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Transforming the Finance function

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Corporate Finance Function
Survey: The Canadian
Perspective



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Executive summary



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Half of the Canadian respondents indicated that their Finance function plays a larger role in their company's development and execution of business strategy **today compared to 5 years ago**.

Two-thirds of Canadian companies surveyed indicated that **in 5 years** their Finance function will play a larger role in the development and execution of business strategy.

Only **40 percent** of Canadian respondents feel that producing accurate and useful plans, budgets, forecasts and management reports is a strength of their Finance function (compared to 49 percent globally).

The journey of the Finance function toward full strategic corporate partnership remains slow. The question is, why? For their part, Chief Financial Officers (CFOs) continue to promote the value of a Finance function that transcends the traditional roles of bookkeeper and data gatherer. Moreover, top-performing companies understand the value this type of predictive reporting can provide—to track trends and opportunities, support financial and business decision making and, ultimately, drive business performance. A Finance function that delivers business-aligned information and analysis that effectively contributes to executive strategy is becoming increasingly critical. Businesses should be able to derive that value from within rather than spending time and resources on outside analytical support.

In fact, in a recent survey of 443 senior Finance executives worldwide, the majority of Canadian respondents—even more than their global counterparts—said their Finance group can best contribute to performance by better supporting business growth. From cost management to process improvement to IT conversion and integration, respondents cited multiple potential benefits that make the value of a strategically-focused Finance function clear.

But, if this is true—if the understanding and will are there to configure Finance as a true strategic corporate partner—why is it taking so long to realize this step in the journey?

Conducted during September and October of 2010, a global survey by CFO Research solicited opinion on the strengths, weaknesses, opportunities and barriers within today's corporate Finance function. Incorporating good Canadian representation, the survey provides a cross-section of opinion from companies of various sizes and industry sectors.

Several positions clearly emerge: CFOs and Finance executives want an expanded strategic role; they are frustrated by a number of barriers to this evolution; and they have a clear, benefit-specific sense of the value they can potentially provide.

But while progress has been slow, it persists, and there's reason for optimism. Drawing on Canadian responses to the global survey, this report outlines the current landscape, what the future may hold and what companies can do to help enable and leverage impending transformations within the Finance function.

Barriers and benefits— The Finance function today

In the current regulatory climate, the hesitancy to invest in the Finance function is not entirely surprising. Since 2004 or so, Canadian companies have had to dedicate large sums of money to meet regulatory requirements, such as those mandated by Sarbanes-Oxley or its Canadian counterpart, National Instrument 52-109. At the same time, companies are challenged with changes to a number of accounting standards, including converting from Canadian GAAP to IFRS. The combined drain on time, money and resources has affected companies' ability to invest in other Finance function initiatives as well as the Finance function's own ability to develop new competencies in other channels.

What's holding Canadian companies back?

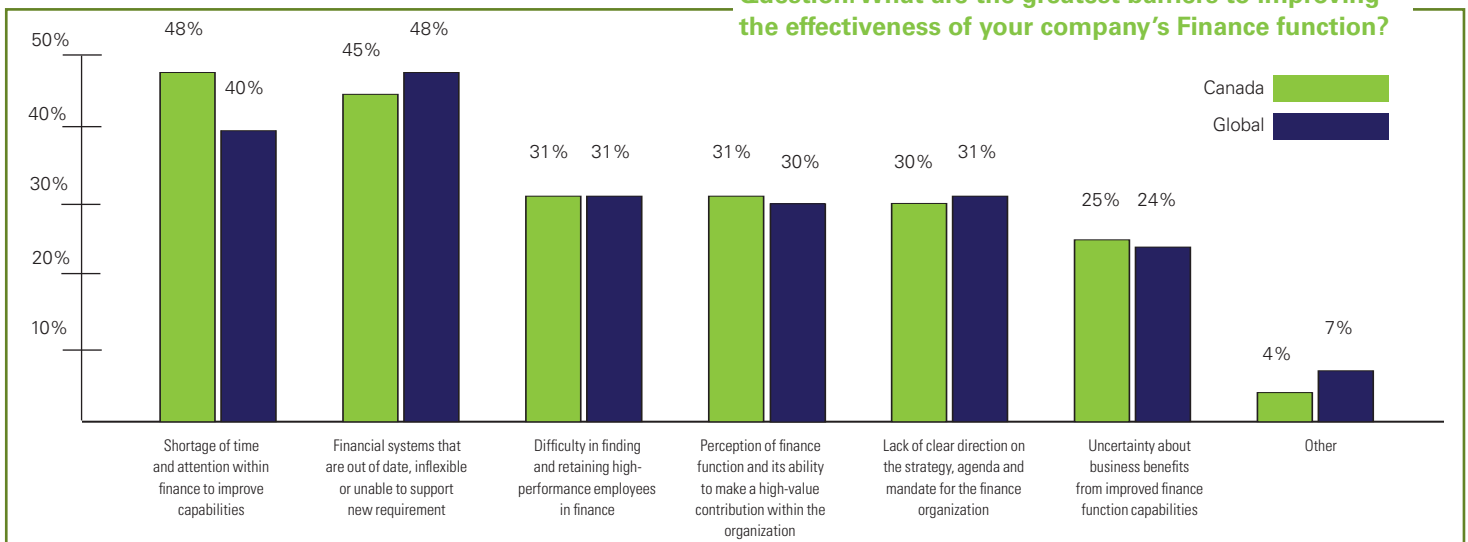
In answer to the survey question, "What does the phrase 'strategic partner to the business' mean to you when applied to the role of the Finance function," Finance executives offered the following responses:

- "It means develop and implement strategy to support the growth of the business, but we're involved in too many tactical projects to think about it."
- "The objective is to play that role, but we need to change the profile of certain resources once our processes are more efficient and tools more effective."

- "The CFO strongly supports the Finance function, but it's still a 'doer' function rather than a catalyst."
- "It doesn't mean much at the moment, since the requisite systems are not functioning efficiently and cannot provide timely information."

There is no question that a number of specific barriers inhibit many companies from developing the strategic capacity of the Finance group, including a shortage of time and attention to improve capabilities, out-of-date Financial systems and inflexibility/inability to support new requirements.

Question: What are the greatest barriers to improving the effectiveness of your company's Finance function?



While these obstacles are significant, perhaps the most critical challenge is gaining company-wide support for Finance function initiatives. While an encouraging 54 percent of Canadian respondents feel their company is “somewhat willing” to spend money and devote resources to improving the effectiveness of the Finance function, a meager 7 percent consider their company “very willing.” With another quarter of respondents—the second largest response—pegging their company as “somewhat reluctant,” there is clearly much to do before Finance function transformation becomes a priority.

What to do?

- Leading Finance functions were able to deal quickly with new regulatory requirements and embed them in the organization, reducing the cost of compliance and giving their organization a competitive advantage.
- Finance transformation is all about refocusing resources to meet changing needs. The sooner organizations prioritize this, the better they’ll be able to meet current and future challenges.

What’s in it for my company?

Counterbalancing these difficulties however, are the benefits the Finance function can deliver. Survey respondents identified a number of potential benefits they see as achievable in the next 2 years:

Company growth

The Finance function can support business growth and merger & acquisition (M&A) activity during the economic recovery by focusing on business strategy, leveraging company strengths, recommending resource allocations and providing their financial skills.

Cost reductions

The Finance function can help the organization optimize costs by working with other functions to improve their budget processes, getting more involved in transactions to limit external advisory needs and performing internal analyses to determine specific opportunities for savings.

Improved processes

The Finance function can improve process efficiencies by training staff in new skills required to support growth and reduce rising organizational complexity.

Beyond these core areas, Finance leaders should consider other ways in which a more strategic Finance function can benefit business performance, such as:

- Forecasting, anticipating and responding to market change
- Improving operations through focused financial insight and analysis
- Reducing costs associated with compliance and regulation.

The Finance function journey is still in its early stages. Opportunity knocks, but companies need to take significant steps to fully open the door. For example, 79 percent of Canadian respondents, agree that their company’s Finance group manages internal costs very well, in some cases they actually manage them **too** well. By frequently taking the lead in cost reduction initiatives, they chronically under-invest in their own function. To move forward, CFOs need to realize that the Finance function not only needs investment, but more fundamental changes to operations and processes.

For Finance to fulfill a truly strategic, outward-facing role and consistently deliver an expanded range of business benefits, companies should address three key areas that can help deliver the broadest, most immediate advantage: predictive reporting, financial systems and tools and human capital.



Survey respondents offered a variety of specific suggestions when asked for ways the Finance function could best serve the organization, including:

“Provide support for growth, through acquisitions/new brands/alliances, while ensuring the existing core business does not deteriorate”

“Support M&A and organic growth”

“Help prioritize investments”

“Develop staff in new skills required to support the growing organization”



Processes for planning, budgeting and forecasting are the most difficult Finance function processes to improve due to management resistance, the number of people involved and a host of other external demands.

Forty-Two percent of Canadian executives expect a dramatic change in their processes for planning, budgeting and forecasting over the next 2 years, with another **44 percent** indicating a moderate or incremental change.

Predictive reporting — A key link between Finance and Strategy

The Finance function processes that add the most value to any organization are planning, budgeting and forecasting, also known as predictive reporting. Before companies can convert raw data into business intelligence, they must effectively and efficiently align these processes with strategy.

Yet, despite the consensus on the critical role played by predictive reporting, our survey indicates that there is dissatisfaction with Finance function performance in these areas. Only 40 percent of Canadian respondents feel that producing accurate and useful plans, budgets, forecasts and management reports is a strength of their Finance function (compared to 49 percent globally). In addition, only 25 percent feel that their actual planning, budgeting and forecasting processes are a company strength (37 percent do globally). Specific problems cited include inadequate Information system platforms, weak global coordination, process complexity, lack of standardized procedures and over-dependence on spreadsheets.

Still, Finance executives continue to stress the importance of process improvement, listing “improved budgeting and financial reporting” high on the list of top objectives. The push for change continues to ramp up, with foreseeable positive future results.

Survey respondents point to the potential advantages of better planning, budgeting and forecasting, which can help organizations:

- Increase business analysis to support profitable business decisions
- Provide more value-add beyond standard reporting
- Improve efficiency in management reporting to help key decision makers focus on critical items
- Enhance forward planning and strategic direction setting with fast access to reliable results and analysis.

Among Canadian survey respondents, **72 percent** indicated that “information systems for financial processes and activities” will become more important to their business over the next 5 years.

Forty-five percent of Canadian respondents believe that one of the greatest barriers to improving the Finance function is information systems that are “out of date, inflexible or unable to support new requirements.”

Canadian survey respondents cited “improved budgeting and financial reporting” as a major objective; one of the top ways they plan to achieve it is by freeing “the time and funds to move to more flexible software that will improve speed and quality.”



Information systems and finance— Effective strategic analysis leverages focused data

A major inhibitor to developing predictive reporting processes to their highest, most useful levels is the inadequacy of the information systems that support them. It is critical for many respondents that successful information system conversion and integration take place to reduce task redundancy, handle new regulatory and reporting standards and collect and provide a seamless flow of strategically-focused information and analysis. While there is danger in embracing technology as a be-all, end-all panacea, it is indispensable for collecting, managing and refining information on the complex and shifting scale multi-functional organizations require.

Human capital — Improve capability as well as capacity

Another reason the Finance function sometimes fails to expand its business intelligence is that it lacks the breadth of knowledge to understand what drives value in different parts of the business. While the function must expand work capacity to handle new transactional tasks and regulatory requirements, it may also need to add staff with knowledge in specific areas of business or information systems. Some Finance functions may be top heavy with accountants acquired to fulfill tactical roles, when business analysts may be the missing piece of the puzzle.

Building a Finance function that can collect and determine the most relevant information, and know where and when it is most applicable, can vastly improve both the efficiency of data output and the effectiveness of strategic input thus creating value. The growing talent gap, however, affects businesses of all types and sizes. Companies should allocate resources to train talent internally for expanded roles and attract and retain skilled professionals capable of delivering on the Finance function's full strategic potential.



Canadian survey respondents cite the following as common human capital issues:

- Scarce resources to provide new software training
- Not enough staff expertise in general business management (e.g., legal, strategy, long-term projections of complex opportunities)
- Insufficient staff
- Lack of depth/bandwidth—too much reliance on a few key people.

Among the top 10 objectives for the Finance function over the next 2 years, Canadian Finance executives listed “staff development for internal opportunities,” “hire qualified people and retain them” and “increase Finance knowledge” as priorities.

The Finance function that achieves a greater strategic role will likely begin working with a broader cross-section of the business, helping to make improved communications and cooperation parallel priorities.

Next steps — The pace of change is picking up

While Canadian Finance executives face different challenges than their global counterparts, survey results show that basic concerns around the evolution of the Finance function are consistent. Essentially, CFOs and other Finance executives want their function to deliver more value to their companies and are learning ways to make this happen. They need improved processes that align with business strategy, financial systems and tools that effectively support information gathering and analysis, better and more broadly trained resources to balance increasing tactical and strategic challenges, and buy-in across the C-suite for the strategic value of these types of change initiatives.

Compared to their global counterparts, Canadian companies are consistently less confident that they have a competitive advantage in their industry. As such, Canadian businesses should make it a priority to develop and maximize the value of the Finance function. If successful, companies can achieve alignment between Finance operations and overall business goals, strategies and performance, reaping a host of associated benefits. If unsuccessful or unwilling, they can at best miss an innovative opportunity to enhance business performance, and at worst be left behind by a fundamental global shift in the way the Finance function is perceived and leveraged.

Canadian respondents were similar to global respondents when asked what areas put their Finance function most at risk of failing to meet objectives, citing:

- Growing organizational complexity (30 percent indicate high risk, 46 percent moderate)
- Ability to respond to changing requirements from within the company (24 percent indicate high risk, 56 percent moderate).

Question: Does your company have a disadvantage, parity or an advantage compared with its competitors in the following attributes? Canadian survey respondents generally do not feel they have an advantage.

	Canada				Global			
	Advantage (%)	Parity (%)	Disadvantage (%)	Don't Know (%)	Advantage (%)	Parity (%)	Disadvantage (%)	Don't Know (%)
Product Service differentiation	47	49	4	–	56	37	7	1
Return to shareholders	23	35	28	14	41	34	16	9
Profitability	22	38	34	6	39	41	16	5
Capital efficiency	22	35	30	13	37	37	20	7
Cost structure	22	34	41	3	34	36	27	3

Percentages may not add up to 100 percent due to rounding.

About the survey

Conducted by CFO Research during September and October of 2010, a total of 72 Canadian responses were received in a global survey of 444 senior corporate Finance executives across North America, Asia and Europe. One-third of Canadian respondents were CFOs, two-thirds of the companies have revenues under \$500 million and responses are gathered from a broad range of industry sectors.

Percentages may not add up to 100 percent due to rounding.

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Some recent publications include:



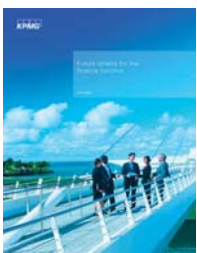
Finance of the Future: Looking forward to 2020

This KPMG in the UK publication delves into how the changing business and social environment can impact and redefine the role of the Finance function.



Being the best: Thriving not just surviving

This publication determines how finance Functions have fared over the last 2 years and to see how their priorities have shifted.



Future Drivers for the Finance Function

This publication considers the changing role of the Finance function and how it has evolved from a retrospective to a predominantly future-facing department.



Forecasting with confidence*

This publication provides insights into some of the latest trends and challenges facing business and in particular, forecasting.

*This publication deals with predictive reporting.



Brave New World: Financial Planning, Budgeting and Forecasting*

This 2009 KPMG US report details the insights from executives responsible for planning budgeting and forecasting and provides insights into challenges faced within the financial planning and analysis area.



Does Your Business Intelligence Tell You the Whole Story?*

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Three D's for Improving Your Forecasting Process*

This KPMG in the US publication looks at how successful business performance is closely tied to better practices in forecasting.



Finance Function Insights

Finance Function Insights is a quarterly e-newsletter on management issues facing the Finance function. This issue explores how efficiency can make a Finance function more responsive to its clients.

*This publication deals with predictive reporting.

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