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Finance Function Transformation

The PwC logo is located at the bottom left of the page. It consists of the lowercase letters 'pwc' in a bold, black, serif font. A small red horizontal line is positioned above the 'p'.

What defines a high performing finance function?

World class is often (mis) represented as lowest cost. Although the cost of finance as a proportion of revenue for most companies has fallen over the last decade, the recent surge in effort to deal with changing compliance and reporting standards has temporarily halted the trend.

With compliance demands threatening to create sustained cost pressures, finance has had to find ever more innovative ways to ensure process and organisational efficiency, by taking advantage of the latest technologies and strategies on the market. If companies don't act to continue driving efficiency the relative cost of the finance function could increase.

At the same time, top finance managers can see the opportunity to move the finance function from score keeper to business partner, by leveraging the insight that comes through understanding, not only the numbers but the drivers behind the figures to drive better business performance. A critical element of a well managed business is also having the right controls in place; dependent on understanding the risk appetite of the company and having a strong culture of control consciousness amongst its people (i.e. the right controls at the right cost).

So how does a high performing finance function balance all three objectives - control, efficiency and insight?

The answer is likely to change depending on your organisation. No two companies have the same drivers and needs; therefore concepts like consolidation, centralisation, simplification and standardisation may not suit every business model. But the message from the CEO is clear: how can we release time and people from transactional work to perform value adding activities whilst maintaining an optimised control environment?

This paper sets out some ways to identify features and capabilities of high performing finance functions by focussing on those three key drivers - control, efficiency and insight.

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Symptoms creating a case for change

A number of factors are creating a hunger for sustainable change. Commonly we are seeing the following symptoms that are creating a case for change in the finance function:

Management related:

- Management information (MI) not aligned to strategic decision making
- Lack of accountability for non financial MI
- Synergies not realised from recently merged or acquired entities
- Ineffective use of cash in the business
- Budgeting and forecasting is unreliable
- Finance staff feel undervalued by the business
- High cost of Finance

Compliance and reporting related:

- Multiple GAAP reporting
- Pressure to report more information more quickly (internal and external)
- Manual and non-standard reporting

Complexity related:

- Internal controls complexity
- Inconsistency in ways of working between finance and other functions
- Multiple finance systems and charts of account
- Need for simpler and standardised processes

Sub-optimal process related:

- Spiralling costs of compliance
- Shared services are not operating effectively
- Prevalence of spreadsheets
- Inefficient tax planning processes

Our point of View

PwC's finance effectiveness framework looks at 3 core areas within finance, to frame a programme of work that makes the finance function more effective, and to increase its interaction with the business:

- Finance **efficiency**
- **Risk, Compliance and Control**
- Finance **Insights** (the key lever in business partnering)

The two enabling dimensions are:

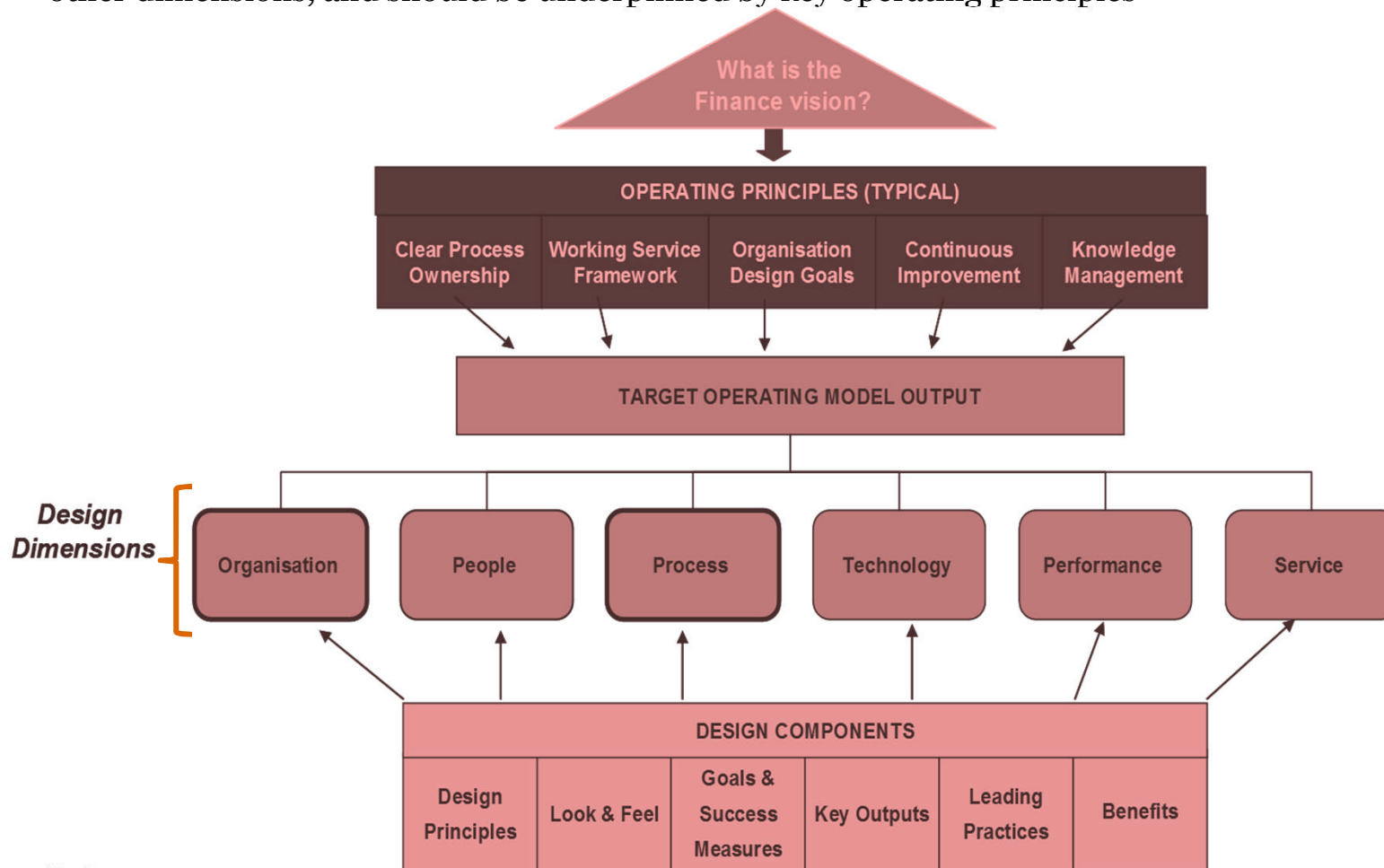
- **People** – maps finance people, competency and skills to future requirements
- **Technology** – validates technology that enables finance processes to be supported for the future

We feel that a potential framework of finance function addressing business imperatives including growth could have the following five key steps:

1. A strong steer from the top management, defining **why change is needed**, and outlining a roadmap for future
2. A finance function that is strong **in business partnering**, so that it supports the consolidation and growth phase, while carrying on compliance and control functions
3. Designing “best-in-class” processes that call for **efficient business functioning**
4. A link with **talent and leadership program**, so that this change is owned and implemented by finance function management
5. Underlying **IT infrastructure** that supports the growth phase, using and improving existing IT assets, while making them suitable to support the consolidation phase

A right target operating model should be enabled to support the alignment and execution of the vision for Finance

The operating model should address the different design components for organisation, process and other dimensions, and should be underpinned by key operating principles



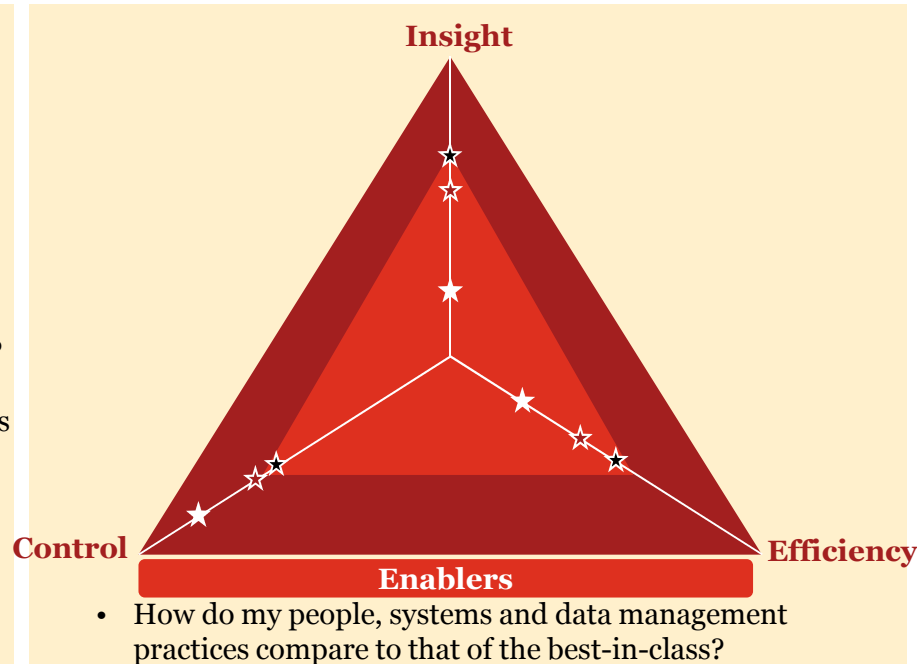
The operating model thus designed will help align the finance function to the business and balance following three objectives

Insight

- Role of the finance function - what is the role of finance and how do we contribute to value creation within the business?
- Business partner -Are we providing the right business information to support decision making and control?
- Management information - does finance provide the appropriate MI to the business to support their strategic objectives?
- Stakeholder management - do we have a consistent and reliable model for managing our internal and external relationships?
- Tax and capital strategy - What is the most effective tax structure for the group and how do we optimise capital allocation?

Control

- End to end control - do we have clear understanding of end to end processes, ownership, accountability and definition of roles/responsibilities?
- Transparency - do we know what's going on in the business and to what extent we can rely on the numbers?
- Governance - are our internal policies and controls effective and are they fully embedded within business processes?
- Consistency - is there a single version of the truth? Are data sets common?



Efficiency

- Value for money- are our processes efficient and are we applying an appropriate and cost effective resourcing model?
- Benchmarking - how do the standards of efficiency we apply to our finance function compare to best in class? What can we learn from other organisations?
- Automation - are we making effective use of the technology available and automating those processes and tactical spreadsheet solutions that do not require human intervention?

Benefits envisaged from Finance Transformation..

Typical benefits include ...

Tangible

- Increased productivity
- Economies of scale
- Headcount rationalization
- Leveraged technology
- Elimination of duplicate activities
- Improved spans and level of control
- Working capital improvements
- Leveraged purchasing from consolidated vendors
- Standardized processes and pooled resources
- Compliance and control which meets regulatory requirements and fits with the business culture

Intangible

- A clear articulation of the role and mandate of Finance in the business
- A higher proportion of Finance staff activities being value add/decision support
- Focused decision support service
- Raises profile of Finance as a Partner
- Culture of continuous improvement
- Provides adaptability/scalability
- Enhanced customer service
- Improved accuracy, timing and quality of information
- Easier to leverage Best Practices
- Better leverage of learning curve

Adding value to the P&L

Our Finance transformation model is focused on making finance pay for itself

PwC's Six Workstream approach:

1. Procure to Pay

- Create capabilities to capture vendor discounts
- Recover vendor advances and minimize duplicates
- Spend analytics to drive down maverick buying and generate supplier consolidations

2. Order to Cash

- Drive down DSO metrics and improve cash cycle interviews
- Reduction of billing errors and faster revenue recognition and lower disputes

3. Record to Report

- Faster close and lesser time on audit - time saved
- Advanced insights and analytics for smart decisioning
- Scrutiny of bank charges and recovery

4. Stat to Tax

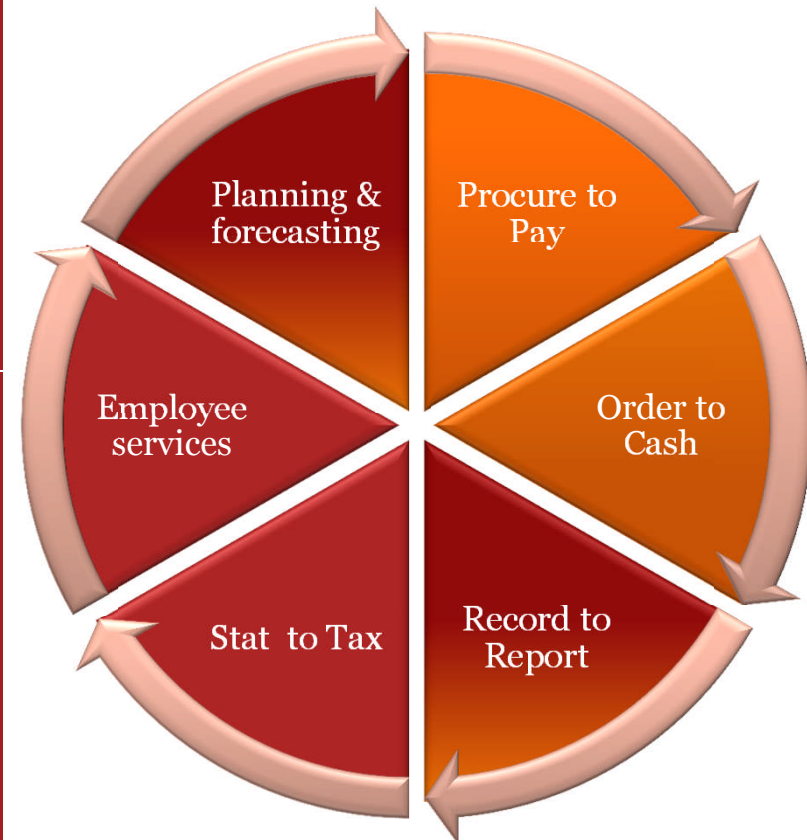
- Avoidance of penalties on TP assessment through robust processes and source system data mapping
- Avoidance of delays and penalties through centralized tax monitor solutions

5. Employee services

- Savings in T&E costs through analytics around delinquent behaviours

6. Planning & forecasting

- Fidelity of planning process to ensure guidance adherence



Case Study 1

Finance function review and benchmarking for an engineering projects company

Problem statement	<p>The client had a decentralised finance organisation aligned with its diversified business set-up. The management believed that over a period of time, the company had witnessed redundancies in processes, staff and the inefficiencies that had crept in would prove to be a hindrance for the rapid growth that the company was targeting</p>
Our distinctive solution	<ul style="list-style-type: none">• Interviewed key personnel to understand the finance function's imperatives and their key processes, based on which five process areas were identified• These were subsequently benchmarked against global peers• The results provided insights into the manner in which leading companies around the world had incorporated best practices to improve finance function's cost competitiveness and service delivery• Based on the results and our Global Best Practices GBP[®], library, we recommended the way forward on four fronts - People, Process, Strategy and Technology• In addition, the implementation timelines and challenges were outlined along with the way in which the effectiveness had to be monitored and managed continuously.
Impact	<ul style="list-style-type: none">• The client had a clear roadmap to optimise cost and improve service delivery of the finance function

Case study 2

Month end close process review for a global technology company

Problem Statement	The client wanted to understand the gaps in its month end close process which is spread globally between its HO, shared service locations & the program management office.
Our distinctive solution	<p>An overall assessment had to be carried out to identify the pain points in the process & identify initiatives which the client may undertake to align themselves to a high performance MEC process.</p> <ul style="list-style-type: none"> • The project involved multi location, multi department interview process with different teams at PwC Us taking responsibility of different areas namely : Governance & Organization, Close processes, Transaction processing, Master Data, Systems. • PwC India was involved in the study of the governance & organization framework wherein we tried to gauge the responses from the various teams on the basis of their effect on the overall MEC process & identify gaps in the process which could potentially lead to hampering of the MEC process. • The interview process findings were further substantiated by an analysis of issue tickets raised with the Program management office (Office of the close) over 3 years .
Impact	<p>Based on our assessment of clients existing SLA network, we tried to create a prototype balance scorecard which can help the client with metrics for performance measurement at Strategic, operational & execution level.</p> <p>To further understand the clients current position we created a template to estimate the cost of book close & benchmark it against gold standard to better create a perspective for the client</p>

Case study 3

Finance & Accounting Transformation of a global pharmaceuticals company

Problem statement	The client intended to harmonise /integrate its newly acquired Indian unit with its global operations. They needed support to achieve global synergies in terms of operations, policies and procedures and technologies used globally
Our distinctive solution	<ul style="list-style-type: none">• Studied current policies, procedures and technologies and benchmarked with group's global practices and devised rollout of key process changes to meet control requirements• Studied current people hierarchies, delegation of authorities and segregation of duties and benchmarked with practices followed at group level• Prepared implementation roadmap to plug gaps in terms of people, process and technologies• Created high level business case for implementation of global initiatives and transitions to global systems and business support applications• Conducted training on various accounting policies followed globally and drove change management agenda with business and finance for alignment• Customised / aligned Global Risk and Control framework with practices followed locally
Impact	<ul style="list-style-type: none">• Paved way for group's future expansion plans with aligned policies, procedures and technologies• Confidence building amongst employees with aligned hierarchy• Better and faster compliance with Risk and Control framework

Case study 4

Cash flow management through WCM, accurate cash forecasting, and robust governance for a leading telecom player in India

Problem statement	<p>The client was undergoing a cultural change where instead of revenue being the only performance criteria, more emphasis was being attributed to managing cash flow. This was also necessitated by the overall Group focus on cash.</p> <ul style="list-style-type: none">• There was no structured business oriented dashboard on cash flow statement• The ownership of forecasting and monitoring of cash items was not defined• There were significant old outstanding from inter-operator business, leading to capital blocked in AR• Old capex creditors were distorting actual working capital position• There were huge variances between the actual and forecasted cash flows
Our distinctive support	<p>PwC applied a customised version of its Transform methodology to</p> <ul style="list-style-type: none">• Assess the existing cash flow statement, forecasting technique, and governance mechanism• Identify significant contributors to working capital and their performance vis-a-vis industry benchmark• Articulate root causes for high forecasting variance and sub optimal working capital management• Design a revised cash flow dashboard and segregation of responsibilities for accurate forecasting and continuous monitoring• Design a detailed SOP for cash forecasting using advanced statistical techniques• Design programmes for releasing cash from old outstanding on balance sheet
Impact	<ul style="list-style-type: none">• The client was able to inculcate focus on cash in the organisation through a revised dashboard and governance principles• Standard operating procedure was adopted by all the circles for cash forecasting and continuous monitoring against the forecast• Working capital improvement opportunities worth 200 cr were identified to release cash blocked in WC• The improvement opportunities were translated into projects with a detail execution plan

Thank You

Our thought leadership



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