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The Strategic Role of Finance

Finance organizations can be a catalyst for improved business performance by providing actionable information to a company's most valuable assets – its leaders. Leaders possess a keen knowledge of the marketplace and critical competencies. They combine their market knowledge with internal company information to make operational, tactical, and strategic business decisions. The sum of these decisions dictates how well a company performs.

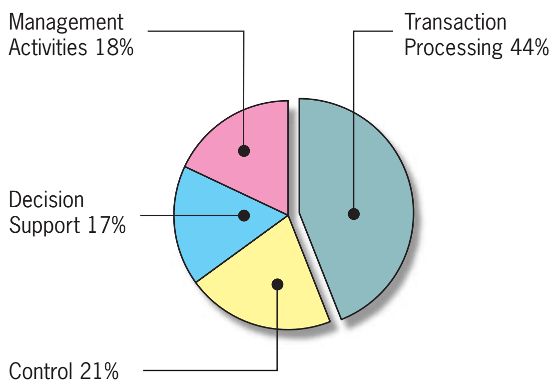
Leaders rely upon information created and communicated by finance to make important decisions. Finance, now more than ever, has an opportunity to increase its strategic value by delivering more relevant and timely information to business leaders. For finance to rise to its growing role, it must transform to overcome its current orientation of skills, processes, and tools towards transaction processing and historical analysis. The capabilities implemented through transformation will shift skills, effort and tools towards forward-looking business analysis and deliver the information and insight business leaders need.

Companies that undertake finance transformation will produce better information for its leaders that will drive more informed decisions, improved performance and a considerable edge over companies that maintain the finance status quo.

The Current State of Finance

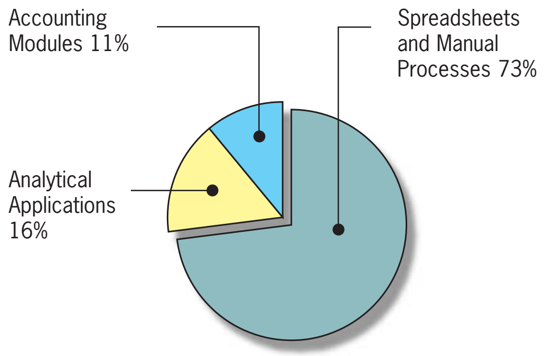
There are underlying structural weaknesses in finance that dictate a mix of activities that cannot produce the strategic capabilities finance must deliver. When asked, many senior finance executives will say that they are satisfied with their transaction processing and external reporting capabilities. Despite advances, transaction processing continues to consume an unjustified amount of attention and resources when compared to the value it delivers. Finance currently averages 44% of its time on transaction processing, 21% on control, 18% on management activities and only 17% of its time supplying analysis and decision support.[i] The goal for finance should be 50% of its time spent performing analysis and decision support.

Current Finance Activity Mix



Source: CFO Magazine

Planning, Budgeting, and Forecasting Tools



Source: CFO Research Services

Transaction processing is not the only area of concern. High value, forward-looking, strategic processes are also operating at a sub-optimal level. In a recent survey of finance executives at mid-sized companies about planning, budgeting, and forecasting activities, 73 percent said they rely primarily on spreadsheets and manual processes, with only 16 percent using analytical applications. Commenting on planning, budgeting and forecasting as part of this survey, more than 60 percent said "It takes too long," and nearly 43 percent said, "Not enough time to analyze data."[ii] These critical processes need improvement and finance must take the lead.

Finance leaders know they need to undertake transformation of reporting, planning, budgeting and forecasting and it is reflected in their opinions. Senior finance executives rate management reporting and the elements most closely tied to a company's ability to plan and execute strategy unfavorably. Their frustration comes from the lack of capability to plan, budget, forecast and conduct ad-hoc analysis and to support business decisions such as merger and acquisition restructuring, product pricing, etc.[iii]

The gap between the current state of finance and what is achievable with new practices, tools and market offerings indicates there is considerable value in addressing the structural weaknesses of finance. For organizations that address these weaknesses, a broader and more important role is emerging.

[i] CFO Magazine, February 2006, "Flabby or Fit"

[ii] CFO Research Services, June 2004, "When do Companies Outgrow Their Spreadsheets"

[iii] CFO Research Services, February 2006, "Better Performance Reporting and Analysis"

A Vision for Finance

New capabilities enable finance to be a greater strategic asset than ever before by providing more insightful analysis into the underlying causes of performance across the entire company. Finance is leading the charge for better performance by improving many of the key activities it manages around information collection, organization, and analysis.

Effective and timely communication of information is also a critical role. Finance needs to deliver actionable information directly to executives, operators and managers so information is current and relevant to operational, tactical and strategic decisions. By creating and communicating information and key performance measures, finance is now poised to take a more important role because it is now using its capabilities to initiate and guide the implementation of business strategy.

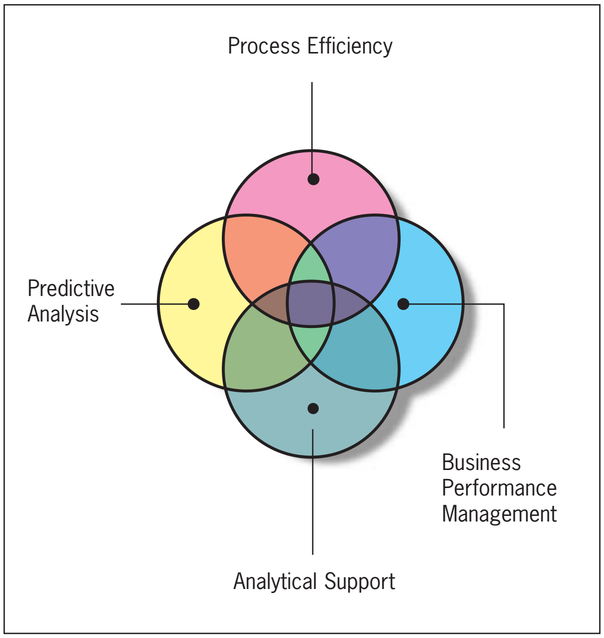
Strategic Roles for Finance

- Measuring the performance of critical processes so that improvement or deterioration is visible and the underlying causes are understood and communicated
- Redeploying capital from projects and activities that are not producing an attractive rate of return to more lucrative opportunities
- Providing actionable, relevant and time sensitive information to business leaders so that they can make more informed decisions
- Forecasting and communicating business changes so that leaders can position the company to either exploit opportunity or mitigate risk

The assumption of roles with greater value and strategic importance will position finance as an essential and trusted advisor to business leaders.

Finance Transformation

Competitive pressures and the capabilities that finance can now command compels it to transform and assume a greater strategic role. Transformation is an approach for the CFO who seeks to become an agent of leadership and change. The approach of adding personnel to add capacity is no longer effective. It has high long-term costs, diminishing incremental value and only maintains the capability status quo. Transformation must incorporate the adoption of new roles and responsibilities, software tools and programs for finance to become a more valued partner with the operating managers of the company. Transformation requires addressing four key areas: Process Efficiency, Business Performance Management, Analytical Support and Predictive Analysis.



Process Efficiency

Finance must eliminate labor-intensive transactions and transaction processing. This is accomplished by implementing automation, re-engineering and outsourcing. These improvements free finance from low value activities enabling a shift of focus to high value analysis and a role as a strategic business partner.

Business Performance Management (BPM)

BPM greatly reduces the time spent on gathering and consolidating planning, budgeting, actual and operational data by seamlessly integrating the disconnected information and activities of financial processes. A unified BPM approach allows finance to minimize low value compilation and reconciliation activities and spend more time on valuable analysis to improve business performance.

Analytical Support

Once analytical tools are in place, finance must implement the kind of analysis and investigation that will be relevant and valuable by using its inherent analytical strengths to help business leaders solve problems, gain marketplace advantage and support new initiatives. Examples include expenditure analysis, activity based costing and project cost/benefit analysis.

Predictive Analysis

The most valuable capability of finance is to rapidly project the impact of current events or future scenarios and developments on each part of the business through its forecasts and analysis. Finance is then able to provide business leaders an understanding of the factors that will impact future results so that they can position the company to maximize the opportunity or mitigate the risk.

The result of implementing transformation is more time, better analysis and a focus on the future that will increase the identification of new opportunities with customers, vendors, business units, operations and other vital areas driving more value across the entire company.

The Strategic Advantage of Finance

Leaders are the most valuable asset of an organization. They integrate internal business information with market events and industry knowledge to identify new opportunities and formulate strategy. The next wave of productivity and performance increases will come from using processes and tools to combine financial and operational information with the market knowledge possessed by business leaders. Finance has an opportunity to drive these performance increases with transformation. Finance organizations that transform to focus on the future, produce superior information and communicate, will empower leaders to make better decisions. The accumulation of better operational, tactical and strategic decisions by informed leaders will drive improved financial and operational performance and create a strategic advantage for companies with finance leadership.

About Blum Shapiro Consulting

Blum Shapiro Consulting is a broad-based management consulting and technology services company, committed to delivering to its clients capabilities that drive strategy and improve business performance. With extensive industry and process expertise, a reputation for excellence and integrity and a track record of success, Blum Shapiro Consulting assembles the right people, skills and technologies to deliver cost-effective solutions that increase competitive advantage.

Blum Shapiro Consulting is an affiliate of Blum Shapiro, Connecticut's largest regional accounting and business consulting firm and one of the largest in New England. With 170 professional and administrative staff, Blum Shapiro is a consistent member of the Top 100 accounting firms in the U.S., as ranked by the major industry publications.

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