

Finance: Transformed

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If we've learned anything during the early years of the 21st century, it's that organizations that want to succeed must be flexible and adaptable. This is especially true for finance organizations.

Long viewed as a support function, the traditional finance department has been more reactive than proactive. However, the role and structure of the corporate finance department must be reexamined and revamped if finance is to become a true business partner on equal footing with every other function in the company.

In a word, the finance department of the future must be *transformed*. It must be structured so that finance professionals can flex and morph as needed to meet the challenges presented by ever-changing business and economic conditions.

Tabula Rasa

What if you had a blank slate -- *a tabula rasa* -- and could build a brand new finance organization from scratch? An organization that would maximize efficiency and allow the finance function to create true and measurable enterprise value? Where would you focus your team's energy and attention, how would you utilize available resources, and how would you best leverage the intellectual capital of the firm?

This transformational finance department would have total flexibility to allocate subject matter experts wherever they are needed throughout the enterprise to immediately address rapidly changing business conditions. And highly trained finance professionals would be able to flex and morph in order to accommodate these changing conditions.

Creating this future finance department requires adopting a "skate where the puck is going to be, not where it has been" mentality. But imagine for a moment a world where finance professionals could provide a unique, finance-oriented perspective in these areas:

- **Marketing:** Marketing mix, focus groups, intercept testing, unique value proposition, purchase decision hierarchy, consumption models, commercialization of new products, price elasticity and brand awareness.
- **Sales:** Category management, cost per point of distribution, vendor-managed inventory, shopper behavior, in-store merchandizing and trade-spend strategy.
- **Manufacturing and Operations:** Inventory management, fully integrated consensus forecasting, freight management and lean manufacturing.
- **Research and Development (R&D):** Innovation, new product commercialization, product delivery mechanisms and resource allocation.

Getting From Here to There

Imagining this brave new world of corporate finance is one thing, but getting there will obviously require a great deal of time, energy and effort. But it's not impossible. Here are five steps you can take that will help you move your finance department in this direction:

1. **Focus relentlessly on the "vital few" activities that truly generate enterprise value.** It's easy to succumb to the notion that everything your department does is important. But in reality, only a fraction of most finance department workstreams are of vital importance to the success of the overall enterprise. Therefore, you must routinely evaluate and scrutinize the relevance of every task your department performs and, most importantly, its ultimate impact on enterprise value. As you create your tabula rasa finance organization, start with the end in mind and then engineer processes that are closely linked to the ultimate objective: a positive impact on overall enterprise value.

Consider restructuring your finance department so that routine and repetitive manual tasks are performed centrally, utilizing technology to streamline operations while ad hoc custom work that contributes more enterprise value is performed within business units such as those listed above. This one step can go a long way toward making finance an indispensable member of the corporate team.

2. **Closely integrate today's finance activities with tomorrow's enterprise value.** This builds upon the first step by realizing that the most productive finance functions are motivated and inspired to achieve great things. But in today's turbulent economic environment, leaders of finance functions have to create their own tailwinds. The easiest way to do this is to make certain that your finance team members can visualize how the work they are doing today translates into enterprise growth tomorrow. This is no easy task -- it requires both art and science.

The art element involves constant reinforcement throughout the organization of the idea that finance is a *critical* support function that can profoundly influence the direction of a company if properly directed. Finance leadership must be a vocal advocate for the finance function -- for example, by reinforcing the notion that sales and finance together are infinitely stronger than the sales function is alone. The relationship between finance and other functional disciplines in the organization should be so strong that it's difficult, if not impossible, to determine who came up through the organization in which discipline.

The science element, meanwhile, involves redirecting all of your team's resources and effort into performing activities that will have the greatest impact on the overall enterprise -- those that will truly move the needle. This requires conducting a perpetual inventory

of activities and eliminating those that were important yesterday but aren't today, and then refocusing your team's efforts on activities that will be critical tomorrow.

3. *Use information liquidity to build analytical capabilities and self-reliant business partners.* Traditionally, finance functions have relied heavily on retrospective data to provide analytical support to other disciplines throughout the organization. However, by the time the data is verified, aggregated and analyzed, there is little opportunity for its conclusions to influence decisions that must be made quickly.

Because finance has long been viewed as the "provider of the information," the finance function has created co-dependent relationships with other disciplines. However, that co-dependency has in many cases been exacerbated by "information hoarding" as finance professionals have mistakenly associated knowledge with power and security. What they fail to recognize is that this hoarding mentality is inconsistent with finance's desire to become a true business partner. In fact, it leaves finance employees destined to experience little more than days filled with routine, repetitive and uninspiring tasks.

Traditionally, the sales department heard from their finance counterparts that their forecasting inaccuracy caused an inventory problem, or that aggressive deal structures created customer inventory issues, or that the quarter-end push to move product resulted in sloppy execution and ultimately a distressed and obsolete write-off or material customer deduction. In the brave new world of the tabula rasa finance department, sales professionals would have on-demand access to meaningful financial information that would render these scenarios obsolete.

4. *Create ultimate resource flexibility.* Our new-world finance function will focus relentlessly on elimination, streamlining and automation -- *eliminating* redundancies and non-value-added work and *streamlining* and *automating* tasks and processes wherever possible. And it will apply minimal resources to activities that, while necessary, are not focused on increasing enterprise value.

The fact is, most finance departments continue to perform work that is either no longer necessary or can be done far more efficiently. Take reporting, for example. Financial reports generated for management tend to take on a life of their own -- once a report is requested, it keeps being created long after it has served its useful lifecycle. Companies often find that 50% of the reports generated can be eliminated and another 20% to 50% of what remains can be consolidated, and many of these consolidated reports can be automated.

Technology also enables finance functions to spend less time on reporting. The finance portals provided with most ERP systems enable users to generate their own reports. Meanwhile, many routine finance activities can actually be automated out of existence. For example, an integrated financial system eliminates the need to perform mundane activities like reconciling journal entries. Such automation is essential if the finance function is to become a value-added enterprise partner.

5. *Staff your finance department with these goals in mind.* Not all finance employees will possess the skills, knowledge and initiative required to survive in the new-world finance department. It's rare to find a finance function today with employees who have the perfect blend of skill and experience required to react swiftly to the ever-changing needs of today's complex business world -- much less the infinitely more complex world that lies ahead in the 21st century.

In the new-world finance department, the finance function must be built for flexibility and speed. Finance professionals will rely heavily upon flexible on-demand resources for projects that are critical but ephemeral in nature. Therefore, it's critical to begin staffing your finance department now with the kinds of professionals who will be able to thrive in this type of environment. Typically, these will not be finance specialists, but rather finance professionals who possess broad capabilities and skill sets in fields beyond accounting and who can adapt to rapidly changing organizational demands.

You'll also need to determine whether your existing team members can be retrained in order to learn the new skill sets necessary to perform at a high level within your new-world finance department. One way to find out is to assign specific goals to employees that are geared toward measurably improving the organization's overall performance, and then rank employees based on their performance in one of four tiers. Employees in the bottom tier should be required to move up to the next tier by the time of their performance review the following year, with guidance and help from a detailed development plan.

Genetically Wired for Leadership

Many of today's finance professionals are genetically wired with the desire to be business partners and leaders in their organizations. When combined with intellectual curiosity, this makes these finance professionals uniquely qualified to provide broad guidance and leadership given their unique vantage point -- the finance team sees it all.

To become true business partners, however, finance professionals must recognize that the finance discipline is under enormous pressure today. In order to achieve what could be, you must wipe the slate clean and start over with a tabula rasa. This involves restructuring your finance department and resources to take ultimate advantage of flexibility and speed and redirecting finance resources to activities that create the greatest value for the overall enterprise.

A commitment to anything less will relegate your finance organization to a traditional 20th century role as a co-dependent support function -- rather than an integral partner that's critical to driving enterprise value.

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[Interesting article \(/article/finance-transformed-1208#comment-16356\)](/article/finance-transformed-1208#comment-16356)

On December 12th, 2011 Dan (not verified) said:

Interesting article. I like the concept of "tabula rasa" when it comes to department restructure. Of course, pulling this off will be the challenge, as the author notes.