

## Looking Good?

*What should a 'good' finance function look like? Peter Morley paints the picture.*

To know what a good finance function should look like, it is important to understand why it exists in the first place and what its key objectives are. This might sound obvious, yet experience shows many organisations take this for granted and do not maximise the finance function's contribution to the business.

The overall aim of the finance function is to support the business by:

- ◆ Providing the best value in all the areas to its owners, whether they are shareholders or, in the case of public bodies, citizens.
- ◆ Understanding what the business does and providing financial transacting processes relevant to this trade. There is no one single blueprint of how the finance function should look – it depends on the nature of the business it supports.
- ◆ Being conscious of the finance function's stakeholders, and knowing its imperatives (goals and prizes) and measuring its progress towards achieving them.

When changing finance systems, organisations typically list the key requirements they are looking for in the new system but base these on current practices and processes.

What they often don't realise is that the selection and implementation of a new finance system provides a very good opportunity to review what is being done, why and for whom – and therefore ask some fundamental questions about the role of the finance function and how it should achieve its objectives.

The answers to these questions will impact on your system's requirements and might result in you changing the initial specification. This is a positive outcome as the new requirements will be supported by sound business logic.

Experience shows that replacing like-with-like does not build a strong business case – but improving the way you do things not only provides a solid ground on which to implement any new systems, it also ensures these are in line with and actually support the delivery of business objectives.

### Knowing your business

To understand whether the right business processes are in place, you need a full understanding of how the business operates and what it's trying to achieve. Therefore a strategic analysis should cover your main business or service areas and can be tabulated as follows:

- a) Business area.
- b) Its fundamental nature.
- c) Method of provision – eg, hosted internally or outsourced.
- d) What does it buy?
- e) What does it sell?
- f) What does it own/maintain?
- g) How is it currently supported for financial transacting and control?

A critical examination of this list can start to raise fundamental strategic questions around:

- ◆ Service function provision – should you be providing this service yourself?
- ◆ Strategic sourcing – can you achieve efficiencies through better buying?
- ◆ Sales channels – are you making it easy for your customers to buy?
- ◆ Payment options – are these both easy for the customer and not administratively burdensome?
- ◆ Stewardship – is your governance structure adequate?
- ◆ Owning/leasing – are you using the most suitable options?

These questions may dig deeper than you wish to go at this stage. However even if this analysis doesn't end up changing the way you do business, it will help you consider whether the basic mechanisms in place for financial transacting are the right ones for your business needs.

Once you've conducted this kind of high-level analysis, we strongly recommend you conduct a more detailed review. This should cover specific business areas and address:

- ◆ What does this part of the business do?
- ◆ What does it look like? Is it analogous to, say retail, commercial sales, investment sales, etc?
- ◆ Given the nature of this function, what is the most efficient way for both the business and the customer to transact financially?

This review requires an understanding of the business, an awareness of the general nature of its functions, plus knowledge of the financial management options for that specific function.

### **Optimising the finance function**

In looking at the way finance can best serve each area of your business, you need to consider the following aspects:

1. System efficiency – the system should be available to those who need it, when they need it.
2. Clerical efficiency – it should be easy to use.
3. Process efficiency – you need to push transaction entry back to origin by:
  - Interface links/EDI.
  - User 'self-service'.

4. Minimise paper handling – use electronic document management where it matters.
5. Optimise data entry – analyse once, report many.
6. Offer support for delegations/ authorities/ access routes, ie:
  - Responsibility
  - Accountability
7. Minimise barriers to those who need to know, ie:
  - Clear reports.
  - Easy enquiries.
  - Discrete and effective security and access control.
  - Intelligent and proactive assistance (low stress).
  - What information, to whom and when?
  - Complete final reports with full audit trail.

Finally, to ensure the right control mechanisms are in place, a good finance function provides an environment where staff:

- ◆ Measure outcomes, not inputs.
- ◆ Are able to adapt to new situations/create new outputs.
- ◆ Draw conclusions and take actions.

Next month, we will look in more detail at areas for systems and processes review