

# **The empowered CFO:** The emerging role of the finance office in large corporations



**A paper from the Economist Intelligence Unit  
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## Preface

The watchword for chief financial officers (CFOs) today is value creation. The role of the CFO at forward-looking companies has in recent years expanded beyond the traditional one of overseeing financial reporting and controls and has begun supporting the development of the business. Value creation includes everything from providing detailed performance analysis to suggesting strategic initiatives and providing decision-support.

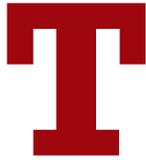
To determine whether CFOs and their staff have the resources necessary to achieve this broader mandate, the Economist Intelligence Unit carried out a research survey, sponsored by Microsoft, of 2,107 finance executives as well as in-depth personal interviews with 20 CFOs of major companies. The results show that the broader responsibilities of a CFO require a major upgrade in human and technological resources, but that there are some doubts as to whether these resources are available to the degree required. The survey also highlights a growing awareness of the need to enable better decision-making in the finance function, by equipping employees with sophisticated information technology and data resources.

Our sincere thanks go to all the interviewees and survey respondents for sharing their insights on this topic. The Economist Intelligence Unit bears sole responsibility for the content of this report; the findings and views expressed here do not necessarily reflect the views of the sponsor.

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## Executive summary



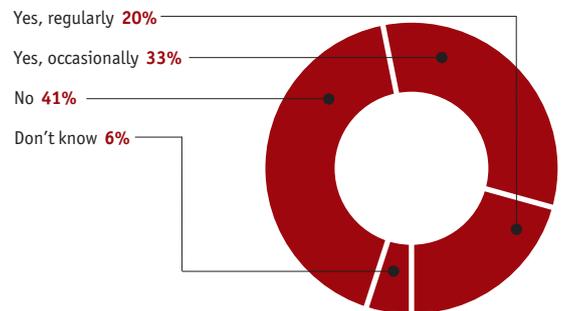
The following themes emerged from the research:

- There is a trend towards centralised, higher-profile finance functions with authority to monitor performance and liaise with business units at all levels.
- Finance departments are increasingly likely to focus on strategic analysis and decision-support, to initiate and use company-wide performance indicators, and to form ad hoc teams to address business issues.
- CFOs today look for staff with broad business skills in addition to staff with specific financial know-how.
- The management practices of finance departments are in a transition phase, with some departments empowering staff executives to act autonomously and take risks.
- Companies are also in transition when it comes to automating routine functions, with about one-half of the companies surveyed fairly well advanced, and the others still using legacy systems and manual processing.

### About the survey

The survey covered the world's major regions: 31% of the sample was based in Asia-Pacific, 26% in western Europe and 31% in North America, with the balance coming from the Middle East, Africa, eastern Europe and Latin America. All respondents worked in their organisation's finance function and represented firms across a range of industries. About 21% came from financial services; 16% from manufacturing; 7% from health, pharmaceuticals and biotechnology; and the remainder from industries including consumer goods, energy and information technology. About 52% of respondents worked at companies with more than US\$500m in annual revenue, while 44% came from firms with annual revenue below that amount. For more details on the sample and results, please see the Appendix to this report.

### Does your company ever track or measure whether finance employees are empowered to do their jobs?





## Emergence of the ‘new CFO’

### **1** Higher internal profile for centralised finance functions

Our survey confirms what many have long known: CFOs have a higher profile than ever before, in companies large and small. The finance function is expanding its responsibilities and becoming involved in every major corporate activity including information technology (IT), risk management, product development and strategic planning. Some companies have actually made IT, risk management and strategic planning part of the office of the CFO.

As a natural outgrowth of their more prominent role, CFOs and central finance staff tend increasingly to have direct influence within their companies’ regional and product divisions. In particular, where previously the CFO may have had a dotted-line relationship with controllers and other finance executives in business divisions, today this is more likely to be a solid-line relationship, with division executives directly accountable to the CFO.

In part this evolution follows from globalisation, as companies increasingly feel the need to co-ordinate their worldwide businesses. Competitive pressures have also had the effect of making CFOs more the right hand of the CEO, responsible for maintaining control over costs and performance. In part, too, centralisation is a response to the fact that a company’s counterparts—auditors, banks, investment banks and major institutional investors—are also centralised and globally co-ordinated.

The broader purview of CFO activity has given rise to what might be called “CFO activism”, with finance chiefs participating in business decisions at all levels

of the company. Marcel Smits, CFO of Koninklijke KPN, a Dutch logistics and postal giant, sees it this way: “If you were to ask my colleagues, they would say, ‘Marcel is sticking his nose into everything, to the point of becoming a nuisance.’ I think that, as a CFO, you need to do that, because today, unlike in the past, all stakeholders have to concur that a

*The broader purview of CFO activity has given rise to what might be called “CFO activism”, with finance chiefs participating in business decisions at all levels of the company*

particular course of action is the way forward. A lot of the communication needed to achieve this consensus is of a financial nature, and this is where the office of the CFO comes in.”

Similarly, at SAP, a Germany-based software multinational, there is “a stronger alignment between finance and the chief executive officer (CEO) and the management of the businesses,” explains Werner Brandt, the company’s CFO. “Finance can develop the business case as a basis for a decision, to ensure that the financial implications are considered.”

Automation of routine finance functions and corporate performance data, using such software applications as service-oriented architecture, has helped CFOs and their staff to provide this perspective. Companies that previously relied on far-flung divisions to collect and report data in their own way,



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and then struggled to consolidate that data into a coherent picture of corporate performance, can now standardise and automate the process, obtaining a clearer picture of the results.

Autodesk, a California-based multinational provider of design software, offers a good example of consolidation and centralisation of finance functions. "We had accounting and management reporting activities going on in 40-50 spots around the world, and each country needed its own finance peo-

*"If all you do is hammer on the cost nail, then that is all you will get good at. Controlling costs is important but so is generating new ideas and taking advantage of opportunities."*

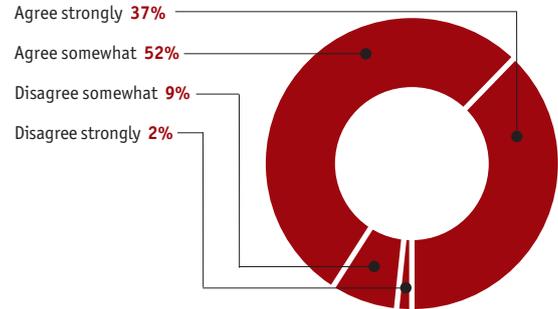
Marvin Romanow, CFO, Nexen

ple," says Al Castino, the group's CFO. "This is now being done by a central accounting group. Where we previously had 40 or 50 sites worldwide, we now have three: one in Europe, one in Asia-Pacific and one here at headquarters, allowing us to do the work with significantly fewer employees despite a near tripling of revenue over the past six years."

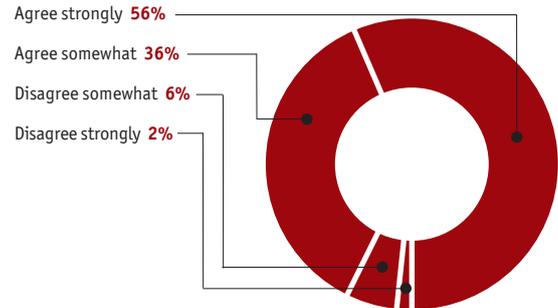
Centralisation and automation have also enabled CFOs in many companies to shift their focus from cost control to value creation. Automating tasks can help firms move transactional activity to shared service centres, thus freeing up resources that can be used to support other parts of the business. As Marvin Romanow, CFO of Nexen, a Canadian oil giant, explains, "If all you do is hammer on the cost nail, then that is all you will get good at. This is not the

**Do you believe that a greater degree of decision-making autonomy for mid-level managers and senior finance executives would improve overall corporate performance?**

### Mid-level managers



### Senior executives



best approach for many companies. Controlling costs is important but so is generating new ideas and taking advantage of opportunities. From time to time companies have to rethink the balance between those two things."

Our online survey suggests that these trends are gathering speed. Almost one-half (44%) of respondents see no problems creating unified reporting systems across operating units. Most finance executives say they have a range of sophisticated tools at their disposal to track company performance, including data warehousing (cited by 59% of respondents), internal databases of employee contacts/capabilities (56%) and collaborative software (55%).

Similarly, 55% of respondents agree that managers in their companies have the right information



and tools to make timely decisions. And 64% say their departments are good at providing information needed by leaders, investors and strategic partners.

Even at companies with sophisticated information systems, however, automation and consolidation are works in progress, as CFOs look for new ways to add value. “We expect to continue enlarging the scope of the finance function by turning data into insight that can be used in the businesses,” confirms Mr Brandt. “This includes providing rolling forecasting, multi-year planning and strategic plans for the business units.”

Centralisation does not necessarily mean inflexible dictates from headquarters. For example, almost one-half (47%) of survey respondents focus on working with business units to make budgeting more flexible and 38% adjust hiring budgets to reflect changing work requirements. Similarly, about 38% of respondents agree that the finance function is good at obtaining company-wide agreement on approaches to risk management compared with 33% who say finance is a leader in encouraging the company to take calculated risks.

To a growing extent, finance executives at the divisional level are reporting directly to central finance departments rather than to division heads. This amounts to a dual role for the executives concerned and could at times put them in a somewhat contradictory position. Andy Bryant, CFO and Chief Enterprise Services Officer of Intel, a major semiconductor company, describes his role: “My controllers within the business groups report on a solid-line basis to finance and on a dotted-line basis to the business unit managers. Their main job is control, but their secondary job is to help the business units to make better decisions. We ask the finance people in the business units to be engaged, to contribute to the discussion, but not to become emotionally tied to the success of proposals.”

Similarly at KPN, “Every business-unit CFO has a dual role,” says Mr Smits. “They are part of the man-

agement teams in the business units in which they operate and as such they have a shared responsibility with other members of that business unit team.

At the same time they keep a scorecard for their business units and in that role they serve as a kind of referee, judging the unit’s financial performance. So they are both important players on the field and referees—a unique combination.”

*“We expect to continue enlarging the scope of the finance function by turning data into insight that can be used in the business.”*

**Werner Brandt, CFO, SAP**

At Cisco Systems, a San Jose-based supplier of networking and communications technology services, financial executives embedded in business units actually have profit and loss responsibilities. Dennis Powell, the company’s former CFO, explains the reason: “If a finance person is supporting the decisions of a particular business unit, then that person has some responsibility for that unit’s bottom-line results. The finance person’s role should not be just to keep score. He aligns his efforts directly with the business and is evaluated in part on the basis of what has happened in the business unit.”

Nevertheless, the degree of co-operation between central finance staff and the business divisions is still an open question. According to our survey, 91% of respondents agree that finance should work closely with business units, but a far smaller percentage (64%) believe that finance actually does so in practice.



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# 2

### Use of key indicators to drive performance and align objectives

Consistent with their closer involvement in all aspects of their companies' business, finance departments are increasingly focused on setting key performance indicators and tracking progress along them. This also extends to setting goals at the divisional level and sometimes includes setting and tracking individual performance objectives.

Alignment of corporate, department and individual objectives is clearly a focus. About 70% of survey respondents say that department objectives are closely aligned with corporate objectives and 58% say that individual objectives are closely aligned with department objectives.

In some cases, companies are also able to structure incentive schemes that match the key perform-

ance indicators. But achievement in this area falls short of the goal. Fully 80% of respondents agree that performance incentives in finance should be linked to corporate goals, but a smaller proportion (57%) think that performance incentives actually are linked to corporate goals.

Finance is taking the lead in many activities that help to track corporate and individual performance. For example, 39% of respondents say their departments are adept at providing metrics needed to track and reward employee performance. Nearly one-half (46%) say the finance department is strong in the area of setting authorisation levels to allow more distributed decision-making.

The use of key performance indicators, or KPIs, is clearly in vogue. One company that makes extensive use of this technique is Renault, the French auto-maker. Its CFO, Thierry Moulouguet, describes the system: "Company-wide, we have a scorecard of 31 key performance indicators (KPIs). It includes mainly quantitative indicators but also a few qualitative

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## BAT: Setting goals for finance

CFOs set performance indicators for the finance function as well as for the company as a whole. British American Tobacco (BAT) offers an example of a finance function with ambitious goals for its own performance. The company's 12-member Global Finance Team, which consists of central and divisional finance executives, set goals for the company's finance teams worldwide. BAT's CFO-Europe, Brian Barrow, describes how it works:

"The Global Finance Team has adopted a series of key focus areas, or KFAs, which are goals for the finance function company-wide. One of the KFAs involves promoting

closer co-operation between finance people in marketing and in operations, and ensuring that they make the right decisions to increase shareholder value. Two additional KFAs relate to people and talent management within finance. One of those is about creating a high performance environment within finance, and the other concerns career paths and development of people.

A fourth KFA deals with improving the efficiency of finance operations, particularly tax and treasury initiatives. This indicator sets a target of contributing 2% to the



company's earnings per share each year, through these kinds of efficiency improvements.

There is a fifth KFA that deals with improving quality of financial information, and a sixth one about using shared service centres for finance. We have these on a regional level and are heading towards global shared services. A seventh KFA deals with cost management—how the finance function can help the organisation to cut operating costs. This involves such things as benchmarking and looking at best practices in cost-reduction techniques." ■



ones. The main quantitative indicators are financial ratios, such as operating margins, return on invested capital and free cash flow. We prepare a monthly report on the results along all 31 KPIs. This report goes to the executive committee, and it is our main tool for monitoring performance.”

At SAP, the finance function provides information that cascades down to KPIs. “We currently have 25 KPIs in the company, divided among the main board areas,” explains Mr Brandt. “Board members send these to the relevant departments. All 25 indicators are tracked and evaluated quarterly, company-wide. But to really bring them into the organisation, there are additional KPIs at department level that support the main ones.”

# 3

## Greater focus in finance on decision-support and strategic analysis

CEOs increasingly look to the finance function for objective evaluation of strategic initiatives. Accordingly, finance departments are gradually shifting time and other resources away from transactional and controlling activities to strategic and decision-support activities, often relying for information on data developed through enterprise resource planning (ERP) projects. Despite CFOs’ broader mandate, nearly one-third (32%) of our survey respondents cite identifying new areas of growth as a difficult task for finance departments, compared with 27% who say this task is easy.

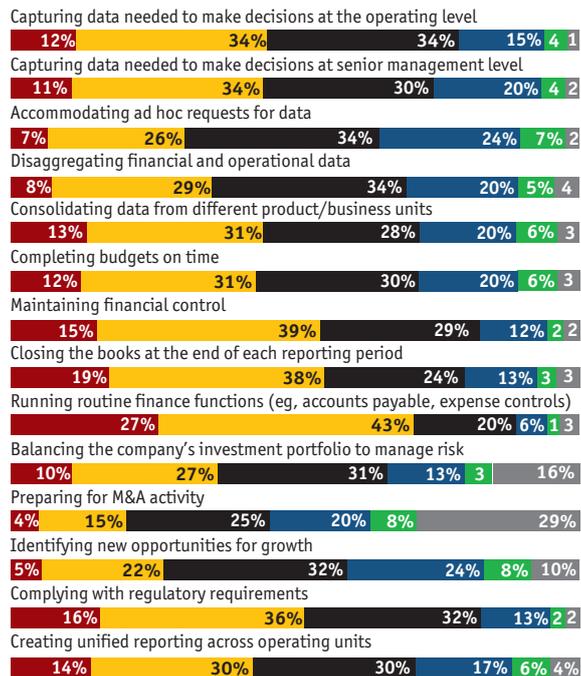
In most cases, some degree of automation of routine functions has helped to free finance department resources for decision-support. Sometimes regulatory demands push those resources back to routine data-collection duties, but that tends to be temporary. ING,

*“Today, about two-thirds of finance employees are involved in strategy-setting and decision-support for operating groups, while the other third is involved in transactional processing.”*

Dennis Powell, former CFO, Cisco Systems

On a scale of 1 to 5, how would you assess the difficulty (in terms of work load, stress level, etc) of performing the following tasks? (Rate on a scale of 1 to 5, where 1=very easy and 5=very difficult)

1 Very easy 2 3 Neither easy nor difficult 4 5 Very difficult 6 Don't know





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*“We tend to focus most of our time, maybe as much as 90%, on financial reporting and analysis. I would like to see that proportion come down to 70% within the next three to five years.”*

**Marcel Smits, CFO, Koninklijke**

a Dutch financial services giant, offers a good example. “Before our conversion to IFRS (International Financial Reporting Standards), about 60% of our time was spent on reporting and controlling, and 40% on decision-support,” confirms John Hele, the Group’s CFO. “During the implementation of IFRS and Sarbanes-Oxley controls and other regulations, more resources had to be moved to controlling and reporting; time spent on those things went up to about 70%. It is now moving back down towards where it was before and we expect it will settle at around 50-50. We think that split is about right.”

Some companies have been able to make wholesale shifts of personnel from routine transactional work to strategic decision-support. One of those is Cisco Systems, according to its former CFO, Mr Powell: “Today, about two-thirds of finance employees are involved in strategy-setting and decision-support for operating groups, while the other third is involved in transactional processing. Five to seven years ago, the proportion was reversed: two-thirds in processing and one-third in strategy and decision-support.”

The shift of resources at other firms is more gradual. For example, at Thermo Fisher Scientific, a US-headquartered services provider to science, “About 70% of the finance function’s time is spent on traditional functions and the other 30% on strategic activities, and it has been this way for years,” says its CFO, Pete Wilver. “I don’t know how that split will evolve, but I can tell you how I would like it to evolve. Within the next three to five years, I would like to see that split become more 50-50. That would represent a dramatic shift in resource allocation.”

Frequently, the impetus for this shift comes from outside the finance function. Mr Smits of Koninklijke KPN looked carefully at the results of a survey of company managers on the support they need from finance. “It showed our managers want us to strengthen our decision-support role. The way things stand now, when our managers need another financial results restatement they come to us, but when they want an informed analysis of the strategic impact of a proposed business initiative, they call McKinsey. This is what we are trying to change. We tend to focus most of our time, maybe as much as 90%, on financial reporting and analysis. I would like to see that proportion come down, maybe to 70% of our time, within the next three to five years.”



# Managing human resources in finance

## **1** The empowered finance function: trends and countertrends

A high-profile central finance function requires employees with autonomy, with strong communication skills and with the ability to synthesise information resources in order to drive value from insights, reduce costs and maximise returns on investments. In qualitative interviews, most CFOs agree that they either have, or are in the process of building, central finance functions with those capabilities and attributes. They point to efforts to hire staffers with broader business backgrounds and to automate routine functions to free up people resources for more value-creating activities.

The survey data report a less progressive stance. Many finance employees—both at headquarters and in the divisions—still devote considerable resources to routine financial reporting, transaction monitoring and budgeting. More significantly, the scope for individual decision-making, as well as autonomous networking within the wider company, is not as widely adopted as the models put forth by CFOs during interviews. Clear gaps remain between the ideally functioning, empowered and networked central finance function and the reality of routine reporting and transaction management.

Encouraging insights emerge from both the survey data and the qualitative interviews: in some areas, respondents describe trends in their companies towards greater autonomy and empowerment of employees, more open, free-flowing information, and more collegial decision-making. Fully two-thirds

(66%) of survey respondents describe their finance department as open, collaborative and focused on the right issues, and 57% agree that finance employees have meaningful levels of autonomy. Moreover, 42% say they have a great deal of autonomy, whereas only 15% say they work under close supervision.

As might be expected, there is a big difference in degree of autonomy accorded to senior- and to middle-level managers. Well over one-half (59%) of respondents believe that senior executives have a high degree of autonomy, compared with just 31% who see middle managers as autonomous.

### Which of the following statements describe your finance department's employee policies and practices? (Select all that apply)



There is a consensus among respondents that further empowerment would be desirable. Large majorities say that greater autonomy for senior- and middle-level managers (91% and 89%, respectively) would improve corporate performance. Similarly, almost all respondents (90%) say that a high degree of decision-making autonomy would improve their own job satisfaction.



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(For a look at the effects of autonomy in the broader organisation, please see Ready, Willing and Enabled: A Formula for Performance, a briefing paper produced by the Economist Intelligence Unit, sponsored by Microsoft. The paper can be downloaded at [http://graphics.eiu.com/upload/eb/Microsoft\\_Enablement\\_080104.pdf](http://graphics.eiu.com/upload/eb/Microsoft_Enablement_080104.pdf).)

The same views emerged in qualitative interviews, with CFOs tending to describe corporate cultures that value free-flowing communication. “We have created an open environment in which people can share their views,” notes V Balakrishnan, CFO of Infosys, a software multinational based in Bangalore, India. “In many companies people are afraid to ask questions

*“In many companies people are afraid to ask questions or to say what is on their minds, and those companies are doomed.”*

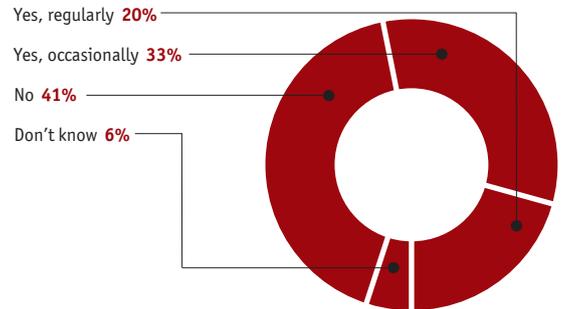
**V Balakrishnan, CFO, Infosys**

or to say what is on their minds, and those companies are doomed. We focus on openness and on leadership by example. This has created a culture that enables us to manage risk much more effectively.”

At Xilinx, a California-based high-technology company, the risk-taking and entrepreneurial spirit extends company-wide, according to Manish Schroff, head of finance and company secretary of its Indian subsidiary. “We are not a top-down organisation, either in finance or in the company in general. The company is fairly young, founded only 22 years ago, and the exchange between finance and other parts of the organisation, and within finance, is fairly open and free-flowing. Finance gets involved in all aspects of the company and is very prominent internally.”

Significantly, more than one-half (53%) of compa-

### Does your company ever track or measure whether finance employees are empowered to do their jobs?



nies in our sample go beyond encouraging employee autonomy—a prerequisite to employee empowerment—to actually measuring and tracking it. They do this by means of management reviews (80% of respondents whose companies track empowerment), exit interviews (65%) and job-satisfaction surveys (58%).

The most important contributors to empowerment in finance are ready access to data (mentioned by 64% of respondents)—which implies the availability of software tools to access the needed data—and staff members who have the skills and training to work on their own (54%). Similarly, the greatest barriers to employee empowerment in finance are insufficient staff or lack of specific skills (58%) and a centralised and hierarchical decision-making structure (39%).

According to some CFOs, employee empowerment—within the finance function and in the company in general—is enabled in part by automation, which frees staff from time-consuming manual processing. Stewart McCrone, group management controller at Philips, the major Dutch healthcare, lighting and consumer goods company, comments: “With automated systems able to handle a lot of the routine reporting functions, a finance professional within a business can sculpt his job to be more ‘sexy’, more business-impacting and wider in scope than would otherwise be the case.”

Some companies expressly encourage finance



professionals to be internal entrepreneurs. Dr Alan Hippe, CFO of Continental, a multinational automotive supplier and tyre manufacturer based in Germany, describes the process at his company: “The entrepreneurial role of finance people has two aspects. Within the business units, it involves using financial information to make decisions. We do not insist on perfect knowledge—if we have at least 80% of the information we need to assess the risks, then we go ahead. Within the finance function, entrepreneurship might involve taking some risk or some initiative when it comes to finance methods, such as hedging or developing original ideas for funding projects.”

Nevertheless, the survey data show a lot of ambivalence on actual practices when it comes to empowering finance and other employees. Only 35% of respondents agree that finance employees are rewarded for taking the initiative when this involves risk. By implication, 65% of companies do not encourage or reward such risk-taking.

While risk-taking in finance is sometimes accepted, generally it is not rewarded. In our survey, 54% say

*“We do not insist on perfect knowledge—if we have at least 80% of the information we need to assess risks, then we go ahead.”*

**Dr Alan Hippe, CFO, Continental**

risk-taking by middle-level managers should be rewarded, but only 22% say that such risk-taking actually is rewarded. An even larger proportion (66%) agree that risk-taking by senior executives should be rewarded. But here, too, a smaller proportion (44%) believe that such risk-taking actually is rewarded.

In general, the image of the open, free-flowing and collegial finance department—powered by flexible information tools and backed up by transparent, company-wide information—is far from the reality of most companies. Our survey reveals an even split between finance departments that use a networked model with multiple points of authority (30%) and those that use a command-and-control model with a single point of authority (29%).

Similarly, nearly one-half (49%) of respondents say their company requires strict adherence to policies and procedures, compared with only 11% who say their organisation values agility. Respondents are also ambivalent about the desirability of employee autonomy. More than three-fourths (76%) agree that empowerment can be dangerous in the wrong hands.

The survey also shows a difference of opinion on the relative costs and benefits of empowering employees. A slightly higher proportion (35%) believes that the benefits in theory exceed the costs rather than the other way around (29%). When asked how things actually run, 31% say that the benefits of empowerment exceed the costs, compared with 28% who say that costs exceed benefits. These proportions are close enough to suggest ambivalence around the idea of empowerment.

**If your company tracks and measures finance employee empowerment, does it use any of the following activities to assess whether finance employees are empowered?**  
(Select all that apply)





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The gap between the theory and practice of empowerment is clearly a large one. For example, although 66% of respondents think that there should be room for improvisation in most finance functions, only 51% think that improvisation is, in fact, allowed in finance.

Similarly, the corporate budgeting process is still more rigid and centrally directed than many respondents would like. While most companies (62%) currently set budgets at fixed intervals (quarterly, semi-annually or annually), relatively fewer (51%) agree that budgets should be set this way.

### *When it comes to managing individual employees, breadth of skills is desired but not necessarily rewarded*

In many companies, in fact, hierarchical rather than collaborative management structures predominate. More than 39% say that work descriptions focus on individual objectives, and only 18% say that work descriptions emphasise group objectives. Nearly one-half (45%) agree they are evaluated based on individual results, compared with only 16% who are evaluated based on contribution to broader organisational performance.

In many companies, any moves towards increased collaboration have yet to extend to external partners. So, for example, when finance managers learn on the job, they tend to learn from colleagues and supervisors (37%) rather than from customers and partners (14%).

When it comes to managing individual employees, breadth of skills is desired but not necessarily

rewarded. In our survey, about 26% of respondents say their companies reward people who excel at one or two skills; 23% say their companies reward multiple job skills.

For 41% of employees, performance is measured by indicators linked directly to their work; only 15% agree that their indicators include dimensions such as creativity and innovation. About 40% say managers focus mainly on ensuring people get their jobs done, while only 12% say managers focus on coaching employees on how to contribute to broader organisational goals.

This analysis points towards CFOs and senior financial professionals who strive for collaboration across finance and with business units, but much of current practice in corporate finance departments seems based on hierarchical models of management. As finance staff acquire the habit of synthesis and big-picture thinking as a complement to their analytical skills, they may find that they need new tools that allow them to execute effectively, while at the same time seeing new patterns that can help to avoid risks or exploit opportunities. For the moment, however, the typical finance function is in a transition phase, trying to move beyond the traditional emphasis on controls and accounting and not yet entirely able to create value company-wide.



## 2 The changing skills base in finance

One of the crucial elements of creating a highly effective finance function—one with the ability to contribute to business decisions throughout the company—is having the necessary skills present within the finance function. Most CFOs interviewed for this study believe that financial and accounting skills—particularly expertise in coping with changing regulatory demands and corporate financing requirements—are in short supply. In addition to filling those gaps, CFOs are grappling with the task of finding financial people who also have broader experience in the business sectors in which their company is active, and who can contribute to high-impact decision-support projects.

“We need versatile people who are good at a range of activities,” says Mr Hippe of Continental, in a typical comment. “Today it is not good enough to be good only at controlling and managing costs. In addition to technical knowledge, a finance manager today must have deep operational know-how. Finance people have to understand the business model and be able to contribute to shaping it. This means, among other things, that they must have a certain amount of entrepreneurship.”

“What I need is not just book-keepers or—to use a very bad word—bean-counters,” responds Alberto Pontiggia, CFO of Pirelli Tyre (China). “We need people who can do a 360-degree job and deal with a lot of aspects that go beyond finance. They should be able to do budgeting, but also be able to understand the company’s business processes and the relevant regulations, something that is increasingly important. Under Sarbanes-Oxley, companies have to put in place layers of control—controls over controls over controls—and we need people who can implement that.”

Several CFOs emphasise that for a high-impact central finance function, executives with strong communication skills are needed as never before. Mr Hele of ING notes that, for finance departments, “success starts and ends with people. This means people who have strong financial backgrounds, and who can communicate their expertise to different audiences in appropriate ways. The way you present financial information to a risk manager is different from the way you present it to a CEO or shareholder.”

*“What I need is not just book-keepers or bean-counters. We need people who can do a 360-degree job and deal with a lot of aspects that go beyond finance.”*

**Alberto Pontiggia, CFO, Pirelli Tyre (China)**

Some CFOs are adding staffers with unusual backgrounds—at least, unusual for finance departments—in an effort to broaden the department’s outlook and reach. One of those is Mr Smits of Koninklijke KPN: “We recently recruited a young psychologist and gave her a job in external financial reporting. The first reaction of the IFRS people was, ‘Hey, she is a psychologist, what does she know about financial reporting?’ My view is, she is smart, and she can learn external reporting. The key factor is whether someone has a certain intelligence and is curious by nature. If they aren’t smart and curious, there is nothing we can do to correct that—we can’t alter someone’s genetic disposition—but if they lack certain technical expertise, we can teach them that.”

Many new recruits—as well as existing staff—are given an increasingly free hand to determine the focus of their jobs. Mr Romanow of Nexen leaves a lot of



## The emerging role of the finance office in large corporations

*“Within finance, we actually have a small group that focuses on long-range planning. It brings together people from other functions and creates virtual teams. Last year we had only two or three such teams, and this year we boosted that up to 20.”*

**Dennis Powell, Former CFO, Cisco Systems**

latitude to staff members. “I used to joke that I had 50 accountants here and none of them wanted to do accounting. But actually, I have people who want to focus on the traditional finance activities and others who want to do more strategically oriented work. The main determinant of where we allocate our people is what they tell us they want to do and what skills they have. People tend to pick the areas they are good at and therefore we take those preferences into account.”

### **3** The growing use of ad hoc teams and task forces initiated by the finance function

Another indicator of a transition to a more networked organisation model in finance is the growing use of ad hoc teams and task forces to supplement traditional hierarchies. These working groups can be within finance or they can be initiated by the finance department but involve participation from different parts of the company. According to a clear majority (62%) of respondents, their finance departments form teams in

response to issues that affect corporate objectives. A similar majority (59%) often collaborate with others, compared with 13% who rarely do so.

Typically, these working groups weigh specific business proposals. Mr Smits of Koninklijke KPN describes how this might work at his company. “For example, the company might consider which of two telephony technologies to use. The question is, which will generate more revenue and which is more profitable. We need forecasts to help provide answers and a decision-support group within finance can provide those. We want to establish regular working groups to look at various value-creating initiatives.”

Some companies already use ad hoc working groups extensively. One such company is Cisco Systems, where the finance department leverages the resources of the entire company. “We do not try to do everything ourselves,” explains Mr Powell. “We mobilise the resources of the whole organisation through a networking process. Within finance, we actually have a small group that focuses on long-range planning. It brings together people from other functions and creates virtual teams. Last year we had only two or three such teams, and this year we boosted that up to 20.”

There are several advantages to this networked approach. A finance department that tries to do all the analysis itself risks becoming insulated and separated from the rest of the business. At Cisco and at other companies that take the networked approach, the finance department’s role is to develop an overall conceptual framework, and then work collaboratively with people from other disciplines within the company.



## Managing information resources

### **1** Automation of routine functions: gaps remain despite progress

Just as the notion of employee empowerment is more robust in theory than in practice, so are the claims by most respondents and interviewees that they have adequate information resources available. In many organisations, company-wide automation of routine functions and transparency of operating and financial data throughout the firm are clearly goals to be attained, but are not yet entirely in hand.

According to John Van Decker, research vice pres-

ident of the Gartner Group, a US-based consultancy, only between 25% and 40% of Fortune 500 companies have the capability to consolidate data reporting and systems on a single automated platform globally. In the rest of the companies—that is, in 60-75% of the Fortune 500—“CFOs are still dealing with various legacy systems. This poses a challenge to getting an overview of the organisation and providing more strategic value-added on a global basis.”

Our survey supports this finding. In at least one-half of the companies surveyed, respondents judge the information tools available to them as sub-optimal. Fewer than one-half (46%) say they can easily capture the data needed to support decisions at the operating level. A similar proportion (44%) say they can easily

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### **Philips: ‘Hands-free’ financial reporting**

In 2004 Philips, the major Dutch health-care, lighting and consumer goods company, launched a “Best in Finance” programme to fully standardise—and then automate—its financial consolidation, reporting and controls, to replace a variety of legacy systems across its almost 1,000 reporting entities. The aim was to shift all the organisational units onto an enterprise resource planning (ERP) platform and then automate the collection of financial data for consolidation and reporting. The first, critical step was to standardise the business processes themselves to make them comparable; the second was to simplify them where possible. The system went live across the group for the first time in 2007.



There is now a one-to-one relationship between the figures in the general ledger of each reporting entity and the consolidated figures in the global database, according to Stewart McCrone, group management controller. “At a set time each month, there is a ‘vacuuming-up’ of the figures from all reporting organisations. We pool those figures globally, and that pooling is also largely automated. Of course, some things don’t go perfectly yet, but it’s essen-

tially becoming a ‘hands-free’ operation.”

According to Mr McCrone, this has improved the finance function’s deliverables considerably. “We already see the fruits of standardisation of terminology and reporting data from the company’s chart of accounts on up. There have also been dividends in terms of automated remote-auditing and inter-company reconciliation as well as the outsourcing of the vast majority of the standard transaction activities to shared service centres (SSCs) in Poland, Thailand and India. These SSCs themselves were recently sold to a dedicated BPO [business process outsourcing] player to benefit from their expertise and further leverage economies of scale. ■



## The emerging role of the finance office in large corporations

*Companies have undoubtedly made considerable progress in automating routine functions—including simplifying and standardising processes and migrating them to global platforms.*

capture data to support decision-making at the senior executive level and 44% consolidate data from product and business units.

Significantly, only 39% of respondents believe that budgeting, planning and forecasting IT systems are flexible (that is, allow updating by different divisions as conditions warrant), whereas 31% say that these systems are not flexible. Accommodating ad hoc data requests is particularly problematic. About equal proportions of respondents say this is easy (33%) and difficult (32%). Preparing for merger and acquisition (M&A) activity, for instance, is a difficult area for some

finance departments, even as demands for strategic decision-support escalate. Only 19% report that they have mastered this task, compared with 28% who still have difficulty with it.

Companies have undoubtedly made considerable progress in automating routine functions—including first simplifying and standardising processes and then migrating them to single global platforms. In one-half of the companies we surveyed, routine functions such as reporting, accounts payable/receivable, tax and expense control are automated, and run smoothly with little manual input. Similarly, one-half of the respondents believe that finance and operations people are linked with flexible, automated systems that allow continuous updating.

Equally encouraging is the finding that, in 63% of surveyed companies, systems are deemed flexible enough to allow data visibility and access to authorised employees while protecting against unauthorised access.

Most large companies strive to put all financial data systems worldwide on a common platform. For about

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## Cisco: A 'nuts-and-bolts' automation project

**Dennis Powell**, until recently the CFO of Cisco Systems, describes a completed automation project at his company:

"It was a nuts and bolts, grassroots effort. We considered every transaction function and looked at which processes take the most time and effort to complete. We focused first on those, and got those streamlined and automated.

Early on we noted that, to get good



analytics, we have to be able to pull data, and to do that we needed to have everyone around the globe reporting the same data the same way. We implemented a standardised system to use around the globe. Now you can

go anywhere in the world and find everything—with only a couple of exceptions—on the same ERP [enterprise resource planning] system. This means we can get the

data we need and we can see it both at a top-line, high level or we can break it down to the business-unit level. The main thing is that you know what type of data you will find in each account.

We have seen benefits already. Our transaction processing and reporting expense as a percentage of corporate revenue has come down, and at the same time the finance organisation can provide better information support to our partners in the business and functional units." ■



60% of respondents this goal has been achieved, and financial data collection in the regions and business units uses the same format and systems as data collection at headquarters. Accordingly, 70% say that running routine finance functions is easy. In particular, 58% say that their companies are good at using automated systems to consolidate financial results.

Through the use of software products tailored to finance function automation, finance departments are better able to carry out their traditional duties of controlling and reporting. Some companies also use automated reporting systems to gain insights that lead to higher revenue and lower costs, for example by driving productivity improvements or by supporting marketing and sales.

Maintaining financial control is a particular strength in the surveyed companies, with more than one-half (54%) saying they can do this easily. The same is true for closing the books at the end of each reporting period, which is easy for 58% of those surveyed.

Disaggregating financial and operating data appears somewhat more complicated. Only 37% of surveyed companies find this easy and more than one-quarter (26%) say it is difficult. The same is true for balancing the company's investment portfolio to manage risk, which is easy for 37% of those surveyed. Less than one-half (45%) find that finance project portfolios can be readily adjusted as market requirements change.

Regulatory compliance requirements have spurred many finance IT upgrades, with the result that most (54%) companies say they have efficient and cost-effective systems to collect the data needed for this purpose.

Although some companies have made progress, many others are still mired in legacy systems and manual consolidation of results. One-half of respondents say that routine functions have been automated; the other half say that automation has not advanced far enough to free them of most routine tasks. In many companies, reporting is still run on a variety of platforms with different data specifications, requiring time-consuming

## *The main barrier to IT modernisation is not insufficient budgets but the presence of legacy systems and difficulty in reorienting finance staff in new directions*

reconciliation of data from different regions. The main barrier to IT modernisation is not insufficient budgets (only 15% cite this as a barrier), but rather the presence of legacy systems and difficulty in reorienting finance staff in new directions.

Mr Wilver of Thermo Fisher Scientific is one of the CFOs grappling with the task of unifying various legacy systems within the company. "We have 12 business divisions, and each one of them has a geographic network of operations and sales offices. This creates a certain amount of dispersion of data collecting. We pull all this together at the central level. A good deal of that is

**To what extent do you agree or disagree with the following statements with regard to your company's financial IT systems?** (Rate on a scale of 1 to 5, where 1=agree strongly and 5=disagree strongly)

1 Agree strongly 2 3 4 5 Disagree strongly 6 Don't know

Routine functions such as reporting, accounts payable/receivable, tax and expense control are automated, and run smoothly with little manual input

17% 33% 28% 14% 7% 2

The finance department has efficient and cost-effective systems to collect the data it needs to ensure timely regulatory compliance company-wide

17% 37% 27% 13% 5% 1

Finance and operations people throughout the company are linked via flexible automated systems which allow continual updating

16% 33% 23% 17% 7% 2

Data are visible and readily accessible to employees who have a need for such access, but are also well protected from unauthorised users

29% 34% 20% 12% 4 1

Financial data-collection in the regions/business units uses the same format and systems as data collection at headquarters

30% 30% 18% 12% 7% 4

Budgeting, planning and forecasting systems are flexible and allow updating by different divisions as conditions warrant

11% 28% 27% 20% 11% 3

Finance project portfolios can be adjusted as market requirements change

13% 31% 31% 13% 5% 6%

Managers have the right information and tools to make timely decisions

15% 40% 30% 11% 3 1



## The emerging role of the finance office in large corporations

done manually, since we do not have a single enterprise resource planning (ERP) system for the entire company. Automation has its uses, but there is always a cost benefit analysis to be done. Just because you automate something doesn't mean it is error-free."

The first step towards automation tends to be to simplify and standardise business processes, including data-collection processes. This can be a time-consuming exercise, as Mr Smits of Koninklijke KPN explains: "We have 130 different reporting entities

*"We have 130 different reporting entities at KPN, producing 130 different balance-sheets, all of which have to be consolidated centrally. I think that number should be brought down to 25."*

**Marcel Smits, CFO, Koninklijke KPN**

at KPN, producing 130 different balance sheets, all of which have to be consolidated centrally. I think that number should be brought down to 25. Another example is in billing applications. We use 65 different IT applications to generate bills for different products and services of KPN. All these billing applications interface with a general ledger. We should have perhaps ten billing applications, not 65."

The resources involved in consolidating to a single platform can be considerable. Brian Barrow, CFO-Europe and a member of the central finance leadership team at British American Tobacco (BAT), describes the company's ongoing automation programme: "We started a major project two years ago and it still has three years to run. We aim to move all

our systems to the same instance of SAP. Efficiencies in information gathering, analysis and storage can save a lot of resources for us. Currently, we do this work mainly off-line. We co-ordinate information collected on spreadsheets in different countries in Europe and each of those sub-regions structures the information somewhat differently."

Ultimately, companies expect a payback for this effort in terms of efficiency and improved data transparency. Mr Hippe of Continental AG thinks the savings can be considerable. "We have already automated the accounts payable function, so that now we book invoices automatically. This was a major breakthrough for us. We still do a lot of our reporting manually, however. We are trying to standardise more of our reports, but it is a long process. I would say that about 60% of our reporting is automated, and the other 40% remains to be done."

In general, CFOs tend to see automation of routine functions as a work in progress. "We view this as a journey, not a destination," stresses Mr Hele of ING. "Markets are changing all the time. Having the right data is important; the market does not want to wait for several months for a study to be completed. We spend a lot of time on improving those information processes and are continuing to do that."



## 2 Gains from automation limited by compliance burden

A big problem with automating routine functions and data collection is that the task is akin to shooting at a moving target. The type of information to be collected, and the number and variety of reports to be generated with the data assembled, increases almost weekly at some companies. At the same time, new regulatory requirements impose additional burdens on automated data systems.

Several CFOs share the view of Dr Colin Robertson, CFO of RBS Coutts Bank Limited, concerning the magnitude of the task: “The regulatory environment is shifting and this means the amount of reporting we do increases month on month, year on year, at an alarming rate. As quickly as we automate these reports, requirements grow for new reports. We are automating what we can from the older reporting requirements, but the system upgrade consumes a lot of time

upfront. So at the moment we have a double whammy: we are migrating manual processes to new automated systems and at the same time we have an increasing volume of new information requests to deal with.”

Mr Pontiggia of Pirelli Tyre (China) describes a similar situation: “The finance function is becoming very hectic. In the past, forecasting was quarterly. Then it became monthly, and now it is weekly. As the frequency increases, the analysis becomes less and less meaningful. We have the skills to serve as partners to the operating units, but we are not using them to the fullest extent, because we spend so much time producing reports.”

In addition, complex new automated systems place added demands on personnel. “You do not get as much personnel savings from that automation as you might think,” notes Mr Bryant of Intel. “The automated systems are themselves fairly complex and we need to devote people to developing and managing them. This diminishes the personnel savings associated with new systems.”

For example, he says, Intel introduced a new general ledger system and a new treasury system. “These have considerable support requirements. There is

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## The automation trap

“You could compare the finance department to a computer microchip,” says Alberto Pontiggia, CFO of Pirelli Tyre (China). “Each year the microchip gets smarter and faster, but at the same time the demand for processing increases. If you switch on your PC today, you won’t necessarily see faster or more effective performance compared with ten years ago. That’s because the PC is trying to process information faster, but the volume of information to be processed has



grown much larger over time. For the same reason, ERP [enterprise resource planning] systems sometimes do not deliver all the

benefits expected at the outset.

Sometimes I think we should go back to basics. Having a lot of detailed information is fine, but consider how much it costs to produce all that information and compare that cost to the marginal benefit of each report. If the benefit is small, for example one-tenth of the hourly pay of the people who produced it, there may be no point to assigning someone to produce that report.” ■



*“Automated systems are themselves fairly complex, and we need to devote people to developing and managing them. This diminishes the personnel savings associated with new systems.”*

Andy Bryant, CFO, Intel

some net savings of personnel and of course we get better reliability as a result of having these systems in place. On balance it is worthwhile. But the savings are less than might at first appear.”

According to Mr Bryant, the solution to the problem of information overload lies within the reach of CFOs and their staff. “We need to move away from this pursuit of perfect accounting. As a result of Sarbanes-Oxley, CFOs made perfect accounting—zero accounting mistakes—their number-one priority. We devoted a lot of resources to making sure this happens and we pay for that by having fewer resources for strategic decision-support. The only thing that stops us from changing this is ourselves. We have to have the courage to move the resources from accounting to the strategic side.”

### **3** Using automation to drive productivity and improve top-line results

Even companies that have implemented far-reaching automation programmes describe “one touch of a button” automation as a work in progress, with more ambitious applications ahead. One of those is Philips, the major Dutch healthcare, lighting and consumer goods company. It has already implement-

ed a major programme of standardisation of financial reporting and migration of those tasks onto a single automated platform (see box, “Philips: ‘Hands-free’ financial reporting”).

Mr McCrone believes that further refinements of the system are under way. “If you are asking whether we have a highly automated management cockpit, into which flows both financial and non-financial information, I would say we are not quite there, at least not yet. However, using the common Group-wide SAP platform as a base, one of our sectors is now prototyping a seamless integrated performance management system, including management dashboards and information that can be distributed on an exception rather than on a blanket-distribution basis. We are also trying to make this reporting more real-time.”

Other companies hope to make their automated reporting systems a sharper tool for building up top-line results. This includes using the data to generate insights that drive productivity improvements and support marketing and sales.

At Autodesk, Mr Castino believes the challenge is to get better marketing-related information from the automated systems originally set up to track financial results. “We have learned how to get faster and better financial information from our IT systems, but we still struggle with getting good customer and sales information. We are now investing in those kinds of projects. This company sells mainly through re-sellers, so historically we have not had a lot of information on our final end users. That kind of information is crucial. We have a gigantic user base, and the more we learn how to use it in sophisticated ways, the greater our competitive advantage will be.”

Beyond that, finance is uniquely positioned to recommend efficiency improvements company-wide. “Across all our back office, corporate or business finance functions, we constantly look for more efficient and effective ways of supporting our internal customers and decision-makers,” notes Anne Myong, CFO of



Agilent, a world technology leader, based in China. “We see our role as business advisers as well as a protector of financial compliance and integrity. The challenge is always how to find the talent, possessing the range of skills and who can strike the right balance.”

Among the efficiency improvements that finance departments should look at is a reduction in the financial reporting burden that finance itself places on operating divisions, notes Mr Hippe of Continental. “We

have combined some business processes into shared services centres, and in some cases have moved those processes to low-cost countries. I encourage finance people to look at such methods of making things run simpler and cheaper. At the same time, we have a lot of reports being produced on a regular basis that do not help the company much. We look at each report and ask, ‘Does this help the company to create value on a long-term, sustainable basis?’”

## Conclusion

**F**inance functions tend to be more centralised than they have been in the past, with CFOs and their senior staff taking a more active role in supporting business decisions and in general adopting a higher profile. Finance staff are also increasingly likely to participate in developing and tracking key performance indicators for their companies, and to ensure that objectives are aligned throughout the organisation. Finance functions are far more focused on strategic support activities than they have been in the past, often shifting resources from traditional controlling and reporting functions as the latter are automated.

The higher-profile finance function implies more empowered central finance staff, able to act on its own initiative and obtain detailed information company-wide. This picture, however, is emerging only slowly. Finance departments are in a transition phase between traditional hierarchical management methods and a more collegial, networked approach. As part of this transition, CFOs are broadening the skills base of their staff, paying more attention to recruiting people with general business expertise as well as financial skills. In

addition, central finance departments are increasingly oriented towards leveraging departmental and corporate resources by working through ad hoc teams and task forces to supplement existing hierarchies.

The picture is equally mixed when it comes to the degree of automation of routine functions. About one-half of the companies surveyed are fairly well advanced on the road to automation, while the other half lags behind. While this transition is under way, finance departments are finding that escalating demands for information threaten to reduce the gains from automation. However, forward-looking finance departments are looking for ways to use automated systems to drive company-wide productivity improvements and contribute to the company’s top-line results.

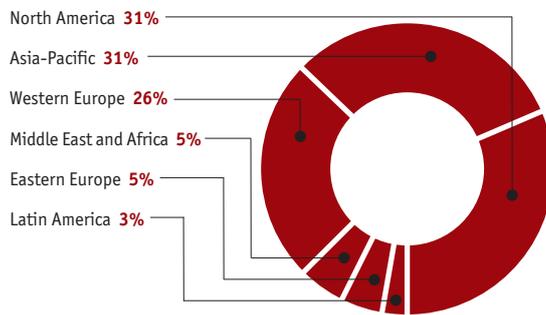
## Appendix: survey results

The emerging role of the finance function in large corporations

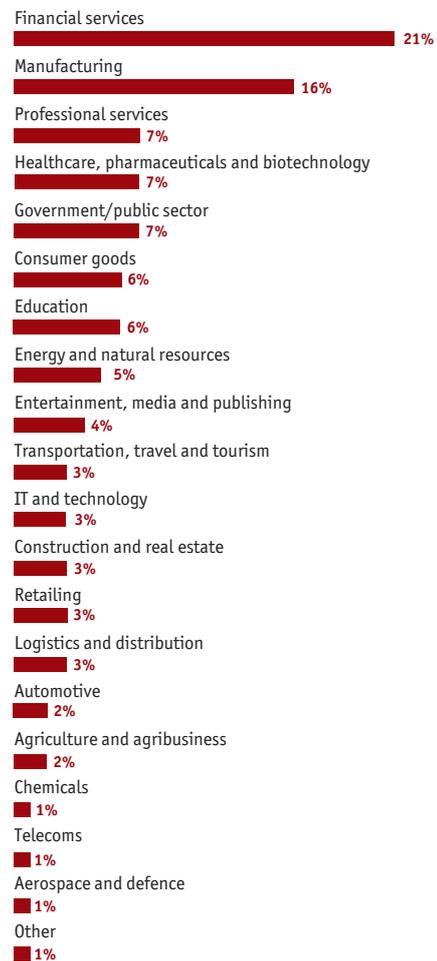
### Appendix: Survey results

In July and August 2007 the Economist Intelligence Unit surveyed 2,107 finance executives as well as conducted in-depth personal interviews with 20 CFOs of major companies. Please note that not all answers add up to 100% because of rounding or because respondents were able to provide multiple answers to some questions.

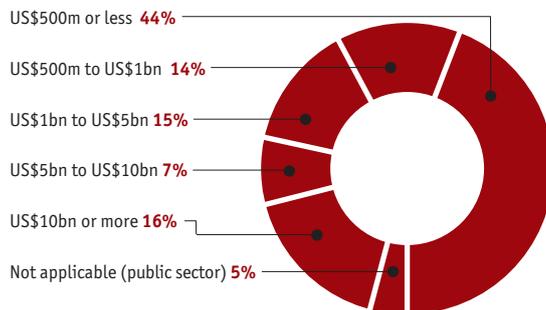
#### In which region are you personally based?



#### What is your primary industry?



#### What is your organisation's global annual revenue in US dollars?



**Which of the following best describes your title?**

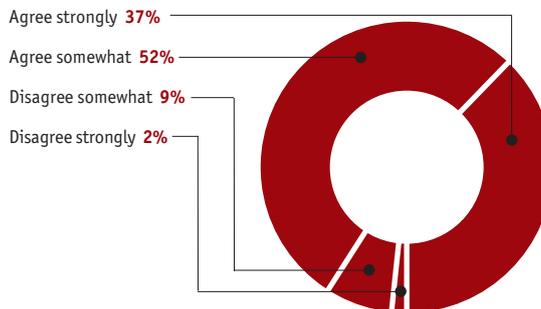


**To what extent do you agree with the following statements about the way a company's finance function ideally should be run? (Rate on a scale of 1 to 5, where 1=agree strongly and 5=disagree strongly)**

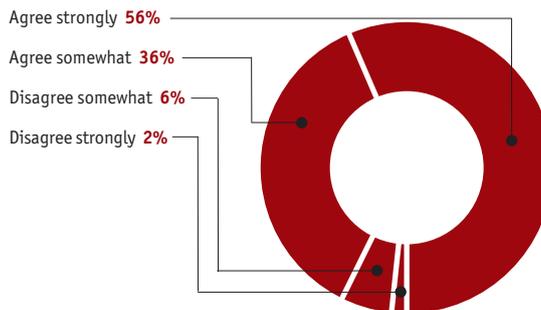


**Do you believe that a greater degree of decision-making autonomy for mid-level managers and senior finance executives would improve overall corporate performance?**

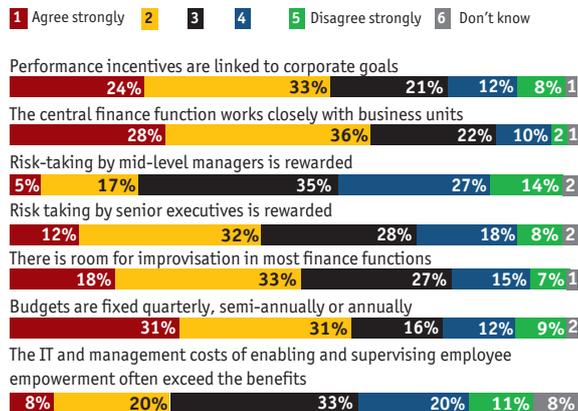
**Mid-level managers**



**Senior executives**



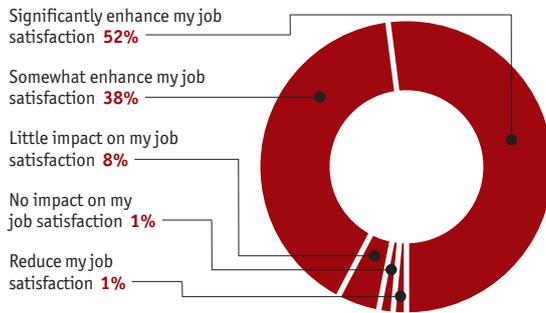
**To what extent do you agree with the following statements about the way things are actually run in your company's finance function? (Rate on a scale of 1 to 5, where 1=agree strongly and 5=disagree strongly)**



## Appendix: survey results

### The emerging role of the finance function in large corporations

#### How does, or would, a high degree of autonomy affect your own job satisfaction?

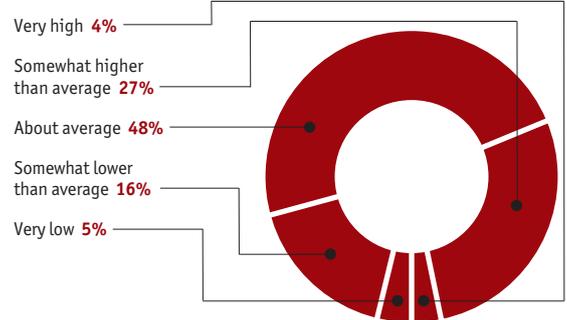


#### Which of the following statements describe your finance department's employee policies and practices? (Select all that apply)

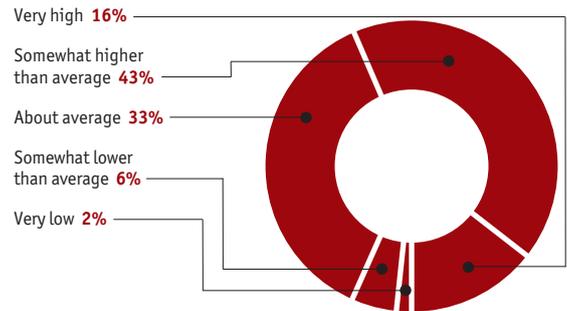


#### How would you describe the current level of autonomy of mid-level managers and senior executives in your company?

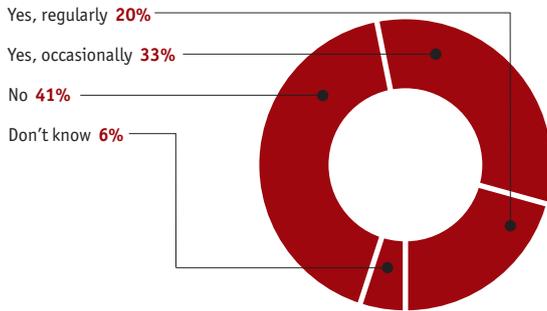
##### Mid-level managers



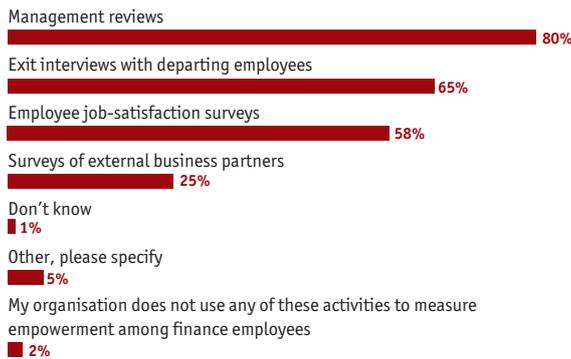
##### Senior executives



**Does your company ever track or measure whether finance employees are empowered to do their jobs?**

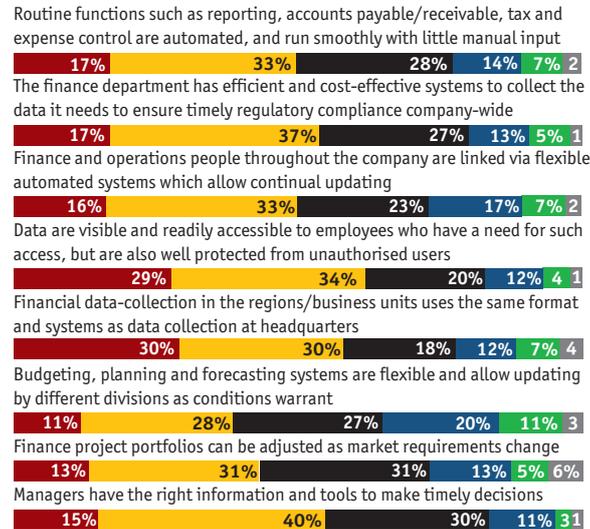


**If your company tracks and measures finance employee empowerment, does it use any of the following activities to assess whether finance employees are empowered? (Select all that apply)**

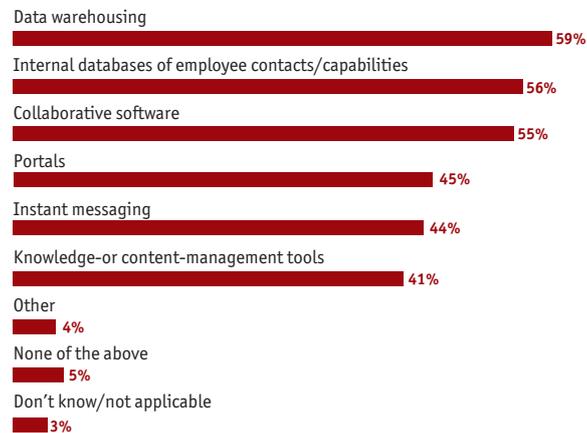


**To what extent do you agree or disagree with the following statements with regard to your company's financial IT systems? (Rate on a scale of 1 to 5, where 1=agree strongly and 5=disagree strongly)**

1 Agree strongly 2 3 4 5 Disagree strongly 6 Don't know



**Which, if any, of the following tools does your company use to improve the ability of finance employees to do their jobs? (Select all that apply)**

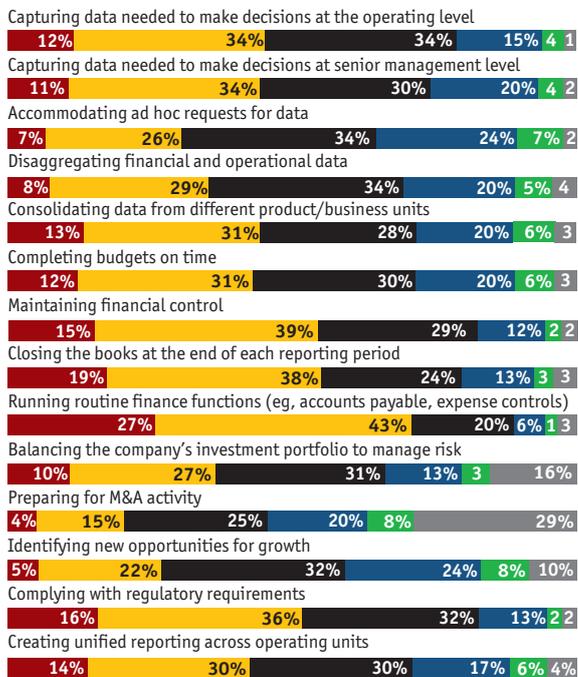


## Appendix: survey results

### The emerging role of the finance function in large corporations

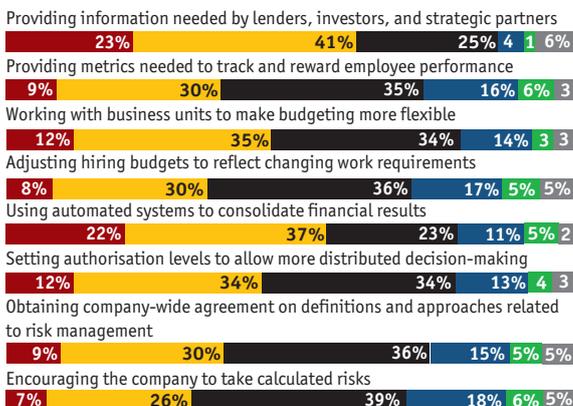
**On a scale of 1 to 5, how would you assess the difficulty (in terms of work load, stress level, etc) of performing the following tasks?**  
(Rate on a scale of 1 to 5, where 1=very easy and 5=very difficult)

1 Very easy 2 3 Neither easy nor difficult 4 5 Very difficult 6 Don't know

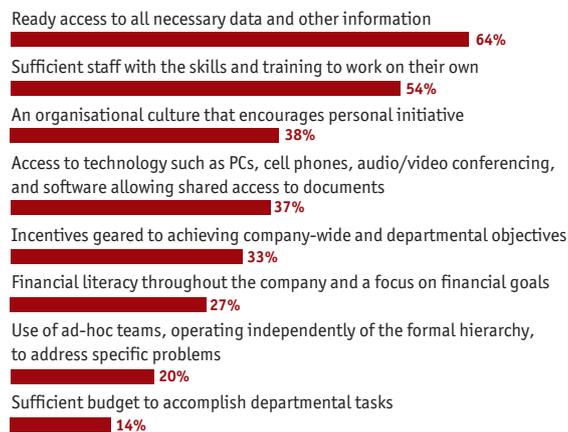


**On a scale of 1 to 5, how would you rate the performance of the finance function in the following areas?**  
(Rate on a scale of 1 to 5, where 1=very good and 5=very poor)

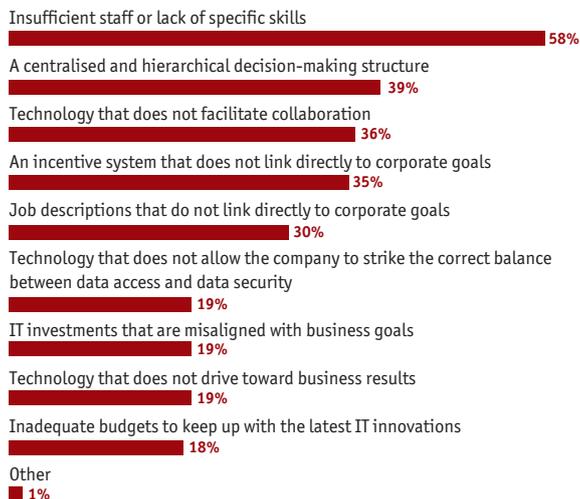
1 Very good 2 3 Neutral 4 5 Very poor 6 Don't know



**In your view, which of the following elements are the most important contributors to employee empowerment in the finance function?** (Select up to three)



**In your view, which of the following elements raise the greatest barriers to employee empowerment in the finance function?** (Select up to three)



## ACKNOWLEDGEMENTS

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<i>Cisco Systems</i>	Dennis Powell, former CFO
<i>Gartner</i>	John Van Decker, Research VP
<i>Intel</i>	Andy Bryant, CFO
<i>Nexen</i>	Marvin Romanow, CFO
<i>Thermo Fisher Scientific</i>	Pete Wilver, CFO

### *Europe*

<i>British American Tobacco</i>	Brian Barrow, CFO-Europe
<i>Continental AG</i>	Dr Alan Hippe, CFO
<i>Deutsche Post World Net</i>	Edgar Ernst, former CFO
<i>ING Group</i>	ING Group – John C R Hele, CFO
<i>KPN</i>	Marcel Smits, CFO
<i>Philips</i>	Stewart McCrone, corporate control
<i>Renault</i>	Thierry Moulonguet, CFO
<i>SAP</i>	Werner Brandt, CFO
<i>Volvo</i>	Par Ostberg, CFO

### *Asia*

<i>Agilent (China)</i>	Anne Myong, CFO
<i>Coutts Bank (Singapore)</i>	Colin Robertson, CFO
<i>Infosys (India)</i>	V Balakrishnan, CFO
<i>Pirelli Tyre (China)</i>	Alberto Pontiggia, CFO and director
<i>Xilinx (India)</i>	Manish Shroff, head of finance and company secretary

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