DELIVERING STRATEGIC SOLUTIONS ACCA'S 2000 ANNUAL MEETING

1. Introduction

1.1 Background

As barriers among countries disappear, new business possibilities arise through increased trade. Globalization of markets and expanding competition make business more unpredictable and drives companies to reorganize and streamline business processes. Tasks and responsibilities of financial managers are changing as a result of this evolution. Today, three factors should be crucial to a finance manager (Allen 1997).

- **Awareness.** Awareness of the changing world. The business world changes and it needs to be analyzed accordingly. This calls for extensive reporting of the organization's business environment.
- **Anticipation.** Business opportunities can be squeezed if they are forecast by an organization. As the business world changes the more an organization should be trying to anticipate the future, rather than looking in the rear mirror.
- **Adaptability**. Adaptability is the key, it calls for decision support and decision support calls for tackling problems and finding solutions.

In this context, financial managers should no longer be limited to funding business initiatives, monitoring spending and other routine transaction processing tasks. The main task of financial management is maximizing shareholder wealth through maximizing stock price. In order to maximize shareholder wealth, financial managers will have to assess the company's financial strengths and weaknesses. They should, therefore, analyze and plan the organization's performance and support and cooperate with people from functions such as production, marketing, HR and R&D.

Obtaining funds by issuing equity, borrowing, reporting, budgeting and managing working capital are still tasks that finance managers must execute. However, 21stCentury financial managers should also add value and act as business partners with the other functions within the organization.

An important objective of organizations is cutting the cost of finance functions. Today, the ambition of most organizations is to reduce the cost of finance to less than 1% of revenue (Zingales et al. 1998). In order to reach a cost reduction of a finance function, many organizations migrate their financial transaction-based activities to a Shared Services Center. Such a structure allows organizations to reduce the cost of finance.

A Shared Services Center centralizes transaction-based activities that are performed similarly in different locations across the organization. The Shared Services Center can provide higher quality services and at a lower cost.

Shared Services Centers have been in operation in the U.S. longer than in other markets. According to a statistical study by the Akris Bulletin as much as 68% of the companies that adopt SSC are based in the U.S. market, while only 32 % are based in Europe.

Not only financial activities can be centralized in a Shared Services Center, other activities can also migrate. Activities in areas such as HR, Legal and IS can equally be supported from a Shared Services Center.

1.2 Purpose

The purpose of the thesis is to analyze the impact of a Shared Services Center on an organization. The focus will be the impact of a Shared Services Center on the finance function.

*Our objective is to provide a **base** or a **guideline** for companies that are considering streamlining financial activities.*

There is, to the best of our knowledge, no report on the impact of a Shared Services Center on the finance function. However, there are articles and small pieces of literature on this subject. In this context, we saw it fit to provide material and insights in this area.

The purpose of this thesis is nothing less than to prove that in order to cut costs and increase efficiency, organizations need to recentralize certain decentralized activities and powers.

In order to fulfill the purpose, we need to address the following sub-purposes.

- To show that outsourcing is most often, not an option but a complement to a Shared Services structure.
- To describe the *normal* implementation phases and considerations for migrating to a Shared Services Center. The reason for these two parts is simply to provide a practical guideline for companies that are considering streamlining financial activities.
- Finally, the Shared Services survey and the interviews that follow provide evidence of the magnitude of Shared Services and Shared Services

- Finally, the Shared Services survey and the interviews that follow provide evidence of the magnitude of Shared Services and Shared Services activities in Europe. Furthermore, the two parts describe "hands on" experience of organizations in the migration and operation of Shared Services Centers.

.3 Research issues and methodology

It has not been easy to obtain material on the subject. Up to the present, there are, as far as we know, only two reports and one book available on the subject; Krempel (1998) "Shared Services: A new business architecture for Europe". With her excellent report, Marcie Krempel has provided us with insights in tax and legal related issues as well as the methodology to see where corporate Europe is heading. Furthermore, Krempel is one of the instigators of Shared Services surveys on multinationals operating in Europe. Krempel was also of great help when building the questionnaire of our Shared Services survey. Lucenko (1998) "Shared Services: Achieving higher levels of performance". Kristina Lucenko is an editor at the New York Conference Board and her work is the results of some conferences held on the subject. The report is valuable in giving insights in the fields of service level agreements and company case studies. Finally, a book of Schulman; Harmer; Dunleavy and Lusk (1999) "Shared Services: Adding value to the business units" have been of great contribution to the thesis by giving an overall picture of Shared Services Centers, its management, potentials and problems.

Related literature in form of books ordered from Internet vendors, from other Universities in Europe and articles from the University's databases have also been very useful sources of information. The literature and articles mentioned below have been of most importance to the thesis.

Hammer, Champy (1996) "Reengineering the corporation a manifesto for business revolution"; Bellis-Jones, (1996), "Re-engineering the finance function"; Landesman, (1996), "Corporate Financial Management - Strategies for Maximizing Shareholders Wealth"; Price Waterhouse Financial & Cost Management Team, (1997), "CFO - Architect of the Corporation's Future"; Walter, Dunleavy and Hjelm (1996), "Reinventing the CFO - Moving from Financial Management to Strategic Management; Kirchmer, (1998), Business Process Oriented Implementation of standard software; How to achieve competitive advantage quickly and efficiently"; Bellis-Jones, R (1996), "Re-engineering the finance function"; Brown, P (1998), "Finance tightens belt"; Carnicelli, J (1996), "Mobil center achieves best practices in shared service"; d'Arcy, M (1996), "The finance function of the future: How lending departments are changing"; de Caux, T (1998), "Effect of EMU on cash management in Europe"; Galloway, C (1995), "Shared Services; Solving the centralized/Decentralized puzzle"; Gunn, R W; Carberry, D P; Frigo, R; Behrens, S (1993), "Shared Services"; Hirschfield, R (1996), "Shared services save big money"; Hirschfield, R; Currie, C (1997), "Shared service centers and employee self-service: Concepts are often confused but not confusing"; Iversen, K; Moran, G (1998), "Transforming the role of finance"; Jarman, N (1998), "Shared Services Centers… building for Europe"; King, P (Oct. 1998), "Operating a high-performance shared services center"; King, P; Leong, P; Durrant, E, 1998), "The road to implementing: Shared Services Centers"; Robinson, C (1998), "The euro a catalyst for achieving strategic business objectives"; Spinner, K (1997), "Operating a finance department in real time"; Stedman, C (1998), "Change the process, not software"; Sweet, P (1998), "Fast forward for finance; Ulrich, D (1989), "Tie the Corporate Knot: Gaining Complete Customer commitment"; Ulrich, D (1995), "Shared Services; From vogue to value"; Zingales, F; Augelli, C (1998), "The shrinking cost of running a finance department.

The Shared Services survey

Nevertheless, the coverage of the information of Shared Services is very limited, which forced us to search for information ourselves. Primarily, our objective was to make a small survey of about 30 to 40 companies and the Shared Services survey was therefore initiated in the beginning of 1999. The reason for the survey was to provide background and facts for the thesis. In the early days of the survey, only a few companies were contacted. However, very soon, we realized that there was a great need for this kind of information for all parties. By sending the results to the companies surveyed, we obtained a frequency of response of close to 80% of the close to 120 companies that either had a Shared Services Center in operation or were implementing one. There were also a number of companies who were assessing the possibilities of migrating to a Shared Services Center and that were interested in the results of our Shared Services survey. However, as they had very little information to share, they were unable to participate in the survey.

Initially, only multinationals from a few industries such as high-tech and the pharmaceutical industry were included in the survey. However, as we realized the magnitude of Shared Services and the general lack of information mentioned above, we decided to expand the survey to include all industries except financial service companies such as banks and insurance organizations. 173 companies were surveyed across Europe.

The reason why financial service companies were excluded was the fact that these companies represent a service industry, which is somewhat different from high-tech, pharmaceutical, retailing etc. manufacturing industries. Financial service companies such as banks and insurance companies primarily operate in the fields of cash, treasury and other asset related areas, which make their finance functions take on another role than the previous mentioned industries. For this reason and because of the fact that we had to have some sort of limitation to our selection, we decided to exclude this industry.

The selection of the companies surveyed was not planned. In the beginning, we were only furnished with a few companies. However, as time passed by and when we saw the great interest in this kind of information, we decided to contact every company we found that was somewhat related to Shared Services. Finally, 173 companies were contacted for the Shared Services survey. Information of the potential for these companies to have a Shared Services Center was obtained through articles, books, consulting organizations, contacted companies and most importunately the Internet.

The questions for the Shared Services survey were elaborated with the help of literature and executives. First of all, many questions were raised when studying the scarce supply of literature and articles on the subject. Secondly, we got a lot of help from Marcie Krempel at the EIU, Oracle Corporation and Arthur Andersen Business Consulting. Lastly, the Stockholm Conference on Shared Services posed many questions.

The questions for the Shared Services survey were elaborated with the help of literature and executives. First of all, many questions were raised when studying the scarce supply of literature and articles on the subject. Secondly, we got a lot of help from Marcie Krempel at the EIU, Oracle Corporation and Arthur Andersen Business Consulting. Lastly, the Stockholm Conference on Shared Services posed many questions.

Problems occurred when contacting the companies that were surveyed. Initially, the switchboard had most often no idea if their company had a Shared Services Center. This forced us to contact the finance managers of the companies who turned out to be the right contact persons. Thereafter the Shared Services Center managers were contacted who most often were the ones that responded to the survey. If they agreed to participate, a survey was either e-mailed or faxed to them.

The interviews

Moreover, we saw a need for adding interviews in order to get a case study approach to the thesis. The interviews were of great value for us. Both for getting an overall picture of how the implementation phases were managed and for observing the results and effects the Shared Services Center had on these companies. Furthermore, both the Shared Services survey and the interviews make the thesis more pertinent as well as more interesting when adding primary information to the thesis.

Personal interviews were made with the following companies; Amdahl Corporation (Dublin, Ireland), Black&Decker Corporation (Cork, Ireland), Celero Support Corporation (Gothenburg, Sweden), Oracle Corporation (Dublin, Ireland) and SKF AB (Gothenburg, Sweden). In addition, telephone interviews were made with; ABB Support, Electrolux AB, The Lego Group, P&O Nedlloyd and Royal Philips Electronics N.V.

The reason for choosing these companies was that they were very positive and that they more or less challenged us to set up interviews. Furthermore, they represented a fair selection of industries, which made it even more interesting.

The Stockholm Conference

A conference in Stockholm "Streamline your operations by implementing Shared Services Centers" the 19th & 20th of January 1999 was also attended. The conference confirmed the huge interest in Shared Services in Europe today and it provided the most valuable insights for the questionnaire of our survey as well as the thesis in general.

Additional material

Valuable information of the implementation process was obtained from Oracle Corporation and Amdahl Corporation. They were so kind to furnish us with their foundation plans, feasibility studies and other analysis and results.

Arthur Andersen Business Consulting has also been of precious assistance by sharing information such as slides of how different companies have migrated. Material on the future of the finance function and other conferences.

The New York Conference Board, KPMG and Gunn Partners Inc. have also contributed most gratefully by sharing information on Shared Services and related subjects.

1.4 Outline of the thesis

The thesis consists of an introduction, six parts, conclusion and appendix.

- Part one defines the role of finance today and what it should look like in a 21stCentury Company. Finance functions in a leading edge company must realize that measures to streamline the function as well as redefining its role must be taken. For the finance function to business partner with other functions is crucial to the company's competitive advantage.
- Part two describes the optimization of a finance function. What should an organization do if it wants to be proactive in the turbulent business World of today. A description and analysis of a Shared Services Center structure as well as of an Outsourcing structure is made. Benefits and drawbacks of a Shared Services Center is presented as well as an explanation why outsourcing is not an option to Shared Services Centers.
- Part three presents the road to implementation of a Shared Services Center. Organizations implement a Shared Services Center in different phases; the reengineering phase, the standardization phase, the consolidation phase. This part of the thesis is essential for guiding an organization through these phases.
- Part four describes some considerations for implementing a Shared Services Center. This part of the thesis describes important issues for the success of a Shared Services Center implementation as well as legal structures to consider when streamlining the organization.
- Part five analyses the results of the Shared Services survey, where 173 companies were surveyed that are established in the European market. The companies that responded either had the Shared Services Center in operation or were implementing one.
- Part six comprises the interviews of Amdahl Corporation, Black&Decker Corporation, Celero Support Corporation, Oracle Corporation, SKF AB, ABB Support, Electrolux AB, The Lego Group, P&O Nedlloyd and Royal Philips Electronics N.V.

Finally a conclusion of the thesis is drawn.

Finally a conclusion of the thesis is drawn.

The thesis will initially address the question what role a finance department has today, what activities the finance staff performs and what costs the finance function entails. Furthermore, a vision of what tasks a finance department of the 21st century ought to manage and what position a finance function should have in relation to the other departments will be treated.

A finance department has three main tasks to perform.

- **Forecasting, planning, coordination and control**. Monitoring activities and ensuring their efficient operation and estimating and laying the plans that will shape the company's future position. Monitoring and reporting financial statements. Create and facilitate budgeting. Monitoring and controlling spending and inventory. Performing internal audits.
- **Investment and financing decisions**. Deciding on investment decisions. Dealing with financial markets, determining which kind of securities to issue, funding business initiatives and optimizing tax positions and returns.
- **Managing working capital**. Administration of current assets and current liabilities, cash and treasury management.

Several of the above mentioned tasks are simple routine transaction-based work. These are somewhat the fundamentals of finance and will never disappear, but finance executives are beginning to realize that traditional transaction-based financial tasks are becoming obsolete. Today, companies are more than ever looking at solutions for increasing efficiency and streamlining the finance function and the organization as a whole. The structural changes attributed to the organization, due to the streamlining, are often considerable. This thesis will outline a Shared Services Center structure for a finance function that operates in a pan-European business structure.

The objective is rendering routine transaction-based work more effective and automated, which will encourage and enable the staff of the finance function to focus on adding value to the organization. Gunn et al. (1993) mean that by addressing the vision and mission, key people will recognize that the goal is to free up time and resources so that the finance staff will get more involved with the business.

Thus, the objective for a finance function is to impact overall performance by supporting operations, marketing and the CEO team to mention a few. The finance function will, then largely, leave the "police" work of controlling and measuring and instead elaborate and innovate new, more effective and understandable metrics for the organization. This will result in the fact that metrics will have a larger impact on each and every individual and task in the organization since it will be understood and adopted in the processes. The finance function will then become business partner with the whole organization and work accordingly.

2. Role of finance today and the drive for change

Decentralization, local autonomy and empowerment, has been one of the milestones of the eighties. Motivation has been the fact that the organization has to get closer to the customer in order to have a better perception of the local needs and react more quickly to local trends etc. However, since companies are getting more complex and Europe and the World in whole is becoming more integrated, the drive for cutting overhead costs makes the difference for a first class company.

The objective of the thesis is to show that in order to cut costs and increase efficiency, organizations need to recentralize certain decentralized activities and powers. The new way of centralizing does not mean the "traditional" bureaucratic form of centralizing. It means sharing between different business units (a definition will follow in chapter 4).

The European Union, information technology and telecommunications have made of Europe a single market. Companies have to realize this new phenomenon and adopt its new structure in their visions and business plans. Physically, the new challenge has to be addressed likewise. Local autonomous business units will eventually lose ground to regional or global centers, which can create competitive advantage and scale benefits to the company as a whole. Van Gorder (1990) addressed this subject by saying that specialized technology and skills are not always practical in branch locations. Centralization is supported by technological advancements in communication. Data processing and competition have placed pressure on profits. It should be clear that certain activities and some decision-making just fit better in a "centralized" environment where the "big" picture and the entire company are considered.

2.1 Increased cost of finance as a drive for change

Cutting the cost of a back office has never been considered a top priority in the past because back office overheads have traditionally accounted for a relatively small portion of a firm’s total overhead. However, today, due to the fierce competition, companies have to cut cost in order to stay competitive. In addition, back office costs are increasing relative to globalization and the complexity of decentralized organizations. One study indicates that cost of finance functions in companies of similar size and similar industries vary between a half to seven per cent of sales revenue (Bellis-Jones 1996).

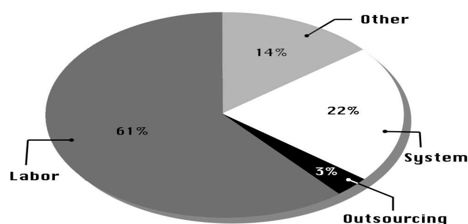
Another study made by the Hackett Group (Zingales et al. 1998) indicates that the cost of finance functions have dropped by more than a third over

Another study made by the Hackett Group (Zingales et al. 1998) indicates that the cost of finance functions have dropped by more than a third over the past decade; from 2,2 % of revenues ten years ago to 1,4 % in 1997. In short term, a finance function could be run at an average of less than 1% of annual revenues. The gap between mid-sized and large-sized companies is also shrinking. This reduction can be derived from the fact that finance functions are becoming more efficient and that information technology has had a tremendous impact on reducing and automating many traditional finance tasks. Nevertheless, the Hackett Group study indicates that labor costs still accounts for over 60% of the cost of a finance function to an average company. The Hackett Group study "Best Practices Benchmark Study of Finance" has regularly collected data from more than 1,050 companies since 1991. Surely further reduction of labor cost ought to be possible.

Figure 2.1 The finance cost pie

The average company spends approximately $92,000 per employee to run the

finance department. More than 60% is labor costs.



Source: The Hackett Group.

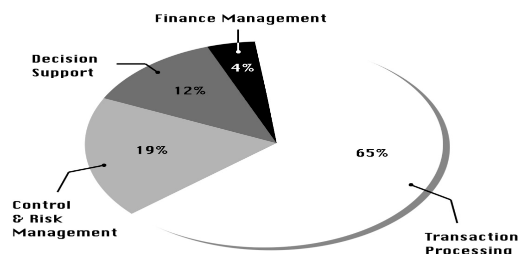
2.2 The distribution of the cost of a finance department

The Hackett Group study also claims that transaction-based processes (invoicing, order-to-book processes, accountants payable and receivable, general ledger etc.) constitute about 65% of the work for the finance staff. Furthermore, control and risk management accounts for 19% of the time. This adds up to slightly more than 80% and can be translated into the fact that finance only add value to the company on 16% of their paid work day, which adds up to approximately 1,2 hours of an eight hours day.

Figure 2.2 Where the time goes

Finance professionals still spend the bulk of their day on lower value-added activities,

with 65% going to fundamental accounting transactions.

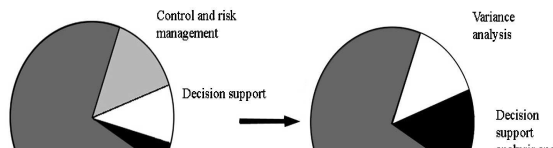


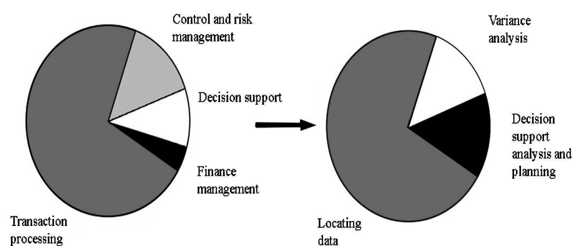
Source: The Hackett Group.

Moreover, Bellis-Jones (1996) confirms that people and people related costs typically accounts for 80% of the finance function costs. The diagram below summarizes evidence from organizations in the U.K. and the U.S., where decision support only accounts for a small portion of the tasks of finance. Bellis-Jones conclusion is in accordance with the research made by the Hackett Group.

The diagram shows that out of the decision-support activities. More than 85% of the time of the finance staff is spent on either locating the data needed for decision-making reports or on variance analysis (estimating and calculating the risks associated with the decision-making). Calculating these Figures indicate to us that the value-adding decision support analysis and planning account for a mere 4% of the time spent in the finance function.

Figure 2.3 Time spent on decision support





Source: Bellis-Jones (1996).

Reducing cost of finance, adding value and shifting the focus of the finance function towards decision support should be reasons enough for streamlining the finance function for a company that wants to be on the leading edge into the millennium shift. Still, there are additional reasons for acting. A discussion will follow.

2.3 Increased efficiency as a drive for change

Large companies most often have decentralized business units scattered around Europe. Today, this structure often entails large inefficiencies such as duplicate work and little transparency in reporting activities due to non-standard business unit processes. Such inefficiencies increase costs for the finance function as well as decrease focus of finance staff in supporting business decisions. Thus, autonomous business units often create inefficiencies and in the end, these inefficiencies will negatively affect the performance of the company that eventually will lose competitive advantage.

2.4 EMU as a drive for change

The European Monetary Union and the globalization effect are having an increasing impact on companies. The drive behind the EMU is so strong that it will more or less force companies that are organized on a national basis to reorganize in order to retain or achieve competitiveness in the European Single Market. Jarman (1998) adds to the subject that the strive for a homogenous European market by the convergence of fiscal, legal and tax regulations to the introduction of a single currency makes the country-based organization illogical in terms of cost pressures. The fact that improvements in the functionality of IT software has made geographical location irrelevant is only an additional argument.

Consequently, the EMU will render traditional boundaries obsolete. Organizations should therefore perceive and consider Europe as a country with confederate states instead of a continent with individual countries. In such a perspective, economies of scale will be more easily achieved and cost reductions are more effective since they can be executed on a larger scale. Thus, country-based organizations are an outdated method of organization that should be redesigned into a model that makes the full potential of the EMU and the European Union.

2.4.1 EMU impact on Cash and Treasury management

The European Monetary Union should also be a drive for change of cash and treasury activities among the bigger European companies. IT and telecommunications have enabled the coordination of treasury and cash management on a pan-European basis. European multinationals can now start to grasp the advantages of a common currency as their American counterparts are.

What are then the cash and treasury management problems of today? As Marcie Krempel (1998) points out; the decentralized business unit structure has led to a fragmentation of the company's cash and treasury operations. The result is that:

- The company's capital is dispersed around a number of entities, resulting in potentially complex, expensive and inflexible funding structures.
- Fragmentation of the ownership of assets - intangible assets, fixed assets, inventories or receivables - which may be held on many different company balance sheets in Europe.
- Short-term liquidity problems are more expensive to remedy etc.

By the introduction of the EMU, a new situation has emerged. Finance and treasury are the most influenced areas of the EMU introduction. Money will be able to fly across borders without inhibition. Hedging between member state currencies will disappear. Rationalization of banking transactions and accounts will be an obvious goal (Krempel 1998). This development is a great opportunity for organizations in order to provide a leverage for the euro as a unique opportunity to reengineer treasury and the whole finance function in a way that will enhance shareholders value. Furthermore, as Robinson (1998) points out; as a result of the euro, treasurers will see greater degrees of consistency and conformity. At the same time, money market and interest rate convergence, a concentration of banking relationships and the rise of an efficient secondary financial market that resembles the U.S. secondary markets will result in streamlined, more efficient European treasury management.

Now, the Eurozone starts to resemble the U.S. market. An increasing number of companies are discovering the benefits of dealing with one single pan-European bank. Companies are also starting to adopt U.S. technology to European cash management. Unfortunately, the multinationals of European origin are reacting slowly to this new opportunity. A TMA Journal survey shows that the majority of European corporations tend to be slow in grasping the opportunities presented by EMU for rationalization of banking relationships, treasury structures and practices. In contrast, if the North American corporations have not coordinated treasury and cash management operations already, they are preparing to take full advantage of the

North American corporations have not coordinated treasury and cash management operations already, they are preparing to take full advantage of the euro to realize new efficiencies and streamline existing arrangements (de Caux 1998).

Clearly, many European multinationals have not yet appreciated the possibilities behind the introduction of the EMU. A centralized treasury operation can add value to each and every branch of the organization. The Euro will not single handedly alter treasury practices of corporations located in Europe, but act as a catalyst. Organizations will become more flexible and shareholders value will surely increase by more centralized and streamlined cash and treasury practices.

2.5 The globalization effect as a drive for change

Last but not least, a drive for change is the increasing competition as a result of the globalization process. The increasing competition can, in a micro economic environment, be translated into pressured costs and force enhanced flexibility and quality within an organization and its finance function in order to stay competitive. Products must, therefore, be harmonized and product portfolios should be rationalized in order to achieve such competitiveness. Furthermore, the supply chain should be adequately efficient and the organization as a whole ought to be transformed into a pan-European structure rather than a structure with national boundaries as discussed earlier. Price transparency is already a fact within the EU.

Table 2.1 The effects of globalization and increased competition

Impact on business in general	Impact on Finance Function
Increased pace of change Increased importance of strategy Concentration on "core competencies" Increased complexity of business risk	Greater volatility in financial affairs: real time information a necessity Greater importance of finance in strategic decisions Need for financial evaluation of strategic alliance and outsourcing opportunities New responsibility for managing total business risk

Source: Arthur Andersen.

As table 2.1 clearly points out, the finance function must play a significant role in the transformation of the organization. Increased competition followed by the globalization process also impacts on the finance function. The globalization effect clearly enhances the status of the function as well as the tasks the function will have to perform.

The thesis has so far addressed the contemporary role of finance and the factors that call for change. Now, a discussion of the vision of a finance function of the future is mandatory. What could a 21st Century finance department look like? What cost should it entail? What could the actual role and function of a finance department be in the future? How important will a finance department be in the future? What will be its place within the organization?

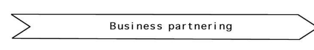
3. Vision of a 21stCentury finance function

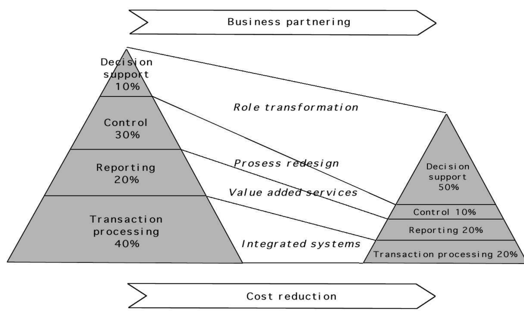
How can finance stand for its costs and what is the mission of tomorrow's finance department? We know that the role of finance has always been the controllership function, including accounting, reporting and transaction processing. The finance function still has to perform all the traditional tasks discussed in chapter 2.

- Forecasting, planning, coordination and control.
- Investment and financing decisions.
- Managing working capital.

However, these tasks must be improved and streamlined in order to better fit within the organization. Furthermore, additional tasks that add value to the organization must be performed in the finance function in order to be a finance function of a 21st Century Company.

Figure 3.1 Refocusing the resources of the finance function





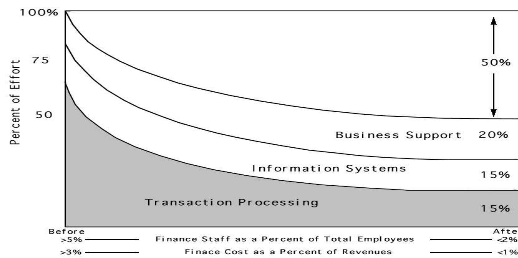
Source: Price Waterhouse Financial & Cost Management Team (1997).

The time and effort spent on various activities will also shift in tomorrow's finance function. Trimming the cost base is essential and so is improving the quality of service from the finance function to other functions within the organization. First-class companies realize that finance is a powerful drive for success. Being first-class in finance deals with helping develop strategy and not just reporting on it.

3.1 The evolution of the cost of the finance function

First of all, the traditional cost structure of the finance function, as a percentage of revenues, presented in section 2.1 must be altered radically. The typical company has, as stated earlier, 65% of its finance resources devoted to transaction processing.

Figure 3.2 Finance cost structure



Source: Gunn et al. (1993).

The cost of the transaction-based processes has the greatest reduction potential. When implementing a Shared Services concept or by outsourcing (discussed in part two), transaction-processing costs can be driven down to a mere 15%. The key is to simplify and standardize these transaction-based processes and to increase their value with respect to the improved information flow that then will be the result. A decrease in headcount will result from the standardization and simplification processes.

As figure 3.2 displays, the cost of transaction-based work and IS will decrease and the cost of business support will increase in the future. Furthermore, the total cost of finance is decreasing. This is in line with the Shared Services survey in chapter 13, where the majority of the companies surveyed had reduced their cost of finance over revenues. Moreover, a number of companies had reduced finance cost to less than 1% of revenues and no company reported a higher cost of finance after a Shared Services Center migration.

3.2 What tasks should a 21stCentury finance function perform?

The new role of finance is quite different from the traditional one. The single major enabling factor for this is information technology. The reason is that IT is today able to provide and allow the entire organization to interactively take part and use real time information needed for performing competitive business.

Traditional processes and tasks will, of course, never completely disappear. However, they must be redesigned and streamlined in order to provide maximum benefit for a minimum of cost. In this context, the finance function should question and examine each and every task the department carries out. Is the task really of use and does it really add value to their customers, to the finance department and consequently to the company? Because, at the end of the day, the finance function itself will be measured by its ability to satisfy the customer. The customer consists of internal users of services and purchasers of the company's products (Landesman 1996).

_3.2.1 Performance metrics, Control and Reporting

A task that is of increasing importance today is measuring the organization in order to increase efficiency and utilize resources to a maximum. There have, of course, always been controlling and reporting practices, but there is a considerable body of evidence that shows that much of this information is at best irrelevant and at worst misleading (Walter et al. 1996).

According to a survey in the CFO magazine, 80% of large American companies want to change their performance measurement systems. The

According to a survey in the CFO magazine, 80% of large American companies want to change their performance measurement systems. The comment to this was that yesterday's accounting results say nothing about the factors that actually help grow market share and profits, nor does it measure customer service innovation, R&D effectiveness, the per cent of first-time quality or employee development. Moreover, traditional measurement systems do not help to assure managers that workers in the field are actually carrying out corporate strategy (Richard 1995).

The finance staff has to turn data into meaningful information and extend it beyond purely financial measures of performance. Furthermore, the metrics has to examine how well products or services meet customer needs and customer time. What is additionally important is to measure how quickly the organization responds to an unsatisfactory state of affairs.

The concept of control should also be redefined. Control and reporting operations should be undertaken more efficiently on up-to-date information. Served by a central data warehouse, which is accessible company-wide, finance will provide their customers with relevant financial and non-financial analyses and reports expressed in a way that the operating businesses really will have an edge. This reduces both the costs of control and the risk to the business since "fresh" information is used.

Walter et al. (1996) mean that management control seeks to create value in the future and identify progress toward meeting strategic goals rather than measuring the past. The work of the finance function is, then, simply to develop such metrics that are suitable for the individual organization. Equally important is the fact that finance must work on a constant improvement of the financial processes and information systems. Furthermore, the metrics have to provide useful information for the different functions within the organization and more importantly, the people within the organization at all levels must understand the background of the metrics and to interpret the result of the latter. Because, what cannot be measured cannot be managed and what cannot be managed cannot be achieved. A discussion on metrics and balanced scorecards will follow in chapter 10.

3.2.2 A need for financial knowledge in business decisions

An absolute key task for the finance function is decision support. Top management and business units are demanding more and more high-quality financial services. The finance function is now expected to assist top management by supporting them in their decision-making processes. Finance can assist in the analysis and planning process of business opportunities. By performing business support, the finance function is actually adding value to the organization. Research has shown that 80% of traditional finance function activities do not add value to the business. Creating a finance department that creates value is a key task for the CFO for the next century as well as reducing cost of finance, as discussed earlier (Shulman et al. 1999).

The winds of change are blowing. The Price Waterhouse survey called "CFO 2000" covered 300 CFO's of leading multinationals. In the survey, 34% of the respondents claimed that decision support has been their top priority in the past three years and 74% say that it will be their highest priority in the coming three years. This attitude among CFO's underlines the fact that finance is undergoing a somewhat revolutionary transformation.

Moreover, the finance function has to veritably integrate in the business processes. A finance function must focus more on customer profitability and risks associated with business exposure (Iversen et al. 1998). Such a measure will enable the finance function to become a service-oriented partner, which serves its customers in the definition and achievement of strategic goals by analyzing business operations. These operations create value for the company. A continuous value adding process will be positive for the stock price of the company and therefore maximizes the shareholders wealth, which should really be the company’s primary mission.

Another key role for a finance function of the 21st Century Company is to act as internal consultant. In order to become internal consultants finance staff need additional training to broaden their business skills. Equally important is the fact that operations and marketing staff need to broaden their financial skills in order to understand the financial aspect of their tasks and the financial reporting. Such a cross-functional training will be of great benefit to the company as a whole. It should be stressed that the need for financial knowledge is no longer limited to a few employees in a finance department. Financial analyses will be basic instruments for every function and business in an organization. The finance function must therefore be more integrated within the day-to-day work of all actors within an organization such as assisting a marketing department with cost and benefit estimations for a marketing campaign or assisting operations with cost-benefit analysis.

A heavy equipment manufacturer has reorganized the finance function around core competency networks. Rather than traditional departmental view of finance, they now have a variety of networks, cost management, planning, customer sales and support, capital markets and strategic services. These are all supported by a Shared Services Center (discussed in the following chapter) that provides transaction processing to the business units and controllers, who can cross several networks to get the answers to their customers' questions (d'Arcy 1996).

3.2.3 The new role of the CFO

Traditionally, the finance manager has not worked so closely with operating management to improve business performance. This has enabled the creation of a bureaucratic culture and contributed to an information management that provided little business information or insight. However, the job of the "new" CFO is to break the perceptual barrier that the finance function is simply accounting. The new role of the CFO is to reach outside the corporate finance function and work with the operating units. Furthermore, the new CFO should organize the finance function around skills and capabilities and not transactions, which is the traditional model.

The new role of the CFO is simply to look through the front window and not in the rear mirror. The CFO must be an instigator, a vector and most important a visionairy leader, who creates value. The CFO should render the organization the following support (Walter et al. 1996).

- **Produce insightful contributions into the strategy and planning process**. Assist in the definition and focusing on core activities. Performing value-chain analysis, competitive investigation and analyses. Identifying new sources of revenue.

- **Produce insightful contributions into the strategy and planning process**. Assist in the definition and focusing on core activities. Performing value-chain analysis, competitive investigation and analyses. Identifying new sources of revenue.

- **Create measures that focus and motivate the organization**. The CFO must create measures and metrics with executive and operations management that are comprehensive and predictive rather than retrospective.

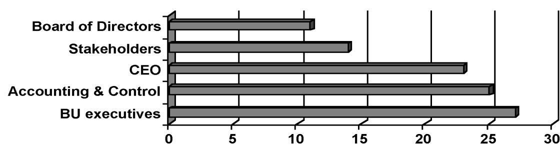
- **Deliver information and analysis** that provides insight into how value is being created and how process is being matched to strategic initiatives. The CFO must insure that information have future direction and lead to corrective action.

- **Provide leadership for major financial initiatives,** such as creating long-term cost management and capital utilization decisions.

Figure 3.3 Proportion of time the CFO will spend

The CFO's should spend their time accordingly. The CFO 2000 survey asked 300 CFO's

"What per cent of your time will you spend on these relationships over the next three years?"



Source: Price Waterhouse Financial & Cost Management Team (1997).

The result is clear and it goes hand in hand with the fact that less time will be spent on accounting and control and more time to business as discussed earlier. Moreover, around 15% of the time will be spent on stakeholders. This is probably due to the fact that the CFO will face more fiduciary responsibilities and a commitment to protect and enhance shareholders value in the future. This responsibility will increase substantially vis-à-vis the more traditional responsibilities of finance (Landesman 1996). This opinion is shared by d'Arcy (1996) who means that the CFO must learn to serve a broad range of stakeholders including the stockholders for earnings; the audit committee for controls; customers for satisfaction; employees for a satisfying career; and suppliers for win/win partnerships.

3.3 Finance must become business partners

In order to create a 21st Century finance function, each and every individual within the organization needs to have a common perception of their fellow colleagues. A new atmosphere of partnership has to be integrated in the whole organization. Departments and functions simply have to partner in business. Thus, only through partnering can value be created and consequently grow business. Through partnering a competitive advantage can be created.

There is a need for individuals within an organization to shift or update the normal patterns of perceptions and assumptions. By doing so, companies will create entirely new insights and will be able to network these insights with people. A measure that, in perspective, could create a powerful synergy of insights that could broaden the horizon of companies and reveal new possibilities (Gadman 1997). The competitive advantage lies in a synergy of insights. Individuals and organizations have to look beyond the traditional pattern of processes and reengineer the organization from the perspective of the individual company's position and the synergy of insights of the individuals that form the organization. This is the only way to achieve and sustain competitive advantage. Running a company is like running a team and only through teamwork advantage will be created and visions will be reached.

3.3.1 Defining business partnering

At this point, a definition of business partnering is necessary. Business partnering is the creation of cooperative business alliances between constituencies within an organization and between an organization and its suppliers and customers. Business partnering occurs through a pooling of resources in a trusting atmosphere focused on a continuos and mutual improvement. The alliances formed allow the involved parties to sustain a competitive advantage over similar entities (Poirer et al. 1993).

Business partnering is really a synergy of individual strengths, a symbiosis of individual strengths into a network of partners, each contributing to the long-term growth of the enterprise. The power of the enterprise comes from the value of each partner's skills and resources, and the synergy that naturally happens when creative, strong contributors form an alliance (Moody 1993).

Business partnering equals sharing expertise which may result in creating new opportunities by motivating partners to work together to produce something that neither could have produced alone (Rackham et al. 1998). The general idea is to make sure that each and every individual within the organization shares the same values and visions. Thereafter the individuals must form a team, which must go in the direction that has been decided by the company's vision.

3.3.2 Finance as a business partner

Finance must business partner with the other functions of the company. Finance could be characterized as the most important business partner in the

Finance must business partner with the other functions of the company. Finance could be characterized as the most important business partner in the organization because finance really touches every function of the company. A possible scenario of finance as a business partner could be the one presented in figure 3.4.

Figure 3.4 Finance as a business partner

Source: Walter et al. (1996).

In figure 3.4 the work of the CFO and the finance department overlaps the work of three other key business areas. In this scenario, finance interacts with other key business partners to provide value to the company. The expected benefits from business partnering are enhanced products and services, improved relationships between involved parties and increased customer satisfaction.

The key behind business partnering is the perception of partnering, both for the customer and for the supplier. Functions need to define who their customers really are and where they are. If they are internal or external has no bearing to the objective. Accordingly, each activity within the organization should be characterized by true customer dedication. The objective for everyone and everything within the organization must therefore simply be to serve its customers. The customer represents the person next in the value chain. Thus, the finance department should serve the sales department with business analysis and the marketing department should serve the product-planning department with trend analysis. Obviously, the final customer who pays for a firm's products must be the primary customer considered when determining all internal customer requirements (Ulrich 1989).

3.3.2 Advantages of business partnering

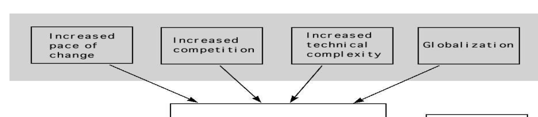
The primary and most important advantage by adopting a business partnering strategy is of course that the business becomes customer oriented. Consequently, the whole business will be run from the wishes and demands of the end customer. Business partnering will therefore add value, reduce costs, enhance products and services and contribute to the productivity and the competitiveness of the company.

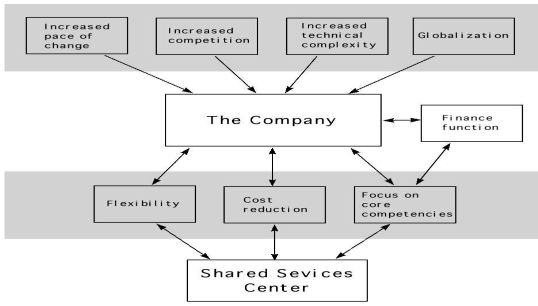
Furthermore, the advantage of business partnering is not only the fact that companies and departments view each other as partners, treat each others as such and share information, but also, that the whole network of partners becomes transparent due to the flow of information. This transparency will also assist in the detection of bottlenecks. Moreover, the transparency will identify inefficient and cost demanding processes and operations by facilitating the cost control procedure, which will result in further reduced costs. Functions should also integrate processes and functions between each other, which reduces duplication, cuts steps and consequently streamline the organization. This pursuit will render processes faster, cheaper and more effective (Rackham et al. 1998).

Lastly, business partnering will also improve motivation and skills of the employees as they find themselves in straight competition with external companies and services. The company will equally have a responsibility to motivate its employees by education and training the latter for the new cross-functional tasks they will be required to solve when partnering. The result will be "employee empowerment and commitment" which surely will benefit the organization.

The next issue is how to optimize the finance function. As discussed in part one, a finance function of a 21st Century Company must be closer involved with and support other functions, such as marketing and production, with financial perspectives. Migrating to a Shared Services Center or outsourcing will facilitate such a development to occur, however, this is not to imply that, these are the only solutions. A combination of the two and other solutions for automating labor extensive financial work is, however, an excellent starting point for the new millennium.

Figure 4.1 The position of the Shared Services Center





This material is protected by copyright. Copyright © 2000 various authors and the American Corporate Counsel Association (ACCA).