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white maple CONSULTING

The Review

INSIGHTS, IDEAS & INFORMATION

INSIDE THIS ISSUE

White Maple is a strategy consulting firm. We aim to deliver results for clients that produce lasting improvements to performance through facilitating alignment between strategy, the market and brand, and the organisation's people, structure and processes.

We focus on working with service organisations. Principal sectors include:

- Commercial (business-to-business)
- Government
- Member organisations and charities
- Professional services

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Fixing finance!

BY JEREMY DOUSE

The finance function is usually the most powerful internal service function. This might be why it is sometimes slow to change and to measure, monitor and improve its performance. This article looks at how the role of the finance function is changing. It also discusses the importance of performance measurement, the trend to outsourcing and the new skills required.

Most management teams are very aware of how effectively the organisation serves its external customers; service performance is usually very closely monitored and steps are quickly taken to improve it when it lags behind competitors or customers' expectations. Yet, although internal service functions have a major part to play, directly or indirectly, in delivering service to external customers, organisations are sometimes slow to define, measure and compare performance for internal functions. This is particularly true for the finance function where the relative power of the function has often led to it avoiding pressure to review its role, performance and costs. The finance function has for too long in many organisations focussed almost exclusively on providing the figures and paying the bills. Transaction processing and control/risk management still frequently account for over 80% of the total activities performed, leaving little time for decision-support or taking a leading and proactive role in planning for the future.

THE PRESSURES TO CHANGE

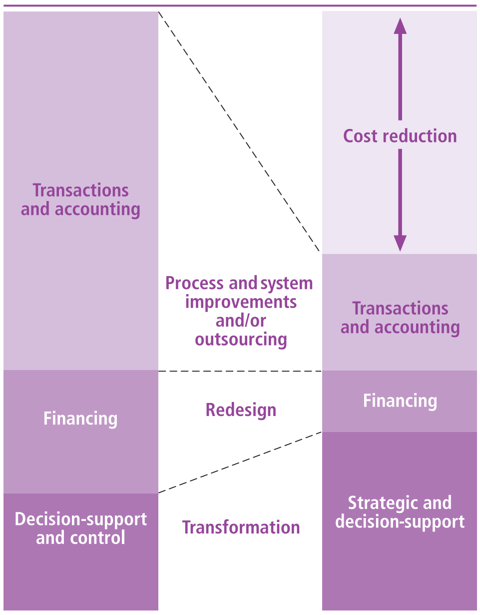
Today, the finance function is often being pulled sharply and simultaneously in two directions. Regulators and external stakeholders are demanding focus on its traditional fiduciary role as guardian of the assets and controls, while internal customers are demanding that finance becomes more nimble, efficient and effective in supporting business priorities. It is also under pressure because it is usually an expensive area, typically costing some 1.5% of turnover, with transaction processing costing 60% of that amount; however the range is wide with some finance functions costing less than 0.5% of turnover and others more than 7%. Leading companies' finance functions are under pressure to reduce costs and activities that are not adding value for their internal customers.

A CHANGING ROLE

There have been dramatic changes in leading organisations' finance functions over the last 20 years. Shell's finance function, for example, felt the pressure to curb their costs and enhance its productivity and strategic role: "Shell recognised that the concept of a finance function with the right to exist was obsolete – finance would need to earn and maintain its standing." Leading organisations' finance functions are showing dramatic changes by improving processes, consolidating similar activities and moving functions to cheaper locations. Consolidating similar activities delivers economies of scale and many are partially or completely outsourced to refocus on sharpening the organisation's strategic and tactical decisions.

Transaction and financing costs are being radically reduced, whilst there is more focus on value-adding activities relating to corporate and business strategies and decision-support (see diagram).

Change in Finance Functions



Source: after M May, 2002.

"BENCHMARKS HAVE TO BECOME A WAY OF LIFE AND NOT A ONE-OFF."

FINANCE FUNCTION MEASURES

Listed below are examples of some of the many measures that can be used for evaluating the cost, quality and efficiency of the finance function.

Overall

- Cost of the function v overall organisation costs
- Number of staff v total organisation staff

Accounts payable

- Errors v number of invoices processed
- Cost of accounts payable activity per invoice processed

Accounts receivable

- Total number of invoices or collections processed per member of staff (full time equivalents)
- Overdue receivables v total receivables

Payroll

- Total payroll activity costs v overall organisation costs
- Total payroll cost per payee
- Number of errors v total payees

Billing

(but often not part of finance function)

- Total cost of billing activity v overall organisation costs
- Number of invoices adjusted v total number of invoices issued

Closing the books & reporting

- Total number of error correction journals v total number of journals
- Days taken to close (each month)
- Days taken to report from month end

Budgeting

- Total elapsed days to prepare budget

There is not a one-size-fits-all approach to transforming the finance function. Where to start and the change process will depend on a wide variety of factors. Some of the issues that will usually need to be considered include, for example: current performance, developing a strategy for the finance function that supports the business strategy, information management, process redesign, technology, organisation structure, measuring performance, potential for outsourcing and skills required. The last three issues are discussed briefly below.

MEASURING PERFORMANCE

A recent Accenture/Economist survey found that nearly 30% of organisations surveyed still did not use any performance measures at all in assessing the performance of their finance function (and in my experience the proportion is much higher!). If one accepts that measurement of performance drives behaviour, it could be deducted that many finance functions are being inadequately directed toward their organisations' needs.

All performance questions start with defining who the customers are and understanding their needs. Measuring these issues should be a clearly set out as part of an overall functional strategy where, ultimately, the objective is that the head of finance can stand up and compare her performance positively to that of other organisations.

Benchmarks have to become a way of life and not a one-off. They need to range from quantitative macro measures (e.g. overall finance function costs/total organisation expenditure) to micro benchmarks (e.g. errors running the payroll). Asking internal customers how they rate the service and performance of the finance function is also usually a rarity! See the sidebar for more examples of finance function performance measures.

OUTSOURCING

Many organisations have recognised that non-core activities can be operated more efficiently by an outside provider. Traditionally, services such as security and catering and other facilities management functions have been outsourced, and nowadays elements of IT are often outsourced. Mainstream finance outsourcing began in the early 1990s, with over 50% of companies now outsourcing some part of their activities. The most commonly outsourced activity is payroll.

Resistance to outsourcing uses a number of arguments; the most common claims are that the organisation has unique requirements or outsourcing will result in reduced management control or flexibility. PWC research in 1998 showed that when most business processes are stripped down to their basics, about 70% of the processes were generic and were thus potential candidates for outsourcing; most differences reflected varied country practices due to history, tradition and culture. The excuse of "special non-standard requirements" usually needs to be challenged if change is on the agenda!

"QUALITY OF STAFF WILL ULTIMATELY DETERMINE THE EFFECTIVENESS OF THE FINANCE FUNCTION."

NEW SKILLS

Quality of staff will ultimately determine the effectiveness of the finance function. Successful companies are employing and training individuals who not only have technical accounting and analytical skills, but also have interpersonal and customer service capabilities and an awareness of the commercial environment in which finance has to operate. The new positioning of the finance function (i.e. more strategic and customer and performance orientated) and the consequent changed nature of the roles within it, is also manifested by traditional job titles such as "controller", "accountant" and "clerk" being replaced with the like of "analyst", "business consultant" and "technical specialist".

The finance function has a critical contribution to make to the success of any organisation. The time has passed when it can avoid measuring, monitoring and improving its performance: the very things that the function has so often required of other service functions. The finance function can play a forward-looking, strategic and leadership role if it follows the example being set by some leading organisations to become more efficient and customer orientated, and focus on added value activities.

This article has drawn from the author's experience and also a number of references including Transforming the Finance Function by Margaret May (FT Prentice Hall, 2002), a comprehensive text covering the process of transforming the finance function and, for example, outsourcing, delivering best value, budgeting, balanced scorecard and benchmarking.

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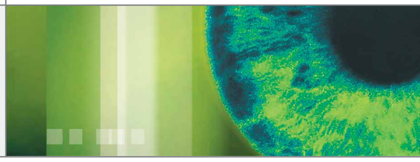


Getting it together

BY BOB EMPSON

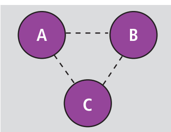
There is ongoing pressure for not-for-profit organisations to work together to become more efficient and effective. They often fail to develop appropriate and lasting relationships because they are not aware of the myriad options for arranging collaboration. This article describes some core options that can be customised and mixed/matched to enable organisations to "get it together".

There is an ongoing drive for not-for-profit organisations (e.g. trade associations and professional institutions, charities and government agencies) to work together rather than work in silos or even compete for resources and customers. The pressure for this comes from, for example, funding agencies, Government ("joined-up"), individual donors, members and customers. They want collaboration to improve effectiveness, efficiency and/or economy.

Having worked extensively with these types of organisations for over 20 years as a member, adviser, volunteer or Director/Trustee, I have found that a barrier to successfully pursuing collaboration with other organisations is often a lack of awareness of some of the organisational models that can be used. For example, enduring and deep relationships are often not pursued because it is perceived that "merger" is the only or ultimate solution, when alternatives such as forming a federation, confederation or joint venture could have been viable and lasting options.

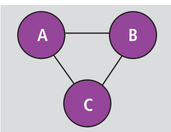
This article illustrates that there is a variety of options for structuring the relationships between not-for-profit (and commercial) organisations that wish to work together. The six models described here are the tip of the iceberg: they can be mixed-and-matched and refined to produce almost limitless options that can sustain and encourage effective working relationships between organisations. Each of the options is described briefly and illustrated with a diagram.

INFORMAL ARRANGEMENTS



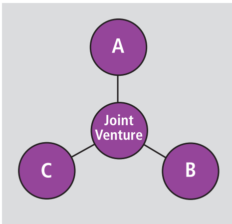
With this option organisations work together informally to, for example, share information or co-ordinate lobbying. The arrangements can be ad hoc and occasional rather than permanent. Informal arrangements often depend on personal relationships between key people. Sometimes such arrangements become more formalised with, for example, representation in each others' governance structures, consultation on strategies, co-ordination meetings (or just a regular lunch!) or with a non-contractual Memorandum of Understanding.

CONTRACTS



Contracts are used to provide a framework for provision of services, sharing resources or undertaking activities (eg marketing or fundraising). Some contractual relationships are almost franchises (eg between a national or international body (franchisor) and regional/local bodies (franchisees)). Long-term or wide-ranging contractual relationships sometimes become, or may be referred to as, a strategic partnership/alliance. A temporary or project specific arrangement is sometimes called a consortium.

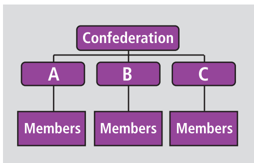
JOINT VENTURES



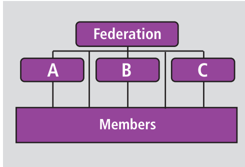
A joint venture usually entails a new entity being established to provide services or act on behalf of two or more organisations. A joint venture might, for example, pool resources (eg offices or administration), develop and market products/services or manage major projects. The risks and rewards relating to the joint venture would be shared in agreed proportions. Relationships with the joint venture would normally be governed by legal agreements (eg shareholder agreements). Sometimes a joint venture can just be a co-funded unit within, and managed by, one of the participating organisations.

CONFEDERATION AND FEDERATION

Although they are quite different concepts, it is not always easy in practice to distinguish between confederations and federations. (NB. In the diagrams, "Members" are individual members of organisations such as trade associations and professional institutions).

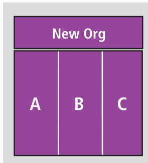


Confederations are typically primarily representative bodies (eg for policy development, campaigning or lobbying) but they can also provide shared services such as offices and information/statistics. Their constituent organisations remain independent bodies with very few, if any, powers being passed to the confederation entity; however, they may have to abide by some confederation rules or codes of behaviour. If the confederation's constituent organisations have their own members (eg they are professional institutions or trade associations) these individual members remain members of those organisations and continue to pay their member subscriptions to them.



With federations the "higher" federal body assumes extensive powers over its constituent organisations, although these may retain significant rights (such as the right to withdraw from the federation and powers to raise and retain some income and over some discretionary expenditure). The individual members (if there are such) of the constituent organisations become members of the federal body (typically paying their membership fees to it) and will be governed primarily by federal rules and rights (think of a citizen of the USA); however, they will also usually have some rights and obligations derived from their "membership" of the constituent organisation (eg a state of the USA). The federation's constituent organisations will often retain a distinct identity/brand. Some trade associations in the UK are based on a federal structure, although they don't always describe it as such.

SINGLE (MERGED) ENTITY



A single entity is formed when two or more organisations merge and they lose their independence to become divisions or subsidiaries within the new organisation (or "group"). These divisions/subsidiaries will sometimes continue to retain a distinct identity/brand; often, however, the new organisation can take on and promote a single new brand with, over time, the merging organisations reducing their own original branding.

How these models work in practice is usually considerably more complex than sketched out in this article. I have come across organisations that have simultaneously used variants of all six models to manage relationships with others! Awareness of the potential options as organisations develop and negotiate their relationships can help to ensure that they do "get it together" in appropriate formats and avoid keeping their distance or moving apart because of a fear that closer collaboration will entail, at some stage, a merger.

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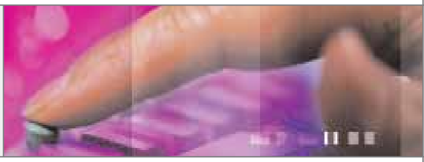

"MANAGERS ARE TRAINED TO PLAN, NOT EXECUTE PLANS"

WEB SITES

The economy might be at a turning point. Which way will it go? What's your view? Here are some web sites with statistics and information about the UK and global economies.

ITEM Club
www.ey.com/global/content.nsf/UK/Economic_Outlook
The ITEM Club, sponsored by Ernst & Young, is the only economic forecasting group to use the HM Treasury model of the UK economy. Its forecasts are independent of any political, economic or business bias. Very useful and easy to read quarterly Economic Outlook for Business.
OVERALL RATING

Bank of England
www.bankofengland.co.uk
A source for a wide variety of UK information including inflation projections, Monetary Policy Committee decisions/minutes and the quarterly survey of public attitudes to inflation. The Bank of England Museum section is quite fun if you want a break from all the numbers!
OVERALL RATING

National Institute of Economic and Social Research (NIESR)
www.niesr.ac.uk
Britain's longest established independent economic research institute. Good summaries of their world and UK economy forecasts, in addition to extensive research and other statistics.
OVERALL RATING

Organisation for Economic Co-operation and Development (OECD)
www.oecd.org
The OECD groups 30 member countries sharing a commitment to democratic government and the market economy. A well structured site with a direct link to Frequently Requested Statistics. Access to the latest Economic Outlook (including clear summaries of major overall trends and of specific countries).
OVERALL RATING

International Monetary Fund (IMF)
www.imf.org
The IMF was created in 1945 to help promote the health of the world economy; it now has 184 member countries. Source for the World Economic Outlook. Reports on many countries. Perhaps more useful for specialist economists?
OVERALL RATING

Book Reviews

Making Strategy Work suggests that managers focus too much on planning and not enough on doing. Blink argues that decisions are too analytical and that we do not pay enough attention to our intuition. These two books cover completely different topics, but perhaps there is at least one common thread: what is needed is more emphasis on deciding and doing, and less on planning and analysis?

Making Strategy Work

By Lawrence G. Hrebiniak

This is another book in the relatively new and important genre about executing strategy: "the problem with poor performance typically is not with planning, but with doing." Hrebiniak, a professor at Wharton, is trying to fill the gap that "managers are trained to plan, not execute plans."

He emphasises that "good" strategy is necessary for effective execution. This involves having clear and focused strategies integrated with appropriate organisation structures, operating objectives/metrics, incentives and controls. But this is not enough to make strategy work. Hrebiniak also argues that implementation decisions need to take into account four key contextual factors: culture, power structures, leadership and the management of change.

The best chapter is probably the one about managing culture and culture change. Hrebiniak offers a model that illustrates how culture affects organisational performance and vice versa. He then suggests a series of steps for changing culture. He wisely promotes the view that to change culture one should focus on changing behaviour and not on culture itself or its underlying aspects such as values.

Making Strategy Work is an excellent book that combines new research, real world experience and established thinking to provide a coherent and end-to-end process for effective strategy execution. A few hours invested reading it will undoubtedly pay handsome returns.

OVERALL RATING

Wharton School Publishing, 2005. £13.99 (Amazon)

Blink

By Malcolm Gladwell

This book is about tapping into our subconscious and developing trust in our intuition for decision-making. Gladwell believes that these quick decisions can be every bit as good as decisions made cautiously and deliberately.

He suggests that when we leap to a decision or have a hunch, our unconscious is sifting through the situation looking for a pattern, throwing out the irrelevant and focusing on what really matters. This is "blink". He builds a case, referencing psychological theories, scientific research and stories, for there being a valuable resource that we can all apply.

Although he also highlights the dangers of "snap judgments without ever getting below the surface", his primary hypothesis is that too little attention is paid to first impressions and instincts; he argues that "there can be as much value in the blink of an eye as in months of rational analysis". Intuition is very important; but, in a world where decisions are all too often based on image, prejudice and preconceptions, perhaps what is needed is more considered decision-making, not less?

An interesting read. But this is a cleverly repackaged concept, rather than an original one, and you might hanker for more specific advice about when and how to trust your intuition and to apply blink: it could be dangerous in the wrong heads.

OVERALL RATING

Little, Brown and Company, 2005. £10.19 (Amazon)

WHITE MAPLE NEWS

HAPPY BIRTHDAY!

Having been trading since July 2002, we are celebrating our third birthday. We are very grateful to our clients, partners, associates, suppliers and other friends for all their support, advice and help. Thank you!

REGISTERED PRACTICE

White Maple has become a Registered (approved) Practice at the Institute of Management Consultancy (IMC). Founded in 1962, the IMC promotes excellence in consulting by supporting, qualifying and regulating management consultants.

1%

We have a policy of giving both free consultancy and also at least 1% of net profits to selected charities. This year we will be supporting Macmillan Cancer Relief, Alzheimer's Society and Médecins Sans Frontières. Clients during our last financial year will again be invited to indicate how the fund should be allocated between the three charities.

OTHER FORMATS

All issues of The Review, including this one, are available on our web site in the resources section. If, in the future, you would like us to email you The Review in pdf format, please let us know on info@whitemaple.net. A version can also be provided in Word to facilitate production as large print or in Braille.