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The changing role of Finance in the Strategic Management of the 21st century companies

DOCTORAL DISSERATION

Supervisor: Professor Barakonyi Károly DSc

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Acknowledgements

The research idea relates to the period when I was working in various Finance positions in Western Europe. Applying an unbiased external view to these countries showed that there is a potential gap between what the Finance profession is providing as support and the expectation from its customers. Since then I had the chance to compare the Western European experience first hand with the practices in Poland and Hungary. I could not have gained this experience without the international assignments that I was offered by my employer, Unilever.

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Last but not least, I would like to also thank to my Father, László and my Godfather, Antal who were inspiring me for the research and who are unfortunately not with us anymore but live in our memories.

Warsaw, 28th February 2012.

András Dankó

Declaration of Originality

I, the undersigned, solemnly declare that this dissertation thesis work is the result of my own independent research and was written solely by me using the literature and resources listed in the References.

Warsaw, 28th February 2012.

András Dankó

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Chapter 1. - Introduction

In the successful strategic management of the modern companies each function plays their specific role. While today's businesses in many ways are different from their ancestors, the key fundamentals are derived from the same roots. Their main purpose of existence is to serve the needs of their shareholders and stakeholders by creating value (Pike et al, 1993). In order to achieve this effectively and efficiently the various functions needs to work in close cooperation with each other.

The global crisis, starting in 2008, proved that volatility is higher for the financial markets and the ordinary businesses that have been anticipated before. As the recession started as a financial crisis many people started to blame – amongst others - banks and financial institutions for excessive risk taking and taking short profits ahead of long term sustainable growth. Accordingly the lost confidence in the Financial institutions has taken a toll on the reputation of other Finance professionals such as accountants, book keepers, treasury, tax people and others. In order to restore public trust the Finance profession is now facing one of the biggest challenges of its history, the need to reinvent itself.

Finance has always been the common language used to translate business performance into monetary terms throughout the world and has effectively been around since people started to use money in their transactions. Even in our modern world, the principal aim remains the same - as the International Accounting Standards Board (IASB, 2001) defines: "to provide the world's integrating capital markets with a common language for financial reporting". The role of the Finance function has been evolving in the last decades and the recent financial crisis acted as a catalyst to increase the need for change in the Finance profession. This has resulted that the Finance profession arriving to a crossroad by now. The triggers for change have been around for decades and there was a push for evolution. The changing business environment, the globalisation of the economy, the internalisation of accounting standards and tightened regulation following the corporate scandals have increased the need for evolution in the financial profession (Berriman, 2009).

1.1 Importance of the research topic

The Finance function has always been considered as one of the strongholds of business understanding and a key enabler of strategy formulation. Finance professionals in general are reputable in their precision and transparency. Accordingly, potential challenges to the Finance function's reputation or its members might undermine the fundamentals of the modern business thinking and create instability in the business world, therefore, it should be taken seriously.

The challenges the Finance profession is facing can effect hundreds of thousands of professionals throughout the globe and have a knock on effect on millions of companies and their employees, their shareholders and related parties. Understanding the triggers of change, the challenge that the Finance function is facing, and the potential ways of evolution is priceless.

As the problem and challenges are not limited by country borders, the research has scoped four countries in Europe. The United Kingdom, representing the Anglo-Saxon financial profession, France, representing the „Continental" Finance professionals and Hungary and Poland, representing the Eastern European Finance professionals. The choice of these countries are not only representing geographical differences but also reflecting the different financial educational systems and different professional status of the function's members in their local business environment. What is common in all cases that they face a very similar global phenomenon and they all need to provide an answer to the challenge.

As a word of caution, one single study – even if based on multi country research - can't solve the reputational issues of a global profession and this research is not attempting to do either. Therefore, the aim is to draw attention to the problem from the involved parties and trigger further research and solution proposals into the subject.

1.2 Research objectives

The principal objective of this research is to test the hypothesises with regards to the post- financial crisis challenges that the Finance function is facing.

This research aims to find answers to the question whether the traditional Finance function, which is concerned mainly with accounting, transaction processing and reporting is capable of effectively responding to the challenges of the modern business environment or is there a need to reinvent itself. The focus is on the people and management aspects of the Finance function and its links to strategic management via the evolution of strategic Finance (Ward, 1992). The aim is also to provide an understanding of the current situation that the Finance profession is facing by contrasting the viewpoints from the profession itself and its business connections, with the non-Finance community. Therefore, the questionnaires were designed in this spirit and the selection of interviewed executives was planned accordingly.

The research objective would be considered to be achieved in the case this study provides insight to the triggers of change, the challenges that the profession has been facing and helps map out some evolutionary paths to consider for the future of the Finance profession.

1.3 Scientific questions to be solved

In the era of globalised information platforms and on-line updates providing current and reliable international comparison would be still a challenge. This does not relate to data availability but rather data comparability and interpretation issues (Ács-Szerb, 2009). Therefore, this research is unique in a number of ways. It is one of the very few that has a geographical coverage across Western Europe from the UK to France and to the East to Hungary and Poland.

The key question that the research is testing is whether the Finance profession is capable to effectively respond to the challenges of the business environment.

What risk and obstacles might the Finance profession face on the journey of potential evolution?

Is the Finance profession's understanding of the problems and challenges in line with the view of the non-Finance community?

Is there a different view across the countries in the scope of the research with regards to the challenges that the Finance function is facing?

Does the trend on outsourcing help the Finance function to focus on it core tasks?

Last but not least, what are the commonalities and differences to the answers that the Finance function in each countries are providing to the problem?

The 2008-2009 global financial crisis that resulted in a loss of trust in financial organisations and in the Finance function itself. Therefore, the findings of the study could provide relevant answers and help to overcome a very current problem that Finance is facing today, how to rebuild reputation and to stay a trusted partner and enabler for long term business strategy.

1.4 Methodology

The following part is a brief overview of the methodology as there is a full chapter later on (Chapter 3.) dedicated to the detailed explanation of the methodology. The research methodology design is shown in Figure 1. and the research plan on Figure 2.

As part of the intensive research, the Secondary (szekunder) research started with the review of the existing publications of studies and research based on both foreign and Hungarian authors. The Primary (primer) research started with setting up of the objectives, the problem definition and hypothesis formulation (Zikmund, 2003). These proposals have been tested via pre-survey interviews and discussion with a selection of academics and business leaders whose inputs helped shaping the questionnaire to address the most relevant issues.

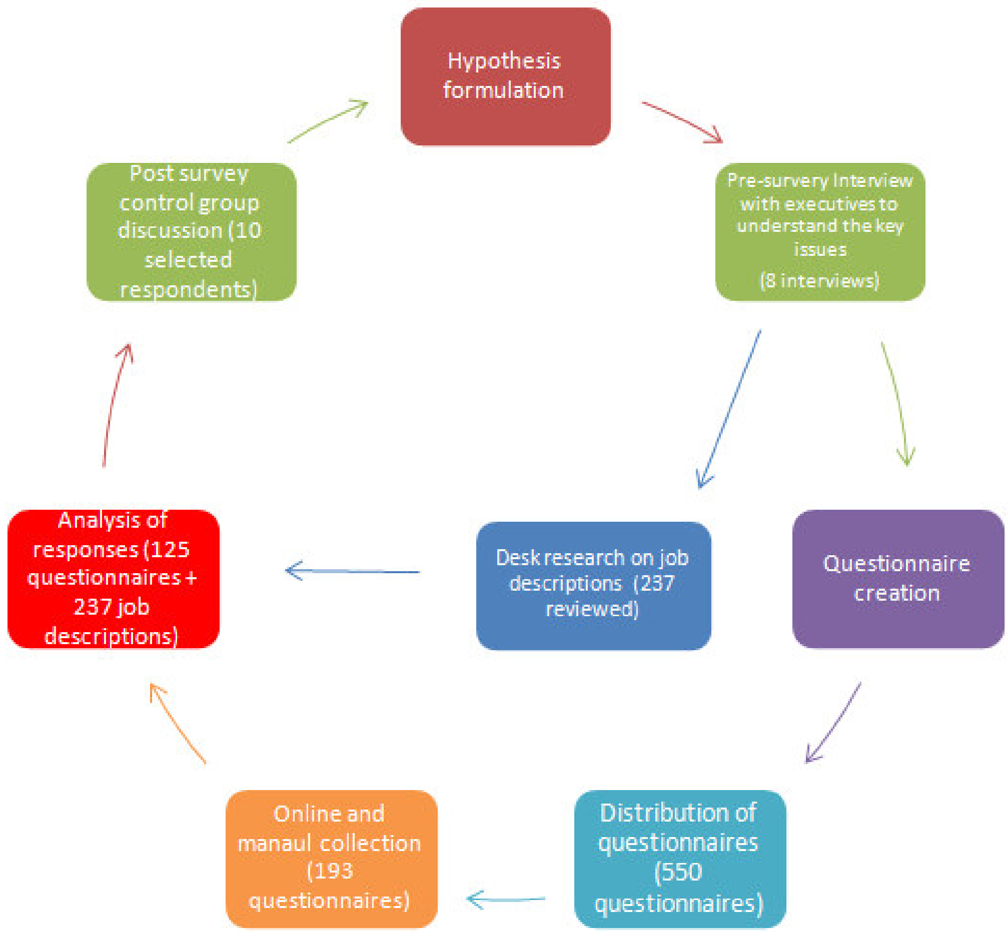


Figure 1/A. The research design, own work

Following the literature overview there was a review of 237 job descriptions of Finance professionals in the scoped countries in order to understand the expectations from the business sector.

The final questionnaires were distributed to over 550 participants in the form of online manual questionnaires. Upon the closing of the 9 month research period there were 193 responses (representing a 35% response rate) including 57 personal interviews in the four countries.

Figure 1/B. The research plan, own work

The challenge of comparability of survey results from different culture's respondents (British, French, Hungarian and Polish) has been overcome by using anchoring vignettes (King, Wand 2007.) a methodology that fosters international comparison in various regional and global surveys.

The survey results were then analysed using statistical models and SPSS software and the findings structured according to the hypothesises formulated.

As a final validation, the results of the questionnaire were evaluated and reviewed via focus group discussions. The feedback of those discussions had been taken into the conclusions of this thesis.

1.5 Hypothesises

The authors experience in the last 11 years working across a number of financial management positions all around Europe, provided a useful opportunity to understand how the financial professionals operate in different cultures and under different economic conditions. The interaction with financial professionals all around Europe supported their overall desire to change the profession in order to serve the business needs better.

The principal hypothesis that modern Finance needs to be based on strategic Finance has been around for nearly two decades (Ward, 1992) Finance professionals need to become strategic business partners, concerned with decision support, risk management and proactive formulation of strategy.

The dissertation tested four main hypothesises via research:

<u>Hypothesis 1.:</u> Traditional Finance is not capable to effectively respond to the needs of the changing environment, there is a need to reinvent itself to become an enabler of strategy formulation.

<u>Hypothesis 2.:</u> Finance has a different appreciation of its key tasks and roles than general management, which could lead to conflicting interests and the problem of priorities.

<u>Hypothesis 3.:</u> The current level of risk management and governance is not enough to provide sufficient controls. Future Finance should adopt a risk management mindset and be a stronghold of governance.

<u>Hypothesis 4.:</u> Finance needs to improve financial forecasting to gain back credibility. The current level of abilities in companies to predict the future and provide accurate forecasting on financial results is not sufficient.

1.6 The Logic of the thesis

The thesis is structured into five main chapters, each covering a major area of the research.

The first and introductory part of the thesis provides an overview to the dissertation from content and structure point of view.

The second part of the thesis is the literature review of international and Hungarian authors on the related aspects of the research topic.

The third chapter reviews the methodology of the research, including primary and secondary research. Explanation of the research method and the research design plan (detailing out each research phases) are included here. As being an international research the implications and challenges of multi country research are also addressed in this chapter.

The fourth chapter presents the findings of the research according to the preliminary research, the main research and the feedback of the control group discussion.

The fifth part embodies the conclusions and implications for future research.

The thesis is closed by the list of References, containing all referred authors and publications in alphabetical order.

The Appendix contains the survey's questionnaire, the anchoring vignettes, statistical tables using SPSS and an own case study about Unilever's approach to forecasting.

1.7 The novelty (novum) the of the research

The principles of accounting and Finance were laid down more then 500 years ago, since the publication of the "Summa de Arithmetica, Geometria, Proportioni et Proportionalita" (Pacioli, 1492.). Although there are hundreds of books concerned with financial and accounting principles and methodology, however, there is significantly less literature available on the roles and responsibilities of that modern Finance is supposed to play. There were a number of initiatives to standardise financial standards and invent new models for the changing needs of international markets. However, the role of Finance and how it supports the modern business has not been widely researched, which makes this thesis both unique and gap filling in this area.

At the date of the dissertation submission there was no sign of existence of any similar research studies in terms of problem definition and similar scope. When the preliminary findings were published on the International Management Development Associations' (IMDA) 19th World Congress in 2010, the novum of the problem has caught the attention of the academic and business community as a new area that requires focus.

As the challenges that the financial profession is facing poses an emerging risks, involving a large business community there is an increased interest from professional bodies and consultancy firms into the subject. Therefore, it is likely that a number of studies will follow soon from the business sector but from the academic community point of view this research is one of the first to be published on this topic.

Chapter 2. - Literature review

2.1 History of Finance

2.1.1 Historic development of Finance (Traditional Finance)

In order to understand the modern Finance function it is important to understand its origins as well, which route back thousands of years. As with many other modern professions it is difficult to trace back precisely when and where the Financial and Accounting professions were born or who were their first practitioners. Not long after that humans started to use money in their commercial transactions the first forms of accountants appeared (deSantis 1999). The first written records of transactions go back to the era of the Babylonian Empire around 4500 B.C. Furthermore, accounting documents were found also from Ancient Egypt as well as in the Code of Hammurabi around 2250 B.C. and in most major ancient civilisations.

The Mesopotamian equivalent of today's accountant was the scribe (Keister, 1963). The scribe's responsibility was to record the transactions and ensure that the agreements were complied with the detailed code requirements for commercial transactions. There had been hundreds of scribes employed in governmental, religious and private organisations and they were considered to be members of a prestigious profession. As papyrus was scarce and expensive records were captured on specially prepared wet clays, while dried copies were provided to each member as proof of the transaction (Chiera, 1938).

In Egypt the early accountants replaced the clay tablets with papyrus that enabled to have more detailed record keeping. Although accountants were used for thousands of years in Egypt, illiteracy and lack of coined money have limited the development of the profession. Those early accountants remained bookkeepers of the state storehouses mainly concerned with keeping meticulous records (Alexander, 2002.). Discipline and accuracy became trade marks of the profession as irregularities disclosed by royal audits were punishable by fine, mutilation or death.

Ancient Greece also made its contribution to the development of the accounting profession by introducing coined money around 600 B.C. Not having a single valuation measure, cumulating and summation were extremely difficult in the earlier civilisations (Peragallo, 1938).

Widespread usage of coined moneys also helped banking in ancient Greece to become more developed than in prior societies. According to Calhoun (1926) these bankers kept account books, changed and loaned money, and even arranged for cash transfers for citizens through affiliate banks in distant cities. In the 5th century B.C. Greece members of the Athens Popular Assembly legislated on financial matters and controlled receipt and expenditure of public monies through the oversight of 10 state accountants chosen by the public.

In ancient Rome accounting has became more common for both the public and private areas of life (Brown, 1905). Households kept receipts and payments in a daybook *(adversaria)* while monthly postings were recorded in a cashbook *(codex accepti et expensi)*. Rome's citizens were required to submit statements of assets and liabilities as a basis for taxation. On a governmental level, a robust system of checks and balances were maintained and supervised by the questors. Accounting innovations of ancient Rome relate to the regular auditing of public accounts and the use of an annual budget to coordinate expenditures and revenues for the empire (Geijsbeek, 1914).

After the fall of the Roman Empire accounting innovations came to a halt, mostly stagnating up to the Renaissance era. However, according to Chatfield (1977) this period laid the foundations for the doctrines of stewardship and conservatism, and the medieval era created the conditions for the rapid advance in accounting technology. By the time of the Renaissance all key ingredients that existed in separate empires were able to forge together to lay the foundations of double entry bookkeeping.

Littleton (1977) defines these key ingredients as follows:

Private property: without private ownership and the opportunity to exchange ownership bookkeeping would not have gained such relevance.

Capital: wealth productively employed, because otherwise commerce would be trivial and credit would not exist.

Commerce: The interchange of goods on a widespread level, without which trading would have stayed at small and local level.

Credit: The present use of future goods, because there would have been little impetus to record transactions completed on the spot.

Writing: A mechanism for making a permanent record in a common language, given the limits of human memory.

Money: The "common denominator" for exchanges, since there is no need for bookkeeping except as it reduces transactions to a set of monetary values.

Arithmetic: A means of computing the monetary details of the transaction.

Accounting records had gained more importance as tax collection became more sophisticated as those served the emperors and their taxmen silently. The first person whose name can be found in the financial and accounting history books is Luca Pacioli (1447-1517) who is regarded as the father of modern finance and accountancy. His groundbreaking work of the "Summa de Arithmetica, Geometria, Proportioni et Proportionalita" was published in 1494 in the Renaissance Italy. Although Pacioli`s 'Summa' has dedicated only a few chapters to Finance his concepts created the foundation of modern financial practices. Pacioli described the basic concepts of double entry bookkeeping: making references to memorandum book, journal and ledger while suggesting that all entries to be translated to a single monetary unit. These are all being used today by modern financial professionals and accountants.

2.1.2 Finance at the end of the 20th century (Modern Finance)

According to Riahi-Belkaoui (1995) the principal aim of accounting to play a communication role between the users (management) and producers (Finance professionals) of information. A key enabler of modern day Finance was the standardisation of accounting systems (Bhimani 2006). This has been achieved by the creation of reporting standards to provide a functional framework for the Finance function. As of January 1st 2005, all European Union public companies had to comply with International Financial Reporting Standards (IFRS) and there are further convergence project that aim to bring closer US. and Asian accounting standards to IFRS. The progress on this convergence work is discussed in the next chapter.

The traditional financial roles existing in most organisations are (Pike&Neale, 1993): *Financial accounting*, concerned with recording the financial transaction and reporting to the stakeholder of the company. *Corporate Finance* focusing on fund raising for the business. *Management accounting*'s priority is the decision support for the management and monitoring of controls (Copeland, 2005). Even if these roles seem to cover the full spectrum of the businesses, unfortunately all of them are internally oriented and focused on the past. In the rapidly changing environment, external focus and the use of benchmarking techniques are essential as much as orientation towards the future to aid strategic business planning. Research data shows (Slang, 2006) that many Finance professionals still consider their main task to be transactional processing and spend considerably less time on reporting and even less on internal controls. Many of the interviewed executives in this research would define this "Traditional Finance" and not a Business Partner mindset.

What was once considered an overhead and treated as such, the Finance function is now increasingly being seen as a key organisational asset to drive business competitiveness and effectiveness. This provides another important step on the evolutionary path from yesterday's scorekeeper via today's business partner through to tomorrow's corporate change agent (Mara, 2010).

2.1.3 Strategic Finance – links to Strategic Management

<u>The integrated approach to international business strategy</u>

The business world is getting increasingly internationally competitive. Gaining competitive advantage lies in the heart of business strategy and is supported by the strong coordination of functional strategies. According to Ellis & Williams' (1995) definition: "International business strategy is concerned with the strategic management processes by which firms of all sizes evaluate their changing international business environment and shape an appropriate organisational response that involves the crossing of international borders".

The three most common approaches to business strategy are: External context, Resource-based and Process view. These are described and contrasted below.

External context

In this approach strategic change is regarded mainly as a perspective adjustment to external change factors in which competitors play a prominent role (Porter 1998, Yip 1993). Accordingly, competitive advantage could be achieved if the organisation is capable to react better to changes in the external environment then its competitors. The strength of this approach also defines its main weakness. Namingly, its external focus result in neglecting the internal facts.

Resource-based

This is a firm specific and forward looking approach where competitive advantage is dependent upon the possession of firm-specific resources and capabilities (Collis, 1991; Hamel and Prahalad, 1994). Strategic positioning is derived upon whether the firm obtains and able to leverage more or less on its distinctive capabilities comparing to its competitors. The main criticism of this approach can be its lack of analysis of the process.

Process view

The focus in this approach is on the process itself (Pettigrew, 1985; Mintzberg and Waters, 1985) and on how it affects the actions, reactions and interactions of people within the organisation. Understanding the triggers and motives of the continuous interactions is imperative in a successful business strategy formulation. However, this approach also offers less insights into the what and why of strategic imperatives.

Although the above mentioned three approaches of business strategies are all fundamental building blocks, however, in today's complex and competitive world should not be handled as exclusive. Rather - as Ellis et al (1995) also suggest – these are co-related and inherent blocks of the business strategy.

Accordingly, the strong correlation of the external context, resource-based and process view approaches is captured in Figure 2/A using the metaphor of a rope[1].

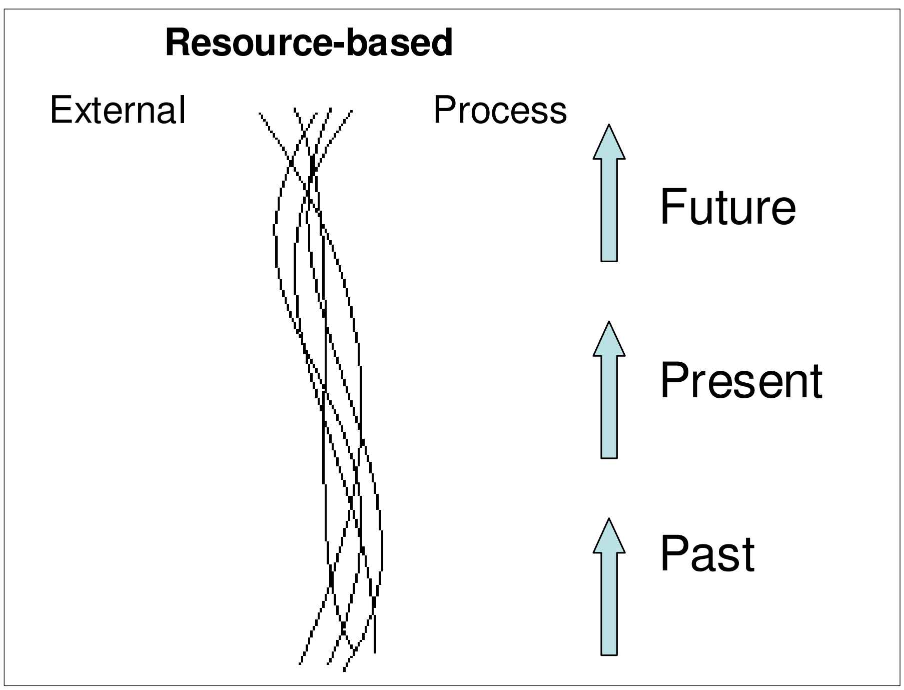


Figure 2/A The holistic approach to international business strategy (Source: Ellis & Williams (1995)

Therefore, the suggested approach for a successful business strategy is using a holistic approach combining the resource-based, external and process focused approaches. This would also allow the firm to approach any upcoming issues or opportunities by using

[1] Referring to the metaphor of interrelated strands of a rope, Ellis & Williams (1995)

the most suitable approach on each phase of its strategy development and execution, let it be its deliberate strategy or emergent strategy (Mintzberg and Waters, 1985).

According to Porter (1998) "c*ompetitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors".*

These attributes are many times derived from functional strategies such as Finance, Marketing, Operations, Logistics or HR. The link between Functional Strategy and Business strategy is captured in the model of Ellis & Williams (1995) in Figure 2/B.

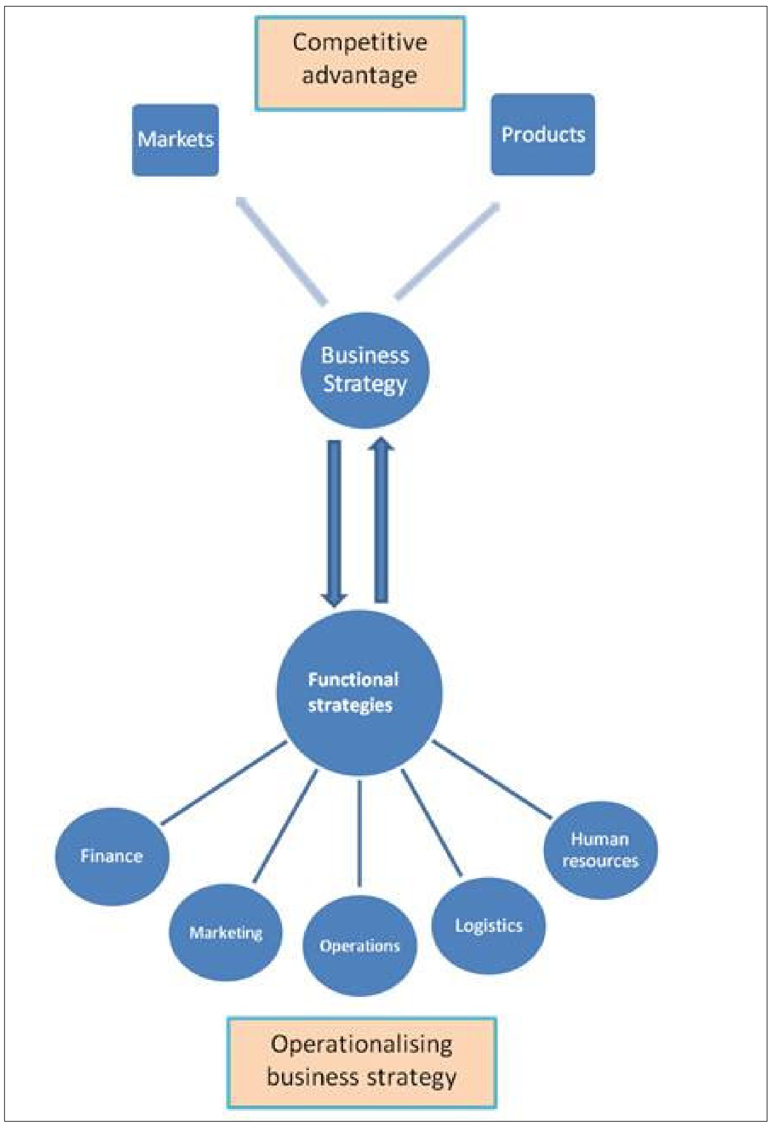


Figure 2/B. The relationship between business and functional strategy (Source: Ellis-Williams, 1995)

The technological advances that we had been witnessing in the last decades proved that the source of competitive advantage could be widespread from technology, know-how, resources availability, access to information and others. It should also be noted, that inefficiency and ineffectiveness of specific organisational capabilities could result in serious drawbacks against competitors. On the other hand the author hand argues that the contrary is also true and therefore, developing functional support on world class level might be a source of competitive advantage. During recessionary periods finding competitive advantage is not only about overtaking competitors but might be the only way to secure survival. In the post recession study of Gulati-Nohria-Wohlgezogen (2010) it was noted that 17% of the companies in scope have actually not survived the crisis at all. Furthermore, 80% of the surveyed companies were unable to get back to the pre-crisis growth levels or profitability.

Accordingly, obtaining the right information at the right time is a source of competitive advantage and many companies tapping the information available over the internet benefited from this in the 90's already. At the end of the 20th century speed of information was key, however, in the 21st it might be the quality of information might be the source of competitive advantage. In this context quality of information would mean: reliability, relevance of information and analytical support for decision making. Therefore, Strategic Finance could well be one of the next big things in the fight of competitive advantage.

Many Strategic Management authors like Ansoff (1974), Drucker (1954), Chandler (1962) acknowledged Accounting/Finance's role as a supporting function, however, it was only in the last decades when functional strategies started to gain higher importance. Mintzberg (1994) placed Finance into the strategic apex, Ellis (1995) claims Finance to be part of the functional strategy. In 1998 Collis&Montgomery introduced the Triangle of Corporate Strategy[2] in the context of Competitive Advantage, Coordination and Control and claimed that *"without the appropriate control systems, the corporate center can quickly lose its ability to determine strategic direction and influence performance in the individual business*" and suggesting that

[2] Referring to Collis&Montgomery Cynthia A. (1998): Creating Corporate Advantage, Harvard Business Review

"*corporations have the choice between two types of control systems: operating and financial*". In this context Finance plays an important role by helping to set and govern both the operational and financial framework, however, this is not a pivotal role for finance still. Furthermore, in the Advances in Strategy of Harvard Business Review of 2002 Tufano (1996) refers to *Financial Engineering* as great new tool that helps structure, value and mitigate risks in new way and enabling the development of new products, services and markets. According to Mészáros (2004) one of the important foundations of successful strategy relates to the core competences and the ability to develop unique potentials that the competitors have difficulty to copy or adopt. Potentially Financial Engineering or World Class Finance could examples of such core competencies.

The reason why this dissertation was written under Strategic Management was to specifically emphasise that Strategic Finance is not only a part of functional strategy but could be an entirely new way of managing strategy and by being a potential source of competitive advantage.

<u>Recent developments on Strategic Finance</u>

Unfortunately, the last decade has been overshadowed by a number of corporate financial scandals and the most severe recession (2008-2009) of our times, that started as financial crisis. None of these helped to emerge the concept of Strategic Finance that relates to Strategic Management Accounting (Ward, 1992) nearly two decades ago.

For big multinational companies with dispersed global operations, setting up a centralised information office seems to be a solution to ensure quick and reliable access to information (Anastas, 1997). However, for most organisations with limited resources information management lies with the management accounting department of Finance.

In the last 15 years Management Accounting evolved significantly and started to incorporate elements of Management Controlling and Strategic controlling. While management information is concerned with operational issues, strategic controlling is concerned with monitoring the implementation of long term strategy (Barakonyi, 2000) and taking decisive action where necessary to maintain the strategic direction.

Parallel to this, management information tools have evolved together with how information is being processed and monitored. The Balanced Scorecard methodology (Norton&Kaplan, 1996) helps translate the organisations mission and strategy into tangible objectives and measures in many companies this concept has been known as the "Strategic Framework for Action".

With the increasing hunger for information, the evolution of Management Accounting became faster. While a few decades ago Finance was mainly a score keeper by now the need of the organisation shows into the direction that Management Accounting becomes an active formulator of strategy. Value added accounting (Adler, 1999) which embodies the traditional accounting role as well as the new role of informational linchpin to total quality management (TQM) and just in time (JIT) systems have been gaining increasing ground.

However, this fast evolution poses some risks as well. The first risk relates to the position within the organisation. Unless the Management Accounting department is a centralised function that lies in the strategic apex (Mintzberg, 1994) information could get distorted and take a long time to reach decision makers. The second risk relates to the orientation of the function. Management accounting is normally inward looking and past focused (Collier &Gregory, 1995). With changing needs this has fuelled the criticism towards management accounting on the ground of lacking timeliness, accuracy and relevance (Johnson&Kaplan, 1996).

Furthermore, as a result of the increasing reporting (IFRS, 2004) and risk management compliance requirements (Sarbanes-Oxley, 2000) resources have been shifted away from management accounting to financial accounting and internal audit. This has resulted in the difficult situation that the increasing needs from general management to support strategy have not been met in full. A recent global survey (McKinsey, 2008) claims that the difference in expectations is still valid today (52% of CEO's expected Finance leaders to support strategy while only 29% of Finance staff expected the same).

Strategic Finance is defined as "*functions that acts as a strategic business partner and is concerned with decision support, risk management and proactive formulation of strategy"* (Ward, 1992). Except for a few world class Finance organisations (Durfee, 2005), this is still a theoretical concept rather then realty. However, potential ways on how to get to this level are being discussed in this dissertation.

Will Strategic Finance require a new organisation?

Although there is no definitive answer to this yet, however, the question will arise whether the evolution of Finance towards Strategic Finance will require a change in organisation as well. Examples of the past shown that whenever a function starts gaining new importance within an organisation structure will follow the new function will create its own organisation (e.g. IT in the 80s and 90s). Furthermore, with the current outsourcing trends more and more companies are focusing on their core activities and outsource those which are less fundamental and more loosely connected to the core of the business. If a functional area has low strategic importance but has a high contribution to operational performance it falls on the radar of outsourcing. This happened in many firms to IT and some elements of Finance (Purchase to Pay / Invoice management) in the beginning of the 21st century.

Strategy has its own structure and it is not likely that strategy formulation gets outsourced at all. Therefore, for Finance to keep and improve its importance further, becoming a strategic business partner and move towards a Strategic Finance seems the way of evolution. Would this result in a new organisation? Probably yes, however, how this new organisation would look like remains to be answered in the conclusions part of the dissertation.

2.1.4 Standardisation and internationalisation of financial reporting

One of the most important purposes of accounting is to communicate relevant information between and among producers and users of such information. Accordingly, a key enabler of modern day Finance was the standardisation of accounting systems. International Accounting Standards Board (IASB, 2001) defines the ultimate aim as "to provide the world integrating capital markets with a common language for financial reporting".

Another critical step forward was that China has recently adopted accounting standards substantially in line with IFRS. From 2007 companies listed on the Shanghai and Shenzhen stock exchanges are required to adopt IFRS for financial reports. This helped investors to understand better the true value of the companies listed in China's stock exchanges. Therefore, Finance and accounting has become a truly international or moreover global function, by the dawn of the 21st century. While the convergence of global accounting and reporting standards represents good news for investors by making global companies investment opportunities comparable easier, it also provides challenge for the companies' financial executives who need be aware of the IFRS implications of their local actions.

The countries in scope for this dissertation had had their own local accounting systems such as "Comptable Generale" (General Accounting Law) in France, "Számviteli Törvény" – (Accounting Law) in Hungary and the UKGAAP (Generally Accepted Accounting Principles) in the United Kingdom and the NPAA (Polish Accounting Act) in Poland.

Even though, these systems and regulations still exist, they have aligned local regulations to the earlier mentioned International Financial Reporting Standards (IFRS). The key advantage of creation and adoption of international financial standards that the performance indicators of companies from different countries become more comparable. Moreover for international companies, this process has resulted in significant complexity reduction by abolishing requirement to conform to various local reporting standards. Lastly, for audit firms and tax authorities information of subsidiaries of the same conglomerate could be analysed on a more efficient and effective way (Gray&Manson, 2008). Following the corporate scandals of Worldcom, Enron, Parmalat and others, new regulatory requirements and framework were designed to restore the public trust (O'Rourke , 2008). Governance initiatives like Sarbanes-

Oxley Act (SOX) in the USA, Accounts Modernization Directive, in the European Union, reforms of capital markets in South America and the recent approval of J-SOX (the Japanese version of Sarbanes-Oxley) all aimed to rebuild confidence in business.

<u>Structural difference in Western Europe and Eastern Europe</u>

It is important to note, that in the DNA of many Eastern European companies there are still links to the old communist era where uncertainty about investment sources was a constant risk (Bélyácz, 1982). The state centralised and hierarchical decision making had been gradually replaced by market coordination in the process of socioeconomic transformation (Balaton et al, 2001). The long transformation period has still implications on the investment attitude and risk appetite today regardless that investment decisions are based on similar methodology across Europe.

The lack of open market experience and the delay in adapting modern strategic management principles in Hungary resulted that a number of companies were not creating but in fact destroying value (Juhász 2001).

According to Chikán (2003.) value creation could be achieved in two ways. Consumer value creation means that the benefits of using the products or services are considered higher then the cost of purchasing it. Owner value creation assumes that the cost of developing, manufacturing, distributing, marketing and selling is superseded by the turnover that arises from the sales of the product. The interest of owners and managers of the same company are not necessarily the same as the owners take long term view while the managers focus on short term profitability. The information asymmetry (Bedő, 2006.) arising from the fact that the information available to the investors and to the managers of the companies forces investors to put reliance on management, although their interest on short and mid term might differ.

The early 1990s were the period of small and middle size enterprise creation in Eastern Europe (Poór et al, 2007). In the decade towards the millennium the existing SME became stronger. On the contrary to multinationals that had a developed corporate culture and more resources for training young graduates the SMEs in Eastern Europe had to find talent on the market, creating a skill gap across the industry sectors.

Life expectancy of SMEs in Eastern Europe is shorter then in Western Europe (Klonowski, 2009), which makes them also less attractive when fighting for talent.

While the GDP growth in Eastern Europe has been exceeded Western Europe in the last decade, the Eastern European economies have not been able to close the gap of competitiveness yet. In the global competitiveness index (Piech 2007), the Eastern European countries did not improve their ranking significantly. In the period between 1995 and 2005, Poland moved slightly up to 30th, Hungary to 35th from 37th (Kadeřábková et al, 2007). On the other hand France and UK held their positions in the top 25 (France, 23rd and the UK 20th (Garelli, 2007).

On the other hand is should also be noted that Eastern Europe countries – regardless that they show a number of commonalities as result of belonging for a long period to the Soviet led COMECON (Bakacsi et al, 2002) – they are not a homogen entity. Cultural, economic and political circumstances do widely differ. Findings in the GLOBE[3] (House et al, 2002) study support that specific elements vary significantly within the Eastern European cluster. For example review on European leadership styles support (Brodbeck et al, 2000) that Poland and Slovenia are similar (Central European sub-cluster), however, Hungary belonged more to the Latin European prototype (with Portugal, Italy and Spain).

[3] GLOBE is a multi-phase, multi-method research project in which investigators around the world examine the inter-relationships between societal culture, organizational culture, and organizational leadership (House et al 2002)

2.2 Changes in Forecasting

2.2.1 Introduction to Forecasting[4]

Financial Forecasting is highly important for both the Management team and the Finance function as the level of performing against a pre-communicated to plan can give indication to investors that how reliable the management is. In this chapter the importance of Financial Forecasting is discussed to see how it effects the reputation of the firm and the Finance function who is in most cases the owner of the Financial Forecast. Forecasting (= demand planning and sales forecast) is also discussed in this chapter as these are crucial building blocks for a robust overall Financial Forecast.

Although Financial Forecasting is the aggregation of a number of factors based on inputs from all departments of the organisation it ultimately comes out as a set of key performance indicators from Finance. In many organisations the owner of the Financial Forecast is the Finance Function, therefore reliability of the issued forecast can be matter of reputation.

In today's rapidly changing business world the ability to predict the future has gained new importance. Foreseeing market trends and changes in sales patterns is more important then ever (Farkas, 2008). The ability to forecast precisely can improve the overall planning and supply chain process. Those companies who are able to forecast their selling volumes accurately, stocks can become lower, production planning smoother and overall supply chain cost decrease (Gilliland, 2003). The other aspect is that precise forecasting implies that management is keeping their promises and they are in control of the business it can strengthen the reputation of the overall company (KPMG, 2007).

The increasing importance of forecasting is also supported the positive effects it has on customer service levels which can effect the satisfaction of the customer. Furthermore,

[4] Forecasting (= referring to Financial Forecasting of the company's results and not demand planning)

the overall profitability can be effected by minimising lost sales. Precise forecasting could imply transparency from top down within the organisation, and accordingly support an honest and transparent culture in the whole spectrum of the organisation. Reforming the forecasting process is hardly possible without cultural change. Furthermore, local country culture has a significant impact on how forecasts are built and to what is considered to be precise a forecast. Nevertheless, even though most companies understand the importance of forecasting and its effects on strategy and on the reputation of management, most organisations still have problems to get their forecasting right. Some use calendar base business planning, some rolling quarter forecasts others use dynamic performance management. The recent financial crisis has shown how unpredictable the future can still be, regardless of how robust and sophisticated systems there are in place. In such volatile economic conditions and during recession, those companies have higher chances to survive who can predict their future performance with better accuracy.

The 2008-2009 financial crisis showed that getting the forecasting right is more important then ever. Companies can drive costs down by better planning which results in lower stock levels and longer production runs. Furthermore, companies can gain good reputation, increase investor confidence and provide higher customer satisfaction by producing and selling products in the mix and quantity that their customers want.

The growing importance of precise forecasting has many reasons. First of all, unreliable forecast cost money for the company. Without knowing how much the company would sell, there would be a need for higher stock levels that would mean cash being tied up unnecessarily. Forecasting has also a reputational effect as a more precise forecast is granted by higher confidence from investors' side (KPMG, 2007). Low forecast accuracy could imply that customer service falls as well as the company is not able to fulfil the needs of all of their customers – which materializes as lost income and lower profits. Furthermore, it can be significant in terms of customer penalties and at last but not at least, can damage relationship with the customers, who are angry due to the fact that they did not manage to get what they have ordered.

The earlier mentioned reputation issue can easily convert into share price volatility as for those business leaders whose prediction did not come true, getting the investors believe again is more difficult. Profit drop warnings announced by listed companies are penalised by immediate share price drops (Parker, 2011) on the stock exchanges.

2.2.2 Reputation management with forecasting

Financial forecasting has started to gain new importance in recent times. Putting an enterprise's financial forecasting right becomes more and more important due to the potential impact on share price. Companies who are able to deliver their financial forecast are increasing their reputation as well. A report on the financial forecasting (KPMG, 2007) suggests that "those companies whose financial forecast came within five percent of actual saw share price increases of 46% over the last three years compared with 34% for others (improvement of 35%). The good financial forecasting accuracy implies to the external parties that the management is in full control of the business and knows well which way the company is going - which helps strengthen the reputation of the business and credibility of its leaders. The increased regulatory request to financial forecasting driven by EU transparency directive and the SEC (both financial and non-financial key financial indicators) avoided the decrease of Finance department cost as "tighter regulation appears to have offset savings from more efficient systems or more effective staff. A recent study (Hackett, 2007) in fact showed that the "average Global 1000 companies spending on the Finance function has risen 12 % over the past three years." The follow up of the same study in 2008 claims that 2/3 of the companies are unable to accurately forecast earnings for the next quarter, missing the mark by anywhere between 6 % and 30%. Forecasting errors are not only a theoretical threat but indeed could affect the bottom line of the company as well, respondents of another study (KPMG's 2007) study claimed "that errors in forecasting have directly knocked 6 % off their share prices over the last 3 years, a significant part of which resulted from investor reaction". In order to gain more forecast accuracy good intent is not always enough but the use of relevant methodology is also important. For this reason many companies are turning to statistical tools, such as Monte Carlo simulations. In many companies of today, over-achievement of targets is appreciated more than an accurate forecasting, which is not in the favour of management trying to hit the forecast but instead of "sandbagging" the targets. To ensure financial forecasting is improved, companies need to overcome these cultural implications first and focus on incentivising their managers on forecast accuracy. However, to avoid the traps of the agency theory management bonuses needs to be aligned with shareholder's interest on the long term. Internal audit has increased responsibilities with regards to financial forecasting. First, by reviewing adherence to forecasting policies, secondly by reviewing forecasting trends of operating units and by advising improvements needed.

Why is getting the financial forecasting accurate even more important during the financial crisis? Because of its effect on the reputation of the firm. People have lost confidence in many companies during the crisis which was captured by their plummeting share prices. Therefore investor's focus is now on companies where they consider management to be reliable. What better evidence is there for reliability The answer is transparent and reliable financial forecasting accuracy, or to put it simple: "deliver what you have promised earlier".

The increased regulatory request to forecasting driven by EU transparency directive and the SEC (both financial and non-financial key financial indicators) avoided the decrease of Finance department cost as "tighter regulation appears to have offset savings from more efficient systems or more effective staff.

According to Hawkins (2002) et al, modern forecasting and macroeconomic forecasting was a product of the Keynesian revolution. Following World War II Official forecasts were produced regularly in the Scandinavian countries. In the early 1950s the practice spread to the UK and by the 1960s to other advanced economies. Although in the modern business world there have always been analysis of future expectations, however, those were rather intuitive and judgmental basis. Since the advances of computer technology and transaction processes it has become possible to process larger amount of data, enabling to provide trend analysis and scenario modelling.

Fischoff (1982) suggests that successful forecasting requires a learning process – whether the task is choosing and applying the models is quantitative forecasting or making the holistic judgment used in qualitative forecasting. Efficient learning requires making explicit forecast and evaluating them against ensuing events.

According to Makridakis (1998) the need for forecasting is increasing as management attempts to decrease its dependence on chance and becomes more scientific in dealing with its environment. Makridakis (1998) also notes forecasting techniques can be applied when three conditions exist: 1. Information about the past is available. 2. This information can be quantified in the form of numerical data. 3. It can be assumed that some aspects of the past pattern will continue into the future.

Using the categorization of Vanston (2003) forecaster approaches are the following:

Extrapolators: who believe that the future will represent a logical extension of the past. However, this approach often fails to take into account the fact that changes in driving forces can result in rapid and dramatic changes in trends."
Pattern analysts: who believe that the future will reflect a replication of past events, assuming that history often does repeat itself (example of colour TV following similar patterns of black & white TV and radio).
Goal Analyst: who believe that the future will be determined by the beliefs and actions of a collection of individuals, organizations and institutions. The future will represent the overall aggregate of these many impacting forces, accordingly, they recognize that neither technical nor non-technical advances take place in a vacuum and understand the impact of strongly held beliefs and opinions in real-world situations
Counter-punchers: who believe that the future will result from a series of events and actions that are essentially unpredictable and, to a large extent at random.
Intuitors: who are convinced that the future will be shaped by a complex mixture of inexorable driving forces, random events, and the actions of key individuals and institutions. Because of the complexity and interactivity of modern society, no rational technique can be used to forecast the future; the best method is to gather as much information as possible, and then depend on personal intuition.

Figure 3. Source: Vanston J.H. (2003): Better forecasts, better plans, better results. Industrial Research Institute Journal, Feb-March 2003. pp.47-58

According to Goodwin (2003) Management judgment and statistical methods can bring complementary benefits to the forecasting process. For example, statistical methods are superior at finding patterns in large volumes of data, while management judgment can play a useful role in taking into account special events, such as promotion campaigns. Judgment can play an effective role in improving the accuracy of statistical forecasts. The factors and methods that play important role in the demand plan/forecast (and ultimately effect the financial forecast) are discussed in the next paragraphs.

2.2.3 Sales Forecasting Using Qualitative Methods

Jury of Executive Opinion Method: carried out by experienced professionals, discussion led by a moderator and aims to pooling together the different viewpoints from management and combines them into demand and turnover estimate.

Delphi Method: carried out by experienced professionals but instead of face to face discussion, the forecast is constructed through an iterative process. Key advantage versus the jury of executive opinion method that it "group-think" is avoided, so experts do not influence each other's viewpoint. According to Amstrong J.S (2002). Since the Delphi method was designed at the RAND Corporation half a century ago this technique has been widely used for aiding judgmental forecasting and decision making in a variety of domains and disciplines. Delphi was originally devised as a procedure to help experts achieve better forecasts then they might obtain through traditional group meetings.

2.2.4 Sales Forecasting Using Time Series Projection Methods

Trend Projection Method: based on extrapolation of historical data but assumes stable economic environment and no major changes in the competitive situation or the strategy of the organisation.

Exponential Smoothing Method: this methodology takes into consideration potential bumps or errors to correct for exceptional events which are not part of the regular business.

Moving Average Method: is created as a simple arithmetic average or a weighted arithmetic average of historic data and could be used most effectively for business experiencing strong seasonality.

Croston's methodology: Croston's forecasting methodology (Croston, 1972) is a forecast strategy for products with intermittent demand (e.g. periods with no demand) and is used widely in the manufacturing industry to support stock control systems. In recent years there has been extensive researched and a number of modifications exist to develop it further. Syntetos and Boylan (2001) noted that the disadvantage of the original Croston method is that it is positively biased. They have proposed a modification, however, according to Teunter, Sani (2006) the modification ignores the damping effect on the bias of the probability that a demand occurs. This leads to overcompensation and a negative bias, which can in fact be larger than the positive bias of the original method. As the Croston method is based on irregular, random or sporadic demand it is a methodology that might be used more effectively in extreme periods like the 2008-2009 recession. Many leading ERP software providers, such as SAS and SAP already use the Croston method in their forecasting software.

2.2.5 Good practices: "Separating the best from the rest".

According to the Hackett study (2007.) World-Class companies integrate financial with operational forecasts and use the proximity to their key business partners to the full extent. Some might assume that those being closer to the source of data could forecast more precisely. On this basis salespeople – being closest to the customer – would be the most competent in forecasting accuracy. However, according to Walker and McClelland (1991) salespeople's forecast are notoriously inaccurate. This is due to the point that salespeople are often underestimating forecast to ensure they can achieve/overachieve them and receive bonus accordingly.

Another recent research (KMPG, 2007.) support that one of the key headache for Finance leaders – who in most organization are responsible for forecasting – is the continuous unreliability of their forecasting performance. According to KPMG's findings the key to reliable forecasting is the ability to draw together culture, process and internal and external data into a balanced and cohesive framework enabled by technology. While getting it right is difficult, it is critical: reliable forecasting is at the heart of the business performance management process and creates measurable business value over the long term.

The way company managers approach forecasting is the opposite as they have the tendency to over-forecast due to their increased optimism about the company future (Makridakis, 1998). Therefore it seems that neither those closer to the information, nor those making decisions are forecasting more accurately then those making forecast based on objective data collection only.

A recent study on forecasting (KPMG, 2007.) suggests that there is a direct correlation between forecasting performance and share price as "those companies whose forecast came within five percent of actual saw share price increases of 46% over the last three years compared with 34% for others". According to Gilliland M. (2003) to put the forecasting right it is not sufficient to invest into new technology but the fundamental issues around forecasting must be investigated first, otherwise investment money would be wasted. Eliminating the non-value adding steps and participants of the forecasting process could make the organisation more effective then just simply buying an off-the shelf forecasting software without reviewing the process internally.

Target and forecast is not the same. "The most significant forecasting mistake an organization can make is to build plans around what it wants to see happen rather than with what it really believes will happen." Gilliland M. (2003). Evangelical forecasting is an approach where the top management of the organisation drives forecast and the forecast. This type of forecast is not necessarily more then a redefined turnover objective and as such there is a risk that it not driven by real marketing and sales inputs and accordingly it could drive the supply chain planning to the wrong direction and waste the resources of the organisation. Deloitte's research (Deloitte 2009.) shows that average days for budgeting is 24% shorter when using rolling forecasts then in the normal budgeting environment.

2.2.6 Cultural aspects of forecasting

According to Lam et al (2005) the impact bias in affective forecasting due to cultural differences is substantial. "The impact bias in affective forecasting—a tendency to overestimate the emotional consequences of future events—may not be a universal phenomenon. This prediction bias stems from a cognitive process known as focalism, whereby predictors focus attention narrowly on the upcoming target event. Three studies supported the hypothesis that East Asians, who tend to think more holistically than Westerners, would be less susceptible to focalism and, consequently, to the impact bias. A thought focus measure indicated that the cultural difference in prediction was mediated by the extent to which participants focused on the target event."

One of the key challenges in the forecasting process and information management is to achieve common standards and standardize processes, which is a crucial step if one talks about introducing a forecasting process all over the organization.

2.2.7 How financial forecasting is being effected during recession?

Although recessions are regularly reoccurring elements of business cycles, still it is unclear when they would happen and most importantly with what magnitude. However, only one thing is sure based on history that they reoccur regularly. The outcomes were not different with the last recession either, companies had been losing profits on massive scale and delivery of forecasted turnover and profit levels was getting less and less likely. Furthermore, focus has shifted, the key purpose for many companies just became the survival, where for others forecasting became a nightmare as most key variables (sourcing option, capital costs, fuel prices, raw material cost etc.) have started to fluctuate on levels previously unheard of.

In the recent financial crisis most forecasting methods became obsolete – not only because of the inability to foresee the crisis but moreover due to the fact that the such extreme economic circumstances as happened during the crisis distort both long and short term planning horizons.

The incentivisation of forecasting performance is a double edged sword. According to Fisher & Waschik (2002) the objective of owners of the firm is to maximize the profits earned by the firm. This represents a long term view. On the other hand management is responsible and incentivized by short- and mid-term profitability, which relates to the agency problem with differing goal horizons. Therefore management's variable pay schemes need to be reviewed carefully during recession period and if needed strengthen governance structure to protect the long term interest of the shareholders.

According to Deloitte's recent study (2009) during recession periods companies tend to focus on internal costs and controls and manage bottom line rather then trying to predict accurately the top line. As the forecasting capability is dropping significantly during a recession period (models are based on stable economic conditions) Finance is aiming to spend less time on data collection and focus on more time on analysis.

During recession preparing accurate forecasts is even more important then ever, however, the problem most companies face is that their forecasting ability drops significantly once the economic conditions start to tumble. In such conditions, the future is not a logical extension of the past and past trends are not reliable source anymore of what the future would bring. Therefore, a shift of focus is needed by spending time on analyzing and using the data, rather than simply producing it.

The recent 2008-2009 financial crisis had also proved that during turbulent times or recession periods most forecasting methodology could become obsolete. This is due to the fact that most forecasting methodologies are based on relatively stable economic data. The earlier discussed Croston's methodology used for interminent demand could be an effective tool used in such volatile periods.

As a general caution during volatile periods new controls need to be implemented to ensure forecasting could stay realistic. Those people looking at only the short- and mid-term trends had found the fall of the stock exchanges were not predictable. Most forecast softwares used nowadays would have also suggested (and some in fact did) irrational decisions based on past patterns. Therefore, in such periods it is advised that management exercises judgment again to ensure their forecast stay realistic rather then just following blindly what their expensive software is suggesting. Any forecast is as good as the assumptions on which they are built. Accordingly, the recession periods do keep Finance professionals increasingly busy. Large majorities of the respondents in the recent Deloitte report (2009) claim that the economic uncertainty has increased the amount of time Finance spends on forecasting (83%) and on scenario planning and analysis (78%). An area of further concern is that only 52% of the respondents claim that forecasting is robust enough to effectively support their business leaders. "It is more important to have the right numbers than to have all the numbers", claimed some respondents in the study. Shortening forecasting time has become a key priority, shorter forecasting time could free up resources and improve overall efficiency. As Rossum (2009) puts it, "knowing what is going to happen tomorrow is much more important than having an accurate accounting view on what happened yesterday".

According to Deloitte 2009's study, many companies see the solution to improve their forecasting by investing into sophisticated Enterprise Resource Planning (ERP) systems, business intelligence software or forecasting software. Such implementation should greatly reduce the time Finance teams spend on manual collecting, consolidating and conforming data inputs and increase the time they spend on analyzing the data. This would also allow Finance to spend more time providing value-added analysis.

In such volatile periods Finance professionals need to reassure management that the forecasting process delivers quality information that enables decision making. Quality in this context means relevant, accurate, transparent and timely information. The Finance function needs to be proactive by raising issues before they materialise and make forecasting a process where all key decision makers can provide their inputs. Right technology and controls in the process should be in place.

Time spent on forecasting is generally regarded to be useful assuming that it can aid decision making. This also implies that relevant forecast data should be available to decision makers in the right detail and on time. The duration of the forecasting process significantly influences the management satisfaction as decision making time is a scarce resource. The recent Hackett research (2007) found high correlation between cycle time and cost of the forecasting process; therefore cycle time reduction drives efficiency. The shorter the cycle time the higher efficiency could be achieved within the organization as the resources are used more efficiently. The same research's shows that a forecasting process being shorter then 5 days is regarded very satisfactory to management based on 64% of respondents. Furthermore, a process with length of 11-20 days is also in the acceptable range, however, a forecasting period in excess of 30 days seemed to be not useful at all by 83% of the management, according to the respondents.

Key success factors for world class financial forecasting

- Holding managers accountable for the forecast they submit
- Incentives managers for precise forecast performance (preferably long term to avoid manipulation of short term results).
- Use the forecast for decision making and performance management
- Use forecasting as a core management tool
- Introduce min. 6 quarter rolling forecast to extend the visibility and remove the mental blockage of calendar year end forecasts
- Cultural change: eliminate bias through right cultural changes ("under-promise and over-deliver")
- Use scenario planning and sensitivity analysis
- Finance team who is already well trained on forecasting procedures can make a difference
- Apply rigor to the forecasting process
- Embed forecasting discipline into the culture and day-to-day activity of the organization.
- Using of competitive intelligence and external market data

- Forecast is done by those closer to data, coordinated by Finance, governed by senior management
- Update forecast minimum once a month and review actual results frequently (analyse, analyse, analyse)
- Use of forecasting software linked to ERP systems rather then spreadsheets
- World class forecasting can gain lower declines in share price then others and see their share rise faster too.

Figure 4. Key success factors for Forecasting. Source: Hackett (2007)

While the financial crisis hold many risk and new challenges for the forecasting it provides Finance a unique opportunity as well. By all means, forecasting being a joint activity outside the boundaries of traditional Finance, it has the unique opportunity to trigger real business transformation and innovation. Accordingly, Finance could get even closer to their internal customer, be it Marketing, Sales, HR or General Management etc. This was focus on performance management and decision support could be more effective then before.

Good financial forecasting accuracy implies to external parties that the management is in full control of the business and knows well which way the company is going - which helps strengthen the reputation of the business and credibility of its leaders.

As discussed earlier many financial forecasts simply go wrong as people mix targets and forecasts. Rolling financial forecasts can help on this area as they remove the barrier of a fixed end point by regularly pushing (rolling) the time frame into the future rather then compare to year end targets etc. How could companies ensure they have a strong forecasting process in place that would serve their internal needs for resource optimization and the external needs to comply with regulation and to prove to investors that they are in good control of their company:

Improving governance by introducing robust forecasting policy and roll it out across the organization. This would ensure that each entity is applying the same methodology and forecasting process and methodology used are standardized.

Automatisation & IT Software solutions**:** introducing automated forecasting modules that both take past actual data and give flexibility to manual changes in future assumption to enable scenario modelling.

Process solutions: sharing good practices is one of the easiest ways to improve overall performance, while one can get increased commitment throughout the organization.

Increased control: regular monitoring of forecasting performance and bias analysis to ensure learning are taken from previous errors.

Make forecasting an agenda for everybody not only Finance: this links up to the point of forecasting policy as well. As long as it is only Finance that is responsible forecasting can't get fully right. Each department who has effects or is effected by the forecast accuracy should have ownership to the forecast. This includes sales people closest the customers to marketers, Finance and supply chain. According to Deloitte's survey (2009) Finance executives also recognize that improving the quality of forecasts is not just a Finance issue—it touches all aspects of the business. However, they need support from the general management, and business unit heads otherwise the process would not be truly improved. Without doubts Finance people have a leading role to play in managing the forecasting process but ownership of the inputs and assumptions should lie with the operational managers. As noted earlier the integration of disparate systems and usage of driver-based scenario modelling is key for a successful forecasting process, however, without making financial forecasting an agenda for everyone it will not achieve long term improvements.

By being the owner of the financial forecast the Finance function is in the spotlight and effects of the precise or inaccurate forecasting also effects the reputation of the function itself. Undoubtedly, financial forecasting is a complex task and accuracy could only be improved by improving the key inputs (e.g. demand plan, pricing, costing assumptions etc.), however, even then good management judgement is still required to factor in market and economical uncertainties. As noted earlier the importance of financial forecasting during volatile times is increasing and evidence shows that investors do provide feedback on forecasting accuracy by applying share price premium to the companies providing reliable financial forecast. Therefore, the Finance function should pay a leading role in thriving to get the forecasting right in order to protect both the company's and its own reputation.

2.3 Outsourcing

2.3.1 People and processes

How does outsourcing help the Finance function to focus on its key tasks? What are the benefits and risks Finance need to be taking into consideration? What technological innovations lies ahead and how would does it influence outsourcing? Understanding this is very important for the future of the Finance function. With Finance is facing limited human resources and an increase on workload, trade offs need to be taken to be able to perform the same or increasing tasks. Therefore, understanding what tasks are best to be performed in house and what should be in scope for outsourcing is crucial.

In order that a company is able to focus on its core activities it requires freeing up resources from non-core tasks. As of the definition of Balaton et al (2005) *Outsourcing is the de-contracting of pheripherical/non-core activities of the enterprise to a 3rd party (or in case of new enterprise creation the abandoning of certain activities, technologies).*[5] The last decade has shown increasing appetite for companies to outsource their activities on areas like Information Technology, Service Desks, Human Resource Management, Financial Shared Services and others.

According to Aalders (2001) “Outsourcing is the contracting of a third party to manage a business process more effectively and efficiently than can be done in house”. The important elements in this definition are: 1. ‘contracting' – which gives rights to the buyer to obtain certain service for a fee and the same time provides legal obligation to the service provider to perform the service, 2. ‘effectively and efficiently', implies that the service would be provided probably faster, cheaper and in most cases more reliable than before. Should the task be outsourced does not necessarily mean that risk would be less and the controls could be weakened. The key motivators why outsourcing should take place are (N. D. Meyer, 2005): to save costs, to share risks, to accommodate peak loads and to help develop internal staff. Furthermore, to make the list more complete,

[5]Referring to the definition of Balaton – Antal-Mokos -Drótos – Tari (2005)

we can also add the points “quality of service”, “improve service and obtain expert skills” and the earlier mentioned “improve focus on core activities” (Farkas, 2008).

Another important question is what to outsource. Focus should be on the non-core activities. Most companies follow a stages strategy when outsourcing. Payroll and Tax services are in the first wave, followed by Accounts Payable, Expense Management and General Accounting in the next wave. On the other hand more strategical activities like Finance Strategy, Treasury, Planning, Internal Controls departments are kept in-house.

Furthermore, the below model of Dennis Luther (2009), suggests that the activities that are low on both economies of scale or economies of skill should be in scope for outsourcing.

Figure 5. The Advantages of Outsourcing and Co-sourcing, Source: Dennis Luther: 2009

Empirical studies carried out (Meyer, 2006) provide evidence that outsourcing has started to bring benefits those who made strategic decision to outsource partly or totally certain activities (IBM, 2006.). The same study reported that “11.8 point annual improvement in Earnings Before Interest and Taxes (EBIT) compared to the sector median. Furthermore, 63 percent of those same companies grew EBIT faster than their sector peers”.

Lastly the effect of outsourcing on global economies and socio demographic trends should not be ignored. Outsourcing has become a global trend, providing unique opportunities for 3rd world countries (India, China) and developing regions (Central Eastern Europe) which would normally have difficulties to compete with developed industrial economies. By focusing on the core activities that can be done more effectively in house and outsource the less value adding repetitive tasks can free up time elsewhere that Finance can spend on analysis and insights. Repetitive tasks could be consolidated into a single department or outsourced completely, resulting higher efficiencies and lower costs.

2.3.2 Outsourcing – systems and data (Cloud Computing)

Until recently outsourcing initiatives were mostly focusing on processes and people, however, advances in technology enabled further dimensions of outsourcing especially on the areas of systems and data (Humphrey & Kogan, 2010). In the last decades data storage for most companies meant using on site servers and PCs connected up in network providing all security and maintenance locally. However, with cloud computing this is now all changing, server infrastructures are being relocated to specialist data warehouse companies off site. Moving is not only physical but taking some of the IT cost off the balance sheet and rent it back to the company and accessed via the Internet. As per the definition of Scott (2010) “Cloud computing is the ability to deliver shared resources, software and information on-demand, via the internet, to computers and other communication devices from a single mega-data enter”.

The significance of this data outsourcing wave can be considered similar to the early 20th century’s outsourcing of electricity generation hardware. At that time most companies still had their own electric generation capabilities to cover for their local energy usage needs. However, soon after companies realised that it was cheaper and more efficient to buy power from the local utility rather then produce their own electricity in house. What is happening with cloud computing follows similar patterns, servers are being moved off site to a service provider and then data management is being rented back. On the other hand while outsourcing generators and buying back electricity does imply low lever of security, with cloud computing this is the number one concern. The key risks around cloud computing are: 1. Uncertainty about data security in the Cloud Environment. 2. Challenges to integrate cloud with the current IT infrastructure and 3. Risks of data security and loss after ceasing contract with service provider.

<u>Solutions that Cloud Computing can offer</u> (based on Humphrey & Kogan, 2010)

- Offer opportunities for increased collaboration

- Offer one version of the truth in terms of critical data used in accounting and analysis

- Offer price flexibility that allows IT costs to more closely correlate with business expansion and contraction

- Offer a shift in costs from up-front Capital Expense to ongoing Operating Expense

<u>Solutions that Cloud Computing can not offer</u>

- Remove the need for good business processes and practices

- Remove the need for comprehensive due diligence when selecting a technology provider and remove the need for diligent implementation plans and related expenses

- Remove the need for all internal IT staff

- Remove the need to stay focused on data security and related risk management issues

Why is cloud computing is particularly appealing to Finance? It is related to the higher efficiency achieved via economies of scale on data management on the service provider side, resulting in lower operational costs for its clients. Furthermore, expenditure moves from capital investment to operating budgets.

The main types of IT infrastructure that are relevant of every organizations are IT generic (e-mails, instant messaging), business generic (internal Finance or operational systems) and business specific (e.g. manufacturing software, customer data). The main advantage of cloud computing fits towards IT generic applications where high volume pay-per-use offering can drive cost and efficiency savings. Also cloud computing is often already used in business generic IT functions such as HR, payroll or Finance where high volumes of data is managed and where the main economies of scale benefits could be achieved. For business specific applications (core banking, insurance systems or point-of-sale for retail) security requirements are far higher then for normal businesses, which, the mainstream of cloud computing service providers are unable to fulfil currently due to security and flexibility issues. Mass data management can provide economies of scale but with compromises on flexibility as it puts scale and uniformity first.

Therefore, those who are specialized for these special customers can perform these tasks with significantly higher cost then their mainstream peers. While the principles of cloud computing suggests the users that they are more secure and protected in the cloud then on a PC or local server as the risk of malicious attack, damage from malware, or other data loss is dramatically reduced. Although this is true, however, cloud computing providers face security breaches of different scale as well. The Wikileaks breach (Ukman, 2011) and the Sony online gaming database thefts (Kageyama, 2011) are recent incidents that might undermine trust in online data security and can throw back cloud implementation with years. Cost savings gained from shifting to external clouds could be in the range of 50 percent of a companies hosting cost (Corless 2009.). If the cost savings are passed along in the pricing strategy for the company market share improvement could be achieved as well. Further to the cost savings cloud computing can decrease the time to market while providing more flexibility. By enabling greater responsiveness to customers needs and reacting to changing market and economic changes make the IT infrastructure become a strategic advantage. In the cloud computing set up the service provider (host) is responsible for data protection, resource provisioning, patches, updates, users administration and server maintenance. This means the business can redeploy resource previously allocated to these tasks, improving return on investment and, often, employee morale. The key point here is that many of the Finance resources that were busy with information system related upgrades, administrator or security tasks could be freed up and deployed to more value adding activities such as business partnering. This makes cloud computing an enabler of business partnering and strategic Finance.

Smaller business moving towards clouds

Cloud computing had started off by the big multinationals thriving for operational cost decrease via increased efficiency and lower capital investment needs. Currently cloud computing is in the interest zone of more many SMEs maintaining an IT infrastructure requires significant expertise and effort. Accordingly efficiency improvements and savings improve their bottom line more significantly as well.

With cloud computing most of the data gathering and maintenance are outsourced to the service provider so Finance can truly spend their time on more value adding analysis and getting business insights.

Summarisingly, it can be concluded that there is further opportunity for Finance in outsourcing by both increasing effectiveness and efficiency. Driving costs down and profits up will help becoming more competitive on the long run. Outsourcing would not be limited to process outsourcing but with new technological advances (e.g. cloud computing) data infrastructure and analytical capabilities could be taken to entirely new levels and ultimately help moving towards Strategic Finance.

However, as a word of caution, regardless of the opportunities outlined above, outsourcing is not general solution to any companies and should be executed only after careful consideration and analysis (Porter, 2001). Recent example of Colgate-Palmolive[6] supported that major unsuccessful outsourcing could be reversed and brought back in house again in case the outsourcing arrangements prove to underperform the in-house solution.

[6] Colgate–Palmolive decided to in-source its Financial Shared Service operations recently

2.4 Risk Management

2.4.1 The importance of managing risks

Taking risk is inherent part of doing business. However, taking risk without mitigating actions would be gambling (Crouhy-Galai-Mark, 2005). The increasing levels of uncertainty, fierce competition for resources and markets and corporate scandals demands businesses and their stakeholders to create risk management programs.

Although there is higher focus on risk management studies show (Deloitte & Tohmatsu 2004.) that still a minority of companies have a formal enterprise risk management (ERM) program in place.

The recent Global CFO Study (IBM, 2008) has shown that 52% of the respondents had risk management programs in place versus the 43% five years before, which implies at least a growing trend. This also linked to the fact that legislative responses also addressed the problem. For most companies corporate governance is becoming a focus area. Without a doubt, good corporate governance is an advantage for all stakeholders, companies could access cheaper capital, investors would get enhanced shareholder value and for employees it provides job safety. However, the lack of strong governance could lead to lack of controls and ultimately corporate scandals such as Enron, Parmalat, Worldcom and others. Hodges (2006) defines governance as: "the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it." David F. Larcker (2005) writes that "Corporate governance generally refers to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control." According to the International Standard on Review Engagements (ISRE), the term 'governance' describes the role of persons entrusted with the supervision, control and direction of an entity. These include the directors (executive and non-executive), the members of an audit committee, the partners, owners or equivalent persons responsible for directing the entity's affairs and preparing its financial statements. The USA and the

UK have started a convergence project on corporate governance in 2005. As a key step forward the Institute of Chartered Accountants in England and Wales (ICAEW) has published the Emerging Issues paper at the 'Transatlantic Roundtable' in London in January 2007. Shortly afterwards, a report on 'Pressure Points' were issued, on the following focus areas: 1. To contrast the US and UK securities markets and the impact 2. To review EU approaches for corporate governance 3. To match corporate governance to investor needs. The report also noted that only 40 out of the 250 (16%) respondents have robust governance systems in place, which is a small minority currently. Making people accountable is a key feature of good governance which could be achieved by providing strong internal controls. However, these controls need to be tested regularly and weak areas spotted and corrective action taken. This brings us to the new era of internal audit.

The roles and responsibilities of internal audit have been changing significantly in the last decades. While it was considered to be the last line of defence concerned with the review of financial accounts mainly, by today it has become a risk management function, focusing on key controls and safeguarding policy compliancy and reputation.

Internal Audit used to be regarded as some kind of "police force" within the companies, investigating theft or fraud. Today internal audits task is about: "governance, internal controls, and risk management" notes Dave Richards, president of the Institute of Internal Auditors (2008). This statement is supported by two other internal audit organisations definition as well. The definition of Internal Auditing by the Internal Auditors Association (IAA) is "…performed by professionals with an in-depth understanding of the business culture, systems, and processes, the internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met." As per the definition by the Internal Audit Service's (2002) Internal Audit is: "an independent appraisal function established by management to review the institution's internal control systems". Internal Audit will objectively examine, evaluate and report on the adequacy of internal control, thus contributing to the economic, efficient and effective use of resources and to the reduction of the potential risks faced by the institution. Internal Audit is a key control mechanism, as well as a service to management at all levels." Accordingly, it can be noted that modern internal audit is mainly concerned about key controls and risk management furthermore, it is integrated into the governance process of the organisation.

Internal Audit has been changing in recent years. While traditionally it was a function mostly concerned with fraud investigation and financial analysis by today it has become a risk management tool. In the old days, traditional internal audit did not have a very positive reputation in the business world. According to Sayer Vincent (2006) auditors have famously been described as the ones who "come onto the battlefield after the battle and bayonet the wounded". This refers to the low-value compliance audit work that was commonly undertaken by internal audit departments. These were backward looking audits, mostly concerned on financial controls and for many points irrelevant for managers. Modern internal audit is a risk based function, mainly concerned with risk management. Its principal task is related to finding and analyzing the risks threatening the organization and evaluating the effectiveness of controls and mitigating actions. It still checks controls, but related to the risks mapped. Modern audit has also a wider scope, while financial controls is still an important area, compliance for all key areas of the business is being audited, such as human resource management, quality and environmental policies, planning and logistics and others.

Many companies' executive committees are looking at internal audit as an important business function (or business partners) whose main job is to safeguard their business. Accordingly, a recent study on internal audit (Deloitte Touche Tohmatsu, 2008) showed that the standing of internal audit has been increasing in the last 3 years, furthermore, 90% of the respondents agreed that the value provided by internal audit has been increasing. For most companies internal audits are performed on a cyclical basis (Gray, Manson 2008) (e.g. each operating unit is being audit once in every 5 years), however, there can be specific audit themes each year, covering an important or emerging issue (e.g. customer management or manufacturing excellence).

The recruitment strategy of internal audit departments has been changing as well. While traditionally internal audit was a start-up job for freshly graduated accountants who were spending weeks on checking ledgers, nowadays the function is recruiting managers with 3-5 years of experience and while still most of its members have a Finance background, recruiters are focusing on getting other important functions such as HR, Supply Chain, Marketing or Sales etc. represented as well. This enables the function to carry out effective audits on areas which are non-core Finance, however, crucial in terms of strategy and risk management.

Furthermore, cooperation with policy makers and external auditors have reached new heights, SarbOx audits are aligned between internal and external audits, and many times resulting in that external audit is incorporating the result of internal audit into their reports rather then re-performing them. In the next chapters the future interactions between modern Finance and internal audit would be examined as well.

Although there is higher focus on risk management studies show (Deloitte Touche Tohmatsu 2004) that still a minority of companies have a formal risk management program (ERM) in place. The recent Global CFO Study (IBM, 2008) has shown that 52% of the respondents had risk management programs in place, which implies at least a growing trend. This also linked to the fact that legislative responses were also given to the problem. The USA was one of the first to adopt legislative measures to protect investors via demanding stronger internal controls from the companies. The Sarbanes-Oxley (SarbOx) law came into force in 2002 and requires all companies listed on the US stock exchange to comply with. SOX section 404 on financial statements (Sarbanes-Oxley Law, 2002): "Issuers are required to publish information in their annual reports concerning the scope and adequacy of the internal control structure and procedures for financial reporting. The law aims to protect investors by improving the accuracy and reliability of corporate disclosures. Failure to comply can result in serious consequences, including fines (up to $10 million), sanctions, and in cases of severe negligence, prison sentences of up to 20 years for corporate executives and board members.

In light of the 2008-2009 financial crisis – starting with the collapse of US banks – one might raise some criticism that even the SarbOx law did not help avoid such a meltdown. The response is three fold, first of all as with all regulation there are companies who will always try to go evade compliance, secondly there is no evidence currently that the lack of compliance was a cause in the collapse of any banks, thirdly without the SarbOx law in place, the crisis presumably would have been worse – as many companies put tighter controls in recent years in response to the SarbOx requirements. However, it should be noted that internal controls and risk management procedures without committed and responsible functions are not complete solutions – this is where strategic Finance comes into the picture as the agent of transparency. Even though if the above surveys suggests that trends are improving on risk management, it should be note that the scope for both global survey is on 'big companies', normally above 100m USD turnover, similarly, the SarbOx law is also obligatory for companies listed on the US stock exchange – which factors implies that risk management could still be an inherent problem for small and mid-size firms. Therefore, their responses to this problem should come from self-driven mindset change to their internal controls and improve governance.

With the changing regulation and governance framework, the tasks and responsibilities of internal and external audit might seem to overlap, however, that is not the case. Internal auditors look at controls and risks threatening the organizations, while external auditors are primarily focusing on financial accounts. Compliance in the context of internal audit means adhering to company policy. For the external audits the compliance is to International Financial Reporting Standards and/or to local regulations. Even though that the scope and the responsibilities of the two audit departments differ, they do use similar techniques, furthermore, they cooperate increasingly. For SarbOx audits it is common to see external audit using reports or working papers of internal audit in order to gain efficiency and cost savings.

2.4.2 The risk management process

All companies manage risk on a daily bases, let it be operational or strategic issues. Even though the way how those risks are being mitigated varies greatly, the key communality is that organizations need to spend more and more time on managing these risks – due to legislative requirements or increasing demand by stakeholders. The Global Risk Management Survey report (Deloitte Touche Tohmatsu 2004), that has been comparing trends of the past 5 years claims that there was a 25% improvement in the ‘executive boards' view on the ability to control risks. Furthermore, by 2004 around 81% of companies claimed to have a high level Chief Risk Officer (CRO) in the board of the company – which is substantially increased from 65% of 2002. Having an integrated Enterprise Risk Management (ERM) process was still a challenge in 2004 still as less then 16% of respondents had such a process in place. By linking this finding to a more recent study (IBM CFO Study, 2008) where 52% of all respondents claimed to have an integrated risk management process) the growing attention to risk management could be spotted.

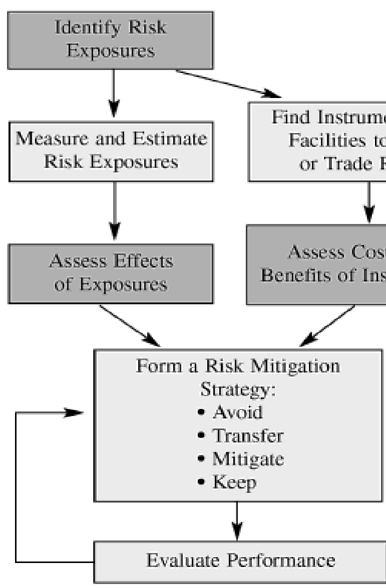


Figure 6. The risk management process. Source: Michel Crouhy, Dan Galai, Robert Mark (2005)

The increased risk management efforts (modelled above) triggered the need for internal audit to carry out checks on risk and compensating controls.

2.4.3 Embedding risk into decision making

As a result of the increasing regulatory and investor pressure many companies started to implement enterprise risk management (ERM) programmes. Unfortunately this gives a false reassurance to the public as some still do not understand that ERM is the tool and not the solution itself. ERM is great in providing structure for the risk management approach, fosters documentation and monitoring but would never be able to replace common sense of consideration of risk taking when making decisions.

In Risk Intelligent enterprise, decision makers understand the risks embedded into all the decisions that are being made. Furthermore, with integrating the risk management into the decision making process can shift the enterprise from risk reactive to risk proactive (Epps-Deloitte, 2009).

The Risk Intelligence maturity model of Deloitte Touche Tohmatsu Limited (2009) captures the key stages that companies go through in their evolution of risk management.

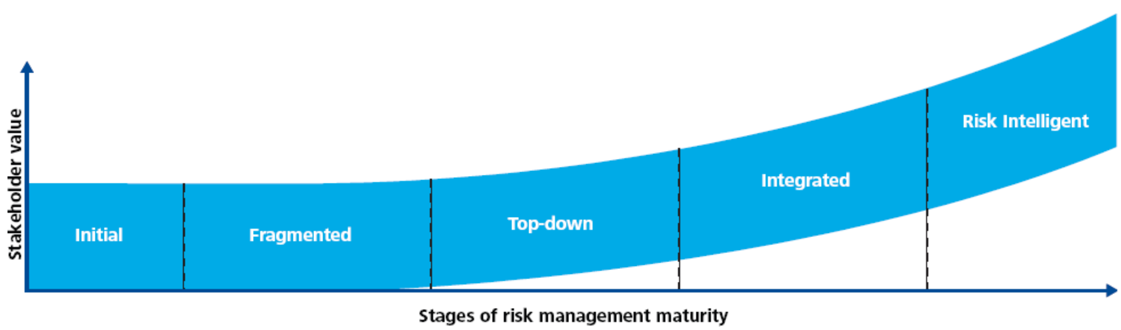


Figure 7. The Risk Intelligence maturity model. Source: Deloitte Touche Tohmatsu Limited (2010)

<u>Initial</u>: risk management is ad hoc and depends on individuals heroic approach

<u>Fragmented</u>: risk definition is not standardised across the organisation and risks are managed in silos. There are limited linkages between risks and alignment of risk strategies.

Top-down: risks definitions are standardised, risk assessment or organisation wide. Action plans in place for high priority risks. Senior management is involved in risk management process.

Integrated: risk management activities are coordinated across the enterprise. Risk analysis tools are developed and communicated. There is an ongoing risk assessment process with monitoring, measuring and reporting.

Risk Intelligent: risk discussion embedded in strategic planning with risk modelling. Early warning systems are in place that automatically flag issues when reaching established limits and notify senior management. Risk management is linked to performance measuring and incentives.

The growing importance of risk management is supported by the fact that Standard & Poor's includes risk management (ERM) as part of their credit evaluation procedure (Beasley- Branson-Hancock V. 2010. The Security Exchange Committee (SEC) is also demanding public disclosure of the board's role in risk oversight.

2.5 Business Partnering

2.5.1 Change in mindset

If we were to describe the company as a ship, the Finance function would have sit in the back of the ship in the old times and was busy recording what happened (Banham, 2011). By now the Finance function should be standing on the bridge of the ship and looking forward and help steer the ship to help manoeuvre away from icebergs.

Traditional budgeting processes have the main weakness Byrnes (2011): 1. Lack of granular profitability information and 2. Lack of granular coordination. The lack of micro-level profitability information and profit mapping makes coordination of profit flow more difficult. This lack of coordination results in duplicated efforts to manage revenues and profitability. However, Finance business partners are rightly placed to help overcome these issues.

From the business point of view time spent on analysis is more valuable then data gathering and reporting. Still most companies spend too much time on data gathering versus analysis. According to the study by Harrin (2010) best in class companies spend 60% on data analysis and 40% on data gathering. While average-performing companies spend 55% of their time gathering data – and only 45% doing the actual analysis. The PWC Finance effectiveness benchmark study (2010) shows similar status, where the top quartile of companies spends 59% on analysis and 41% on data gathering. As long as Finance professionals spend their time on data gathering and reporting instead of analysis and providing insight they will add less value to the business.

The study on Finance effectiveness benchmark by Dilks and Kail (2010.) support that although considerably more Finance functions now regard themselves as true business partners compared to the year before the necessary capacity and capabilities to fulfil this role is not yet available at most organizations.

Backward looking management information does not fulfil the needs of fast-changing business environment. The recession has increased the need that Finance moves into a role of true business partner by adding value beyond the traditional financial responsibilities. Unfortunately, Dilks & Kail survey (2010.) indicates Finance's ambitions often outrun its abilities.

Business partners` core skills should be on understanding, challenging, influencing, designing and executing business strategy and planning. Whenever required they should tailor their roles to enable the process flow most smoothly. This could be achieved by acting as a bridge and bringing viewpoints together; as a translator to make different functions speaking the same language or consultant by providing valuable insights to the business. In order to achieve this business partners should have the ability to understand both the financial elements (accounting principles, compliance and regulation requirements) and the realities of the business world, see the company from both sides, as a holistic organisation, and can advise their non-Finance colleagues accordingly. Business partners on one hand expected to have the ability to explain the non Finance personnel the complex financial principles in straightforward terms. On the other hand be able to assimilate the business knowledge and map that back to the numbers. Finance people tend to overcomplicate simple things and focus on spreadsheets rather then processes and people. Instead of talking Finance language business partners need to speak about Finance in the engineers' jargon.

Business partners can create most value to the business by bringing business insights and improving the quality of business decisions. Business insight activity is defined as comprising the following sub-processes: strategy and planning, budgeting and forecasting, management reporting, business analysis and performance improvement projects (McCorkel, 2010).

Continuing the logic of McCorkel, strategic Finance should focus on helping strengthen oversight, co-operation and accountability across functions and geographies. Moving the Finance personnel who have been freed up by outsourcing activities to analytical and business partnering roles would not be a solution, simply by the fact that most of them are not ready to rise to the challenge yet. One can gain great expertise in accountancy with years spend on this area and becoming a true specialist, however, they would not qualify automatically as true business partner along those merits. Finance functions are moving away from being transactional centres and becoming key strategic business partners, assisting with decision making. The focus on the analytical part should be achieved without overcomplicating analysis but rather supporting the business decision with the right analysis and insight that can help improve decision making quality overall.

Business partners are Finance professionals capable of applying their accountancy expertise to solving business problems, thereby demonstrating their value to the business. Business partnering role should include proactive thinking and low tolerance for poor decision making. There is a gap to fill here as traditional Finance was a rather reactive, backward looking function focused on gathering the numbers rather then analysis.

The fine balance between data gathering and analysis was overshadowed in the past by the problem of data reliability. Organisations should reach the level when there would only one version of the truth exist. This can be achieved by standardization and consolidation of dispersed information management approaches and creating a function that is the sole responsible for data gathering and data clearance. This management information function would aim to deliver consistent, accurate, timely and relevant management information across the functions and the overall business. Furthermore, organization should also come to a level where data is trust in the data provided by other function and discussion is not about the accuracy of the data but rather around the insights gained from the analysis. As noted earlier around 10% of the Finance population could qualify as true business partners, the rest needs to be trained and skills improved. This would require from the companies investment in both time and effort in training these people. Leading edge solutions are to create and embedding Finance academies and centres of excellence within the organisations to co-ordinate training and development.

Splitting the Finance functions into sub-groups along the financial strategy is considered as a good industry practice. These internal groups are knowledge experts (Taxation, Accounting, Supply Chain Finance), information management (Insight and Reporting) and business partners (Decision Support).

Business partners are financial professionals with supportive and monitoring role who act as a contact point within that department who can contribute expert support when required. They can also behave as a constructive irritant when necessary. They do not produce accounts but they resolve problems, reconcile differences and tailor reports to the line managers' requirements.

Modern Finance leads have truly tough jobs nowadays. They are aiming to run an efficient and cost effective division while being proactive and providing insightful business information to support quality business decisions.

According to Berriman (2009) less than 10% of private sector Finance functions regard themselves as true business partners. Nearly half considers themselves as facilitators of the strategic planning process. Almost one third consider them as primarily a reporting function, that is far away from being a business partner. Furthermore, 20% think their role is reactive analytical support to senior management. When business partnering requires proactive and not reactive approach this shows a gap.

Finance is normally particularly strong on hard skills required from their professionals, however, business partner require softer skills, such as communication, relationship management, change management, project management and team-working. Not surprisingly in the world of Traditional Finance these skills are rarely to be found.

In a recent study (Joachim, 2010) only 1 out of 8 Finance managers could be considered to be strategic Finance and businesses partners. The rest may not have the aptitude to develop the broader 'soft' and business skills to complement their core financial skills and does not have the potential to become business partners.

Highly skilled Finance managers and professionals are still spending approximately half their time on transaction processing rather than supporting decision making by management (Cokins-Stratton-Helbling, 1997). Instead Finance people should come out from their comfortable Finance silo and act as forward looking and proactive in engaging with their internal customers.

According to the reputable global professional body of the Chartered Institute of Management Accountants (CIMA) the primary responsibilities of a Finance and business partner (CIMA 2010) are:

- To partner with the Chief Commercial Officer to plan/implement commercial strategies

- To proactively challenge the business with alternative strategies that maximise value

- To partner with the Chief Technology Officer and Business Transformation Director to plan and control budgets.

The role of Finance is as a translator of financial terms and financial measurements into terms and events the business can easily relate to.

Previously traditional Finance had been consulted and invited to meetings to check if budget was sufficient to support a specific decision. However, Finance as business partner should have equal right at the decision making table with a voice that is welcomed to be heard to support better decisions for the business.

Business partners mean different thing at different companies. Financial or business analyst, business or Finance manager, or simply management accountant, are all used as job titles. Matrix-reporting relationships are the norm, usually with a dotted-line connection to the business and a solid line to the Finance and accounting function.

At General Electric the terminology of business partner did not arise as such as Finance has historically been working so closely and integrated with the operational teams (Joachim, 2010).

<u>Behavioural expectations from Finance business partners:</u>

- Be challenging but with a positive mindset

- Understand and relate to the company values

- Feel and make accountability felt throughout the organisation

- Feel motivation to drive positive change in the business

- Collaboration and cooperation with functions across the organisation

- Proactive and forward thinking

- Managing talent and Growing People

Intuitive logic can be more valuable for Finance and business partners than scientific analysis in achieving impact.

According to Epstein and Roy (2007) the key board roles and responsibilities for business partners are accountability (financial issues, corporate behaviour and governance issues). Senior level staffing and evaluation (performance evaluation, selection and compensation, directors` nomination and training), strategic oversight (strategy formulation, strategy implementation, strategy monitoring).

Organisational set up for Business Partfners - Dual reporting

High performing organisations often deploy their Finance business partners in business units with dual reporting lines, creating a matrix reporting structure. While these Finance specialists keep the official Finance reporting line, they increase report into general management as well with who they work on a day to day basis. In the rapidly changing environment the Finance function should create value by providing strategic information as the business model evolves (Bedell, 2011).

As with many change programmes, the business will not pause and wait until all changes are sorted out and implemented. When thriving to become valued business partner the Finance function should aim on both internal improvements while maintain the support to the business (Morrison-Broughton, 2011). Failing one could be detrimental on the other as well. Therefore, these changes should be carefully planned, implemented in stages and with full commitment of the management.

With market changes happening faster then ever before in history, the Finance function is well positioned to advise the business to seek out new opportunities that can maximise the return while using the capabilities of the business most efficiently

(Loughran, 2011). This requires Finance professionals out of the box thinking with proactive mindset. Finance employees need to challenge line managers and create a healthy tension that prompts strong and effective decision making Effective business partners would use a range the skills of teaching, tailoring, and asserting control" (Engler, 2011).

From Finance to General Management

Even though if new top Finance leaders show more commercial acumen, strategic thinking and convincing communication skills which makes them truly capable for deputising the Chief Executive officer (CEO) if necessary (Orlik, 2011). However, moving into a CEO role from the head of Finance is not a natural fit. Furthermore Chief Officers (CFOs) show little desire to move into general management role according to recent study by Badenoch & Clark (2011).

Chasan, Emily (2011): CFO turnover has been slow in 2010 (7.5%) vs. 12.6% in 2009. Many Finance people wished to stay with their companies during the crisis but as the stock market slowly recovers moving will start again. There would be bigger need for good Finance people on the market as many of the top Finance people would be able to retire finally. Furthermore, there would be different skill sets needed as the post crisis period requires Finance people who are able to focus on growth rather then cost cutting.

The head of Finance is voice is considered a catalyst, strategist, operator, steward and armoured with risk-related thinking with respect to risk decision making; and, in some organizations, the de facto chief risk officer (Benassi, 2011). Finance professionals' need interpersonal skills and an enhanced business perspective.

The Finance function generally has great access to information from different functions which makes them naturally well positioned to recognize, manage, and report risks and opportunities to drive risk management process. Accordingly, Finance should have a broad and accurate view of the business that can enable the decision makers make informed and timely decisions. Using technology can be an enabler of this vision by helping providing real-time, precise and easily accessible data (Access, 2009).

2.5.2 Adding value as business partner

The key to become valued business partner comes via becoming a value added advisory service to internal customers. This means becoming operationally engaged role, a consultative business partner, participant in decision-making, strategically oriented and focused on performance enhancement (Bhimani, 2006). The Finance functions should aim be to become both a value added and valued business partner – in this order.

Kaplan (1996) recommended that management accountants should have moved away from being scorekeepers of the past and instead became the designers of the organisation's critical management information systems. Management accountants should also participate in the formulation and implementation of strategy, and help translate strategic intent and capabilities into operational and managerial measures (Kaplan and Norton (2001).

Finance business partners should also provide insights based on the analysis, rather then purely presenting a set of numbers. Dresner (2009) defines insight as "meaningful information, with context, that enables a person to develop perspective and understanding, making the underlying information both relevant and actionable".

As Stephen (1997 put it, "The Finance function is transitionalizing from a transactional historical approach to an anticipatory strategic partnership with line management." Non-core Finance transactional activities are being outsourced or moved to an internal shared service center." This would free up resources in the Finance function that could be trained and coached to move into business partnering roles.

2.6 Information Management

2.6.1 Process and system change

Acceleration of change is faster then ever before in history. Historians claim that it had taken great inventions dozens of years or even centuries to gain universal acceptance (Hock 2002). It took almost 100 years for the knowledge about the smelting of iron ore to move across one continent. In comparison the news about landing on the moon took 1.4seconds to travel around the globe. With the help of internet the speed and availability information entered into new age. If the Finance function wants to be on top of information management revolution it needs adapt to the speed and obtain open mindset for change.

As discussed in the earlier chapters streamlining operations and standardizing processes are high on the Finance agenda with the aim to free up more time for insight and analysis. According to the "Finance effectiveness study" (Dilks & Kail, 2010), there are particular concerns on whether the Management Information (MI) is sufficiently meaningful and forward-looking to drive business decisions in an increasingly complex and uncertain business environment.

Enterprise Resource Planning (ERP) is a way to integrate the data and processes of an organisation into one single system according to the definition of Hatherly (2003). According to Butler & Muldoon (2010), the integrated Enterprise Resource Planning (ERP) should act as the backbone of financial and operational systems, reaching into all areas of the business and the value chain. A good ERP system must support, not constrain the companies ability to execute business strategies. The problem with traditional standalone financial systems is that they automate only a single business function and not an entire, cross-functional business process. This requires manual, labour-intensive processes, such as re-keying data into separate systems.

The key drawback of the previously widely used legacy systems were that they were too rigid and therefore could not react to the changing business requirements.

Higher efficiency and lower cost could be achieved by investing into sophisticated business information and analytical tools. Leveraging the possibility to combine financial and non-financial and use same platform for collecting, storing and analyzing data.

The amount of data that Finance has been using has extrapolated in the last 20 years (Ventana, 2009). Technological responses to these challenges were moving towards automatisation that decreased time and eliminated manual errors.

The biggest challenge that most companies still face with management reporting is obtaining a single version of the truth capable of providing a timely, relevant and reliable basis for decision-making. In the recent PWC study (2010) it was noted that only 46% of companies use a single application for financial reporting and only 23% use single application for management reporting.

Financial crisis can also help Finance to take tough calls that were not preferred before (Bishop 2010). Leading companies are using the spending pressures as a catalyst to drive progressive changes that may have previously faced too much resistance within the organization.

Automation can have multiple advantages, manual errors decreased or eliminated, increase processing speed and last but not least allow Finance to devote time to value adding activities and gain real insights. World class Finance organisations are also adept at keeping their performance indicators as simple as possible.

2.6.2 Reducing the reliance on spreadsheets

Finance professionals are big fans of using Microsoft Excel – which is a useful tool for dynamic modelling, however, not able to perform enterprise performance management (EPM) tasks. Still many companies put too much reliance on while performing reporting tasks with it. According to O`Rourke, (2008) the risks in the spreadsheet-based reporting processes lies with the lack of control, vulnerability of errors, and the fact that it does not provide adequate audit trails. The consolidation modules of today's EPM software suites typically support multiple accounting standards (U.S.-GAAP, IFRS, and so forth), provide validations and controls over the process, and can handle the collection of both financial and nonfinancial metrics, including sustainability metrics.

Patel (2006) suggests that the use of an integrated ERP system can help Finance become a more strategic function. With more and more integrated processes, planning and reporting cycle times are reduced significantly, which can speed up information reaching decision makers and accordingly improve overall decision making in the organization.

2.6.3 Moving from legacy to ERP systems:

Old legacy systems were developed to provide information mainly on a product basis (Joachim 2010), while today business demands are to analyse the portfolio split into channels, customers groups, which requires much more granularity of information that those systems were designed to deal with.

On the other hand Integrated Analytics (Schroeck 2001) helps the Finance function to aggregate, analyse and share information within (and outside) the organization.

Historical data for any product group or geographies would be available with a touch of a button to anybody baring right access levels and without Finance's becoming a courier of the information.

According to Schroeck (2001) one of the key challenges when considering on implementing an end to end information management software is the potential overlap with already implemented systems that are in place like supply chain management (SCM), customer relationship management (CRM). As in many companies these systems were implemented on top of old own legacy systems many of the new ERP systems would have an overlap with the still well functioning SCM and CRM.

However, latest technology softwares allow combining traditional financial measures (revenue and cost) with CRM information (customer history) and applying predictive modelling tools and techniques.

In many functional areas predictive analytics is implemented as one-off research projects where the findings are reported in PowerPoint presentations and the recommendations are implemented as rule based policies. According to Walker (2011) the aim of a good Enterprise Risk Management system is to integrate isolated silos of information and provide powerful analytics that can help faster and better decision making

2.6.4 Enterprise Risk Management vs. Information Management

Enterprise Risk Management systems have limitations. While they can improve efficiency in transaction processing but their decision support, performance management and ad hoc analysis capabilities are very limited. Therefore Excel is widely used today to help connect and analyse information for these tasks.

According to Laney (1999), the priorities of a Finance system are:

1. Streamline transaction processing,

2. Centralise and standardise core financial applications.

3. Build consistency between financial and non-financial data.

With the technological advances of Enterprise Risk Management system today Finance has a unique chance to lead the change and become a truly strategic function of the enterprise. Companies that invest heavily in advanced analytical capabilities outperform the S&P 500 on average by 64%. (Davenport 2010). Furthermore those investing heavily in analytical skills and adopting an analytical mindset recover more quickly from economic downturns.

Enterprise Risk Management systems are widely used today, 71% the best-in-class class companies has an ERP system live and running and even in 54% of the average companies has one. On the other hand the situation is less advanced on having a Enterprise Performance Management application as even amongst the best-in-class companies there is only 31% who obtains one and the average companies score similarly (25%).

2.6.5 Information Management

On time and precise financial reporting was never an easy task but with the increased regulatory changes and shortened deadlines financial statements are more prone to errors then before. Unfortunately, errors found out in the financial statements could result in requirement for a restatement. A recent study on the consequences of restatement of financial reports found that, on average, the stock price drops by 10% in the three days following announcement of a restatement (Finley & LeBlanc 2008).

With integrated systems in place the risk of manual errors are inevitably lower. The information flow is faster and traceability becomes easier. This could help reports become more accurate with less resources being used. Accordingly, the time freed up time could be used elsewhere on contributing to strategic insights.

The attributes of a good info management system are captured below (Patel, 2006):

- *A single source for financial information (a prerequisite for managing business processes beyond financials more effectively)*
- *More timely access to accurate data, improving communication between Finance and operations*
- *Increased alignment between front- and back office applications, enabling management to better administer and track business strategy and decisions*

 Reduced cost of compliance with industry regulations (e.g. (U.S. Financial Accounting Standards Board and Sarbanes-Oxley)

 Improved security and controls and reduced risk of contractual and regulatory noncompliance

 Improved predictability, particularly with budget

Figure 8. Attributes of a good info management system Source: Muellers-Patel, 2006

2.6.6 Analytics

Analytical power also means having closer control on information. While in previous historical periods the focus was on controlling physical resources, like land, gold or oil (Thurow, 1999,) nowadays controlling knowledge can be more precious.

Analytics are not used to their full potential (Davenport-Harris (2010) which is due to lack of coordination rather then data availability. Analytics can be used effectively to monitor and reduce risks. Being analytical can provide decision makers tools to understand the dynamics of their business better. Analytical testing can provide clarity if the corrective actions reaching the desired outcomes or the results are prone to random statistical fluctuations. With more uses of analytics patterns in market changes could be detected earlier and the risk mitigating actions could be launched earlier. (Davenport-Harris (2010)

Right metrics that support the targets are extremely important. A number of corporate scandals have arisen from the strong temptation to fudge the metrics to get rewards (Ken, 2011). Focus should be on developing dashboards that encourage an appropriate level of risk taking and reward good decision making. These dashboard should be monitoring non-financial measures of performance as well as financial data (Walker, 2011).

On the other hand analytics could be misused as well shown by the recent crisis. Banks used analytics to issue subprime mortgage loans. During the crisis many firms continued to make loans although a close analysis on their accounts would have suggested that many customers were beginning to default on them (Hansel, 2009).

Business Intelligence is all the capabilities required to turn data into intelligence and getting the right information to the right people at the right time through the right channel, as per the definition of (Miller et al, 2006). To enable this, new sources, channels, and applications are being created, automated, and accessed every day.

In the post crisis world focus for Finance would be to strengthen the analytical, decision support and EPM process capabilities in the organization. Improved forecasting also tops the agenda to ensure that organizational resources are used most efficiently (Dorr et al, 2011). The strengths in transactional processing and accounting remain important today, however, not enough to react to the business environment that is changing. This necessary focus on the fundamentals prevents CFOs from playing as big a role in broader corporate strategy as they would like.

More analytics and more use of it can result in competitive advantage and the Finance function can lead this. Companies are becoming more analytically mature and are developing greater analytical capabilities. Many companies are also creating a context for analytics, with analytical cultures and processes. When companies compete based on analytics, analytics is having a positive bottom-line impact. However, for all its potential, analytics is not yet having a major impact on the quality of corporate decision making. This is the untapped potential: using analytical capabilities, culture, and processes to make better decisions. Those who view analytics as just reporting on past performance don't understand the full scope and value of analytics.

The five stages of analytical development of the organisation is shown in Davenport's (2010) model in Figure 10.

Stage 1 – Analytically Impaired. Executives aren't asking analytics questions.

Stage 2 – Localized Analytics. Pockets of analysis exist in localized silos, but the focus is on the past rather than the future.

Stage 3 – Analytical Aspirations. These firms see the value of analytics and prepare a detailed road map to move from descriptive to predictive and prescriptive analytics.

Stage 4 – Analytical Companies. These companies are highly data-oriented and make use of analytics, but lack a top-level, passionate commitment to competing on analytics.

Stage 5 – Analytical Competitors. These "Zen Masters" use analytics as a competitive differentiator. These analytical competitors have proven that the use of analytics is linked with positive bottom-line results.

Figure 10. The 5 stages of analytics. Source: Davenport, 2010.

The road to economic recovery will be slow and bumpy. So might be the reparation of the function's reputation and gaining back trust. There is a shift in changing pressures on the way. Aligning sales forecast with overall business revenue and cost forecast is utmost important to avoid the situation when teams are working totally different expectations (Castellina & Hatch, 2011).

ROI on analytics

Analytics and improved decision making by using analytics is in more focus then ever before, however, still many companies do not put it on top of their agendas. The reason for this is that the results on the return on such investments are mixed. According to a recent research (Rich–McCarthy–Harris, 2010) only 1 out of 12 companies considered to achieved the expected return by using analytics.

Performing analytics well requires cross functional collaboration. However, organizational silos that grow and develop as organizations grow can be the main blockers of analytics culture (Jeanne – Accenture, 2010).

Looking into the future of IM

Using the Information Evolution model of Davis, Miller, and Russell (2006) of the five levels of the hierarchical and reflect the aspects of maturity across the four dimensions.

The five levels of the Information Evolution model are operational (level 1), consolidation, integration, optimization, and innovation (level 5).

Level 1: The Operational Enterprise Most small businesses, start - ups, and silo - based companies operate at this level. With a focus on day - to - day tactics, information access, analysis, and implementation are not standardized.

Level 5: The Adaptive, Innovating Enterprise: where innovation is the distinguishing competency of organizations at this level as these organizations are continuously seeking ways to reinvent and transform their value proposition. This level has integrated "intelligence architecture" that enables the organization to react fast and effectively to needs of the organization. Intelligence architecture "is an advanced combination of analytic tools allows new ideas to be tested and perfected in a virtual environment" This allows the enterprise to simulate new ideas and model risks in a real time enterprise wise basis. Another key feature of level 5 is the way it encourages innovation at the highest levels aiming to reduce time to market significantly.

The level 5 culture embraces whole - brain thinking. Processes are designed to facilitate creativity and support an intuitive flow of ideas. Constant change is the norm. Inquiry and collaboration as tools for innovation are embedded in all aspects of the Information Model to ensure sustainable and consistent success. According to Davis et al, no organization has truly reached Level 5. Some have pockets of Level 5 competencies, but most organizations find it difficult to deal with constant change.

It is noted that Level 5 is more and endgame then current reality for most companies as currently around 70 percent of the organizations are operating below Level 3. (Integration) implying that there is significant room for improvement still.

Most inefficiencies in Finance are coming from spending too much time on data gathering and verification instead of analysis. Multiple and non-integrated systems existing at the same time create confusion by providing several set of numbers for the same measures. The ultimate target is to create a single version of the truth arising from one single system and available to all people needed at the time of their needs.

Complex ERP and IM systems are the key with integrated scenario planning so that not only past performance data would be available but capabilities to model the future implications of 6P decisions.

Growing importance of Environmental and Sustainability reporting

Environmental and sustainability reporting are expected to grow importance in the future and the Finance function should be ready to play a leading role in it. The European Union's legislation is currently being reviewed around sustainability reporting, however, many EU countries took the initiative and individually created legislation mandating environmental disclosures and social reporting.

Similarly many companies have already committed themselves to include environmental and sustainability indicators in their annual reports or issued dedicated reports on these topics, such as GE, Motorola, Unilever, Intel, Wal-Mart, Citigroup, Polaroid, Target, Toyota, Ford, GM and others.

Standardisation on this area has already started as well. The professional body of Global Reporting Initiative (GRI) is emerging as a standard developer on sustainability accounting and reporting practices. Many of the global corporations already use the GRI system of social, economic, and environmental accounts and metrics. GRI is an offshoot of the United Nations Environment Program, intended to develop sustainability indicators for the private sector. At the starting year of 2006 there were 500 companies who joined the GRI and by 2010 this number has exceeded 1500 (GRI, 2011).

Finance's link to the environmental and sustainability reporting is not purely linked to its reporting role but to the long term strategy of being a valued business partner.

Changing Role of the Finance Department

The evolution of Finance in the last decades has speeded up and went hand in hand with the evolution of the business world. Driven by investments in enterprise resource planning (ERP), shared services and changes in its reporting role, most Finance functions are becoming more efficient – requiring fewer resources to manage them and closely aligning with the company's business structure (Schroeck 2001).

This is especially true in the area of transaction processing where improved automation of financial transactions has enabled Finance staff to expand their role and spend more time supporting decision-making processes, rather than just processing and reconciling transactions.

The quality of decision support is reaching new heights as more and more global organizations are integrating and standardizing their business systems and processes, which allows the end users to update and obtain financial information from any geographic location. By the millennium Finance functions have became smaller, nimbler and faster (PWC, 2010).

Finance professionals can't be too cautious and focusing solely on the risks nowadays. Otherwise, they would be considered as bean counters, the tag that Finance was fighting to get rid off in the past years (Barber, 2009). In the past Finance was about focusing on controls but nowadays the key is challenging operations and strategical thinking is the key.

The evolution of financial analytics has been driven by the emergence of new business models (Schroeck 2001) and business processes, advances in technology and competitive environment, presenting the Finance function with tremendous opportunities and challenges.

Business Processes

The shortening of the monthly financial closure period provides a good example on the evolution of the business processes. Finance used to be sole the owner of the numbers and generally all information regarding the organizations financial performance. The monthly financial closure process required inputs from throughout the organization lasted for several days or weeks before the final results became widely available for the non-Finance leaders. By now most organizations measure their financial closure in days rather then weeks. Financial closure cycle takes for the average Finance department 5-8 days while in the world-class Finance functions this would be less then 2 days (Hackett 2007).

Achieving faster close times through active standardisation and simplification can be achieved by successfully integrating back-office processes and information flows across the enterprise by replacing function-based legacy systems with a single ERP system and reengineering business processes and streamlining business transactions. Accordingly, business executives are able to access consistent and precise performance indicators let it be financial or non-financial measures much earlier and with higher accuracy related.

Using ERP system can speed up processes

The potential advantages of implementing ERP systems is supported by research data (Patel, 2006) showing that companies relying heavily on manual processes or spreadsheets could perform annual budgeting on an average of 90 days versus an average of 62 days for companies relying on an ERP system.

According to the Hackett study (2007) the typical company requires 95 days to prepare the annual budget. Companies with world-class Finance departments do it in fewer than 60 days. This would help Finance become a business partner by providing valuable insights and scenario modelling for future decisions. Finance moving from reporting of what towards accurately become able to focus on why had it happen towards helping answer how the organization should respond to the challenges.

According to Schwab (2010) the digitalized and globalised world provides a new challenge for the Finance function that requires a global solution. Finance should not focus on local problems and solution but view the challenges with an international and global mindset. The crisis has proven that similar to countries unable to deal with the challenges locally companies require also international cooperation and cross-border solutions to ensure that neither countries nor complete industries collapse in the next crisis.

Statistical models live their renaissance nowadays. Unilever using Marketing Mix Modelling (with statistical models showing market share movements in relation to changes in the marketing mix (price, promotion, distribution and advertising). Other companies are using statistical models for understanding forecast patterns. Predictive analytics (Ventana 2010) borrow a variety of techniques from statistics, game theory and data mining to improve forecasts of future business outcomes.

It is expected that the use of analytics will remain important in the post recession world as competitive threats are unlikely to ease in the near future.

The key findings on Ventana's research on the importance of analytics (2009):

- It is very important to their business goals to simplify making analytics and metrics available to people who need them

- Quality of data derived through analytics is not an area where many see a strong need for improvement (=confident that data is in quality)

- General data availability is not an issue, however timeliness and availability on hand is more of an issue

- Lacking the latest metrics and KPIs, people at all levels find it harder to take advantage of opportunities, address issues or correct mistakes.

- The analytics process area where improvement is needed (40 percent spend most of their time here in unproductive activities including waiting for data, reviewing it for quality and consistency, and grappling with metrics that are not easily accessible

- Spreadsheets for repetitive analyses and reports to replace them with analytic databases and warehouses, and software for planning and forecasting and business intelligence.

- Nearly 20% of respondents are satisfied with their current analytics efforts and a majority recognize the need to make changes, only one-third are planning to make any in the next 12 to 18 months.

The reluctance in investment is that in general traditional Finance metrics (operational expenses, budget managements, financial results) are found to be being able to handle well - so no urgency is created. However, for the Finance function to expand beyond the narrow viewpoint of measuring past results there is a need of advanced analytical tools that can help decision supports and future planning.

Barriers of making changes are usually related to: 1. Lack of resources (people). 2 Limited budgets for a change programme. 3. Business case that is not strong enough and is low priority comparing to other more burning issues.

The research by Ventana indicates that most in Finance do not see a driving motivation to reach the highest level of excellence in this area. Should it be proven that strategic financial support could be a competitive advantage for the business, the urgency would be more imminent. Also the crisis can help Finance to create this urgency.

Other key findings show that time spent on analytics correlates to an organization's size. Larger companies spend about one-third more time working with analytics than small businesses and they also perform formal reviews on average twice as much.

CFOs regard themselves as conscience of the companies. They question everything but they are rarely being questioned. Who is challenging their models and beliefs – the financial crisis did. (Steffens, 2011).

2.7 The changing role of Finance in the Public Sector

2.7.1 Key differences against private company Finance departments

The economic crisis has been putting extra pressure on all organisation resource including human resources (Farkas, 2009) in all functions, including the Finance department as well. However, reaction to the challenges of the financial crisis was different due to the different original set up of private and public Finance function and also the ambition they aspire to.

Where public Finance departments differs from private finance (Berriman, 2009)

- they spend less time on analytics compared to private Finance
- less motivation to drill down into underlying data
- more concerns on data accuracy
- focus is lesser around competitive advantage or ROI
- client focus is lower, feeling less pressurized on preparing management reports, develop product operating metrics or close their books.

Prior to the financial crisis Finance was not a focus area in the governmental and public organizations due to its structural differences and differing priorities. However, the financial crisis and the related governmental actions changed this drastically. Having sound financial management capabilities in place is seen as being critical to the delivery of effective and valued public services.

Public sector must focus more of its time on providing real insights into business performance. It will only be through demonstrating its capability and capacity as a business partner, which adds value to the performance of its organization.

Vision and challenges for Finance

Recent research (Berriman, 2009) claims that for most Public sector organisations vision either does not exist or if do exist it is defined on the lines of "make an effective contribution to the organisation to help it meet its objectives".

Not surprising that there is little evidence of Public Finance aspiring to be world class, or being challenged to do so. There is also little appetite in the public Finance organizations for external benchmarking.

Finance in individual public sector organisations believes there is little to learn from peer group public sector organisations, overseas administrations or the private sector.

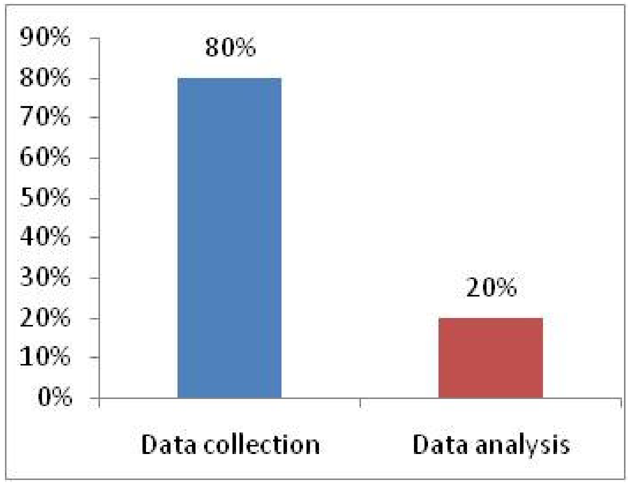
This view contrasts with the private sector, where market forces drive companies to understand and aspire to exceed their peer group to achieve enhanced business performance for their stakeholders. Continued tight Finances into the medium term are a major concern for many public sector organisations.

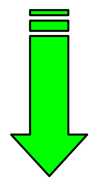
Focus on compliance & control is high (due to the responsibility of handling public money) but this should be done in the most structured and efficient way, otherwise it would create complexity and increase cost.

Private sector Finance directors might come into spotlight during difficult financial situation – unlike in public sector.

Public sector spends only 20% on insight currently but aim to get it to 40% in medium term. Private spends already 40-45% of time on insight.

Time spent on data analysis – Current realty





Time spent on data analysis – Future desired state

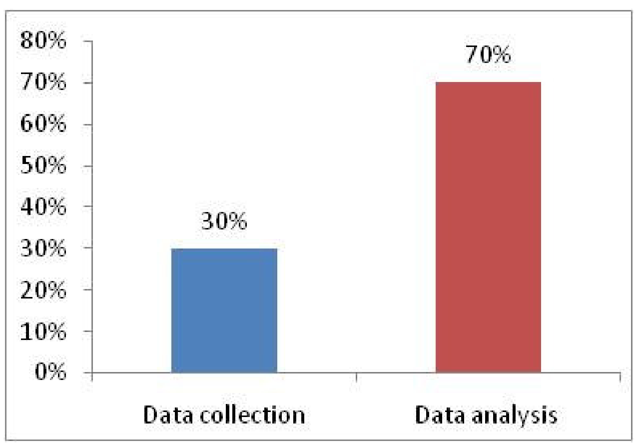


Figure 9: Own research, data partially based on Berriman (2009).

In general Finance is not strong about providing insights (Ventana research 2010): 15% of respondents believe they are performing poorly and a further 45% reported that they are only performing adequately. This is essential so that Finance can become a genuine business partner.

Finance in central government departments often does not have a pivotal place at the top table and their boards have a mixed appetite for transparency of financial decisions and performance. This limits resources availability and talent management as the sector is not able to attract highly qualified and motivated Finance professionals. Competing for resources will be an issue in the mid and long term between private and public Finance organization for talented people.

Integrated operations can result in reduced costs but improved governance and better visibility for senior management. Standardising processes can not only cut costs, but also speed up delivery and reduce *operational risk.*

Standardisation is important to increase overall efficiencies in the financial processes as non-standard processes can slow down the overall cycle time. Recent research (Berriman 2009) shows that there is a long way to go as less then 15% of the end-to-end transactional processes (e.g. purchase to pay) has been standardized.

Although Finance professionals are considered to be one of the most loyal in the company recent survey result shows (Polishchuk et al, 2010) that commitment is decreasing (only 50% is committed) and retention rates are worrying as well (30% are planning to leave their jobs in 12months). Moreover, significant share of the people who are considering leaving are in fact the high-performer Finance people.

Those companies that have not outsourced or automated their Finance departments but assembling data from non-integrated systems are losing on effectiveness and efficiency (Cokins-Stratton-Helbling, 1997). Unless this issue is addressed it can result in competitive disadvantage against their peers.

2.8 Factors effecting the future's Finance function

2.8.1 Cost of Finance

For benchmarking purposes and indirect cost management the cost of the Finance department has been measured as percent of overall income of the company.

As a result of increased focus on cost cuts and reorganisation this ratio has been decreasing significantly in the last decades. Average cost of the Finance department in 1988 was 2.2% and by 1996 it went down to 1.4% as global benchmark. However, world class Finance was already 1% in 1996 becoming 0.8% by 2006 (Patel, 2006). The low cost base for the world class Finance departments not only can provide competitive advantage on indirect costs but also more stress tolerant of top line (revenue) fluctuations (Jensen, et al, 2011). This can provide further competitive edge and increasing the gap between the world class and the average.

Looking at the industry split it is also noted that Larger Companies Spend Less on Finance. Average Finance cost as a percentage of revenue (Manufacturing companies: >5$ billion = 1%, less then 1 1$billion 1.6%). Service companies: >1$ billion = 1.6%, less then 1 1$billion 2.1%, according to Patel, 2006). Furthermore, world class Finance has 1 system per process, while the average has 2-3 (Hackett, 2010).

The key attributes of world class Finance organisation are as follows (Dilks-Kail, PWC, 2010)

• Clear focus on providing business insight, top performers reporting 30% more full time equivalents (FTEs) on this than the typical (median) Finance function

• Greater investment in business partnering capabilities

• Better use of high value specialists' time achieved through standardisation of data models across markets and within business units

• Investment in sophisticated business information and analytical tools

• Combining financial and non-financial MI and developing simple and transparent metrics to align financial performance with the delivery of strategic objectives

• Transferring much of the routine transactional activity to consolidated service centres

• Achieving faster close times through active standardisation and simplification

• Strategic approach to cost management that distinguishes savings opportunities from spending that is needed to sustain the delivery of business objectives.

Finance's effectiveness is also improving

Effectiveness for finance can be measured by the cycle time days it takes for closure of the financial books. Financial closure cycle takes for the average Finance department 5-8 days. In the world class Finance this is less then 2 days (Hackett 1996). Finance staffing had decreased by approximately 9% during the past two years, with the largest reductions occurring in the transaction processing areas. Larger companies benefit from economies of scale in both the manufacturing and service sectors. Companies with more than $1 billion in revenues report 20% to 40% lower Finance costs than smaller companies. Awareness of the need of change could be raised by using these benchmarks cost % of revenue for Finance. With effects on the bottom line could be visible business case of change proposal could get approved easier.

The Profile of the 21st Century Chief Financial Officer (CFO)

The Chief Financial Officer is top Finance executive in an organisation and – in many companies – acts as the deputy of the Chief Executive Officer (CEO) or equivalent.

According to Dyer (2011) the modern CFO is a "highly educated, highly skilled and highly motivated, 42 years and eight months old male who's worked in Finance for most of his career. He believes that five years and 10 months is an appropriate tenure for any one role and is most likely to hold either a degree in Finance, an MBA or a chartered accountancy qualification." Although in general diversity is encouraged in the

Finance profession at the top positions Dryer's study shows the males have a higher representation currently.

As the CFO is the deputy of the CEO in many organisations one might assume that he/she aspires for the top job and wish to become a CEO on the long term.

However, the findings of Ernst & Young 2011 study (*The DNA of the CFO*) proves the contrary. As per the study, 73% saw their role as a career destination of its own with just 10% aspiring to be the CEO.

Finance's role has broadened during the crisis, they influence the corporate strategy which gives to most a higher level of career satisfaction. They become face of the business and their priority is to increase financial trust in the business, many CFO see their role as going far beyond being an 'information provider' or 'aggregator presenter' (Clifford 2011).

The crisis has taken the tall on financial professionals turnover across the industry (Stuart 2010). Only 13% of all Fortune 1,000 CFO seats turned over in 2009, down from 18% in 2008 and 19% in 2007. Also for the top Finance job there is still 50-50 split of internal vs. external candidates. During the crisis the balance went also towards internal recruits. Taking external candidate has the advantage of coming with an unbiased external view, however, also holds higher risk for failure. Researchers estimate (Stoddard & Wyckoff, 2009) that nearly two third of top executives are being replaced within four years and 40 percent of all executive transitions fail in the first 18 months.

2.8.2 Integrity and honesty in Finance profession

The top finance people are often obliged to be a moral compass for their organization in order to command respect (Kulesza, 2011). This routes back to the early years of the Finance profession when honesty and integrity were the trademarks of the profession.

According to Johnson (1999) integrity is telling yourself the truth, honesty is telling the truth to other people. And when practiced with a lack of integrity, honesty alone provides a poor example for others to follow. "If You Do Not Change, You Can Become Extinct" (Johnson, 1999).

In the crisis that finance has been facing rebuilding the function's reputation on the lines of integrity and honesty becomes more important then ever.

The Finance function is expected to provide more transparency, visibility and control. With the increased regulatory requirement, like Sarbanes-Oxley and International Financial Reporting Standards (IFRS) Finance staff is busier then ever (Somasundaram et al 2010).

<u>Finance as a modern tribe?</u>

Humans have always favoured working in small groups of people with similar backgrounds, outlooks, and goals. These groups are referred by anthropologists as tribes (Dresner 2009). In today's society and business world we can still find modern examples of tribes as corporate department, functions etc. With similar backgrounds and experiences, outlooks and goals, they work together to protect their tribe from outside threats. This leads to modern tribes as Marketing tribe, Finance tribe, HR tribe, so on competing against the others or in direct conflict. On one hand while this sort of behaviour may match well the natural human programming, it does not help cooperation on corporate level. To act as true business partner the tribes should open up.

2.8.3 Transparency and Accountability

While transparency and accountability are important and publicly everybody is in favour of them but hard to achieve them. In business people prefer that others are transparent but they are not and others are accountable while they are not.

“Real transparency means that everyone openly and freely shares information with others, including information about their own performance. In a transparent and accountable organization, metrics have a clear cause and effect relationship and everyone has the information and tools to control their own performance—in harmony with others, not at their expense.” Accordingly, we hold ourselves, and one another, accountable for performance—individually and collectively." (Howard, *2009)*

Common trust data of the future means trusted information source that is not disputed or manipulated. In this world the meeting will not be hold up by debate on data accuracy or source. Meeting participants would come briefed and prepared to the meetings to address problems. Information is accessible whenever the business needs it while freshness and periodicity also reflects the needs of the business.

Dresner (2009) defines four levels of Availability and currency of information.

<u>Level One</u>: Chaotic information alignment. Reports from the operational systems provide only a limited and rear-view mirror of the performance. Spreadsheets are used to piece the data together which causes over reliance on manual systems making the organization prone manual errors more.

<u>Level Two</u>: Information management is consistent and reliable but happens in departmental silos. The lack of integration makes reconciliation on higher levels time and resource consuming.

<u>Level Three</u>: at this stage availability, quality and completeness of information is at high standards, however, freshness and periodicity is not aligned with the needs of the business.

Level Four: The information is as complete as possible, quality and integrity of data are outstanding. Availability, timing and freshness of the information matches perfectly the business needs.

2.8.4 Performance dashboards

According to Eckerson (2005) the definition of a performance dashboard is "a layered information delivery system that parcels out information, insights, and alerts to users on demand so they can measure, monitor, and manage business performance more effectively". Performance dashboard translates the organization's strategy into objectives, metrics, initiatives, and tasks customized to each group and individual in the organization. It provides timely information and insights that enable business users to improve decisions, optimize processes and plans, and work proactively.

Performance dashboards can be enablers of organizational change as they could transform underperforming organizations into a high – fliers. Performance dashboards are genuinely performance management systems that communicate strategic objectives and enables businesspeople to analyse, monitor, and manage the key activities and processes needed to achieve their goals.

The key features of a performance dashboard (Eckerson 2005) are**:**

1. Monitoring: alerts are triggered when performance falls below predefined targets on critical business processes and activities

2. Analysis: helping to understand the root cause of problems by exploring relevant and timely information from multiple perspectives at various levels of detail.

3. Manage: enables the organization to optimize performance via improved decision making.

According to TDWI's research (2010). the number of organizations using performance dashboards has increased from 51% in 2004 to 72% by 2009.

Key advantages of performance dashboards (Eckerson 2005):

■ ***Communicate strategy***. *Performance dashboards translate corporate strategy into measures, targets, and initiatives that are customized to each group in an organization and sometimes to every individual.*

■ ***Refine strategy***. *Executives use performance dashboards like a steering wheel to fine - tune corporate strategy as they go along.*

■ ***Increase visibility***. *Giving executives and managers greater visibility into daily operations and future performance by collecting relevant data in a timely fashion and forecasting trends based on past activity.*

■ ***Increase coordination***. *performance dashboards encourage staff from different departments to work more closely together, and they foster dialogue between managers and staff about how to improve performance.*

■ ***Increase motivation***. *By publicizing performance measures and results, performance dashboards engender friendly competition among peer groups, improving motivation and productivity.*

■ ***Consistent view of the business***. *Performance dashboards consolidate and integrate corporate information using common definitions, rules, and metrics. This creates a single version of business information that everyone in the organization uses,*

■ ***Reduce costs and redundancy***. *By consolidating and standardizing information, performance dashboards eliminate the need for redundant silos of information that undermine a single version of business information.*

■ ***Empower users***. *Performance dashboards empower users by giving them self - service access to information and eliminating their reliance on the information technology (IT) department to create custom reports.*

■ ***Deliver actionable information***. *Performance dashboards provide actionable information while preventing users from wasting hours or days searching for the right information or report.*

Dashboards and scorecards are visual display mechanisms in performance management systems that graphically communicate performance at a glance. The primary difference between the two is that dashboards monitor the performance of operational processes whereas scorecards chart progress toward achieving strategic goals.

2.8.5 The creation of the Chief Performance Officer's role

Performance management, the key indication of an organization's health is so often overlooked in many organizations. CEO's are too busy managing the stakeholders and board. CFO's are overwhelmed with compliance and reporting. COO's have their hands full with just keeping the lights on and getting product out the door. As a reaction to the changing business needs the management functions were recently extended with a new concept, the Chief Performance Officer. Analogous to the Chief Operations Officer (COO), who is responsible for running the business, the Chief Performance Officer (CPO) is the executor of efforts to analyze the business. The Chief Performance Officer lives and breaths on performance of the organization. His or her sole mission is to measure, manage and improve performance. It is more than a full time job, whose time has come (Davenport, 2009). The CPO must be accountable for measuring all areas of corporate performance. In fact, the role of Chief Performance Officer is so critical, that President Obama created a new position as well.

The CPO is responsible for the following activities (Davenport, 2010)

Negotiating and establishing business performance metrics, formulae and thresholds at various levels of the enterprise

Recommending a set of performance-based actions for the COO to implement

Prioritizing and budgeting enterprise and line-of-business strategic performance initiatives

Reporting strategic performance initiative progress and results (returns) to the executive team

Implementing the components needed to collect, assimilate, analyze, and deliver business performance management data."

Figure 11. The responsibilities of the CPO. Source: Davenport, 2010.

By now, several large corporations such as Yahoo, Wyndham Hotels, City of Chicago and NEC have created CPO positions.

As CFOs evolve from Finance officers to performance officers, it is important to become a performance coach rather than a performance critic. CFOs should elevate their interactions with business units beyond performance appraisal. By playing the role of trusted advisor, CFOs drive stretch performance from the business units.

Business partnering also means to avoid data duplication. If a piece of information is available at one source the Finance function should use and share it with other rather then asking for pulling it out from another system.

- *Accelerates closing processes through automation, workflow, and collaboration*
- *Improves business analysis and decision support by providing historical and forward-looking views, including benchmarks*
- *Deploys performance management tools that analyze the company and its resources*
- *Maximizes cash flow through improved billing, receivables, collections, payments, and treasury management*
- *Increases effectiveness of compliance efforts through comprehensive auditing, deeper reporting and management of internal controls (Sarbanes-Oxley)*

Gains:

- *Develop a closed-loop management process of strategy formulation, communication of goals, and measurement*

Monitor the performance of strategic key success factors using external and internal Benchmarks
Use tools that support a financial planning process that integrates global strategic planning and specific operational planning problems in a closed-loop process

Figure 12. Best practices in creating a strategic Finance function.

Source: Muellers-Patel, 2006.

2.8.6 Talent Management

The recent years' increased volatility in business environment showed that companies need to prepare themselves for more frequent expansions and contractions across the global economy. These are inherent part of business cycles where the question is not whether they would occur but rather then when they would occur and with what intensity Weber (1997). In order to react to these volatile changes organisations need to have the best talent on board from all functions. According to Stuart (2010) the combination of increasing automation, new business models, and off shoring has pushed down the average size of a Finance staff by 30% over the past six years. While the demand for Finance talent remains strong, but it is unlikely that volume of Finance staff would increase, it's about a shift in mix rather than an increase in volume.

They key challenges for the Finance profession are identification, development, deployment and retention of Finance talent (Lyon, 2010). With the increased complexity introduced into the business, companies need to review performance with in more granularity then ever before. However, many companies fail measure return on investment or profitability below business unit level. Without meaningful measures of costumer, product and economic profitability the business would be operating in the darkness (Justin, 2007).

Talent management is also addressed by the changes of financial education. With the internationalisation of financial reporting standards there is an increasing requirement for Finance professionals with similar educational background. International qualifications are available from a number of organisations (ICAEW, ACCA, CIMA) and membership has increased significantly in the past years. 2007 = 70.000, 2011 = 183.000 members and students worldwide. While these qualifications are utterly important in the United Kingdom, they have less much significance in France or in Eastern Europe, where the number of members are measured in hundreds only.

The increased criticism of the management schools and their potential role of the global crisis (Coleman et al, 2011) might also mean that the demand for specialist professionals (like Finance experts) will gradually increase again across the industries.

Chapter 3 – The research methodology

3.1 Introduction

The principal objective of the research was to understand the key challenges that the Finance function is facing today on the journey of becoming a strategic partner for the business. After decades of standardisation and the increased participation of in international professional chambers (CIMA, ACCA etc.) the Finance profession is showing signs of homogeneity. As both the Finance profession has become international and so did the challenge around its evolution the research was done on international level with four countries participating (France, Hungary, Poland and the United Kingdom).

To overcome the challenge of cultural bias in international response comparison, anchoring vignettes were used (Gary King and Jonathan Wand, 2007.) to help comparability. Similar techniques are used by UN and OECD surveys.

The main sources of data collection are:

- Secondary research based on already existing data that was collected for another research.

- Primary research is a tailor made analysis created specifically for this research based on interviews conducted, based on questionnaires and review of data

3.2 Primary Research

3.2.1 The research design

The design and flow of research is captured in Figure 13, as below. The first step was the problem definition and the formulation of the Hypothesises that the research is meant to test. This was followed by the pre-survey interviews that drive the content and structure of the survey questionnaires. The questionnaire creation and distribution happened parallel to the desk research on the job descriptions. Collection and analysis of the responses and job description review enabled to come up with the main findings. These were shared and discussed by the post survey control group which completed the analyses. Then the final stage was to test the findings against the original hypothesis created at the beginning of the study.

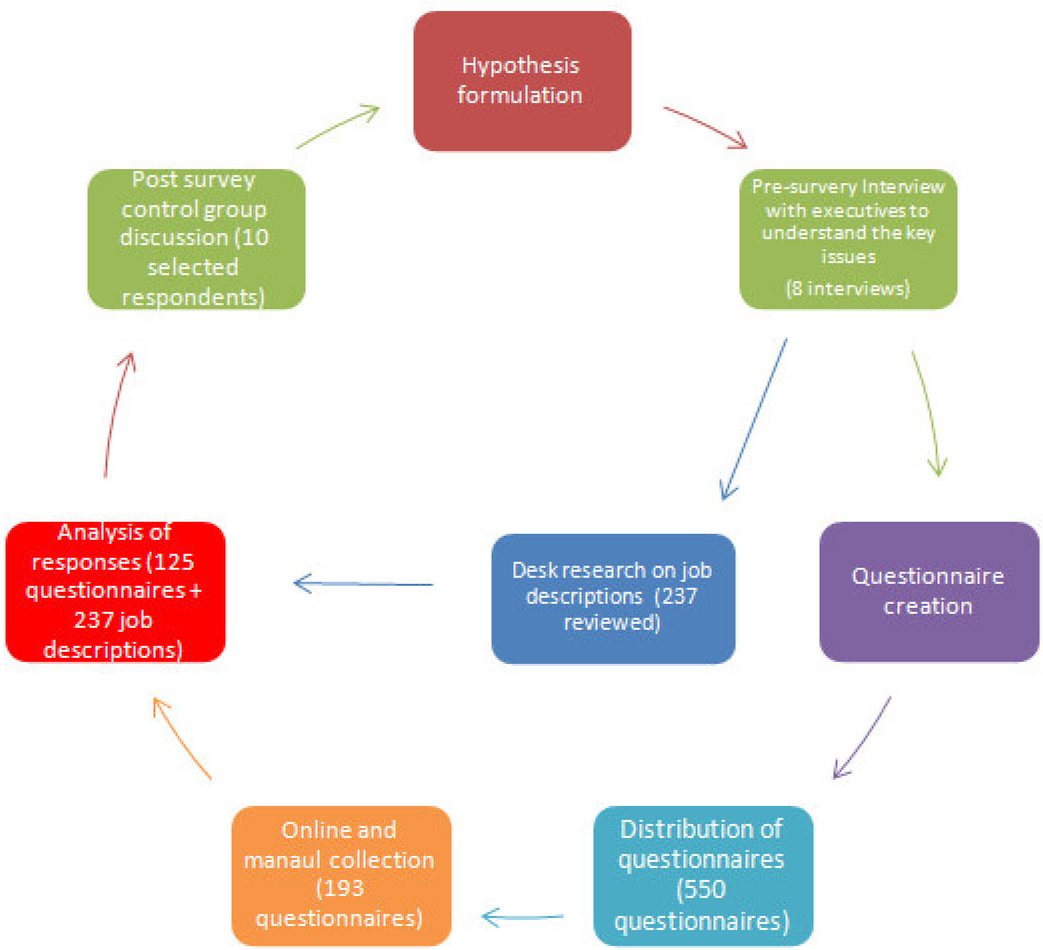


Figure 13. The research model, own work.

3.2.2 The research population

The research was aiming to collect and contrast the viewpoints of the financial and non-financial respondents, therefore in each of the responding companies the approach the questionnaire was sent to the head of Finance and at least two other non-Finance heads of departments (e.g. Marketing/Sales/Supply Chain or HR).

Defining the target population *(based on Malhotra et al, 2006.)*

Elements: Finance managers and directors of international/local companies.

Sampling units: Companies within the below categories and industry:

Size of company: categories with the Income levels as defined below (for private) and Budget levels (for public)

- Less than 1 Million EUR
- 1 Million to 10 Million EUR
- 10 Million to 100 Million EUR
- 100 Million to 1 Billion to
- 1 Billion to 30 Billion EUR
- More than 30 Billion EUR

Industry: The initial survey was planned to be composed with the split of 25% FMCG, 25% banking/financial services, 10% manufacturing, 10% telecom, 10% pharmaceuticals, 10% public & governmental organisations and 10% from other industries.

Extent: In order to compare and contrast the Anglo-Saxon, Continental and Eastern European practices, executives of Hungarian, Polish, French and UK companies` were interviewed in the research. Acknowledging the complexity of international research Anchoring vignettes were used to facilitate cross cultural comparability.

Time scale: The research was carried out in the 22 months period between March 2009 and January 2011.

Respondents: The questionnaire was sent to nearly 550 respondents of the four participating countries.

The initial list of target population's companies/organisations was created as per the above. Then the target population's executives were approached using professional networks, alumni networks, university networks, via intermediators and personal networking. Although a number of international companies participated in the research the responses were accounted for in the local country where their branches were based and not to solely where the headquarters of the company is.

3.2.3 Pre-survey interviews

The questionnaire was constructed following personal interviews with 8 pre-selected Finance executives across the region, where each country was represented by 2 participants. The outcome of these interviews helped shape the questionnaire to address the relevant issues on the challenges of the Finance function.

3.2.4 Research analysis - tools

Following the outputs of the pre-survey interview the questionnaires were created.

Scaling questions were first created and tested with all four cultures and based on these findings the final responses to the questionnaire were re-adjusted.

The research questionnaire was written using MS Word application of Microsoft Company then published on onto the www.surveymonkey.com website.

Survey Monkey is a web based tool with an intuitive web interface tool for the creation of online surveys. The tool allows users to create surveys and export collected data to different formats, including HTML, CVS and SQL (Westin, 2005.)

The analysis and the evaluation of the collected data was conducted through the use of the special EXCEL software by Microsoft and the specialized statistical program SPSS. SPSS10 (originally, Statistical Package for the Social Sciences) was released in its first version in 1968, and is among the most widely used programs for statistical analysis in social science. It is used by market researchers, health researchers, survey companies, government, education researchers, and others. In addition to statistical analysis, data management (case selection, file reshaping, creating derived data) and data documentation (a metadata dictionary is stored with the data) are features of the base software. Then, the collected data should be analyzed and evaluated appropriately. Additionally, the collected data are presented through the use of graphs in order to enable the comprehension of the results.

3.3 Secondary data

3.3.1 Accenture - High Performance Finance Study (2008)

The study was based on surveys from 350 senior business leaders from 30 countries around the world. Key finding (Accenture 2008) is that successful Finance organisation follow shared services model in which the Finance organization is an internal service provider to multiple business organizations within the enterprise. Benchmarking against the Finance organizations of comparable enterprises is critical to measuring success and setting goals for the Finance organization and the enterprise. In the top challenges for the Finance function the biggest single issue defined was “Building the Finance capabilities needed to support an increasingly complex enterprise strategy” supported by 44% of all respondents. Value creation to support strategy (41%) and attracting, retaining and managing Finance workforce (40%) was also in the top priority mentioned by the respondents.

Further relevance to the research was that Accenture's study also highlighted that viewpoints by general management and Finance still differ on how Finance should be supporting strategy formulation. While 57% of general management respondent put strategy as a critical factor to achieve high performance for the enterprise, the same question scored only 27% by the Finance respondents.

The differing assessment of the same matter had been investigated further and verified in the dissertation research linked to the testing of Hypothesis 2.

3.3.2 University of Vaasa (2008)

The study performed by Erkki K. Laitinen, professor in accounting, based on responses from 88 Finance professionals in Finland and Northern Europe.

This study was structured differently from the earlier example as it set out 48 propositions in thirteen areas such as for example: "changes in operating environment, strategic and operative planning, process of strategic planning, future manager's tasks and frame of accounting" etc. The set of propositions was regarded as an iterative theory linked to a future-based approach to Management Accounting research.

Findings of this study suggest that time span for strategic planning would shorten, and would require faster responses from Finance. Need for accounting methods associated with R&D activities will remarkably increase. Need for new accounting methods to measure and improve wide-ranging business performance will significantly increase and cost management would become a much more important management tool.

3.3.3 McKinsey - Global Survey (I.) on Finance (2007)

Survey conducted by participation of 164 current/former Chief Financial Officers. Almost 90% of CFOs reported that their most important task is to be an active member of the management team and make the company more effective. More than half of respondents claimed that they participate in formulating the strategy. As the outcome of the "first 100 days" respondents claimed corporate wide-strategy issues were the 6^{th}

priority on their agenda. However, 72% of them claimed they would have preferred to spend more time in this area.

Furthermore, there was major difference of expectations on the task of challenging strategy, which was required by 52% of the CEO's (as expected by CFOs), while only 29% of Finance staff expected the same. This reinforces the point noted with regards to the Accenture study about different viewpoint of assessment.

3.3.4 IBM - Global Chief Financial Officer (CFO) Study (2008)

IBM had interviewed more than 1,200 CFOs and senior Finance professionals using questionnaires in 79 countries all over the world. Key findings of the study show that CFOs are extremely busy nowadays and therefore they sometimes have difficulties to time prioritise their tasks. The concerning parts that accordingly some important issues would fall the end of the priority list, such as risk management and information integration (see below).

Figure 14/A. Key priorities for Finance Directors/CFOs.

Among other topics, the study also supports that the current business environment is risky, 62% of respondents claimed to have faced material risks with the company in the last 2 years. However, it was noted that less then 52% of respondents have a formalized risk management program.

3.3.5 Deloitte - Global Risk Management Survey (2004)

The study was based on survey responses from the 162 of the top financial institutions globally. Among others the key topics were: Risk Governance; Enterprise Risk Management; Market Risk and Asset/Liability Management; Operational Risk Management etc. The study had been first performed in 2002 so findings of 2004 were comparable and able to provide trends.

Key findings support that there was a 25% improvement in the 'executive boards' view on the ability to control risks. Furthermore, by 2002 an 81% of companies claimed to have high level Chief Risk Officer (CRO) in the board of the company. This shows a substantial increase from 65% of 2002. Having an integrated Enterprise Risk Management (ERM) process was still a challenge in 2004 still as less then 16% of respondents had such a process in place.

When linking this finding with the IBM CFO Study of 2008 (where 52% had an integrated risk management process) the growing attention to risk management could be spotted.

3.3.6 Hackett Study, 2011

According to the 2011 Hackett study on the Enterprise Planning Management (EPM) related priorities for Finance shows that the transformation of Forecasting and Planning is a priority in 2011.

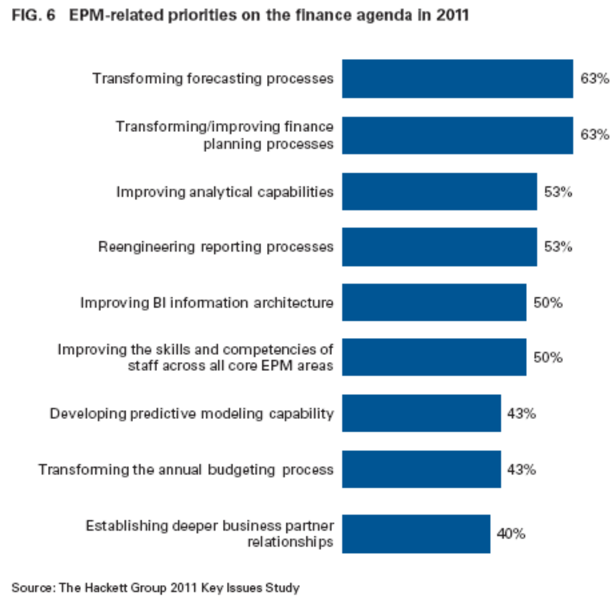


Figure 14/B. Enterprise Performance Management priorities. Source: Hackett, 2011

3.4 Other methodological issues

3.4.1 Post-questionnaire control group meeting

In order to validate the findings of the survey questionnaires and interviews a post-questionnaire control group meeting was held. The key attributes are captured below.

<u>Timeframe</u>: the focus group would for 120 minutes with the moderator being responsible for timely start and finish.

<u>Moderators & Evaluators</u>: the key qualifications of focus group moderators are kindness with firmness, permissiveness, involvement, encouragement, flexibility and sensitivity ((based on Traulsen et al, 2004). The evaluator was taking notes and made observations of the meeting.

<u>Participants</u>: 10 executives in total but chosen accordingly to have each country represented by minimum 2 participants. Also the aim when choosing participants who are highly representative of the total population of the industry examined.

Anonymity: fully respected and even though the meeting's conversations were minited, they were only used for the purposes of the project with no actual reference to the participants.

3.4.2 Ethical issues

Each respondent was explained verbally and via the online questionnaire that participation is anonym and voluntary. Results of the questionnaires would be solely used for research purposes only. The research participants received received no benefits of any kind.

3.4.3 Limitations of the research

The survey applicability was limited by ratio of valid responses received (125/550 = 22.7%). Although a number of major international and local players participated in the survey (e.g. Unilever, Reckitt Benckiser, Coca Cola, Henkel, Heineken, General Electric, Schneider Electric, DHL, GLS, Merck, Copy General, Raiffaisen, Hewlett Packard, British Telecom, MKB Bank, Magyar Posta, Mammut Zrt., Albacomp Zrt.) we can't consider the survey results fully representative as the participating companies market share on average is less then 10%. The only exception is the FMCG industry where the participant's (Unilever, Reckitt Benckiser, Henkel and Coca-Cola) market share exceeded the 10% threshold. Therefore, in the study the results for this segment could be extrapolated and be considered as representative.

3.5 The research procedure

3.5.1 Determine the sampling frame

Source of the information: Professional bodies: UK - Chartered Institute of Management accountants. France – Chambre du Commerce. Hungary – Kereskedelmi es Iparkamara, Bankszovetseg, University alumni networks etc. & personal networks,

3.5.2 Sampling technique

Judgemental sampling used in accordance with the university professor and representatives of the mentioned professional bodies.

3.5.3 Determine the sample size

Size of sample: 40 interviews (10 in each country)

Questionnaires: 550 to be distributed out via direct e-mail

Conferences, Industry and Professional meetings: approaching participants and convince them to the questionnaires and fill out questionnaires or participate in deep interviews

Expected response rate: for the questionnaires the target was set to have a minimum of 20% response rate (out of 550) and 40 deep interviews results to be performed.

Diversity: the aim was to take a random sample of genders, however, when possible to keep a 50-50% of share of the female/male participants in order to represent both genders equally.

Experience of respondents: the aim was to have a representative sample of all levels of experience of the respondents (short term experience: 2-5 years, mid-term experience: 5-10 years and long term experience: 10 years +)

Job levels of interviewee: Operational level = Managers. Middle Management = Senior Managers/Controllers. Top (Strategic level) = Financial Directors / Chief Financial Officers. Same principles applied to the non-Finance participants. All responses to this questionnaire were incorporated into the database against which data from other study respondents were compared. For all respondents anonymity was respected.

3.5.4 Budget

With the limited budget constraints (1500 EUR) the aim was to maximize the relevance and benefits of the questionnaire by using a mix of internet and telephone based solutions as well as personal interviews.

3.5.5 Post-questionnaire control group discussion

To ensure that the questionnaire has been thoroughly understood and responses were given accordingly and to provide opportunities for the respondents to review and change their responses in case of potential misunderstanding of any questions. Furthermore to verify the quantitative results of the second step with regards to the anchoring vignettes in Poland, France, the UK and in Hungary.

The outline of the research is captured below showing the flow through the various stages of the research and analysis.

3.5.6 The research plan

Figure 15. The research plan, own work.

Chapter 4 – The research findings

4.1 Preliminary Research - Review of job the descriptions

Prior to the international survey there was an extensive review of 237 job descriptions of Finance executives across the participating countries. The first phase of this research was conducted during October-November 2009. when job descriptions of Finance executives (Chief Finance Officers, Finance Directors and Financial Controllers) were reviewed and compared in order to assess the expectations towards the job holders.

The sources of information were randomly selected companies from various industries and their related recruitment agencies. During the first phase of the research the 2008-2009 crisis was at its highpoint and most companies fought desperately for survival, which set the context of the opinions and priorities reflected. Accordingly, the key focus areas defined were around strengthening key controls, support restructuring programmes and costs savings while improving cash flow. The second phase of the review has been performed 15 months later (May.-June 2010), which increased the relevance by providing an opportunity to contrast the situation prior and post to the recession.

One of the key changes noted was that a new mentality is being required and Finance should play a role of being builder rather then blocker. However, without harming the stronger controls on cash flow and balance sheets obtained during the recession. Another important change was that small and middle size enterprises (SMEs) are also looking for Finance professionals as dedicated Finance Directors/CFOs, while previously these roles were filled up by many non-Finance people or by double hating. It was also noted that the expectation from the new CFO is not to be a “bean counter” anymore but a real contributor to the development of the company. This implies active participation in strategy formulation and business partnering. Also a proven track record and qualification is more important then ever, in the UK this is a must, while in France, Poland and Hungary – due to the different educational systems - it is rather an advantage in job applications then a necessity.

[redacted]

Figure 16/A. Own research on job descriptions

**Note: The larger representation of the UK does not imply that there are more Finance executives working in the country but to the fact that information made publicly available was higher than in the other countries.*

Figure 16/B captures the key areas of focus for the Finance leaders. The height of the bars showing in what % of the total sample the below tasks scored as the most important (100%) or least important (0%). In the top three we can find team management (99%), reporting and analysis (98%) and forecasting (82%). Driving strategic planning is also important (77%).

It is rather alarming that in the period of financial crisis risk management only scored 49%. Business partnering as such rarely appeared in the job descriptions, however, even if considering it under the "interface between functions" the scores of importance is low again. The lowest importance of task was dedicated to contact with audit (35%).

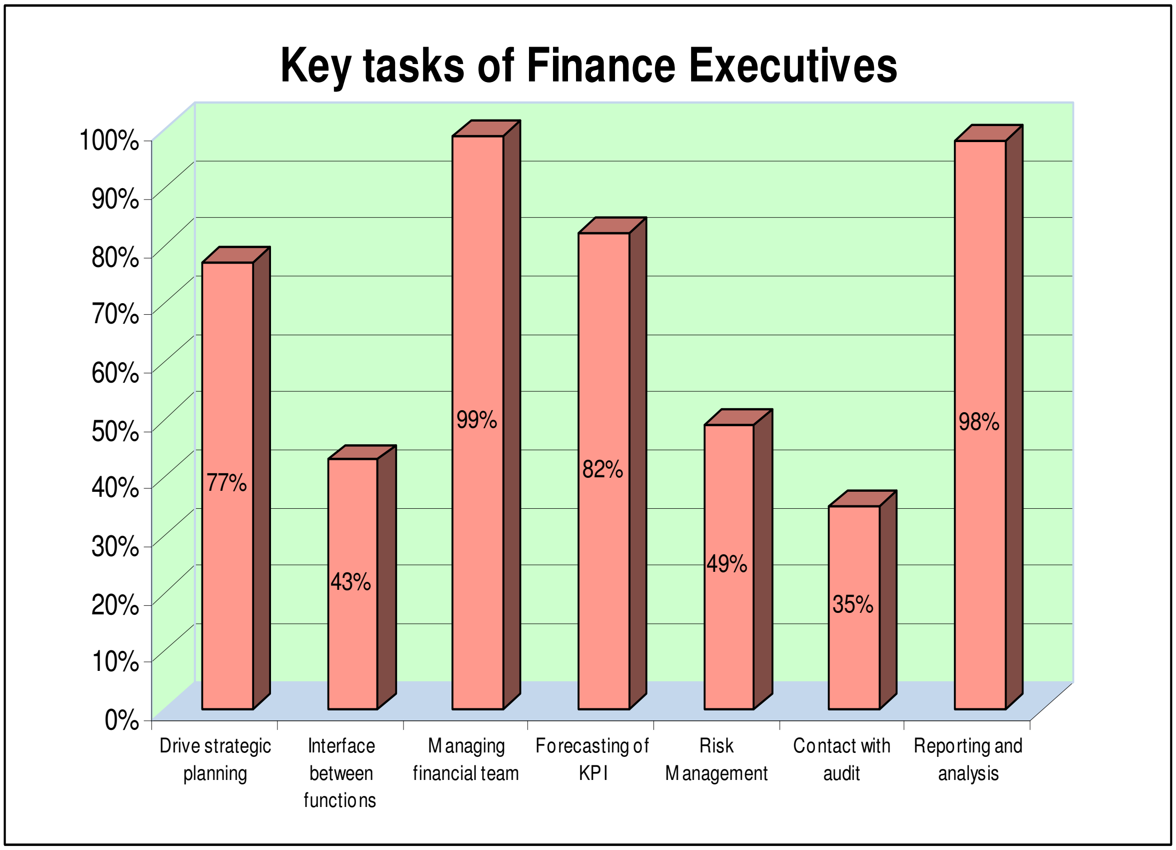
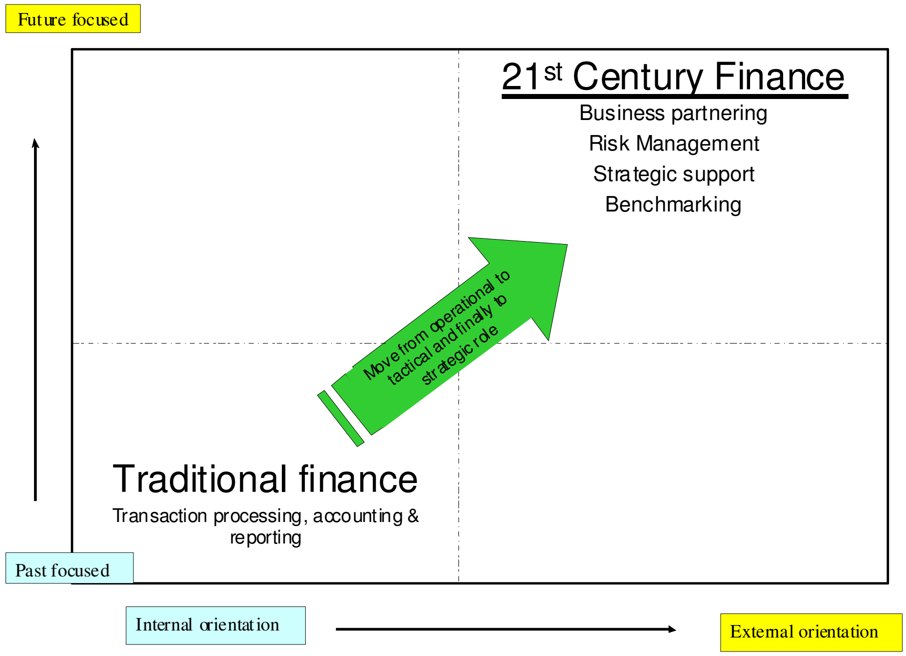


Figure 16/B: Own research based on a sample of 237 job descriptions of Finance Executives in FR-UK-HU-Poland during Oct-2009 and June 2010.

One of the criticism of traditional Finance function is that it spends too much time on analysing the past instead of looking into the future. While taking the learning from the past is also important, supporting strategic planning without looking into the future is hardly possible. A similar problem is the orientation of focus, which in most cases is inward looking. The traditional inward and past focused orientation limits Finance's capabilities to help the enterprise gain competitive advantage by closely monitoring competition via benchmarking or to gain further market trust by providing accurate forecasting. The summary of the directional change is represented in the following table (Figure 17).



Source: Strategic positioning of future finance (A. Danko 2008).

Figure 17. The Journey of Finance (1.), own work.

4.2 Research findings (II.) – International survey

A. Overview of the survey

The survey that has been conducted between January-September 2010 has compared the views of business executives France, United Kingdom, Poland and Hungary. The executives who participated were chosen to be both Finance and non-Finance background in order to compare and contrast the viewpoints on the same topics from two different angles. As the research was done on an international level anchoring vignettes were used (King et al, 2004.) to help comparability. Scaling questions (King et al, 2007.) were first created and tested with all four cultures (Hungarian, Polish, French, UK) and based on these findings the final responses to the questionnaire were re-adjusted. The samples were taken without any special preference for gender, age or work experience, however, nationality, job function and holding senior position were key definers of the survey sample structure. The questionnaire was sent to 550 respondents of the four participating countries of whom, 197 responded partly or in full.

The output of the survey was 125 fully completed and comparable questionnaires. The research was also aiming to analyse what were the correlations of answers among the various respondents. The split of the actual sample compromised in the way that 42 per cent of the responses come from Central Europe (Poland 16% and Hungary 26%), while the United Kingdom (31%) and France (27%) represented the rest (Figure 18.).

France	27%
UK	31%
Poland	16%
Hungary	26%

Figure 18. Sample split by country, own work

The split by job function was almost even (48/52%), therefore, it provided a good balance between the Finance and Non-Finance professionals. As the reflections arrived in almost equal numbers from both Finance and non-Finance people the Finance function could gain a balance overview from both inside and outside of their functions.

On the other hand the split by industry was not so even, as almost one quarter (23%) of the responses were returned by consumer goods industry (FMCG) companies, second largest were financial institutions (16%), followed by banking and insurance (15%) and service providers (13%).

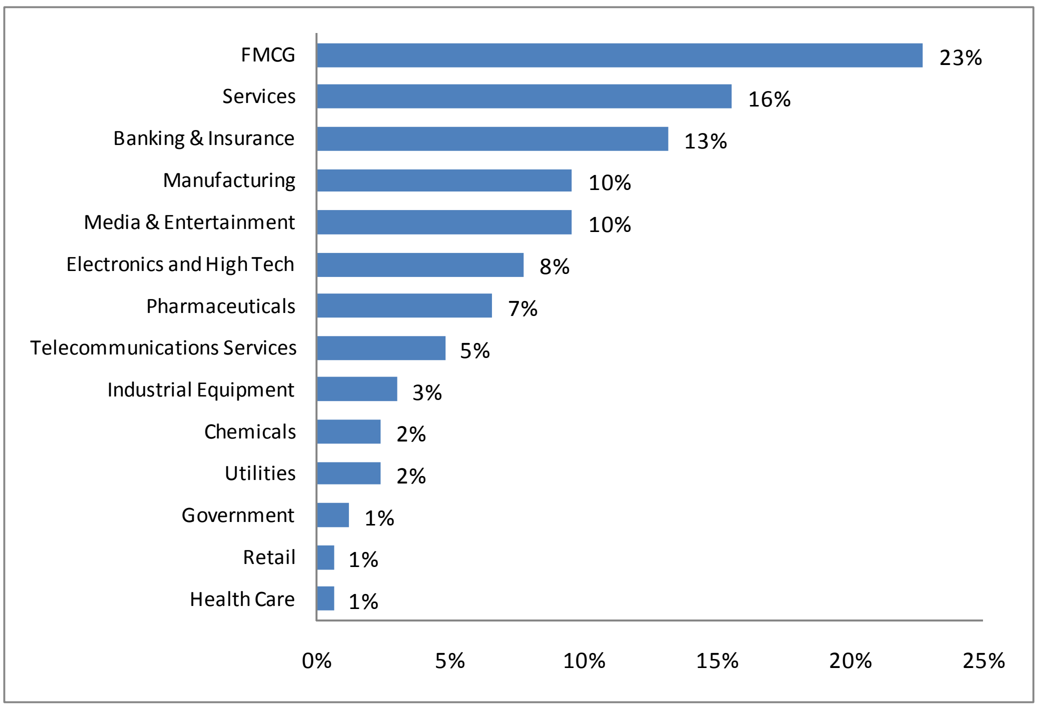


Figure 19. Sample split by industry, own work

B. Adjustments to the survey based on anchoring vignettes

With the international surveys there is a risk of misinterpretation of the result arising from the cultural differences of the respondents. Due to the fact that this research was performed on an international level the recommendation was to adjust for cultural differences by using anchoring vignettes (King, Wand, 2007) to help comparability. Scaling questions would first be created and tested with all four cultures (Polish, Hungarian, French and British). Based on the cross-cultural relations of the anchors the final responses to the questionnaire were to be re-adjusted.

The anchoring vignettes used were the summary performance of 6 imaginary Finance people based on clear performance attributes, request was to provide a rating to heir performance on a 5 point scale (1 being lowest, 5 being highest). The six imaginary people were then ranked in the order of their presumed performance. The number of candidates and the points on the scale were intentionally different so that the respondents had to make trade offs and assess the relative performance of the candidates against each other.

Once there is clarity in how different cultures understand and assess the same questionnaire it is possible to readjust the response rates to take into consideration of these cultural differences. The anchoring vignettes used in the survey can be found in the Appendix.

The anchoring vignettes mapping was created based on the 40 personal interviews (10 for each country). The responses from Poland and Hungary were very similar, therefore these were grouped together as Central Eastern Europe (CEE)[7]. However, the UK and France responses were significantly different both in direction and magnitude.

The findings of the analysis are captured in Figure 20.

[7] The author notes that although a number of important international comparison Poland and Hungary are grouped together (e.g. GLOBE research's Eastern Europe cluster, House et al 2002), however, if the result of the anchoring vignettes analysis were different these would not have been grouped together.

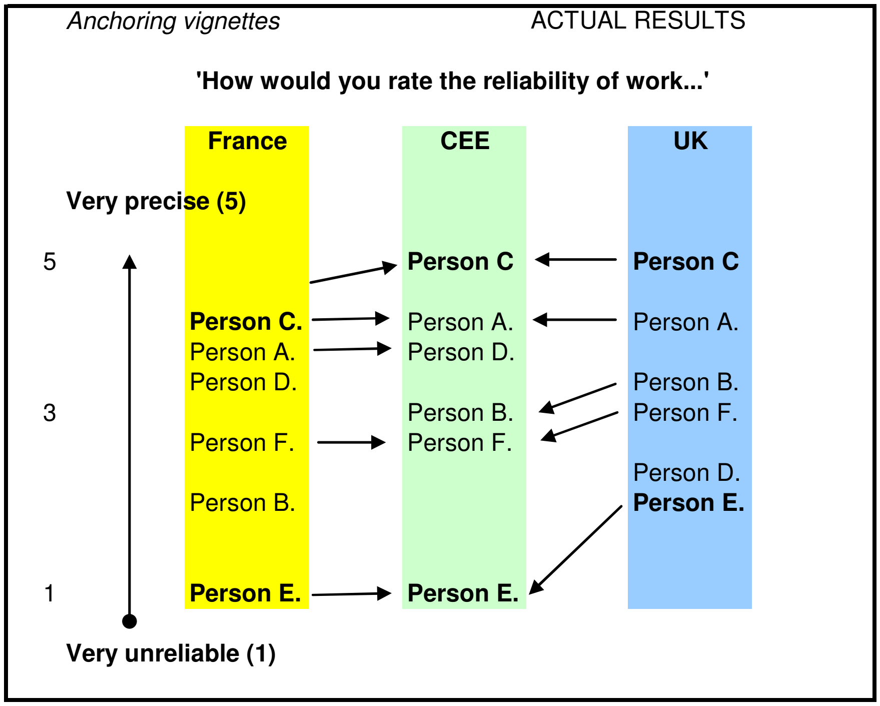


Figure 20. Anchoring vignettes results, own work

The overall ranking was similar in the majority of cases as the highest two scores (Person C and A) and bottom score (E) were the same in France, CEE and the UK. However, there were major differences in both the starting and ending points of the scale and also on the relative closeness of the scores to each other. For example in France the highest scores (5.) were not granted by a majority of the respondents, the top score was 4 (second highest) only, while both in CEE and the UK, highest scores were marked as 5 (top score). This implies that French respondent assumed ‘highest scores’ are not applicable and marked 4 as the highest. Similarly in the UK scores the majority of the respondents did not score the lowest performing to level 1., but level 2 only, while both in France and CEE the lowest scores meant 1. The distribution of the scores in the UK and France were almost even (between lowest/highest scores), while in CEE the respondents were slightly towards average or better scores and the lowest was alone at the bottom of the scale. Accordingly, I have taken the following adjustments to the latter questionnaire responses:

- UK – worst score does not exist in general (2nd lowest means lowest score)

- France – very good score does not exist in general (2nd highest means best score)
- CEE – no adjustments to the survey scores.

C. Future Finance Survey

The analysis was based on a set of 24 questions addressed to each of the respondents and the individual responses have been aggregated to an overall score per individual in order to judge the level of satisfaction towards the Finance function per each respondent. This average satisfaction score towards Finance and has been measured on a 5 point scale where scores close to 1 means Finance failing to deliver against expectations and 5 implying that Finance is serving superbly the needs of the business. The preliminary analysis showed that the average satisfaction score was 3.27 indicating that the view from the respondents was relatively positive towards the function. This was made up by the self-score of the Finance professionals of 3.343 (standard deviation = 0.56) and by the non-Finance executives score of 3.183 (standard deviation = 0.64). As per SPSS the model summary of the Finance/Non-Finance predictors show a low level of R square (0.010) as adjusted R square (0.002). The detailed country analysis show that the lowest score came from Finance in France (1, provided by a single respondent) and the highest (4.43) from the UK.

	Country				Total
	France	Hungary	Poland	UK	
Score					
1.00	1	0	0	0	1
2.14	1	1	0	0	2
2.29	0	0	0	1	1
2.43	3	1	0	0	4
2.50	1	0	0	0	1
2.57	2	1	0	2	5
2.67	0	0	0	1	1
2.71	0	0	4	0	4
2.83	0	1	0	0	1
2.86	1	1	3	3	8
3.00	4	0	6	7	17
3.14	0	4	2	1	7
3.26	0	1	0	0	1
3.29	1	5	0	4	10
3.43	6	3	0	1	10
3.50	0	0	0	1	1
3.57	3	8	2	4	17
3.71	3	1	3	5	12
3.86	4	3	0	5	12
4.00	2	2	0	1	5
4.14	0	0	0	2	2
4.29	2	0	0	0	2
4.43	0	0	0	1	1
Total	34	32	20	39	125

Figure 21. Scores by country, own work

When comparing the country scores it could be spotted that in the below average (3) range Polish respondents are the least satisfied with the Finance function as 35% of the total respondents have fallen into this category, followed by France 26.5% and Hungary and UK scoring below 20%.

Below 3

	Country				Total
	France	Hungary	Poland	UK	
Scores	9	5	7	7	28
% of total	26.5%	15.6%	35.0%	17.9%	22.4%

Above 3

	Country				Total
	France	Hungary	Poland	UK	
Scores	25	27	13	32	97
% of total	74%	84%	65%	82%	78%

Figure 22. Country comparison with split to below and above average scores, own work

The highest scores on the contrary were coming from Hungary, where 84% of the total Hungarian respondents have scored Finance with a higher then average score. For the sample of the 125 respondents with standard deviation of 0.5 the significant difference is calculated as 0.191, which was referred to when comparing the effects. Examining the countries shows, that there is indeed country and function combinations where the difference is higher then 0.191. For example the average scores in the UK were 0.29 points higher versus Poland. If we analyse the combinations of function with country the same trend is true with the UK and Polish (Finance background) respondents. UK far exceeds Poland by 3.38 to 3.02. However, amongst the non-Finance respondents the biggest difference is not UK-Poland but UK-France.

Fin	UK	3.38
Fin	FRANCE	3.36
Fin	HU	3.29
Fin	POL	3.02

Non-Fin	UK	3.41
Non-Fin	FRANCE	3.08
Non-Fin	HU	3.38
Non-Fin	POL	3.14

Figure 23. Scores split by function & country, own work

Therefore, we can conclude that while in the UK people are most satisfied with Finance (and non-Finance is slightly more satisfied then Finance), in other countries like France, Finance scores themselves significantly higher (3.36) then the non-Finance French respondents (3.08). It is worth noting and follow up as to why the French non-Finance people scored the function so low (3.08), comparing to the Finance people's (3.36) as this difference was the highest within a single country. Polish Finance people score lower in general for Finance, however, non-Finance scores here higher too. With regards to Hungarian respondents the Finance background people scored themselves close to the average, however, non-Finance people were also more generous scoring themselves higher (3.38). The internalization of the responses shows higher differences between the people working for global organization (being more satisfied, 3.35) and the least satisfied (3.05) in the local organizations. This could be linked to the fact that in global organizations Finance are doing more specific tasks and could seen relatively stronger experts on some areas, while in national organizations Finance takes multiple tasks and the risk for not being able to oversee everything according to expectations is therefore higher.

The qualitative results of the interviews also support that the appreciation of Finance is more positive then negative (Table 6). As 85% of the respondents agree that Finance is providing reliable results and analysis. Furthermore, there is nearly 60% disagreement on the negative statement that Finance is an inward looking and past focused function. Although the appreciation is positive, this also implies that, however, 4 out of 10 respondents have the view that Finance is rather inward and past focused function. Further criticism is the strong ranking of the function spending too much time on reporting and transaction processes – which some consider less value adding then business decision support (61% and 59% respectively.

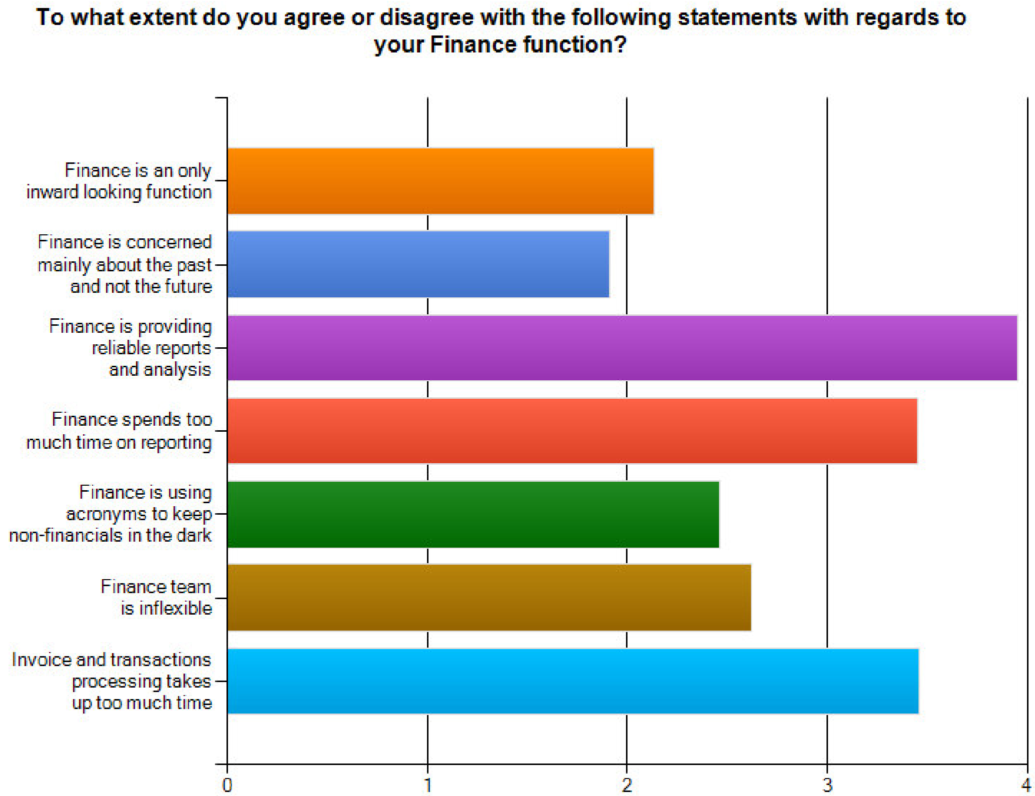


Figure 24. Post crisis opinions on the Finance Function, own work

Figure 24. shows the satisfaction of the respondents to with regards to each of the key Finance functions' tasks. Not surprisingly the most satisfactory area is related to the core function of Finance, namely reporting accurately and timely. However, the least satisfying areas relate transaction processing and accurate forecasting. While the highest scores of 'very satisfied' answers 8.3% is on reporting, scenario modelling and rolling financial planning scores at 2.5% each. Financial forecasting accuracy gained also the highest number of the lowest scores (5%), which was probably strengthened by the fact that most forecasting models have failed during the recession and Finance, who in many companies own the forecasting process, was to blame.

Also the ranking of the important subjects against each other provides new findings. Forecasting accurately the future is more important (59% views this as high priority) then looking at the past performance (18% views this as high priority). Business risk management and putting key controls in place also ranks high amongst the important tasks (33% and 34% viewed as high priority).

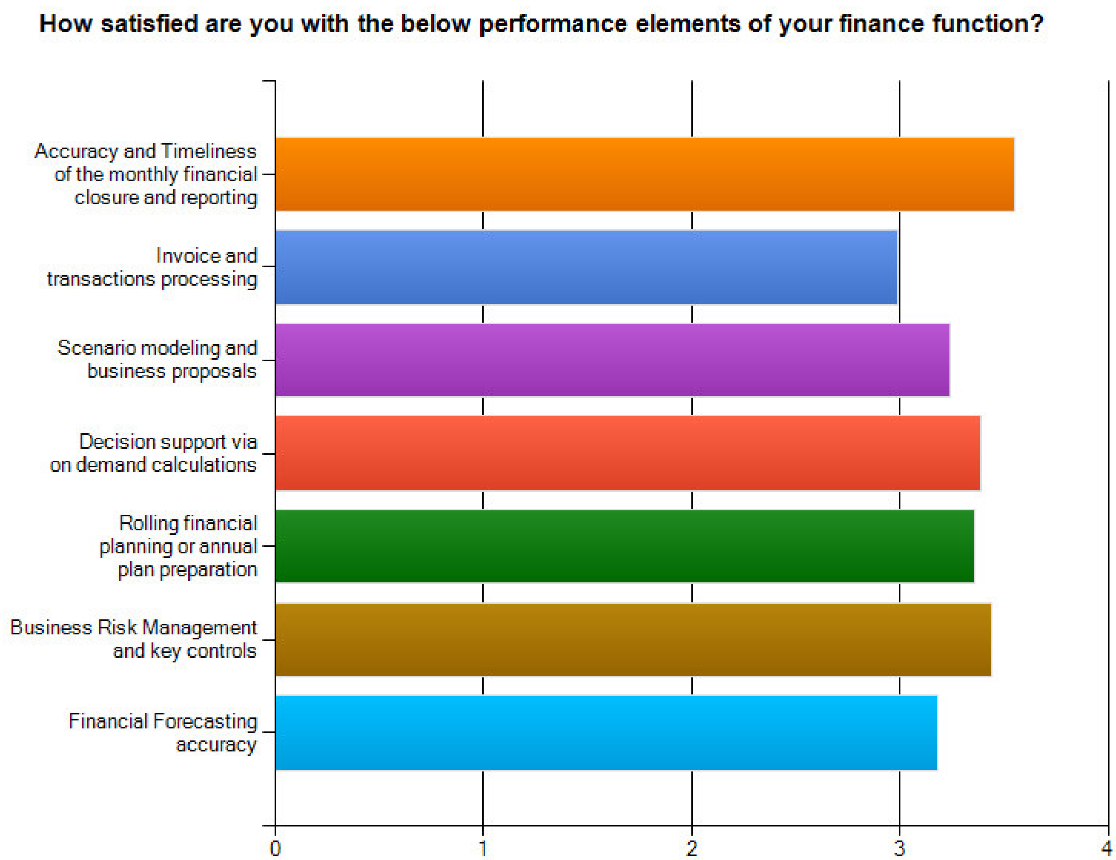


Figure 25. Post crisis opinions on the key Finance tasks, own work

The research data shows that importance of forecasting increasing as 89% of the respondents claimed to be using forecasting in the future as much or more then before. This is in line with the findings of the secondary research, Hackett study on forecasting (Hackett, 2011).

In the next table the benefits of forecasting are captured, number one being improved investor confidence as a result of reliable forecasting. There is mutual agreement that forecasting is a joint process that could be improved by discipline. Furthermore, there is also agreement among most respondents that purely technology investment would not solve forecasting problems.

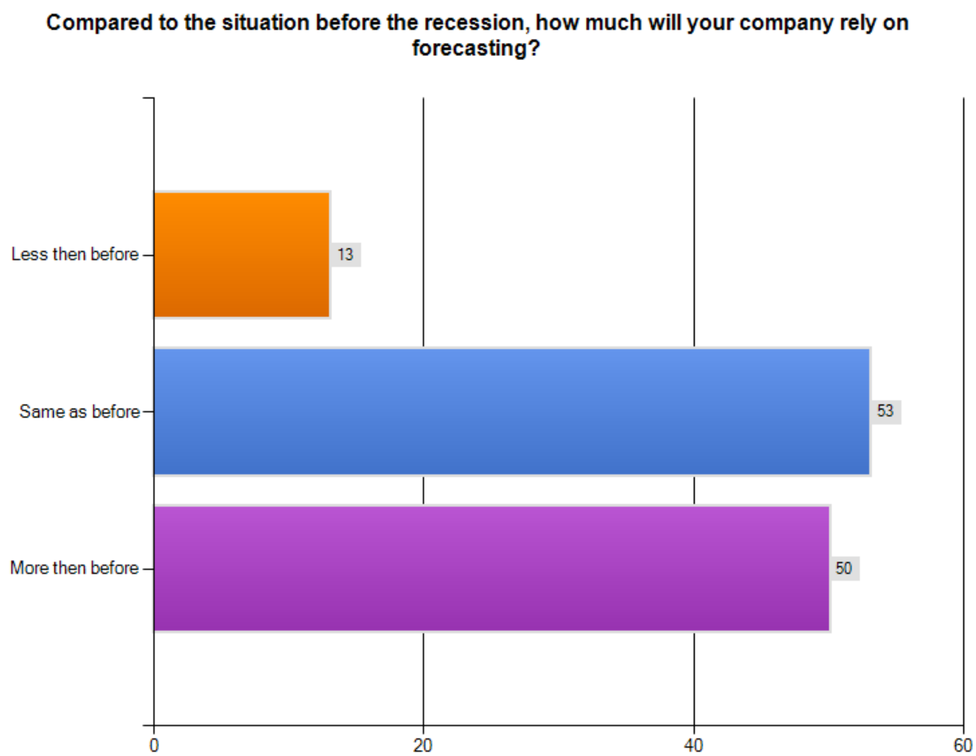


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Figure 26. Importance of forecasting vs. pre-recession, own work

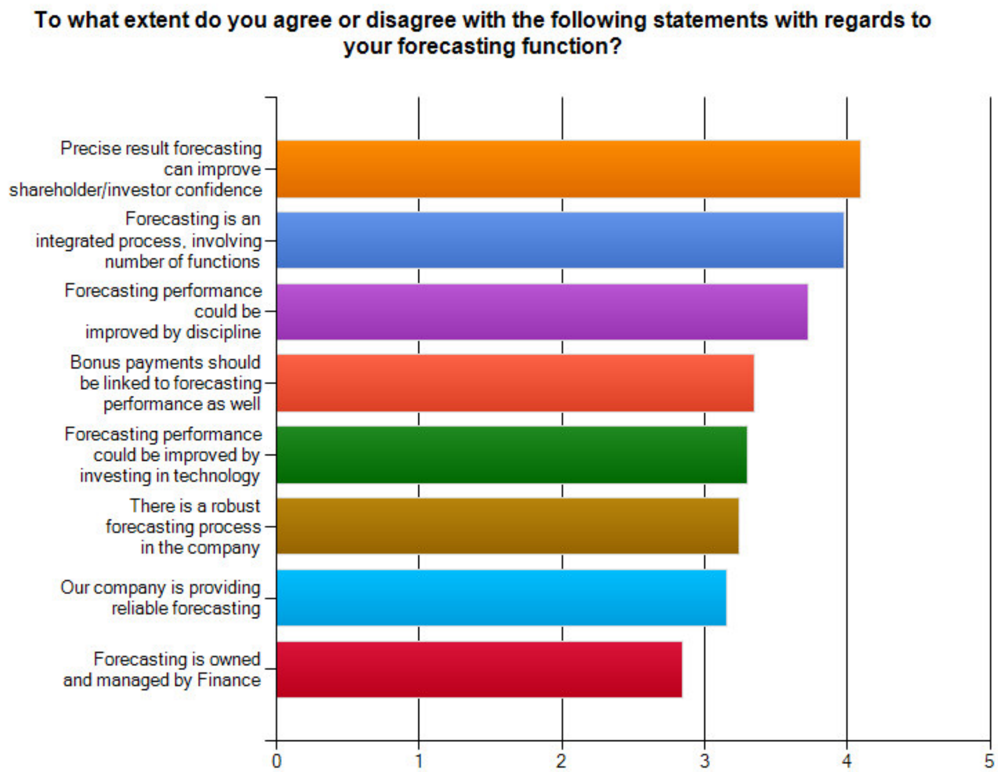

Figure 27. Importance of forecasting vs. pre-recession, own work

The shift of from transactional to strategic, business partnering roles are in the responses of the question that was comparing focus areas in a 3 year backward and 3 year forward looking perspective. Worthwhile noting that business partnering not only expected to gain importance versus 3 years ago, however, it would become the most important (70% agreeing) focus for Finance.

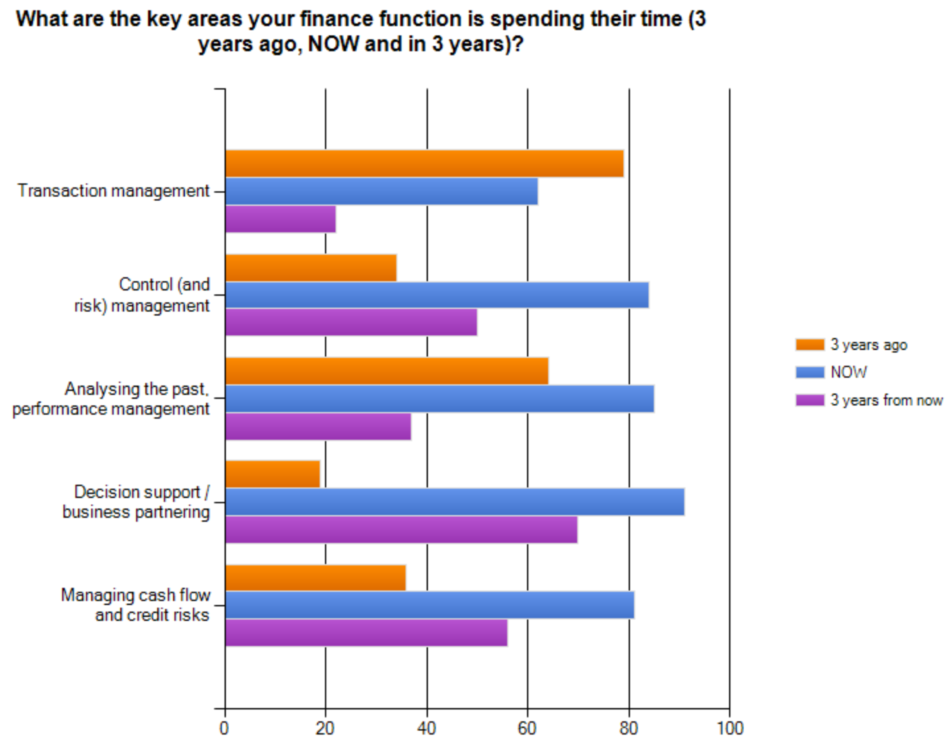

Figure 28. Finance key focus areas, in a 6 year overview, own work

The question that was testing the speed of data availability and accuracy shows that investment in ERP technology should be still in the forefront of financial strategy. Nearly half of the respondents agree that a single performance indicator on the total (global) energy consumption of the company would take 1 hour to 1 day. In the volatile economic situation when some decisions are made in seconds rather minutes this could be considered as a very low response period. Therefore, area for improvement via standardisation and auto-immunisation is wide. The other aspect of the same question testing trust in reliability of this performance indicator is also concerning as nearly the same one third of respondents would have either full trust or no trust at all in the figure.

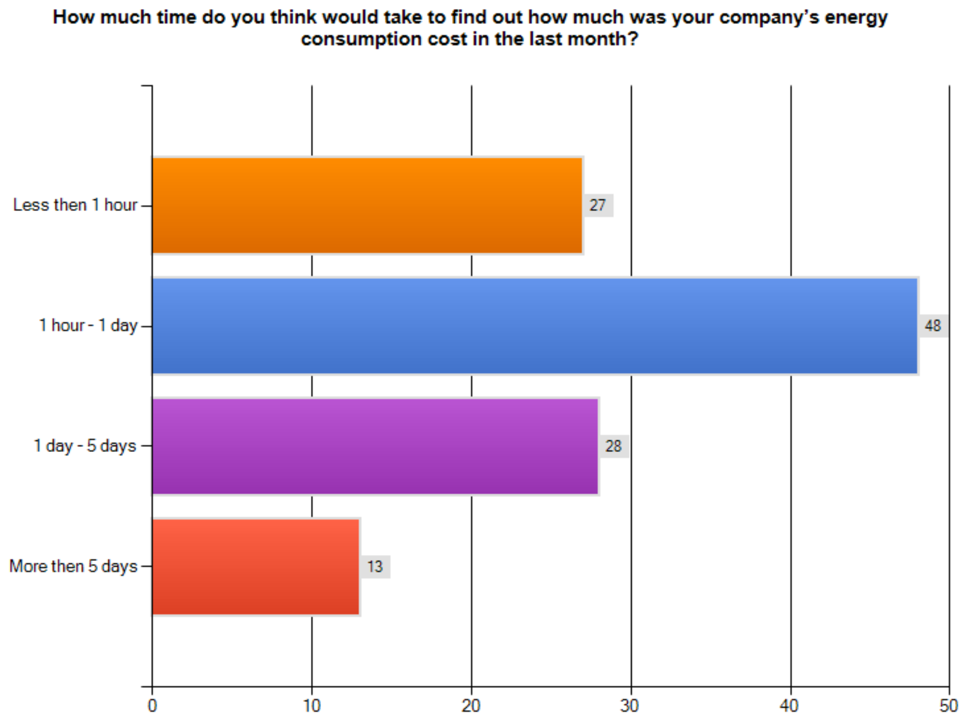

Figure 29. Testing speed of data availability, own work

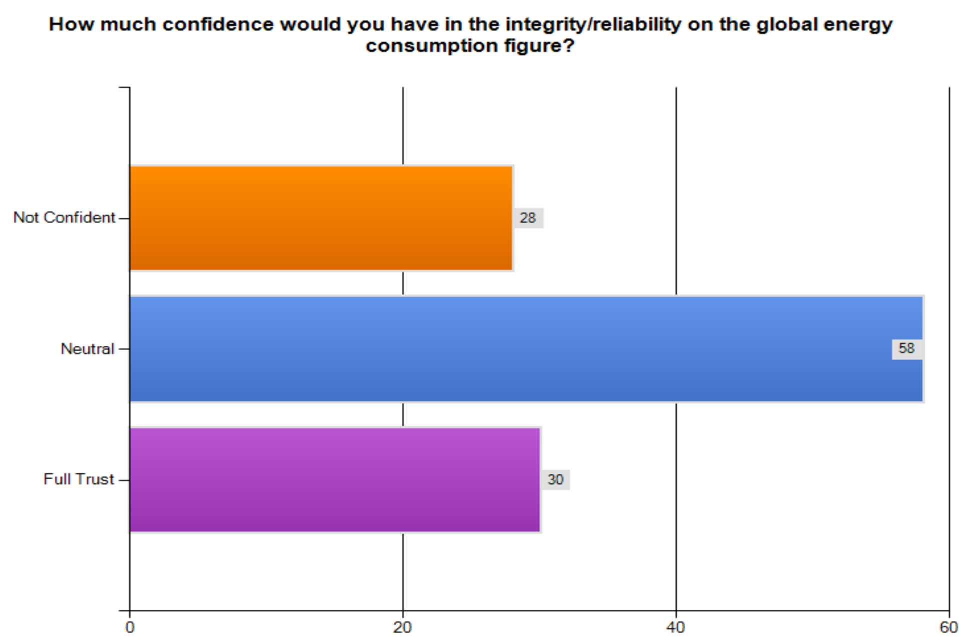

Figure 30. Confidence in rapidly provided global data, own work

The question testing the effectiveness of cost cuts in response to the financial crisis shows first of all that in most areas the actions were found to be effective (almost all areas have 3 or higher rating on the 4 scale rate). However, the most effective cuts are coming from the supply chain side. This is not surprising as this is the area where decisions could be implemented fast and savings materialise in due course. The second area of short term cuts is in the area of advertising and promotions that companies consider revising when there is an urgency to improve profitability. The least successful area for cost management is trade discounts, due to the fact that selling contracts are usually fixed for a one year period, therefore permitted changes are minimal.

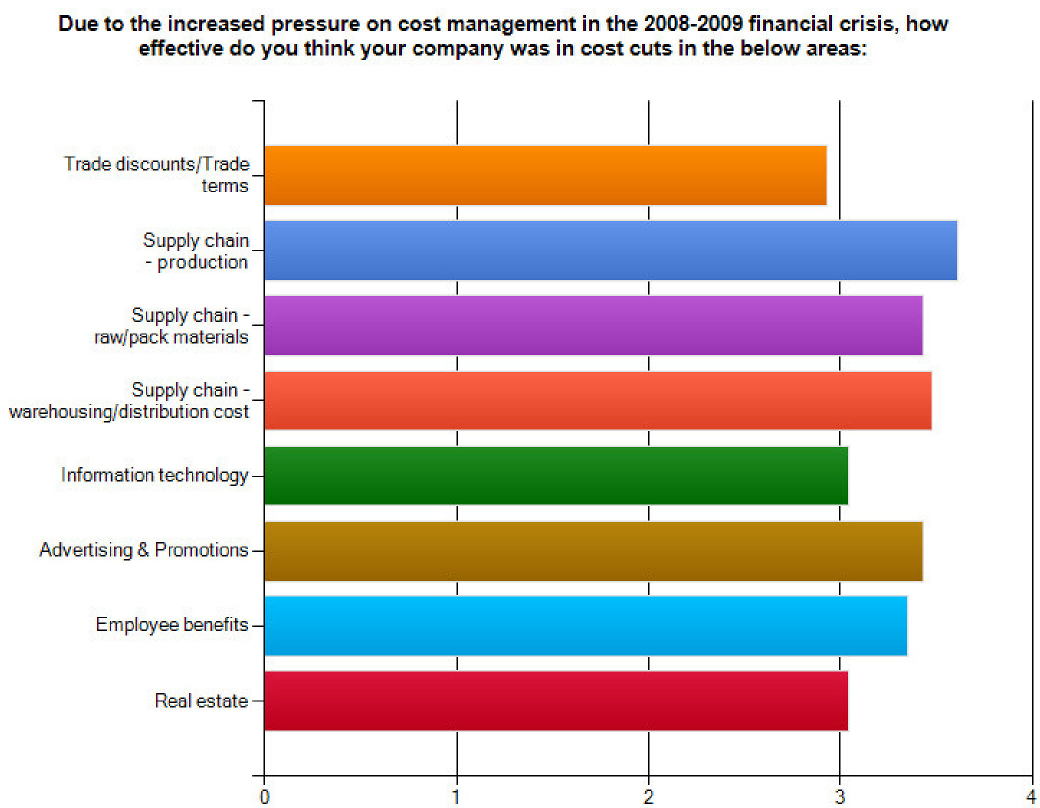

Figure 31. Effectiveness of cost cuts, own work

The below "spider diagrams" capture the differing priorities of the Finance teams in the different countries. The diagrams coloured area represents the level of importance of a specific area with the higher scores meaning higher importance.

Starting with the commonalities, measuring business performance scored high in each of the countries. Forecasting seems to be the most important area for Finance in France, but only average important in Poland, Hungary and the UK.

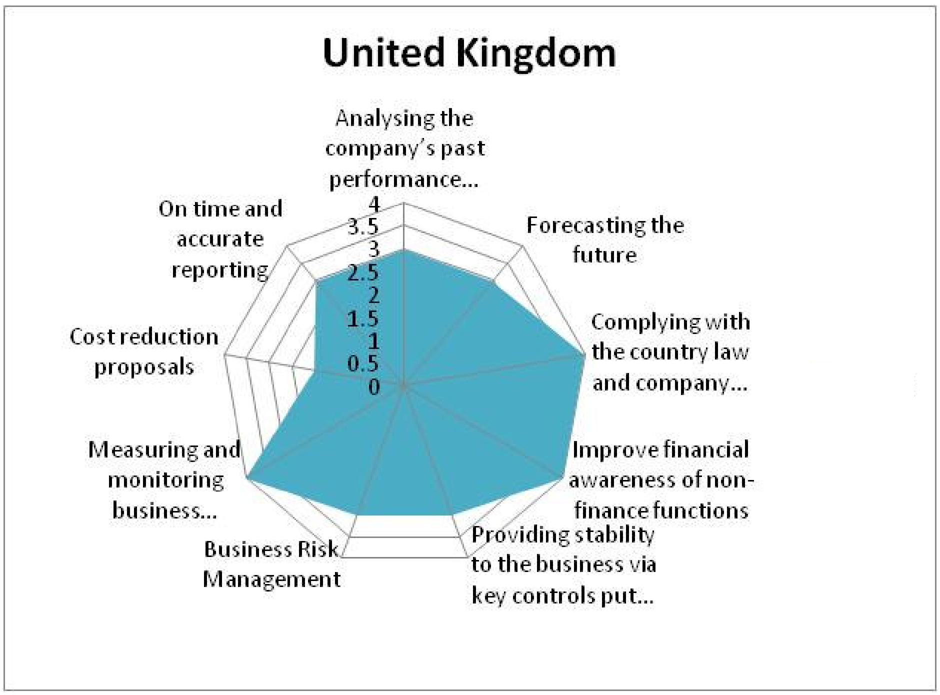

Figure 32. Priorities per country (UK), own work

On the other hand compliance to the law is high on the agenda in the UK which probably due is in line with the strong threat of the law enforcement there.

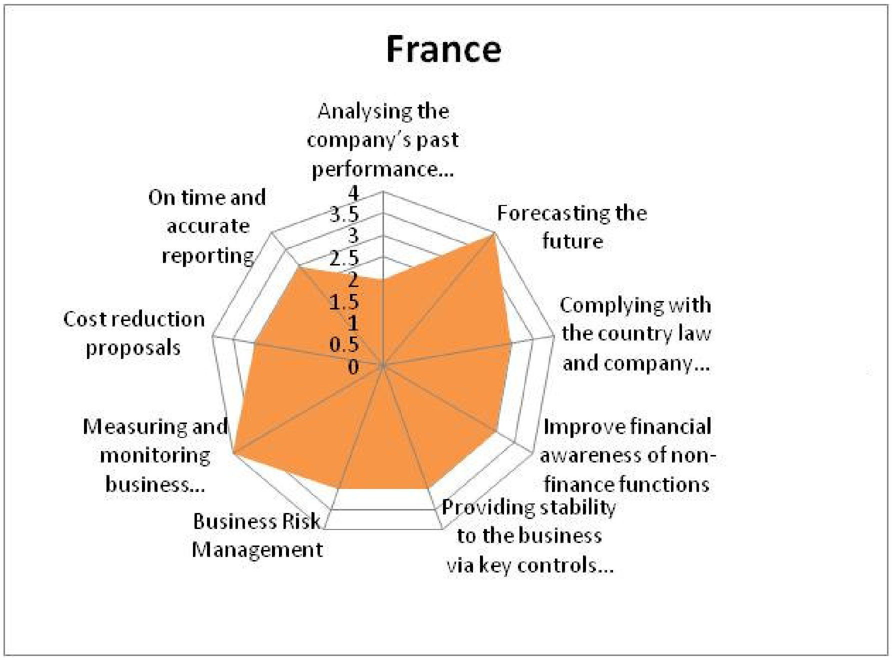

Figure 33. Priorities per country (France), own work

In Hungary the focus seems to be on time and accurate reporting with analysis of the past performance. This is contrasted by France where the analysis on past performance had the lowest score from all of the measured areas.

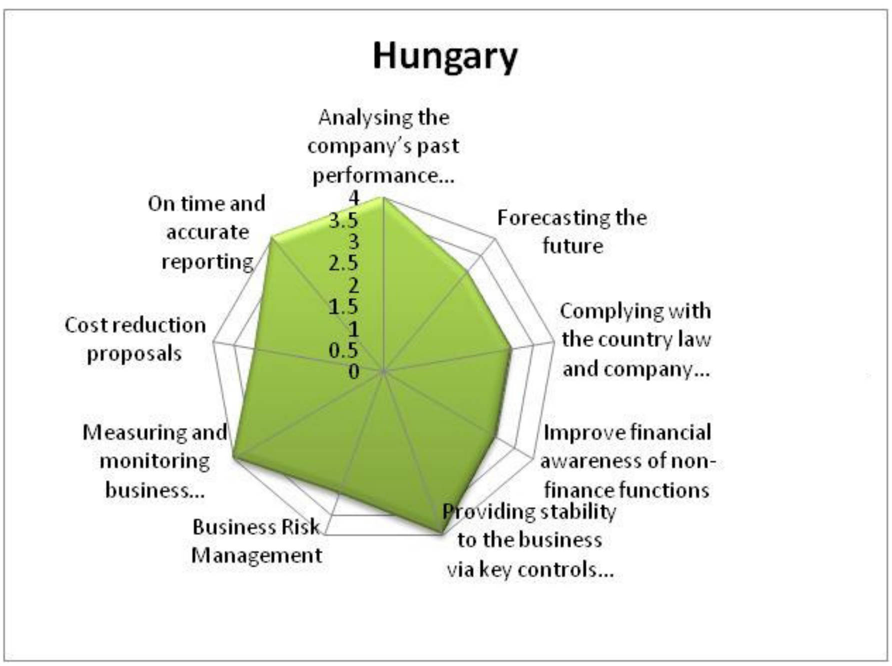

Figure 34. Priorities per country (Hungary), own work

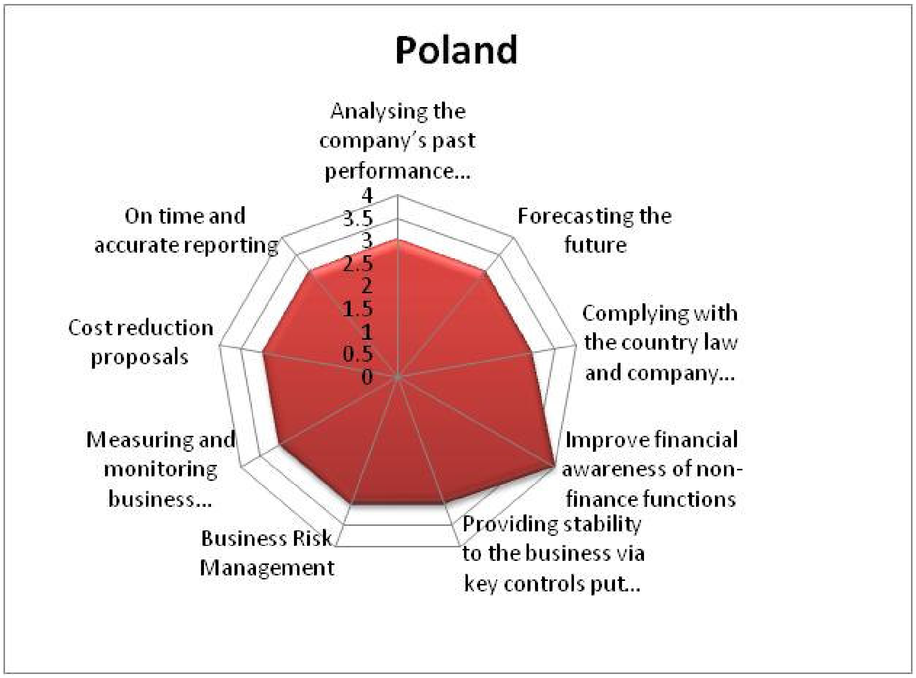

Figure 35. Priorities per country (Poland), own work

Similarly, the importance of training non-financial people on financial areas is equally important in Poland and the UK while less so in the other countries.

Comparing the country scores to Hofstede's cultural dimensions

For international cultural dimensions comparison there are two key studies that are usually referred to: Hofstede's's[8] cultural dimensions (1984) and the GLOBE [9] project. While both could be equally applicable in this study I refer to Hofstede.

Applying Hoffstede's cultural dimensions to the findings can help understand some of the country differences more in the survey results. Figure 36/A shows the comparison of Poland, Hungary, France and the United Kingdom.

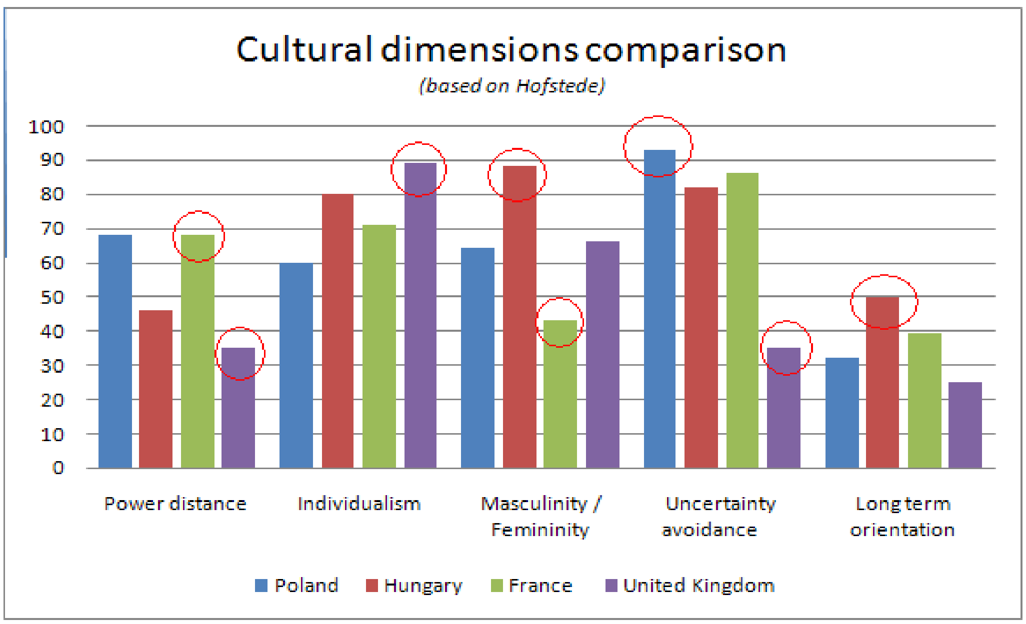

Figure 36/A Cultural dimensions comparison (source: Hofstede, 1984)

Linking the above to the Finance survey's country results in Figure 36B about Non-Finance scoring the Finance function there are some interesting findings:

[8] Referring to Geert Hofstede's cultural dimensions theory (1984)
[9] GLOBE is a multi-phase, multi-method research project in which investigators around the world examine the inter-relationships between societal culture, organizational culture, and organizational leadership (House et al 2002)

Non-Fin	UK	3.41
Non-Fin	FRANCE	3.08
Non-Fin	HU	3.38
Non-Fin	POL	3.14

Figure 36/B. Scores split by function & country, own work

France and Poland with high (68 - 68) power distance scores provided the lowest scores towards the Finance function (3.08 & 3.14) while the UK with the lowest power distance scores (35) granted Finance with the highest scores (3.41). This supported by the fact that in France the Finance profession is general not regarded as a centre of power or key member of the management team (= less important then Technical or HR departments). In the UK it is the contrary where Finance has a top position at the management table due to the fact that it has central role in decision support and governance. The statement is less valid to Poland but the two ends of the continuum are well visible between France-UK.

Other example where the link strong when comparing Finance's own view of itself.

The highest scores of the Finance survey are in the UK (3.38) which has the highest scores on Individualism/Collectivism (89) and Poland scoring the lowest for Finance (3.02) and scoring also the lowest in the Individualism/Collectivism (60) cultural comparison. The UK has globally one of the highest scores on individualism.

Fin	UK	3.38
Fin	FRANCE	3.36
Fin	HU	3.29
Fin	POL	3.02

Figure 36/C. Scores split by function & country, own work

According to Hofstede (1984): *"children are taught from an early age to think for themselves and to find out what their unique purpose in life is and how they uniquely can contribute to society. The route to happiness is through personal fulfilment."* This is supported strongly by the fact that Finance professionals are very dedicated people who usually decide early in their lives to work in this area. Combining this with the UK's high level of Individualism can in fact provide the highest scores (3.38) among the countries. Although Poland has the lowest Individualism/Collectivism scores (60) but Polish are still considered by Hofstede as Individualistic people even if scoring on the lower end from the comparison group.

Even though there were a number of correlations found between Hofstede's cultural dimensions and the Finance survey's scores it would be unwise to assume a 100% fit and therefore the results should be reviewed in this context only. It is also advised for future research to refer to the GLOBE (House et al 2002) projects constantly updated research findings for cultural comparisons.

<u>Changing priorities for Finance in the coming years</u>

The changing priorities of the Finance function are captured on Figure 36. While transaction management was a rather important area before the recession and still considered as such it is expected to lose rapidly in the near future. This is in line with the increased outsourcing trends as companies focus on their core activities rather. The opposite trends are captured on decision support and business partnering, where Finance was not putting enough attention in the past. However, these are crucial now and assumed to be very important in the future too. The effect of the recession and financial crisis is visible on the growing importance of managing cash flow and credit risks, as more then double of respondents consider these to be highly important areas currently and - although easing in the future – still to be very important in the next 3 years.

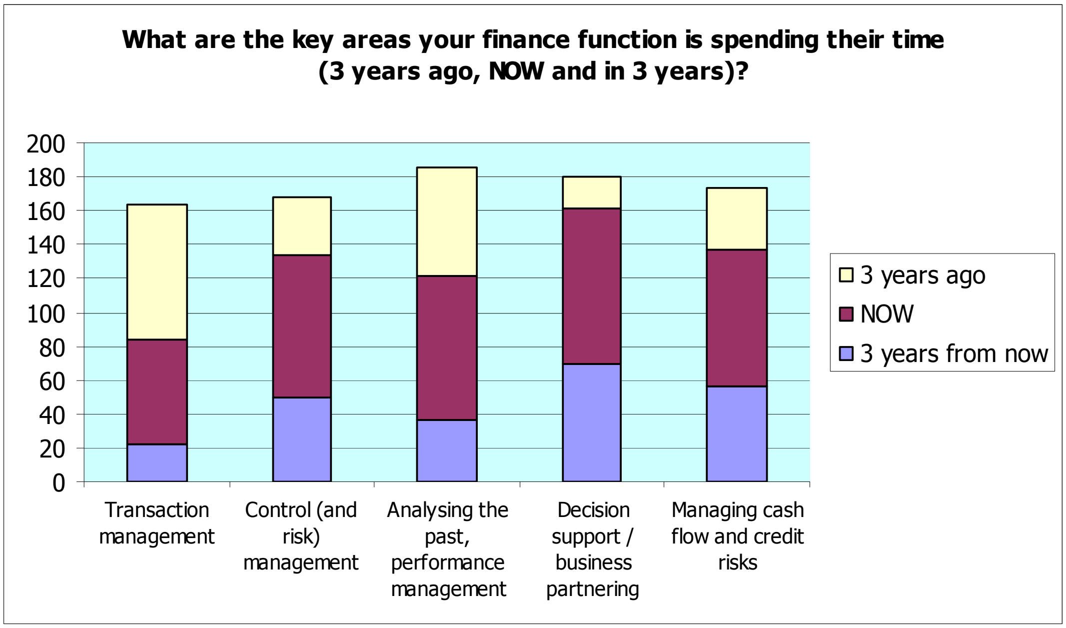

Figure 36/D Comparing Finance's key priorities past, present & future, own work

Accordingly, the future's Finance function (e.g. 3 years from now on) is expected to become very different from the one of 3 years ago, according to the responses. The previous number one priority, transaction management will be less in focus in the future. This is in line with the earlier referred trends of increased outsourcing of non-core and repetitive activities like financial management and other back office activities. On the other hand, decision support and business partnering is emerging as the biggest area of focus for the future's Finance function while cash flow and credit risks management remains in focus due to the volatile economical environment.

4.3 Feedback from control group discussions

In October 2010 a control group discussion was held with the involvement of 10 business executives representing the four countries participating.

The participants were astonished when facing the results from anchoring vignettes arising the responses to the scaling questions. The cultural differences and perceptional differences among the respondents from various countries become very visible when comparing across different cultures. Although the participants had not realised before that such differences existed after consideration most of them agreed that they are directionally and scale wise would be correct – although not representative, as only 40 scaling questions questionnaires were used.

The facts and trends were agreed but there were some key themes emerging for future analysis were in the following areas:

- <u>Business partnering</u>. While having no disagreement between the Finance function and its internal customers acknowledge the growing importance of business partnering, however, resourcing is an issue. Business partnering requires different skills from Finance then the traditional Finance roles. The skill matrix required for traditional Finance and business partners are different. Therefore not all Finance people could become good business partners. This issue links to the talent management as well.

The future's Finance function is the one that can not only deliver reports and analysis but provides valuable insights.

- <u>Outsourcing</u>. This remains a focus area driven by cost pressures, however, the question remains open on what (which areas) to outsource and to what extent. This leads to the dilemma of higher cost savings but loser control on the process.

- <u>Information management</u> and <u>cloud computing</u>. The research data showed and the control group agreed that current levels of information management are hardly satisfactory for most companies. There is an area of vast improvement, however, cost and benefits decisions needs to be balanced out. Cloud is a hype nowadays and most respondents agreed that it will play an important future role, still many companies do not feel the urgency to move into this direction. Once the critical mass is achieved, there could be a steep cost of change (providing higher savings then before) and by that time security issues are expected to be resolved.

- <u>Talent management</u>: With the higher focus on business partnering there is an issue of quantity versus quality of skilled workforce. Also the increasing pressure on public and governmental organisations financial management requires more and better talent in these areas. Competition for talent is expected to be stronger then ever before.

Chapter 5 – Conclusion and implications

5.1 Result feedback on the hypothesises

The dissertation tested four key hypothesises via research and the findings are as below:

Hypothesis 1.: "Traditional Finance is not capable to effectively respond to needs of the changing environment, there is a need to reinvent itself to become an enabler of strategy formulation."

Findings: The research findings and the literature review supported that the evolutionary changes of the Finance function have been speeded up by the financial crisis. By now the Finance function has arrived at a crossroad (Berriman, 2009). The longer the function would take to change, the more painful it could be as the old "bean counting type" past focused and internally oriented Finance function is not required anymore. Internal customers and external stakeholders demand business partners who are pro-active and both understand the past trends but focuses on the future while providing relevant analysis on external risks as well. The comparison in Figure 37/A captures this shift clearly: business partnering that was a non-priority area 3 years ago became the single most important currently and is expected to stay on top in the next 3 years as well.

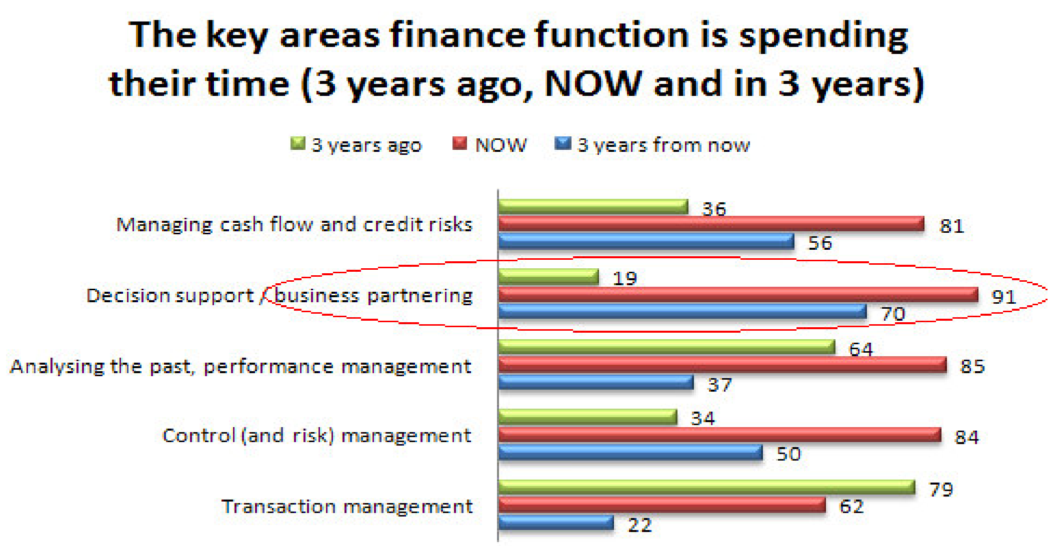

Figure 37 / A. Priorities for the Finance function, own work

Outsourcing is growing and the function is getting slimmer, therefore, the function is required to do more with less. Finance has started the journey from a transactional role towards a business partnering and ultimately becoming a strategic function, however, this takes time and efforts. Technological advances such as the sophistication of accounting applications, spreadsheet management software and internet based cloud computing systems help this journey. However, a potential W shape recession might delay these investment due to scarcity of financial resources in the short term.

The interviews and focus group discussions also supported that in general the Finance profession understand the need for change and they are also willing to take the extra step to focus on serving better the needs of their business community. How fast and effective these responses would be we might see in the next years.

Hypothesis 2.:"Finance has a different appreciation of its key tasks and roles than general management, which could lead to conflicting interests and the problem of priorities."

Findings: The analysis of the questionnaire showed that there is indeed a difference in the appreciation of the Finance function's support quality, this is shown in Figure 37/B

Country	Finance	Non-Finance	Difference	Highest ranking
UK	3.38	3.41	-3.0%	Non-Finance
FRANCE	3.36	3.08	28.0%	Finance
HU	3.29	3.38	-9.0%	Non-Finance
POL	3.02	3.14	-12.0%	Non-Finance

Figure 37 / B Scores split by function & country, own work

The 5 point scale puts overall satisfaction to 3.28, however, there is a variation in scores across the countries and whether the response is from Finance or Non-Finance respondents. The function appreciation by its customers (Non-Finance) exceeds its own (Finance) appreciation in the UK, in Hungary and in Poland. On the other hand in France the function has a much higher (+28%) appreciation of itself then the view of its customers. Even if 3 out of 4 countries put higher ranking by Non-Finance the level of difference in viewpoint differs on a scale of -3% to -9% in the different countries and findings in France show an extremely high +28% difference towards the opposite spectrum. Therefore, there might be a real risk in terms of priority setting and miscommunication on expectation between Finance and its internal customer, based on the research this risk seems to be the highest in France and the lowest in the UK. We can conclude that Finance needs to be more realistic about its real role and responsibilities in order to serve better its internal customers.

Hypothesis 3.: "Current level of risk management and governance is not enough to provide sufficient control. Future Finance should adopt risk management mindset and be a stronghold of governance."

Findings: Since the corporate scandals of Enron, Parmalat and Worldcom there has been increased focus on risk management. The strengthening of governance requirements from both legislation (e.g. Sarbanes Oxley law) and from the investors' side has been increasing. However, the triggers of the recent financial crisis proved that profit greed can still overcome risk management.

As there is no other function that is better positioned to oversee the business risks then Finance the function has an opportunity to play a pivotal role in this area in the future too. However, Finance needs independent partners like Internal Auditors who can help achieving this.

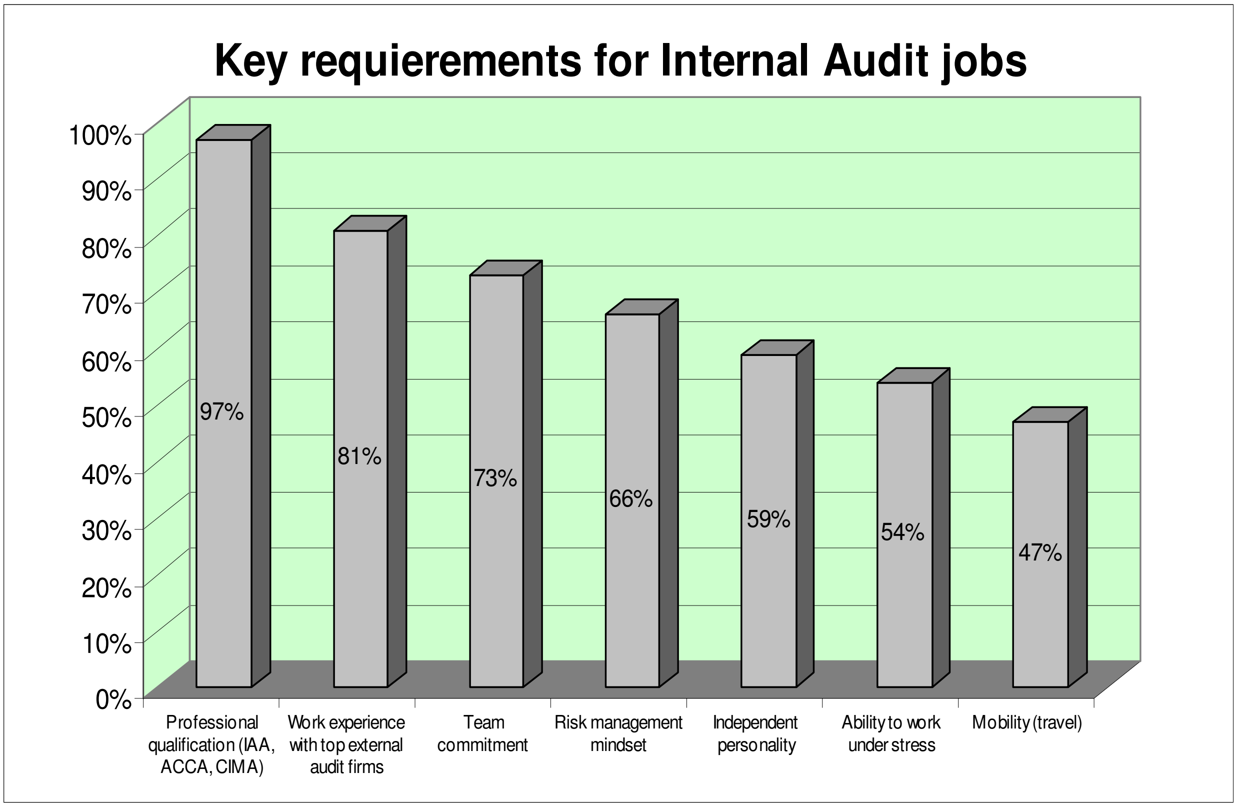

Figure 37 / C. Key requirements of IA jobs, o*wn research*

The above analysis shows that the requirement for internal audit has been changing. While in the 1980s the ideal internal auditor was a freshly graduated Finance person, by now the preference is to have well trained and experienced professionals who does not need so much training and could cope with more sophisticated audits. Should we recall the definition of the Internal Auditors Association, it is not surprising why 97% of the companies reviewed require professional qualification (ACCA, CIMA, IAA etc.) from their audit team. The second highest attribute (81%) shows the preference to employ auditors who worked previously with top external audit firms. This way the company would need to spend less on training audit staff and increase efficiency and effectiveness, however, this is balanced by a potential higher individual salary cost for the experienced auditors.

Even though the internal audit staff has again been gradually increasing in the last 7 years - since “SarbOx” regulation came into force – the relative number of internal auditors employed is significantly less than two decades ago. This raises the question:

how this is manageable as in the same period the workload has increased significantly? The answer first of all lies within the composition of the audit staff. As noted earlier, the strategy for most firms are to use experienced and more effective auditors (quality against quantity) secondly, certain activities have been 'outsourced' or being reviewed by external audit according to the cooperation agreement and work division by external and internal audit. Thirdly, with the improvements in the information technology, certain tasks require less time to perform by using automated technology (e.g. data mining and integrated audit trails in ERP systems).

Risk Management - Future of internal auditing

While internal audit used to be the last line of defence, being concerned with financial statements mostly, by the 21st century the role has changed significantly. Financial records are being reviewed by external audit and the core tasks of internal audit are risk management and internal controls. For the future these two elements would probably remain but more focus would be on safeguarding reputation, such as forecasting.

The outsourcing trends change also the way how internal audit functions, firstly by the increase of outsourced tasks (mostly for financial transaction processing, accounts payable, accounts receivable) secondly by the potential of the internal audit function becoming a potential area being outsourced to gain effectiveness and cost savings in indirect.

With the continuous improvements in technology we can foresee that there would be more automatisation of the audit tasks, requiring less manual auditing. Enterprise resource systems (such as SAP, Sage etc.) would make transactions more transparent and providing clear audit trails and easier access to documentation.

The fact that internal audit gains access to lots of good practices during their reviews should not be ignored as well. Unilever for example is using its internal audit function as the centre of excellence and requires the auditors to collect the good/best practices globally and share them with the functional knowledge academies (Finance Academy, Supply Chain Academy etc.). A recent publication in the Internal Auditor magazine

(Anderson, Leandri 2006) writes that some US companies are following similar trends: "information gained is structured and shared on their corporate portal, which links to financial. Auditors identify best practices during the audit, record them in work papers, and post them on databases accessible throughout the organization."

While the internal audit department would most likely remain an important function in the future, the direction that it would take in the future organisations is not known with certainty today. Future research would be useful and value adding to be organised following up the trends outlined above.

Hypothesis 4.: "Finance needs to improve forecasting to regain credibility. The current ability of companies to predict the future and provide accurate forecasting on financial results is not sufficient."

Findings: Forecasting has gained importance in the last years (Gilliland, 2003) and companies driven by both reputation management and from operational efficiency pressures. The research results (Figure 37 / D.) show that nearly 88% of the respondents stated that forecasting would be the same or more important then prior to the recession.

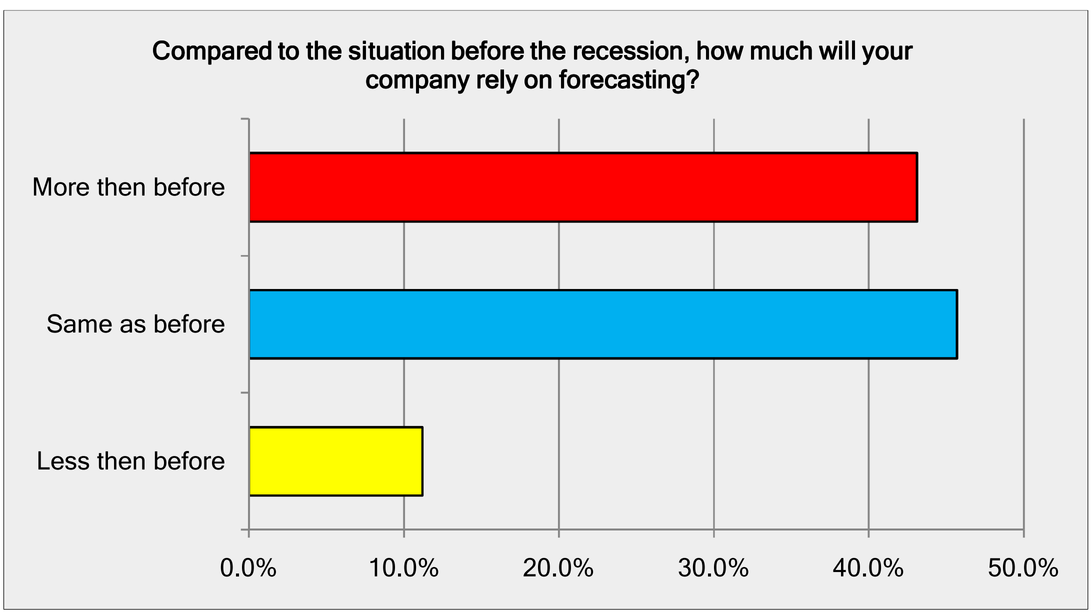

Figure 37 / D. Changes of importance of Forecasting, own work

In such volatile market conditions management performance is also measured by how accurate they deliver on their forecasts. Therefore, getting forecasting right is utmost importance otherwise companies will not be using their resources effectively and would incur unnecessary cost or miss cost saving opportunities. The correlation of share price improvement with reliable forecasting accuracy has been proven (KPMG, 2007), therefore, companies could and should consider investments into forecasting with a potential good return on investment.

5.2 Conclusions

According to the findings of the research traditional Finance is not capable to fulfil the role of strategic support for the business as a result of its past focus and internal orientation. One of the criticisms of the traditional Finance function is that it spends too much time on analysing the past instead of looking into the future. While taking the learning from the past is also important, supporting strategic planning without looking into the future is hardly possible. A similar problem is the orientation of focus, which in most cases inward looking. The traditional inward and past focused orientation limits Finance's capabilities to help the enterprise gain competitive advantage by closely monitoring competition via benchmarking or to gain further market trust by providing accurate forecasting.

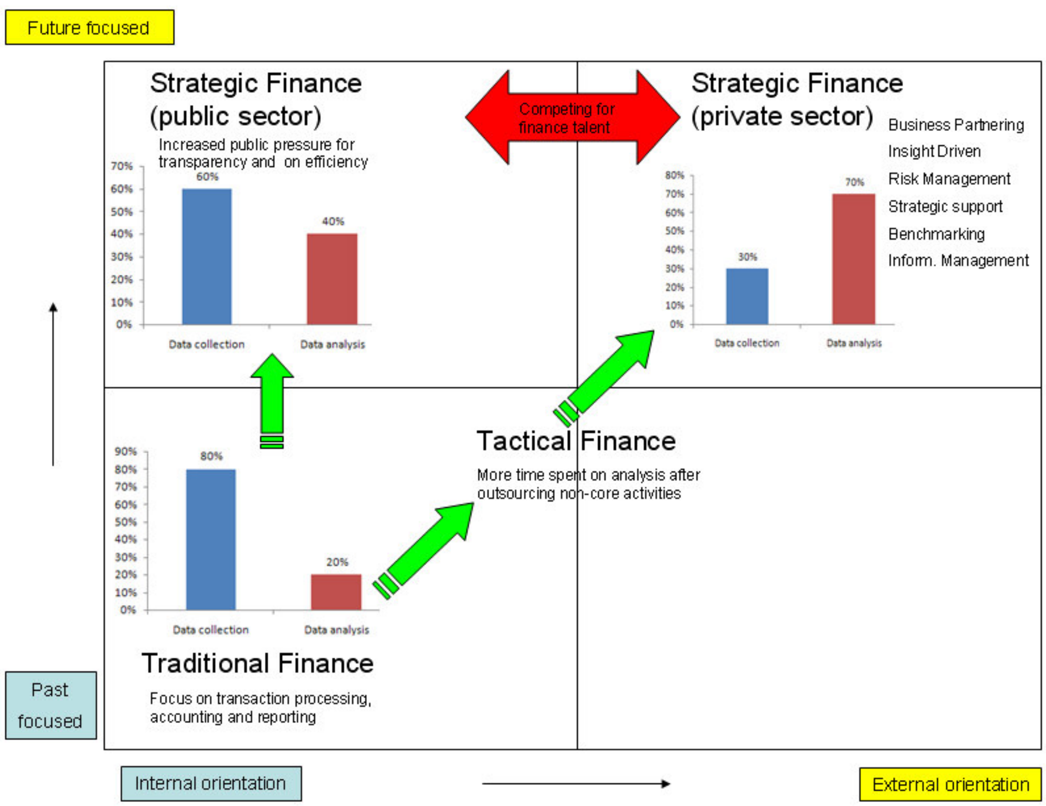

Figure 38. The Journey of Finance (2.), own work

The earlier presented Journey of Finance 1. model of 2008 (Figure 17.) has been developed further and now captures the research findings. The summary of the new model with the directional change is captured in Figure 38. The move from the traditional Finance towards a tactical and finally to a strategic positioning that is externally oriented and future focused is the essence of journey that Finance needs to take. The journey in front of the private and public Finance functions might be different according to their needs and readiness, however, there could be a collision point in the future, with regards to competing for Finance talent, that both wish to attract.

The numerical results of the research show that based on the samples taken and the analysis there is no strong correlation in terms of satisfaction scores and the country of origin, neither the job function, let it be Finance or non-Finance background. Accordingly, the sample does not prove that tested statistical models in SPSS would be applicable to predict future patterns. Therefore, for future statistical analysis in this area it would be advised to analyse correlation with taking other elements into account like age, gender, years of experience etc. There might be more correlation amongst these factors. However, even if the statistical models have limited applicability on the results, it could be still noted that there was significant difference in how each participating country scored the Finance profession. UK scoring in general the highest and Poland the lowest. Hungarian scores were closest (0.09) to each other implying that according to these results viewpoints from the Finance/non-Finance are similar, which might suggest that Hungarian Finance people have the most realistic view of themselves and their professions. Last but not least the significant differences (0.28) by the French Finance/non-Finance respondents also worth further follow up as this was much higher then any other country/category combinations.

Qualitative insights from the interviews and job descriptions support that the Finance function truly feels the needs of changing. Performing the core Finance tasks such as reporting and analysis does not please the internal customers anymore if it is escorted by low forecasting accuracy and inward orientation, ignoring what is happening on the market. Finance needs become truly business partners who support strategy by helping building the business rather then blocking the new projects with constrained thinking. Furthermore, the recession has taught the lesson that the controls of the business processes and cash flow are crucial in difficult periods and risk management is not only necessary but, if used robustly, could be a competitive advantage over less prepared competitors.

In search of excellence for the Finance function, there is a need to close the gap between world class Finance and the average. Accordingly, the analysis of findings and control group supports that relevance of the earlier developed “i4B” model can help Finance organisation become world class and gain competitive advantage.

The “i4B” model, key areas to gain competitive advantage in Finance

- Information Management: In today's changing world speed of reaction is part of competitive advantage, therefore obtaining the right information at the right time and making it available to the right people is key in order to succeed.
- Forecasting: Finance is one of the functions where reputation does matter so foreseeing the results with great accuracy – make a difference in the eyes of the shareholders and financial markets.
- Outsourcing : Outsourcing allows the enterprise to focus on its strategic agenda by freeing up resources from non-core activities. The future expectation is that outsourcing trends will continue and the energy that Finance will spend on transactional or control measures would reduce significantly.
- Use of Benchmarking: inward focus is not enough anymore, the organisations must be looking outside and compare themselves to competition.
- Risk Management and Controls: Enterprise are taking risks every day at each decision that they make, however, the related exposure and the mitigating actions could make the difference of achieving competitive advantage or losing the profits. Since

corporate scandals of Enron, Parmalat etc., situation has improved (e.g. Sarbanes-Oxley law in the US), however, new issues arising at the 2008 financial crisis show that focus on risk management is still not sufficient.

- Business Partnering and Insight - Ultimately Finance is a service department so it needs change the way it counteracts with clients, active decision support and close involvement into strategy formulation is key.

For the ease of use we can shorten the above into the acronym of i4B.

Figure 39. The i4B model, own work

The new organisation of Strategic Finance

Application of the i4B model can also imply that the organisation of the Finance as we know it today will change and evolve when moving towards Strategic Finance. There is not full clarity how this new organisation will look but some parameters could be derived from the model. The Strategic Finance organisation would be smaller with regards of number of employees. Less people will do more tasks with the help of advances in information management such as cloud computing, using dashboards, end to end applications in information management and integrated forecasting tools. Previous Sales Forecasting and Demand Planning will be extended by robust Financial Forecasting spanning over the whole spectrum of the company. Analysis and decision support will be integral part of Business Partnering service that Strategic Finance provides. Further outsourcing and automatisation will allow finance to focus on more of the core activities, less people doing more complex tasks. Benchmarking will increase and collaboration between the public and private sector finance will increase the skill gap will narrow. Both will take on more responsibility of risk management and controls fuelled by the economic uncertainty of global and regional crisis that companies are facing periodically.

Therefore, Strategic Finance will be a leaner, more integrated to the business, oriented to information management and ultimately a strategically more important function in the future's organisation.

5.3 Limitations of the research and implications for future research

Being one of the first authors to explore a very new research topic is both an exciting and also very challenging task. With very limited comparable Hungarian or International research data it is difficult to relate this study to other studies and researches. Comparability and cross checking of the findings can be rather difficult.

The limitations of the research relates to its uniqueness as well. Being a multicountry research and having in scope four countries in Europe provides an exciting opportunity to compare results from different geographical locations and business communities with different cultural background and mindset. However, this wider scope can also limit the relevance on a country level.

As the limitations arising from the wide scope were recognised special efforts were put in place to compensate for these. The selection of respondents were carefully planned to ensure that senior business executives from notable companies would participate. This way the nearly two hundred responses could provide better insights then having further masses of randomly issued questionnaires. Furthermore, the parallel job description review, the review of the findings in the focus groups discussions and conclusions testing during international conferences all contributed to provide firm insights into the topic.

It should also be noted that the limitations of the research opens up new opportunities for future research as well. By all means this would mean to dig further and deeper into the country results (e.g. using the GLOBE research's data, House et al 2002). Future research should delve more into the comparison of challenges in the public vs. private Finance functions. In the survey there was a limited data collected on the public sector but due to the low responses it could not qualify as representative sample. Exploring this area further is recommended as according to the literature review there are significant changes in the public Finance sector as well, therefore a dedicated research could be very useful by its own. Public sector Finance seems to follow and implement the practices from the private sector Finance, however, with a few years of delay.

Understanding the patterns and knowledge exchange between the public and private could provide a new research area.

Competing for talent between the public and private Finance functions is an emerging issue already researched into the motives and the flow of resources across the two different sectors would be a new area of exploration and could provide lots of useful insights both for the Finance profession and the related industries it operates in.

5.4 Outlook in 2012

At the time of the dissertation finalisation there are signs that the economies of Europe might not be on the path of economic recovery but fall back to recession. The earlier optimistic CFOs' global outlooks of the first half year of 2011 (O'Sullivan, 2011) seems to be gone. Outlooks have become more pessimistic on the emerging risks of a W shape recession amid the concerns of Europe falling back to recession (Rastello, 2011) for the next year. The global financial crisis fast-forwarded a number of earlier started change patterns in the global economies shifting from a uni-polar world to a multi polar one (El-Erian, 2010).

As noted earlier the financial crisis and recession were not the triggers of the change in the Finance function's behaviour but rather catalysts of speeding up the change that started earlier. Finance seems to have understood the need of change and in process of responding but the journey is far from over. Stopping here would mean a greatly missed opportunity and in midst of a second wave of recession a big risk as well.

While the 2008-2009 financial crisis put the need of change for Finance to higher gears, a potential fall back to recession in 2012 might be the actual tests to judge how ready the function has became to help overcome economical downturns. Therefore, Finance should be more determined then ever before in order become an agile, strategic business partner for the business during these critical periods.

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APPENDIX 1. Questionnaire on strategic Finance

Q1. How satisfied are you with the below performance elements of your Finance function: Please use the following scale of 1-5. [**1=Very Dissatisfied**, Dissatisfied, Neither Satisfied or Dissatisfied, Satisfied, **Very Satisfied=5**]

☐ Accuracy and Timeliness of the monthly financial closure and reporting
☐ Invoice and transactions processing
☐ Scenario modeling and business proposals
☐ Decision support via on demand calculations
☐ Rolling financial planning or annual plan preparation
☐ Business Risk Management and key controls
☐ Financial Forecasting accuracy

Q2. To what extent do you agree or disagree with the following statements with regards to your Finance function? [Rate on a scale of 1 to 5, where **1 = Strongly Disagree** and **5 = Strongly Agree**]

☐ Finance is an only inward looking function
☐ Finance is concerned mainly about the past and not the future
☐ Finance is providing reliable reports and analysis
☐ Finance spends too much time on reporting
☐ Finance is using acronyms to keep non-financials in the dark
☐ Finance team is inflexible
☐ Invoice and transactions processing takes up too much time

Q3. What are the key areas your Finance function is spending their time (3 years ago, NOW and in 3 years)? [Put the approximate percentages (%), equaling 100% in total.]

	3 years ago	NOW	3 years from now
Transaction management	%	%	%
Control (and risk) management	%	%	%
Analysing the past, performance management	%	%	%
Decision support / business partnering	%	%	%
Managing cash flow and credit risks	%	%	%
	= 100%	= 100%	= 100%

Q4. To what extend would you consider important each of the following areas for Finance function organisation? [Rate on a scale of 1 to 5, where **1 = Not Important** and **5 = High Priority**]

Area		**Not Important**		**High Priority**	
	1	**2**	**3**	**4**	**5**
Analysing the company's past performance (trends, ratios)					
Forecasting the future					
Complying with the country law and company regulations					
Improve financial awareness of non-Finance functions					
Providing stability to the business via key controls put in place					
Business Risk Management					
Measuring and monitoring business performance					
Cost reduction proposals					
On time and accurate reporting					
Retaining talent and developing employees					

Q5. In the next 2 years, what would be the key priorities for the Finance functions? [Check up to 5 from the list below.]

☐ Building the Finance capabilities needed to support an increasingly complex enterprise strategy

☐ Simplifying the Finance legacy environment (reports, data consolidation)

☐ Infusing a value-oriented culture throughout the enterprise, such that behaviors, decisions and strategies are focused on the common objective of delivering sustainable and superior shareholder or stakeholder value

☐ Managing increasingly complex outsourcing and shared services arrangements

☐ Building the Finance capabilities needed to support controls and regulatory requirements

☐ Managing the increasingly complex needs of all stakeholders (board of directors, investors, etc.)

☐ Attracting, retaining and managing the Finance workforce

☐ Effectively managing new and complex financial, business and operational risks

☐ Optimizing the capital structure of the enterprise

☐ Other, please specify_____________________________________

Q6. How much time do you think would take to find out how much was your company's energy consumption cost in the last month? [Please tick the one that you consider as appropriate.]

Less then 1 hour	O
1 hour – 1 day	O
1 day – 5 days	O
More then 5 days	O

Q7. How much confidence would you have in the integrity/reliability on the global energy consumption figure [Rate on a scale of 1 to 5, where **1 = Not Confident** and **5 = Full trust**]

1 2 3 4 5

Q8. To what extent do you agree or disagree with the following statements with regards to your <u>forecasting</u> function? [Rate on a scale of 1 to 5, where **1 = Strongly Disagree** and **5 = Strongly Agree**]

☐ Precise result forecasting can improve shareholder/investor confidence
☐ Our company is providing reliable forecasting
☐ There is a robust forecasting process in the company
☐ Forecasting is owned and managed by Finance
☐ Forecasting is an integrated process, involving number of functions
☐ Bonus payments should be linked to forecasting performance as well
☐ Forecasting performance could be improved by investing in technology
☐ Forecasting performance could be improved by discipline

Q9. Due to the increased pressure on cost management in the recession, how effective do you think your company was in cost cuts in the below areas: [Rate on a scale of 1 to 5, where **1 = Not Effective At All** and **5 = Very Effective**]

Employee benefits	O
Information technology	O
Real estate	O
Supply chain – production	O
Supply chain – raw/pack materials	O
Supply chain – warehousing/distribution cost	O

Q10. Compared to the situation before the recession, how much will your company rely on the following sources of capital over the next 6-12 months? [Please tick the one at each line that you consider as appropriate.]

- O Less than before
- O The same as before
- O More than before

Demographics

D1. In what industry does your enterprise primarily operate? Select one.

- ☐ Agriculture
- ☐ Automotive
- ☐ Banking & Insurance
- ☐ Biotechnology
- ☐ Capital Markets
- ☐ Chemicals
- ☐ Consumer Goods & Services
- ☐ Education
- ☐ Electronics and High Tech
- ☐ Energy
- ☐ Government
- ☐ Health Care
- ☐ Industrial Equipment
- ☐ Manufacturing
- ☐ Media & Entertainment
- ☐ Pharmaceuticals
- ☐ Retail
- ☐ Telecommunications Services
- ☐ Transportation & Travel
- ☐ Utilities
- ☐ Other, please specify____________________________________

D2. Where are your enterprise's primary operations located? Select one.

☐ United Kingdom

☐ Poland

☐ France

☐ Hungary

D3. Do you consider your enterprise to be global, national or regional?

☐ Global

☐ National

☐ Regional

D4. What was your enterprise's global revenue (or operating budget for public sector) in EUR in 2009?

☐ Less than 1 Million EUR

☐ 1 Million to 10 Million EUR

☐ 10 Million to 100 Million EUR

☐ 100 Million to 1 Billion to

☐ 1 Billion to 30 Billion EUR

☐ More than 30 Billion EUR

D5. Which of the following best describe your title or role?

☐ President/CEO

☐ Director of Manufacturing/Supply Chain

☐ Director of Marketing/Sales/HR

☐ CFO

☐ Vice President/Director of Finance

☐ Chief Risk Officer

☐ Treasurer

☐ Comptroller/Controller

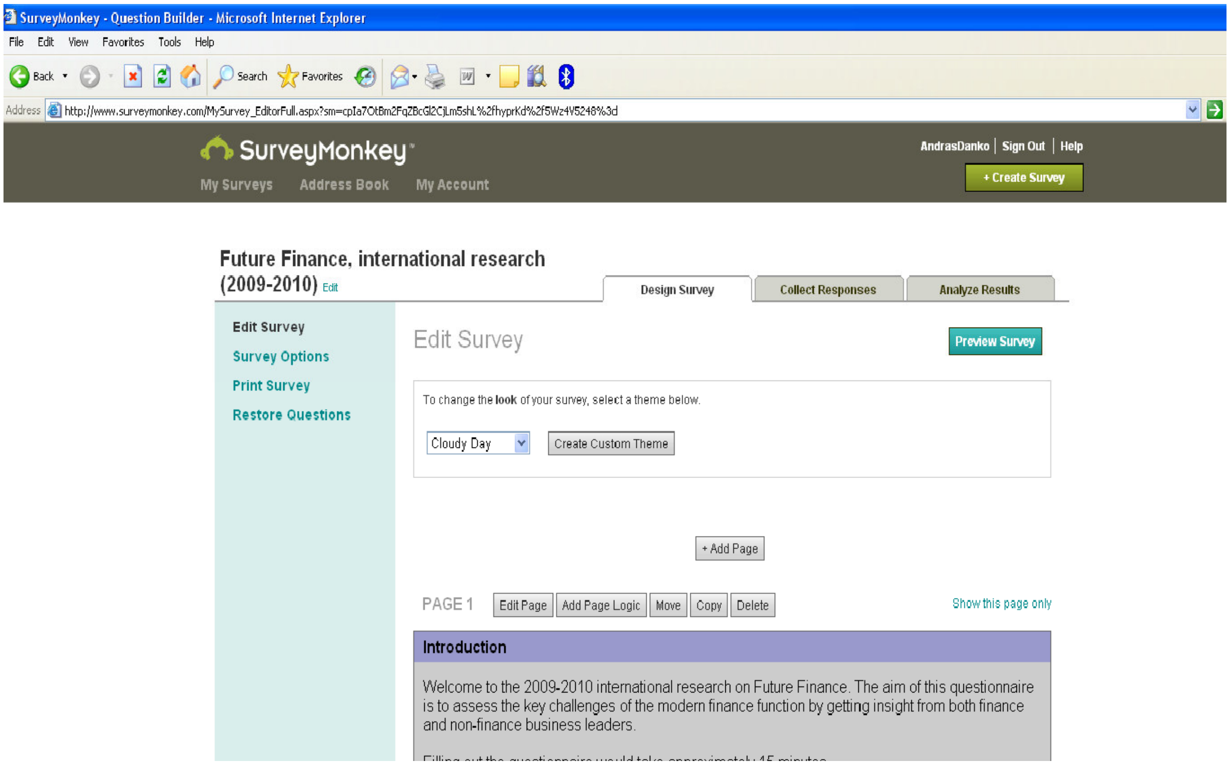
☐ General Manager

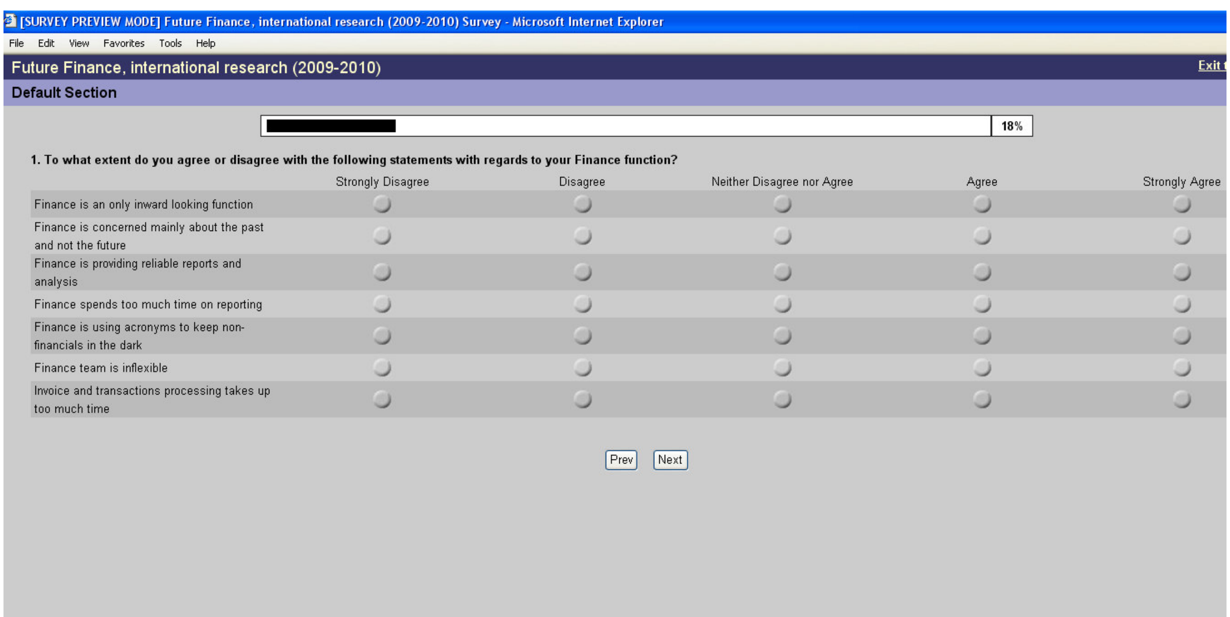
☐ Director of Shared Services

☐ Other, please secify___________________________________

Your participation has been a great help and is much appreciated. If you would like to receive a copy of the findings from this research, along with a customized report of your responses versus the aggregate, please enter your name and organization's address. This will have no effect on the anonymity of the survey. Thank you again for your time and consideration.

APPENDIX 2. The online survey





APPENDIX 3. Kérdőív a stratégiai pénzügy területén

1. Mely alábbi állításokkal ért egyet a pénzügyi funkció vonatkozásában?
(1 = Nem értek vele egyet, Kissé egyetértek, Semleges, Valamelyest egyetértek vele, 5 = Teljesen egyetértek vele)

- ○ A pénzügy csak egy befelé tekintő funkció
- ○ A pénzügy főleg a múltba tekint, nem a jövőbe
- ○ A pénzügy megbízható riportokat és elemzéseket szolgáltat
- ○ A pénzügy túl sok időt tölt a jelentések készítésével
- ○ A pénzügy mozaikszavakat használ, hogy a nem-pénzügyi szakemberek ne értsék
- ○ A pénzügyi csapat rugalmatlan
- ○ A számlázási és a tranzakciós ügyletek túl sok időt vesznek igénybe

2. Mennyire van megelégedve a pénzügyi funkciónak az alábbi területeken végzett szolgáltatásával? (1 = Egyaltalan nem elegedett, Kissé elegedett, Semleges, Valamelyest elegedett, 5 = Teljesen elegedett vele)

- ○ A havi pénzügyi zárás pontossága és a határidők betartása
- ○ Számlázás és tranzakciók teljesítése
- ○ Szcenário modeling és üzleti tervek elkészítése
- ○ Döntés-támogatási elemzések
- ○ Folyamatos, gördülő pénzügyi terv vagy éves terv készítés
- ○ Kockázat elemzés
- ○ Pénzügyi előrejelzés (forecasting) pontossága

3. Ön szerint mely területekre fókuszál leginkább a pénzügyi funkció (3 évvel ezelőtt, most, 3 év múlva)

	3 éve	Most	3 év mulva
Tranzakció management	%	%	%
Kontroll (és kockázat) management	%	%	%
A múlt elemzése, teljesítmény management	%	%	%
Döntéshozatali segítség / üzleti kapcsolat	%	%	%
Cash flow menedzselése és hitelkockázat	%	%	%
	= 100%	= 100%	= 100%

4. Az alábbi területek közül Ön szerint melyek fontosak a pénzügyi funkció számára? [**1 = Nem fontos** and **5 = Nagyon fontos**]

Terulet		**Kicsit fontos**		**Nagyon fontos**	
	1	**2**	**3**	**4**	**5**
A cég múltbeli teljesítmény elemzése (trendek, ráták)					
A jövőbeli pénzügyi tervek elkészít					
Az ország törvényeinek és a szabályainak betartása					
Pénzügyi tudatosság fejlesztése a pénzügyi területen					
A cég megszilárdítása a főbb control pontok erősítésével					
Kockázat elemzés					
Az üzleti teljesítmény mérése figyelése					
Költségcsökkentési javaslatok					
Pontos és precíz riportálás					
Megtartani és fejleszteni a tehets munkaerőt					

5. A következő 2 évben mi lesz a pénzügyi funkció fő prioritása? (Jelöljön meg legalább két területet!)

- ○ A pénzügyi osztály képességeinek fejlesztése, hogy minél hasznosabban tudja támogatni a
- ○ vállalati stratégia végrehajtását.
- ○ A pénzügyi folyamatok egyszerűsítése (jelentések, konszolidáció)
- ○ Érték-alapú kultúra megteremtése, amiben a társosztályokkal szorosabban együtt működve
- ○ szolgálják a tulajdonosok érdekeit.
- ○ Kiszervezés (outsourcing) és a vállalati folyamatok egyszerűsítése
- ○ Tehetséges szakemberek felkutatása, képzése és megtartása
- ○ A hatékonyság növelése a complex pénzügyi, üzleti és kockázatelemzési technikán keresztül.
- ○ A vállalati tőke struktúrájának javítása
- ○ Egyéb, kérem jellemezze

6. Mit gondol mennyi időbe tartana megtudni, hogy mekkora volt a cég legutolsó havi energia költsége?

- ○ Kevesebb, mint egy óra
- ○ 1 óra – 1 nap
- ○ 1 nap – 5 nap
- ○ Több, mint 5 nap

7. Mennyire bízik meg a globális energia költség számainak pontosságában? 1 = bizalmatlan és 5 = teljesen megbízik

1 2 3 4 5

8. Az alábbi állítások közül melyikkel ért egyet vagy ellenzi azt az előrejelzés/forecasting területet illetően? (1 = Nem értek vele egyet, Kissé egyetértek, Semleges, Valamelyest egyetértek vele, 5 = Teljesen egyetértek vele)

- ○ A precíz előrejelzések javíthatják a részvényesek / befektetők bizalmát
- ○ A cégünk megbízható elemzéseket készít
- ○ Cégünknél sokrétű forecasting rendszer működik
- ○ A hosszútávú előrejelzés a pénzügy feladata és az ő felelősségi körébe tartozik
- ○ A hosszútávú előrejelzés egy integrált folyamat, amely számok rendszerét foglalja magába
- ○ A bónusz kifizetéseknek a hosszútávú előrejelzések pontosságához kellene kötődniük
- ○ A hosszútávú előrejelzéseket a technikai feltétetelek (pl. számítógépes programok) javításával eredményesebbé lehetne tenni.
- ○ A hosszútávú előrejelzést szabályozással kellenne javitani

9. A recessziós válságban mit gondol milyen hatékony volt a cége a költségek csökkentésében az alábbi területeken (1 = egyáltalán nem hatékony és 5= rendkivul hatékony)

- Dolgozói juttatások
- Informatikai terület
- Ingatlan, vagyon
- Ellátási lánc – gyártási költségek
- Ellátási lánc – alapanyag beszerzés
- Ellátási lánc – csomagolóanyag beszerzés
- Marketing és promociós költségek

10. A recesszió előtti időszakkal összehasonlítva mit gondol mennyire fog a cége az előrejelzési technikákra (forcasting) támaszkodni?

- Kevesbé mint korábban
- Ugyanannyira mint korábban
- Jobban mint korábban

Demográfiai adatok

D1. Melyik iparágban tevékenykedik a cége elsődlegesen?

☐ Mezőgazdaság
☐ Autóipar
☐ Bank & Biztosítás
☐ Biotechnologia
☐ Pénzügyi szolgáltatások
☐ Kemikáliák
☐ Fogyasztási termékek
☐ Oktatás
☐ Elektronika
☐ Energia szektor
☐ Kormányzat
☐ Egészségügz
☐ Nehézipar
☐ Gyártás
☐ Média és szorakoztatás
☐ Gyógyszeripar
☐ Kereskedelem
☐ Telekommunikáció
☐ Szállítás és Utazás
☐ Közművek
☐ Egyéb, ______________________________________

D2. A cége földrajzi érdekeltsége és tevékenysége mire fókuszál?

☐ Globális
☐ Régiós
☐ Magyarországra fókuszálva

D3. Mekkora volt a cégük árbevétele (ill. költségvetése non-profit szervezetnél) 2009-ben, EUR-ban?

○ Kevesebb mint 1 millió EUR

○ 1 millió és 10 millió EUR között

○ 10 millió és 100 millió EUR között

○ 100 millió és 1000 millió EUR között

○ 1 milliárd EUR-nál több.

D4. Hogyan tudná jellemezni a cégben betöltött pozicióját?

☐ Elnök, vezérigazgató

☐ Tulajdonos

☐ Igazgató, Gyártási/Ellátási lánc területen

☐ Igazgató, Marketing/Eladás/Kereskedelem/Adminisztráció/HR

☐ Igazgató, Pénzügy

☐ Kontroller

☐ Manager (nem pénzügy)

☐ Manager (pénzügy)

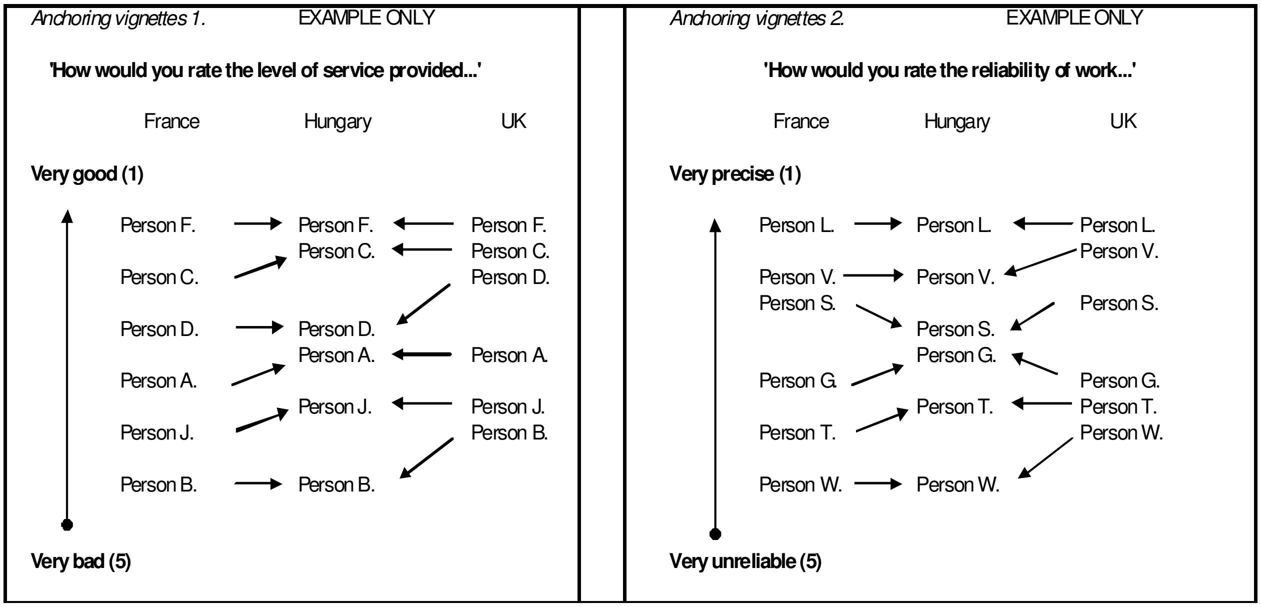
☐ Egyéb____

Köszönjük, hogy kitöltötte a kérdőivet.

Amennyiben szeretné megkapni a kutatás eredményét kérjuk adja meg az adatait az alábbiak szerint. Ezzel nem befolyásolja a kérdőiv anonimitását.

APPENDIX 4. Anchoring vignettes I. (concept overview)

Analysis based on the anchoring vignettes



Source: Own simulation based on Gary King and Jonathan Wand (2007). Comparing Incomparable Survey Responses: New Tools for Anchoring Vignettes, *Political Analysis*, 15, 1 (Winter, 2007): Pp. 46-66.)

APPENDIX 5. Anchoring vignettes II. (questionnaire)

Overall, how would you rate the reliability of the work of each person described below:

Very precise
Fairly precise
Moderate
Not reliable
Very unreliable

Lopez is always friendly, she listens to her clients and colleagues. She does calculations on time and spends efforts on explaining them to the person requesting it. She prepares reports to his clients according to their personal requests even if this requires extra time. Last time she was working overnight to prepare the presentation for his colleague and the presentation was a smashing success.

(Very precise, 1 2 3 4 5, Very unreliable)

Victoria does her calculations much faster then any of her colleagues. However, she often makes small mistakes. If she has limited time she focuses on the format of her report not the content. During the last meeting a colleague found some errors in her presentation. She took the feedback well and since then pays more attention to check her analysis before presenting them.

(Very precise, 1 2 3 4 5, Very unreliable)

George is very precise but works slower than his other colleagues He is working from early in the morning to late in the evening. He never takes a break and always busy with the many papers on the desks and he goes to every meeting with his calculator. He keeps copies of all information that he has given. He often gives the information late but he never makes a mistake. He does not want to spend time on colorful presentations but rather spends time on double checking the correctness of his calculations. He has no friends in the office and does not wish to chat at the coffee machine.

(Very precise, 1 2 3 4 5, Very unreliable)

Simon who is on the job many years has the reputation of being precise and he always able to perform complex calculations in head. His forecasts are always accurate and spend lots of time for analysis. He does not want to explain his calculations and claims that those people who do not understand his numbers are probably not clever enough. He thinks it is a waste of time to re-check his calculation as he is confident he always does everything right at first time.

(Very precise, 1 2 3 4 5, Very unreliable)

Tamara always comes last to the office and she is the first one to leave. She is regularly late from the meetings as well but tries to tell a good joke whenever she arrives. Many times she gets criticized for obvious errors in her calculation and the lack of structure in her presentations.

(Very precise, 1 2 3 4 5, Very unreliable)

Wicky is very creative, she always brings interesting new elements into the discussion which nobody thought before, however, she has difficulties in providing transparent calculations. On the last meeting she gave very innovative ideas to a business problem but the clients had difficulties to understand it. She was asked to continue bringing good ideas but try to make them more relevant to the business issues.

(Very precise, 1 2 3 4 5, Very unreliable)

APPENDIX 6. Statistical modelling using SPSS

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Score * Finance-NonFinance	125	26.4%	349	73.6%	474	100.0%
Score * Country	125	26.4%	349	73.6%	474	100.0%

Score * Finance-NonFinance

Crosstab

Count

		Finance-NonFinance		Total
		1	2	
Score	1.00	1	0	1
	2.14	1	1	2
	2.29	0	1	1
	2.43	2	2	4
	2.50	0	1	1
	2.57	3	2	5
	2.67	1	0	1
	2.71	1	3	4
	2.83	0	1	1
	2.86	3	5	8
	3.00	7	10	17
	3.14	5	2	7
	3.26	0	1	1
	3.29	6	4	10
	3.43	6	4	10
	3.50	0	1	1
	3.57	8	9	17
	3.71	8	4	12
	3.86	8	4	12
	4.00	3	2	5
	4.14	1	1	2
	4.29	1	1	2
	4.43	1	0	1
Total		66	59	125

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14.895[a]	22	.867
Likelihood Ratio	18.096	22	.700
Linear-by-Linear Association	1.267	1	.260
N of Valid Cases	125		

a. 36 cells (78.3%) have expected count less than 5. The minimum expected count is .47.

Directional Measures

			Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.084	.045	1.772	.076
		Score Dependent	.009	.036	.258	.796
		Finance-NonFinance Dependent	.220	.107	1.845	.065
	Goodman and Kruskal tau	Score Dependent	.005	.004		.905[c]
		Finance-NonFinance Dependent	.119	.039		.872[c]

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on chi-square approximation

Symmetric Measures

		Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Interval by Interval	Pearson's R	-.101	.091	-1.127	.262[c]
Ordinal by Ordinal	Spearman Correlation	-.138	.088	-1.551	.124[c]
N of Valid Cases		125			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on normal approximation.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	84.706[a]	66	.060
Likelihood Ratio	86.764	66	.044
N of Valid Cases	125		

a. 88 cells (95.7%) have expected count less than 5. The minimum expected count is .08.

Directional Measures

			Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Nominal by Nominal	Lambda	Symmetric	.147	.044	3.114	.002
		Score Dependent	.065	.048	1.309	.191
		Country Dependent	.263	.073	3.211	.001
	Goodman and Kruskal tau	Score Dependent	.045	.012		.000[c]
		Country Dependent	.227	.029		.061[c]

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

c. Based on chi-square approximation

Symmetric Measures[a]

	Value
N of Valid Cases	125

a. Correlation statistics are available for numeric data only.

APPENDIX 7. Case study: "Separating the Best from the rest"

Unilever - Reforming the Forecasting Process

Just five years ago there was considerable frustration within Unilever across the organisation in relation to the limited ability to deliver an effective process for short to medium-term dynamic reallocation of resources behind their category and geography priorities, in response to changing business realities and competitive pressures.

The problem was not an internal one only as the forecasting has became more important then ever before, as it was a key message to investors plus it was the key driver of resource allocation throughout the company. Furthermore, the Sarbanes Oxley regulation put further pressure get improvement in both the process and the results.

A biased forecast could mean that either the forecast process is systematically wrong or systematic change in the market have not been spotted or behavioural distortions have crept into the process (Unilever, 2005). From management point of view none of them is acceptable and require corrective action. Furthermore, biased forecasts cannot be relied upon for decision making purposes.

Unilever has made significant progress in terms of their forecasting process. A forecasting policy has been created and rolled out to all operating units globally. Since then forecasts are updated monthly (by operating units) and quarterly (by product categories). SAP roll out in the business regions has further enabled transparency as the ERP systems are managed by common platforms now.

To enhance further governance the internal audit group of Unilever, has been doing a global review on the application and controls reviewing dozens of operating companies and functions around a globe. This helped improve the overall controls and forecasting policy and audit also shared good practices found globally.

Bias and T-score analysis: all forecasts contain error and the primary measure is Forecast Bias. Bias is a tendency to under or over forecast. In FMCG companies like Unilever, the definition of positive bias is the tendency to over 'deliver' (or under-forecast). Negative bias is the tendency to under 'deliver' or over forecast. Bias is measured by comparing forecast and actual outcomes, preserving the sign. Typically this is expressed in percentage terms used in the short run (one to three months) - within decision making lead times – it is an accurate indicator of the quality of forecasts.

Measured over the longer term (e.g. a year) Bias measures not only the quality of forecasts but also the impact of events which, at the time of the forecast, were unknown e.g. actions which the business decided to take subsequent to the forecast being produced. Forecasts are biased if the forecasts are consistently higher or lower than the actual. As a rough rule of thumb 6 or more forecasts consistently too high (or too low) are almost 100% certain to be biased.

Forecast and Target: forecast is a likely future outcome, while target is a desired future outcome (goal or objective), so at some point of time they are essentially different. In most cases forecast is used as a tool to understand what actions need to be in place to achieve the target.

According to Unilever's forecasting policy: "financial forecasts should be based on a set of cross functional business planning processes the Financial Director (or equivalent) is solely accountable for the integrity of the financial forecasting process and the quality of the output."

Unilever companies are required to submit a central forecast and a range forecasts. The following are definitions of forecasts by Unilever's forecasting policy (2005):

"1. Central Forecast (around a single point) should be an `unbiased estimate': meaning equal probability of the forecast being 'too high' or 'too low'. The intention is to obtain the best view of forecast based on probability.

2. Range forecasts are required around the Central Forecast with a defined probability (e.g. 90%) of actual being in this range. The range forecast can include contingencies."

Contingencies are adjustment made to eliminate bias in forecasts based on a judgement of risk. They can be both positive or negative but related to specific events, or to the profile of a set of forecast as a whole.

According to Tabatabai (2008) a major cause of quality problems in business forecasting is bias, which is widely recognised but rarely seen as something to tackle strategically. In most cases improving forecasting simply means tackling bias by arbitrary adjustments or second-guessing, (which can add to the problem rather than solving it, since bias patterns can change without notice); or changing the process altogether (which rarely improves matters, since bias can infect the new process. Unilever is one of the pioneer companies seeking a methodical approach to eradicating bias in business forecasting. Most of the problems it has identified concern forecast performance measurement by “Stating definitively whether forecasts are biased or make objective judgments about whether the situation has improved or deteriorated”, Tabatabai (2008).

As part of the forecasting process roll-out Unilever has also issued a Forecaster's Toolkit, that comprised a set of robust but user-friendly Excel-based tools for managing forecast performance and diagnosing problems with forecasting processes, furthermore it includes a bias test that takes into account inherent process variation and sample size in order to test whether the forecast is biased or not.

Forecast bias chart (also known as t-score analysis). This tool could provide an objective rating of the degree of bias in a set of forecasts, taking into account sample size. Works out the probability of the average bias of a set of forecasts being consistent with a process capable of producing unbiased forecasts. It can be used effectively to quickly identify whether a set of forecasts is acceptable (meaning to be compliant with Company Policy).

Forecast error chart. Provides a set of ranges (based on historic forecast accuracy) which represent limits within which unbiased forecasts should fall. Based on historic forecast error works out the ranges within which 90% of individuals forecasts should fall if there is no bias. This tool can effectively be used to quickly identify whether bias has crept into your forecast process.

The completely refurbished forecasting process Unilever has improved its overall forecasting accuracy. Internally this helped saved costs via optimisation of the resources improving overall profitability. For the external world Unilever’s reputation has improved in the eyes of the investors who appreciated the companies being able to deliver on its goals.