



Being the best

# Thriving not just surviving

Insights from leading finance functions

KPMG INTERNATIONAL



“

Adapting the finance function is now more urgent than ever, by providing the right information at the right time to help business leaders navigate through turbulent times.

”

**Jochen R Pampel**  
Global Head of Financial Management

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# About the research

In 2008, KPMG International (KPMG) commissioned CFO Research Services, part of The Economist Group, to determine how finance functions have fared over the last two years and to see how their priorities have shifted.

KPMG wrote *Being the best: Thriving not just surviving* building upon research conducted in 2006, *Being the best: Insights from leading finance functions*, when KPMG and the Economist Intelligence Unit found that finance functions the world over were making an important and challenging transition: from accountants with a focus on historical reporting to business partners who clarify the overall strategy and help drive value.

*Being the best: Thriving not just surviving* was written by KPMG using research, interviews and case studies that were conducted by CRS and based on the following activities:

- CFO Research Services (CRS) conducted a global survey of more than 500 senior finance executives, including 218 Chief Financial Officers (CFOs).
- Respondents were drawn from a cross section of industries across the globe, 54 percent from organizations with over US \$1 billion in annual revenue.

The survey results from top performing organizations (defined by CRS as those with an EBITDA\* average growth rate of more than 20 percent in each of the last three years) were analyzed and compared with those who saw negative or flat EBITDA growth during the same period. The top performers and under performers are compared throughout the report to provide insight for the majority who remain somewhere in the middle.

To supplement the survey, CFO Research Services conducted a program of interviews with CFOs, leading academics and experts in the field. We are grateful to the following participants for their valuable time and insights:

**Karyn Brooks**  
Senior Vice President and Controller  
Bell Canada Enterprises

**Dave Burritt**  
CFO  
Caterpillar

**David Chang**  
CFO  
Asustek Computer

**HM Cheng**  
CFO  
HTC Corporation

**John Hele**  
CFO  
ING

**Joe Lampel**  
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Cass Business School, London

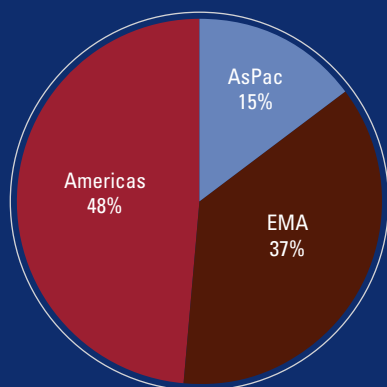
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**George Reyes**  
Former CFO  
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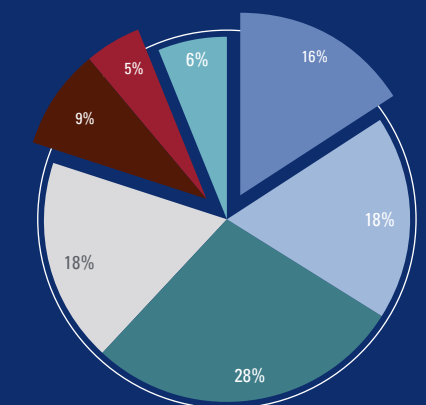
**Peter Zachert**  
CFO & Director of Finance  
Futuris Corporation Limited

## Geographic representation



Respondents: 497

## Defining top performers



Respondents: 516

\*Earnings before interest, taxes, depreciation and amortization

All graphs in this report are sourced from research conducted by CFO Research Services, 2009. Due to rounding, graph totals may not equal 100 percent.

# Foreword

**Research was conducted during the early stages of the credit crisis. But our assessment takes into account the recent changes in the global markets. Although the first reaction of the finance function in this climate may be to revert to the 'control and compliance' activities of the past, true leaders in finance will partner with their business leaders to address these issues head on and better position themselves for the future. However, finance functions should also continue to fulfil their traditional accounting and compliance responsibilities with maximum efficiency.**

Leading finance functions can distinguish themselves by supporting business management in a way that allows them to respond quickly to macro-economic developments. Such a response should be based on a deep understanding of the business and how each area is impacted by global market and industry forces. Only when an understanding is in place can finance leaders deliver the robust contingency and scenario planning that businesses require to make the right decisions. An adequately informed finance function will help to keep the investor community "on-side" by demonstrating an ability to predict and adapt quickly to changing events.

Many finance functions are struggling, however, to provide the required level of business support. There are many barriers

– complex system architectures, poor quality data, non-standard processes, multiple business metrics misaligned to underlying data sets, to name only a few. The barriers result in finance functions performing large quantities of downloading and rework, and hampers their ability to effectively predict fast moving economic shifts. A deep understanding of what drives business value is largely absent within many finance functions.

What lessons can a leading finance function impart for those still striving to reach the very top? And possibly more importantly, how can challenged finance functions improve to better support their business leaders? The research defines the key characteristics of finance functions at leading organizations, and also demonstrates the critical role people play

in delivering success. This is a call to action for finance leaders, whether Group CFOs, Divisional Finance Directors, or finance managers.

Regardless of whether the business is struggling in today's turbulent times, the finance function must look forward and focus on providing accurate and insightful enterprise-wide information. It must simplify business complexity and make the structural changes necessary to better align business processes. Finally, it must ensure that any changes are implemented in a way that sustains business performance rather than merely reducing short term costs. Adapting the finance function is now more urgent than ever, by providing the right information at the right time to help business leaders navigate through turbulent times.

## Jochen R Pampel

Global Head of Financial Management





# Executive Summary

In 2006 research, *Being the best: Insights from leading finance functions*, KPMG International and the Economist Intelligence Unit found that although CFOs were being pressured to slip back into a traditional control and compliance role due to the fall-out from international accounting scandals at the beginning of the 2000s, the long-term need remained for finance to play a more strategic role in the business. A few years on, we find that this vision burns brighter than ever, and that for many CFOs, far from being a long-term need, the role of strategist is a clear and present reality.

Key insights from the current research include:

## **Influence is key**

Top performing businesses have trusted finance leaders actively involved in defining the future direction of the organization by influencing business leaders to make better decisions across all functions. The top performers have learned that influence has to be earned

by continually meeting or exceeding business expectations. Gaining the trust of the decision makers gives finance the authority to contribute to key business decisions.

The research shows that the finance function still has work to do in enhancing their level of influence with the functions that arguably drive the most value through the organization (e.g. R&D, sales & marketing). Developing a much deeper understanding of how these functions drive business value will help the finance function broaden their influence across the whole suite of business leadership.

## **Economic uncertainty has exacerbated the need for the right information at the right time**

Finance functions that lack influence will struggle in the current environment as boards and investors look for clarity on the impact of market changes on sales, EBITDA, liquidity and cash flows. Boards and investors need reassurance that the impacts of changing market forces are

understood, forecasts can be adjusted quickly and appropriately, and robust and appropriate guidance on key business decisions can be backed up by solid scenario planning.

The recent events in global economies, where significant changes in market sentiment occur at short notice, have enhanced the need for finance functions to have a much deeper grasp of enterprise risk. For example, cash flow, liquidity and the ability to find sources of funds have become much greater risks than was previously the case.

The ability to meet loan covenant terms has also become an important issue for many organizations. There is severe pressure on the finance function to provide meaningful, timely and reliable information for businesses to manage their risk. Change brings opportunity and leading finance functions are the ones that respond quickly and effectively to changing business circumstances, supported by relevant, reliable business information.

**Gaining influence with business leaders to make better business decisions... together**



### Real business intelligence is rare

Many finance functions still have a poor understanding of business value drivers and, in many cases data and IT architectures are inhibiting the ability of finance functions to help drive real business value. Organizations often invest heavily in business intelligence (BI) solutions, with mostly sub-optimal results.

Under performers can spend too much time downloading and reworking non standard data in an attempt to supply meaningful information to business leadership. Spreadsheets remain a key business tool for piecing together data from multiple applications. In addition, many finance functions have not taken the time to understand the business value driven by different parts of the business, which inhibits their ability to provide the necessary information to influence the right business decisions within these functions.

Finance functions from top performing organizations have recognized the importance of BI. They have spent time understanding the different business drivers of value, aligning data sets to be consistent with key business metrics and investing more in the kinds of technologies that provide the right data to the business decision makers.

### People are the key to bringing business information to life

The impact of implementing and maintaining an effective business intelligence system is enhanced when a skilled, motivated finance team that understands the information needs of the business is in place. Investment in re-skilling the finance team is as important as investment in new technologies. Effective BI works best when the finance team understands real business issues and references them to external thought leadership, and industry and commercial experts. Business

leaders crave an external perspective when making key decisions, and it is incumbent on finance professionals to provide that perspective.

More than half of respondents said "difficulty finding and retaining skilled finance professionals" is a major barrier to improving finance function performance, still the number one concern since the 2006 *Being the best* research. The challenge in recruiting the right people is reflected in the desire by the majority of respondents to train their current staff in new core skills, such as change management, influencing and communication skills, rather than recruit.

The current economic environment has meant that finance professionals are now in much greater supply. Will finance leaders be looking for new and different skill sets in the future? We believe that the finance professional of the future may be different to the one even of the very recent past.



# 01 Influence

How to get it and how to extend it

Many studies have concluded that there is a strong correlation between high performing finance functions and high performing businesses. But what is the common thread in the finance functions of these high performing organizations? The research has shown that it is the finance function's ability to influence business leaders across all aspects of the business. Influence comes from trust and that trust has to be earned from both internal and external stakeholders.

In today's global economic environment, there are two key components to building greater influence – better business intelligence (right information, right time) and deep business skills (right people). The finance function should look to move along a continuum towards greater trust

and therefore greater influence over key business decisions.

Most CFOs know that a high performing finance team must be able to influence the business leaders in their organization.

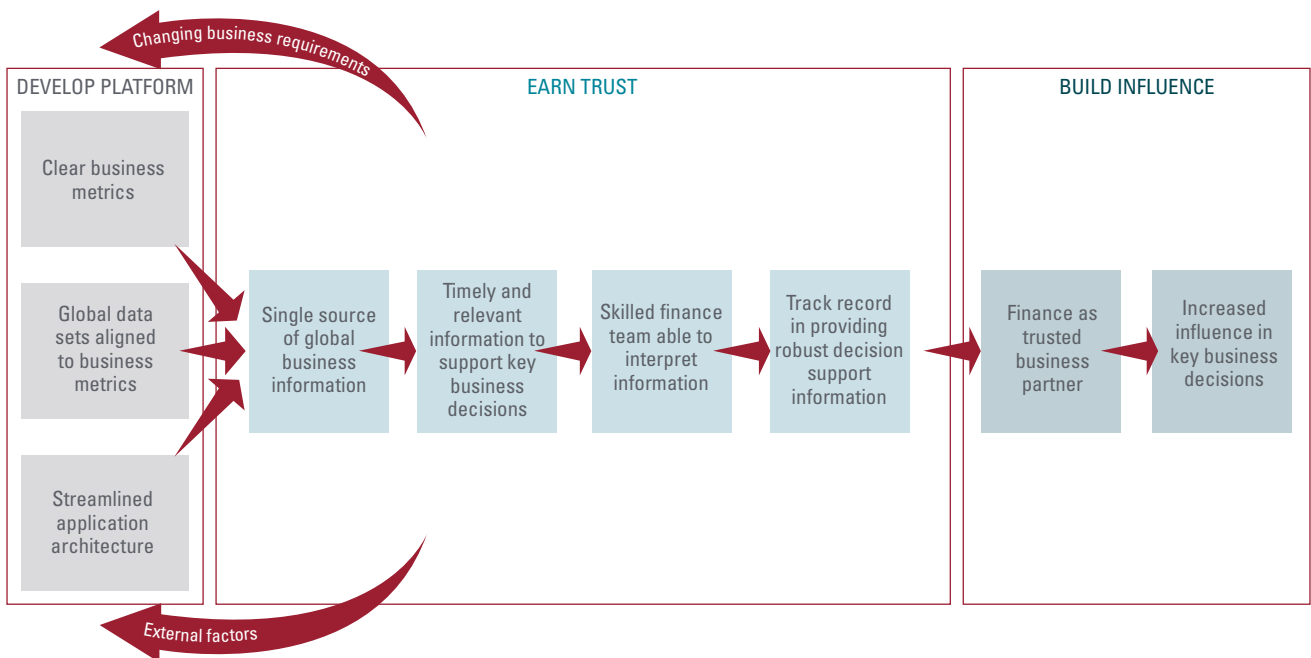




The finance departments that have the best relationships with the rest of the business will thrive, while those with relatively little influence inside and outside the organization may find the job of strategist and business partner

increasingly untenable. Over time, top performing CFOs should gain increased influence within the organization by eliminating the barriers that come up as they move along the continuum shown below.

The influence continuum



### **Gaining influence with business leaders to make better business decisions... together**

Today's CFO wants to partner with the CEO in influencing the strategic direction of the company. CFOs are no longer satisfied with being scorekeepers or simply tracking the past.

While the research shows that influencing business decisions is becoming a reality for finance functions at top performing organizations, not even the top finance functions are fully there yet.

To be trusted, finance must show that it can consistently deliver the right information at the right time, and use the information to deliver insight to the people who have a deep understanding of business value drivers. A top performing organization will expect this from the finance function and will welcome it as a strategic partner.

### **Top performers understand the key business metrics**

The first step on this journey is for the CFO to invest the time to understand the key business value drivers and ensure that they are embedded in the psyche of key finance resources. Even at the highest performing organizations, value drivers are not always clearly defined. In many cases they will be different from division to division – take for instance the value that R&D can drive at a pharmaceutical company, versus the value marketing can drive in a Sales & Marketing organization.

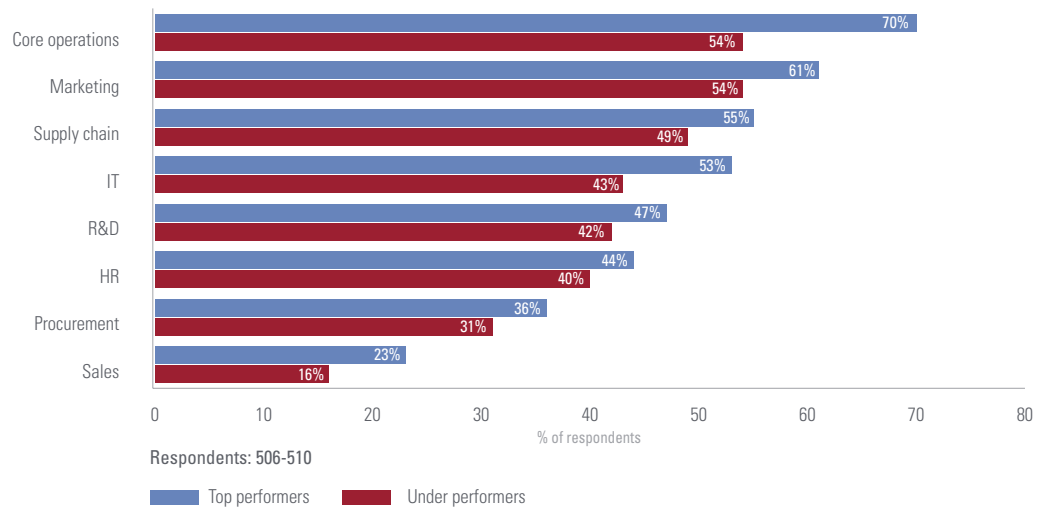
The recent meltdown in the banking industry has shown how certain parts of the same business can operate according to different rules with significantly differing drivers.

Understanding key business metrics and how they drive shareholder value is at the core of building influence with leaders across the entire business landscape. CFOs should ask themselves if they and their finance teams truly know the drivers and the levers that affect them.

### **Even top performers struggle to influence high value functions**

In top performing organizations, the finance function exerts a significant influence on the other functions within the business. The impact is most pronounced in relationships with IT, HR and the supply chain. However, our study shows that the finance function has limited influence with the functions that arguably drive the most value through the organization (e.g. R&D, Sales & Marketing). Even in leading companies, progress is poor and building relationships in these areas should be seen as a priority.

Finance’s significant influence on other functions



Respondents answering 4 or 5 on a five point scale

**Align finance function strategy to business strategy**

Finance cannot truly become a strategic business partner unless it aligns its vision with the business and also properly defines its own structure to provide relevant and timely support. An effective finance strategy should address the following questions:

- What is the role of finance in driving the agenda of the strategic business imperatives, such as enterprise risk management, cost optimization, sales vs. profit growth, and allocation of resources?
- How should finance organize to best support the business?
- What are the key areas of decision support that the business most wants or needs assistance with?
- How does finance best interlock with other business functions?
- What is the optimal allocation of finance resources (people and investment)?
- Where do finance resources need to be shared and where do they need to be embedded in the business?
- How can finance communicate its role to the rest of the business in a way that is succinct, vivid and clearly articulates where they can add business value, and help minimize business risk?

The answers to these questions will vary depending on multiple business and industry factors, but the key is to analyze the business situation and focus on a finance function structure that is appropriate for the business, and on outputs that are relevant to business needs.

At HTC Corporation, if challenging and supporting the business is the goal, there is much room for improvement. “We have not done too good a job on this area but need to. As we transit our role we are in the process of re-defining the responsibilities with many functions. We need to demonstrate that we can add value to the process,” says HM Cheng, CFO of HTC Corporation, in Taiwan.

To a large extent, partnering more productively with the rest of the business requires two changes, according to Cheng. “We need a change of mindset and we need to improve our analytical capability,” he says. “There has to be an acceptance of the role change among finance staff, from backend to being more involved in decision-making.”

## Case Study

## Streamlining at BP



Sometimes your team is bigger than you think. Just ask David Nagel at the UK oil company BP. When he took the post as global head of finance transformation in 2007, one of his first projects was to help streamline and reorganize the finance function, which had grown over time as the company itself expanded and decentralized.

It's been no small feat – benchmarking the function showed that it was costly, employing as much as 30 percent more staff than its top peers.

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**Part of the problem, says Nagel, was that “we had not managed [finance] as a function, and so in each individual case adding an extra person didn't seem like a very big deal.”**

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**As a large, global company, “each of the units at BP is its own business, with multiple assets, and until you aggregate the lot, you don't really know what you have. It took us a while to figure out who was in finance under the new definition.”**

One critical step in revamping the old model was the creation of business unit CFO roles.

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**“These CFOs sit over big businesses, so all of our North Sea operations are under one CFO, for example. Now these CFOs need to lead their own finance team, as well as being a pivotal member of their business unit leadership team,” Nagel says.**

In addition to achieving cost reductions, the exercise has already proved its worth in encouraging greater collaboration between the financial and business constituencies.

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**“One of the things that has been made more clear to everyone is that the professional accountants and controllers have a much more direct connection to the business,” he says.**

It is, however, too early to declare victory. Even though significant costs were removed in 2008, additional steps are underway to take more advantage of internal and external service centers, and to standardize systems and processes, including simplifying the company's management information.

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**“We need to redress our management information, in terms of [reducing] both the amount that we collect and the cost of collecting it. We [also] need to enhance the value of the insights that we get from our MI. We're steadily getting there, but we still have some distance to go,” Nagel concedes.**

## IN SUMMARY

Making better business decisions together

Few finance functions, even top performers, are where they want to be when it comes to the extent of influence they can exert over business functions. Successful finance functions continue to improve by making greater efforts than under performers to collaborate with all parts of the enterprise. They have created finance strategies that are aligned to the business and are actively engaging with it, investing time to understand business metrics and aligning data sets to deliver relevant and timely information.

To date finance, knowing it can't be everywhere at once, has made a choice to engage more with areas of the business that are easier to penetrate such as IT, HR and the supply chain, and for top performers at least, these relationships have paid off with more influence over relevant business decisions.

The challenge over the next few years is for finance to move out of its comfort zone and get closer to the functions that arguably drive the most value through the organization (e.g. R&D, Sales & Marketing).

Finally, the recent global economic environment has tested finance functions' influence to the full in such areas as investor relations, forecasting and planning, and enterprise risk management. These concepts are explored further in the next section.



## 02 Managing through volatility

Being better prepared for whatever lies ahead

The past year has seen unprecedented macro-economic changes resulting in a level of stock market volatility that has rarely been seen for nearly 100 years. Even companies with healthy balance sheets have been exposed to a variety of risks, such as where budgets and forecasts have become less accurate, and previously strong stock prices have lost significant value almost overnight.

Much of the current economic volatility has been beyond the control of the finance function. But now that it is here, can finance leaders say that they were well prepared to manage the effects?

How many finance functions had robust scenario planning processes and systems that could quickly run multiple customer demand scenarios? Did finance leaders fully appreciate enterprise risk and its impacts on liquidity and short term cashflow? Were finance functions in a

position to understand the impact of huge swings in commodity prices and the effect on margins and pricing? Did the finance function truly understand the value and inherent risk across the entire product range of the business?

If, as a finance function, you found yourself downloading piecemeal data and frantically trying to work through complex scenarios in ever growing spreadsheets, in hindsight, would you have liked to have been better prepared?





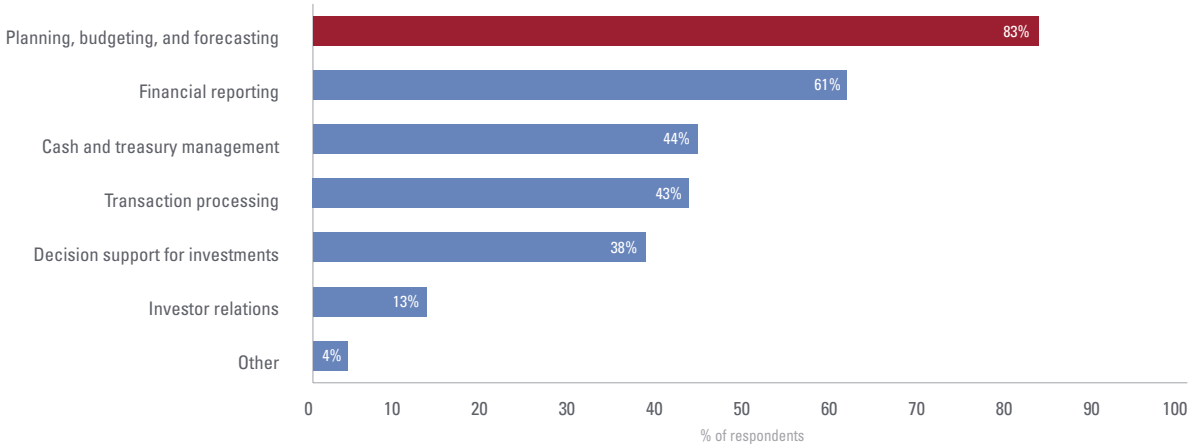
**Succeeding in turbulent times – flexibility in forecasting**

The capabilities required to succeed in turbulent times are the same as the ones needed during calmer trading conditions. The need for focus, however, has become much greater. One clear area of

heightened focus is planning, forecasting and budgeting. More than 80 percent of respondents were determined to improve this process in the next two years – even before the full force of the economic conditions was felt. The focus on budgeting and planning has significantly

increased since 2006, when around 60 percent identified it as a major priority for the coming two years. The 80 percent figure also implies that many who felt it was a priority in 2006 may not have actually achieved their goals.

Finance activities and processes most likely to improve over the next two years



Respondents: 508

Inefficiency of planning and forecasting processes and systems are at the core of much of the duplicated and unproductive time reported in most finance functions. The economic conditions have only heightened these weaknesses. There is a clear call to action to the CFO to:

- get to the root of inefficiency in the forecasting processes;
- truly understand the drivers of business results;
- drive a deeper understanding of the potential volatility in commodity prices, consumer demand, exchange rates, availability of funds;
- focus on the impact on cash flow and liquidity, not just margin and profitability; and

- build the tools to enable efficient and flexible forecasts that can be used to quickly respond to changing and volatile conditions.

**Investor relations – heightened importance in a volatile market**

Even before the full force of the market downturn took hold, our survey shows that CFOs were keenly aware of the importance of maintaining good relations with their investors.

The unprecedented economic conditions have heightened the need for open and honest communications with the investor community as well as other stakeholders, and for a willingness to provide a better understanding of the potential impacts changing market conditions can have on

business results. In some cases and in some industries trust between the investor community and the companies has broken down due to a feeling that the facts were not always clear and forecasts were too inaccurate to be relied upon.

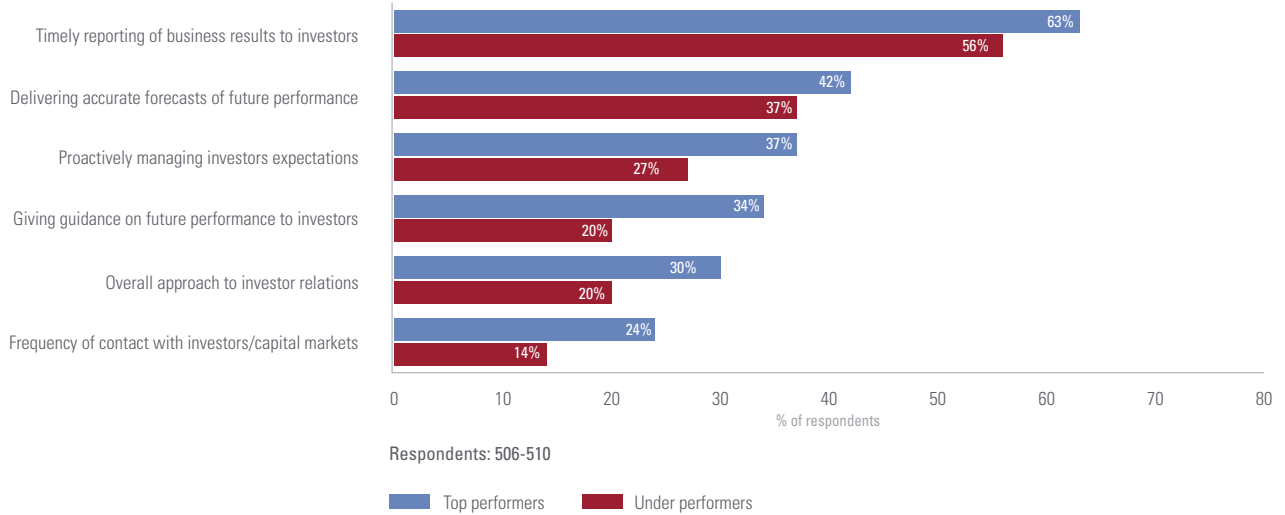
In an unstable economic environment, decision makers in the business and in the external investor community are all looking to finance to ensure that the impact of any changes are adequately reflected in the latest financial forecasts. Business leaders look to finance to react quickly to changing circumstances and communicate effectively to the investor community. Investors need to see that the organization not only understands but can reasonably predict outcomes.



Joe Lampel, professor of strategy at Cass Business School in London, says the current economic conditions mean CFOs now spend more time on external finance issues, and investor relations have become that much more important.

“Three years ago, if you were running a company with reasonable credit worthiness, you had no problem with raising capital. Today the shoe is on the other foot. It’s much more difficult to obtain money, your own ratings have come under greater scrutiny, and bonds have to be carefully managed. All of these things have put a lot of pressure on the CFO.”

Major investor community priorities for the finance function



Clearly, very few could have predicted what has happened in the global economy in recent times, but it is the ability to predict the impacts and outcomes of certain events that investors are looking for. Which is why CFOs at top performing companies are spending more and more time on investor relations.

Stakeholders are crucial to business success and need a flow of information based on a consistent set of business principles. When the economic outlook is uncertain, the CFO is the best person to provide an explanation and bring reassurance. Of course, CFOs and their teams can only do so if they possess

timely information and insight. The CFO and senior finance leadership need to have the influencing and presentation skills required to effectively calm an investor community that is looking for a cool head in turbulent times. The need for these “softer” skills is explored later in this document.

## Case Study

## Finance to the fore at KPN



When economies are booming and businesses are reaping the benefits, the finance function is often seen as a cost center or, even worse, an outright impediment to corporate growth, with everything from reporting and control to budgeting and planning viewed by the rest of the company as cumbersome and time-consuming. In a downturn, this logic no longer applies. Now, the rest of the organization looks to finance for answers – the information and insight the department gleans in the course of its regular duties proves critical as businesses struggle to steer through a recession.

As a result, the star of the CFO shines brighter. Nowhere is this more apparent than in the balance of power between CEOs and CFOs. With cash flow and banking covenants now key concerns, investors, analysts and employees are as likely to turn to finance chiefs for information as chief executives.

CEOs themselves are also conferring with CFOs more than ever.

**At KPN, a Dutch telecoms group, CEO Ad Scheepbouwer is spending time with finance chief Marcel Smits “more often, because there are so many more issues to talk about,” he told CFO Europe magazine recently.**

The substance of their conversations has a back-to-basics feel.

**“In hectic times, the basics become more important.” He is now tracking cash flow, margins, taxes and other basic financial data more closely, and this means that he needs “fast, correct and detailed information” from the finance team.**

Of course, this is always important, regardless of the economic cycle. Nonetheless, it gains even more importance when a company's survival is at stake.

Amid unprecedented volatility and uncertainty, another crucial contribution that finance makes is contingency planning. At numerous organizations, for example, the past few months have led CEOs and CFOs to develop and update comprehensive plans for a mild recession, a serious recession and a depression, detailing all the steps they can take to protect earnings and cash flow.

And it's not all about cutting costs. Forward-thinking firms that plan for the worst often find that great competitive strides can be made during downturns, while less prepared rivals retrench.

**As Scheepbouwer put it, “In the down periods, you always see the finance function blossom.”**

## IN SUMMARY

The recent economic conditions have been a rude awakening for many finance functions



The past year has, in many cases, exposed weaknesses in systems, data structures and processes within the finance function, leaving finance leadership scrambling to cope with the demands for frequent, reliable and robust business information. Finance leaders should ensure that they do not find themselves in a similar position again. This is a call to action to:

- address the issues that are slowing down the forecasting and planning process, such as identifying the KPIs that drive the business, forecasting at this level and then testing, analyzing and challenging key assumptions used in forecasts and planning processes;
- fix the root causes that result in a huge amount of data manipulation in spreadsheets;
- develop tools and processes that drive more flexibility into forecasts to enable swift and effective responses to market changes;
- understand the concept of enterprise risk when building and updating forecasts;
- balance the emphasis between profit forecasting and cash flow forecasting;
- build strong and open relationships with the investor community and other stakeholders, led by a finance leadership team that possesses the right mix of softer skills and technical knowledge.

# 03 Real business intelligence is still rare

It's time to stop downloading and reworking

Business intelligence is a term that means many things to many people. Simply put, it is a collection of 'intelligent' information that helps business leaders make better business decisions that enhance shareholder value. When it works, it can deliver the real competitive advantage that business leaders strive for. It is the provision of robust business intelligence that in many cases differentiates top performers from the rest.

“ Up to 50 percent of managers place no confidence in the numbers presented to them. ”

Business intelligence research,  
Cambridge University 2009





High quality business intelligence is driven by a collection of processes, applications and technologies designed to gather, store and provide easy access to information. At the heart of this, however, is data.

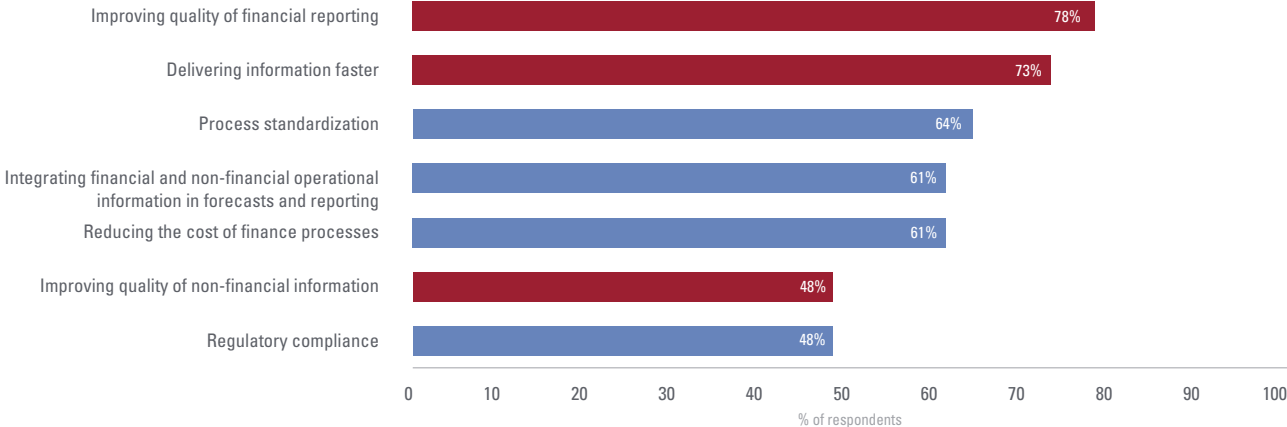
**Data as the root of finance function inefficiency?**

The issue for many businesses is that their business intelligence processes and systems are not delivering. If they were, would there be such a prevalence of spreadsheets in delivering management information? Earlier in this report, we referred to a continuum that assists finance leaders to better influence the business. One of the key components is developing global data sets within core

systems that are clearly aligned to business metrics.

The research identifies the two key drivers for investing in finance technology as the quality of the business information and the speed at which it is delivered – over 70 percent of respondents saw these issues as major drivers for future investment. Underlying data structures are the root of driving enhancements in speed and quality.

Major drivers for investing in finance technology



Respondents answering 4 or 5 on a five point scale

Why has data become such an issue? There are many reasons. Business acquisitions have meant multiple legacy systems are in place across businesses and geographies, with data structures that are out of date or misaligned with group objectives.

In many cases, although finance and business leaders led the initiative, a lack of clarity on key business metrics led to data structures not being aligned appropriately from the start.

Top performing finance functions are now seen as the custodians of business wide information, and are pivotal in structuring data sets that align robust information to the key business metrics. As custodians, finance functions become a conduit between the business, external stakeholders and IT functions.

### Collaborating with IT leadership can increase benefits

The research reveals that in many cases finance leaders felt that their relationship with the IT function was hindering their ability to deliver efficient business intelligence. IT is crucial to finance in meeting their objectives, yet it remains a source of frustration for many CFOs in the survey. In addition, poor IT systems are a major barrier to improving finance function performance for as many as 42 percent of respondents. Few CFOs say their IT department is effective in dealing with finance function priorities including improving the quality of financial and management reporting, and integrating financial and non-financial operational information.

Many of the issues related to financial and non-financial information stem from the IT function's inability to convert business leaders' requirements into efficient and timely sources of true business intelligence. At top performing organizations, it is the finance function that can play a central role here. Finance leaders are in a unique position of understanding the business value drivers and knowing the sources of data that are needed to support them. Finance is well placed to design the appropriate data hierarchies that match business needs, and communicate these effectively to the IT leadership. The answer, therefore, lies in stronger collaboration between IT and finance.

## Case Study

## Working smarter at Indesit



In turbulent times, cash is a cushion that all CFOs want at hand. Given current conditions, with growth opportunities scarce and credit in short supply, organizations are scouring internally for sources of trapped cash. Knowing where that cash is, however, depends on timely and accurate information from across an organization. This is particularly true when it comes to working capital.

Indesit, an Italian white-goods manufacturer, released more than €100m from its working capital processes between 2006 and 2008. Talking to CFO Europe magazine in the summer of 2008, Andrea Crenna, Indesit's CFO, said that the company had sought to improve its working capital performance after a 50 percent drop in profits in 2005 by "fine-tuning rather than launching epic projects."

**The breakthrough came when the firm started "paying the same level of attention to spare parts as to finished products."**

Pivotal to this was the executive team's ability to boost the cash consciousness of the business, which they aimed to do when they introduced an annual incentive scheme for middle and senior management which included operating cash flow. In response, managers dug deep into the company's working capital processes and gained intelligence on areas where efficiency could be boosted.

One thing they uncovered was a host of delinquent, albeit small, payments – in some cases, overdue by more than a year – in the UK's after-sales service operation's receivables accounts.

**"If you don't put a specific focus on these receivables, it's very easy for them to become neglected," Crenna said. In theory, nobody worries about collecting £20. In reality, we were sitting on a huge amount of receivables, though each individual bill was for a small amount."**

More trapped cash was found in Indesit's spare-parts inventory.

If an industry-leading company such as Indesit was able to shake sizeable sums from "areas of inefficiency that were thought to be immaterial," other businesses can surely do the same. This is why it is important to take a holistic approach to data gathering, looking at receivables, payables and inventory processes in their entirety. Focusing on just one part of the supply chain could leave another area of underperformance unexposed.

And this must be an ongoing effort. Though, at the time, Crenna was comfortable with his company's level of working capital, he wants it to remain a concern.

**"If the CFO doesn't fly the flag about the importance of working capital management, it's easy for the company to lose focus and end up with trapped cash."**

Working capital management, and the business intelligence that informs it, is forever – not just for downturns.

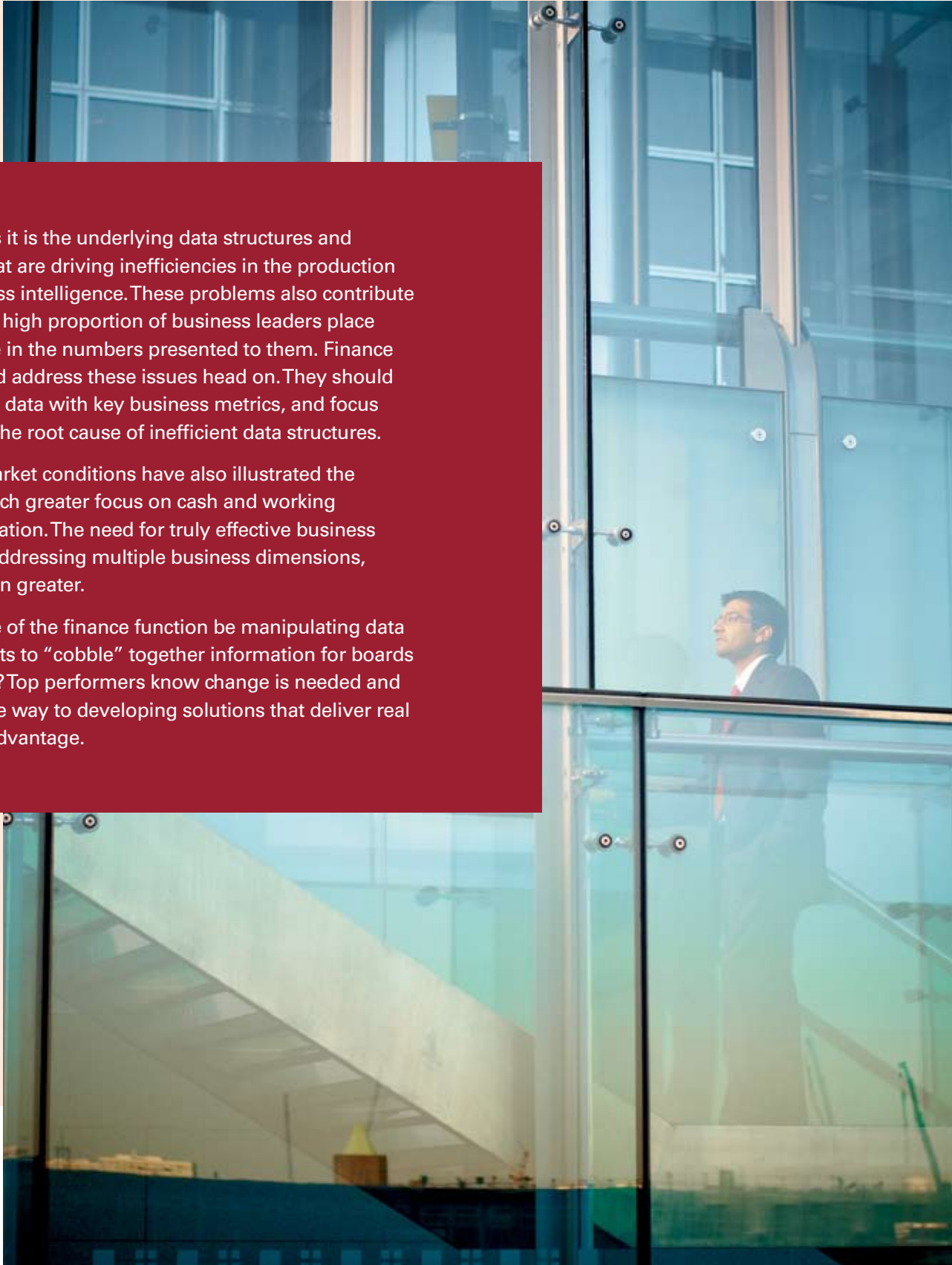
## IN SUMMARY

Inconsistent underlying data structures and hierarchies are driving inefficiencies

In many cases it is the underlying data structures and hierarchies that are driving inefficiencies in the production of real business intelligence. These problems also contribute to why such a high proportion of business leaders place no confidence in the numbers presented to them. Finance leaders should address these issues head on. They should invest to align data with key business metrics, and focus on getting to the root cause of inefficient data structures.

The recent market conditions have also illustrated the need for a much greater focus on cash and working capital information. The need for truly effective business intelligence, addressing multiple business dimensions, has never been greater.

Can the future of the finance function be manipulating data in spreadsheets to “cobble” together information for boards and investors? Top performers know change is needed and are well on the way to developing solutions that deliver real competitive advantage.



# 04 Bringing information to life

Making tough decisions to get the right people in place

Unless there are top performing individuals in the finance function who understand the implications of the business information, the business information loses impact. And unless these individuals can explain trends and what actions the business should take as a result of such trends, the trends are rendered meaningless. This is truer now as a result of the recent economic conditions than it ever has been before.





CFOs clearly recognize this. Over 82 percent of respondents identified striving to challenge and support the business as their priority, double the number from the 2006 survey.

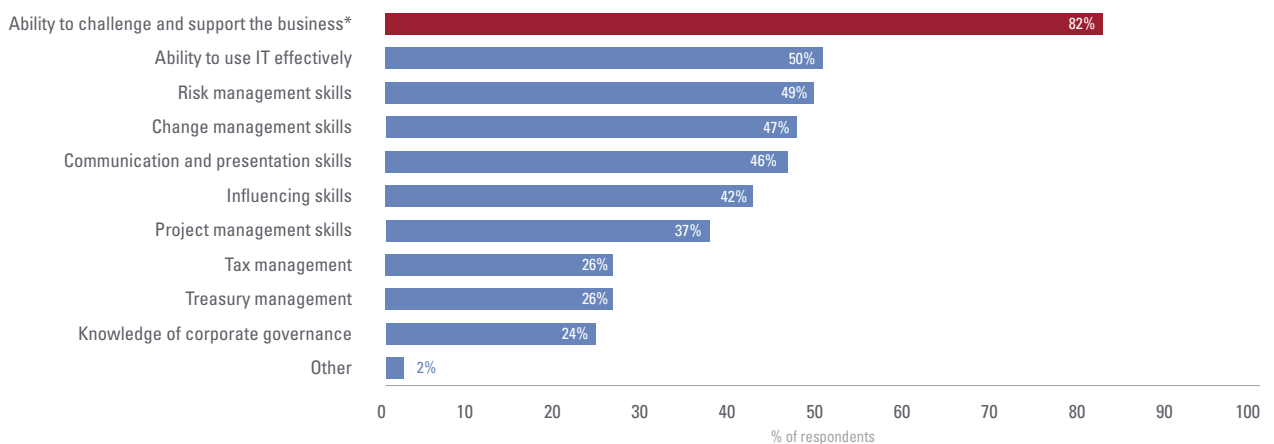
The other key conclusion to draw from the research is that five of the top six skills that CFOs believe they need to improve are so-called “softer” skills. Leading CFOs recognize the need to change the focus and culture of their organization. Producing business

information is no longer good enough. Businesses see the next step for the finance function to be in developing “softer” skills.

When it comes to the barriers finance executives believe most impede progress, inability to find and retain talent stands above the rest. More than half of respondents claimed “difficulty finding and retaining skilled finance professionals” as a major barrier to changing the finance function. The

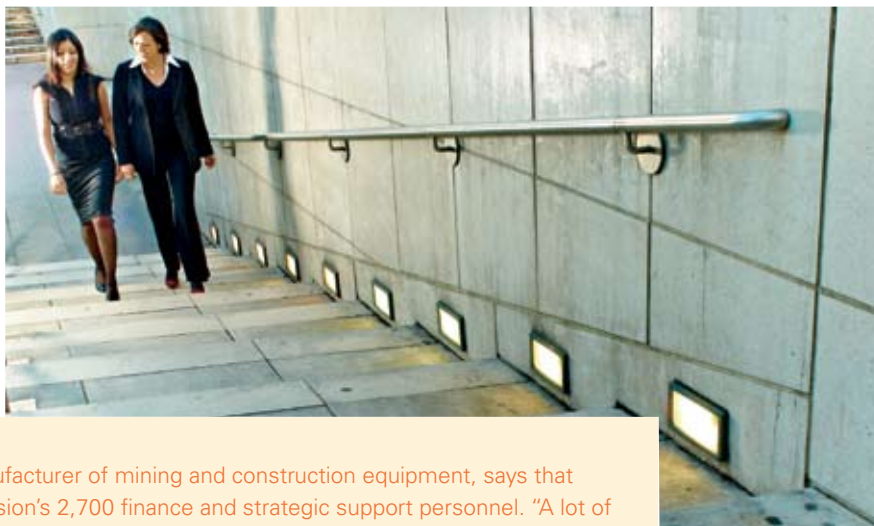
concern was reflected in every demographic, without regard to company size, geography or EBITDA performance. And indeed, talent management was frequently at the top of the agenda for the CFOs interviewed. The key challenge they face is how to blend the traditional finance skills and depth of experience that are prevalent in longer serving members of the finance function, with the fresh ideas and softer skills from newer hires.

### Finance’s business skills for improvement



Respondents: 516

\*Use of non-financial performance measures, finance’s understanding of the business



Dave Burritt, CFO of Caterpillar, the US manufacturer of mining and construction equipment, says that half his time is taken up with leading his division's 2,700 finance and strategic support personnel. "A lot of time is spent on succession planning. We have rigorous meetings to review personnel, their rewards and recognition, and work on development plans in a structured way with the Finance & Strategy councils," he says.

Caterpillar is changing how it recruits staff for the finance function, increasingly reaching beyond its own ranks to hire in people from outside. "While we have great loyalty when we hire college graduates and develop them within the company, we weren't tapping into other sources of professional talent that we needed. We're now also focused on hiring mid-career candidates with diverse backgrounds and experience from outside the company," says Burritt.

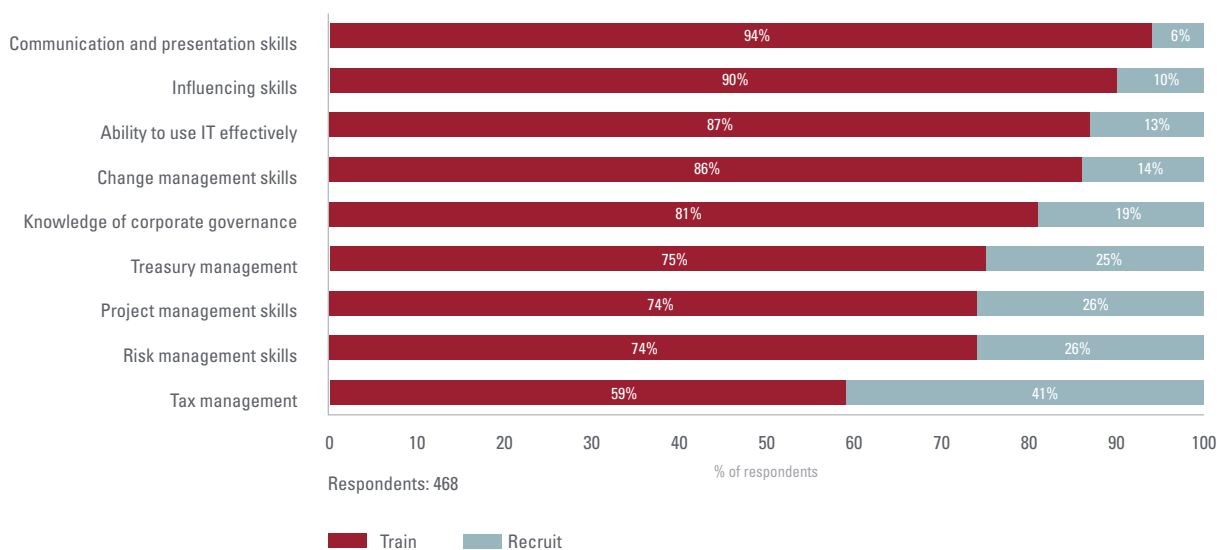
## Train vs. recruit

### Combining softer skills with traditional finance capabilities

But is it possible to train for influence? Can you coach people in collaboration and communication? Our respondents appear

to think so, given that the majority are planning to train rather than recruit for softer skills such as change management and communication skills. This could reflect the state of the available pool at the time of the survey. With finance talent in much greater supply now, would the answer still be the same?

### Training is the primary way organizations are adding skills



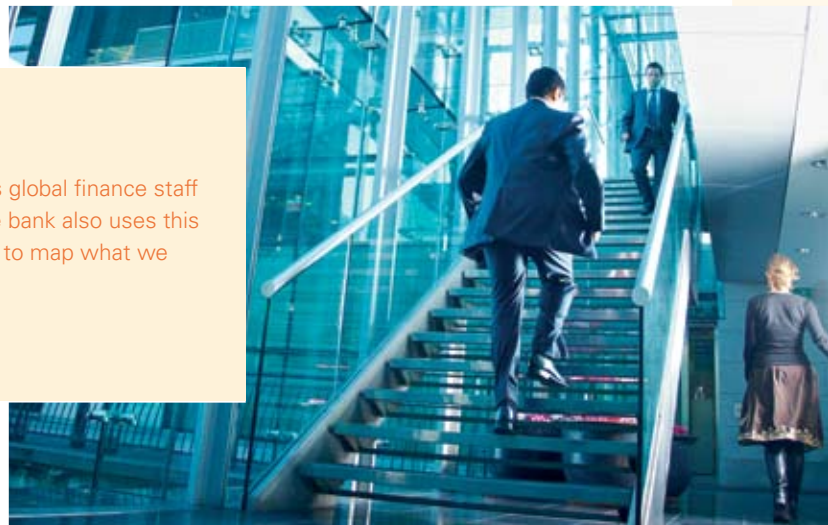
Finance functions struggle to transform long serving finance teams into real business partners. The change can be just too big a step for some. The right answer is probably a combination of both training and recruiting. Fresh faces with more of

the softer skills in the leadership team can not only bring in new ideas and new ways of working, but can also show more junior members what they need to be aspiring to. It should be noted however that when CFOs say they are looking

for new types of recruits, or to develop finance people who understand the “business side,” the need is in addition to, rather than instead of, the classic capabilities.

At ING, CFO John Hele says one of his chief focuses is to define the roles of his finance staff. “What we’re working hard on is to better articulate what we expect of a CFO and the skill sets needed, and mapping people’s current skills against that. It’s far beyond just being a manager. I think a lot of people confuse being a CFO with being a manager. The CFO also needs to be a partner or co-pilot for the CEO to navigate through the turbulent times and help make the tough decisions.”

ING has created a web-based 360 degree feedback tool that its global finance staff can use to benchmark themselves internally and externally. The bank also uses this template for recruitment purposes. “We now have a prototype to map what we want for the HR people to recruit against,” Hele says.



### **Developing business partners – easy to say, but is it easy to do?**

Many organizations have well developed programs to develop or hire business skills into the finance function. Some may have Business Partnering Academies which are supported by global finance portals. Another leading idea is to have rotation schemes for finance professionals, enabling them to spend one or two years within the customer-facing parts of the business – what better way to learn what drives business value?

The challenge is this. Finance professionals can only truly operate as business partners if changes are made across the finance landscape to stop much of the non value added activities that inhibit many finance functions of today. This also holds true for new recruits. There is little point in bringing in highly qualified people to finance and then leaving them to download and manipulate data in spreadsheets.

Top talent wants to be a partner in the business, not a slave to inefficient legacy systems. Leveraging talented people requires a commitment to creating the time they need to deliver higher value to the organization. This will be maximized when robust and streamlined systems and technologies are in place to liberate their skills.

## Case Study

## Being the best at Google

In the six years that George Reyes served as Google's CFO, he had plenty on his plate, including taking the internet search start-up public in 2004 in one of the most high-profile IPOs in recent corporate history. But throughout its recent go-go years, Reyes has been clear about one thing – a CFO is only as good as his team.

According to Reyes, recruitment has played a big part in Google's success. Shortly before his retirement in August 2008, Reyes said that his focus as CFO was to attract the very best and brightest talent.

**“Get as many of them as you can,” he said. “No one will penalize you for that.”**

In finance, for example, Reyes aimed to hire different types of people with a mixture of skills to “mind the finance shop” and work as business partners with the rest of the company.

But, of course, it's not only finance that is focused on hiring the best. In a typical month, the company screens hundreds of applications from which it will pick 50 potential recruits to take through a “very selective” hiring process. And newcomers can expect to be thrown in at the deep end.

**“Google does this a lot, and it's not unique to finance. You take two or three people and you throw a large, challenging problem at them. You have a whole bunch of bright people, and they're looking for the next big thing.”**

As the business matures, Google is honing its ability to not only attract but also retain staff, by stepping up training.

**“Historically, we were just trying to get them in the door, but it has evolved beyond that,” Reyes said.**

Evolved it has – in September 2008, when the company celebrated its 10 anniversary, it had over 20,000 employees worldwide – a far cry from its modest dorm-room beginnings at Stanford University.

## IN SUMMARY

It's the people who bring the business information to life



Leaders in finance realize that investment in enhanced business intelligence is wasted without the right people to analyze, interpret, and convert it into clear actions for business leaders. Conversely, investment in business partnering initiatives will deliver limited outcomes if the same business partners are spending their life downloading and manipulating data to try and deliver something meaningful to the business.

The earlier sections of this report cover in detail what we believe should be done to try to eliminate much of this non value add activity. These initiatives, working in parallel with investing in people and skills, are intended to deliver the step change that many finance functions strive for.

In addition, to improve value from any people initiatives, CFOs need to take an honest look at the skills in their function and make the tough decisions as to whether long serving finance resources can be coached to become business partners. Or are fresh ideas and different experiences from outside required to make the step change in culture and added business value? Many CFOs are finding that a combination of both will provide the right answer.

# 05 KPMG final thoughts

Much done, much still to do

Getting the right information at the right time delivered by the right people takes skill. And the research suggests that finance functions have work to do to get there. CFOs understand that to become a top performing finance function their finance team should move away from being 'scorekeepers' to providing more support to decision makers. These requirements have not changed over the past decade. The difficulty for many organizations lies in their execution. Recent economic conditions have emphasized this even further.

The recent past has brought into question some long held "certainties" of the business world. Finance executives have been under intense pressure to advise business leaders on the impacts of ever changing and unpredictable factors:

Consumer demand is falling, commodity prices are showing unprecedented volatility, exchange rates are less predictable, and the availability of finance has shifted from being plentiful to being scarce in the extreme.





Finance leaders will need to take time to support their businesses with every tool at their disposal. But what lies ahead? Top performing finance leaders know that they must be better prepared for whatever the future holds. CFOs should take clear action to:

- truly understand what drives business value;
- simplify data structures and end to end processes and systems to deliver quality, reliable and timely business intelligence;
- better identify enterprise risk, and use information to assist business leaders to better manage it;
- transform the forecasting and planning processes to enable flexible scenario planning that assists businesses' navigation through uncertainty; and
- make tough decisions to balance internal experience with the fresh ideas of newer talent, to ensure that the finance function is well positioned to support business leaders in making informed business decisions.

Supporting better business decisions through the provision of right information at the right time, delivered by the right people, can help place CFOs and their teams at the heart of business strategy. Influence across the business can grow and the relationship between finance and business leadership can strengthen.

At the end of the day, navigating through these turbulent times is about positioning your business to thrive... not just survive

# Appendix

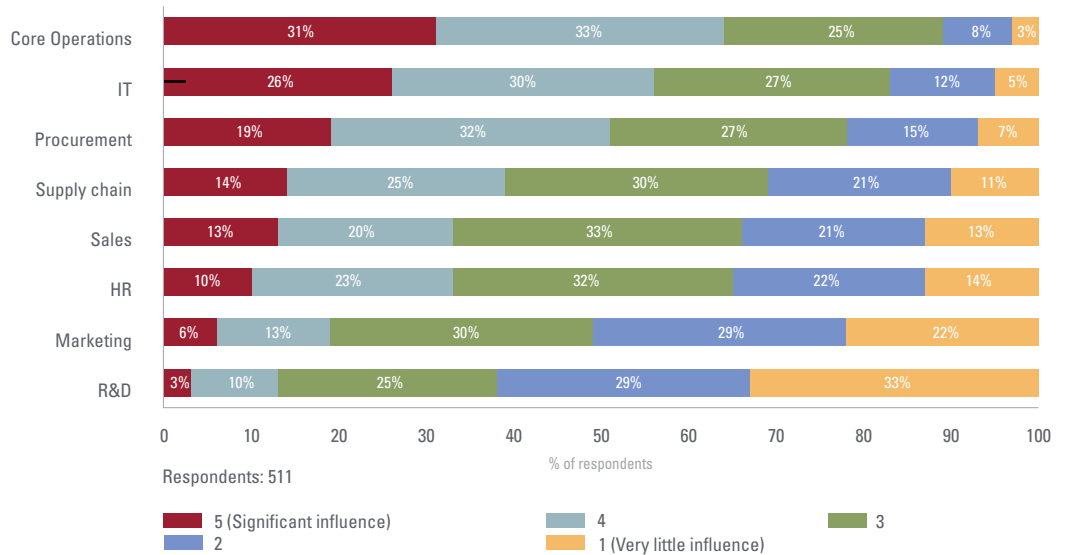
## Survey results

The research on which this report is based was conducted by CFO Research Services in 2008. The senior executives who responded to the survey were drawn from a cross-section of industries and included 218 CFOs. What follows is a compilation of the survey results as well as detail about the respondents and their organizations.

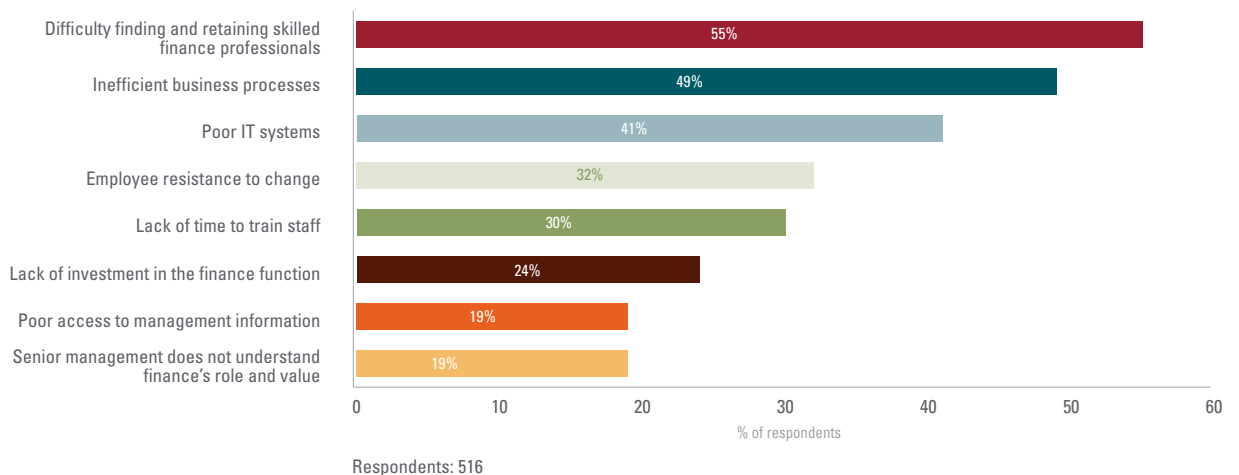




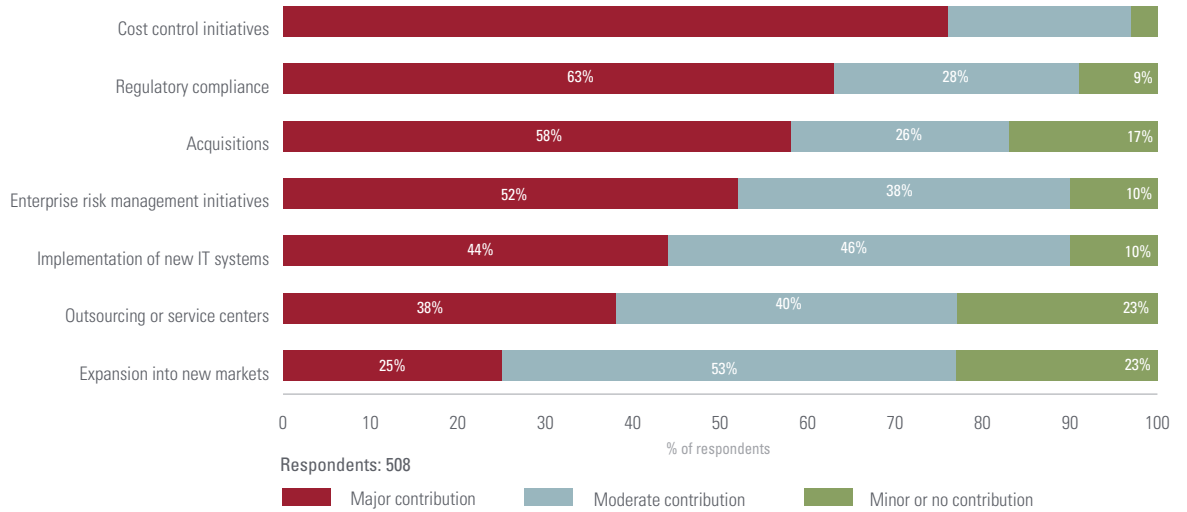
1. In general, how much influence in terms of setting targets, supporting decisions and measuring results, does the finance function have with other functions in your organization? (Please choose one in each row.)



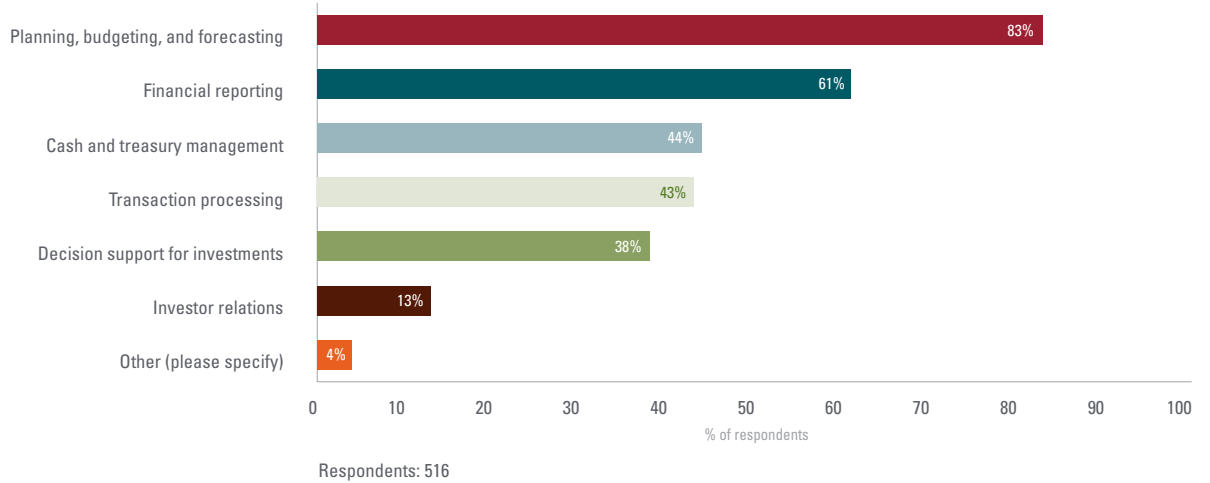
2. Which of the following problems are major barriers to change in the finance function at your organization? (Please choose all that apply.)



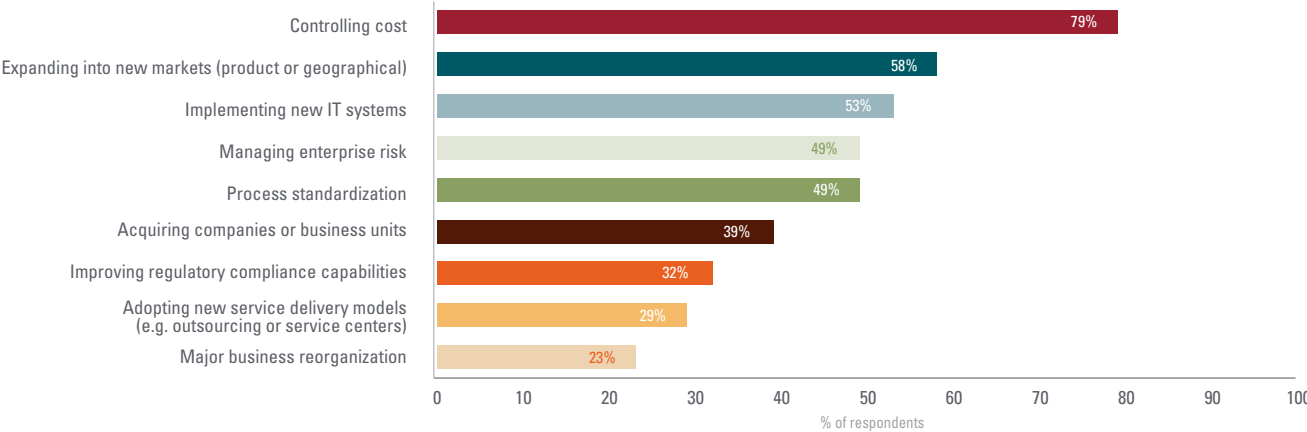
3. How great a contribution does your finance function make to business initiatives in the following areas? (Please choose one in each row.)



4. Which of the following finance activities and processes is your organization most likely to improve over the next two years? (Please choose all that apply.)

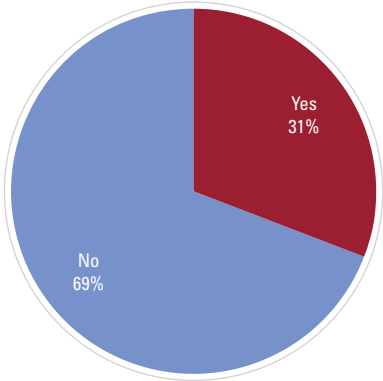


5. Which of the following business initiatives will be a priority for your organization over the next two years? (Please choose all that apply.)



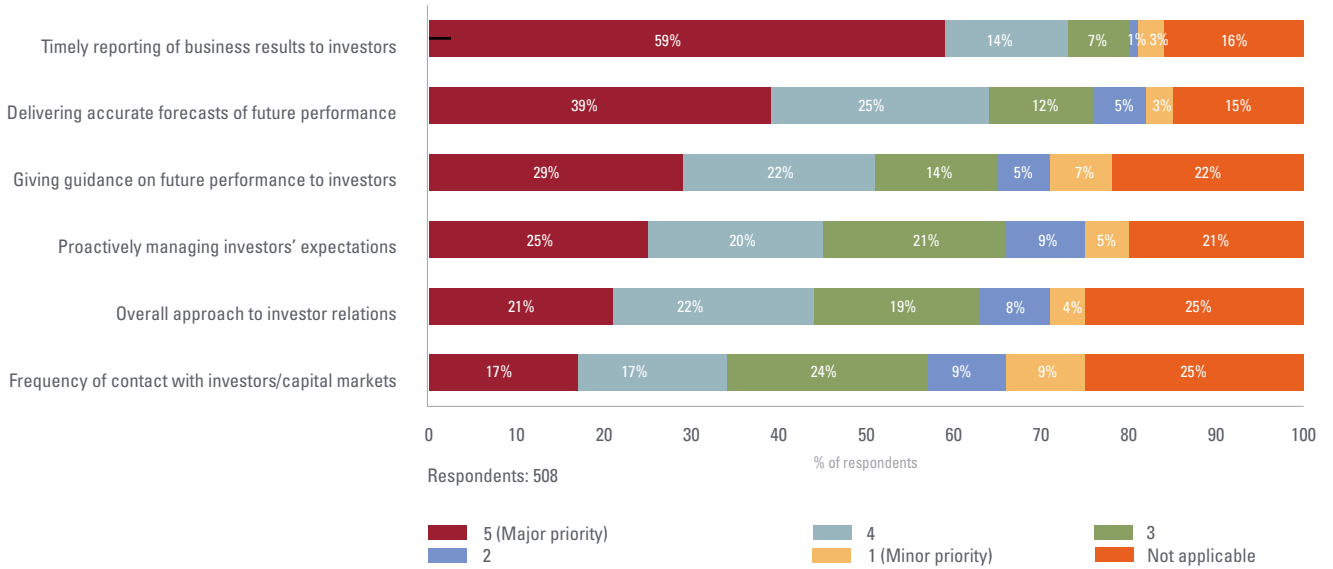
Respondents: 516

6. Have these priorities changed as a result of the recent economic downturn? (Please choose one.)

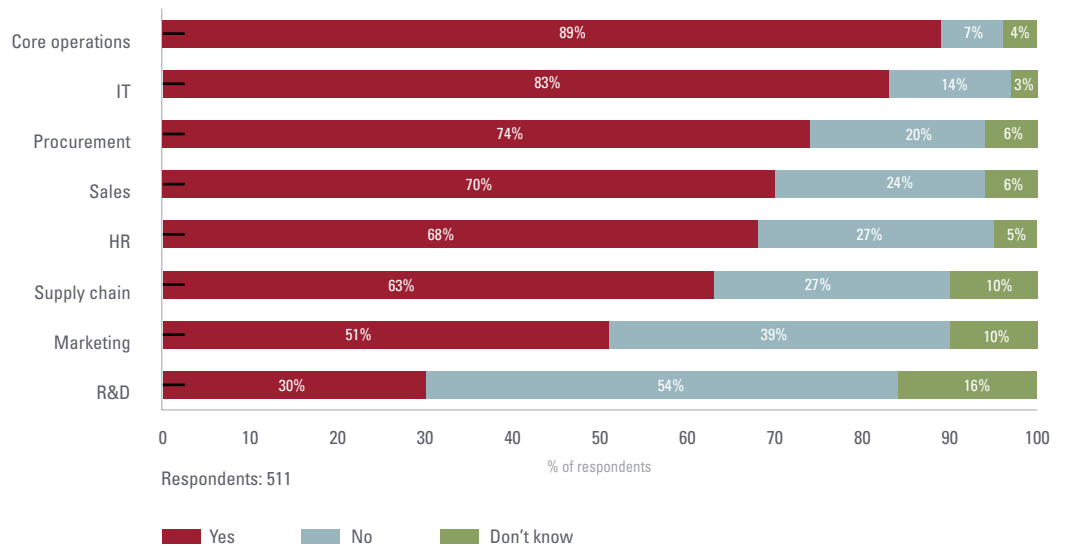


Respondents: 514

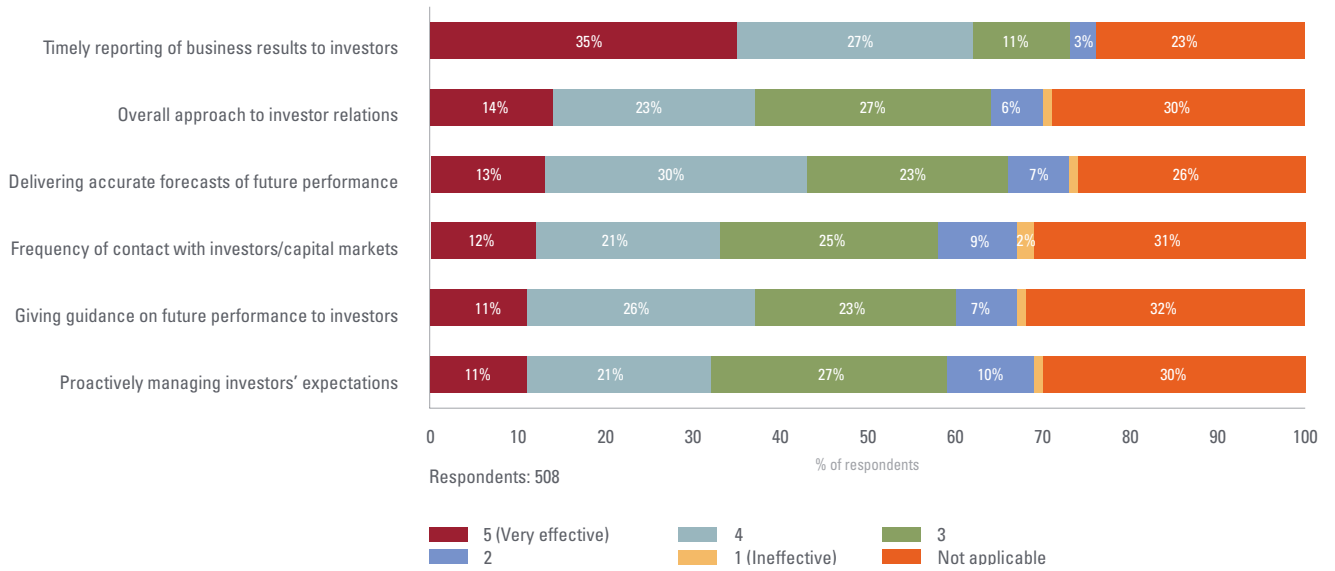
7. How much of a priority are each of the following for the finance function in dealing with your investor community? (Please choose one in each row.)



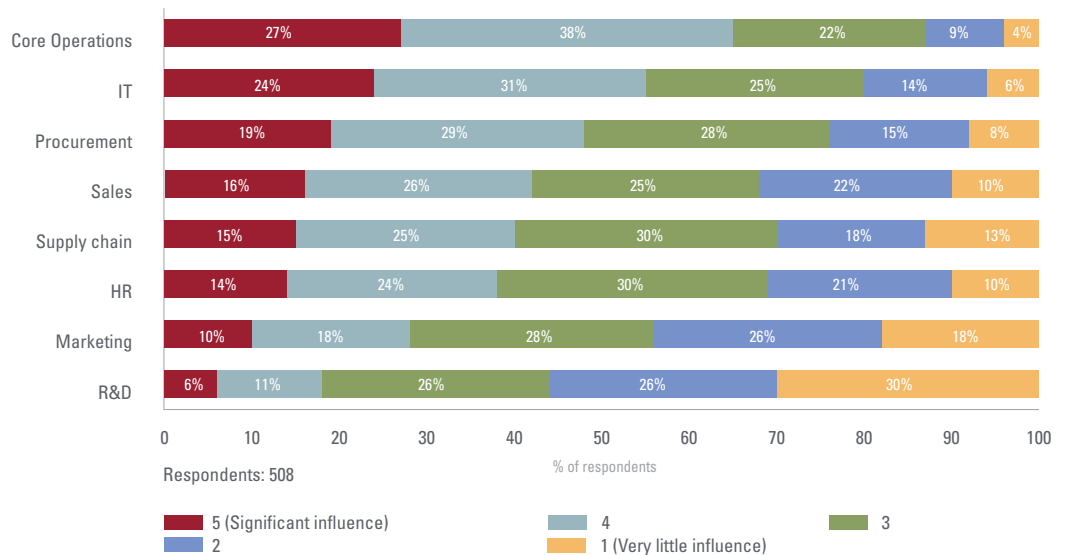
8. In the past two years, have you taken any steps to improve the working relationship/ collaboration between finance and the following functions? (Please choose one in each row.)



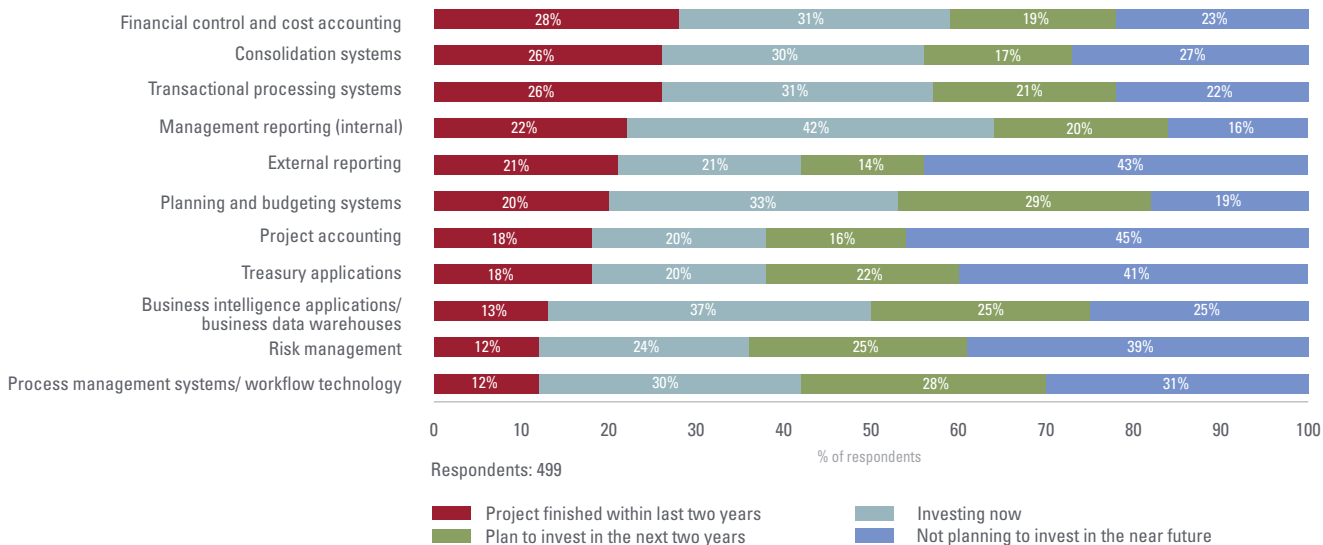
9. In dealing with the investor community, how effective is your finance function at the following tasks? (Please choose one in each row.)



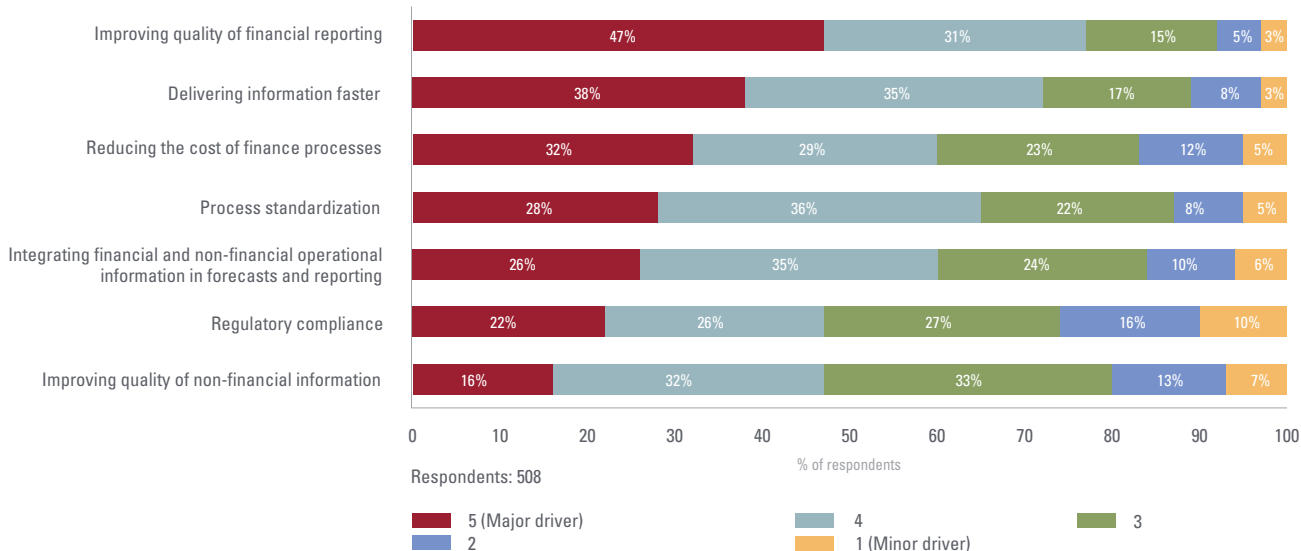
10. How do you think the leaders of the following functions perceive the influence of the finance function in setting their targets, supporting decisions and measuring results? (Please choose one in each row.)



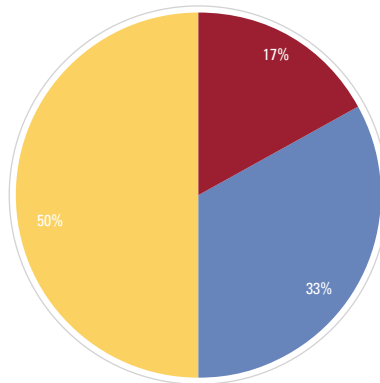
11. What is the primary technology investment in finance and reporting processes your organization is making now or planning to make within the next two years? (Please choose one in each row.)



12. How much of a driver is each of the following for investing in finance technology? (Please choose one in each row.)



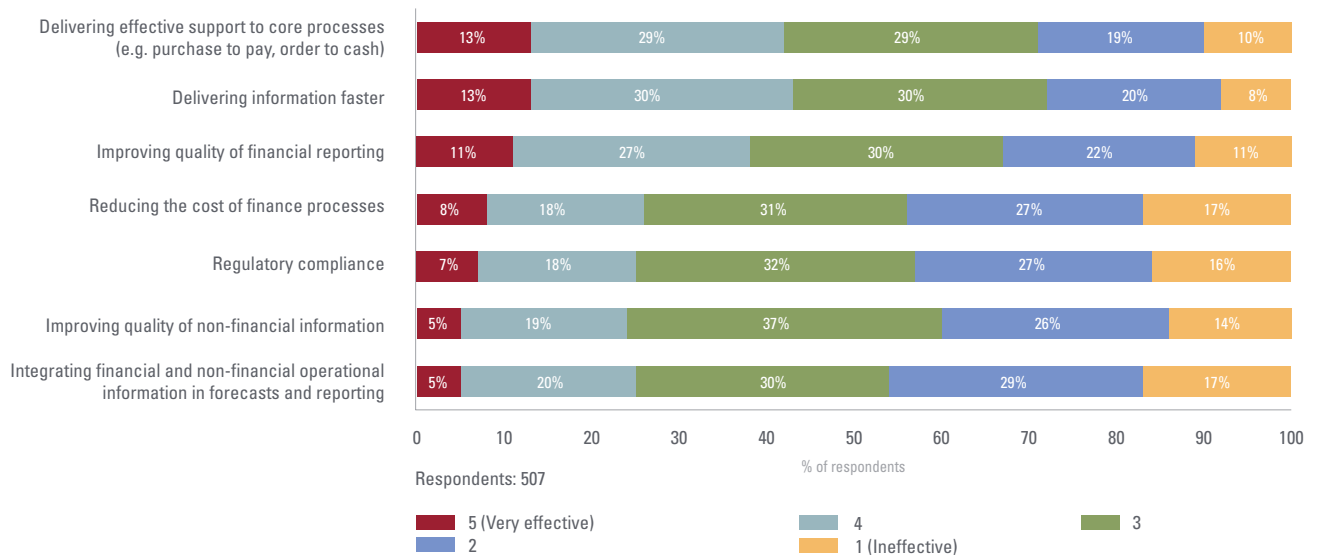
13. Which of the following best describes the relationship between your organization's finance and IT functions when implementing finance-related IT projects? (Please choose one.)



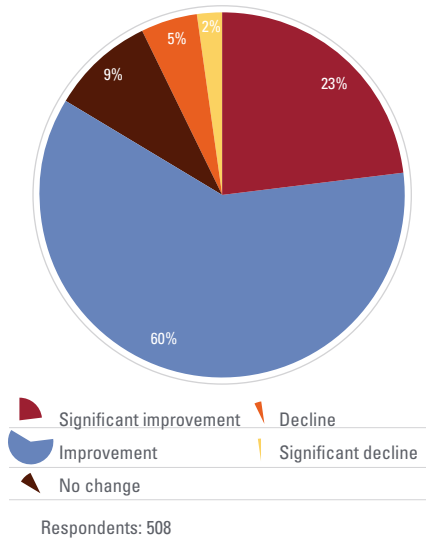
- Finance has an individual IT team within the finance function to manage finance-related IT projects
- Finance initiates, manages and controls finance related IT projects
- Finance defines requirements and user acceptance, and IT manages and controls the project

Respondents: 502

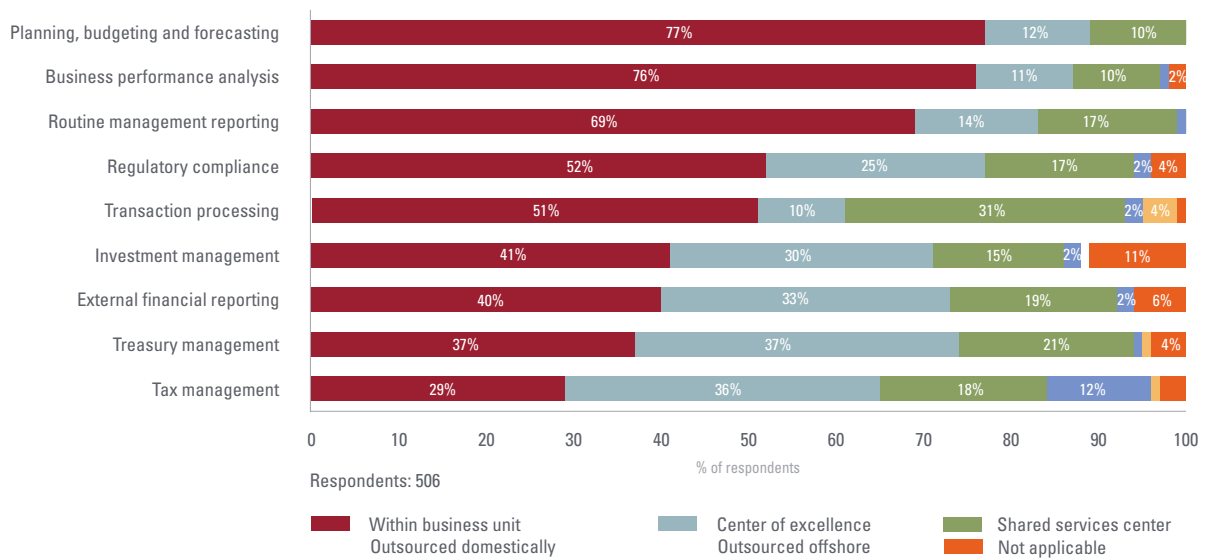
14. To what extent does your organization's IT function help the finance function meet the following goals? (Please choose one in each row.)



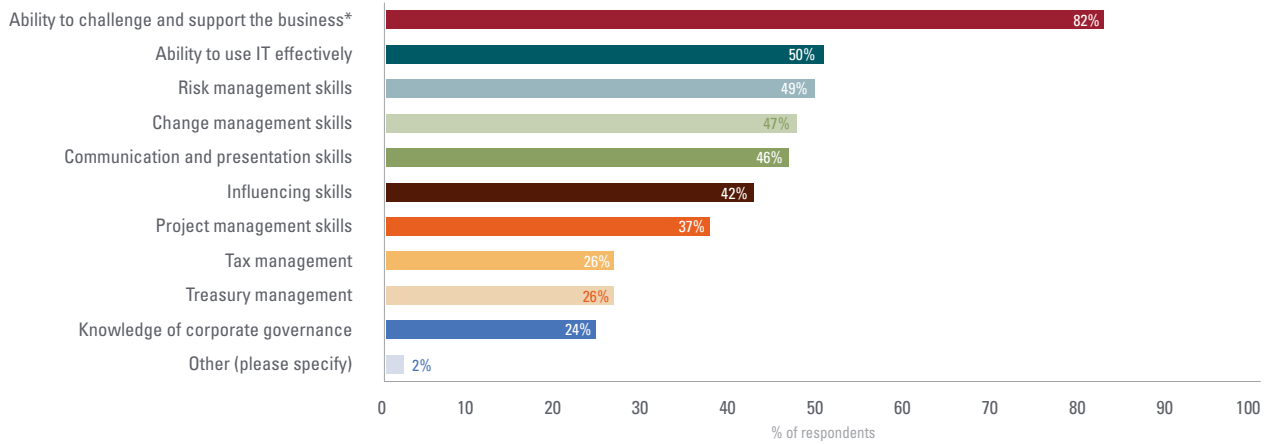
15. In your opinion, how much has the overall performance of the finance function changed in the last two years? (Please choose one.)



16. Where does your organization currently perform the majority of the following finance activities? (Please choose one in each row.)



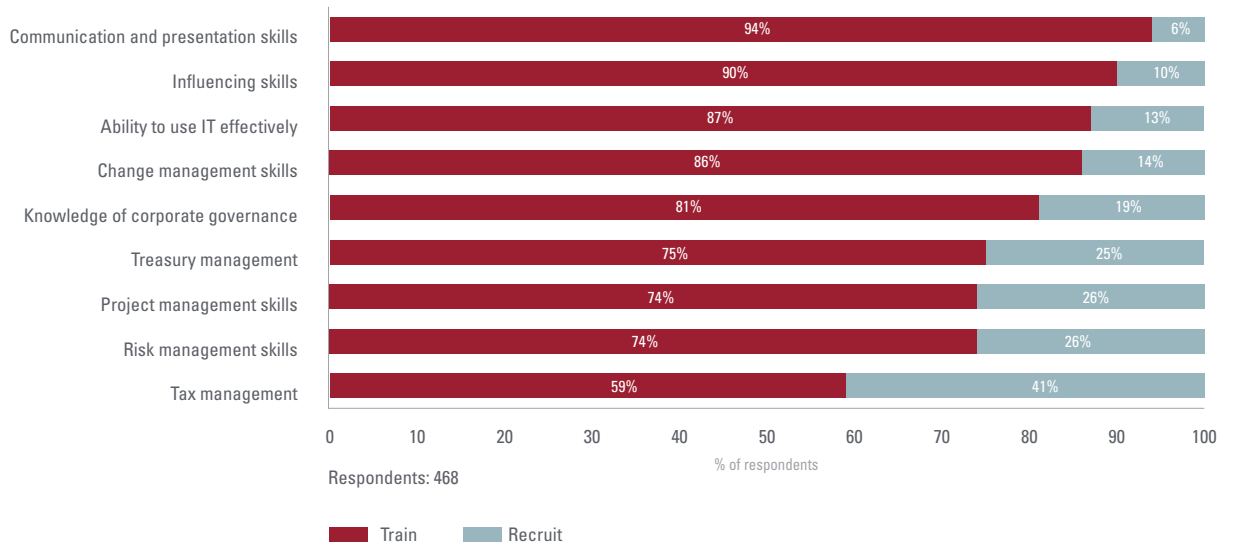
17. Which of the following business skills do you believe your finance department needs to improve over the next two years?



Respondents: 516

\*Use of non-financial performance measures, finance's understanding of the business

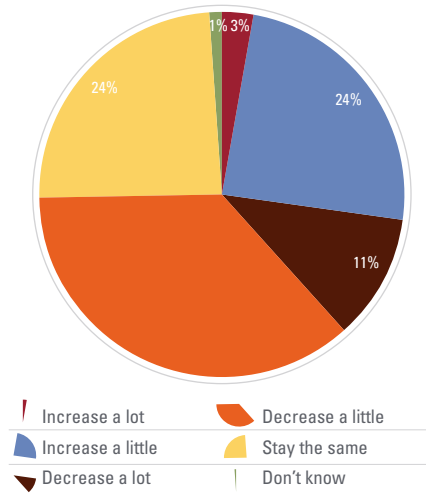
18. What is the primary way you expect to add the skills required in the following areas? (Please choose one in each row.)



Respondents: 468

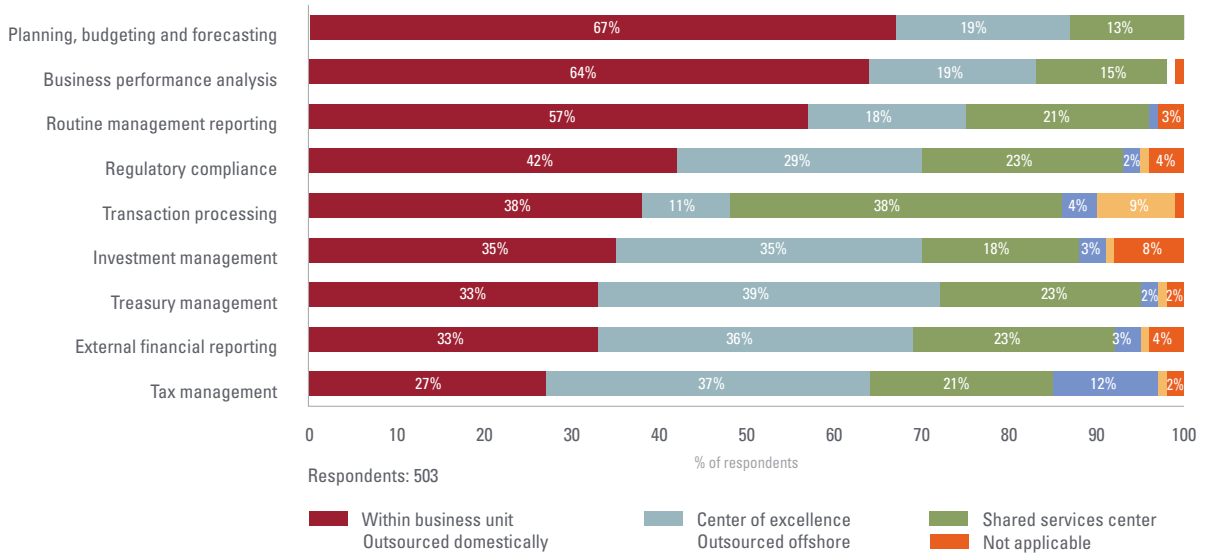
Train Recruit

19. Over the next two years, do you expect the total cost of the finance function as a percentage of revenue to: (Please choose one.)



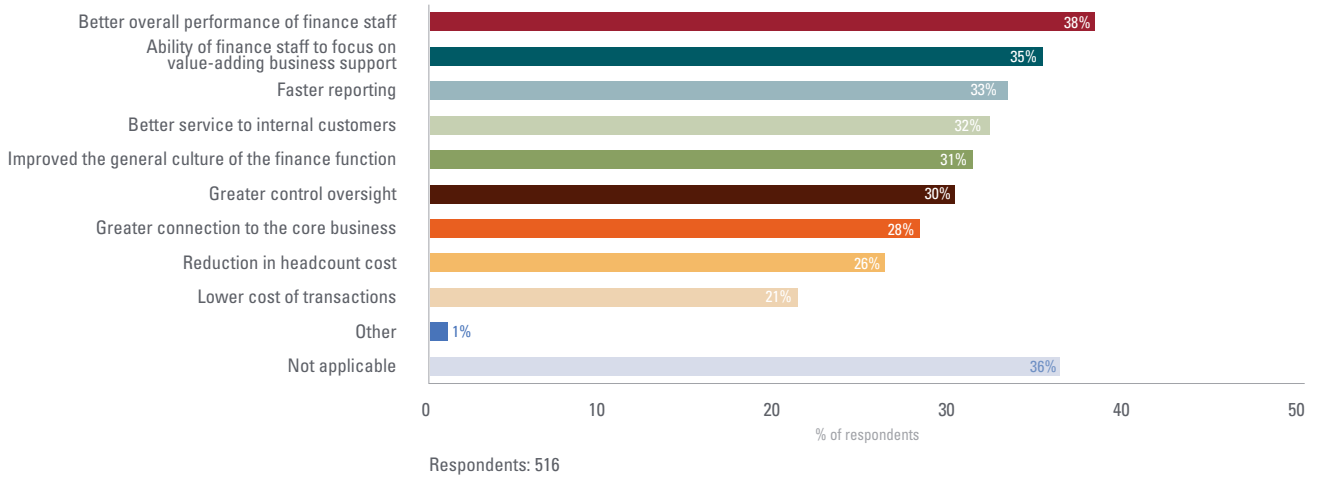
Respondents: 510

20. Where do you expect to perform the majority of the following finance activities two years from now? (Please choose one in each row.)

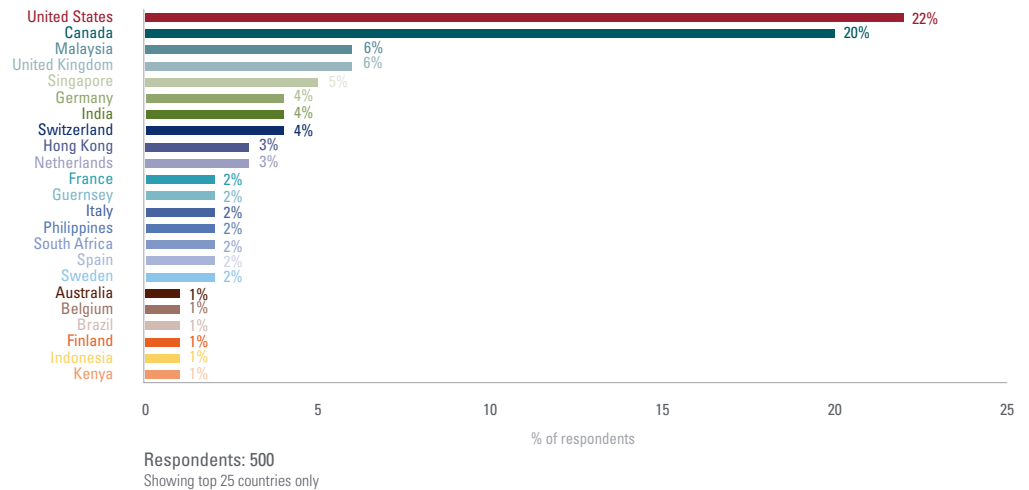


Respondents: 503

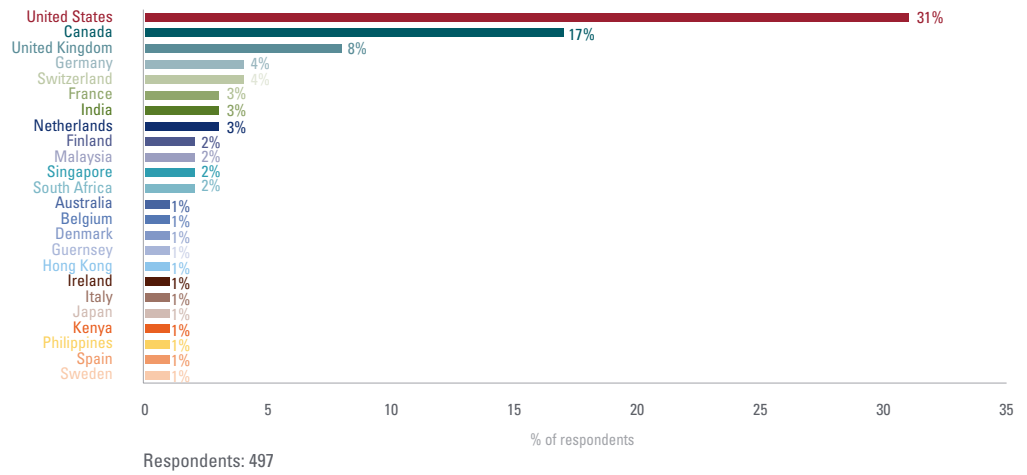
21. If you have undertaken a finance function reorganization in the last three years, which of the following benefits have you realized? (Please choose all that apply.)



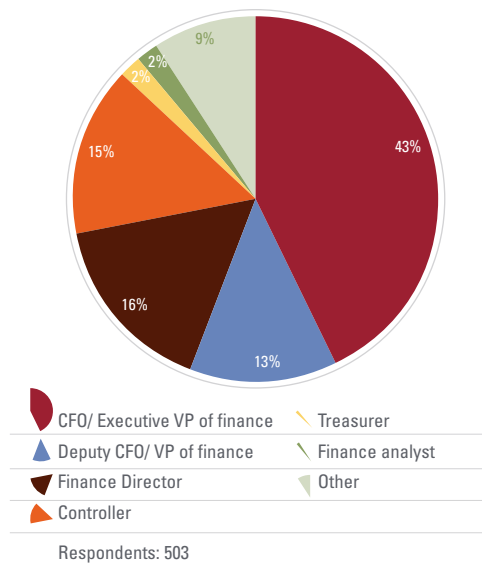
22. In which country are you personally based? (Please choose one.)



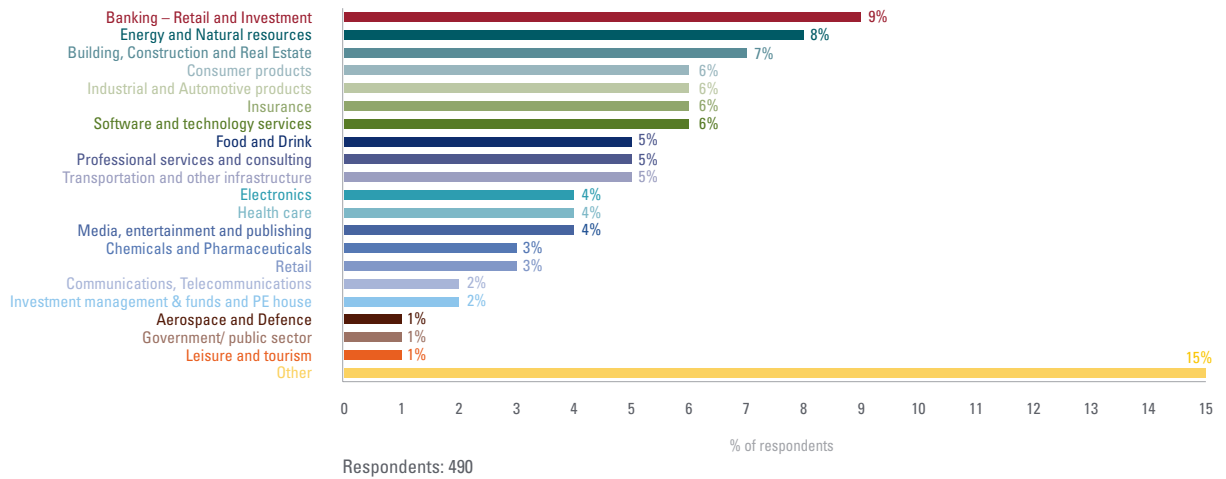
23. In which country is your organization headquartered?  
(Top 24 responses are shown.)



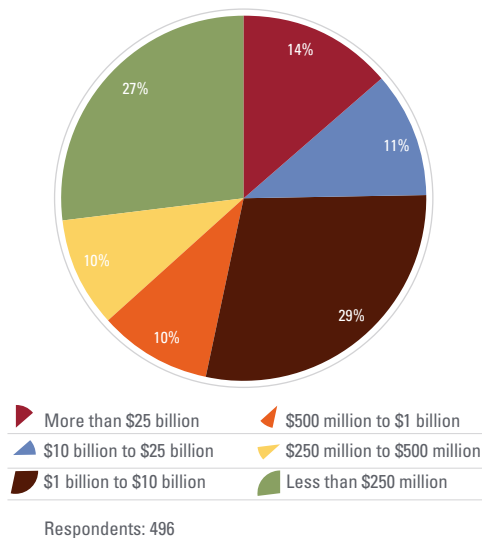
24. What best describes your job role?  
(Please choose one.)



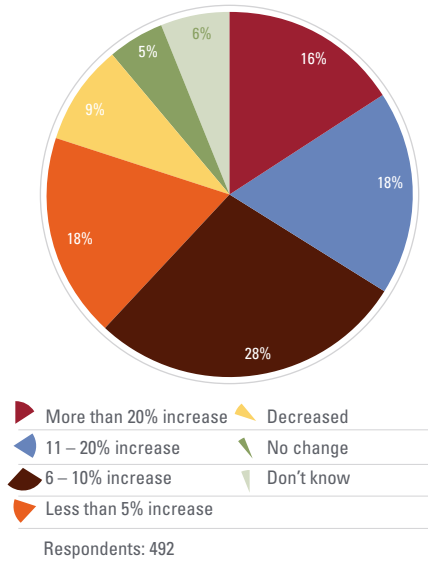
25. Which best describes your organization's primary industry?  
(Please choose one.)



26. What are your organization's annual revenues worldwide in US dollars?  
(Please choose one.)



27. How has your organization's EBITDA changed each year, on average, over the past three years? (Please choose one.)



**Thanks to everyone who participated in making this research report possible, but special thanks go to the core group of key contributors whose insight, experience, perspectives and passion for this research effort made it happen:**

- |                    |             |
|--------------------|-------------|
| Rodger Hill        | Maria Olide |
| Christian Jöhnk    | Jeremy Ong  |
| Georg Knöpfle      | Des Quinn   |
| Caroline Loui-Ying | Randy Wong  |

## About the design

The imagery in this research report reflects the path that individuals take on their personal journey within the finance function in particular.

Stairs represent the shifting of ideas and positions along that journey – whether through different economic, organizational or personal circumstances. Whatever stage an individual is at on their journey, they may choose alternative paths as they proceed.

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