The Evolution of Finance and of the Role of the CFO
- Report about Best and Next Practice -

Jürgen H. Daum
Chief Solution Architect,
Business Solution Architects Group, SAP EMEA

Universität Mannheim, 19.02.2008
About Juergen H. Daum

► CFO adviser and Chief Solution Architect, Business Solutions Architects Group at SAP EMEA. Co-founder of the SAP Best Practice Network
► Author, lecturer and trainer in enterprise management, finance transformation, innovation management and entrepreneurship, + founder of the International Institute of Enterprise – Heidelberg (see: www.iioe.eu)

Professional background:
► CFO in a mid-sized German company before joining SAP in 1992
► Five years in SAP’s field organization in Germany and Europe: sales, consulting, product management with the focus on financials and enterprise management
► Five years in SAP’s product development: Product Manager SAP R/3 EC and Strategic Enterprise Management (SEM), Program Director for mySAP Financials
► Since 2002: advising CFOs, and finance professionals of European companies - current focus on finance transformation & enterprise performance management. Co-founder and conceptual father of the SAP Finance Best Practice Network (SAP FBPN)
► Since end of 2006: President of the International Institute of Enterprise – Heidelberg

Frequently publishing and speaking on enterprise management, finance transformation and other management topics; author of the books "Intangible Assets and Value Creation" (2003) and “Beyond Budgeting” (2005) - more at http://www.juergendaum.com
Juergen H. Daum - Publications (selection)

Books:

- **Intangible Assets and Value Creation** by Juergen H. Daum
  - John Wiley & Sons, Chichester, 2003
  - ISBN 3-89842-112-0

- **Intangible Assets oder die Kunst, Mehrwert zu schaffen** von Jürgen H. Daum
  - Galileo Press, Bonn, 2002
  - ISBN 3-89842-112-0

- **Beyond Budgeting** von Jürgen H. Daum (Hg.)
  - Martin Meidenbauer Verlag, München, 2005
  - ISBN 3-89975-533-2

Contribution to book‘s of others (selection):

- **The CFO as Business Integrator**
  - by Cedric Read and Dieter Scheuermann
  - John Wiley & Sons, Chichester, 2003
  - ISBN 047085149X

- **Intangibles in der Unternehmenssteuerung**
  - von Peter Horváth und Klaus Möller (Hrsg.)
  - Vahlen, München, 2004
  - ISBN 3-8006-3035-4

- **Neugestaltung der Unternehmensplanung**
  - von Peter Horváth und Ronald Gleich (Hrsg.)
  - Schäffer-Poeschel, Stuttgart, 2004
  - ISBN 3791021079

Upcoming:

- **Finance Transformation – Der CFO als Business Partner**
  - von Jürgen H. Daum (Hg.)
  - Martin Meidenbauer Verlag, München, 2006
  - ISBN 3-89975-105-5

For the complete publication list see: [http://www.juergendaum.com/publications.htm](http://www.juergendaum.com/publications.htm)
The SAP Finance Best Practice Network (founded in 2004)

CFO Roundtable (2x per year, two half days)

Finance Best Practice Workshops (3x per year, two full days)

Special Workshops: Focus Workshops, Site Visits, Customer Forums (on demand)

Level of Detail

- Ideas and concepts (of individuals/single companies)
- Cross company network (of finance professionals)

For CFOs and Finance Directors only
- Get a quick understanding of new emerging topics
- Exchange of „Best Practice“ strategies in finance transformation
- Definition of strategic direction of FBPN activities

For senior finance professionals/finance architects (finance transformation program manager, group controller, chief accountant, finance operations manager, ...)
- Exchange of „Best Practice“ implementation concepts for finance transformation
- Identification of demand for Focus Workshops

For domain/project leaders, who currently work on an implementation project
- Exchange of „Best Practice“ on process level

- Identifying best practice
- Learning from each other
- Testing new ideas
- Developing practical solutions that work in a specific company environment
The SAP Finance Best Practice Network: Participants of past events (Selection)
Agenda

How finance has emerged as an important corporate function: ‘historic’ examples

Evolution of finance and of the role of the CFO in the past decade

Current challenges and best practices: moving to a true business partner role

What’s next?
How finance has emerged as an important corporate function: ‘historic’ example I

He was the architect of the first multinational company ever (around 1500): The „Jakob Fugger and Gebrüder Söhne“ company was:

- engaged in mining and copper & silver trading, banking (he was the banker of the emperor) and in international trading
- headquartered in Augsburg, Germany, with ‘subsidiaries’ (called ‘Faktoreien’) all over Europe

His challenge:

➔ To control the widespread network of subsidiaries

The solution:

➔ Introduction of double entry accounting to record all transactions in the subsidiaries

➔ Subsidiaries had to send every couple of weeks a report to headquarters including accounting data and news from local markets

© 2002-2008, Jürgen H. Daum, guest lecture at the Mannheim University, 19.02.2008
Jakob Fugger 1459 - 1525

He was the architect of the first modern corporation: the General Motors Corporation, where he - as president and CEO – created (in the 1920s/1930s) a management system to manage:

- the first large divisional industrial corporation
- the first corporation that combined central Shareholder Value-oriented Portfolio Management with decentral business/operational Management of the different divisions

Alfred P. Sloan 1875 - 1966

His challenge:

➤ To control the economic success of a large divisional industrial organization that is managed in a decentral way

The solution:

➤ Introduction of an appropriate financial control infrastructure:

Creating Financial Transparency
- Financial KPIs
- P&L
- B/S
- ROI

Budgeting, Forecasting, Financial Reporting

Donaldson Brown (1885-1965), VP Finance of General Motors, who developed the new financial control instruments in the 1920s

How could we exercise permanent control over the whole corporation in a way consistent with the decentralized scheme of organization? […]

It was on the financial side that the last necessary key to decentralization with coordinated control was found.

That key, in principle, was the concept that, if we had the means to review and judge the effectiveness of operations, we could safely leave the prosecution of those operations to the men in charge of them."

*Source: Sloan, A.P., My Years With General Motors, 1963 (new edition: 1990), p. 139-140

**With the new financial / budgetary control model they created at GM the foundation for modern general management**
Agenda

How finance has emerged as an important corporate function: ‘historic’ examples

Evolution of finance and of the role of the CFO in the past decade

Current challenges and best practices: moving to a true business partner role

What’s next?
Drivers I: Globalization of financial markets + increasing corporate complexity

Globalization of financial markets:
- Open financial markets increase "competitive pressure" on enterprises to create shareholder value
- The growing influence of shareholders on enterprise policy requires professional shareholder value management
- This requires an alignment between management- and external financial-reporting

Increasing corporate complexity:
- Size (e.g. GM had 11000 employee in 1922, today 327000)
- Geographic coverage
- More complex business models

Increased risk of fraud and 'bad governance':
- Investors and the public demand better governance and risk management
- Companies have to prove that they have the capabilities for "good corporate governance" to earn / re-establish reputation with investors and other stakeholders
The consequence: new accounting standards (IFRS) and new regulations to ensure „good corporate governance“ (e.g. SOX)

Ultimately there isn’t any reason why a transaction in Boston should be accounted for any differently than one in Brussels or Brisbane. And if they are accounted for in the same way its going to open up the capital markets.

Say you are on Wall Street, reviewing a Dutch company. You’ll have other things to think about, but accounting is not going to be one of them. That’s going to reduce cost of capital. That will save a lot of money.”

Sir David Tweedie, chairman, IASB

My advice to other CFOs, especially of big companies that are highly diversified, is to have a very centralized financial-control [system]….You have to have very active enforcement in your regions and in your groups…

One should not use complexity [of the organization] as an excuse for not [having] effective processes and financial controls. You have to apply very strong processes and discipline, and make sure …executives know at any given point what their responsibilities are and that all your people are trained time and again.”

Joseph Kaeser, CFO, Siemens

IFRS objectives:
- One accounting-language worldwide
- ’Management approach‘ (alignment of internal and external reporting)
- ’True and fair view‘ from an investor perspective („fair value accounting“)
- Centralized financial control (system)
- Effective processes for financial control
- Clear responsibilities (organization)
- Ongoing training (people)

*Source: Calabro, L., Siemen’s Joseph Kaeser faced with steering the global conglomerate through a major bribery scandal, in: CFO.com, June 01, 2007
Drivers II: Globalization of product markets and of an enterprise’s business

1980er

“International” company

- with foreign subsidiaries
- functionally organized

1990 / 2000er

Transnational enterprise

- Realization of scale effects through cross-country leverage of resources
- Global control of business units
- Global standardization of business processes

The model example of the 80s/90s*:

ABB

Group Executive Team

- CEO
- Regional Heads
- Business Segment Heads

More globally standardized financial processes & finance efficiency improvements through best practice sharing

*see the ABB case study in: Daum, J.H., Intangible Assets Value Creation, John Wiley&Sons, 2003, pp. 144-164
The consequence: new „business models“ for Finance&Control - Examples

**Objectives:**
- Reduction of complexity and increase of service quality
- Creation of a ‘platform’ for growth
- Reduction of F&C-cost

**Today’s best practice „business model“ for Finance&Control:**

**Corporate CFO**
- Governance, Risk Mangmt. & Compliance
- Business-Navigation & Development

**“Business Partner”**
- BU1
- BU2
- BU3
- BU4

**“Service Manager”**
- Group-wide support functions

**Consequence for F&C:**
- A clear split of tasks between ‘business support’ (through shared services and centers of excellence) and local ‘business partnering’
- Common, standardized processes and IS

Required: A transformation of the corporate financial infrastructure

Purpose:
Enable for efficient and effective finance operations that provide:

- Financial Governance & Compliance
- High Quality Financial Services
- Decision & Navigation Support

Triggering the financial infrastructure requirements:

Processes

Organisation

IS

People

Example: The Finance Transformation Strategy at Consumer Product Multinational II

Our strategy mapping identified 5 core “thrusts”

- Financial Flexibility
- Innovative Business Partnering
- People and Organisation
- World Class Finance Processes
- Dynamic Performance Management

‘Find the hour’

Inputs

- Business Strategy
- Finance Mission
- Stakeholder Interviews
- Peer companies
- Benchmarking

Finance Strategy Formulation
Example: Finance Transformation at Consumer Product Multinational I
- The Way to SSC: Standardizing and Reengineering Processes

- Harmonize financial semantics and structures to only 1 global standard
- Process redesign / cross-functional end-to-end process design
- Define “what’s in and what’s out”: which finance tasks will be left to the business, which finance tasks will be managed as Shared Service?

<table>
<thead>
<tr>
<th>CO</th>
<th>Cost Accounting</th>
<th>Product Costing</th>
<th>Reporting E6/E7</th>
<th>Business / Functional Controlling</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PTP</td>
<td>Master data handling</td>
<td>Purchase request</td>
<td>Purchase order processing</td>
<td>Process Invoices (A/P)**</td>
</tr>
</tbody>
</table>

- FS Processes
- BBP Processes
- Parts transactional
- Fully transactional process
  - A/R = accounts receivable
  - A/P = accounts payable
Example: Concept for the Finance Organization at European Financial Services (Bank) II

The Business

CEO

Business Units

Countries/Regions

Local Business Partner Support

Finance & Control Services

Central Business Partner Support

Help Desk 1

Help Desk 2

Help Desk N

Group Finance

Transaction Processes

Shared Services Centers

Outsourcing Partner

Centres of Excellence

• Auditing

• Tax

• Decision Support

• Treasury

• ...

External Stakeholders
Example: The Finance Transformation Strategy at Consumer Product Multinational II

Our strategy mapping identified 5 core “thrusts”

- Financial Flexibility
- Innovative Business Partnering
- World Class Finance Processes
- People and Organisation
- Dynamic Performance Management

‘Find the hour’

Inputs
- Business Strategy
- Finance Mission
- Stakeholder Interviews
- Peer companies
- Benchmarking

Finance Strategy Formulation
Example: Vision for ‘self-service’ Management Reporting at Consumer Product Multinational IV

**Comments**

- Analysis of Estimate/Target development
- Trend analysis on Actuals
- Drill down (organisational)

**Links to performance reporting**

- Financial Performance
  - Net for organizational units
  - Cost control at accounting/controlling external interfaces
  - Balanced scorecard reporting
- Sales Performance
  - Sales/OM report on customer products
  - Sales order & delivery tracking
  - Reporting of sales order
- Production Performance
  - Volume reporting
  - Production key figures
  - Logistics performance
- Other

**KEY FINANCIAL FIGURES**

<table>
<thead>
<tr>
<th>Division Denmark, AFD 2004Q1-AFD</th>
<th>Direction</th>
<th>Actual</th>
<th>Trend</th>
<th>Illustrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>LY</td>
<td>Target</td>
<td>Est. FY</td>
<td>YTD</td>
</tr>
<tr>
<td>Production cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution margin 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing contribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution margin 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>LY</td>
<td>220,446</td>
<td>FAM 005</td>
<td>FAM 005</td>
</tr>
</tbody>
</table>

**KEY PERFORMANCE INDICATORS**

<table>
<thead>
<tr>
<th>Division Denmark, AFD 2004Q1-AFD</th>
<th>Direction</th>
<th>Actual</th>
<th>Trend</th>
<th>Illustrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk price (EUR)</td>
<td>LY</td>
<td>2,301</td>
<td>2,271</td>
<td>2,271</td>
</tr>
<tr>
<td>Sales volume increase (in product category % of total sales volume)</td>
<td>LY</td>
<td>5,688</td>
<td>5,804</td>
<td></td>
</tr>
<tr>
<td>Capacity utilization (%)</td>
<td></td>
<td>70</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Market share increase (in product category %)</td>
<td>LY</td>
<td>70</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Gross contribution (%)</td>
<td></td>
<td>80</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Private label % of total contribution</td>
<td>LY</td>
<td>9</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Marketing contribution (MDCN)</td>
<td></td>
<td>1100</td>
<td>1200</td>
<td></td>
</tr>
<tr>
<td>Cost driver reductions (1-7)</td>
<td></td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Employee contributions (%)</td>
<td></td>
<td>45</td>
<td>45</td>
<td></td>
</tr>
</tbody>
</table>

**ACTION PLAN 2004Q1-AFD**

<table>
<thead>
<tr>
<th>Action</th>
<th>Objective</th>
<th>Comment</th>
<th>Status</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget review process</td>
<td>Increase turnover by 25%</td>
<td>Phase 1 has been finalized</td>
<td>2004-04-01</td>
<td></td>
</tr>
<tr>
<td>Cost reduction, capacity cost</td>
<td>Reduced capacity cost by 5%</td>
<td>Contract negotiations have entered its final phase</td>
<td>2004-04-01</td>
<td></td>
</tr>
<tr>
<td>Marketing campaign, increase of Broadb base</td>
<td>Print staff market share</td>
<td>Positive customer feedback from all pilots</td>
<td>2004-04-01</td>
<td></td>
</tr>
<tr>
<td>New Contract with Supplier(s)</td>
<td>Eliminate GIC in Dables</td>
<td>On-going – will be closed in 2 weeks</td>
<td>2004-04-01</td>
<td></td>
</tr>
</tbody>
</table>
Example of Oil&Gas Multinational: New Planning & Appraisal Concept

PLANNING – “TO BE” VISION

CURRENT STATE

- Link to strategy fairly qualitative
- Bottom-up process
- Inconsistent approaches across Businesses make meaningful consolidation difficult
- Overlap between planning and budgeting
- Very detailed and time-consuming
- Annual process, quickly “out-of-date”

TARGET STATE IN 2010

- Improved strategic alignment
- Clearer understanding of choices, sensitivities, risks
- More use of drivers and top-down target setting
- Improved alignment between Group and Business Planning processes
- Group Financial Model in an “always ready” state to support decision making
- Budgets de-linked from Plans except at certain anchor points
- Integrated Planning-Budgeting-Forecasting-appraisal framework
Example of a Footwear & Clothing Multinational: The message of the CFO

The multi-branded „backbone“ – Processes

Corporate Performance Management at the core

- Enable decision making
- Understanding of business performance
- Linking actions to strategies
- Optimize resource allocation
- Meet strategic goals

Business oriented planning activities

- Empowered organisation with clear rolling focus on the future
- Move towards „beyond budgeting“ environment
- Reviews as a platform for debate, learning and steering

The multi-branded „backbone“ – Processes
Example: Dynamic Forecast at Consumer Product Multinational III (UK market unit)
Example of a Footwear & Clothing Multinational: Role of the IS-infrastructure

The multi-branded „backbone“ – Systems

- Architecture to support strategic and operational performance management
- BI Foundation and dashboards for operational insight
- Accountability and transparency

- CPM
- Group Data Warehouse
- ERP
- Cross Functional Analysis, Identification of Cause-Effect Chain
- Legal & Management Consolidation, Corporate Performance Management Framework
- Mass transaction processing, process harmonization
Focus on **processes and technology**

- **Organization**
- **Processes**
- **IS / IT**
- **People**

**Finance Transformation & Financial Infrastructure: Focus of first phase**
Agenda

How finance has emerged as an important corporate function: ‘historic’ examples

Evolution of finance and of the role of the CFO in the past decade

Current challenges and best practices: moving to a true business partner role

What’s next?
“At SAP, our task as a business partner role as finance people is to support the transformation of the company, the transformation from a product company to a business solutions platform company with a growing focus on the volume business in the mid-market.

[... And for finance this ] especially implies a shift away from transactional processes to be able to focus more on the business partner role. We have to support this by implementing shared service structures around the world in order to free up resources to then better support the business.”*

*Dr. Werner Brandt, CFO of SAP*
“There are two fundamental demands for the CFO of the future: One is about reputation of the business: it’s about risk management, it’s about open accounting policies. It’s also about initiation, perhaps self-initiation in terms of Corporate Governance.

[...] The other one is about decision-making support. I think we will see purely transactional financial processes disappearing out of the CFO task portfolio.

The CFO career of the future is therefore most likely based on experiences in the decision support and business analysis area and in that broad reputation/ limitation role.”*  

David Kappler, retired CFO of Cadbury Schweppes

"F&C and the CFO have to live a dual role"

“We really have to live this dual role, these two different roles. And this means not only having two different mindsets, but to act in two very different ways.

The co-pilot role requires you to continuously challenge and drive for innovation. [...] On the other side, in your stewardship role, you have to be concerned at the same time about what Dominic Moorhead [from Roche Pharma] called in his presentation ‘guarding the financial peace’. [...] You have to ensure good financial governance.

So you have to balance both approaches and both roles."

Dr. Wolfgang Reichenberger, (at that time of the discussion) CFO of Nestlé

*Statements made during the panel discussions at the CFO Roundtable, 03 December 2004 in Venice, Italy, and at the CFO Roundtable, 02 December 2005 in Vienna, Austria. Both panel discussions will be published in the forthcoming book: Daum, J.H. (ed.), Finance Transformation – The CFO as Business Partner and Business Navigator
After Shared Services have been established, the Business Partner role becomes crucial.

Corporate Management and Governance

The Business

Business Support

Governance, Risk Mangmt. & Compliance: “Stewart“


BUs

REGIONs

sites

BUs

REGIONs

“Business Partner”

SSO

BPO

“Service Manager”

OTC

PTP

RTR

DS

RFF

…

From Financial to Business Governance

From Cost Manager to Strategist & Value Portfolio Manager

From Staff-function to Enabler

From Control to Influence

From “Watch dog” to Networker

From Financial Control to Business Performance Management

From Backoffice Administrator to Professional Service Manager


© 2002-2008, Jürgen H. Daum, guest lecture at the Mannheim University, 19.02.2008
Example: The Finance Transformation Strategy at Consumer Product Multinational II

Our strategy mapping identified 5 core “thrusts”

- Financial Flexibility
- Innovative Business Partnering
- Dynamic Performance Management
- World Class Finance Processes
- People and Organisation

‘Find the hour’
‘Fill the hour’

Inputs
- Business Strategy
- Finance Mission
- Stakeholder Interviews
- Peer companies
- Benchmarking

Finance Strategy Formulation
Example of a Footwear & Clothing Multinational: The message of the CFO

The multi-branded „backbone“ - Organisation

Focus on „business partnership“ and decision support

- Dedicated financial support to key Decision Makers
- Direct reporting lines into business with functional dotted lines
- Elevate the bar and continuously consolidate the low end of the activities pyramid in shared services / centers of excellence (e.g. standard reporting)
Example: Finance-Business Partnering at Consumer Multinational III – Structures and Roles

Core Roles (embedded in the business)
- Co-Pilot & Strategist
- Org. Structure / People Development / IS-Systems
- Special Services (CoE)*
- World Class Fin. Processes (Shared Services)
- Decision Support Services (CoE)*

Leverage economies of scope

Backend Services
- Leverage economies of scale

*CoE = Centre of Expertise
Moving to Business Partnership: Standardization of Management Reporting & Communication at Consumer Multinational V

The objective: Achieving a real change in behavior!

Key requirements to address gaps
- Where business needs drive enhancement focus
- Key requirements
- Lead indicators
- Lag indicators
- Key performance indicators
- Key reportable criteria
- Key reporting sections, structured flow

The main purpose is to provide a structured and consistent format for management reporting and communication at the Consumer Multinational V, focusing on achieving a real change in behavior.
Benefits:
- Management coherence / creates the one point of reference for management
- Strategy focus: infuse strategy in all operational decision taking
- Promotes systematic thinking and cross-functional learning
- Increases efficiency of management meeting (reduces time needed)
- Management know-how is saved and preserved


The Management Cockpit War Room concept

Combines:
- Concepts to improve the intellectual productivity and decision quality of managers and management teams
- Ergonomic room design
- Information Technology

What it does:
- Effective information supply: provides standardized information, tailored to management needs / decision making
- Effective management collaboration: supports the work of a management team and the accompanying decision process

What are the benefits of a ‘Management Cockpit War Room’?

„Nowadays we are in a position to relate the reality of day-to-day business and strategy not only once in the planning stages, but almost on a daily basis. […] This has enabled us to master the transformation from tactical to strategic management. […]"

Also, our controlling and controlling meetings have become much more efficient:
quarterly controlling meeting of a business divisions typically takes only 30-60 minutes. It used to take two to four hours.”


© 2002-2008, Jürgen H. Daum, guest lecture at the Mannheim University, 19.02.2008
Innovative Finance - Business Partnering at Consumer Product Multinational II

The Goal: Transformation, not just Tools

Innovative Business Partnering Roadmap

<table>
<thead>
<tr>
<th>Substandard Practice Stage 1</th>
<th>Standard Practice Stage 2</th>
<th>Good Practice Stage 3</th>
<th>Best Practice Stage 4</th>
<th>Breakthrough Practice Stage 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Finance’s role is budget management</td>
<td>➢ Finance has basic appreciation of marketing and sales principles and processes</td>
<td>➢ Finance well educated in marketing/sales principles and processes</td>
<td>➢ Finance have credible experience in applying marketing/sales principles and processes</td>
<td>➢ Opportunities for staff to move between Marketing, Sales, SC and Finance</td>
</tr>
<tr>
<td>➢ Only a few good practices in place to evaluate investment with little to no Finance involvement</td>
<td>➢ Good practices applied in areas with irregular Finance involvement</td>
<td>➢ Good practices embedded in key areas of investment with regular Finance involvement</td>
<td>➢ Best practices embedded with Finance as an enabler</td>
<td>➢ More advanced, integrated and predictive tools embedded</td>
</tr>
<tr>
<td>➢ Some integrated and predictive tools</td>
<td>➢ Common learning programs across Finance, Sales, and Marketing</td>
<td>➢ Collaborative Decision Support embedded throughout organisation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example: Finance-Business Partnering at Pharma Multinational – Focusing on Financial Governance

Finance Credo

Our winning finance team will navigate the path to new heights of business performance, leading with our partners in crafting and executing value enhancing decisions, while ensuring financial peace.

Ensuring financial peace

• Our systems, processes and individuals ensure integrity and reliability of our business information
• We are a key stakeholder in fulfilling compliance and governance requirements and promoting good business ethics
• We apply professional standards in a rigorous, ethical and consistent way
Example: Finance-Business Partnering at Pharma Multinational – Focusing on Financial Governance

Financial Peace Framework
What is it and how is it intended to work?

Fact Base (Document)
- Identifies main risks in affiliate business processes
- Sets standards for the role and accountability of finance in addressing these risks

Business & Finance Questions
- For GM & business to quickly assess impact and monitor risks
- For finance to assess own involvement, effectiveness and audit readiness versus the risks

Joint Assurance Platform
- Aligns business and finance with a fact base that helps ensure risks are well managed
- Provides PF with a platform to strengthen assurance, be effective and aligned as function and partner.

Initial Financial Peace Coverage
It’s about the main affiliate business processes

Affiliate Value Chain:
- Introduction of products into the market
- Approval, pricing, labeling, reimbursement
- Phase IV activities/Local Market Development
- Marketing activities/Commercialization
- Selling
  - Pricing, customer, product master
  - Negotiation/tenders/contract
  - Promotion/Detailing/Travel & Entertainment
- Supply into the market
  - Demand management/Forecasting
  - Supply management in market
  - Customs/Regulators/Import

Relevance to Financial Peace considers...
- Likelihood or impact
- Financial accountability
- Applicable for most affiliates

High Relevance to Financial Peace at most Affiliates:
- Financial and other support processes
  - Taxes, Transfer pricing, Closing processes
  - Non-inventory procurement
  - Royalties and Commissions

What can we offer?
Serves different needs and purposes but with one vision

GM & his/her team leverage the value of Financial Peace for the Affiliate
- Quickly identify risks to business objectives & imperatives
- Relevant, fact based dialogues
- Support clarity of accountabilities
- Solutions oriented

Finance alignment - FM role and standards to address risks clear
- Aligning minimum accountabilities
- Understanding gaps
- Best practice and driving efficiency
- Setting priorities & goals
- Platform for better communication

Enhancing Business Partnership

Strengthening Functional Excellence

© 2002-2008, Jürgen H. Daum, guest lecture at the Mannheim University, 19.02.2008 | Page 38
Focus on **people and organization**

Focus on **processes and technology**
The multi-branded „backbone“ – People and roles

- Dedicated controlling as front-line partnership
- Business partnership to drive corporate governance
- Rotational programs
- Cross-functional steering of initiatives (e.g. Working Capital)
- Align measurement with strategies – e.g. Passion for Performance
Finance-Business Partnering require a shift in focus on people and organization - examples: Consumer Products III and Pharma

Change Management – Congruence Model
we need to address issues and opportunities across both the ‘hard’ and the ‘soft’ dimensions
Enabling Business Partnering at Consumer Products Multinational III: F&C training program

The rationale:

- **WHY:** Need to improve F&C skills in competencies areas of business partnering and value creation

- **WHAT:** “Enable F&C to make-it-happen” focusing on specific topics as per Group priorities (e.g., value destroyers, operational excellence, leverage scale and skill, data and info flows...)

- **HOW:** Apply End-to-End approach targeting high potentials supported/coached by senior F&C managers

---

The methodology:

F&C training End-to-End

Players:
1. Elected staff (S/6)
2. Coaches (F team)
3. Architects/Enablers

Stages:
- Prepare
- Think upfront
- Come together, share challenges & align
- Action/Advises

BSM way of learning & working

Results Communication Transform

© 2002-2008, Jürgen H. Daum, guest lecture at the Mannheim University, 19.02.2008
Enabling Business Partnering at Pharma Multinational: Finance Career Framework

The career framework aims to address six questions:

1. Which career paths are needed to meet the business needs?
2. How many career levels are typically required?
3. How does career progression work and what are the requirements to enter a career level?
4. Which leadership competencies are needed? (with Pharma PM roll out)
5. How does a career start?
6. How will decisions be made regarding finance careers?

The framework provides transparent career development paths into and within the global management level:

- All positions of global interest in PF require management and leadership skills in addition to financial skills.
- The global management path is currently the only global career path for Pharma Finance (no specialist path or project management path at this time).
- Professional level as talent pool for global and local management.
- Compass is a focused development program feeding global key entry management positions.
Agenda

How finance has emerged as an important corporate function: ‘historic’ examples

Evolution of finance and of the role of the CFO in the past decade

Current challenges and best practices: moving to a true business partner role

What’s next?
### European CEO’s Top 10 Challenges

**2006:**
1. Speed, flexibility, adaptability to change
2. Profit Growth
3. Sustained and steady top-line growth
4. Consistent execution of strategy by top management
5. Stimulating innovation / creativity / enabling entrepreneurship
6. [Product] Innovation
7. Customer loyalty / retention
8. Speed to market
9. Tight cost control
10. Improving productivity

**2007:**
1. Excellence in execution
2. Sustained and steady top-line growth
3. Speed, flexibility, adaptability to change
4. Consistent execution of strategy by top management
5. Profit growth
6. Finding qualified managerial talent
7. Customer loyalty / retention
8. Corporate reputation
9. Speed to market
10. Stimulating innovation / creativity / enabling entrepreneurship

Source: The Conference Board
© 2002-2008, Jürgen H. Daum, guest lecture at the Mannheim University, 19.02.2008
“After I became CEO [in 2001] I looked at the world […] and realized that over the next ten or 20 years there would be not much tailwind.

It would be more global market, it would be driven by innovation, and a premium would be placed on companies that could generate their own growth. We have to change the company – to become more innovation driven – in order to deal with this new environment [and to be able to achieve an average organic growth rate of 8% = 2-3x world GDP growth]"

Jeffrey R. Immelt – Chairman & CEO – GE

“One major issue [for finance is] to develop the role further to improve support to better manage the business – and not just leave it up to the CEO to drive the business, to drive results.”

*Statements made during the panel discussions at the SAP CFO Roundtable, 24 May 2006 in Prague, Czech Rep.. Will be published in ‘Finance Director Europe: Daum, J., Koppelman, P., Lévi, Ch., Silbermann, M., “The challenge for finance will be to develop the growth pipeline rather than just reporting on it and on the ideas of others - a discussion with the CFOs and senior finance executives of BHP Billiton, Electricité de France (EdF), and Microsoft Germany, about the role of finance as business partner for sustainable, profitable growth, in: Finance Director Europe, issue April 2008*
The CFO View

“One major issue [for finance is] to develop the role further to improve support to better manage the business – and not just leave it up to the CEO to drive the business, to drive results.”

*Statements made during the panel discussions at the SAP CFO Roundtable, 24 May 2006 in Prague, Czech Rep.. Will be published in ‘Finance Director Europe: Daum, J., Koppelman, P., Lévi, Ch., Silbermann, M., “The challenge for finance will be to help to develop the growth pipeline rather than just reporting on it and on the ideas of others - a discussion with the CFOs and senior finance executives of BHP Billiton, Electricité de France (EdF), and Microsoft Germany, about the role of finance as business partner for sustainable, profitable growth,’ in: Finance Director Europe, issue April 2008

Michael Silbermann, CFO of Microsoft Germany, Munich, D

„help to drive the business“

„help to develop the ’pipeline‘, rather than just report on it“

“If we are honest, most finance professionals are still at the backend of the pipeline, still analyzing what others have done.

The challenge in the future will be to help to develop the pipeline rather than reporting on the pipeline and on the ideas of others.”

*Paul Koppelman, CFO of Commercial BHP Billiton, The Hague, NL
Example: U.S. Multinational (CEO view)

- **Basics**
  - ensure the foundation of integrity
  - built the [new] system of accountability
  - help create a new future

- **Value Adding**
  - leadership development
  - winning business models
  - risk & opportunity management
  - financial planning & analysis
  - rigorous oversight
  - sustainable controllership

**The role of the CFO / of Finance&Control – The CEO View**

- **Steward/Controller**
- **Business Partner**
- **Navigator/Leader**
Next practice business trends and their implications for the financial infrastructure

1. Change in the value creation orientation of enterprises

Focus on organic profitable growth…

…require extended performance management models

Need for analytics / reporting beyond the financials

2. Growing importance of business model innovation

Business model innovation will become the source of differentiation…

…leading to regular reconfigurations of the value creation model + of fin. infrastructure

Need for more flexibility and adaptability

3. Growing importance of business networks

We will see more alliances, cooperations and business partnerships…

…requiring concepts for a collaborative financial infrastructure

Need to move beyond the borders of the company

Source: Juergen H. Daum / IIOE
Required: A shift in behaviour
From Business Partner to Navigator & Leader:
CFO message of Consumer Product Multinational III

Enable F&C to Make-it-Happen

Goal

Gap Analysis → Business Partnering → Driving Value

Business Partnering

Achieve Results

Decisions Support

- Understand the pilot → the business → the strategic mindset → what creates value
- Strategy toolkit → industry analysis → company analysis → issue analysis
- Consumer insights, behaviour and brand management
- Customer insights and trends
- Understand the global competitive environment and dealing with its ambiguity → Benchmarking → Market attractiveness

- Drive value, prioritize, focus
- Critical thinking
- Mobilize the F&C team
- Focus and priority setting
- Reduce complexity → SKUs
- Identify opportunities
- Risk management
- Portfolio Management
- Scenario analysis → proposals → product abandonment decision
- Pricing the Nestlé way
- What profit is good for Nestlé?

- Leading changes
- Developing and leading non-financial people
- Influence & convince others
- Communicate
- Non-verbal communication → presentations → reporting
- Negotiations with internal and external stakeholders
- Managing "up", "down" and "horizontally"
- Seeking assistance, and support
- Deal with failures and frustrations

ALL: Support Implementation to Make-it-Happen!
CFO’s Finance & Control mission: integrating two very different roles

CFO / Finance & Control

Governance, Compliance & Risk Management

The CFO as “knight of governance“

„Investors [...] want to have the confidence that someone is securing the financial peace of the organization.“

David C. Davies, CFO, OMV AG, ¹

The CFO as “entrepreneur“

„Holger P. Härter, Porsche-CFO, makes the way free“

FAZ* about Mr. Härter’s role in the transformation of Porsche and the “combination” with VW under the roof of the new “Porsche Automobil Holding SE“.


² See: Frankfurter Allgemein Zeitung (FAZ) 27.03.2007, p. 20
Focus on **financial leadership**

Focus on **people and organization**

Focus on **processes and technology**
Integrating the two different roles requires further effort to upgrade the financial infrastructure:

- More collaborative models & outsourcing
- Extended controls and more flexibility
- Advanced analytics / decision support

- More focus on organizational performance, e.g. through:
  - More focus on communication processes
  - More focus on team-design

- More IS-users (e.g. through self-services)
- Hybrid collaborative models & outsourcing
- Service oriented IS / IT architecture

“[...] I see a major challenge for the Finance organization in the future. Taken to the extreme, if we finally outsource all of our transactional processes, and then the other half of the finance organization is closely integrated into the business [because we need a strong focus on ‘business navigation’, which requires a closer integration with the business ] - the challenge will be to keep the two parts together!”*  


**Dominic Moorhead, CFO, Roche Pharma**

… requiring even more financial leadership and a stronger financial infrastructure
Thank You!

Juergen H. Daum
Chief Solutions Architect
Business Solutions Architects Group, SAP EMEA

juergen.daum@sap.com oder
jhd@juergendaum.com
(German edition will be published mid 2008, English edition end of 2008)

- Daum, J., Brandes, D., Brandt, W., Davies, D.C., Kestens, J., Moorhead, D.: Innovation management and the role of finance: status, challenges and vision - a discussion with the senior executives and CFOs of six leading European companies, in: Controller Magazin, 6/2007, pp. 595-60

(http://www.juergendaum.com/news/03_01_2006.htm)
