

UNIVERSITY OF PÉCS  
FACULTY OF BUSINESS AND ECONOMICS

DOCTORAL SCHOOL IN BUSINESS  
ADMINISTRATION

András Dankó

**The changing role of Finance in the Strategic Management  
of the 21<sup>st</sup> century companies**

## THESIS SUMMARY

Supervisor: Professor Barakonyi Károly DSc

Pécs, 2012

## TABLE OF CONTENTS

<b>About the author .....</b>	<b>2</b>
<b>Chapter 1. - Introduction .....</b>	<b>2</b>
1.1    Importance of the research topic.....	3
1.2    Research objectives.....	4
1.3    The novelty of the research .....	4
1.4    Scientific questions to be solved.....	5
1.5    Hypotheses .....	5
1.6    Methodology .....	6
1.7    The logic of the thesis.....	7
<b>Chapter 2. - Literature review, the connection to Strategic Management .....</b>	<b>8</b>
2.1    History of Finance.....	8
2.2    Strategic Finance connection to Strategic Management .....	9
2.3    Changes in Financial Forecasting.....	15
2.4    Outsourcing .....	17
2.5    Risk Management .....	18
2.6    Business Partnering .....	18
2.7    Information Management .....	19
2.8    The changing role of Finance in the Public Sector .....	19
<b>Chapter 3 – The research methodology .....</b>	<b>21</b>
3.1 Primary Research .....	21
3.2 Secondary data .....	23
<b>Chapter 4 – The research findings .....</b>	<b>24</b>
4.1 Preliminary Research - Review of job the descriptions .....	24
4.2 Research findings (II.) – International survey .....	25
4.3 Feedback from control group discussions .....	34
<b>Chapter 5 – Conclusion and implications .....</b>	<b>35</b>
5.1 Result feedback on the hypotheses .....	35
5.2 Conclusions – New Scientific Findings.....	38
5.3 Limitations of the research and implications for future research.....	42
5.4 Outlook in 2012 .....	43
<b>Own publications .....</b>	<b>44</b>
<b>REFERENCES in the thesis summary .....</b>	<b>45</b>

## **About the author**

### **PROFESSIONAL BACKGROUND**

<b>Finance Director</b>	Unilever CEE, Poland	2009 - Today
<b>Group Financial Controller</b>	Amora Maille, France	2007 - 2009
<b>Corporate Audit Manager</b>	Unilever, United Kingdom	2004 –2007
<b>Factory Finance Manager</b>	Unilever, Hungary	2002 - 2004
<b>Category Finance Manager</b>	Unilever, Hungary	2000 - 2002

### **EDUCATION & QUALIFICATION**

<b>Ph.D (in progress)</b>	University of Pécs	2008-2012
<b>IFRS program</b>	Institute of Chartered Accountants of England and Wales (ICAEW)	2005-2006
<b>MBA (Business Strategy)</b>	Open University, London	2002-2003
<b>Certificate, Diploma</b>	Chartered Institute of Management Accountants (CIMA)	
<b>Diploma in Management</b>	Open University, Budapest	2001-2002
<b>MSc (Economist)</b>	JPTE (University of Pécs)	1997-2001
<b>BA (Economist)</b>	St. István University	1994-1997

## **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 2008-2009 crisis 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. 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 hypotheses 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 the evolutionary paths to consider for the future of the Finance profession.

### **1.3 The novelty of the research**

The principles of accounting and Finance were laid down more than 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. Accordingly, the role of Finance and how it supports the modern business has not been widely researched making this thesis unique and gap filling.

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) 19<sup>th</sup> 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 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.

#### **1.4 Scientific questions to be solved**

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. 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.

#### **1.5 Hypotheses**

The authors experience in the last 11 years working across a number of financial management positions across 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 dissertation tested four main hypotheses:

*Hypothesis 1.: 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.*

*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.*

*Hypothesis 3.: 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.*

*Hypothesis 4.: Finance needs to improve 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 Methodology

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.

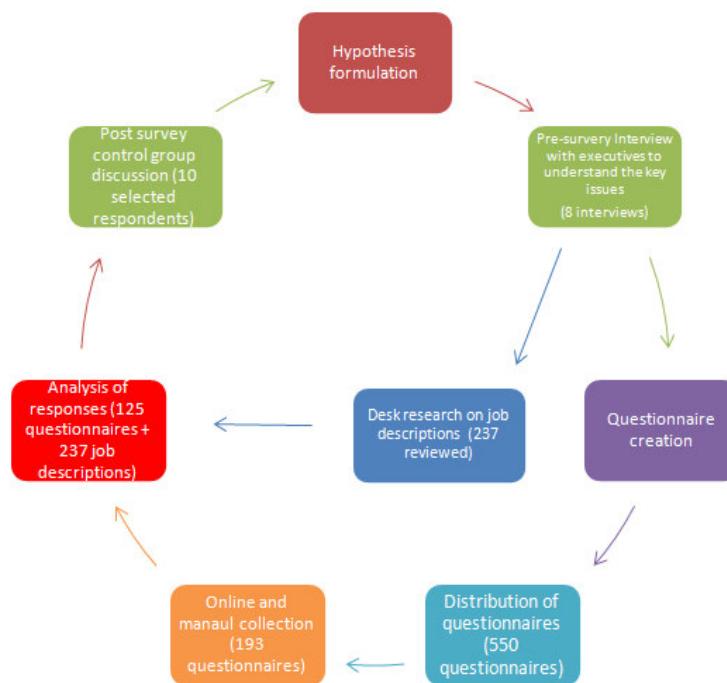


Figure 1. The research design, own work

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.

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 hypotheses 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.

## **1.7 The logic of the thesis**

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

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.

## **Chapter 2. - Literature review, the connection to Strategic Management**

### **2.1 History of Finance**

#### 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 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.

#### 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). 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 (Slang, 2006). 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.

## **2.2 Strategic Finance connection to Strategic Management**

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): "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 key approaches to business strategy are: External context, Resource-based and Process view, which 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 than its competitors. The strength of this approach also defines its main weakness. Namely, 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 creation. This approach 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. using the metaphor of a rope<sup>1</sup>.

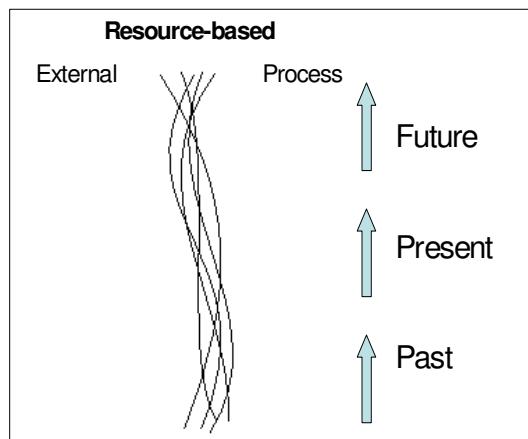


Figure 2. The holistic approach to international business strategy (Source: Ellis & Williams (1995)

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 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).

---

<sup>1</sup> Referring to the metaphor of interrelated strands of a rope, Ellis & Williams (1995)

According to Porter (1985) “*competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors*”.

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 20<sup>th</sup> century speed of information was key, however, in the 21<sup>st</sup> 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 (1957), 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<sup>2</sup> in the context of Competitive Advantage, Coordination and Control and claimed that “*without the appropriate*

---

<sup>2</sup> Referring to Collis&Montgomery Cynthia A. (1998): Creating Corporate Advantage, Harvard Business Review

*control systems, the corporate center can quickly lose its ability to determine strategic direction and influence performance in the individual business”* and suggesting that “*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.

#### Recent developments on Strategic Finance

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.

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.

Furthermore, as a result of the increasing reporting 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 than reality. 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 closely 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 21<sup>st</sup> 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.

#### 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”. This has been achieved by the creation of reporting standards to provide a functional framework for the Finance function. As of January 1<sup>st</sup> 2005, all European Union public companies had to conform to the International Financial Reporting Standards (IFRS). In 2006 the IASB and FASB (standard setter in the USA) agreed to launch a convergence program between IFRS and US GAAP (Generally Accepted Accounting Principles). 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. Finance and accounting has become a truly international or moreover global function, by the dawn of the 21st century.

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.

#### Structural difference in Western Europe and Eastern Europe

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). This has still implications on the investment attitude and risk appetite today regardless that investment decisions are based on similar methodology across Europe. On the other hand it 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 (Bakacs et al, 2002) – they are not a homogen entity. Cultural, economic and political circumstances do widely differ. Findings in the GLOBE<sup>3</sup> (House et al, 2002) study support that specific elements vary significantly within the Eastern European cluster.

### **2.3 Changes in Financial Forecasting<sup>4</sup>**

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. 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

---

<sup>3</sup> 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)

<sup>4</sup> Forecasting (= referring to Financial Forecasting of the company's results and not demand planning)

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. According to KPMG (2007) 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 (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.

A recent study (Hackett, 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 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.

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.

## **2.4 Outsourcing**

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 peripheral / non-core activities of the enterprise to a 3<sup>rd</sup> party (or in case of new enterprise creation the abandoning of certain activities, technologies).*<sup>5</sup> 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.

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.

It should be also noted that not all management authors agree outsourcing to be the ultimate solution. Porter (2001) suggests that outsourcing is not a general solution to any companies and should be executed only after careful consideration and analysis. This is also supported by the recent example of Colgate-Palmolive<sup>6</sup> shows 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.

---

<sup>5</sup>Referring to the definition of Balaton – Antal-Mokos -Drótós – Tari (2005)

<sup>6</sup>Colgate-Palmolive decided to in-source its Financial Shared Service operations recently

## **2.5 Risk Management**

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. Making people accountable is a key feature of good governance which could be achieved by providing strong internal controls. 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.

## **2.6 Business Partnering**

From the business point of view time spent on analysis is more valuable than 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. Business partners` core skills should be on understanding, challenging, influencing, designing and executing business strategy and planning. 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. They should also participate in the formulation and implementation of strategy, and help translate strategic intent and capabilities into operational and managerial measures.

## **2.7 Information Management**

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. 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, 2010). Technological responses to these challenges were moving towards automation that decreased time and eliminated manual errors. The 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 catalyst to drive progressive changes that previously faced too much resistance within the organization.

## **2.8 The changing role of Finance in the Public Sector**

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. 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. 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. 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. 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.

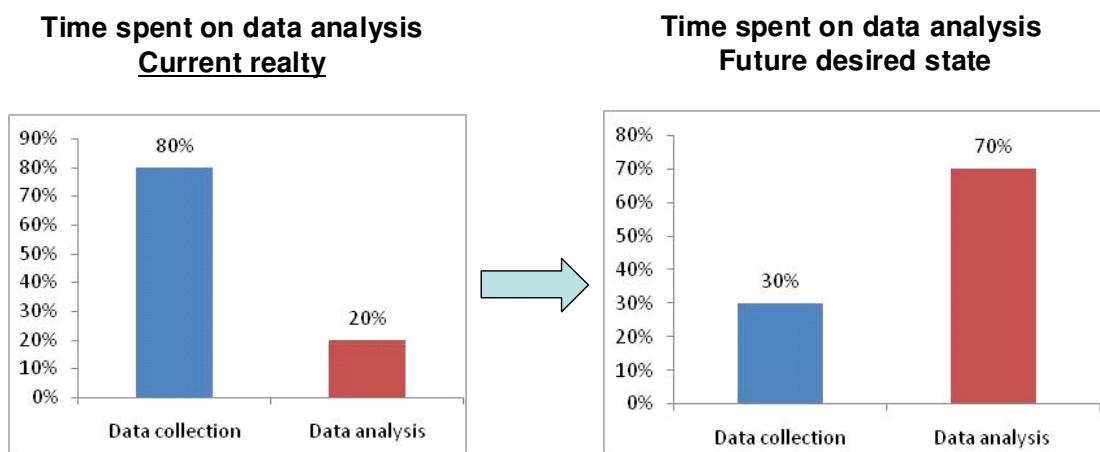


Figure 3: Own research, data partially based on Berriman (2009).

## **Chapter 3 – The research methodology**

### **3.1 Primary Research**

#### **The research design**

The first step was the problem definition and the formulation of the Hypotheses 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. 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 Human Resources).

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

Elements: Top managers and executives of the major industry players in the country.

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% 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.

**Respondents:** The questionnaire was sent to nearly 550 respondents in the four participating countries. The target population's executives were approached using professional networks, alumni networks, university networks, via intermediators and personal networking.

**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 for the Finance function.

**Time scale:** The research was carried out between March 2009 and January 2011.

### **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 then published on onto the [www.surveymonkey.com](http://www.surveymonkey.com) website. Survey Monkey is a web based tool with an intuitive web interface tool for the creation of online surveys. 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) and is among the most widely used programs for statistical analysis in social science. Additionally, the collected data are presented through the use of graphs in order to enable the comprehension of the results.

### **3.2 Secondary data**

#### **Accenture - High Performance Finance Study (2008)**

The study was based on surveys from 350 senior business leaders from 30 countries around the world. Key findings were: 1. Successful Finance organisation follow shared services model in which the Finance organization is an internal service provider to multiple business organizations within the enterprise. 2. General management and Finance still differ on how Finance should be supporting strategy formulation.

#### **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. The set of propositions was regarded as an iterative theory linked to a future-based approach to Management Accounting research.

#### **McKinsey - Global Survey 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. The McKinsey survey had also discovered dissimilarities in the view of management & Finance.

#### **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 some important issues would fall the end of the priority list, such as risk management and information integration.

## **Chapter 4 – The research findings**

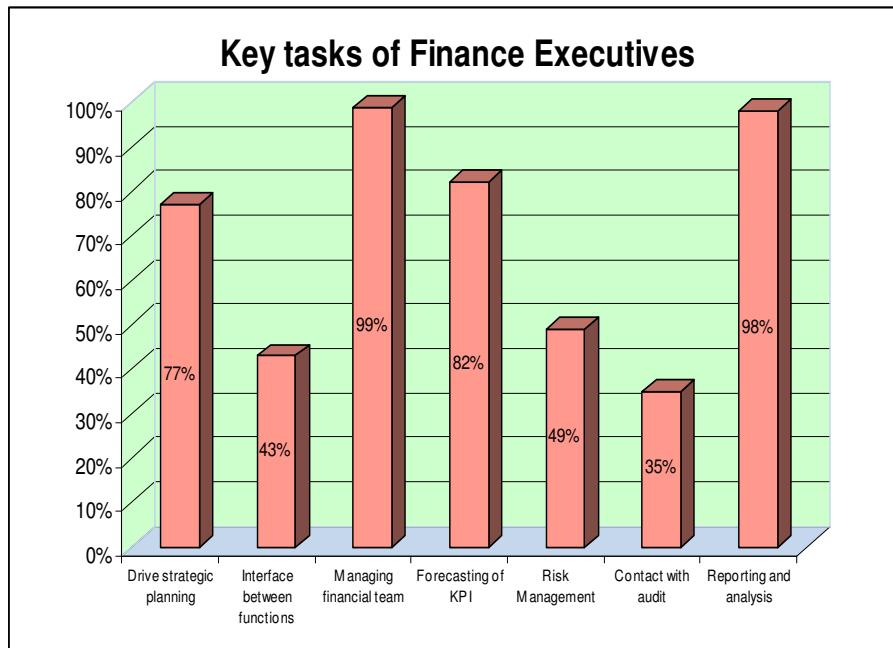
### **4.1 Preliminary Research - Review of job descriptions**

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.

One of the key changes noted was that a new mentality is being required and Finance should play a role of being builder rather than 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 than 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 than a necessity.

Figure 4. 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 4. Own research based on a sample of 237 job descriptions of Finance Executives in FR-UK-HU-Poland during Oct-2009 and June 2010.*

## **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 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.

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%).

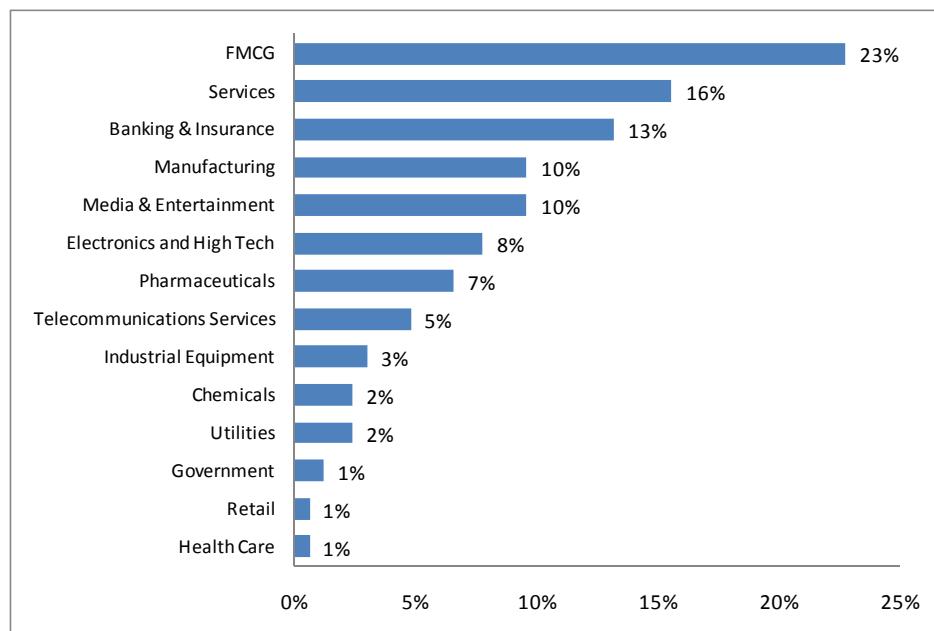


Figure 5. Sample split by industry, own work

### 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). 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 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)<sup>7</sup>. However, the UK and France responses were significantly different both in direction and magnitude as shown in the below overview.

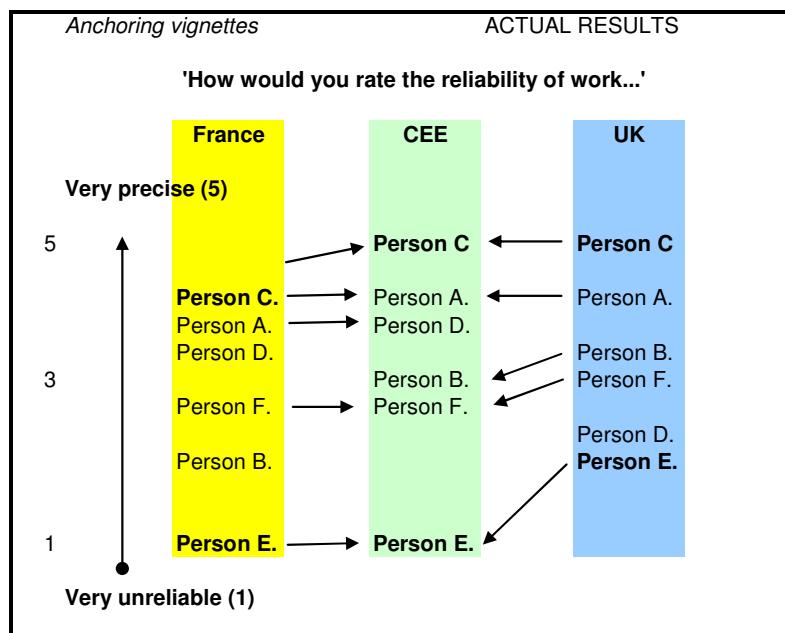


Figure 6. Anchoring vignettes results, own work

<sup>7</sup> 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.

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 win 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, the following adjustments were taken to the questionnaire’s responses:

- UK – worst score does not exist in general (2<sup>nd</sup> lowest means lowest score)
- France – very good score does not exist in general (2<sup>nd</sup> 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 7. 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%.

	Country				Total
	France	Hungary	Poland	UK	
Below 3					
Scores	9	5	7	7	28
% of total	26.5%	15.6%	35.0%	17.9%	22.4%
Above 3					
Scores	25	27	13	32	97
% of total	74%	84%	65%	82%	78%

Figure 8. 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 than 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 than 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 9. 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 than Finance), in other countries like France, Finance scores themselves significantly higher (3.36) than 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 be 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 than negative 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 than business decision support (61% and 59% respectively).

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) than 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).

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 than before. This is in line with the findings of the secondary research, Hackett study on forecasting (Hackett, 2010). Further findings show that priorities of the Finance teams are rather different in the researched countries. Forecasting seems to be the most important area for Finance in France, but only average important in Poland, Hungary and the UK. 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. 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. 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<sup>8</sup> cultural dimensions (1984) and the GLOBE<sup>9</sup> project. While both could be equally applicable in this study I refer to Hofstede. Applying Hofstede's cultural dimensions to the findings can help understand some of the country differences more in the survey results. Figure 10. shows the comparison of Poland, Hungary, France and the United Kingdom.

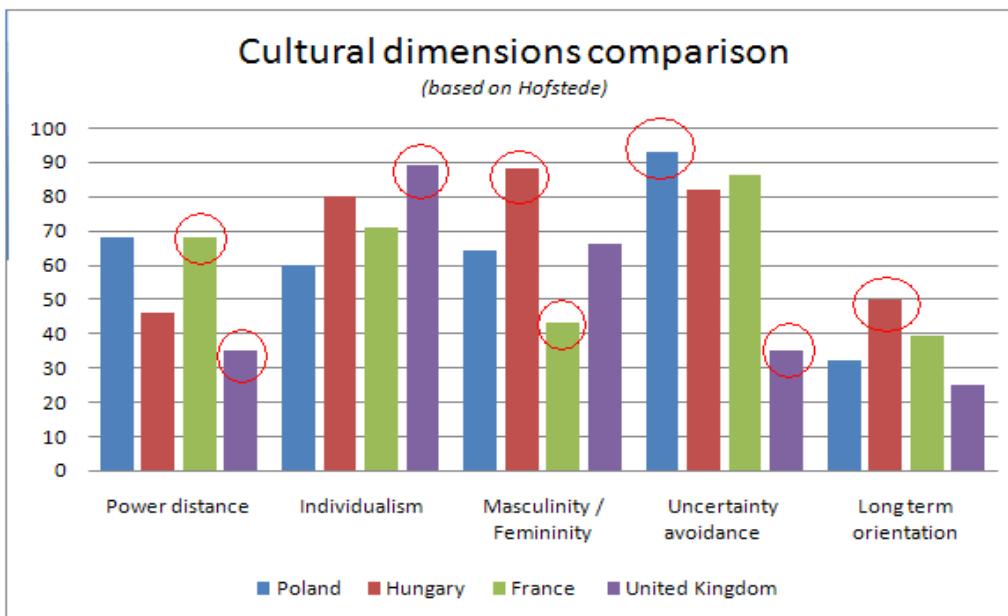


Figure 10. Cultural dimensions comparison (source: Hofstede, 1984)

Linking the above to the Finance survey's country results in Figure 11. about Non-Finance scoring the Finance function there are some interesting findings:

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

Figure 11. Scores split by function & country, own work

<sup>8</sup> Referring to Geert Hofstede's cultural dimensions theory (1984)

<sup>9</sup> 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)

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 than 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 12. 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.

#### **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.

- Business partnering. 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 than 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 provides valuable insights.

- Outsourcing. 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.

- Information management and cloud computing. 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.

- Talent management: 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 hypotheses**

The dissertation tested four key hypotheses 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 13. 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.

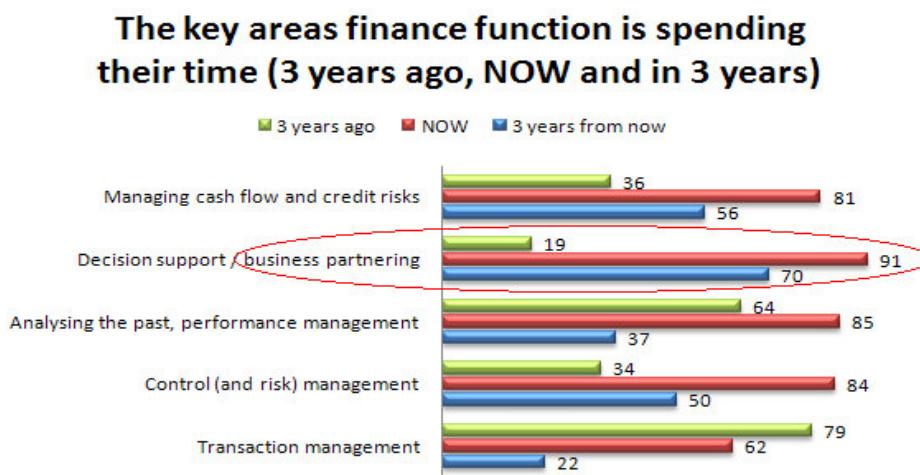


Figure 13. Priorities for the Finance function, own work

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 14.

<b>Country</b>	<b>Finance</b>	<b>Non-Finance</b>	<b>Difference</b>	<b>Highest ranking</b>
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 14. 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.

**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 15.) show that nearly 88% of the respondents stated that forecasting would be the same or more important then prior to the recession.

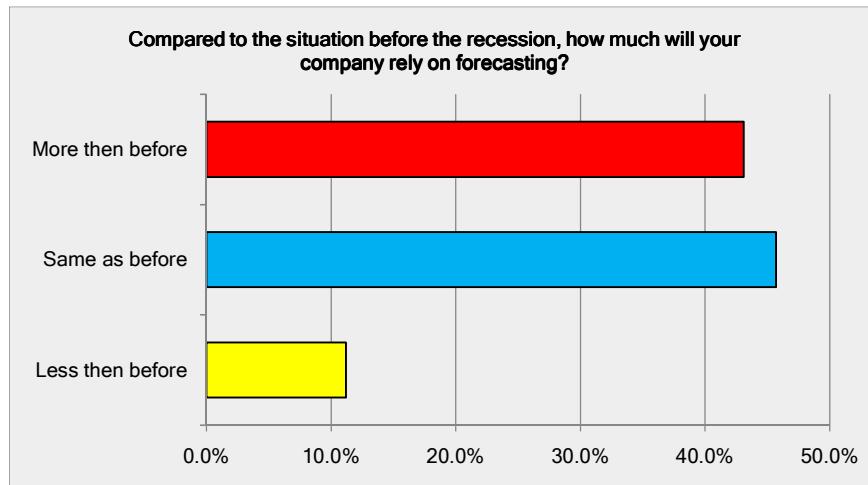


Figure 15. Changes of importance of Forecasting, own work

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 – New Scientific Findings

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.

The earlier presented and published Journey of Finance 1. model of 2008 has been developed further and now captures the research findings. The summary of the new model with the directional change is captured in Figure 16. 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.

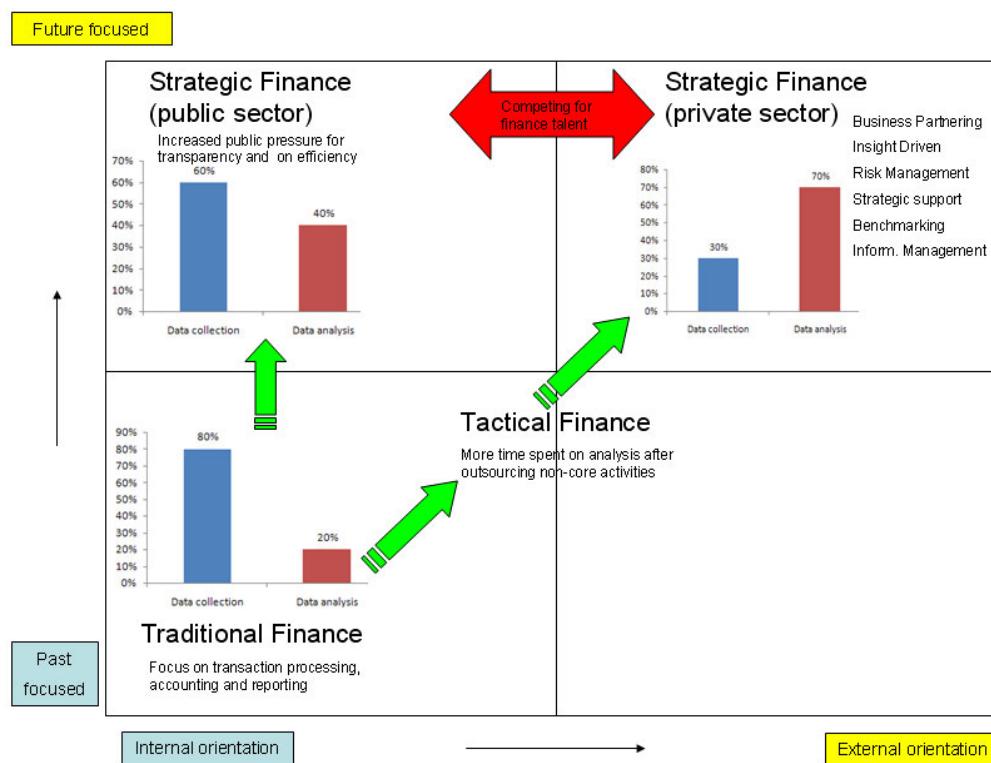


Figure 16. The Journey of Finance (2.), own work

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. 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 scores in general the highest and Poland being 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 investors.
- **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**: Organisation take 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. Sarbanex-Oxley in the US), however, new issues arising in 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.

Figure 17. 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 than 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.

## **Own publications**

- Dr. Rekettye Gabor's book (Dankó, András) (1999): Ár a Marketingben, (ISBN: 9 632246 91 8) Muszaki Konyvkiado (Case Study on Pricing strategy)
- 
- Dankó, András (2009): The challenges of the modern Finance function, Ava Congress 2009. Debrecen, pp589-596 (Conference presentation & article)
- 
- Dankó, András (2009): The role of audit in the modern governance structures, KHEOPSZ International Conference, Mór (Conference presentation & article)
- 
- Dankó, András (2009): Reputation management by getting the forecast right, Culture of Business - Capital of Culture Conference, Pécs (Conference presentation & article)
- 
- Dankó, András (2010): The Post Recession Challenges Of The Finance Function, International Management Development Association (IMDA) Nineteenth Annual World Business Congress, Konya, pp367-391 (Conference presentation & article)
- 
- Dankó, András - Professor Barakonyi, Károly (2011): Multi-country research on the challenges the Finance profession has been facing following the 2008-2009 financial crisis. Vezetestudomány 2012. – *IN PRINT FOR PUBLICATION*

## **REFERENCES in the thesis summary**

- **Accenture** (2008): The Changing Role of the Finance Organization in a Multi-Polar World – High Performance Finance Study, Hamilton, pp11-19
- **Ansoff**, Igor.(1957): Strategies for Diversification, Harvard Business Review, Vol. 35 Issue 5,Sep-Oct 1957, pp. 113-124
- **Balaton**, Károly & Antal-Mokos Zoltán & Drótós György & Tari Enikő (2005): Stratégia és szervezet, Scientia, pp50.
- **Barakonyi**, Károly (2000): Strategic Management (Stratégiai menedzsment), Nemzeti Tankönyvkiadó, Budapest, pp171-186.
- **Bakacs** Gyula, Takacs Sandor, Karacsonyi Andras, Imrek Viktor (2002): Eastern European cluster: tradition and transition (GLOBE). Journal of World Business 37 (2002), pp. 69-80.
- **Bélyácz**, Iván (1982): Contradictions between the investment system and the requirements of intensive development in Hungary. Acta Oeconomica, Vol. 28, No. 3/4 (1982), pp. 317-336, Akadémiai Kiadó
- **Berriman**, John (2009): Finance at the crossroads: The changing role of Finance in Government and the Public Sector, PWC, 2009, London
- **Bhimani**, Alnoor (2005): Strategic Finance and Cost Management, London School of Economics, Management Press, London
- **Bishop**, Bob (2010): Is Finance rising to the challenge? Price-Waterhouse-Coopers (2010).
- **Chandler**, Alfred D. (1962): Strategy and Structure, Massachusetts: MIT press (1962)
- **Collis**, David J. & Montgomery Cynthia A. (1998): Creating Corporate Advantage, Harward Business Review on Corporate Strategy, Harward Business School Press
- **Copeland**, Thomas E. & Weston, Fred & Shastri, Kuldeep (2005): Financial theory and corporate policy, Pearson pp. 470–472
- **de Santis** J. (1999): A brief history of accounting, Research Paper, Ensign Articles January 1999.
- **Deloitte & Touche Tomatsu** (2004): Global Risk Management Survey, Deloitte Touche Tomatsu, New York
- **Dilks**, Ian & Kail Andrew (2010) - PWC: Finance effectiveness benchmark study. PricewaterhouseCoopers LLP, London
- **Drucker**, Peter (1954): The Practice of Management, Harper and Row, New York, 1954
- **Durfee**, Dan (2005): The Top Spot: “Why more companies are tapping their Finance chiefs for CEO”, CFO Magazine, October 2005.
- **Ellis**, John – Williams, David (1995): International Bussiness Strategy, Pitman Publ., London, 1995
- **Farkas**, Ferenc Dr. (2009): Has our iceberg already melted? - Authenticity of Change Management in the Economic Crisis. In: Dealing with the Global Economic Crisis by Companies and Economies. International Scientific Conference Proceedings. Belgrade, November 27, pp. 51-61.
- **Gilliland** M. (2003). Fundamental Issues in Business Forecasting, Journal of Business Forecasting, summer 2003 edition
- **Crouhy**, Michael. & Galai, Dan & Mark, Robert (2005): The Essentials of Risk Management, McGraw-Hill; 1 edition, December 14, 2005. pp 25–26
- **Gulati**, Ranjay - Nohria, Nitin - Wohlgezogen Franz (2010): Roaring Out of Recession, Harvard Business Review, March 2010.
- **Hackett** (2008) Finance Book of Numbers™ research 2008; The Hackett Group, Miami, ([www.thehackettgroup.com](http://www.thehackettgroup.com))
- **Hamel**, Gary and **Prahalad** C.K. (1994): Competing for the future. Harvard Business School Press
- **Harrin**, Elizabeth (2010): The Changing Role of Finance: Business Partnering, <http://www.theglasshammer.com/news/2010/04/29/the-changing-role-of-Finance-business-partnering/>, London

- **House**, R.J. Javidan, M., Hanges, P., and Dorfman, P. (2002). "Understanding Cultures and Implicit Leadership Theories Across the Globe: An Introduction to Project GLOBE," *Journal of World Business*, 37 (1) 3-10.
- **IASB** (2001) International Accounting Standards Board, ([www.iasb.com](http://www.iasb.com))
- **IBM** (2008), Balancing Risk and Performance with an Integrated Finance Organization 'The Global CFO Study 2008, New York
- **Kaplan**, Robert S. and **Norton**, David P (1996): The Balanced Scorecard, Harvard Business School Press (1 Sep 1996). pp:147-166., Boston
- **King, G. & Wand J.** (2007). Comparing Incomparable Survey Responses: New Tools for Anchoring Vignettes, *Political Analysis*, 15, 1 (Winter, 2007): pp. 46-66.
- **KPMG** report (2007): Forecasting with confidence: Insights from leading Finance functions. KPMG International, New York
- **Laitinen** Erkki K.(2007): Future Management Accounting: Preliminary Propositions with Survey Evidence. University of Vaasa. 2007
- **McKinsey** (2008) Global Survey on Strategy "How companies make good decisions" McKinsey Quarterly, 2008.
- **Mészáros** Tamás (2004): Változó stratégiaalkotás. Harvard Business Manager, 2004. október, 56–64.
- **Mintzberg**, Henry and **Waters**, James (1994): Of strategies deliberate and emergent. *Strategic Management Journal*, Vol 6, pp 257-272.
- **O'Rourke**, John (2008): The Future of Financial Reporting: A Market Perspective, An Oracle White Paper, Redwood Shores , USA, July 2008.
- **Pacioli**, Luca (1492/1992) Proceedings of the Conference Accounting and Economics: In Honour of the 500th Anniversary of the Publication of Luca Pacioli's *Summa de Arithmetica, Geometria, Proportioni et Propotionalita*, Siena, 18-19 November
- **Pettigrew**, Andrew (1985): *The Awakening Giant*, Blackwell
- **Pike**, Richard & **Neale**, Bill (1993): *Corporate Finance & Investment*, Pearson, London, pp 670-673
- **Porter**, Michael E.(2001): Strategy and the Internet/Harvard Business Review/March 2001 pp.63-79
- **Riahi-Belkaoui**, Ahmed (1995): Evaluating Capital Projects, Quorum Books 2000, (pp:111-124)
- **Sarbanes & Oxley** (2002), Sarbanes Oxley Law, US Congress, Washington (<http://www.sarbanes-oxley.com/section.php>)
- **Slang**, Jonathan (2006): The Changing Role of Finance. *Finance, Management and Accounting. Business Partnering, Finance Role/KPA/KPI*
- **Tufano**, Peter (1996): "How Financial Engineering Can Advance Corporate Strategy," *Harvard Business Review* (January-February 1996), 136-146.
- **Ventana** Research – Benchmark Research (2010): Finance Analytics, 2010, 6150 Stoneridge Mall Road, Suite 350. Pleasanton
- **Ward**, Keith (1992) 'Strategic Management Accounting'. Butterworth-Heinemann, Oxford, pp. 5–27.
- Yip, G.S (1993): Total Gobal Strategy: managing for worldwide competitive advantage, Prentice-Hall
- **Zikmund**, William G. (2003): Business Research Methods. South-Western, a division of Thomson Learning, 7th Edition, Chapter 1 pp.1-19, Chapter 3 pp. 40-51., Chapter 4 pp. 52-76, Chapter 6 pp. 92-108
- <http://en.wikipedia.org/wiki/SPSS>