

Maintaining the right balance.

CFO Survey Results - 2005

Survey Overview

The Deloitte CFO Survey was designed to understand the challenges and priorities of the Chief Financial Officer. The key issues considered were:

Finance Function Challenges

- Main business challenges
- Finance function priorities

Role of the CFO

- Changing role of the finance function
- Percentage of time spent on transaction processing, risk management and control, and decision support
- Changes to the finance organisation model

Financial Management / ERP Systems

- Financial / ERP systems in use
- Benefits from investment in financial / ERP systems

Business Intelligence and Performance Management

- Reporting tools in use
- Views on performance management

Key Survey Hypotheses

At the outset of the survey we set out to validate a number of hypotheses derived from our interactions with CFOs of leading organisations:

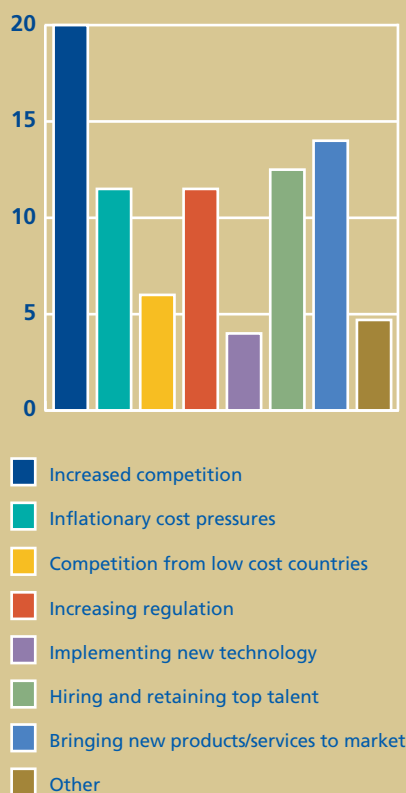
- Business organisations and their finance functions face a variety of challenges and, sometimes competing, priorities.
- A financial management framework that balances all finance roles and activities should be used as the foundation for strengthening the finance function.
- Organisations have made significant investments in accounting and reporting systems in recent years. Whilst these systems are strong on transaction processing, controls and process standardisation, not all organisations are deriving the anticipated benefits.
- There is considerable scope to enhance the quality of financial and non-financial information through integrated performance management and business intelligence tools.

Finance Function Challenges

This area addressed two core questions:

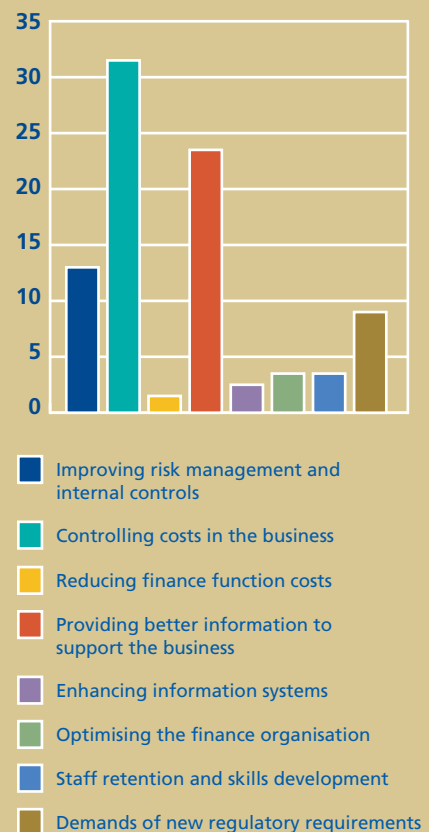
1. At a macro level, respondents were asked to identify the main challenges facing their business.
2. They were then asked to identify the most important priorities facing the finance function.

Main challenges facing the business



Increased competition and reaction to that competition by bringing new products and services to the market, were clearly very important business issues. Increased regulation and inflationary cost pressures also figured prominently.

Priorities facing the finance function



The priorities of the finance function were generally compatible with the business challenges. Cost control was clearly the highest priority. Improving the risk management and internal control environment and meeting regulatory demands combined, are clearly a response to a more regulated business environment (including the adoption of International Financial Reporting Standards and meeting the requirements of Sarbanes-Oxley etc). To maintain good cost control, managers need information on where and how costs are being incurred. It is therefore reassuring to see that CFOs are very focused on providing information to support business decision making.

Role of the CFO

This area also addressed two core questions:

1. Firstly, we sought to understand the perceived role of the CFO from the perspective of both the CEO and CFO. Allied to this, we sought to understand how the finance function split its time across transaction processing, risk management and control, and decision support.
2. We then considered what changes had taken place within finance organisation models over the last 3 years.

Role	CFO Priority	CEO Priority
Policy Enforcer	3	2
Risk Manager	2	3
Recorder and Reporter	7	7
Stakeholder Manager	6	6
Financial Analyst	4	4
Capital/Funding Optimiser	5	5
Strategic Planner	1	1

It is interesting that CFOs and CEOs are broadly consistent in their views around the role of the finance function. Strategic planner was the highest priority, but equally balanced by policy enforcer and risk manager at numbers 2 and 3. It is also interesting to note the consistency in trend from our 2003 survey which highlighted the need for a balance between strategist and steward.

% of time spent on finance activities	
Activity	% of Time
Transaction Processing	46
Risk Management and Control	24
Decision Support	30

The single biggest block of activities undertaken by the finance function is transaction processing with, on average, 46% of time consumed. This analysis is very similar to our 2003 survey, with the only notable variation being slightly more time spent on risk management and control, a movement consistent with the developments in corporate governance during the period. In our 2000 survey the time spent on transaction processing was in excess of 60%. Over a five year period, therefore, there has been a significant re-focusing of finance time from transaction processing (made possible by increased investment in technology and reorganisation of finance activities) to risk management and control (driven by increased regulation over the period).

Changes to the finance organisation model

Almost 65% of respondents have or are considering changes to the structure of their finance function with all of the options presented receiving active consideration – global and regional shared services, centres of excellence, outsourcing and self service operations.



Financial Management/ ERP Systems

Many organisations have, over the last five years, invested heavily in accounting and reporting systems, or the more comprehensive Enterprise Resource Planning (ERP) solutions.

We sought to understand which systems were in use and more importantly the benefits being derived from them.

The most common financial/ERP systems in use among respondents were SAP and Oracle, followed by Sun Accounts, Peoplesoft, Agresso and Microsoft Great Plains. Other applications mentioned were Sage, Coda, Microsoft Navision and MFGPro.

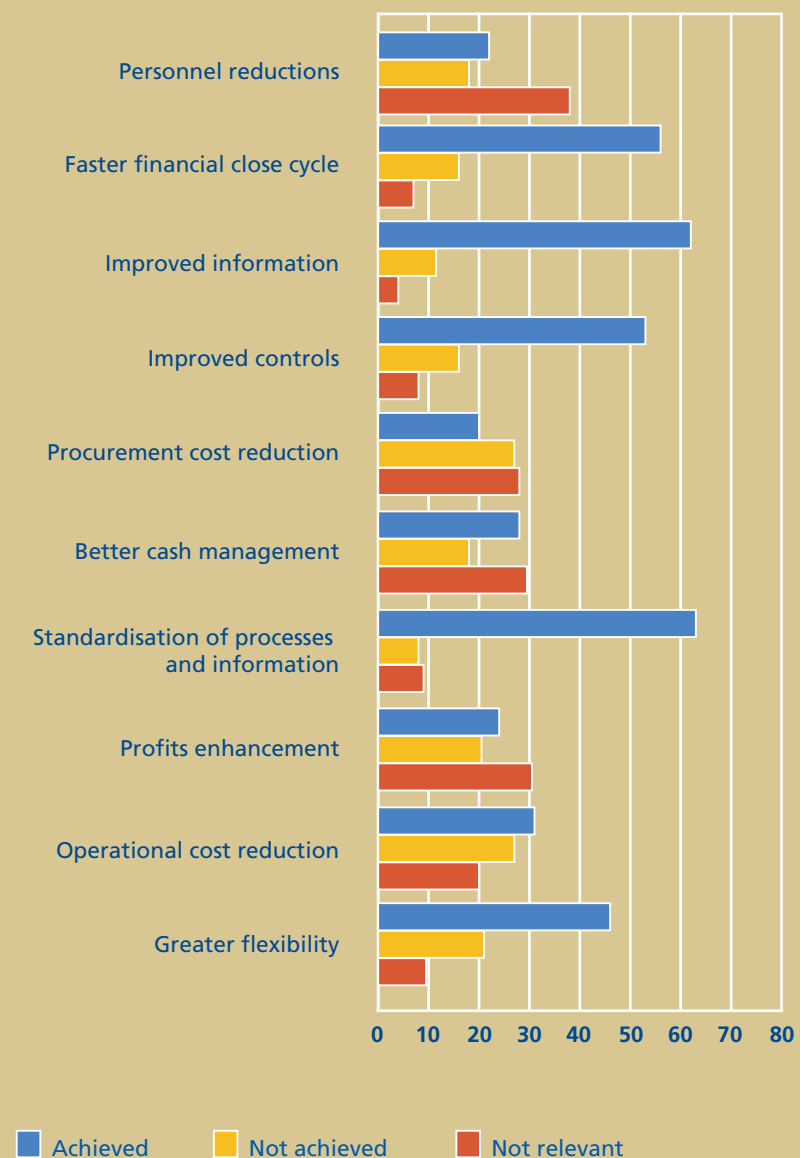
Of the respondents, approximately 42% were getting full benefit from their investment, whereas over 45% felt they were getting only partial benefits. Over 10% indicated that they were getting no benefits.

Some of the key benefits being derived include:

- Improved information
- Improved controls
- Better standardisation of processes
- Greater flexibility
- Reduced financial close times

The two most significant areas where organisations have failed to achieve benefit are procurement and operational cost control, perhaps highlighting the importance of the non-system/technical aspects of an ERP implementation i.e. enhancing processes and operational practices. For example, how many organisations that have implemented corporate ERP solutions have also implemented group wide vendor agreements?

Benefits derived from financial/ERP systems



Business Intelligence and Performance Management

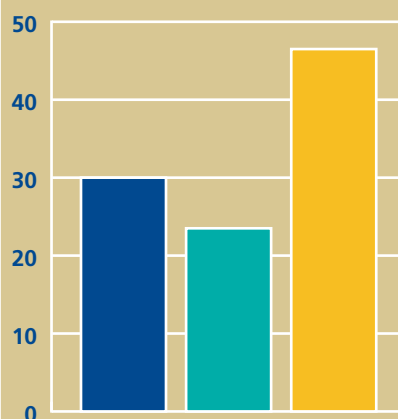
The business issues identified earlier in this document are clearly driving a need for intelligent and real time information on financial and operational performance.

We sought to understand what tools management use for financial and operational reporting. We also asked respondents to indicate whether they agreed or disagreed with a number of statements in relation to performance management in their organisations.

Two of the most interesting observations from the diagram opposite are that reporting is seen as a time consuming task (perhaps not surprising given the high use of spreadsheets – see below) and on a more positive note, CFOs very firmly believe that they should focus on non-financial measures of performance as well as financial data.

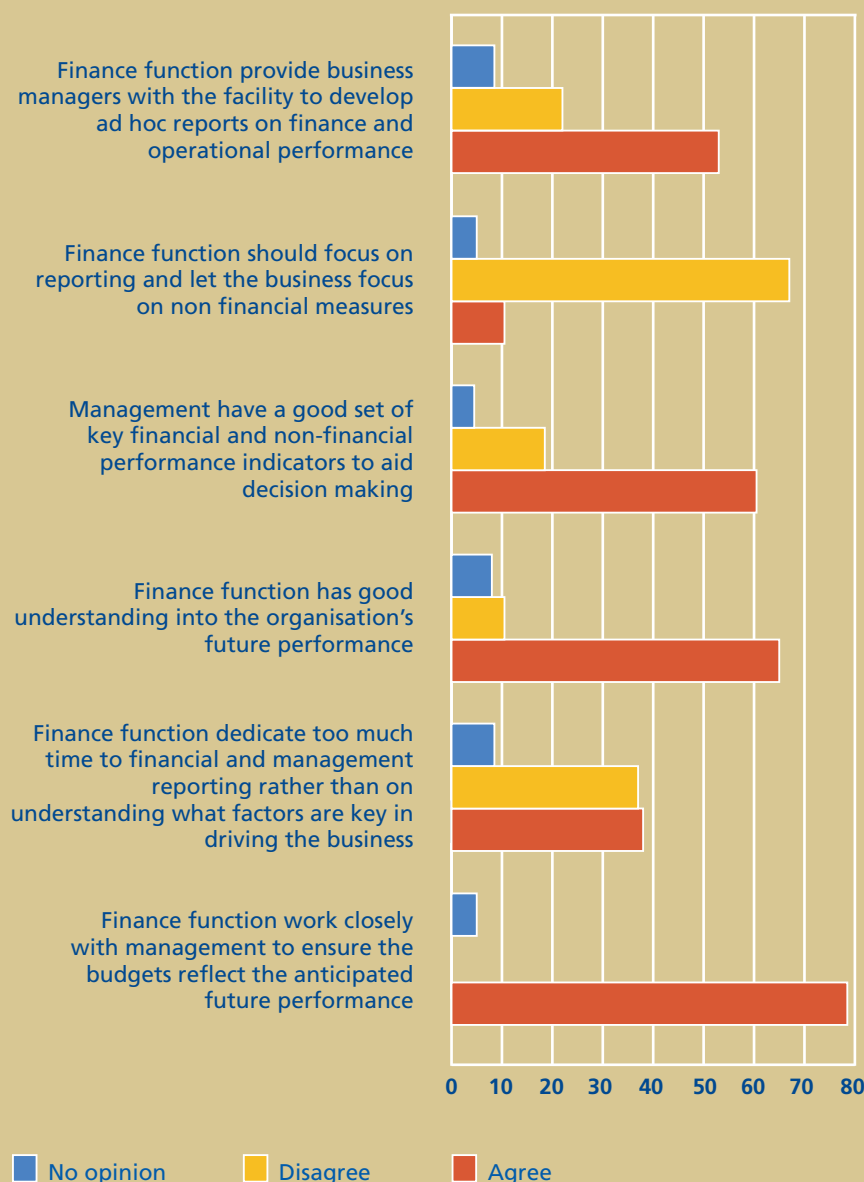
The most commonly used tool for reporting is still the spreadsheet, followed by the core financial/ERP system and lastly dedicated reporting tools.

Tools used for management reporting



■ ERP/Financial systems
■ Reporting tools
■ Spreadsheets

Views on performance management



Findings and Implications

Finance Function Challenges

The breadth and complexity of business issues are increasing. The CFO must be in a position to deal with these issues, either directly in his/her area of responsibility or as part of the corporate management team. Therefore, it is essential that the finance function has the capacity and skills to deal with a diverse range of challenges and that these skills are kept current. Our experience has seen finance functions develop from the traditional financial and management accounting focus to include expertise in risk management, corporate finance, regulator/investor relations and business analysis.

Adapting to new priorities will continue to challenge the finance function.

Role of the CFO

It is important that finance functions continue to focus on value added activities, specifically decision support and risk management and control, and minimise the time and effort spent on transaction processing. This can be achieved through greater automation and process efficiency.

At the same time CFOs will be challenged to meet increasing stewardship responsibilities as they strive to continue as strategic business advisers. Restructuring of finance operations through the use, for example, of shared services and outsourcing can also greatly enhance efficiency and effectiveness. For example, previous global research by Deloitte has indicated an achieved or projected return on investment of 20% from the implementation of shared services.

CFOs must achieve balance across all of their key roles.

Financial Management/ERP Systems

Failure to derive full benefits from a financial/ERP systems implementation can

often be traced back to the implementation where there was insufficient focus on defining requirements, process design and change management.

However, many of today's financial applications are also very functionally rich and it takes users some time to adapt to them. That is why many organisations revisit their implementations after 12 to 18 months to identify areas where they can maximise the use of their systems e.g. through enhancing reporting, using additional functionality, more training, etc.

Going live is not the end of the journey. Financial/ERP applications provide the backbone to extend functionality and deliver other benefits to the business.

Business Intelligence and Performance Management

There is still considerable scope to enhance financial and non-financial reporting. Reduced reliance on spreadsheets (with all their inherent risks around data integrity, etc.) and a greater use of tools which allow easy, flexible and consistent reporting of data could yield significant benefits. Standard ERP and financial systems offer considerable advantages (as already identified) including better standardisation of data and reporting. What many of our clients have found is that the use of front end reporting or business intelligence applications greatly enhances the quality and flexibility of reporting and data analysis.

Organisations which adopt the principles of Integrated Performance Management (IPM) – considering information, management processes and supporting technology in a holistic manner – significantly improve decision making and can respond more quickly to changes in their business environment.

Reinventing Finance

The diagram below illustrates an approach to building a finance function capable of delivering on business needs and priorities

Determine Current State

- | | | |
|---|---|--|
| <p>1. What is the current state of the finance function?</p> <ul style="list-style-type: none"> • Roles and responsibilities • Structure, skills and resources • Accounting and reporting systems • Focus on value added activities | <p>2. How effective is the finance function in each of its key roles?</p> <ul style="list-style-type: none"> • Governance • Control and Risk Management • Business Performance Measurement • Management Reporting | <p>3. Overall, how balanced is finance?</p> <ul style="list-style-type: none"> • Steward • Business Partner / Strategist <p>4. What are the opportunities to enhance the efficiency and effectiveness of the finance function?</p> |
|---|---|--|

Finance Assessment Report

Reinvent and design

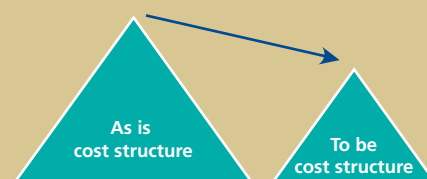
- | | | |
|--|--|--|
| <p>1. What is the end state of the reinvented finance function?</p> <ul style="list-style-type: none"> • Roles and responsibilities • Structure, skills and resources • Accounting and reporting systems • Focus on value added activities | <p>2. How effective should the finance function be in each of its key roles?</p> <ul style="list-style-type: none"> • Governance • Control and Risk Management • Business Performance Measurement • Management Reporting | <p>3. Overall, how balanced should finance be?</p> <ul style="list-style-type: none"> • Steward • Business Partner/Strategist <p>4. What is the transformation plan?</p> |
|--|--|--|

Finance Development Plan

Implementing

Balancing finance form and function...

...while simultaneously reducing operating costs



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