CFO research

Made to Measure

CFOs on finance- and procurement-process improvement

A report prepared by CFO Research Services in collaboration with Genpact

GENPACT
INTELLIGENT ENTERPRISES POWERED BY PROCESS

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About this report

At CFO Research, we believe that well-managed, high-performing financial and administrative processes are not just marks of integrity, efficiency, and management discipline, but also among the fundamental measures of company health. That's why we set out with Genpact, our collaborator and research underwriter, to capture senior finance executives' perceptions of their companies' financial- and administrative-process performance. We surveyed senior finance executives at large companies around the world on four fundamental business processes: financial planning, procure-to-pay, order-to-cash, and financial reporting. The result is a peer-based assessment of companies' performance in and aspirations for their core finance and procurement processes.

As part of this global benchmarking study on companies' financial- and administrative-process performance, CFO Research Services surveyed 434 senior finance and procurement executives. To participate in this study, executives had to meet several criteria. Finance executives must have held the position of chief financial officer, finance director, VP of finance, controller, or a similarly senior post. Procurement executives must hold the position of chief procurement officer, VP or director of procurement or supply chain management, or another high-level post in the procurement function. All of the respondents are employed at companies with annual revenues in excess of US$1 billion.

Respondents work for companies in nearly every industry. The financial-services sector (including real estate and insurance) and the business- and professional-services industry are particularly well represented.

To provide context for the survey findings, we also conducted 10 in-depth interviews with senior finance and procurement executives.

Annual revenue

US$1 billion–$5 billion	35%
US$5 billion–$10 billion	27%
US$10 billion–$20 billion	20%
US$20 billion or more	17%

Region

United States and Canada	32%
Europe	29%
Asia	27%
Latin America and South America	7%
Australia and New Zealand	3%

Finance titles

CEO, president, or managing director	19%
Chief financial officer	17%
Director of finance	15%
Controller	13%
EVP or SVP of finance	10%
Treasurer	9%
VP of finance	8%
Other finance title	8%

Procurement titles

Director of procurement	29%
Chief procurement officer	28%
VP of procurement	13%
Director of supply chain management	12%
VP of supply chain management	6%
Other procurement title	12%

Note: Percentages may not total 100%, due to rounding.

Why this topic?

The ultimate measurements of company performance focus on economic return, as they should. Senior executives keep a close eye on measures of return—from EBITDA to ROIC to free cash flow—because they describe how well the company is achieving its end goal: turning capital into return for investors. These measurements provide valuable insight into output, growth, capital efficiency, and financial health.

Although these metrics and their variants tell a story that is useful to a wide variety of stakeholders, they are far from the only measurements of enterprise performance that are useful to *managers*, specifically. In their efforts to generate additional value, managers strive to look not only at their company's ability to convert business plans and operating activities to cash, but also at the financial and administrative processes through which the conversion occurs—and through which the results are reported to the world. For managers (and, by extension, for the companies that rely on them to drive value creation), returns-based metrics form an essential picture of enterprise success, but not a complete one.

Measuring performance on four finance and administrative processes can help fill out this picture. Companies across all industries share four core financial processes: business planning, source-to-pay, order-to-cash, and consolidate-to-report. Through these core processes, companies plan their activities and direct resources to meet objectives; acquire production inputs; conduct the transactions that convert orders into free cash flow; and report their results to those who will evaluate their performance and decide whether their strategies warrant further investment. Performance metrics for these processes reveal how effectively companies execute the non-production activities required to convert investment capital into economic returns. They reveal the underlying strengths and weaknesses in companies' ability to manage the delivery of returns. If measurements of return can be thought of as an expression of enterprise success as viewed from the perspective of business *ends,* process-performance metrics provide the same insights from the perspective of business *means.* The two perspectives inform each other.

In addition, these four processes affect the functional and enterprise roles of the finance function and those closest to it in a long list of ways. From the point of view of finance, financial- and administrative-process performance affects solvency, working-capital management, cash flow, planning, budgeting, and forecasting. For operating units, production capabilities, profitability, and customer satisfaction are at stake. The effectiveness of companies' risk functions—specifically, their ability to ensure compliance with regulation, implement controls, and deliver goods and services—is also inextricably tied to process performance.

Finance and procurement executives acknowledge the economic benefit of improving their business processes. Through our research, we've found that more than 60% of finance and procurement executives agree strongly that improving their administrative-process performance would yield meaningful financial benefit to their companies. But although companies recognize the value of improving their financial- and administrative-process performance, only 34% of companies make extensive use of external benchmarks to assess their performance, according to our findings. Considering the connection between companies' use of external benchmarks and their process performance (see sidebar, page 7: "The Process-Performance Management Toolkit: Benchmarking"), these findings indicate that executives interested in improving their processes often face a substantive information deficit. This global benchmarking study represents our contribution to companies' endeavors to understand their own performance and take steps to resolve this information gap.

Overview of findings

This study examines companies' performance and aspirations for change in four business processes: business planning, order-to-cash, procure-to-pay, and consolidate-to-report. By capturing the views of senior finance and procurement executives at large companies around the world, we've documented current practices, estimated process performance, and gathered on-the-record advice from senior executives on these fundamental processes. The pages ahead include a discussion of each of these four processes, along with peer commentary on the complex problems associated with them.

- **While business-planning processes often meet expectations, only one-third of respondents say their companies achieve excellent performance when preparing plans, budgets, and forecasts.** Companies that have decentralized planning processes are more likely than their centralized peers to meet the highest levels of forecast accuracy and to report revenue within 2% of their forecasts. However, this accuracy comes at a price. Companies with decentralized planning processes are less efficient (in revenue per FTE devoted to planning activities) than their more centralized peers.

- **Survey results suggest that many companies have room to improve their control over payment timing.** Only 15% of procurement executives say that their companies make no early payments, and only 5% of companies make no late payments. Most respondent companies (55%) make some of their payments—up to one-fifth—early. An even greater share of companies (65%) make up to one-fifth of their payments late. Companies that centralize their source-to-pay activities—either within shared-services centers or at the corporate or group level—deploy less labor within their accounts-payable department compared to their peers with decentralized source-to-pay organizations.

- **Companies are keeping the closest watch on their order-to-cash processes, focusing on collections effectiveness and customer satisfaction as key measurements of process-performance improvement.** Nonetheless, many companies struggle to collect payments within terms, and only about a quarter of respondents (27%) indicate that their companies collect 90% or more of their total yearly sales within contracted payment terms. Choosing to centralize or decentralize order-to-cash processes often represents a tradeoff between efficiency and customer satisfaction, according to our data. Companies that centralize their order-to-cash activities—either within shared-services centers or at the corporate or group level—deploy less labor in order to complete those activities. Those with decentralized order-to-cash processes, however, report substantially higher levels of customer satisfaction.

- **Despite long-standing efforts to achieve a "fast close," more than 60% of respondents require more than one week to complete the three stages of local close, group close, and post-close activities.** Companies that have a greater number of charts of accounts take longer to complete each stage of their quarterly closing process. Companies that centralize their financial consolidation and reporting activities—either within shared-services centers or at the corporate or group level—deploy less labor in order to complete those activities than respondents with decentralized consolidate-to-close processes.

Throughout this report, you'll find sections that offer guidance from your peers on process improvement, the use of benchmarking, and the use of automation. The report concludes with Genpact's views on the research and a discussion of how companies can take steps toward better process performance, greater efficiency, and lower cost.

Strategies and performance in four process categories

Business-planning process

In the aftermath of financial turmoil, geopolitical instability, natural disasters, and supplier failures, large global companies now face the task not of pushing their business-planning processes to new heights, but of restoring them to pre-crisis levels of accuracy, timeliness, and usefulness. In a climate of slow economic growth, this improvement endeavor will likely prove critical to companies' long-term success.

Finance executives in this study confirm that their planning processes often meet expectations, but excellent planning, budgeting, and forecasting processes are less commonplace. Half of finance executives say that their companies demonstrate adequate performance when planning, budgeting, and forecasting, and an additional 14% describe their company's performance as weak. Only 33% say that their company's performance is excellent.

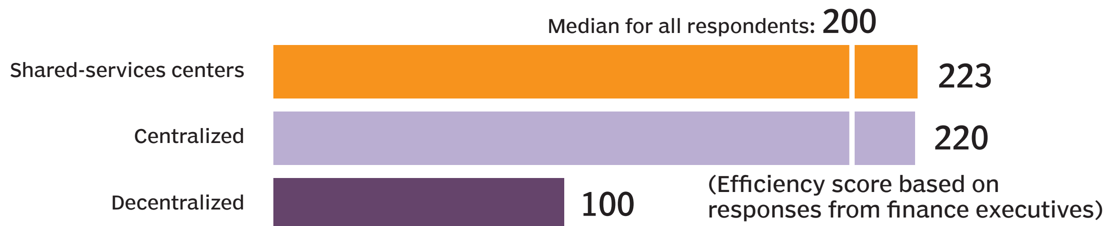
Perhaps unsurprisingly, companies' forecasting performance has wavered in the wake of recent crises. Only 12% of finance executives say that their company's revenue performance generally fell within 2% of their revenue forecast over the past year. For 42% of respondents, their companies' actual revenue performance generally fell within 3% to 5% of their revenue forecast.

Our research suggests a relationship between the strategy that a company uses to organize its planning activities, the accuracy of forecasts, and the efficiency with which companies prepare them. Most companies in this study have centralized their business-planning processes. A majority of finance executives (61%) say that most of their planning activity is centralized at the corporate or group level, and an additional 13% have centralized planning activity within shared-services centers. Only 21% of companies distribute their planning activities among corporate/group subsidiaries or business units, according to our findings.

While a decentralized model for planning activities is relatively rare, companies that have such an organizational model are more likely to achieve the highest levels of forecast accuracy, according to survey data. In total, 21% percent of companies that decentralize their planning process experience the highest levels of forecast accuracy, reporting that their actual revenue performance has fallen within 2% of their forecast over the past year. Only 12% of companies with centralized business-planning models say the same. This connection between the decentralization of planning processes and higher forecast accuracy is likely due to the fact that companies with a decentralized approach are able to capture especially timely, market-specific insight from their distributed teams in local and regional markets.

Although decentralized business planning may yield greater forecast accuracy, a centralized approach to planning is more efficient, according to our research. In general, companies that centralize their planning processes deploy less labor to carry out those processes. Centralized business-planning processes are correlated with higher degrees of labor efficiency—that is, higher revenue per full-time equivalent (FTE) in planning activities—than decentralized business-planning processes. (See Figure 1.)

Figure 1. Business-planning process efficiency ($M/FTE)



Note: In this figure, "efficiency" is a value that describes the average contribution of each employee dedicated to the planning process. Efficiency is calculated by dividing each survey respondent's answer to the question, "What were your company's worldwide revenues in its most recent fiscal year, in millions of US dollars?" by his or her answer to the question, "Please estimate the number of full-time employees (FTEs) your company dedicates to each of the following business processes: Number of FTEs in the finance function dedicated to the planning process." A higher score indicates greater efficiency.

Decentralized planning processes, despite being highly automated more often than centralized planning processes, require more labor than those that are centralized or focused in shared-services. This labor intensity may help to explain why companies that take a decentralized approach to business planning are more likely than their centralized counterparts to standardize their planning processes over the next two years.

Meanwhile, companies are spending a considerable amount of time to produce their forecasts. According to executives' estimates in this study, only 13% of companies are top performers with respect to the time it takes them to prepare plans, budgets, and forecasts. (See Figure 2.)

Overall, there seems to be plenty of room for improvement in companies' other business-planning activities as well. For example, while half of all respondents say their companies can update their long-term strategic plan in less than three working weeks, half take longer. (See Figures 3-5.)

The speed, accuracy, and output of business-planning activities may well suffer from executives' expectations for what planning can and cannot do. Amid higher performance expectations, lower tolerances for shortfalls, market volatility, and tepid growth, companies may view planning as a more precise discipline than it is. Adrian Ryan, head of finance transformation at Imperial Tobacco, says that the "single biggest problem" with planning and forecasting is an issue of perception: finance tends to approach business planning from an accounting point of view, rather than from a perspective of promoting good decision making. Business planning can be neither accurate nor inaccurate, says Mr. Ryan, because "it's a management process, not a financial process. … It's not about producing numbers or meeting targets or whatever else. It's just about driving decisions."

The danger lies in getting lost in the details. "To be an analyst," says Mr. Ryan, "you need to look at all of the information and come up with the bigger picture: where are we heading, what's going to happen, what are the big levers—the drivers of the business—that we need to be pulling on, what could happen that could derail us, what could competition do, what could happen in the outside world? If you know those levers, those are the ones that you focus on."

Process performance for business-planning activities (self-reported estimates)

Figure 2. What is the average cycle time in working days to complete a revenue forecast at your company?

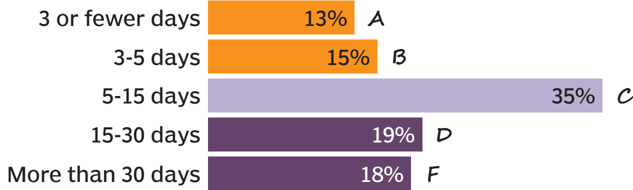


Figure 3. What is the average cycle time in working days to complete a multi-year strategic plan at your company?

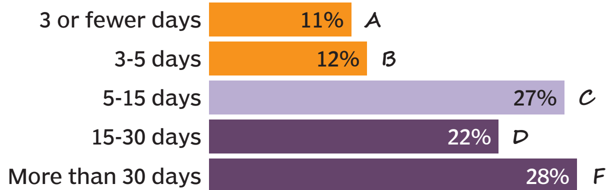


Figure 4. What is the average cycle time in working days to complete an annual operating plan at your company?

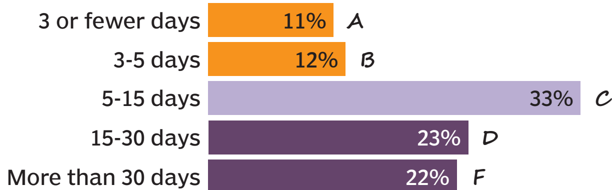
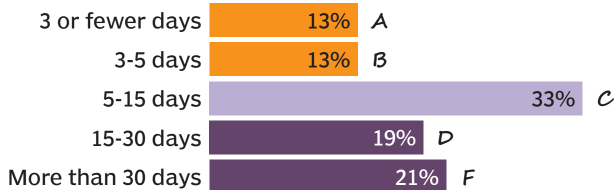


Figure 5. What is the average cycle time in working days to complete an annual budget at your company?



(Percentage of finance respondents)

A = Excellent B = Good C = Adequate D = Cause for concern F = Needs attention

The Process-Performance Management Toolkit: Benchmarking

Third-party performance benchmarks have taken their place in many companies' process-performance management toolkits, right alongside other tools like automation, organizational strategy, and process standardization. Formal process-performance benchmarking can be time and resource-intensive, senior finance executives say, but the effort can yield valuable insight. "If benchmarks do indeed indicate that you've got a substantial competitive hindrance as a result of structural process issues, then the investment may be well worth it," says Mark Lerro, manager of finance operations, finance process design and support at Royal Dutch Shell, an oil and gas company.

Of course, different tools are better for different jobs, and benchmarks are no exception: our research among senior finance executives shows that process benchmarks can be especially useful, for example, as catalysts for change or as sources of directional guidance on potential areas for improvement.

Senior finance executives seeking to jumpstart efforts to improve financial and administrative processes often turn to process-performance benchmarks to bolster their argument for change. "The only reason I would use benchmarks, personally, is as a case for change," says Adrian Ryan, head of finance transformation at Imperial Tobacco. "If I had a reluctant audience, [I might need] to use a third-party, arm's-length organization to prove what I know to be the case already to decision makers that refuse to accept the point." Mr. Ryan points out that benchmarks also serve a role in setting improvement goals and allocating resources, but adds, "Benchmarking helps validate why [an improvement effort] is important."

One key to the persuasive power of benchmarks is transparency. As Mr. Lerro puts it, "Benchmark analysis can be a very good starting point to a transformation process because it gives you arguments [for] your organization, so you can make transparent the need for transformation—more transparent than saying something without numbers or without any proof. Therefore it is a helpful instrument to kick-start the change process."

Finance executives also emphasize that the power of benchmarks to motivate change depends on the quality of the underlying benchmarking data—particularly the level of disclosure regarding any assumptions used to prepare the benchmarks, the comparability of the data (that is, the ability to make an apples-to-apples comparison among organizations and processes), and the credibility of the source.

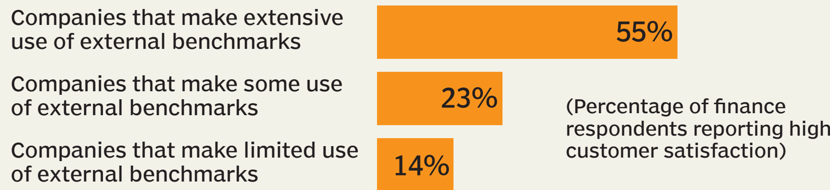
Ralph Geertsema, former head of finance at BT (a telecommunications company) and now director of SeventyOne, points out that gaining access to high-quality, comparable, and credible benchmarks isn't easy, particularly when companies' interests extend beyond transaction processes to include more complex, less standardized finance processes. "If you benchmark non-defined, non-standardized organizations against each other, it's very easy to get it wrong, especially in the more complex financial areas like the close, consolidation, or planning process," Mr. Geertsema says. "It's very difficult to compare apples with apples [in those cases]." He adds, "It's a question of how closely your organization resembles the benchmarking model."

While transparency, comparability, and credibility each characterize sound benchmarks, senior finance executives observe that benchmarks need not be extremely detailed or granular

Table A. Does your company have an automated, reliable way of tracking the following order-to-cash-related measures through the financial period? (Percentage of finance respondents answering "yes")

	Companies that make extensive use of external benchmarks	Companies that make some use of external benchmarks	Companies that make limited use of external benchmarks
Customer satisfaction	82%	70%	54%
Order cancellations	74%	64%	47%
Negotiated discounts	72%	66%	50%
Unearned cash discounts	71%	59%	32%
Preventable deductions	70%	61%	35%
Bad debt write-offs	69%	64%	38%
Invoicing/billing errors	65%	59%	41%

Figure A. How would you rate your customers' satisfaction with placing orders, order fulfillment, and delivery in the last fiscal year?



to be useful. As Mr. Geertsema puts it, "Benchmarking is good but at a higher level, in my opinion. [Useful benchmarking] is directional and it helps to validate some of the assumptions that you're making, but the detailed benchmarking I always find very, very difficult." The high-level, directional gauge that benchmarking provides can help companies make good use of resources by focusing their attention on unraveling and addressing potential problem areas in greater detail. As James B. Arnold, senior vice president and CFO at CMA CGM (a shipping company) explains, "As far as improving performance, benchmarking certainly provides a checkpoint; if we see something trending in a direction that is not positive for our business, we will review the underlying processes and business levers to ensure something hasn't gone astray."

A relationship between the use of external benchmarking and process performance also emerges from the results of our survey of senior finance executives. The extent to which companies rely on external benchmarking, for example, varies in tandem with certain dimensions of companies' approach to process-performance management. In some cases, the relationship between companies' use of external benchmarks and their ability to measure and manage performance may be causative—that is, in some cases, more extensive use of external benchmarks may boost companies' ability to measure and manage their performance. In other cases, the relationship may best be explained as incidental. Either way, companies that make extensive use of external benchmarks tend to behave very differently from companies that use external benchmarks to a lesser extent. Therefore, these differences are worth noting.

One way that companies that make extensive use of external process-performance benchmarks differ from their peers is in their interest in pursuing process improvement: companies that use external benchmarks extensively are especially likely to view process improvement as an important means of generating value. A solid majority (78%) of respondents who say that their companies make extensive use of benchmarks agree strongly with the statement, "Improving financial- and administrative-process performance would yield a meaningful financial benefit to my company." Only 55% of respondents at companies that make only some use of external benchmarks agree strongly, and this figure drops to 38% among respondents at companies that make limited use of benchmarks.

The extent to which a company relies on external benchmarks for insight into its financial- and administrative-process performance also seems to be related to its execution of customer-facing processes—and its approach to improving them. In our survey, companies that make extensive use of benchmarks are more likely to have automated, reliable ways of tracking a variety of order-to-cash-related measures, compared with companies that make only some or limited use of benchmarks. (See Table A on pg. 7.) Respondents at companies that make extensive use of benchmarks are more likely to report high levels of customer satisfaction with their company's ease of placing orders and accuracy of order fulfillment and delivery, compared with companies that make only some or limited use of benchmarks. (See Figure A.) In addition, companies that make extensive use of external benchmarks are more likely to take on the task of standardizing their order-to-cash processes within the next two years, compared with companies that make only some or limited use of benchmarks.

The senior finance executives we spoke with confirm that transparent, comparable, and credible benchmarks have a role to play in improving process performance. At the same time, they encourage their peers to use benchmarking as a means to their improvement ends—as opposed to an end in itself. Keeping in mind the ultimate goal—better performance, not better benchmarks—is important. As Mr. Ryan observes, "An institution will say they've got a certain benchmarking methodology, and it produces the results it produces. But in reality, to do something about that, you still have to interpret the benchmark and actually agree that, yes, this is where we are—and *this* is what we need to do about it."

Source-to-pay process

It would be an understatement to say that executives recognize the importance of having robust procurement and supply-chain-management processes. "The business value [of source-to-pay process excellence] is obviously very significant," says Rich Sullivan, vice president of business transformation and chief supply chain officer at Harsco, a worldwide industrial services company, of his company's source-to-pay processes. "We are a capital-intensive business. Financially, we must deliver bottom-line, year-on-year savings through our supply chain without any degradation to safety, quality, or delivery. That is an outright expectation."

Suboptimal source-to-pay-process performance in just a few instances has the potential to create business disruptions, points out Ralph Geertsema, former head of finance at BT (a telecommunications company) and now director of SeventyOne. "If you miss two or three very important payments at important payment dates, you run the risk of service interruption in your order delivery cycle," Mr. Geertsema says. "Or if you significantly miss out on payments to DHL, you can't ship your goods. You need to get everything right, and that's a very difficult discipline."

One important measure of source-to-pay process performance is a company's ability to manage the timing of its payments to suppliers and vendors. Performing optimally means balancing working-capital considerations against credit and relationship-management concerns. Often, making a payment early is not merely an inefficiency or oversight, but rather an action taken deliberately to, for example, improve (or mend) a relationship with a vendor. Making a payment late is often a similarly tactical decision, not merely an error.

Although source-to-pay process performance cannot be measured by the timing of payments alone, the percentage of payments that a company makes early, on time, and late is a useful gauge of a company's negotiating skill, as well as of the degree of control it is capable of exerting over its payments—especially when considered against the tendencies of its peers.

In our survey, only 15% of procurement executives say that their companies make no early payments, and only 5% of companies make no late payments. Most respondent companies (55%) make some of their payments—up to one-fifth—early. (See Figure 6.) A greater share of companies (65%) make up to one-fifth of their payments late. (See Figure 8.) These findings make sense, of course: managing short-term liquidity has often been a great deal more important than maintaining an impeccable record with suppliers and vendors, particularly in recent years.

Process performance for source-to-pay activities

Figure 6. What percentage of your company's total payments to suppliers and vendors are typically made early?

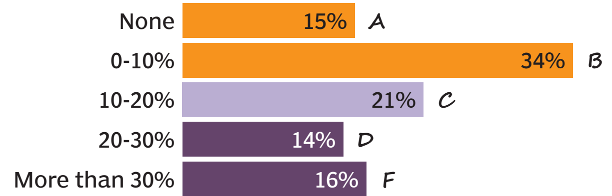


Figure 7. What percentage of your company's total payments to suppliers and vendors are typically made on time?

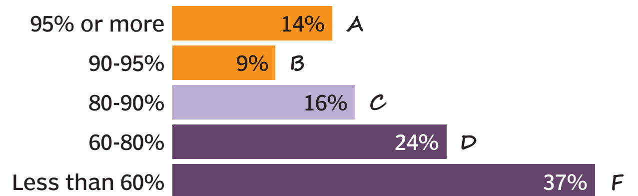
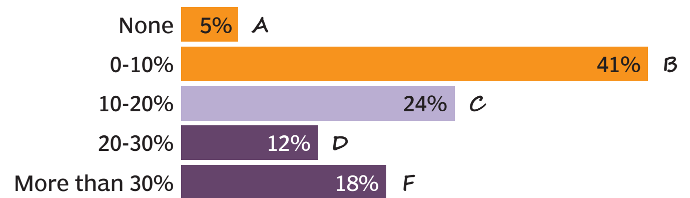


Figure 8. What percentage of your company's total payments to suppliers and vendors are typically made late?



(Percentage of procurement respondents)

A = Excellent B = Good C = Adequate
D = Cause for concern F = Needs attention

When it comes to deciding on an organizational model, most companies centralize their sourcing, procurement, and payables activities. A majority of procurement executives (58%) say that most of their sourcing and procurement activity is centralized at the corporate or group level, and an additional 13% say that their companies centralize their sourcing and procurement activities within shared-services centers. Only 28% of companies distribute their source-to-pay activities among corporate/group subsidiaries or business units, according to our findings. In general, companies that centralize their source-to-pay activities—either within shared-services centers or at the corporate or group level—deploy less labor within their accounts payable department. (See Figure 9.)

Respondents indicate that the greatest barrier to measuring sourcing-, procurement-, and payables-process performance

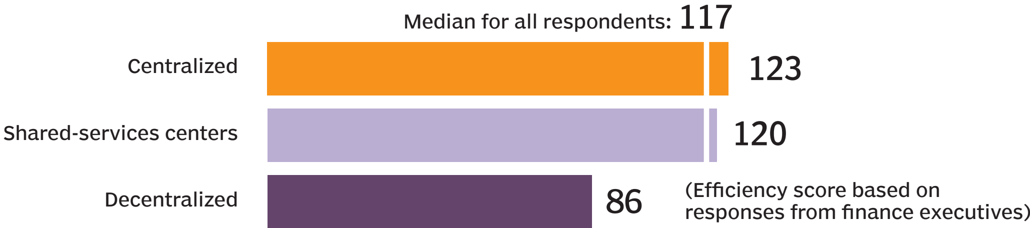
(besides the ubiquitous "lack of time, attention, and resources") comes in the form of organizational deficiencies (e.g., organizational "silos"), followed by inadequate technology systems. For the future, a majority of respondents (56%) say they plan to increase automation of their source-to-pay activities within the next two years, followed somewhat distantly by process standardization (21%) and moving source-to-pay processes to internal or external shared-services centers (18%). This suggests that finance and procurement executives see further automation as a framework for both better processes and better organizational behavior.

There is, however, an exception to this rule. When asked to choose which improvements their companies are most likely to make to better manage *spending,* specifically, over the next year, a plurality of respondents (36%) choose increased consolidation of spending, suppliers, and invoices, with increased automation trailing by nine percentage points. As companies struggle to preserve the financial discipline that carried them through the downturn—and that is still sorely needed to thrive in constricted post-downturn markets—it makes sense that they would view the management of spending as an activity that requires a special degree of attention. The unique status of spending management in our survey suggests that companies may be focusing on fine-tailoring their source-to-pay processes, rather than issuing sweeping, organization-wide spending directives.

Our sources indicate that outsourcing can represent an especially valuable opportunity for source-to-pay process improvement, due to the relatively standard nature of sourcing and procurement activities. "If you have an invoice, there are not so many ways to book it," says Anders Pehrsson, vice president and group controller at Atlas Copco, an industrial manufacturer. "We have entered into business process outsourcing for some of those administrative routines, including basic accounting, accounts payable, and so forth." Jan Fonfara, general manager of finance operations at Sony Europe, an electronics manufacturer, says that "the biggest, probably fastest, improvement we've seen is for purchase-to-pay, which we've outsourced 100 percent."

Source-to-pay processes are also particularly conducive to benchmarking. For source-to-pay activities, "the comparisons are a bit easier to make, and the usefulness of the KPIs are on the whole better than as seen in order-to-cash," according to David Powell, senior director at biopharmaceutical company AstraZeneca. Mr. Fonfara agrees with this view, saying that, "When we come to very standardized transactional processes such as doing purchase-to-pay, for those I would see external benchmarking as very, very important, and we're doing that."

Figure 9. Source-to-pay process efficiency ($M/FTE)



Note: In this figure, "efficiency" is a value that describes the average contribution of each employee dedicated to the source-to-pay process. Efficiency is calculated by dividing each survey respondent's answer to the question, "What were your company's worldwide revenues in its most recent fiscal year, in millions of US dollars?" by his or her answer to the question, "Please estimate the number of full-time employees (FTEs) your company dedicates to each of the following business processes: Number of FTEs in the finance function dedicated to the source-to-pay process." A higher score indicates greater efficiency.

The Process-Performance Management Toolkit: Automation

As companies strive to make their core processes more accurate, efficient, and timely, they must keep in mind that a high degree of automation does not always *cause* the strong performance with which it tends to coincide. Ralph Geertsema, former head of finance at BT (a telecommunications company) and now director of SeventyOne, stresses this point, saying, “There’s a clear connection between the best-in-class companies that have a highly structured and well-disciplined organization and the degree of automation they can implement. However, automation is really not a cure for a lot of the things that people face inside an organization.”

Correlations between automation and performance certainly exist, which can create the view that processes can be improved through technology alone. For example, finance executives at companies that make greater use of automation in their order-to-cash processes report higher levels of customer satisfaction. (See Figure A.) Automation is also linked with better consolidate-to-report process performance. Despite these and similar patterns, our sources emphasize that the relationship between greater automation and better performance is far from clear. Automation is a valuable tool for performance improvement, but only if it is implemented correctly. Companies need to consider several issues as they decide whether or not to automate a process.

Automating a non-standardized process is rarely successful

Our sources point out that automating a process should usually be done at the end of a process-improvement effort, after the process has been standardized and refined. “You can’t only have technology,” says James B. Arnold, senior vice president and CFO at CMA CGM, a shipping company. “You need the technology, as well as processes and people. I believe that it begins with having the right people, and then the right processes, and then you bring in the technology to support that.” Rich Sullivan, vice president of business transformation and chief supply chain officer at Harsco, a worldwide industrial services firm, agrees with this core tenet while suggesting a different framework: “Our key has been good processes, good data, clear business value, and then technology enablement. And so our focus has been heavily on getting the processes and data to levels where we can really leverage the technology.”

Says Mr. Geertsema, “A lot of the issues that people believe can be dealt with through automation can be dealt with through automation only after processes have been standardized. … If people do not comply with the process, a great system is not going to make them comply.”

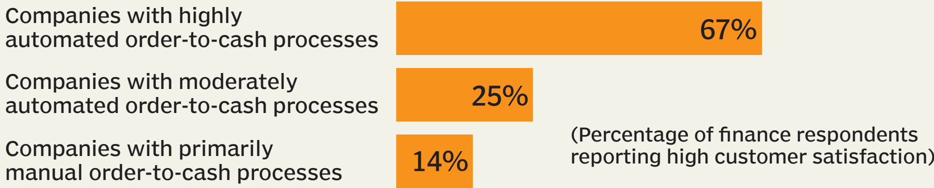
Table A. To what degree are your company’s order-to-cash, financial consolidation and reporting, and planning processes automated?

	Highly automated	Moderately automated	Primarily manual
Business planning (finance respondents)	24%	54%	22%
Procure-to-pay (procurement respondents)	13%	71%	16%
Order-to-cash (finance respondents)	24%	56%	19%
Consolidate-to-report (finance respondents)	25%	58%	17%

“Highly automated”: 8-9 on a nine-point scale ranging from “entirely or mostly manual” to “entirely or mostly automated.”
“Moderately automated”: 5-7 on a nine-point scale ranging from “entirely or mostly manual” to “entirely or mostly automated.”
“Primarily manual”: 1-4 on a nine-point scale ranging from “entirely or mostly manual” to “entirely or mostly automated.”

Figure A. How would you rate your customers' satisfaction with placing orders, order fulfillment, and delivery in the last fiscal year?

There is a positive relationship between companies' use of external benchmarks and customer satisfaction.



Companies should guard against allowing technology architectures to determine work processes

As they increase their use of automation within financial and administrative processes, companies need to "guard against the risk of automation driving the work process rather than simply enabling it," says Mark Lerro, manager of finance operations, finance process design and support at Royal Dutch Shell, an oil and gas company. Technology should flow into the framework of each process in order to make it more efficient; it should not construct a new framework and impose it on the process. The company needs to recognize early if the process performs differently than the way the business architecture would require, says Mr. Lerro.

The corollary to Mr. Lerro's point is that a company should truly understand its processes in order to automate them effectively. Jan Fonfara, general manager of finance operations at Sony Europe, an electronics manufacturer, says, "In order to automate process steps, I need to fully understand the real, detailed process—not high-level, but real detail. That is very, very key."

Automation is one tool out of many

A final point echoed by several of our sources is that automation is one tool for achieving better process performance, but it is in competition with several others. For Dr. Joachim Jaeckle, corporate senior vice president at Henkel (a personal care company), automation can support efficiency, reduce effort, reduce the incidence of errors, and increase quality—but there are always other options that can achieve the same ends. "Sometimes off-shoring—and that means continuation with manual work—can be cheaper compared to the automation costs of a project and IT investment," he says. "There is competition between IT, outsourcing, and off-shoring."

Adrian Ryan, head of finance transformation at Imperial Tobacco, points to a few areas where automation may not be the optimal approach to process improvement. Mr. Ryan says, "Organizations are outsourcing document handling, scanning, and optical character recognition (OCR)—the invoicing side of things—so that they don't have to be some expert in OCR technology and e-invoicing. We're going to get it from the experts; they have a network which means they can deploy this to pretty much every country that we're involved in. Otherwise, we have to buy a whole bunch of scanners and employ people to scan stuff and get people trained up on whatever OCR technology we're using. And then basically you're just creating another internal headache for yourself."

In addition to IT costs, training costs often carry a significant amount of weight in the calculus used to compare automation with other options for process improvement. For an ERP overhaul, George Montague, vice president of finance and strategy for the Restorative Therapies Group at Medtronic (a medical technology company), offers a simple rule: "Estimate what you need for training and double it, and even that won't be enough. Typically you're looking to minimize your investment, but what's important is ensuring that you have the appropriate training and the appropriate escalation processes, particularly when you go live, to make sure that things don't come to a standstill."

Companies should also keep in mind that automating a process does not always mean overhauling it. Even a simple macro can save a significant amount of time, energy, and resources—and some companies could benefit from adopting this more incremental and circumspect view of automation more fully. "Smaller incremental change is much more manageable and the results are far more predictable," says Mr. Geertsema. "What you see is there's much more tooling becoming available for smart, small-step automation of different steps in the process, rather than a massive ERP build."

Order-to-cash process

Unsurprisingly, companies seem to be keeping the closest watch on their order-to-cash processes, focusing on collections effectiveness and customer satisfaction as key measurements of process-performance improvement. Many companies are willing to devote substantial resources to order-to-cash process improvement.

Survey results indicate that companies focus on tracking customer satisfaction more than any other order-to-cash performance metric. A solid majority (71%) of companies have an automated, reliable way to track customer satisfaction, and customer satisfaction is the most well-tracked order-to-cash-related measure. By comparison, invoicing/billing errors, unearned cash discounts, and preventable deductions are the least well-tracked order-to-cash-related measures, out of those covered in the study.

Asked to consider their order-to-cash processes from the perspective of their external customers, most respondents (63%) rate their customers' satisfaction as a 7 or higher on a scale from 1 to 9. Nevertheless, companies are pushing to improve customer-relationship management. Out of a list of possible improvements in order-to-cash processes, improving customer relationship management is among the top three improvements chosen most frequently by survey respondents. "On the order-to-cash side, certainly you want to be very good at managing the cash receiving, and you probably want to be very, very good in the customer-facing or interaction component—the front pieces of the process," advises Mark Lerro, manager of finance operations, finance process design and support at Royal Dutch Shell, an oil and gas company.

Despite the special degree of attention that companies devote to order-to-cash processes, there is plenty of room for improvement within them, according to our findings. For example, just over a quarter of respondents (27%) indicate that their companies collect 90% or more of their total yearly sales within contracted payment terms. (See Figure 10.) Some of this difficulty may well stem from the earliest stages of the order-to-cash process. Very few respondents—only 14%—indicate that their companies generate an invoice within one week of receiving an order. (See Figure 11.)

Resolving organizational issues will play an important role in order-to-cash process improvement, survey results suggest. When presented with a list of possible improvements in order-to-cash processes, a plurality of respondents (29%) say that improving communication and cooperation between sales, operations, and finance would yield the greatest benefit for their company over the next year.

This finding is especially important when considered alongside companies' improvement plans for their source-to-pay activities, which tend to focus on automation despite respondents' acknowledgement that organizational issues are of greatest concern. For order-to-cash activities, unlike for source-to-pay activities, companies are willing to allocate the resources needed to address core organizational deficiencies at their source, rather than accessing them through peripheral improvements.

A majority of respondents (53%) say that most of their order-to-cash activity is centralized at the corporate or group level, and an additional 17% of respondents say that their companies centralize their order-to-cash activities within shared-services centers. Only 23% of respondents distribute their

Process performance for order-to-cash activities

Figure 10. In the last fiscal year, what percentage of your company's total sales was collected within contracted payment terms?

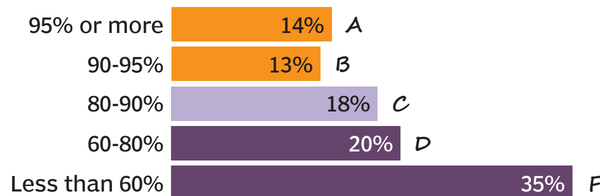
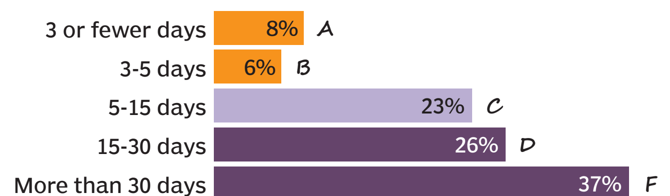


Figure 11. In the last fiscal year, what was the average cycle time between receiving an order and generating an invoice for the largest operating line of business at your company?



(Percentage of finance respondents)

A = Excellent B = Good C = Adequate D = Cause for concern F = Needs attention

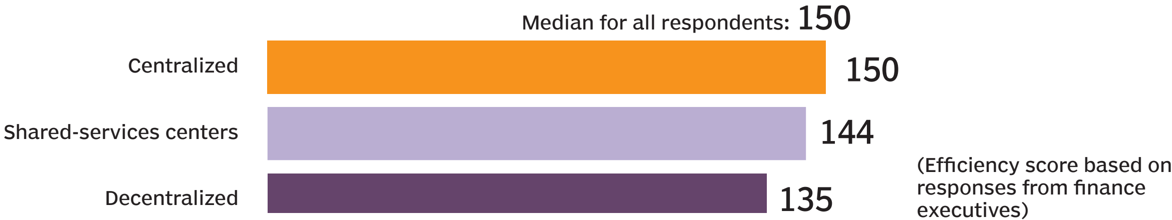
order-to-cash activities among corporate subsidiaries and/or business units.

Choosing to centralize or decentralize order-to-cash processes often represents a tradeoff between efficiency and customer satisfaction, according to our data. Companies that centralize their order-to-cash activities—either within shared-services centers or at the corporate or group level—deploy less labor in order to complete those activities. (See Figure 12.) On the other hand, companies that distribute their order-to-cash activities among corporate subsidiaries and/or business units report higher levels of customer satisfaction with those activities. (See Figure 13.)

CMA CGM recently outsourced its collections activity in the United States, after a two-year pilot program. “We determined that their results outperformed our internal results and that we could save money by moving to a full-outsource model,” says James B. Arnold, senior vice president and CFO at the shipping company. “Based on the pilot, we expect a significant improvement in our collections over time—which in today’s economy is critical for quicker cash flow.”

Companies should keep in mind that outsourcing order-to-cash activities need not represent an inappropriate tradeoff between efficiency in customer satisfaction or collections performance. It all depends on the core competency of each business—whether or not a given company considers customer-facing activity to be part of its core. Having looked at numerous organizations, Mr. Geertsema finds that “the big difference between a captive model and an outsource model is that, in a captive model, it’s more difficult to create a pure customer-focused organization, with service management and service layers in your organization. Most captive models move an internal finance function from one location to another. When a shared-services center is created, it is mandatory to build a proper service organization.”

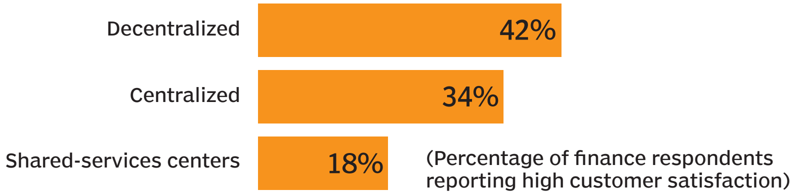
Figure 12. Order-to-cash process efficiency ($M/FTE)



Note: In this figure, “efficiency” is a value that describes the average contribution of each employee dedicated to the order-to-cash process. Efficiency is calculated by dividing each survey respondent’s answer to the question, “What were your company’s worldwide revenues in its most recent fiscal year, in millions of US dollars?” by his or her answer to the question, “Please estimate the number of full-time employees (FTEs) your company dedicates to each of the following business processes: Number of FTEs in the finance function dedicated to the order-to-cash process.” A higher score indicates greater efficiency.

Figure 13. How would you rate your customers’ satisfaction with placing orders, order fulfillment, and delivery in the last fiscal year?

Companies with decentralized order-to-cash processes report higher levels of customer satisfaction.



Consolidate-to-report process

Perhaps more than any of the other three process categories, financial consolidation and reporting—the process through which companies collect, verify, and report their financial results—demands 100-percent performance. "In the closing process," says Mr. Geertsema, "the impact of one unit not completing their numbers on time and not getting their inter-company settlement is far bigger than 95 percent meeting the timeline. Because if you miss one unit, you can't consolidate, you can't have the complete picture ready." And such lapses matter: the consolidate-to-report process comes with significant reputational and legal considerations, points out Mr. Lerro.

The results of our survey show that consolidation and reporting continues to be time-consuming and resource-intensive at many companies. Only two in five respondents say that their companies complete each stage of the quarterly closing process within one week. (See Figures 14-16.) Overall, no one stage of the quarterly closing process tends to be completed more quickly or slowly than any other.

"We have to close the month by the third working day," says Mr. Fonfara at Sony Europe, an electronics manufacturer. "That is corporate policy. Of course, there is a checklist and details regarding what has to be done and when, how many tasks are overdue, and so on."

At Atlas Copco, says Mr. Pehrsson, "The sales statistics we have day one, stock figures and similar numbers on day two, the income statement and balance sheet reported day three, and then we have the consolidation done before lunch day four. We create the reports in the afternoon day four and then they go out to group management."

In general, companies that use a greater number of charts of accounts take longer to complete each stage of their quarterly closing process. (See Table 1 on page 18.) Among respondents who say that their companies use a single, global chart of accounts, the median amount of time required to complete the local-close stage of their quarterly closing process is 5 working days. This figure jumps to 10 working days for companies that use multiple charts of accounts.

A similar pattern emerges for consolidation and group close, the next stage of the quarterly closing process: there is a positive correlation between number of working days to close and the number of charts of accounts in use. This trend is also evident in the amount of time it takes for companies to complete post-close activities and release results.

Respondents' companies have had some success with adopting fewer charts of accounts, but there is room for improvement. Only 19% of respondents say that their companies use a single, global chart of accounts. One-third of respondents (32%) say that their companies use two to five distinct charts of accounts, and 44% say that their companies use an even greater number.

Process performance for consolidate-to-report activities

How many working days does it take to complete each sequential stage of your company's closing process?

Figure 14. How many working days does it take to complete the local-close stage of your company's quarterly closing process?

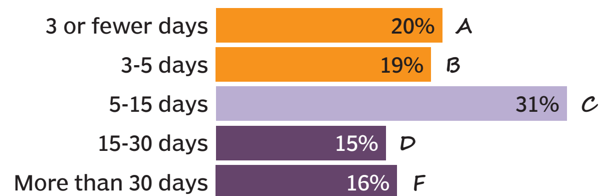


Figure 15. How many working days does it take to complete the group-close stage of your company's quarterly closing process?

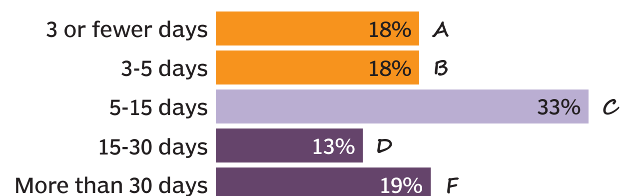
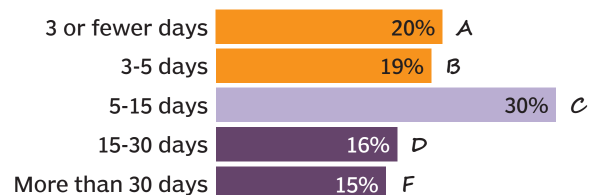


Figure 16. How many working days does it take your company to complete post-close activities and release quarterly results?



(Percentage of finance respondents)

A = Excellent B = Good C = Adequate
D = Cause for concern F = Needs attention

In general, companies that centralize their financial consolidation and reporting activities—either within shared-services centers or at the corporate or group level—deploy less labor in order to complete those activities. (See Figure 17.)

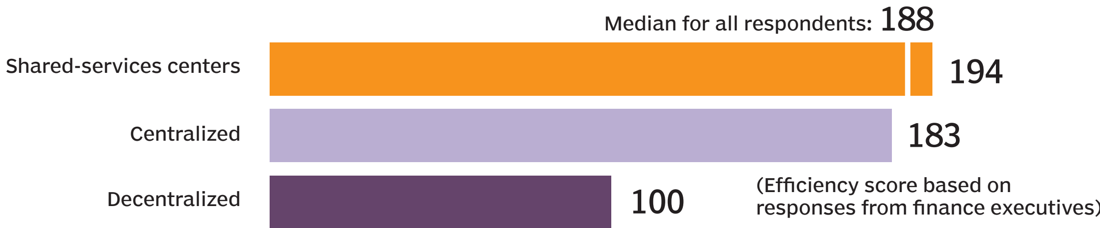
It comes as no surprise, then, that most companies choose to centralize their financial consolidation and reporting activities. A majority of finance executives (59%) say that most of their consolidate-to-report activities are centralized at the corporate or group level, and an additional 16% of finance executives say that their companies centralize their consolidate-to-report activities within shared-services centers. Only 17% distribute their financial consolidation and reporting activities among corporate subsidiaries and/or business units.

Table 1. How many distinct charts of accounts are in use at your company?

	1 chart of accounts	2 to 5 charts of accounts	5 to 8 charts of accounts	8 to 10 charts of accounts	More than 10 charts of accounts
Median working days to local close	5	10	10	14.5	10
Median working days to group close	6	8	10	13	14.5
Median working days to release of results	5	6	10	12.5	10

(Number of charts of accounts in use based on responses from finance executives)

Figure 17. Consolidate-to-report process efficiency ($M/FTE)



Note: In this figure, "efficiency" is a value that describes the average contribution of each employee dedicated to the consolidate-to-report process. Efficiency is calculated by dividing each survey respondent's answer to the question, "What were your company's worldwide revenues in its most recent fiscal year, in millions of US dollars?" by his or her answer to the question, "Please estimate the number of full-time employees (FTEs) your company dedicates to each of the following business processes: Number of FTEs in the finance function dedicated to the consolidate-to-report process."

Principles of process improvement

Senior finance executives who participated in the interview program offer the following points of guidance to their peers who are interested in improving process performance.

■ Define the end goal

As companies continue to standardize, automate, outsource, and benchmark processes in an effort to raise the bar on performance, they need to keep asking themselves what it means to improve. According to Mr. Powell at AstraZeneca, improving financial processes adds value to the organization in four ways: by better supporting compliance objectives, enhancing user satisfaction, managing working capital, and improving efficiency. Our sources emphasize the importance of this last objective—greater efficiency—in the current business environment. "With the economy as it's been, we're constantly trying to find productivity enhancers in order to do more with the same amount of headcount," says Mr. Arnold at CMA CGM.

For George Montague, vice president of finance and strategy for the Restorative Therapies Group at Medtronic (a medical technology company), the need for greater efficiency is *the* key catalyst for process improvement: "The desire to support the business as it grows without adding resources—that's what drives a lot of the process improvements you seek."

Mr. Pehrsson at Atlas Copco stresses the importance of refraining from viewing the optimization of performance indicators as an end in itself. The true goal is being able to make better decisions and improve processes. Says Mr. Pehrsson, "There is this simple rule: Will we make better decisions if we have the data half an hour earlier or one day earlier? What will we change?" (And, he adds, better processes usually save companies time in the end.)

■ Divide the effort into short-term and long-term components

Keeping the ultimate objectives of process improvement firmly in mind is critical, because major improvements take a long time. Standardizing charts of accounts, standardizing data definitions, standardizing into a single instance of ERP (or building strong interfaces between multiple ERP systems)—"these are major, big-ticket decisions," says Mr. Ryan at Imperial Tobacco. "If those core things aren't in place, then they need to be put in place. The problem is it costs a fortune to put those things in place and it's a long time coming—there's no quick win here."

Mr. Geertsema advises splitting process improvement into two stages: "One is to control the problem and the second one is to have the knowledge to solve it. To control the issue, that's definitely where to throw resources. You need to stop the bleeding; however many resources you need, that's what it takes. You need to make sure that you first get in control and then fix it."

For the second stage of this effort, says Mr. Geertsema, "It's very important to get the right people with the right skills, especially the in-depth skills to understand where you need to fix things. The first stage you can do with generalists, the second stage really requires specialists."

■ Anticipate—and be prepared to justify—a degree of business disruption

Despite the resource-intensity of process improvement efforts, the most difficult trade-off might not be between process performance and cost, notes Dr. Joachim Jaeckle, corporate senior vice president at Henkel, a personal care company. It might actually be between long-term process performance and short-term business disruption. "There are situations where we feel that we can go further, but doing so would require changes in the business processes," he says. "There's a lot of opportunity, but pursuing it requires cooperation across the whole company."

No improvement effort can survive in a vacuum. "Obviously sales and marketing are trying to drive all of their initiatives, and that takes cash, time, and effort as well," says Imperial Tobacco's Mr. Ryan. "You're competing against the mindset of 'this is the business; you can't interrupt the business.'"

■ Generate process-improvement ownership

To ensure that process improvement efforts do not chronically fall by the wayside, the specialists tasked with improving processes in the long term need to be given both authority and ownership. "You have to have an owner," says Mr. Ryan. "You have to have [a core team of people] who live and breathe [process improvement], and you have to position those people right. You have to give them the support; you can't just set up the team and say, 'Fine, it's set up now,' and side with the business as soon as the first conflict comes in. Sometimes you're going to make some decisions that at face value, in the short term, can seem [counterproductive]. But if you look at the bigger picture, they're the right decisions."

"It's very popular now to have a continuous improvement team," says Mr. Geertsema. "That should be the mindset of the operational teams: that the improvements never stop and they always keep on looking for new opportunities and new ways to automate, to eliminate work."

Having a continuous improvement team can help create a tighter feedback loop—which is a critical component of process improvement, according to Mr. Ryan. "If [an initiative] is not meeting its original target, then either we need corrective action to adjust the initiative, or we need to kill it. And we need to be ruthless about that. If it's just not working, stop it, and try something else."

■ Maintain perspective

"CMA CGM keeps a good focus on continuous improvement, but not to the point of 'paralysis by analysis,'" says Mr. Arnold. "We are quick to make decisions based on the facts that are available at the time and as we continue to watch performance. If we see a new set of facts, we will change our decision to achieve continuous improvement."

Companies are held back in their ability to change their processes by resource scarcity, organizational constraints, and IT inadequacies. Rich Sullivan, vice president of business transformation and chief supply chain officer at Harsco (a worldwide industrial services firm), explains that process-performance improvement cannot be viewed as an attempt to overcome a few discrete barriers. A comprehensive, enterprise-wide approach is required. "This is about change management," he says, describing his own company's supply-chain and procurement improvement efforts. "This is a transformation within our company. Many leaders have historically had a transactional view of supply chain and nothing beyond that. Our role is to really show the value of an integrated supply chain, that it can deliver value to the business."

Many finance and procurement are likely to benefit from embracing Mr. Sullivan's mindset and his effort to deliver value to the business through process-performance improvement—which, as this research shows, can help companies reduce risk, improve efficiency, and ultimately deliver value to shareholders.

Sponsor's perspective

The Intelligent Enterprise Achieves Higher Business Performance through More-Effective Processes

Genpact is pleased to participate in this ambitious study of core finance and administrative processes at large companies around the world. As a global enterprise focused on providing business-process and technology management services, Genpact offers this study as a catalyst for a thoughtful consideration of your company's business processes and the valuable intelligence that flows through them.

This study reveals noteworthy independent findings on the performance of companies' processes for business planning, procure-to-pay, order-to-cash, and consolidate-to-report. We offer the following commentary on these findings, our views on how to interpret them, and the business impacts that we've seen with our clients.

Business planning

In an economic landscape characterized by high volatility in many markets, business planning has become increasingly difficult—and increasingly important. This research suggests that many companies are struggling to produce accurate revenue forecasts: a full 40% of respondents report that their companies' actual revenue performance differed from their forecasted performance by 6% or more over the past year. Another 42% of respondents say that their actual performance deviated from forecasted revenue by 3%–5%.

Our experience indicates that when sophisticated forecasting tools are combined with integrated, well-designed processes, companies can increase forecast accuracy to best-in-class performance in their industries, compared with the 30%–50% confidence levels typically associated with traditional methods. The number of product lines included in forecasts also tends to expand as a result of such improvements, often up to 90% of key products. Finally, we have seen up to 50% reductions in the amount of effort needed for forecast consolidation and smoothing after forecasting tools and processes are improved using our methods.

All of this can result in improved management of product lifecycles, higher service levels, more-satisfied customers, greater sales volume, and lower inventory and distribution costs. Our analytics-based approach to optimizing forecasting models using information developed from highly granular, firsthand customer data typically results in a 14% increase in forecasting accuracy and a 10% reduction in short-term inventory costs. Synchronized demand planning with adjusted sales estimates can lead to a 20% reduction in inventory and a 10% reduction in sourcing cost per year.

Source-to-pay

Executives responding to this survey indicate their companies often pay suppliers and vendors too soon. A majority of respondents say their companies pay 10% or more of their invoices early, and 30% of respondents make 20% or more of their payments early. In Genpact's experience, this tendency to pay early stems from systemic control lapses in the procure-to-pay process, from AP's unilateral efforts to improve internal customer satisfaction by paying early to overly cautious efforts to ensure that shared-services centers meet their paid-on-time performance metrics. In our work with clients, we've seen that such persistent early payment can lead to a float loss of 1.5% of total spend value, along with a host of other working-capital-management problems.

Survey results indicate that centralized procurement groups and shared-services centers are more efficient than their decentralized peers, measured in millions of dollars in revenue per full-time equivalent. We have found that centralizing buying organizations in low-cost countries can deliver significant value to customers by improving productivity and efficiency throughout the sourcing lifecycle. This centralization often imparts greater negotiation rigor and category management that, in our experience, offers an incremental 2%–10% savings over decentralized sourcing models.

In the years ahead, say executives in this study, companies are most likely to improve their source-to-pay processes through greater automation—a trend that is certainly confirmed by our experiences at Genpact. Historically, transactional procurement systems have been an integral part of companies' ERP systems, while higher-value, more-analytical activities such as supplier consolidation, analysis of spending data, and contract-authoring activities have been carried out manually and in disparate locations. Now, however, companies are utilizing a new generation of best-of-breed applications to draw on ERP transactional data, thereby achieving greater spend visibility and better access to supplier-density-related analytics. These

applications have enabled multinational corporations to run effective global preferred-supplier programs, which in turn have improved their management of buyer-supplier relationships. Among our clients we've seen benefits in price and nonprice leverage that delivers 5%–15% in savings to the bottom line, along with internal cost savings. This type of automation has enabled brisk implementation of reverse auctions and similar buyer-supplier innovations, which we have seen work especially well for categories such as fleet management, where there is a high supplier density with homogeneous buyer specifications.

Order-to-cash

Many companies appear to struggle to carry out their order-to-cash processes quickly, and this slowness has broad implications for companies' cash flow and broader financial performance. This research reveals that 63% of companies are unable to generate an invoice within three weeks of receiving an order, and that only 14% of companies generate an invoice within one week of receiving an order. In our view, these findings reveal a problem that extends beyond the discrete process of issuing an invoice promptly after receipt of an order. Our experience suggests that many companies have suboptimal end-to-end processes for order receipt to delivery. Such processes, combined with strict payment-on-delivery requirements, can slow down invoice issuance substantially, cause low inventory turns, increase the amount of cash trapped in accounts receivable, and reduce customer satisfaction. In our experience, companies that shorten their order-to-delivery cycle time by 30% are able to reduce days working capital by one day, as well as increase revenue by 2%. For a $5 billion company, such an improvement can release $15 million in cash flow and increase revenue by $50 million to $100 million per year.

In addition to keeping pressure on collections timing, many companies are also likely to focus on tracking and minimizing revenue dilution in the years ahead. Survey results indicate that fewer than 70% of companies have automated, reliable ways of tracking a variety of drivers of revenue dilution, including invoicing/billing errors, unearned cash discounts, and preventable deductions, among others. This can be a serious limitation in some industries. For example, in the utilities sector, our estimates suggest that 3.5%–7% of revenue is lost to theft, fraud, billing inefficiencies, tampered meters, or meter-reading errors. The first step in reducing revenue dilution is to identify its sources, gauge their magnitude, and then estimate the potential savings to be had from taking action.

As indicated by this research, finance executives recognize the substantial business impact that customer satisfaction can have on their companies. In the survey, customer satisfaction emerged as a key metric at most companies: companies have reliable, automated ways of tracking customer satisfaction more often than any other order-to-cash-related metric we asked about. Extending our utilities example, we have seen that increasing customer satisfaction is many utility providers' top strategy for differentiating themselves from the competition—and for good reason. In the wake of deregulation, customers increasingly have the ability to choose from a variety of utility providers, which has resulted in fierce competition to acquire and retain customers. Within the utilities industry, a 1-percentage-point improvement in customer satisfaction can translate to 4.6% growth in market value, according to analysis of American Customer Satisfaction Index data.

Companies' order-to-cash improvement plans as reported by survey respondents are consistent with our extensive experience with helping companies optimize their processes. We have found that resolving organizational issues is a primary focus for many companies as they strive to improve their order-to-cash processes. Improving communication and cooperation between sales, operations, and finance is especially critical for companies that split their order-to-cash activities between the finance function and operations/customer-service organizations. In many cases, companies with such models struggle to establish ownership of the order-to-cash function, which muddles accountability and makes it difficult to drive transformation initiatives. Our experience indicates that organizations that have been successful in establishing order-to-cash-process ownership are much more likely to be able to drive order-to-cash-transformation initiatives.

Consolidate-to-report

A changing regulatory landscape in the past 10 years has called on finance organizations to capture more data from more sources and to report results to a broader array of stakeholders. Similarly, investors, auditors, and management teams have higher expectations for timely, accurate, and insightful performance reporting. And

within companies, many factors—including expanding lines of business, mergers and acquisitions, and geographical dispersion—have often contributed to more complex and inefficient closing processes. Despite widespread efforts to implement a “fast close” process, many companies continue to struggle with the three main stages of the consolidate-to-close process.

At Genpact, we’ve found that a careful look at the end-to-end closing process at most companies reveals several opportunities to reduce the time and effort needed to complete a quarterly close. In our experience, several types of consolidate-to-report improvements—including peak load balancing, re-sequencing of activities, identifying activities that can be moved off the critical path, and automating manual tasks by leveraging existing technology—can help companies reduce the level of effort they require to complete their quarterly close by 20%–30%. These process and technology improvements have shortened consolidate-to-report cycle times, and reductions in effort have released valuable resources for other finance activities.

Benchmarking as the path to improvement

In our view, benchmarking plays an especially important role in designing and managing business processes for optimal performance. We believe that a robust, quantitative comparison of activities, processes, performance, and business outcomes reveals an analytically sound view of how processes can perform and the business implications of reaching a higher level of performance. Faced with the current demands from internal and external stakeholders, companies and their senior finance teams will benefit, we believe, from an especially lucid view of process excellence and its business implications.

The present economic climate has created a set of unprecedented challenges for the CFO. With the rising cost of finance, dwindling margins, and increased shareholder expectations, the CFO is under constant pressure to optimize business processes. With this in mind, we have invested aggressively to build our business-process benchmarking capabilities, which include vast amounts of business-process data that we deploy in a proprietary framework called Smart Enterprise Process (SEP). We’ve configured our SEP data capabilities with suites of services that focus on the functional requirements of our clients, including the CFO. The Genpact CFO Suites have been designed to provide several main business benefits that directly impact the bottom line of an organization. The CFO Suites help in improving key business outcomes in sourcing, procurement, order-to-invoice cycle time, financial accounting, and reporting.

The Order-to-Cash SEP suite equips companies selling in a B2B environment with a road map to best-in-class performance on key business outcomes like days sales outstanding, revenue dilution (cash yield as a percentage of sales), order-to-invoice cycle time, customer satisfaction, and cost of processing a sale.

The Source-to-Pay SEP suite enables us to measure client organizations’ process efficiency in indirect materials and create a concrete plan to achieve best-in-class performance on key business outcomes like sourcing, procurement, and payment.

The Record-to-Report SEP suite is of utmost importance to CFOs, controllers, and finance organizations. It not only focuses on time taken to report company financials to the street, but it also focuses on compliance, controllership, and accuracy of numbers. Our Record-to-Report SEP suite is designed to improve various subprocesses, including those associated with journals, reconciliations, subledgers, fixed assets, closing, consolidation, reporting, financial planning and analysis, tax, and treasury, to achieve the final objective of reducing time-to-report for a customer. The SEP suite can increase the reliability of financial statements, lower the cost to close, and provide more-efficient financial analysis.

We urge you and your colleagues in finance and procurement leadership to consider the findings of this study as a starting point for a complete evaluation of opportunities for improving business-process effectiveness. We welcome the opportunity to continue the conversation with you soon.

GENPACT
INTELLIGENT ENTERPRISES POWERED BY PROCESS

Genpact is a global leader in business process and technology management services, leveraging the power of smarter processes, analytics and technology to help its clients drive intelligence across the enterprise. Genpact provides a portfolio of process-driven services strengthened by its industry vertical domain expertise, analytical insights, and intelligent technology solutions for better business outcomes. For more information, please visit www.genpact.com or follow @genpact_Ltd on Twitter

If you would like to know more about how Genpact can help finance professionals measure and benchmark their core processes to deliver superior business outcomes, please write to sep.solutions@genpact.com