



FINANCIAL MANAGEMENT

Finance of the Future

- Looking forward to 2020

ADVISORY

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A day in the life of a finance professional

20-02-20
Monday

8am: "Update for Ellie Graham", shrills Ellie's Avatar*. Ellie, newly appointed Finance Director at retail conglomerate Dingo, has just returned from a successful role in Asia Pacific where she headed up the region's buying operation.

MBA-educated Ellie has been with the company for nine years. From shop floor in Frankfurt; to behind-the-scenes transaction processing for its mail order arm in New York; to investor relations in London before becoming Head of a Shared Service Center in Taipei, she's an all-rounder as far as Dingo is concerned. Although not qualified as an accountant, her appointment as FD is the culmination of her earlier exposure to the operational and financial sides of the business. It's a challenge she relishes.

Ellie asks her Avatar for an update. Overnight sales and profitability figures for markets that have just closed flash up alongside the forecast figures for the markets about to open. She briefly contemplates how much easier it was a few years ago when monthly or even quarterly results dictated market valuations, instead of day-to-day business performance. The Avatar directs her to a couple of potential problem areas needing her attention today.

9.30am: In the office, Ellie puts in calls to Mumbai and Seoul to find out exactly what's been going on in their respective operations.

Fortunately, digital dashboards have taken the guess-work out of predicting potential issues. These days they are automatically flagged for her. She recalls how, in the early days of her career with Dingo, the organization invested heavily in migrating all its operating units onto common frameworks, making global performance comparisons and live, up-to-the-minute data reporting possible.

11am: Online meeting with Finance Operations Director. On the agenda:

- Closure of Shared Service Centers (SSCs) in India and Vietnam. Identify new technology solutions to do the jobs of people more cheaply.
- Recruitment – how to find suitably qualified staff to fill finance roles.

As Ellie summarizes the actions from their discussion, she marvels at how intuitive and personal the online environment has become. From early virtual worlds they are now able to conduct meetings in virtual Dingo offices. It struck her how people don't talk about working from home anymore – so many meetings are virtual that location just doesn't seem relevant

2.30pm: The Avatar informs Ellie that a competitor's shares are in freefall. Ellie is suddenly reminded of the 2008 credit crisis where Dingo thankfully managed to ride the storm of uncertainty, while many competitors lost their financing arrangements and collapsed, as banks and financiers dramatically reduced their exposure to debt. Dingo were saved by their integrated Treasury system, allowing them to promptly react to the crisis.

Yesterday, when reading the competitors daily online statement, an investor spotted that the organization failed to meet carbon reporting standards, meaning they now face prosecution in several countries. The organization has seen 50 percent of the value wiped off its share price.

Already, other investors and market makers are circling. They have spotted an opportunity to buy the business cheaply and to break it up into smaller chunks. As has become part of her daily routine, Ellie jumps on her office exercise bike when trying to solve a tough problem.

Research has shown that exercise helps the brain to perform at a higher level. Gone are the days of annual medicals – her 'vitals' are checked automatically every day through her healthcheck screening panel.

3pm: The news on the competitor brings Ellie's attention back to a perennial problem: how to safeguard Dingo's market value.

With access to huge war chests of cash to support leveraged takeovers and with market makers willing to sell Dingo short to make a fast return, managing information to the markets is more critical than ever. It means guarding against any weakness which could undermine market and investor confidence and leave an opening for others to exploit.

4.30pm: Innovation meeting with Head of Business Development to discuss recent acquisition of two Eastern European opticians.

Although a new line for Dingo, the businesses' support functions are already integrated into Dingo's SSCs and their systems migrated and hooked up to live digital dashboards.

Now the pressing issue is how to drive out maximum value from the purchases. Increasingly, finance's remit includes growing corporate revenue and margins, cutting costs and managing the risk implications of strategic decisions.

6pm: Dingo's daily results are downloaded directly to the market. As Europe closes, analyst confidence in Dingo remains calm despite the almost inevitable collapse of its rival. But, as Ellie knows only too well, tomorrow is another day. Another market is about to open and a company that disappoints can expect to feel its wrath.

* An avatar is a computer user's representation of himself/herself or alter ego, a two dimensional icon used on internet forums, other communities or computer games.

Contents

Foreword	1
Introduction: Finance of the Future	2
Drivers of change	4
The commercial landscape in 2020	6
What the future holds: A CFO's perspective	8
Finance 2020: What will finance look like?	10
Strategic advantage through people in 2020	12
Conclusion: What should you be doing now?	14

Foreword



Even setting aside the recent demands on the finance department to support the business by providing robust forecasting, squeezing liquidity without damaging the business and last, but not least, refinancing (as a result of the global economic credit crunch and its downturn consequences), there's no escaping the fact that finance, and the nature of business as a whole, has changed significantly in the last 10 years. Influenced by the rise of global markets, giant advances in technology and changes in the investment landscape, the finance function of today is much more than the "beancounter" of the past.

A decade ago KPMG International made a series of predictions on the future of finance in 2010. It is now time for us to reflect on these predictions and put forward our thoughts on where finance will be a decade from now.

Whilst many organizations have taken major steps towards improving the back office, and many of our previous predictions have become a reality, the potential for finance to create value by supporting decision making remains a challenge. The finance function's influence in the business is driven by developing talent in finance. And yet, this is the very area where finance can make a difference - Especially in the face of a crisis.

What is clear to our firms' specialists is that there are two key enablers that can help make this happen. Common systems, processes and data can create the space and provide the information whilst investments in people can equip them to leverage the opportunity to create value. As we begin 2009, with not yet a complete picture of the outcome of the credit crisis, we are becoming even more reliant on finance and management to provide true business insights. In the future, we expect that the importance of finance will continue to increase even more.

This is KPMG's vision for 2020...

Jochen Pampel
Global Head of Financial Management

Introduction: Finance of the Future

What will the finance function look like by the year 2020? Certainly, if the past 10 years are anything to go by, more widespread change is on the cards.

“Ten years ago, KPMG predicted that there would be no finance function by 2010”

Ten years ago, KPMG produced a white paper titled "Future of Finance: a guide for business users", in which we predicted that there would be no finance function by 2010; that many transactional processes would be outsourced; responsibility for some financial activities would reside within the business; the roles of the CFO and COO would merge and finance would become a true partner to the business.

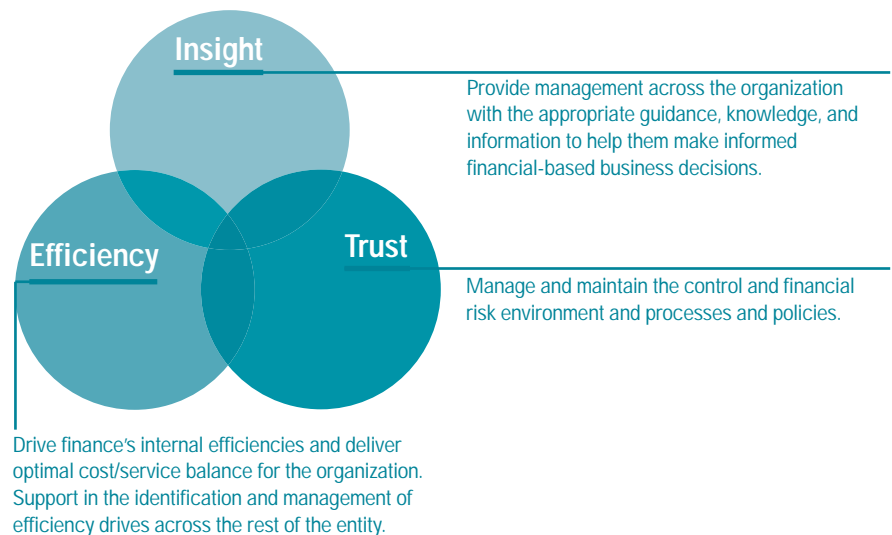
While not all of our predictions have been fully realized, there's no disputing the fact that the finance function has seen a significant level of turmoil and gone through massive change over the past decade.

What has not changed, however, is the fundamental role of finance. Finance still needs to provide insight to the rest of the organization, ensure effective control and risk management and drive its own and the organization's efficiency.

Looking ahead, we expect these objectives to remain the same. What will be different, however, is the proportion of time and effort spent on each and how they are delivered.

The diagram below illustrates what we expect the balance of responsibilities to look like in finance in 2020.

Balance of responsibilities for finance



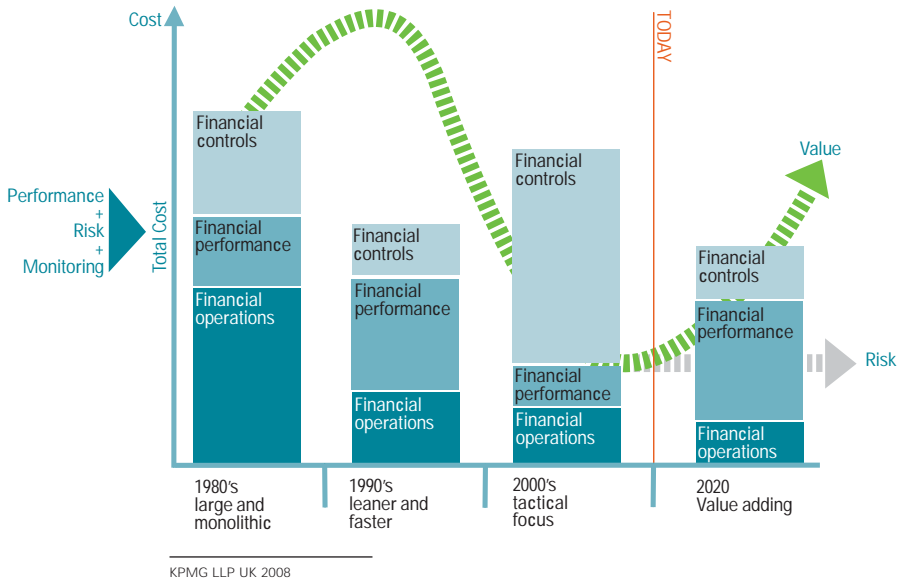


We have got to where we are today due to a combination of market forces. Over the past 10 years, we have seen the collapse of Enron and the massive knock-on impact of Sarbanes-Oxley (SOX) on risk management; we've witnessed the stealthy pace of globalization and the rise of the emerging markets. Each of these events provided huge challenges to the business environment and has driven change right across the finance function.

In response, finance focused much of its efforts and change activity on creating a robust financial control environment and leveraging global cost saving opportunities through the creation of transaction-based shared service centers.

As a consequence, finance ended up with less time to undertake its insight role and to proactively drive financial performance. In light of the recent challenges of the 2008 credit crunch, finance must consider its ability to react accordingly and quickly to such crisis. If necessary, delivering critical contribution to help the enterprise survive in the turmoil. Now, increasingly aware of this lack of focus on delivering insight, many organizations are seeking to recover this lost time by embedding financial controls in technology and refocusing team efforts on enhancing financial performance management.

Changes needed in the focus of finance function from 1980 to 2020

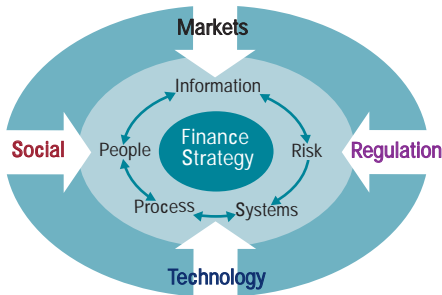


KPMG's challenge to the finance community is:

"Are you doing enough to create the step change needed in your finance team's performance?"

Drivers of change

Finance is shaped as much by the global business environment as it is by internal factors. Across the world, organizations are coming up against forces that influence their strategy and structure. Finance must respond if it is to support these business changes.



KPMG LLP UK 2008

Market influences

The pace of globalization continues unabated. Aided by the ability to exchange money and information rapidly and virtually, a competitor is just as likely to be based on the other side of the world as it is in the next town. 2008 has shown us the level of financial dependency existent in the global capital markets and how quickly a seemingly isolated crisis can impact both capital and consumer markets worldwide.

Globalization does also bring with it opportunities to enter new markets; to sell products or services anywhere in the world and to leverage communications and IT infrastructures to create 24/7 business operations.

Globalization does also bring new competitive threats. As the BRIC (Brazil, Russia, India and China) economies grow rapidly, they are creating their own global giants that are capable of threatening even the largest Western businesses. Organizations cannot afford to be complacent in the face of such opportunities and challenges.

Globalization and accompanying financial liberalization continue to drive the evolution of financial markets. Investors are increasingly active in the running and governance of businesses. They seek value from their investments and look to organizations to align their strategies with their own interests. They are quick to remind boardroom executives who really is the "boss". They will not, for instance, shirk at giving executive remuneration packages the thumbs down where they are not closely aligned to shareholder wealth generation.

Investors are increasingly intolerant of organizations that fail to deliver on their promises. An organization that issues a profit warning can expect the market to respond sharply and severely.

Investors want increasingly transparent information so that they can make their own assessment of future performance. The upshot is increasing demand for more reporting, both in frequency and detail.

At the same time, the rapid rise in Private Equity (PE) houses and accompanying growth in leveraged acquisitions have prompted another major change to the corporate landscape. While market appetite for debt may rise and fall, the war chests of PE houses and some corporate businesses mean that even top FTSE companies – those which might once have weathered volatility in the market or a moderate down-turn in performance – are now at risk of takeover.

Complacency is not an option because with ever-increasing volumes of information in the public domain, it is now as easy for third parties to spot business opportunities as internal executives. Fail to take decisive action and risk competitors or outside investors stepping in, taking control and leveraging the opportunity for themselves. Executives cannot afford to procrastinate in their decision-making.

The rise and rise of regulation

Risk management and the accompanying controls environment have proved an unexpected burden on organizations over the past 10 years. Post Enron, US regulation, in the shape of SOX, put the corporate world into a frenzy of compliance. European alternatives, although not so stringent, followed. Meanwhile, in Asia, Japanese SOX has all ready driven changes and banking regulation has increased.

A couple of years in, organizations are beginning to seek benefits from a more rigorous risk control regime. Using technology and culture management, they are incorporating it into "business as usual".

The challenge now is to try to ensure that controls are efficient and to put policies, procedures and processes in place that allow the organization to continue to grow and evolve while still managing its business-wide risks.

The power of technology

Over the past 20 years, technology has been the one of the biggest change agents in the transformation of business and the finance function.



"Technology's capacity to change the way business is done is unlikely to slow"

Responsible for the advent of electronic transaction processing, it has removed man hours and drudgery from traditionally manual transaction processes, enabling individuals to focus on value-adding activities.

Technology effectively means that the workplace exists anywhere you want it to be. Executives can log onto the intranet from wherever they are in the world to access up-to-date management information. Video conferencing, meanwhile, puts people into the same room without the need for physical presence. It has brought about significant cost and time savings as well as enabling real-time exchange of information and data.

Technology has enabled the rise of globalization, supporting 24/7 management from any location and enabling businesses to move production and functional activities to any time zone.

Looking ahead, technology's capacity to change the way business is done is unlikely to slow. As technology evolves, more and more of the work that is currently done by mankind will be undertaken by machine-kind.

Organizations are increasingly standardising systems and processes and moving to a single ERP provider with fewer and fewer instances to make the most of the opportunities that IT presents. These businesses recognize that standard ways of working across the globe enable significant savings in back and mid-office processes, driving additional free cash to support further expansion or to return to shareholders.

This globalization of technology is creating strategic advantage for those with the financial muscle to make the required investment and maximize the opportunities it can bring.

Social responsibilities

The business environment has changed in many ways over the past decade.

The green agenda has marched on relentlessly and is now part of our everyday lives.

Sustainability is, increasingly, a big concern for shareholders. Organizations, in considering the impact of their business on the environment, should be taking appropriate steps to reduce its effects.

Charities, journals and newspapers now regularly report on the environmental credentials of organizations across the globe. For example, in the UK, Defra (Department for the Environment, Food and Rural Affairs) considering the introduction of carbon reporting (albeit with voluntary compliance at first), appetite for reporting on and reducing carbon emissions is gathering pace.

Many organizations have realized the marketing potential of their Corporate and Social Responsibility (CSR) disclosures and actively promote their greener conscience to potential investors, customers and employees. New roles will doubtlessly emerge within organizations to meet these changing external reporting requirements.

Yet, while organizations in developed countries seek to put right years of environmental wrongs, the pace of globalization means that the populations of emerging economies, with their ever-increasing personal wealth and embrace of consumerism, put further pressure on the environment.

Accompanying this new wealth comes inevitable wage inflation. This effectively erodes the historic labor arbitrage that organizations traditionally gained from off-shoring. To maintain cost efficiencies, organizations in developed countries have to identify new opportunities to standardize and automate processes outsourced to developing economies. They are also seeking to move more mid-office processes to these locations in a further effort to reduce costs and focus the core organization's expensive resources on value adding activity.

The commercial landscape in 2020

Looking ahead, the drive to globalize their businesses will focus leaders on consolidating the locations in which their activities are undertaken. Shared service centers, outsourcing and off-shoring will continue as popular methods of lowering transactional costs through both labor arbitrage and scale efficiencies. However, globalization will also drive wage inflation in historically cheap underdeveloped economies. And as businesses move to the remaining truly low-cost economies, the risks increase.

Leverage technology

A lower-risk solution will be to standardize and automate as many processes as possible to reduce or eradicate the need for human intervention. In the future, it is likely to be technology and genuine process harmonization, not people, which drive cost savings. Technology is cheaper, more reliable and portable.

Data management

To manage data effectively, organizations will need to simplify their portfolio of systems significantly, move to single ERP suppliers and create standard global operating models. These will be underpinned by standard data sets that will increase the business's ability to make comparative decisions across its operations.

“ By 2020 dashboards need to become a reality”

But to do this, organizations will need to standardize systems across the globe and to create standardized processes not just standard interfaces with shared service centers. Further synergies will be gained by leveraging mid-office processing and standardising and automating the controls environment.

The most successful organizations are likely to be those which develop systems to support standard ways of working with their global customers and suppliers. Such systems will support local market requirements and be flexible enough to cope with products and services not yet dreamed up by marketers.

Constantly evolving internal and external reporting needs will require businesses to constantly review and update their underpinning data sets and capture processes. If organizations are to efficiently and effectively meet new reporting requirements, such as carbon reporting, they will have to find innovative ways of capturing and processing new business metrics.

The data sets will support the decade old aspiration to have “ management dashboards” that provide a real-time and simplified matrix of corporate data. By 2020, if management is to have a real-time grip on the business and a rapid understanding of the impact of its decisions, dashboards need to become reality.

Convergence

Competing in the same markets, providing similar products and services to similar customers with similar ways of working, businesses will inevitably lean towards leading practices to create efficient and effective back and mid-office systems. Ultimately this will lead to a convergence of data requirements across organizations.

This convergence of processing and data will be eagerly supported by ERP vendors who can see additional benefits to themselves, as well as their customers, of standard product offerings based on leading practices that require little if any customization.

Markets and regulators will welcome this increased standardization too. IFRS is, for instance, driving increased standardization of published accounts. Some regulators, such as the Securities and Exchange Commission (SEC) in the US, are considering further standardization that would allow corporate reports to be submitted using web-enabled technologies such as XBRL (extensible business reporting language).

For investors and regulators alike, common operating processes, combined with common data sets, will significantly increase transparency of public information and enable greater understanding of business performance. It will support cross-industry comparisons and enable improved investment and regulatory decision-making.



What the future holds: A CFO's perspective

"The CFO's of the future will need to show courage under fire, having experienced tough jobs, in difficult circumstances, been exposed, early on, to strong leaders from whom he or she can learn... And, without doubt, they'll need to have worked across different geographies, businesses and industries."

CFO of a major FTSE organization

The finance function at a major FTSE organization already considers itself a partner to the business. But success in 2020 depends on the function's flexibility and willingness to adapt to change.

The past ten years have brought significant changes to the finance function, not least the burden of increased regulation. But this, in the CFO's opinion is a good thing – especially where regulation becomes a value-adder rather than a bureaucratic obstacle: "It's not enough to be compliant. You have to show that you are. Sarbanes-Oxley provides us with better governance and, consequently, an all-round better business."

Yet, despite the benefits of better governance, the organization is not convinced by anything more than quarterly reporting. The worry is about knee-jerk reactions from investors. "Yes, more widely available investor information increases our transparency, highlights key factors of our business performance and leads to decreased cost of capital," the CFO admits. "But weekly or daily reporting is, in my opinion, over-doing it."

"Sarbanes-Oxley provides us with better governance and consequently an all-round better business"

The power of technology

For the CFO of one of the organizations major divisions, offshoring has had the single biggest influence on finance over the past ten years. And, in their opinion, it's not finished yet. "As an industry, we've not done a great job at offshoring. But, if we get it right, I see a future where people only sit at the front-end of the finance function. All transactional processes and governance will be either embedded into systems or sit offshore."

However, system capability has, in the divisional CFO's view, limited the success of outsourcing. "We have largely 'lifted and shifted' our system and process capabilities. Offshoring is happening... but unfortunately not without some minor disruptions to the business. If we were able to design more efficient systems, we could take out 50 percent of our governance requirements. And greater system capability would unleash increased finance capability"

For this organization, technology is very much an enabler. But the CFO doesn't believe it's made the great strides that were predicted. "It allows for geographic diversity and removes some of the laborious accounting elements from the finance role. But the content produced by technology will always need an accountant for analysis and interpretation."

The divisional CFO believes the ultimate challenge is to standardize processes and systems across the businesses and geographies. "We're a long way from that," they admit. "We need to ensure that governance is built into the organization. Until we have that, we won't have an efficient finance function."

But that's not to say that standardization is impossible. "We'll get pretty close. Common data will challenge the way our business is run. It would mean we could 'cut and dice' the business in a different way – say by function rather than by geography."

The divisional CFO agrees that while offshoring processes provide significant cost savings to the business, these savings could potentially increase by a further 25 percent if there is standardization, which is also cheaper to deliver once in an offshore environment.

People in finance

But who, exactly, will be running this organizations' finance function ten years from now?

The current CFO says they will be looking for "courage under fire" – an attribute he's already witnessed in today's senior finance people. "The CFO of the future will need to have experienced tough jobs in difficult circumstances and to have been exposed, early on, to strong leaders from whom he or she can learn. And, without doubt, they'll need to have worked in different geographies, businesses and industries."

Increased global reach – a legacy of globalization and outsourcing – will be on the agenda although there will always be a need for people in leadership roles to stay close to the business and to maintain inter-personal contact with their teams.

Rather than significant changes to the role of the CFO, it is the finance function itself that will become better skilled. The role of the finance professional has grown in complexity according to the CFO. "As more transactional work is outsourced, the focus has turned to delivering insight and interpretation with commercial awareness."

For the divisional CFO, it's where those finance professionals of the future will come from that presents the most pressing challenge. "Ten years from now, if we have all the standard IT tools, processes and data in place; if we have transitioned our transactional processes offshore and, as a consequence, seen time spent on governance processes decrease by 10 percent and efficiency increase by 30 percent, the big question

for me is do we then need traditionally trained finance people or more MBAs? As we get more efficient in the preparation of analysis and free up time for more value add activities, there will certainly be a need for people who can look beyond the monetary issues.

The divisional CFO also points to the advent of environmental and sustainability reporting and their impact on the role of the finance function. "We'll need people who are suitably qualified to interpret our carbon footprint and to report on it"

The CFO feels that generating leaders of the future and a pipeline of internal talent is not something that can be left to chance. "As we increasingly outsource the training ground of the finance professional, there is greater need to share knowledge and to pass it down the line to more junior finance staff."

The CFO predicts an increase in offshoring and the emergence of more professional offshore roles. And, they envisage that experience will be sourced globally rather than locally in the future. Key skills for finance staff will be the ability to work with remote people and increased analytical and commercial awareness.

Blueprint for the future

Success, in the divisional CFO's view, will come down to using technology better; training and developing the finance team and greater self-promotion to the rest of the business in order that finance can contribute to better quality decision-making.

For the CFO, it's all about flexibility. "So that whatever the world brings, you can adapt to it, across industries, geographies and tough times."

Finance 2020

Fast forward to 2020; what will finance look like?

In 2020, successful organizations focus on what they do best. They relinquish activities that do not add value in order to achieve sustainable and competitive advantage. For finance, this focus on a core, value-adding agenda has become an entrenched way of life.

To maintain its leadership position in 2020, finance has focused on four key activities. It leveraged technology, standardized data, rigorously managed external relationships and developed its people.

IT replaces human endeavor

Finance is at the vanguard of global processes and data standardization.

It seeks to leverage technology to drive its own efficiencies, identifying opportunities to automate transaction processing beyond the shared service center and into systems-based solutions. At the same time, finance has moved lower-value activities from business units to centers of excellence and shared service centers to reduce costs. In doing so, it has freed up remaining resources to focus on performance management.

Finance previously cut time and costs by embedding control frameworks in a single place – the IT system. Now, when a change is needed or controls are audited, it need only be done once.

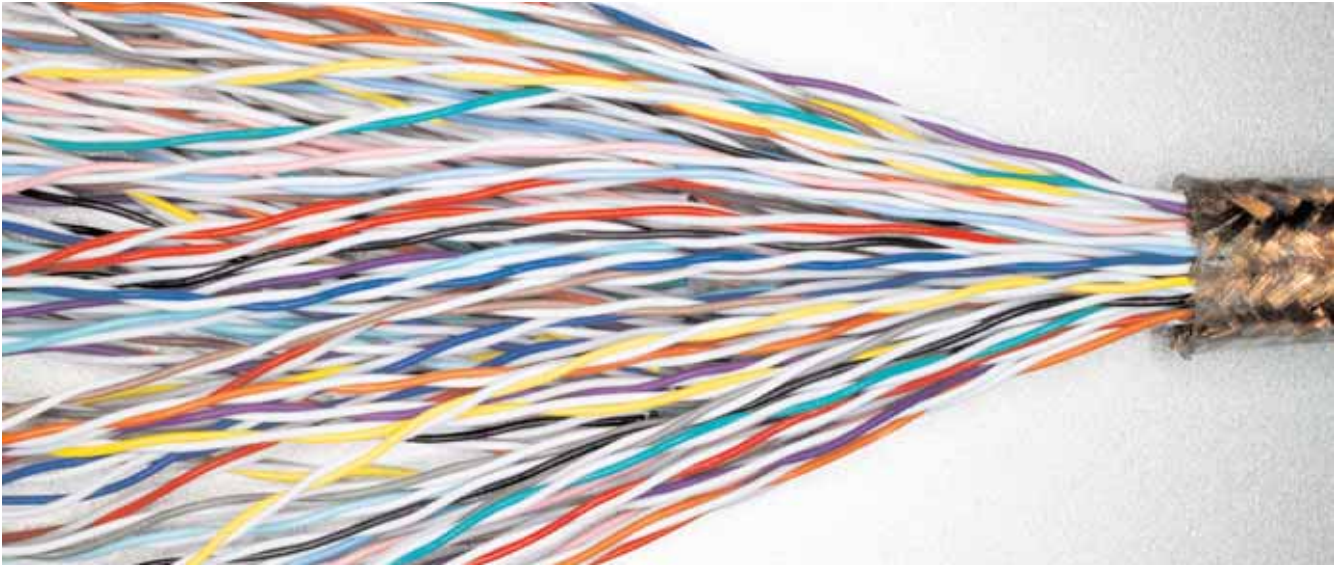
A standard approach

In the 21st century, data is voluminous and free-flowing. To drive a high-performance business environment, finance could not rely on a proliferation of excel spreadsheets, multiple data sources and different data sets.

Instead, finance has pushed for a consistent way of doing business, underpinned by a single data set. It used available data technology to mine nuggets of knowledge and to identify trends that indicated performance gaps and opportunities.

But to drive performance management there has been cross-organization agreement on key drivers of value. This consensual approach now enables the identification of forward-looking performance indicators that are critical to sustainable success and consistent delivery of promises to the markets.

In order for these key value drivers to support robust decision making and planning, and more predictive and accurate forecasting, finance has taken stewardship of non-financial metrics as well as financial ones. Finance has been responsible for driving a structured approach to management information demand management. This disciplined approach, based on the value vs cost trade off for new data, has dramatically improved internal decision-making. Finance is engaged with executives and managers in understanding the truly important business metrics to explain performance and drive action-orientated decision-making that can close potential gaps.



External stakeholder management

External demands – from investors and regulators – for access to management information have not lessened. These stakeholders demand increasingly standardized data to support their personal decision-making. More frequent external reporting is on the cards with monthly reporting in some organizations.

Providing more frequent standardized information to the markets is not without challenges for finance. More regular reporting, coupled with process and data convergence, enable analysts to make increasingly detailed comparisons between organizations. The IR function now needs to be alert and more adept at communicating with the market to demonstrate that a short-term hitch need not translate into long-term failure.

Organizations that fail to deliver on their promises or which report an unexpected profit warning can expect harsh treatment from the markets. Inevitably, events will occur that mean organizations miss forecasts but what matters is the timeliness and manner in which they are communicated.

The most resistant organizations are those with accurate reporting and forecasting processes that enable them to keep up with investors' rising demands. These predictive processes are able to provide early warnings that support a proactive communication process. The organization is able to flag changes in the business environment early and explain their strategic objectives and resulting performance in a way that ensures the capital markets remain confident in the direction of the business performance.

These organizations are rewarded with a transformation from short-term, volatile, arbitrage stock into equity that is held long-term and is sustainable.

A people business

Finance and business operational models have ended up converging, while heightened financial transparency has made business performance open to external scrutiny. Every strategic decision is under the microscope. The risk of analysis paralysis is enormous.

To help the organization make timely decisions and maintain strategic advantage, finance is no longer consulted after the event but inputs

into decisions as they are shaped. Its role is to analyze financial data from within and outside the organization, to draw insightful conclusions and to help executives make value-enhancing decisions.

In a homogeneous world the only way that finance can create competitive advantage is by developing the one asset that other organizations cannot duplicate – its people. Automation may have replaced many labor-intensive and low-value activities yet people still occupy a significant place within the finance function.

Strategic advantage through people in 2020

Business partnering is not just about forging strong relationships with the business, but is the support finance provides the business to allow key decisions to be taken and helping everyone to contribute effectively to control of the business. In 2006, KPMG research* showed that the number one barrier to change within finance was finding and retaining the right caliber, suitably qualified finance staff. In 2020 this issue is more critical than ever.

Outsourcing, off-shoring and increased automation have limited the traditional training ground of finance. Too few junior business partners are coming up through the finance ranks via a stint in general accounting or general ledger work before venturing into the wider commercial field. The move to migrate mid-office systems to shared service centers has only exacerbated the problem.

Although finance bemoans the loss of basic accounting skills, the result is staff with a less blinkered view of finance; people who have stepped outside the box and can embrace new ways of doing things. Finance, as a function, has reinvented itself. It recognizes the need to evolve alongside a business that has adapted to changing commercial and external pressures.

2020 finance leaders need more than functional finance experience. Their primary role is to identify and drive value-enhancing opportunities that impact across the business. They understand the risk implications of their decisions in a dynamic business environment within an investment market that does not tolerate mistakes.

2020 capabilities

What capabilities will the finance community need in 2020 and beyond?

Strong commercial and business understanding and great

communications skills provide the “business partner” with a licence to operate. But in isolation, these capabilities are not sufficient to deliver strategic advantage.

With a strong eye on the numbers, the finance professional of 2020 thinks and acts like a business entrepreneur. Proactively working with the business, they consider the internal and external business environment. Applying their understanding of key issues and drivers across the industry, they identify potential opportunities and risks to the business. In short, the future finance professional is as much a strategist as an accountant.

Throughout the decision-making process, finance must critically challenge the business to channel the most effective decisions that drive both long and short-term value creation.

And once business decisions are made, finance must help manage the resulting change and ensure that anticipated value is realized.

Finance has needed to significantly increase its understanding of the business, to learn to use and interpret non-financial measures and to understand their impact on the financial performance of the organization. The finance people most in demand are those for whom this is second nature. These are professionals with an

operational background who have ‘seen the light’ and have moved into finance or those that have spent a significant proportion of their career outside finance. These business focused finance professionals have a split personality that enables them to be excited and engaged in working with the business to develop new and alternative propositions but are grounded in a financial reality that enables them to challenge objectively.

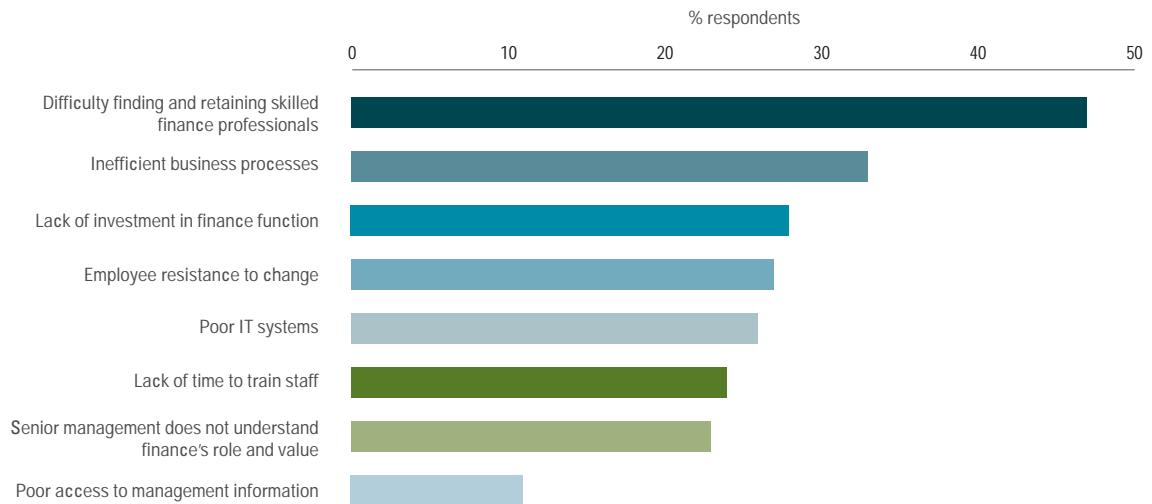
Back in 2008, decision-support staff and business partners lacked many of the skills and capabilities to undertake the new roles that would be required of them. They needed to be converted from spending 85 percent of their time extracting transparent financial data and 15 percent adding insight, to 95 percent of their time adding insight. To achieve this they needed additional training and support. They needed help in better understanding the business and learning to use and interpret its financial and non-financial measures; they needed help in making better use of the technology available to them and most importantly they had to learn how to influence their internal customers.

“ The future finance professional is as much a strategist as an accountant”

*Being the Best, 2006, Economist Intelligence Unit



Major barriers to change in the finance function

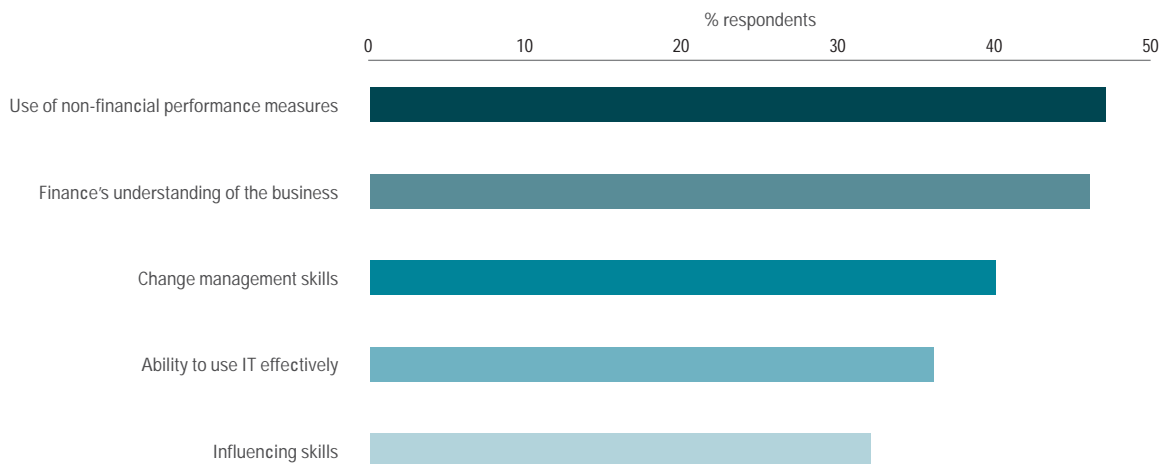


Source: Being the Best, 2006, Economist Intelligence Unit

“ If finance truly is adding value it will be a source of leadership talent for other parts of the business”

CFO of a large telecommunications company

Skills in need of improvement



Source: Being the Best, 2006, Economist Intelligence Unit

Conclusion:

What should you be doing now?

To meet the challenges of 2020, the groundwork should be started now:

- Drive the global simplification and standardization agenda in your business. There is a significant opportunity for finance and the business to benefit from global processes run on a standard suite of systems underpinned by a consistent data set.
- Seek opportunities to fully automate existing shared service center processes and drive the migration of lower value, mid-office activities to centers of excellence and shared service centers.
- Implement information and planning systems, based on globally agreed performance drivers and simplify the provision of performance metrics. This will enable the residual finance team to effectively support performance management across the business.
- Review the role of finance in driving business decision-making. Have a clear understanding of ways in which finance can add value across the organization by supporting and challenging business decision-making.
- Strive to ensure that your finance team has the right skills and competencies to face the challenges of a rapidly evolving workplace. Consider changes to your current training and development programmes to ensure they are relevant in the 2020 environment. Can you develop finance leaders of tomorrow when the training ground of yesterday has disappeared?
- Engage with internal customers to understand their needs and business issues and gain valuable insight into how you can better support them in delivering the organization's strategy. Encourage rotations between finance and the business to provide each part of the organization with greater insight into their respective issues.
- Clearly articulate the vision and strategy for finance, seeking to ensure that the finance community is committed to and aligned behind a set of common objectives that are designed to support your internal customers' needs.



If you are able to make these changes to your business now, you can significantly increase your future competitive advantage.

Organizations are always looking for ways in which their finance function can deliver true insight to the business. The journey to 2020 is about identifying opportunities to do this and making them a reality.

There are opportunities to standardize the systems and data used to manage performance, to simplify the process environment, to support and encourage your people to develop and grow through experiences beyond the traditional finance training grounds. 2020 should see the best finance functions making these opportunities a reality. This should ensure they remain at the forefront of business decision making by enabling them to continually realize new and creative ways to bring true insight and add demonstrable value to the business.

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