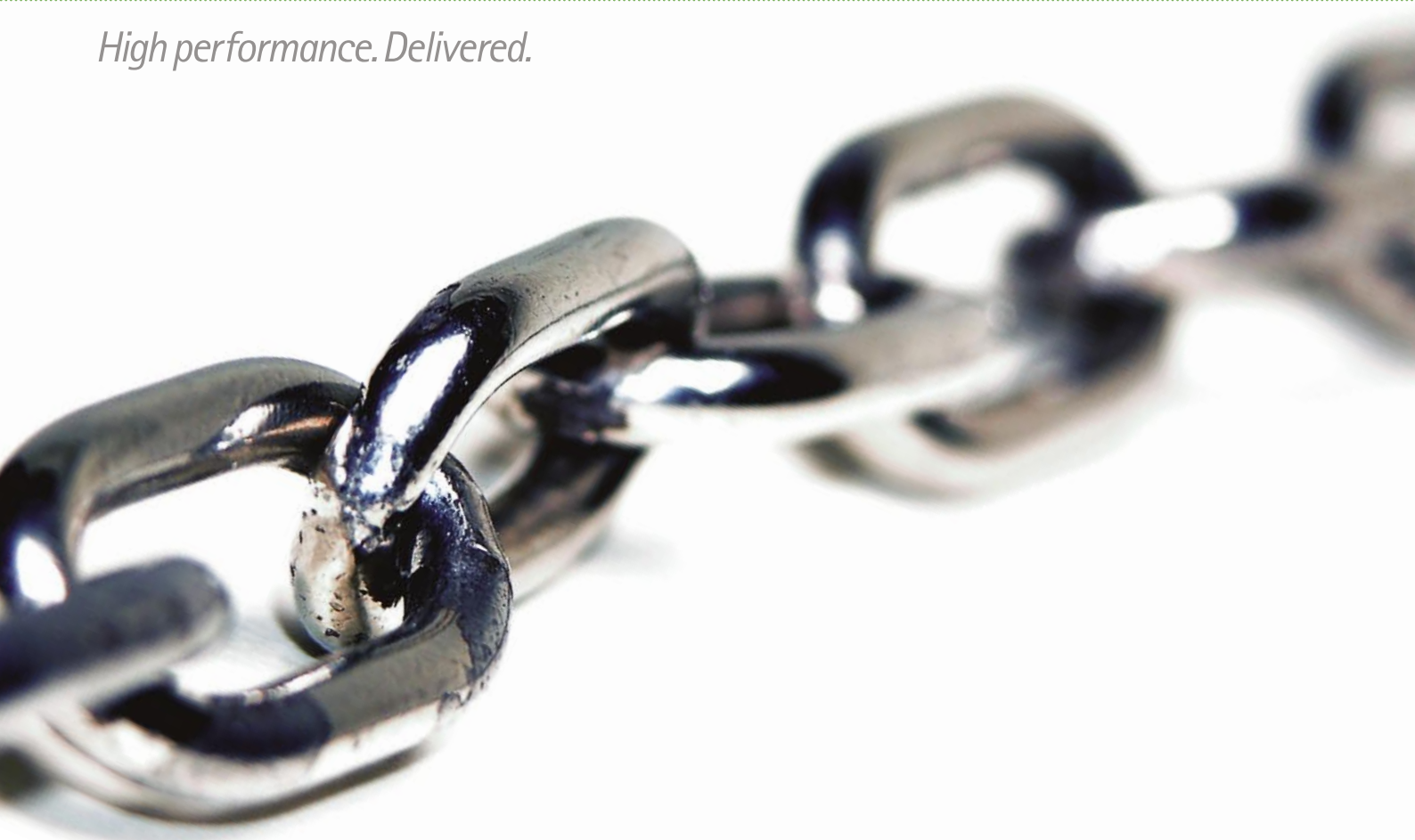


The Australian CFO Agenda

Setting off towards High Performance Finance

accenture

High performance. Delivered.



• Consulting • Technology • Outsourcing



The Research Project

Accenture's global High Performance Business research initiative is based on the observation that some organisations consistently outperform their peers over a sustained timeframe. They do so across economic cycles, industrial disruptions and leadership changes. These organisations regularly deliver upper-quartile total returns to stakeholders. Their returns on invested capital are significantly in excess of the cost of capital, and they drive profitable revenue growth faster than their peers. They are lean, responsive to changing conditions, and consistently rank as market leaders.

For an overview of the research, please refer to www.accenture.com/high_performance_business or the July 2005 issue of the Harvard Business Review.

Applying this global research to the Finance Function, Accenture found that there is a 70 percent positive correlation between the proficiency of an organisation's Finance Function and its overall financial performance. High-performance organisations that demonstrate mastery of finance use it in a distinctive manner to drive differentiation and superior results.

See the following website for access to the global research results: http://www.accenture.com/Global/Research_and_Insights/By_Subject/Finance_Mgmt/FinanceBusiness.htm

In Australia, follow-on research was conducted with CFOs during the second half of 2005 and involved interviews as well as a series of roundtable discussions. A large number of Australia's senior finance executives and their direct reports participated in the research. Two thirds of respondents were from private sector organisations, with the remainder from government.

The Australian CFO Agenda

Setting off towards High Performance Finance

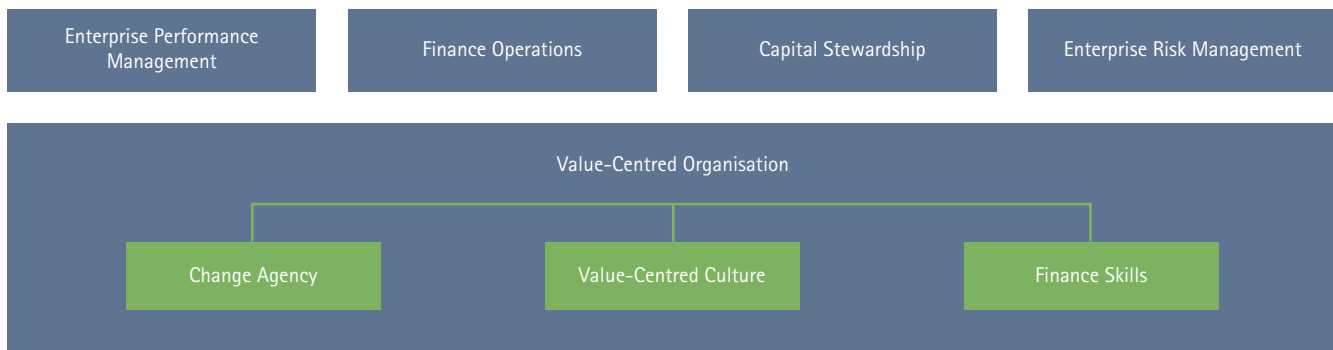
On March 21, 2006, the Australian stock index closed above 5000 points for the first time in history. Obviously, for some CFOs, business and economic conditions in Australia have never been better. The economy is continuing to boom, demand and investment are strong, they are exporting like never before and profitability has never been higher. But listen to other CFOs and you will hear that a slowing economy, weak demand and intense overseas competition are taking their toll.

As strange as it sounds, both sides are right. Depending on your particular sector of the economy, you are currently riding the minerals boom or desperately trying to lure customers to your retail outlets. In the public sector the situation is similarly diverse. Some boom states are expanding infrastructure and services on the back of record property and corporate taxes, while others may be getting dusty policy papers on "lean government", written in the early 90s out of some forgotten drawer.

What is a constant for both groups of CFOs is that their own role is becoming ever more critical and that their status in the top management ranks has risen markedly over the past years. CFOs today have to provide the analysis and data behind the corporate strategy, track and manage performance and risk, set finance strategy, and run an effective and efficient Finance Function to support the business.

Research undertaken by Accenture as part of its ongoing High Performance Business strategic initiative found that there is a direct correlation between the proficiency of an organisation's Finance Function and its overall performance. High-performance organisations that demonstrate mastery of finance use it in a distinctive manner to drive differentiation and superior results.

Figure 1: A model of the High Performance Finance Function



High-performance businesses have five differentiated finance capabilities that contribute to their success:

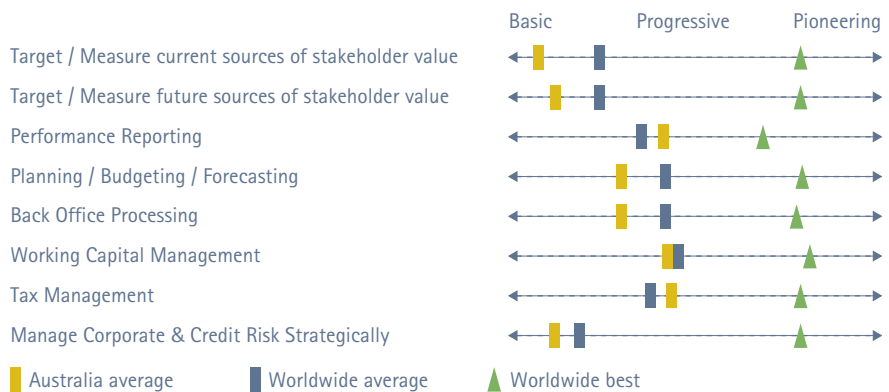
- 1 Value-Centred Organisation** focuses the organisation's capabilities around shareholder value management. The value-centred mindset accelerates insight to action and targets outperforming the competition. A Value-Centred Culture also focuses on managing the balance between today and tomorrow.
- 2 Enterprise Performance Management** enables management to measure performance at all levels of detail and act accordingly.
- 3 Finance Operations** focus on cost and efficiency for back office finance processes through Enterprise Resource Planning (ERP) systems, shared services and/or outsourcing.
- 4 Capital Stewardship** is the ability to access and manage capital in a way to maximise returns to shareholders.
- 5 Enterprise Risk Management** enables management to monitor and manage financial, insurance, operating and business risks.

Our research suggests a High Performance Finance model based on mastery of five areas as depicted in Figure 1. These are:

1. Value-Centred Organisation
2. Enterprise Performance Management
3. Finance Operations
4. Capital Stewardship and
5. Enterprise Risk Management.

When we conducted follow-on research with Australian CFOs from the private and public sector, we found that while local CFOs rate their Finance Function capabilities higher than their overseas counterparts in reporting and tax management, they rate local skills lower in the strategic areas of stakeholder value management and planning, budgeting and forecasting (see Figure 2). They also give their Finance Function lower scores in relation to back-office processing capabilities.

Figure 2: Finance Function capabilities in Australia and worldwide



It was evident from dialogue during the roundtables that Australian CFOs have recognised that there is a gap between current finance capabilities and the requirements of their organisations and they are already working towards improving the performance of their Finance Function. As Figure 3 shows, Australian organisations are currently investing or intend to invest in a wide range of finance initiatives in an effort to build critical finance capabilities.

Australian CFOs today have an agenda for transformation as they seek to address the capability shortfalls of their Finance Functions and drive business strategy. Achieving success in their journey will require integrating the many disparate initiatives - as referenced in Figure 3 - into a formal plan and roadmap (see Figure 4).

Figure 3: Investment in Finance Function capabilities in Australia

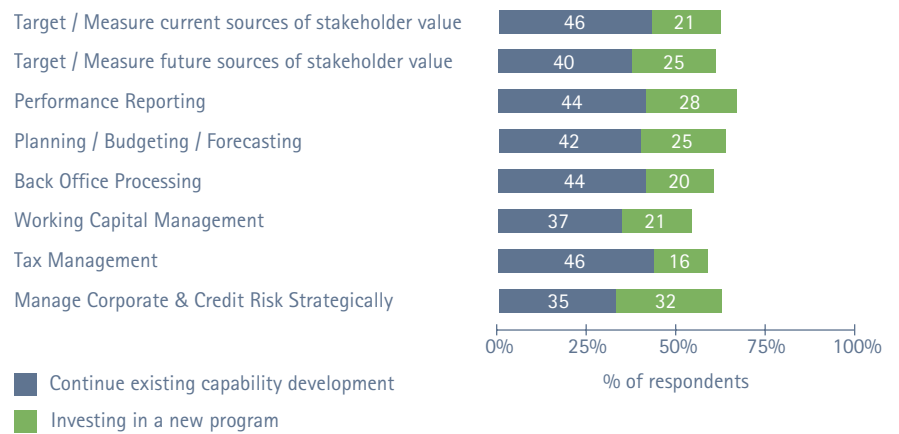
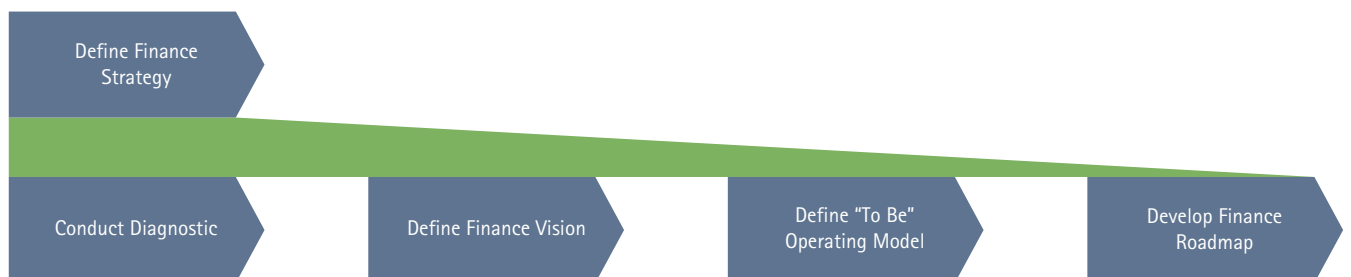


Figure 4: The High Performance Finance Journey



Key Questions

- How does the performance of Finance compare to leading practice?
- How efficient and effective is Finance?
- What is the depth of the capabilities?
- How will Finance add value to the organisation?
- What are the imperatives for Finance?
- What is the vision for Finance?
- What are the core and non core finance activities?
- What capabilities are required to deliver the Finance vision?
- How will the "To Be" Finance organisation be structured?
- What technology is required to enable the "To Be" processes?
- How can the program be implemented to reduce risk and deliver early benefits?

In addition, our discussions with Australian CFOs suggest that along the way, they need to address five key challenges:

- 1 Get back to basics on performance management
- 2 Move on from compliance
- 3 Map out and communicate your future finance vision and operating model
- 4 Build information management capability to support finance capability
- 5 Put shared services and outsourcing back on the agenda

1. Get back to basics on performance management

Performance management is about keeping the organisation on track to achieve its strategic objectives. What we found is that most organisations have performance management processes in place. The problem is, however, that many of these performance management practices have evolved over time, adding ever more metrics and systems, burdening staff and management with complex and often conflicting key performance indicators.

We propose getting back to basics; starting with identifying the metrics that matter and simplifying performance management (see Figure 5 for a framework your team can use to think through your own performance management process).

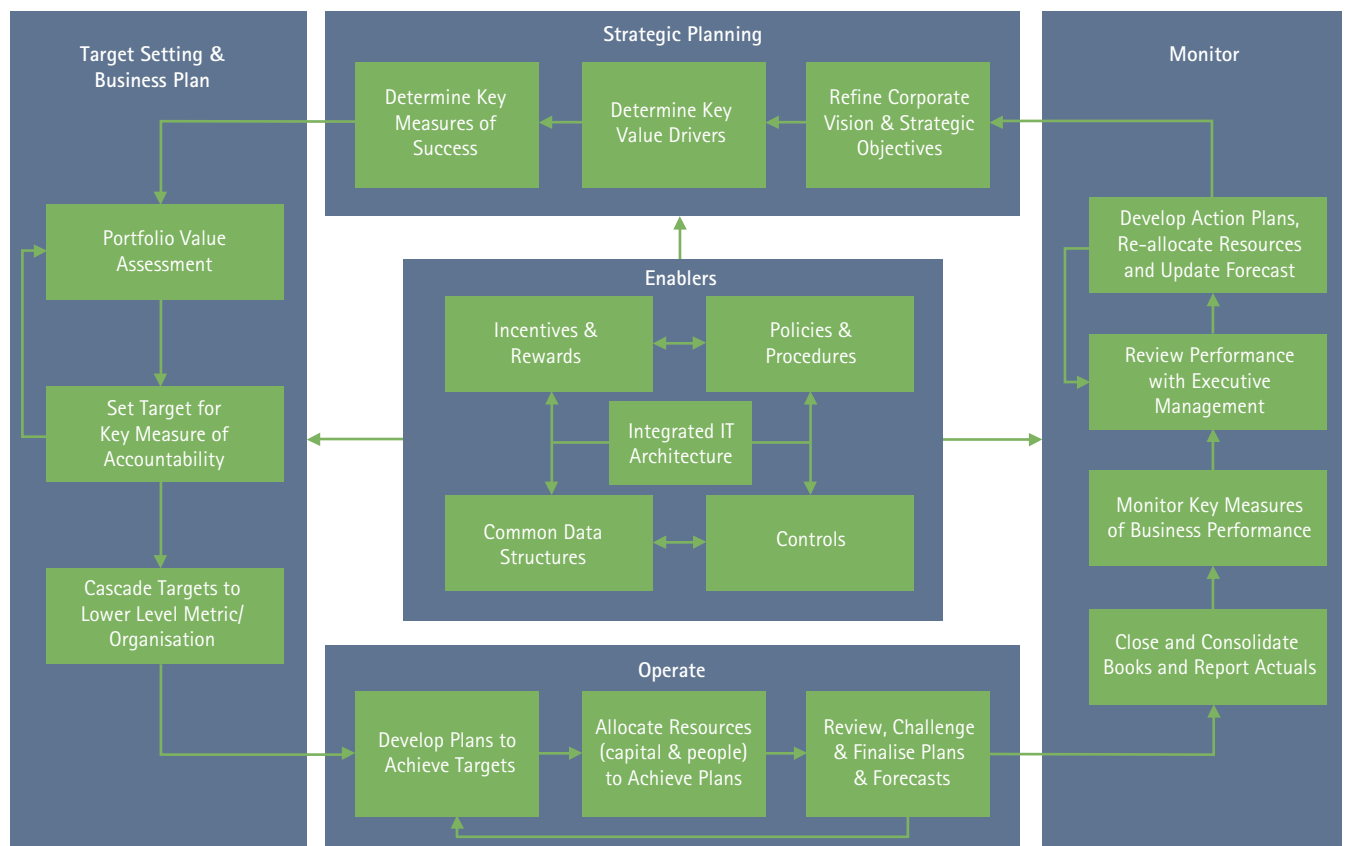
Businesses are about creating shareholder value, public sector organisations about stakeholder or public sector value. Accordingly, understanding current and future sources of value for the organisation is fundamental to identifying the relevant value drivers and success measures. Today, Australian CFOs are giving their own Finance Function low

scores in the understanding of current and future sources of value, and many have indicated that they are investing in formal programs in this area.

After an organisation has determined the actions and behaviours that will create value, the next step is to determine specific metrics to determine success and to create incentives aligned to the behaviours and metrics. This exercise is not about finding all possible levers and all possible metrics. It is about selecting and using those that will have the greatest impact.

The next step is moving from insight and understanding the sources of value to focusing on planning and managing for value. This means integrating planning, budgeting and forecasting activities to provide a single view of the organisation and allow a rapid response to economic change. Rolling forecasts can then be updated on a regular basis, and the effort and time taken to update forecasts and budgets is minimal. A key enabler to this will be robust and integrated systems.

Figure 5: Accenture's Enterprise Performance Management Framework



2. Move on from compliance

Compliance requirements have increased significantly in recent years, this is an obvious observation. What is interesting though is how much compliance still dominates the thinking and agenda of CFOs, ranking as the top external market challenge for CFOs. Recent global Accenture research into understanding the cost of Sarbanes-Oxley compliance of major organisations found that executives believed that their companies spend on average nearly seven percent of revenues on Sarbanes-Oxley compliance¹. But, in fact our research has shown, that the real cost for a typical large organisation ranges from one percent to three percent. Overestimating the cost and resources tied up in compliance in this way can lead to two reactions: Cutting back on important growth or efficiency focused initiatives and not returning to normalcy at the end of a compliance initiative.

Compliance is a cost of doing business. CFOs need to distinguish between cases where compliance requirements can be used to act as catalysts for process transformation, and those where the relevant repetitive processes should simply be streamlined quickly. In both cases, compliance must be embedded into core processes as soon as is feasible and CFOs must resist creating ongoing separate compliance programs that take up valuable management attention.

1. Understanding the Cost of Sarbanes-Oxley Compliance, by Gary A. Curtis and Les S. Stone. Outlook Journal, January 2006. http://www.accenture.com/Global/Services/By_Subject/Finance_Mgmt/R_and_I/UnderstandingCompliance.htm

3. Map out and communicate your future finance vision and operating model

As the role of Finance changes, so too does its human capital requirements and CFOs are struggling to recruit and retain the right staff. A general scarcity of qualified accounting and finance professionals at the peak of a long-term economic boom is not helping. To make matters worse, in the public sector, demographics and a rapidly aging workforce mean demand for new finance professionals will only increase.

While it is easy to sympathise with CFOs regarding the difficulty of finding talent, we noted in our roundtable discussions that very few of the CFOs had developed a formal vision of what their future Finance Function would look like. This means that instead of developing an operating model and future skill profile that would support their finance objectives, they keep hiring against their historical finance skill model. It also means that operating model innovations, such as automation, process redesign, shared

services or outsourcing of specific processes and skills are often not even considered as solutions in addressing the resource shortage.

Articulating a clear finance vision and future operating model will help guide CFOs on what activities are core to the future Finance Function and what skills are required to manage those capabilities. A well articulated finance vision and operating model can differentiate an organisation. Prospective staff are more likely to be attracted to working for organisations where they can see and play a strategic role.

4. Build information management capability to support finance capability

Backbone financial and enterprise resource planning systems have become commonplace and organisations capture huge quantities of operational data. Currently, many organisations do not have the means to turn this data into useful management information.

Our survey found that only 11 percent of respondents had an advanced financial systems architecture in place with consolidated ERP and data warehouse capability and only around one third of organisations had analytics or business intelligence capability that exceeds their basic ERP system.

To unlock the value in their organisations and gain from financial and operational data in supporting management decisions, CFOs will need to support their performance management processes with investment in information technology with a special emphasis on advanced information management, analytics and business intelligence tools.



5. Put shared services and outsourcing back on the agenda

More than 50 percent of Finance Functions surveyed used shared services operating models and a further 17 percent outsourced some of their finance processes.

Of the finance services that have already been outsourced, co-sourced or moved into a shared services model, the most common are accounts payable and accounts receivable.

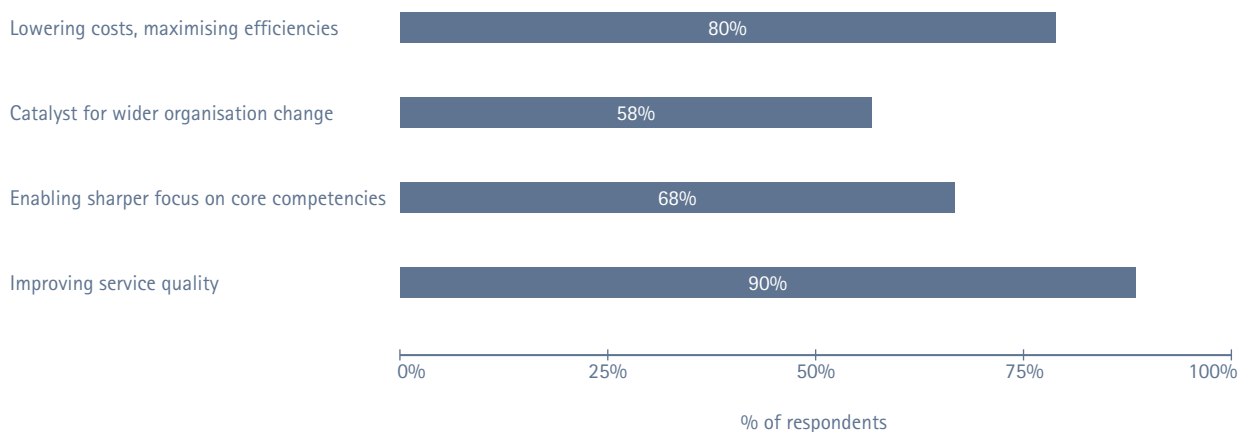
Interestingly, almost 90 percent of respondents reported that improvements to service quality were amongst the benefits received from shared services, co-sourcing or outsourcing, whilst the second highest scoring benefit was lowering costs and maximising efficiencies (see Figure 6). Service quality and lower costs are of significant immediate benefit to the organisation whilst other benefits take longer to attain. Shared services, co-sourced and outsourced models free up time and resources for long term strategic change. Such models enable executives to have a sharper focus on core competencies and can act as a catalyst for undertaking

wider organisational change. Adopting alternative sourcing models are a consideration for executives transforming their Finance Function to a higher level of performance.

The industrialisation and globalisation of outsourcing and shared services models over the past three to four years has been dramatic and many CFOs today have an outdated understanding of what advanced finance operating models can deliver.

Consider outsourcing: In its infancy 10 to 15 years ago, the service industry has undergone a revolution. Today, it can deliver to its clients, truly global resources at scale that even the largest global corporations could not match in internal centres, as well as the highest degrees of process automation and modern technology. Using outsourcing strategically as part of your future finance operating model will allow you to accelerate transformation and benefit delivery.

Figure 6: Typical benefits received from shared services, co-sourcing or outsourcing



Offshore vs. onshore is not the issue

A quick word on offshoring or global sourcing: Just taking transaction processes to a cheap labour location will only result in a delivered cost saving of 20–30 percent, which will decrease over time due to high wage inflation in many low labour cost countries. To deliver truly transformational outcomes and sustained cost savings, scale, best practice industrialised processes and advanced technology are much more important than the labour cost arbitrage element. The fact that India, the Philippines, China and Malaysia are growing so rapidly as outsourcing and shared services destinations has as much to do with availability of talent, existing scale of operations and existing technology investment, as with labour cost.

Conclusion

Australian CFOs have already committed to change, as evidenced by investments in multiple new capabilities and skills for their finance organisation. To reap the return from their investment and move towards a higher level of performance, they have to bring together several initiatives under a single vision, operating model and a formal roadmap. Once this transformation is underway, performance improvements will be visible to the organisation, its stakeholders and the market.

"Checklist" Questions

Wanting to start your own Finance transformation? Here are some initial questions you can discuss with your team to help you set the direction.

Assessing your capability in Value-Centred Culture:

- Has finance helped infuse the organisation with a value creation mindset and financial acumen?
- Is the finance organisation a business partner to the organisation, customers and suppliers?
- Does finance have the deep, specialised skills required to manage the business today and tomorrow?
- Is there high workforce motivation and retention rate?
- Is the finance organisation model right?
- Does finance provide strong change agency capabilities when it comes to managing major change initiatives, mergers and acquisitions, turnarounds, etc?

Assessing your capability in Enterprise Performance Management:

- Are the right tools in place and information available to make decisions in a timely manner?
- Is there a budgeting and forecasting process in place that is simple and aligned with the strategy?
- Is there a clear understanding (i.e. a portfolio analysis) of where value is created and destroyed?
- Are incentives aligned with value creation?
- Are there tools in place to model and make decisions about where to focus resources?
- Is there an integrated and proactive investor relations department focused on earnings transparency and frequent communication?

Assessing your capabilities in Finance Operations:

- Is the organisation leveraging sourcing options for transactions processing?
- How effective is the ERP in serving internal and external customers and suppliers?
- Is there a single, standard chart of accounts and common data warehousing in place?
- Are workflow and self-service capabilities in use?
- Is there a focus on new value levers in this area (eg. working capital optimisation, effective tax management, etc.)?

Assessing your Capital Stewardship:

- Is finance focused on drivers of current and future value?
- Is finance managing intangible assets effectively?
- Is the organisation's investment/debt strategy linked with operations and strategy?
- Is there a structured capital allocation process aligned to strategy and performance management?
- Is cash and liquidity management optimised through an integrated system?

Assessing your Enterprise Risk Management:

- Is risk managed in the context of business strategy? Is risk optimised and managed as a risk 'portfolio'?
- How effective is the organisation's management of foreign exchange, interest rate, commodity, business and cash flow risks?
- Are there fully integrated, real-time, risk management tools?
- Is there a wide array of financial hedging instruments used to reduce risk (eg. options, swaps, caps, floors)?





Accenture Finance and Performance Management

The Accenture Finance & Performance Management service line can deliver value by assisting the Finance organisation in developing the capabilities that drive growth in your stakeholder value. Our research confirms the Finance Function provides a key contribution to an organisation's journey to high performance. We can assist you in developing the appropriate strategies and implementing the right business planning and performance reporting solutions to attain high-performance.

We can help your organisation with:

- Finance strategy and operating model development
- Internal and outsourced strategies for operational excellence in transaction processing
- Effective enterprise performance management capabilities to drive shareholder value in today's fast-paced business environment
- Transformation of all finance processes (for example budgeting and forecasting) into a nimble forward-looking management tool rather than a resource-intensive, low-value exercise and
- Implementation of a robust and integrated suite of reporting capabilities to assist in decision making.

Copyright © 2006 Accenture
All rights reserved.

Accenture, its logo, and
High Performance Delivered are
trademarks of Accenture.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilise the right people, skills and technologies to help clients improve their performance. With more than 129,000 people in 48 countries, the company generated net revenues of US\$15.55 billion for the fiscal year ended August 31, 2005. Its home page is www.accenture.com.

For more information, please contact:

Cara Morton

Partner, Finance and Performance Management
cara.morton@accenture.com
Phone: +61 2 9005 5733

Or visit www.accenture.com/fpm