization's growth prospects (second only to over-regulation). Ms. Sawdye emphasizes the connection between this skills shortage and demographic trends. "An aging Western population means that the cost of highly skilled labor will soon outpace revenues unless business models shift." Ms. Sawdye says that many businesses, especially in Europe, are feeling this already, and this problem is becoming particularly acute in the professional services industry. But Ms. Sawdye also sees ways for nimble businesses to evolve their workforce strategies and practices to reduce the impact of these looming labor shortages.

For example, "organizations must endeavor to retain women in the workforce, as well as to retain older workers beyond the traditional age of retirement." Ms. Sawdye sees flexible work hours and the ability to work remotely through the use of technology as key to retaining the workforce. And she points out that these same policies are critical for attracting and retaining another key demographic group: millennials.

PwC collaborated with the University of Southern California and the London Business School to carry out a two year study of the perceptions and aspirations of millennials (those born between 1980 and 1995) across 18 global territories.⁹ It is projected that by 2025 this generation will represent 75% of the workforce. However, this transition is happening even faster at PwC. The company projects that millennials will comprise 80% of PwC's global staff by 2016, and Ms. Sawdye reports that millennials already made up 80% of PwC's US workforce at the end of 2014. These young professionals often bring a different set of values and preferences to the workplace compared to previous generations.

The study found no generational differences in work commitment, but found that millennials more actively seek flexible work situations, and place more importance on work/life balance. They seek the opportunity to shift hours, and are interested in technology that allows them to work remotely and more efficiently. They also seek a more emotional connection to the workplace than previous generations, and thrive in cohesive team-oriented cultures.

Emotional ties

Many companies find that millennials are leaving their jobs at much higher rates than other employees—they often remain at a single workplace for only a few years. This comes at a high cost, and increased hiring and development costs are just the beginning. "Many companies are seeing productivity and knowledge walking out the door," says Ms. Sawdye. "But companies that can retain millennials have a competitive advantage." Ms. Sawdye explains that PwC has found the creation of emotional bonds to be critical to retaining these young workers.

Emotional bonds can be created through the development of a flexible, inclusive and trusting work culture; leveraging technology to increase efficiency; increasing transparency around compensation, rewards, and career advancement; building a sense of community; and allowing for global mobility. Internally, PwC has experienced success in attracting and retaining talent by attending to these factors that drive millennials' emotional bonding and engagement.

Rather than considering these population shifts as a risk, Ms. Sawdye sees a huge opportunity to rethink the way organizations staff and develop resources to effect cultural change in organizations. Forward-thinking organizations will not only be supportive of flexible work, but embrace it as a differentiator in how they approach their workforce.

Ms. Sawdye says that businesses must invest in technology in order to provide the mobility and flexibility necessary to appeal to millennials, and empower the changing labor force. She sees new cloud and collaboration technologies not just as the domain of highly educated service professionals, but as technologies that will also enable organizations to engage with a broader, less skilled and more remote workforce, by standardizing tasks for less skilled workers. In some cases, new technologies will enable automation, removing the need for human input altogether. According to Ms. Sawdye, "it is critical that the CFO collaborate with the human capital organizations, and IT. The CFO needs to play a proactive role to push forward the business model and technology changes that are going to be required to increase operational effectiveness. CFOs need to push their C-suite colleagues by helping them see the financial impact of these accelerating demographic and technology trends."

8 1,322 CEOs in 77 countries were interviewed for PwC's 18th Annual Global CEO Survey A marketplace without boundaries? Responding to disruption (www.pwc.com/ceosurvey)

9 NextGen: A global generational study (<http://www.pwc.com/gx/en/hr-management-services/publications/nextgen-study.jhtml>)

Ms. Sawdye notes that by thinking creatively, and intentionally changing the way PwC works with technology, the firm has improved the bottom line. And, she explained: “The bottom line improvements can be seen in many areas. In real estate, for instance, PwC realized that our offices were not tailored to how new talent wants to work. Team members and partners rarely need individual offices, because they already have the technological infrastructure to work from home or from a client site. Instead, they want space to meet and work collaboratively.” In response, PwC has reconfigured its offices, opting

for fewer individual offices and more collaborative work spaces. And it’s not viewed as taking offices away—it’s seen as giving teams more technology and more collaborative online and physical workspaces. “By making the existing real estate work harder, PwC is meeting those needs and has significantly reduced real estate costs as a percentage of total revenue.”

Ms. Sawdye sees both challenges and opportunities ahead: “The rapid changes in both workforce demographics and our business technology environments make for challenging times for CFOs, but these

changes also bring with them exciting opportunities for us to help our organizations innovate and grow.”

Carol Sawdye, Vice Chairman and CFO (US) is responsible for PwC’s US financial functions including budgeting and reporting, partnership taxation, treasury, internal audit and real estate. She is also a member of the US Leadership Team. Prior to rejoining the firm in 2012 Ms. Sawdye spent two years as the CFO of the National Basketball Association (NBA).

Globalization

Companies around the world are developing an ever more multinational footprint. Ed Shapiro, PwC Director, finance effectiveness, explains “the duopoly of American and Western European economic dominance is evolving to an environment where the US and Europe are still extremely relevant, but there are now new poles of power from a business perspective. The global staffing model is changing, with a decreasing number of finance personnel residing in the US and Europe.” Moving into the future, finance people are going to be key players in the new structure and,

as there is more global business in the emerging markets, the finance resources will need to reside closer to where growth is strongest. Also, finance resources will not be as centralized as they are currently, but rather distributed across economically empowered zones, wherever new products and innovation are occurring. Mr. Shapiro explains that when US and European companies do more business in rapidly developing countries, those countries will need to aggressively evolve their own finance functions. They will need to be globally aware, upgrade their technical skills and develop financial competencies.

As the focus of global investment and growth shifts south and east, the challenge is how to attract and train business professionals from markets where appropriate skills are in short supply. Parachuting people in is no longer viable. It’s too costly. People need to know the local markets. A lot of the intelligence gathering and analysis will be centralized. Where local knowledge and presence is necessary, it will be important to hire people from within emerging markets straight from college, bring them into group HQ for training, before they return to their home market.

“Finance resources will not be as centralized as they are currently, but rather distributed across economically empowered zones.”

Regulatory fragmentation

Another consideration for the global organization is the difficulty of navigating differing regulatory and tax environments in disparate countries. Companies that are not fully aware of the local regulations in each of the countries where they have operations risk significant financial losses and reduced efficiency. The Intel interview on page 64 provides an example of the benefits that can be achieved through business and government collaboration.

Organizations need to develop local leaders, not just move Western expatriates into developing regions. Companies based in Western countries are becoming less characterized as traditional American or European multinationals and are evolving more into truly international companies that happen to have their headquarters in a Western country. It will be increasingly important to have access to indigenous talent that these organizations can rely on and develop. In order to ensure success, well-rounded business executives will need to understand both the laws and processes of their headquarters country as well as the many local operational variants in the countries where they do business.

Job rotation will become increasingly important. Finance staff will need to work in different countries in order to develop the global experience to understand and appreciate differences across countries and cultures. Global rotation brings an understanding of the rules and regulations of different countries, as well as how to deal with currency and with excise and export taxation. Those professionals who have worked in only one country cannot appreciate the layers of complexity inherent in a global operating environment.

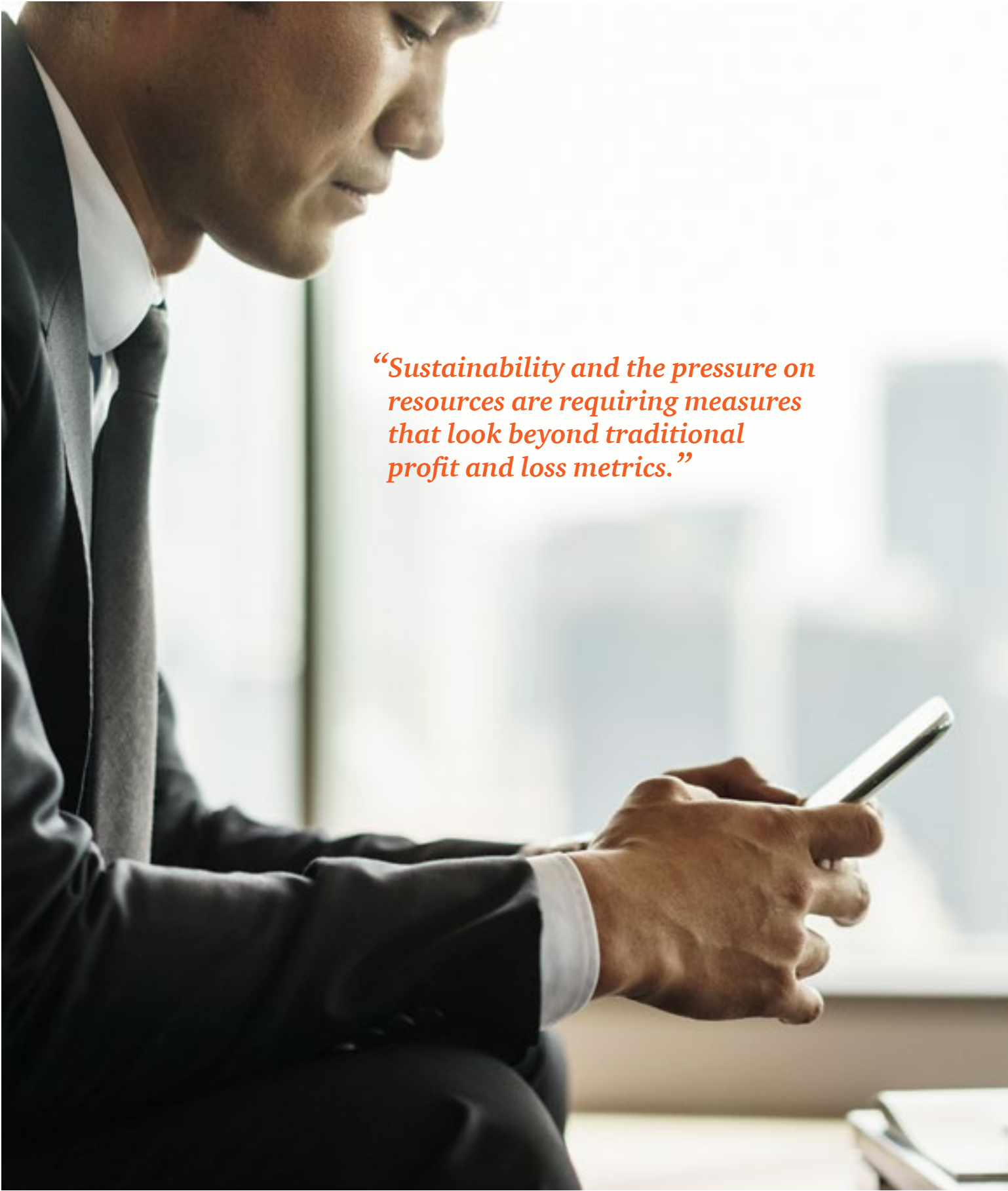
New perspectives on sustainability

As we move into the future, finance organizations are looking beyond the bottom line both in their goals and in their reporting. Sustainability and the pressure on resources are requiring measures that look beyond traditional profit and loss metrics. Companies are considering both the future of energy and climate change, as well as the priorities of the millennial employees that they would like to attract, and are placing a new emphasis on the environment in their construction practices, manufacturing, and work processes.

Anna Lagerbäck, team lead, PwC Sweden, notes the trend in Sweden for companies to specify KPIs related to climate responsibility in their management reporting. Erik Friberg, Director, PwC Sweden, additionally reports that in the war for talent, younger workers are evaluating companies' sustainability initiatives when choosing where to work. Tim Haywood at Interserve concurs. He believes that Interserve's commitment to sustainability is a draw for younger professionals seeking employment in a workplace that is consistent with their values. He explains, "We embraced, before we knew it existed, the International Integrated Reporting Council's view of the multi-capital approach to measuring a company's achievements, including sustainability." Mr. Haywood believes that this has paid off in a more motivated and engaged workforce, and resulted in broader strategic conversations with customers (see page 60).

Malcolm Preston, PwC UK Partner and global leader of sustainability, says "How we currently measure value and returns may fail to reflect the social, fiscal and environmental considerations that are increasingly critical to business success." Total Impact Measurement and Management (TIMM) aims to incorporate these drivers alongside traditional financial metrics to provide a more holistic basis for making decisions and judging performance (<http://www.pwc.com/totalimpact>).

“Finance staff will need to work in different countries in order to develop the global acumen to understand and appreciate differences across countries and cultures.”



“Sustainability and the pressure on resources are requiring measures that look beyond traditional profit and loss metrics.”

Interserve: Sustainability can help grow the bottom line

As businesses face a new set of commercial realities and have to work harder to sustain their license to operate, Tim Haywood, Group Finance Director and Head of Sustainability at Interserve, believes finance needs to look beyond just profit and loss (P&L) to embrace new ways of defining and driving value. Tim Haywood believes that aligning financial and sustainability management gives the business a powerful competitive edge. So how do the two come together and how is this union contributing to enhancing value for shareholders and society?

Interserve plc is a multinational support service and construction company based in the UK, with revenue of £2.9 billion (\$4.6bn) and a workforce of more than 75,000 people worldwide. Interserve operates in a world where the demands on businesses are changing in the face of accelerating urbanization, climate instability, resource scarcity, shifts in public attitudes and the shift in global economic power. To illustrate just how fast the world is being transformed, Tim Haywood compares the skyline of Doha in 1990 to the ultra-modern metropolis we see today. As one of the biggest construction companies operating in the Gulf, a significant part of Interserve's \$4.6 billion annual revenue comes from the projects that are transforming Doha and other cities in the region. How much more could change in the next ten years and what does this mean for Interserve and its markets? "We have to make predictions about the future and base real decisions on them.

We would be foolish not to consider the broader angles that feed into these decisions. The four dimensions of social, natural, knowledge and financial capital all have an impact on the construction and support services we provide," he says.

As an example of how sustainability can affect the bottom line, Tim Haywood cites the use of water in Interserve's construction sites and accommodation camps in the Gulf. "We've got accommodation camps housing tens of thousands of people. As you can imagine, that generates a lot of brown water and requires a lot of potable water," he says. By putting in place treatment processes that allow the company to recycle the water it uses in the accommodation, it has not only adopted a more sustainable solution in this ultra-arid region, but is also saving the huge amount of money (\$750,000 in one camp alone in Qatar) it used to cost to ship the clean water in and the waste and sewage out for treatment. "It's one of those business cases where environmental capital and financial capital coincide," says Tim Haywood.

The success of the wastewater treatment installations at their camps led Interserve to explore other environmental improvements. "We've put in solar panels, reassessed the air conditioning systems and schedules, and conducted a variety of other small-scale projects. All together, we reduced the emissions of our camps in Dubai by over a third," says Tim Haywood. Additionally, the expertise Interserve developed with water treatment and other camp sustainability solutions in the Middle East has developed into a sizable profit center. The company has sold and built similar systems for several clients, which include a solar-powered ambulance station with a wastewater treatment system.

License to operate

For Interserve, sustainability is more than the environment—it brings in employees, customers and partners and extends to societal issues and sustained financial success. Interserve’s public sector contract work in areas such as helping people who are long-term unemployed back into jobs, highlights the importance of a social dimension in the company’s decisions, at the heart of which is the need to sustain its license to operate. “Society wants to be comfortable with the people it’s entrusting with these important services and that means living by strong social values,” says Tim Haywood. He believes that the need to see the broader angles makes bringing finance and sustainability together a logical step in the way the business is managed. “What I’m demonstrating in performing the two roles is that there is no disconnect between good business, meaning ethical business, and good business, meaning something that makes money for shareholders.”

Hard numbers behind the business case

Tim Haywood believes that one of the key contributions that finance can make to sustainability is “bringing to some of these more ephemeral, esoteric and intangible areas the rigor, discipline, measurement, data, traceability—all the boring, but essential disciplines that are at large in the finance function, to make them more tangible, believable and credible,” he says. That rigor can in turn strengthen the business case for sustainability in an organization and persuade customers and suppliers that ethical business is profitable business.

To strengthen the analytics behind the business case, Interserve has been piloting a social value mapping tool, which aggregates impacts in areas such as training, job creation and investment in the local economy. “By celebrating the good things we do in the community and for the environment, we get to say ‘let’s do good things together.’ This helps us make Interserve a desirable place to work, it improves our brand reputation, and it helps our bottom line,” says Tim Haywood.

Transforming the organization

Mr Haywood believes that beyond the immediate financial and reputational gains, the pursuit of sustainability has helped to change how Interserve is perceived and how its staff think about themselves and their organization. He believes these changes will have a lasting impact on the company’s long-term commercial performance and potential.

“Interserve’s focus on sustainability has helped to position us as a thought leader. We’re delivering important services. We’re not just the facilities management company who cleans the floors and guards the doors—we’re doing more societal, transformational work than that, and we needed to find our voice. And sustainability became an important part of our voice” says Tim Haywood. “Sustainability has become a glue that binds the various parts of our organization together, a rallying cry, and a source of collective pride. Sustainability has become a unifying theme for our construction, our equipment, our financing, our facilities management, and our public services. They all rally behind this single vision of what sustainability is in our organization, and what we’re all trying to do.”

Mr. Haywood also describes the personal impact of Interserve’s sustainability journey: “It has put a real spring in my own step, personally. I think it’s great to have such a broad canvas and to feel able to have an impact, and I think our organization has benefitted from seeing itself in a slightly different and a more positive light. I fully commend the journey we’ve been on. It’s a tough journey and a long journey. We’re nowhere near finished, but it’s been worth every penny, every hour.”

Spotlight on Asia

While all finance teams face the challenge of how to respond to the pace of change, the rapid growth in Asia heightens both the need for new thinking and a more adaptable organizational design.

As they evolve and grow, companies in Asia are going through the same evolutionary process in their finance functions that has seen transformation in more developed economies.

Some countries, such as Laos, Myanmar, and Vietnam are in earlier stages, with great opportunities for growth, while others such as China, India, Thailand, Malaysia, and Indonesia are currently developing. Finally, there is a set of Asian countries with well-developed finance functions such as Japan, Hong Kong, Singapore, Taiwan, and South Korea. These countries have more mature finance capabilities and are currently focused on streamlining processes, reducing costs and enhancing the strategic value of finance. In South Korea, finance often leads strategy and planning efforts, and companies can be quite mature in their business partnering efforts there.

The most advanced finance functions tend to reside in the most developed Asian countries which have largely followed the Western blueprint for growth and stability. These countries have made strides in overall poverty reduction for their people, created excellent national education systems, and built significant technology infrastructure. Most have also acknowledged the importance of language skills in a global marketplace

and worked to instill leadership capabilities in their workers. The regulatory environments in many of these nations are also quite mature, easing the way for participation in the global market. Singapore, in particular, has embraced the evolution of finance, with a particularly strong focus on productivity and efficiency. The government of Singapore even gives companies incentives to increase their productivity. Singaporean companies are also quite advanced in their use of shared services throughout the region. In the past few years, companies in Singapore have begun to expect finance to play a more vital role in partnering operations, rather than just supplying reports and analysis.

That said, even some of the more advanced Asian finance organizations struggle with legacy issues which prevent them from reaching their full potential. For example, in China, enterprises are mainly state-owned and focus on control and headcount rather than cost-cutting. South Korean finance functions have a hierarchical focus and decentralized systems. Culturally it is also very difficult to reduce headcount in Korea, so often, if efficiencies are identified in one department, staff is simply moved to a different department. Many South Korean companies are trying to train existing staff to become familiar

with new processes, and there are often heavy costs associated with this training. For companies that can't afford large training budgets, it is common practice to absorb the cost of inefficiency rather than replace existing staff with properly trained new hires.

In Japan, many businesses still conduct all business in Japanese, which challenges non-Japanese speaking team members to perform. In addition, while Japan also offers an option for companies to report under International Financial Reporting Standards, many companies in Japan still maintain Japanese GAAP as their accounting standards, which vary from those of neighboring countries. These are just some examples that limit the opportunity for shared services or other offshoring of work. As a result, Japanese companies' focus is very much on the internal market. However we are seeing even this change with more and more Japanese companies becoming active in southeast Asia mergers & acquisitions. Finance in Japan is also typically split into two different functions, accounting/treasury and budgeting/forecasting. Typically, these organizations are heavily siloed, reducing the opportunities for business partnering and strategic focus.



Some Asian locations are very appealing to Western multinationals as sites for SSCs and centers of excellence. The appeal of these countries to Western multinationals, and the rise of Asian-based multinational companies, has recently led to a war for talent, with escalating labor costs and skyrocketing employee attrition. Some of these countries, such as Malaysia, Thailand, India and Taiwan may well be the Asian Tigers of tomorrow. India, in particular, while it suffers from infrastructure challenges, has a highly educated workforce and tends to be a site of real technology innovation. India also benefits from a huge, young, educated population which continues to grow year after year.

Uniformly, the Asian countries with the greatest opportunities for growth focus relentlessly on improving the maturity of their finance functions. In Vietnam, the finance function is rapidly maturing, fed by Vietnamese who have returned to the country after being educated in the US, Australia, or Europe, bringing with them cutting edge advances and attitudes toward finance. Companies there are seeing

the benefits of advanced management reporting and analysis. This is driving greater sophistication in data control, budgeting, and cash flow planning. They are also making significant investments in ERP systems to reduce manual labor and allow for more timely closing of the books, increased analysis and a focus on adding value to the business.

“Singapore has embraced the evolution of finance, with a particularly strong focus on productivity and efficiency.”

– Dick Fong, PwC Hong Kong

Intel: Trading up across Asia, driving wins for both government and business

Intel's finance organization has worked closely in recent years with the governments of China, Vietnam and other Asian nations in order to address regulatory and trade issues which were negatively affecting Intel, as well as many other companies operating in the region. The result is new regulations that benefit both governments and businesses. We spoke with Marc Graff, VP, Finance and Director of Finance and Administration, Asia Pacific and Japan; Jim Campbell, VP & Head of Global Finance & Accounting; and Alvin Miyasato, Regional Manager, Learning and Leadership Development—Finance to see how they did it.

Marc Graff, VP, Finance and Director of Finance and Administration, Asia Pacific and Japan, explains that several years ago Intel was building a factory in Dalian, China, the first time it placed a wafer fabrication facility in Asia. To ramp production in this factory, Intel needed to import highly advanced controlled technology into China. The regulatory complexities coupled with the first of its kind factory in Dalian caused great difficulties throughout that process. Both Intel and Chinese customs were in unfamiliar territory, which presented significant risk in meeting time-to-money goals.

At the same time, Intel was consolidating its assembly test factory network, impacting the factory located in Shanghai. During its operating life, the reporting requirements in a Chinese free trade zone were poorly understood. Mr. Graff explained, "The prior relationships with China customs had been pretty informal and lacked the clarity of clean documentation. As we were closing the Shanghai facility, the China customs officials were coming back to us and saying, 'Hey, where's the accounting of all of your ins and outs of this free trade zone?' When we couldn't produce that, they gave us a bill in the tens of millions of dollars."

As the Chinese facility was in a free trade zone, Intel knew that they did not need to pay duties as long as imports equaled exports. When Intel attempted to reconcile their import-export numbers with those of the Chinese government, they realized that their numbers were several billions of dollars off. As it turned out, the Chinese government was mis-valuing some of the parts Intel was using. Mr. Graff explained, "rather than a capacitor being valued as a tenth of a cent, it was being valued at a dollar. We use millions and millions of capacitors. So for each product, if you're basically ten dollars off, that adds up."

These issues led Intel to realize that it needed finance talent with new skill sets in China. In addition to employees who were good technically, it also needed to bring in finance staff who understood how to apply trade expertise to the operational aspects of the business, as well as more supply chain and general business knowledge.

Intel also closely examined each site in each country where they operated. It sought to better understand existing regulations, carrying out a risk assessment on compliance, and then investing in the systems infrastructure to make sure that Intel brought each site into regulatory compliance.

Finally, Intel decided that some of the Chinese regulations were impossibly onerous. For example, Mr. Graff explained, "We have a fabrication site in China and we have an assembly test operations site in China. The regulations didn't allow one to take output from a fabrication site in one province and fly it to an assembly test operation site in another province. You couldn't do that as a bond to bond zone air transfer. So what we had to do was take off from our fabrication facility in China, fly to Hong Kong, land in Hong Kong, do a U-turn, and then fly to our assembly test facility in the other China province".

So Intel embarked on a two to three year effort to open a discussion with the Chinese General Administration of Customs to discuss these regulations. They also led a trade advocacy group within China to work at the sub-ministerial level and attempt to affect change. Due to the expertise that Intel developed along the way, and their new business understanding, they slowly became a trusted advisor in China. Today, Intel has the ability to fly their parts directly from their factory to their test operations center. Furthermore, the Chinese government now seeks input from Intel, along with other companies, when they are considering new regulations.

Jim Campbell, VP & Head of Global Finance & Accounting, explains the process that Intel now goes through when working with foreign governments—“We try to educate and influence the practicalities of how we can comply, yet at the same time, how they can better satisfy and manage their perceived risk and compliance structure.” He continues, “It takes time and it takes trust and it takes a partnership and a willingness on both sides to listen to one another.”

Intel’s experience in China has given the company the expertise and confidence to work toward forming relationships with other Asian governments and working with them to effect regulatory change. Mr. Graff explains, “the closeness that we’ve been able to drive from a finance perspective in dealing with different Asian country governments, and the influence that we’ve had through these operational engagements, has been very beneficial. We’re able to influence and help shape the thinking as the environment is changing, and that’s nothing but advantageous.”

Today, Intel has forged relationships with governments in China, Malaysia, Vietnam, and Hong Kong. These have been a great boon to the company as the regulatory environment throughout Asia is moving and changing so quickly. And the financial impact on the company has been enormous. That original bill that was delivered to Intel as they ramped down their Shanghai facility? It was eventually reduced to less than half. As Marc Graff notes, “that’s an easy one to measure.” And the costly

U-turn flight to transport parts from China, to Hong Kong, and back into China—that has been eliminated. But Mr. Campbell points out, “It’s a win for

both companies and China.” In the end, China was successful in establishing a regulatory environment that can attract more large manufacturers.



Conclusion: Are you up to speed or falling behind?

The defining feature of our age is the relentless, and often bewildering, pace of change.

We've seen China overtake the US as the world's largest manufacturer,¹⁰ and urban dwellers become a majority of the global population for the first time.¹¹ Market leading companies have been swept aside by rapid market developments because their ability to detect and respond to challenges is still geared to a world of incremental rather than radical change.

The pace of change is accelerating. Our five megatrends seek to make sense of a world in which work is predominantly automated; water could be more precious than oil; innovation and connectivity are more valuable than property or physical plant and the impact of demographics could see some leading economies beginning to contract. Key valuation and investment assumptions will need to be rethought as a result.

The challenge for finance is how to navigate your businesses through this whirlwind and remain relevant as the anticipator and interpreter of change. Are you keeping up?

We believe there are six key challenges your finance team will need to address if it's to remain relevant:

1. Be excellent at seeing the future. The leading functions are analyzing data from internal and external sources in real time, and providing insight to business partners 100% focused on that role.
2. Have the systems, people and decision making influence to judge how business models (rather than just budgets) might need to change and mobilize the organization to quickly respond. Disruptive competitors and market changes have put companies out of business in a few months, not years.
3. Build valuation assumptions that are relevant and measure social and environmental, as well as financial, value. CEOs, investors and analysts are demanding verifiable data on social impact.
4. Quickly and effectively strip out all the baggage that slows down your ability to respond to change, be this unwieldy legacy systems or simply doing what you've always done. There are examples of businesses that have transformed finance in less than two years.
5. Determine how the types of people who work within finance as well as their qualifications and experience need to change.
6. Have the diversity of people and ideas needed to understand how markets are evolving, as well as access to key skills in target growth markets.

This report shows how leading finance functions are addressing these challenges and pulling further ahead. They're providing more decision support and direction for the business, while operating at half the cost. They've not only achieved this through rigorous rationalization and automation, but also smart organizational collaboration and the deployment of a new generation of cost-efficient and flexible systems. Just as crucially, they've cut out the analyses and reports that add little value or are out-of-date before they're circulated. This has allowed them to concentrate on the sharp insights that will enable their businesses to identify emerging threats and capitalize on opportunities in this fast-moving environment.

For finance professionals, being part of one of these front-running teams offers more interesting challenges and more influence within the business. They know that finance is evolving—every part of business is. But they recognize that change is an opportunity for them and their organizations.

Competition in every market is tougher than ever, and we're all familiar with well known, long established businesses that have failed over the past months and years. It is clear that the leading finance functions are not just more efficient than their peers, they now look very different than the majority. Even if you benchmark as top quartile today, are you one of these leading functions? How do you compare?

¹⁰ Economist, 10.03.12

¹¹ Urban population growth, World Health Organisation (http://www.who.int/gho/urban_health/situation_trends/urban_population_growth_text/en/)



Benchmarking evaluation

As support functions seek to respond to new business demands, our benchmarking analysis provides an assessment of strengths, weaknesses and areas for improvement, while providing a baseline from which to measure progress.

PwC provides benchmark analysis of the functions that comprise SG&A (finance, HR, IT, procurement, sales and marketing) for a wide range of leading US, European and international firms. Using a consistent assessment framework for understanding the performance of the SG&A functions, the results allow you to compare your performance across your organization and against other companies.

You can then identify areas for improvement and formulate a convincing case for change. Periodic updates allow you to chart progress and sustain the momentum of development. What does this mean for your business? As a first step, please use our Data Explorer to find benchmark metrics tailored to the scale and complexity of your business, and your industry. For more detailed benchmark information, or to carry out a benchmark assessment, please get in touch. (www.pwc.com/us/breakingaway/explorethedata)

If you would like to complete a benchmark assessment or would like more information please contact:

Don Rupprecht

Finance Partner, PwC, US
+1 (312) 298 2421
don.rupprecht@us.pwc.com

Mike Boyle

Finance Partner, PwC, US
+1 (617) 530 5933
mike.boyle@us.pwc.com

Ed Shapiro

Finance Benchmark Director, PwC, US
+1 (678) 419 4513
ed.shapiro@us.pwc.com

Brian Furness

Finance Partner, PwC, UK
+44 (0)20 7212 3917
brian.j.furness@uk.pwc.com

Jeffrey Ford

Finance Partner, PwC, UK
+44 (0)20 7804 9177
jeffrey.ford@uk.pwc.com

Andrew McCorkell

Finance Benchmark Director, PwC, UK
+44 (0)20 7213 1509
andrew.s.mccorkell@uk.pwc.com

www.pwc.com/us/breakingaway

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