CHALLENGING ROLE OF FINANCE PROFESSIONALS

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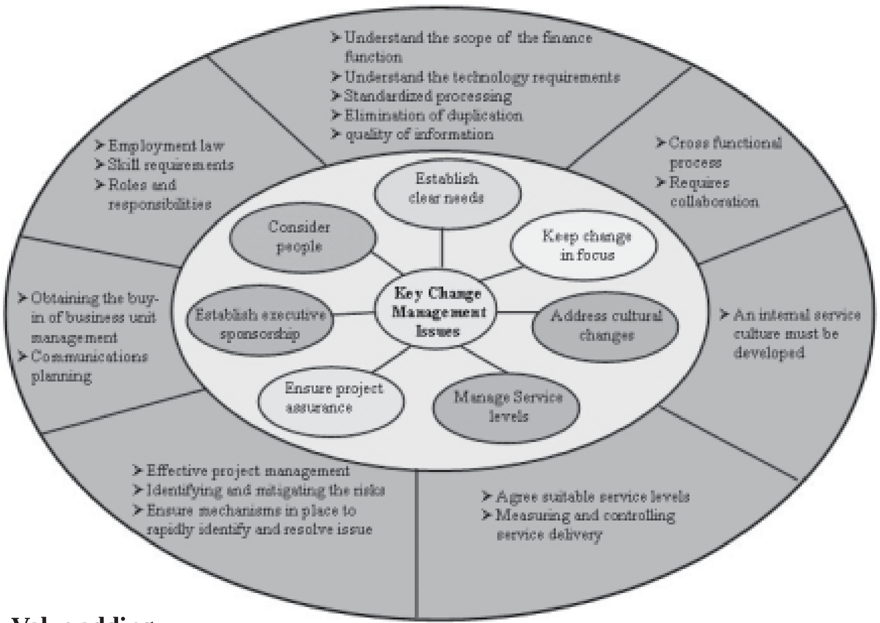
Traditionally, the finance professionals have been given the responsibility of producing corporate-wide information ranging from the Balance Sheets, Profit & Loss statements, sales reports, production costs etc. This was a result of the finance professionals being responsible for the record keeping function in the organization. However, due to the emergence of sophisticated software and communications systems, the record keeping function has become a less important aspect of the finance professionals role. In addition, new innovations such as the Intranet (a localized organization specific Internet) allow the distribution of computerized data as information to those in need, in real time. With such information at the finger tips of executives, the finance professionals will be called upon to play an increasing role in the decision making process of the organization.

Driving change in finance

The problem has been that finance functions have not ensured that all the key change issues are covered. The points below identify the key change management issues that need to be addressed to succeed in achieving a highly recognized finance function.

Present day finance professionals face many difficult challenges. They struggle with the task of financial control and the need to curtail costs and create more value to stakeholders. These pressures are in addition to their management responsibilities around talent management, mergers & acquisitions and internal & external reporting. Currently among others three main pressure points emerging are value adding, meeting regulatory demands and reducing cost.

The objective of this article is to explain in brief the said three pressure points and to suggest some solutions to achieve the desired results.



1. Value adding

Companies are able to allocate resources to tasks that contribute greater value by achieving cost savings on non value added activities. The objective is to perform more value-adding activities such as strategic planning support and business performance analysis, whilst having sufficient controls in place to instil confidence in the integrity of information supplied to the organization as a whole. The Finance Professional is now faced with the subsequent challenge of developing a range of finance capabilities that the business requires, that may not exist in the current team.

The finance function should evolve from the traditional scorekeeping function of the past to its current role of business partner. There should be a greater strategic focus on responsibilities of the finance professional to meet with the paradigm shift from investors and shareholders. This will accelerate the speed of decision-making and will require a significant reduction in reporting cycle times.

It is evident that the pressure from the institutions to add more value has been mostly in the following areas.

(a) Structure of Finance function

Companies are aligning their finance functions with business operations to provide a value adding service. The benefits accrued are alignment of teams by business unit and provision of specialist knowledge and support in finance related activities and reduced costs by integrating systems and optimistic automation in transaction processing.

(b) Technology integration

Harnessing integrated systems and e-business through the implementation of :

i. ERP systems, Data warehouses and EDI, that integrate the financials with other parts of the business/suppliers.
ii. Self-service and workflow tools such as electronic travel and expenses, procurement.
iii. Financial consolidation systems to speed up reporting, planning, budgeting and forecasting

(c) Balanced scorecards

Introducing balanced performance measures through the implementation of the balanced scorecard concept. Scorecards are integrated and forward looking measures rather than the traditional backward looking financial monthly pack. The principal benefit is improved decision making based on non-financial performance. eg. Customer service, employee morale and economic value added.

(d) Invest in People

These changes in the finance function have had significant implications for the roles of the individuals and their skills and competencies, which has meant that a number of new finance roles/expertise are emerging each of which will require different skills and experience profiles, for example:-

i. Generalist- able to work with business managers at all levels
ii. Administrator- concentrating on the efficiency of processes
iii. Specialist- able to add value in particular areas, e.g. tax, treasury acquisitions etc.
iv. Systems- ensuring that processes are properly supported

Core expertise will need to be augmented with additional skills. Finance staff will need to be able to work effectively in dispersed or virtual teams – this requires interpersonal, influencing and communication skills, support the business with a greater understanding of strategy, operations and the commercial environment and work across more national boundaries, with a knowledge of customs and practices, legal differences and with fluency in several languages

2. Reducing costs

Finance functions are being tasked to reduce costs by improving the efficiency of their processes or by eliminating unnecessary expenditure. This enables the reallocation of resources to more critical, value adding activities. Most of the Companies/Financial Institutions have reduced their transaction processing cost substantially. This is being achieved by standardizing technology, simplifying processes, consolidating and eliminating redundant resources. On this, the initiatives that could be implemented are: -

(a) Shared Service Centers (SSC)

A unit of the organization where financial administrative and customer support services are centralized. SSC's deals with low value-added activities and reduce the cost of transaction processing at numerous sites. The benefits accrued will be, improvement of the contribution made by non-strategic administrative functions, segregate transaction processing into an SSC to improve productivity and curtail costs.

(b) Outsourcing

Typically outsource non-core processes to specialist vendors, payroll administration, Accounting and HR. Through this process the benefits that could be accrued are, improve the contribution made by non-strategic administrative functions, segregate transaction processing into an SSC to improve productivity and curtailing costs.

(c) Best in class processes

Adopt and implement process improvements supported by appropriate systems, for example employee, supplier and customer self service through web applications. The benefits accrued will be, eradicate non value adding activities and save costs, consistent finance processes across the entire organization. Another example is that on-line reporting is becoming a familiar phrase as more and more companies post financial information on the web. Hitherto accepted ideas about the annual report's content, style and purpose are coming in for some close scrutiny. It is evident that the old style annual report is on its way out and most believe that the new network economy and the internet is a key factor on this. The timing of information released to investors and others is a crucial area in which the internet is driving change.

It is vital to have an understanding of the relationship between cost and income of organizations as efficiency could be measured by giving emphasis to these two factors which will in turn help the finance professional to implement the work-plan on reducing cost.

The table given below illustrates the cost income ratio of some key financial institutions.

Cost to Income Ratio (%)

Institution / Year	2003	2004	2005	2006	2007
Bank of Ceylon	0.68	0.61	0.67	0.58	0.60
People's Bank	0.65	0.68	0.68	0.67	0.63
National Savings Bank	0.37	0.38	0.39	0.42	0.50
Commercial Bank	0.51	0.51	0.47	0.53	0.38
Hatton National Bank	0.64	0.69	0.63	0.66	0.64
Seylan Bank	0.59	0.62	0.57	0.59	0.66
Sampath Bank	0.70	0.54	0.52	0.48	0.49
The Finance Company	0.79	0.72	0.63	0.61	0.60
Central Finance Company	0.43	0.35	0.35	0.48	0.50
People's Leasing Company	0.33	0.31	0.30	0.29	0.29

Source: Annual Reports

Cost/Income Ratio:
Operating expenses (Excluding provisions & VAT)/(Net Interest Income + Other Income)

However, curtailing costs need not be the sole motivation, other drivers such as improved service, acquisition of talent and an enhanced focus on core skills should also be considered.

3. Meeting regulatory demands

Companies are faced with increasing demands from shareholders, non-executives, regulators and the government to improve their financial control. With the introduction of new accounting standards, Central Bank directions/regulations and Companies Act, other legislations i.e. Prevention of Money Laundering Act No: 5 and Financial Transaction Reporting Act No: 6 of 2006, accounting rules and financial reporting have become the key points. Managing regulatory change has become a critical challenge for the Finance Professional.

Leading finance functions are able to realize cost savings, without impairing their ability to maintain strong financial control. Companies that do not manage this challenge effectively run the risk of endangering the effectiveness of their financial controls.

The most effective balance should be a blend that combines the two challenges of efficiency and control without losing the monitoring desired by management. More recently financial institutions have tried to get their finance functions to achieve a greater degree of independence from the operating business in order to accommodate the levy of regulatory change required. It appears that financial institutions have reacted to regulatory changes by adopting the following strategies.

(a) Risk Management

i. Develop risk solutions – Compare risk assessment and corporate objectives using a common model that can be used across an organization
ii. Design and review new/existing controls - ensuring they are efficient, effective and timely control systems.
iii. Increase disclosure and transparency on governance elements.
iv. Increase the influence of audit committee and non-executive directors in monitoring the performance of the internal/external auditors.

(b) Virtual reporting

Web enabled reporting and analysis systems to transform decision making.
The benefits are:

i. Faster reporting cycles
ii. Improved decision making
iii. Improved ability to implement regulatory change

(c) Corporate Governance

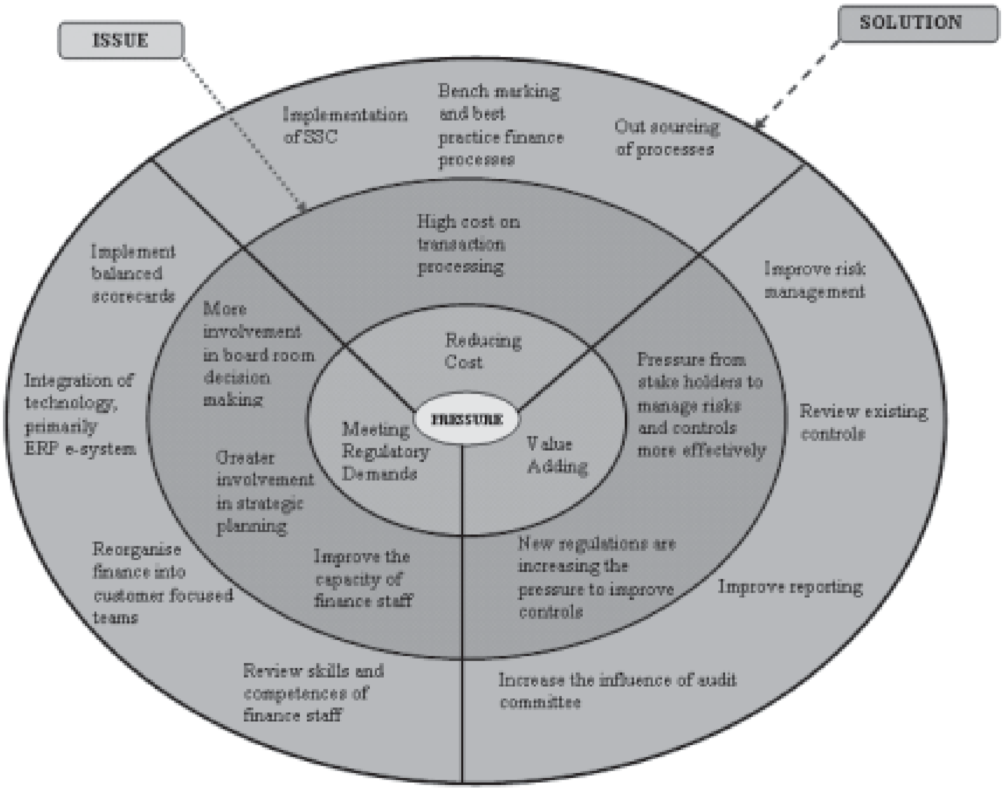
Corporate Governance processes and practices has become to be the management framework that facilitates the conduct of business in a responsible and accountable manner so as to promote the safety and soundness of the individual institutions, thereby leading to the stability of the overall business environment. Towards this end it is necessary to:

a. Determine the structure of the management of the affairs of the business
b. Delegate business operations to key management personnel led by the Chief Executive Officer
c. Assume policy making and risk management for the business and
d. Ensure effective role of the key management personnel

Further, finance professionals should have the practical experience in relevant subjects such as Banking, Finance, Economics, Business Management, Human ResourcesMgmt., Marketing, Information Technology to discharge their responsibilities.

Conclusion

In the current business climate, companies are devoting more time to control and compliance issues to cope with the wave of regulatory change that is effecting them. Although realizing cost savings and creating value continue to be underlying issues, Practitioners predict that the emphasis on rigorous financial discipline will become ever greater.



An ideal finance function spends very little time on reconciliation and a minimal amount of time reporting on what has happened instead a great organization spends a majority of its time trying to anticipate what is going to happen in the future making sure that the orgnization's resources are allocated to the most important opportunities that it has and to ensuring that the organization operates with tight control and great processes.