

Sage ERP Solutions | White Paper

Transforming Finance into a Strategic Resource



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Executive Summary

As the economic crisis eases and companies begin pursuing new opportunities, they are looking to finance for advice on investment options and business decisions. By providing insights into financial implications, finance can help the business ensure that new initiatives deliver business value.

Yet today, finance's involvement in strategic decisions is limited. Transforming finance will require finance leaders to gain a greater understanding of operational issues within the business, automation of transactional processes, and tools to simplify compliance efforts to free finance to take on a more strategic role, as well as better data and tools for performing strategic analysis.

This white paper describes the benefits of strategic finance, issues holding finance back from a more strategic role, and how ERP systems can help finance take a seat at the strategic planning table.

Benefits of a Strategic Finance Function

With the economy improving, companies' thoughts have turned to business growth—rather than the strict cost control they maintained during the recession. According to the WNS Annual CFO Survey Report 2010, 44% of total respondents cited growing the business as one of their top three challenges for the coming year.¹ Companies are anxious for their finance organization to become part of this strategic effort. A November 2009 article on CFO.com² noted that CEOs are more eager than ever to work with CFOs who can be “strategic business partners,” in addition to performing their traditional roles of managing and reporting on day-to-day financial operations and ensuring regulatory compliance.

To this end, CEOs wish to work with finance on long-term planning and want finance to partner with the business units to improve operations. The goal is to ensure that all business activities contribute bottom-line value. Organizations also look to finance to explain business decisions to investors to provide greater transparency.

Partnering with the CEO to Enhance Planning

As partners with the CEO, finance needs to support the development of long-term business strategies, including growth and acquisitions strategies, risk management strategies, and the evaluation of investments. In a recent report, Accenture explains that finance can play a unique role as “bearers of the truth—no matter what that is.”³ In other words, finance can collect, sort, analyze, and communicate the most insightful and relevant data so CEOs can understand the financial implications of various strategy options. Accenture goes on to say that CFOs can also take the next step and use their role of “bearers of the truth” to help the CEO shape the vision, the architecture, and the behaviors that will make their companies stronger as well as develop performance metrics so the organization will know when they have achieved success.

Helping Business Units Improve Operational Excellence

Finance can also help business units improve operations. One of the primary obstacles to achieving operational excellence is that business units often fail to grasp the financial implications of their business decisions. Thus, in working with business units operations, one of finance's most important contributions, according to the Accenture report, is simply to “give the operational managers insight into how their actions translate to dollars.”

In addition, in any organization what gets measured gets done. Metrics get everyone on the same page and focused on goals. The key is to determine the right measurements that add bottom-line value. Finance can help business units develop consistent and meaningful metrics for measuring performance. Such metrics might include greater process consistency, lower error rates, higher quality, lower costs, and other metrics that the company considers key to its operating performance.

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ERP solutions enable finance to offer insights into the bottom-line value of business decisions and strategies.

Improve Transparency to Investors

In the wake of the accounting scandals in the early part of this decade, investors have been demanding increased transparency, more frequent reporting, improved guidance on corporate strategy and more accurate earnings forecasts. Finance must lead the charge in restoring trust and accountability with the company's stakeholders by communicating more information and strategic analysis.

What Finance Needs to Become More Strategic

What's holding finance back? In order for finance to make the leap to a truly strategic role, it will need to continue to transform its goals, skill sets, operational processes, and supporting tools.

Greater Alignment with and Knowledge of Business Operations

Industry analysts agree that finance must become more enmeshed in business operations. Finance needs to be acutely aware of the company's goals so its activities support those goals and so finance can increase its value in the eyes of the business.

Finance personnel must also show that they "understand the business and how it works" so they can forge relationships with leaders and business unit managers to provide them with the data they need—rather than what finance thinks they should need.

Finance must understand its company's markets, competition, customers, and supply chain. In some industries, it will need to develop knowledge and expertise in various regulations. It needs to keep current with industry news and understand industry dynamics. It should know how to develop a business plan, budget, and forecast. When advising the CEO, finance should understand mergers and acquisitions, issues surrounding pricing, financing, due diligence, and integrating new subsidiaries into the business.

Automate Manual Transaction Processes

One reason finance has failed to become as strategic as it and companies would like is that it is often bogged down in activities that do not contribute strategic value to the business. For example, finance's traditional role of managing day-to-day financial transaction processes continues to consume a large amount of attention and resources compared to the value it delivers. According to a study in *CFO Magazine*, finance averages 44% of its time on transaction processing, 21% on control, 18% on management activities, and only 17% of its time supplying analysis and decision support. The goal for finance should be 50% of its time spent performing analysis and decision support, says blumshaprioconsulting.com.⁶

In order to free itself from these low-value activities, finance must eliminate labor-intensive transactions and transaction processing so it has time to shift its focus to high-value analysis and a role as a strategic partner.

Support for Compliance Initiatives

With new regulations such as Sarbanes Oxley as well as the need to adopt International Financial Reporting Standards (IFRS) by 2014, compliance has become a major focus for financial organizations. Compliance was cited by 62% of the respondents to a KPMG Canada study⁷ as one of the main restrictions on finance's ability to focus on providing strategic insight. Finance needs better tools to help support compliance so it can spend time on more strategic functions.

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Finance Is not as Strategic as it Could Be

The notion of involving finance in the development of business strategy is hardly a new one. During the 1990s, in a search for new ways to create value, many companies diversified into areas they did not understand or overpaid for acquisitions that made little strategic sense. In the aftermath, many companies began looking to finance to take a more central role in the operational aspects of the business to prevent such missteps from occurring again.

Yet despite considerable discussion and ongoing efforts, finance's involvement in strategy decisions remains limited. A November 2009 CFO Magazine survey of 150 CFOs found that while nearly 90% say they have a voice in corporate strategy, a solid 35% say CFOs are generally stuck in too-siloed roles. And only one in five say they have spent more time shaping company strategy during the past year.⁴ Similarly, a joint study by CFO and Accenture found that many finance executives believe they could be doing more to help their companies improve operating performance. In total, 55% of all respondents expressed a desire to be more involved with improving their company's operating performance, while 61% say that working more with operations is a personal goal.⁵

Deliver Greater Strategic Analytic Capabilities

In addition to lacking the time for strategic finance, many organizations lack good information and processes for gathering, analyzing, and sharing information to help ensure that plans stand a good chance of delivering value. Back in 2006, a study from KPMG found that improving the ability of finance to manage the integration of information and forecast performance were CFOs' top two priorities.⁸ Little has changed. An October 2009 study by CFO Research Services and IDG Research Services found that executives continue to see a need to improve most mechanical dimensions of their company's strategic planning:⁹

- They gave low marks to their company's use of technology in the strategic planning process and timeliness (how long it takes to update the strategy).
- Respondents said the information they have available for strategic planning should be easier to use and access—which in turn affects how long it takes to update the plan.
- Respondents rely most on operational (81%) and financial (80%) company performance data. They also need information from the sales and operations staff. But capturing this information requires manual input of information between sales or operational staff and customers, which can be very time consuming and takes attention away from higher value activities.

How ERP Solutions Enable Finance to Become More Strategic

Successfully transitioning from tactical to strategic finance takes a combination of new skills and new tools. ERP solutions can contribute to this transformation by automating tedious transactional efforts and by providing tools that simplify strategic and predictive analysis.

Automated Transaction Processing

ERP systems provide modules that automate the management of all aspects of finance, including general ledger, purchase orders, accounts payable, order entry, accounts receivable, and many others. These automated modules reduce labor-intensive manual transactions; for example, they might automatically match an invoice to a purchase order. Because these modules share a common database, they eliminate redundant data entry; for example, customer data entered for an order can be automatically used on the invoice. Data from transactions, moreover, can be used for a full range of financial reporting. Such automation increases turnaround speed and reduces errors. Automated capabilities free finance to shift its focus from low-value manual activities to high-value analysis and a role as a strategic business partner.

Regulatory Compliance

ERP systems simplify the management of compliance efforts by supporting reporting requirements for regulations such as Sarbanes Oxley. Many ERP solutions also have features and functionality that support the transition to IFRS, including configuration options to ensure that transactions are processed and accounts are kept in compliance with the local rules the business happens to operate under. A solution that supports countries that already comply with IFRS, such as those in the European Union and the Asia Pacific region, will further simplify the transition.

Consistent, Accurate, and Real-Time Visibility Across the Enterprise

To fully assess the operational situation of the company, finance needs information that is complete, timely, and accurate. This information must span not only finance, but also all other areas of the business, including data about customers and vendors, inventory levels and history, warehouse information, project costing, purchase and sales order information, and payroll data.

In highly siloed environments, information might take several days to reach the finance department. Manual processes open the door to error when transferring data or rekeying entries. ERP solutions that include a data repository can integrate and consolidate information from disparate, transaction-oriented business management applications throughout the business and distribute that data to key finance staff anytime, anywhere. By unifying all of the enterprise data, organizations can achieve a true view of their business.

Analytic Support

As finance organizations spend less time on manual transaction processing, they have more time to spend on business analysis to identify current trends, forecast future results, and perform other analysis of business opportunities that can take the company to the next level. But they need analytical tools to do so.

The right ERP will include analytical and investigative tools such as scorecards and dashboards that instantly summarize the health of the business. Finance can use these tools to quickly evaluate and communicate the company's financial position and strategic goals, detect hidden problems, and make informed business decisions.

An ERP that is easy to use and customizable also allows organizations to quickly build the key performance indicators (KPIs) most useful to their business and then use them to define specific performance measures for their organization. KPIs can also deliver benchmark data from prior years or similar organizations, making it easy to see how current or projected performance compares with these measures.

Predictive Analysis

ERP solutions also provide predictive analysis capabilities that can help a finance organization rapidly project the impact of current events or various future scenarios on each part of the business. Predictive analysis capabilities within ERP solutions include:

- “What-if” analysis capabilities—for example, what would be the impact of reducing your receivables from 70 to 60 days? What is the impact of a price increase if it reduces sales volume?
- “Goal seeking,” which helps achieve strategic business goals by identifying the most sensitive financial variables and displaying them in priority order. For example, what strategy can you employ to improve your cash flow from a \$125 million loss to breaking even?
- Budget or forecast reports.

By performing these types of analysis, finance can provide business leaders with an understanding of the factors that can impact future results so they can position the company to maximize the opportunity or mitigate the risk.

A Real-World Example: Canuck Place

One organization successfully using ERP analysis capabilities to operate in a more strategic manner is Canuck Place. Playing a unique role in British Columbia's healthcare system, Canuck Place provides BC's only hospice option for children with life-threatening illnesses. Canuck Place is a recognized leader in pediatric palliative care and continues to expand its consulting services to healthcare professionals and to support children in the communities where they live.

The hospice's CFO uses a Sage ERP solution in a strategic manner to ensure that its programs are financially sustainable and that spending supports the organization's goals.

Financial Sustainability

Canuck Place receives one-quarter of its operating funding from the provincial government and approximately one-fifth from the Vancouver Canucks. It relies on the generosity of donors for the rest of its funding.

Canuck Place uses ERP to ensure it remains financially sustainable. The organization set up a budget that allows it to track how well its funding and donations are addressing its strategic goals. For example, the Palliative Care unit may want to expand by ten beds, add five suites, and ultimately add a new clinic. It set up a budget in Sage Accpac ERP, which states how much of the required funds must come from the government, organizations, or donations and fundraising. Each quarter, finance performs a review to track whether it is generating the required funds in each area to be financially sustainable.

Matching Spending and Budgets

Canuck Place also uses ERP to track whether spending is aligned with the strategic budget, or whether it's spending more or less in a particular area than was budgeted. With strategic budgeting, Canuck Place can specify which spending supports which aspect of the strategic plan, and, if spending is out of line, they know right away exactly which part of the plan has been affected. Without this tracking capability, Canuck Place would be able to determine that it had a variation away from budget, but it would have to do research to figure out why.

One of the biggest challenges Canuck Place faces when putting together its budget is determining the number of nurses and caretakers it will need because its staffing requirements depend on the types of issues the children in their care have. Children who are getting better and transitioning back to their families need different types of caretakers than those who require hospice care. With traditional accounting systems, expenses for hospice nurses and transitional caretakers are all lumped together in payroll. If payroll goes over budget, there's no way to tell whether it went over budget with nurses or caretakers. With its Sage ERP solution, Payroll can immediately determine the source of the overrun and can instantly determine how the issue is impacting the overall plan. The budget thus becomes an expression of how well Canuck Place is running its program.

Conclusion

ERP solutions automate and simplify transaction processing, leaving finance teams more time to devote to strategic efforts. At the same time, data repositories and integrated capabilities for analyzing transactional information allow finance to better determine the potential financial impact of business decisions, develop key performance indicators, and track actual performance against goals. Using these tools, finance teams are better able to advise CEOs and business unit leaders on the financial impact of business decisions. As a result, businesses have a better understanding of which activities to pursue in order to create business value and can more easily track their progress toward meeting their goals.

1 "Rise of Finance and Accounting Outsourcing in achieving the CFO's Agenda for 2010," the WNS Annual Survey Report 2010.

2 "Are you 'Strategic?'" by Alix Stuart, *CFO Magazine*, November 1, 2009.

3 "The CFO's Role in Achieving Operational Excellence," By CFO Research Services in collaboration with Accenture, April 2009.

4 "Are you 'Strategic?'" by Alix Stuart, *CFO Magazine*, November 1, 2009.

5 "The CFO's Role in Achieving Operational Excellence" By CFO Research Services in collaboration with Accenture, April 2009.

6 "The Strategic Role of Finance," by BlumShapiro Consulting, December 2008.

7 "Being the Best—Insights from Leading finance functions" by KPMG, December 2006.

8 <http://www.kpmg.ca/en/news/pr20061206.html>

9 "Working together to improve strategic planning: CFOs and CIOs weigh in," by CIO, CFO research services, and Oracle.

About Sage North America

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For more information on Sage and the Sage ERP Solutions, please visit www.SageNorthAmerica.com or call 866-308-2378, option 2.

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