The PwC-ACCA Finance Effectiveness Survey 2012

“Productivity in the Finance Function”
About this report

The PwC-ACCA Finance Effectiveness Survey is a collaborative effort between PricewaterhouseCoopers LLP Singapore (PwC) and ACCA Singapore Pte Ltd (ACCA). PwC and ACCA have both previously surveyed the effectiveness of finance functions on a global basis\(^1\). The goal of this survey is to gather insights on the current state of finance and accounting function effectiveness and productivity in Singapore, and identify key trends and areas for improvement in a local setting.

This report presents the findings of a direct questionnaire based survey of 63 CFOs and senior finance executives in Singapore conducted from June to July 2012. The report’s findings and insights, while generally consistent with prior PwC and ACCA survey findings, should be of particular relevance to CFOs and senior finance professionals in Singapore.

PwC and ACCA jointly developed the hypotheses for this survey and have co-funded the survey effort and publication of the findings. We wish to thank all the executives who shared their time and insights to participate and respond to this survey.

\(^1\) “Putting your business on the front foot”, Finance function effectiveness benchmark study 2012, PricewaterhouseCoopers LLP, 2012.

This research survey was conducted in June and July 2012 using an online questionnaire which was issued to approximately 500 companies in Singapore. As the respondents to the survey were allowed to pass over particular questions, the number of responses received varies from question to question. The maximum number of responses received for a single question in this survey was 63. The responses were grouped to highlight the main themes in this report.

Profile of Survey Participants

More than 10 industries are represented in the survey including financial services, multi-industry conglomerates, manufacturing, transport / storage / communications, and services.

Distribution of Respondents by Industry (universe = 63)

The survey respondents span all types and sizes of businesses from Small and Medium Enterprises (SMEs) to local conglomerates to regional headquarters of multinational companies. Approximately 59% of respondents are listed (46% on the SGX), 19% are multinationals and the rest private organisations. Further, 81% of the respondents were organisations with global or regional headquarters located in Singapore. In terms of size, 54% of the respondents have more than 500 employees, 25% of the respondents have between 100 and 500 employees, and the rest have less than 100 employees. The distribution of respondents by turnover of company is as follows:

What is the revenue of your Reporting Group?

- <S$ 10 million: 5%
- <S$ 10 million to 50 million: 14%
- <S$ 51 million to 100 million: 16%
- <S$ 101 million to 250 million: 16%
- <S$ 251 million to 500 million: 8%
- >S$ 500 million: 49%
Productivity is the buzzword today in Singapore’s business circles. In recent times rising business costs have become a key pressure point for Singapore based companies, which need to offset the increased costs of operating with a more than proportional increase in their underlying productivity. Secondly, Singapore businesses have also historically relied upon an affordable and steady supply of foreign talent to run their businesses in a profitable manner. However, with the recent shrinking supply of foreign talent available to businesses, it has become critical that Singapore based organisations look at improving productivity within the organisation to grow and remain profitable. Lastly, the need for timely and insightful financial information is another key driver for companies and the need to maximise efficiency and productivity in the finance function.

The concept of productivity applies to all facets of the business. The finance function is no exception and it needs to play its part in contributing to business value addition and profitability. Given the role of the finance function as a provider of information and insight to the business, the finance function also has the ability to act as an overall ‘productivity champion’, helping management to analyse and prioritise organisation-wide productivity opportunities. The question then arises as to how finance functions look to systematically improve productivity, and what measures are organisations in Singapore taking to improve finance function productivity and value add.

According to PwC, modern day finance functions have three key roles. Productivity improvements in the finance function need to be demonstrated across all of these roles. These roles are:

**Business Insight**: where the finance function through its activities helps to interpret the numbers and partner with the business to provide insight and help chart strategic direction.

**Efficiency**: where the finance function is required to undertake its transaction processing roles with the utmost efficiency.

**Compliance and Control**: where the finance function helps to manage and maintain an appropriate control environment in the business.

Our survey of Singapore based organisations explores the current state of finance function productivity in each of the above mentioned roles.
Key Findings

1. Finance functions are still coming to terms with their new role in operating as a value-adding business partner. 63% of survey respondents indicated that their staff strength in the accounting and finance function was more than 25 (Chart 1). However, 48% of the respondents indicated that they had less than five resources engaged in business partner roles (Chart 2). Moreover, 56% of the respondents indicated that their finance staff in business partner roles spent more than 20% of their time doing data gathering work, which is not very productive. Approximately 58% of the respondents indicated that their finance staff in business partner roles only spent 20% or lesser time on the value-adding analysis and planning work (Chart 3).

2. There is still a lot of scope for local finance functions to transform into a more efficient delivery model. Only 41% of survey respondents indicated that their overall finance function running cost was within global benchmarks of less than 1% of turnover (Chart 4). The survey results also show that 34% of local finance functions are using Shared Service Centres (SSCs) and 18% are using outsourcing arrangements (Charts 5 and 6). Conversely, at least 48% of businesses have not moved on to more efficient and contractually defined delivery mechanisms for routine transaction processing, and still choose to do it internally either in a decentralised manner or as a centralised group activity.

3. Many finance functions have yet to streamline their close to report and budgeting processes. Approximately 42% of respondents take seven days or more to close their books after month-end and approximately 54% of respondents take a further seven days or more to deliver month-end operating results and financial reports to management (Charts 12 and 13 respectively). In respect of budgets, 44% of finance functions say that they take more than two months to complete the entire budget process (Chart 14). As a result, many finance functions appear to be facing difficulty in providing timely information to management for decision making.

4. Better use of technology can enable finance functions to increase efficiency and reduce the risk of error. Almost 54% (Chart 17) of survey respondents indicated that their finance functions use multiple finance systems that are customised, and that only around 29% (Chart 18) had strong or fully automated interfaces between these systems. 50% of the respondents also use spreadsheets for reporting financial information downloaded from the finance systems (Chart 15), and 81% of respondents use spreadsheets for budgeting and forecasting (Chart 16). Manipulation of data using spreadsheets for reporting or budgeting purposes instead of obtaining information directly from the accounting system usually takes additional time to process and is also prone to error. Approximately 67% of respondents did not have an enterprise-wide decision support system to help them analyse information from a data warehouse (Chart 19).

5. Companies should look towards proactively managing risk and controls in the business through automating their control frameworks. The majority of survey participants (approximately 56%) indicated that there is room for improvement in their risk management and controls framework (Chart 20). Given the widespread use of spreadsheets in companies for budgeting and reporting, the risk of error and / or fraud remains high.

6. Some companies are still unaware of the productivity incentives available from the Government. Approximately 35% of survey respondents have indicated that they are not aware of the incentives provided by the government agencies including IRAS, SPRING and WDA (Chart 21). Of those who are availing incentives, the Productivity and Innovation credit by IRAS is the most popular (Table 2). The most common methods that are used by companies to improve finance function productivity include automation, process standardisation and training (Table 3).
Detailed Survey Results

1. Finance as a business partner

This section looks at the survey questions that deal with the role of the finance function in providing business insight to management to help them with strategy and planning.

Chart 1 – Number of staff in accounting and finance function (Includes those embedded in Business Units)

Approximately 63% of finance functions have more than 25 staff in their finance function and are therefore, significant in size.
In 2011, 26 companies had less than five staff who were engaged in business partnering roles. In 2012, 25 companies had less than five staff who were engaged in business partnering roles.

However, Chart 2 shows that of the total number of staff in the finance function, a relatively small proportion are involved in business partner roles. Approximately 48% of respondents indicated that they had less than 5% finance staff engaged in business partner roles.

Chart 3 below indicates that 56% of the respondents state that their finance staff in business partner roles spend more than 20% of their total effort doing data gathering work, which is not very productive; and approximately 58% of the respondents indicated that their finance staff in business partner roles only spend 20% or lesser effort on the value-adding analysis and planning work.

Clearly, business partnering is an area of evolution for finance functions as more organisations need to understand the value of a finance person working with the business as one team to interpret numbers to operational people and help them with forward planning. The business partner roles also require different skills and mindsets and given the small number of individuals in such roles, there is significant opportunity for finance professionals to equip themselves to perform higher value work.

The Business Partner Challenge

In Asia, the business partnering role has been typically limited to participating in meetings to provide financial results and producing management reports and analysis. However, there has been good improvement in the last 10 years as businesses have come to realise the importance of this role. In our experience, businesses gain the most value when the finance department actively participates in driving the operations to meet business targets and financial results. Finance personnel are well positioned to contribute greatly in this role. This is because they understand how operating activities impact the bottom-line, and therefore are a catalyst in bridging the story behind the numbers and concrete business actions. However, to be successful in this role, the finance person must have strong business acumen and knowledge of the business - something our Asian finance organisations have to increasingly consider.

Case Study

PwC assisted a large paper business to understand the expectation gap between the stakeholders’ expectation of a business partner and the perception of the finance function itself as a business partner. What came out clearly through the assessment was that the finance function typically thought that it was operating at a much higher level of performance than what the stakeholders thought. This was due to poor communications between the finance function and the key stakeholders. Understanding this expectation gap in the first instance was critical for the finance function to start moving to a higher level of performance. PwC then worked with the client to build their transformation roadmap to make the conventional finance organisation more business oriented. Apart from improvements to processes and systems, a key component of the transformation was up-skilling and training of the people in the finance function to take on more value added work.

2. Finance delivery models

The survey also covered the service delivery model of finance functions in Singapore.

Chart 4 below shows that the cost of running the finance department for approximately 41% of respondents is within the global benchmark of less than 1%3. However 22% of respondents are spending 4% or more of revenues to run their finance functions. There is a potential opportunity for such organisations to look at further streamlining their service delivery capabilities in the finance function.

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Looking at the prevalence of SSCs and outsourced arrangements (refer to Charts 5 and 6 below), we find that only 34% and 18% of organisations respectively have chosen such alternative delivery models. However, on a cumulative basis, it is clear that at least 48% of organisations do not have alternative finance delivery models in place. Moreover, organisations seem to be more comfortable using SSCs rather than outsourced arrangements probably because they can exercise more control over such arrangements. In addition, Singapore companies may be engaging in activities that are higher up in the value chain, and therefore prefer SSCs to be located locally. The findings also seem to indicate that it is less a cost driver but a quality driver where the SSC effectively becomes a Centre of Excellence. Businesses may also be deriving some cost efficiency from economies of scale, by catering for countries in the region.

3. Shared services and outsourcing

We now look at SSCs and outsourcing arrangements in a bit more detail.

A majority (approximately 59%) of companies are using one SSC, while approximately 29% of companies have two SSCs.

50% of respondents indicate that they have chosen Singapore as their preferred location for their SSCs. This implies that local organisations prefer to locate their SSC closer to where the management is based. This is despite the fact that SSCs in Singapore may not be the most efficient in terms of cost of operation. Accordingly, control over the SSC operations appears to be more important to local organisations as compared to the cost of running the SSC.
Survey respondents have indicated that the top four finance activities that are moved into SSCs and outsourced arrangements are more or less the same. These are accounting, management reporting, corporate finance and financial reporting. However, organisations are clearly more confident in including a wider variety of finance activities into SSC than into outsourced arrangements. Such activities include Treasury, Corporate Finance, and Strategy and Planning. This is probably because organisations still perceive SSCs as being “in-house” rather than being outside.

Chart 9.1 – Functions included in SSC

We also asked survey participants to respond on the costs of running their SSC and that of their outsourcing arrangements. Clearly a majority of respondents (59% of those operating SSCs and 90% of those using outsourced arrangements) indicate that their total cost as a percentage of total accounting and finance costs is less than 20%. However, organisations using outsourced arrangements are better able to manage their cost ratios at less than 20% of total accounting and finance cost as compared to those using SSCs. This is probably because most companies in this survey have chosen to locate their SSC in Singapore, whereas outsourced arrangements are more likely to be serviced out of cheaper offshore locations.

Chart 10.1 – Cost of SSC

4 “Putting your business on the front foot”, Finance function effectiveness benchmark study 2012, PricewaterhouseCoopers LLP, 2012
Organisations using SSC or outsourced arrangements are more or less equally split on their intention to increase the scope of activities under those arrangements.

Table 1 – Organisations planning to increase the scope of activities in the SSC or in outsourcing arrangements

<table>
<thead>
<tr>
<th>Do you intend to increase the scope of your SSC in the next 12 months?</th>
<th>Answer Options</th>
<th>Response Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>47.1%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>52.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do you intend to increase the scope of your outsourced transactions in the next 12 months?</th>
<th>Answer Options</th>
<th>Response Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>50.0%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

Chart 11 below shows that approximately 65% of surveyed companies have more than 26 accounting and finance staff in their SSC.

Chart 11 – Number of staff in SSCs

<table>
<thead>
<tr>
<th>Number of staff in SSCs</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;100</td>
<td>17.6%</td>
</tr>
<tr>
<td>51 to 100</td>
<td>17.6%</td>
</tr>
<tr>
<td>26 to 50</td>
<td>29.4%</td>
</tr>
<tr>
<td>10 to 25</td>
<td>11.8%</td>
</tr>
<tr>
<td>&lt;10</td>
<td>23.5%</td>
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</table>
4. Efficiency in the finance function

The survey looked at efficiency in the finance function from three perspectives. These were the time taken to close the books and report results, the time taken by organisations to complete their budget process, and the extent of data manipulation that is required in their close to report and budgeting/forecasting processes.

The month end close process is still proving to be a significant challenge for approximately 42% of organisations that were surveyed (Chart 12). These organisations take seven days or more to perform their month-end close before the reporting process can begin. Clearly, this process should be a focus area for finance function productivity as availability of timely results is essential for management. Further, this process, at the end of every month, is typically characterised by frenzied activity in the finance function, where staff need to work late hours to complete the various activities. Streamlining this process can free up staff time for more value adding work as well as contribute to a better work-life balance.

Improve Efficiency in the Finance Function

Companies are still being challenged in respect of timely reporting of financial and management information despite having implemented ERP and Performance Management solutions.

From our experience, there are two main reasons. Firstly, the business requirements are not clearly defined during system implementation. As a result, spreadsheets are used to bridge data and information gaps. Secondly, the onus of closing rests solely with the finance function whereas in reality, this process is very dependent upon inputs from and the cooperation of other business units.

Therefore, to improve productivity of closing and reporting processes, automation initiatives should take into consideration requirements, tasks and processes across all business units. This is illustrated through the diagram below.

Case Study

PwC was retained by a SGX listed commodity products company to provide faster financial closing and improved visibility over financial information. The company’s business was growing rapidly but due to the decentralised nature of their operations in emerging markets and the lack of an integrated finance system, timely and reliable financial closing and reporting were a significant challenge. PwC found that a substantial amount of the finance department’s time was being spent on manual data collection and submission, resolving errors in data coming in from emerging markets, inter-company reconciliation and other manual tasks. PwC worked with the client to design, develop and deploy an Oracle HPM solution to drive standardisation, efficiency and quality. The solution provided a consistent manner and method for data collection across the various locations and included automated solutions that would check data quality. Management was also able to receive standard financial reports on a monthly basis at the click of a button. This project helped relieve the client’s finance team of a substantial amount of workload on a monthly basis, thereby allowing them more time to focus on business analysis and decision support.

Chart 12 – Average business days for month-end close

The findings from the survey show that approximately 54% of survey respondents take seven days or more to report their monthly results to management (Chart 13). In today’s business environment, organisations need to be nimble and make quick decisions. However, delayed monthly management reports do not provide enough time to management to understand business trends and make the right operational decisions.

Chart 13 – How many days after month-end close does it take to report month-end operating results and other key financial/accounting reports to management? (This is the number of additional days after month-end closing as shown in chart 12 above)

The inefficiency also pervades the budget process. Approximately 44% of organisations take two months or more to complete their budget process (Chart 14). It is probable that significant amount of management and staff time is being spent on perfecting budgets that work for everyone, instead of budgets that truly stretch the performance ability of people. Management and CFOs should also review their company’s budget process to make it more efficient and relevant to their businesses.
The reasons for the lengthy close to report and budgeting / forecasting processes can be explained by the responses in the survey to questions around data manipulation required to produce management reports and the extent to which spreadsheets are used in the budgeting process. From Charts 15 and 16, it is clear that spreadsheet use is rampant in the finance function. Approximately 50% of finance functions are using spreadsheets to manipulate system data for management reporting process. The proportion of companies using spreadsheets for budgeting and forecasting purposes is even higher at approximately 81%. Widespread use of spreadsheets in the finance function has several disadvantages such as inefficiency, time spent on non-value adding work, and the higher risk of errors and / or fraud.

**Dealing with Spreadsheets**

PwC was engaged by a multi-national bank to perform a review of their regulatory reporting process. The client was using a number of spreadsheets for various data sources. They were also modifying the data in the spreadsheets through macros, formulae, manual editing and input. It was a cumbersome process for the client which took 1.5 man weeks every month as any changes in source data had to be manually processed in the spreadsheets. Therefore, the key issues faced by the client were around spreadsheet management and the numerous manual touch points. PwC performed a current state assessment, where we identified all the data sources, inventoried all the spreadsheets, and understood the reasons for modification. PwC then worked with the client to design and develop an end to end automated solution. Through this process, a number of manual tasks and calculations were automated and users were allowed to input data through standard user interfaces. Through this implementation, the client was able to reduce the manual effort for the whole process to less than one hour. It also provided more comfort to management on the information submitted to the regulators through the automated, streamlined and better controlled process.
Use of technology in the finance function

The following survey questions examined the use of technology by finance functions and its link to productivity.

Chart 17 – Complexity of finance systems across reporting group

The majority of businesses (approximately 54%) use multiple finance systems that are customised. This means that data needs to flow from one system to another before it can be consolidated and reported.

Chart 18 below shows the extent to which finance functions have automated their interfaces between their finance systems.

Chart 18 – General ledger interface

Only a small proportion (approximately 29%) of companies have strong or fully automated interfaces between their finance systems. The rest (71%) need to use spreadsheets to pull together data from various sources before they can be consolidated and reported.

Chart 19 below reinforces the point. The majority of businesses (67%) do not have enterprise-wide decision support systems to analyse financial information for analysis and planning. These tasks also need to be performed using spreadsheets.

This means that technology use in finance functions can be further optimised across the majority of businesses. This will help reduce the reliance on spreadsheets and also contribute to increased efficiency while minimising the risk of errors and/or fraud.

5. Risk management and controls

Risk management and controls are important roles for the finance function. The following chart shows the state of risk management and controls across finance functions in Singapore. 56% of the respondents indicated that there is room for improvement in the implementation of their risk management and controls framework.

Chart 20 – Overall risk management and controls (includes IT)
Given the recent changes in the Code for Corporate Governance in Singapore, risk management and controls now take on a higher priority in Board agendas. Finance functions should be looking at mechanisms to automate more of their controls to make them preventive in nature, to make their implementation more efficient, and to reduce the risk of error and/or fraud.

**Towards more robust and efficient controls and compliance in the business**

**Case Study**

A leading international airline wanted to improve the visibility over its business process controls and engaged PwC to support them on this project. The client’s auditors were repeatedly finding issues with segregation of duties within business processes. Moreover, the client themselves did not understand the complex rules in their SAP authorisations, which granted access rights to individuals over business process activities that they could perform. Typically, the company’s process for detecting violations of the segregation of duties principle was only through a manual check that was performed after the roles had been assigned. This was tedious and was a detective task after the violations had occurred. PwC assisted the client to implement SAP Access Controls solution. This is an automated solution for granting access rights to ERP system users, which automatically checks if the access rights granted would potentially violate specified segregation of duties principles. Through this implementation, the client was able to proactively manage segregation of duties issues in the business, and also spent less time doing so. The entire implementation relieved the finance and audit teams of significant effort while providing them with a greater sense of security.

6. **Productivity incentives**

This set of survey questions was focused around understanding the extent to which finance functions were reliant upon government incentives to improve productivity.

The chart above shows that approximately 35% of respondents are still unaware of government incentives that are available to raise business productivity.

**Table 2 – Singapore government incentives availed**

<table>
<thead>
<tr>
<th>Number</th>
<th>Response Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Productivity and Innovation Credit</td>
</tr>
</tbody>
</table>

Productivity and innovation credit offered by IRAS is the most popular choice of government initiative that is availed by organisations to drive productivity improvements in the finance function.

**Table 3 – Initiatives taken to increase productivity**

<table>
<thead>
<tr>
<th>Number</th>
<th>Top Three Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>More automation and use of IT</td>
</tr>
<tr>
<td>2</td>
<td>Process standardisation</td>
</tr>
<tr>
<td>3</td>
<td>Training</td>
</tr>
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</table>

Automation, Process Standardisation and Training were cited as the main mechanisms used by finance functions to improve productivity.
The survey findings show that the scope for productivity improvements in local finance functions remains high. These improvement opportunities span all roles of the finance function. Businesses will need to consider people, processes and systems and make the right choices on their priority areas for improvement.

It is crucial for the finance function to become more productive in its functioning so that it can fulfil its role of a value adding business partner. As business partnering is still an evolving area for most organisations, finance functions do need to devote time, attention and resources to this important activity.

A key enabler to driving productivity improvements in the finance function is the CFO. He / she needs to show leadership by being the change agent who obtains buy-in from both management and staff. As change is always difficult, the CFO needs to spend time preparing and socialising his / her business case to obtain broad buy-in and support.

Importantly, productivity related changes will also necessitate a change in mindset in finance staff. Everyone needs to be prepared to cope with more automation and change, learn new skills, and deliver more value-add to the business.

In the current business landscape, companies need to recognise the sign of changing times and embrace productivity in right earnest. The most agile organisations with a clear vision and strong leadership are best placed to succeed. Singapore based companies have an advantage because of the active support of the government in driving increased productivity. This is an opportune time for companies who are contemplating productivity improvements to look into the various productivity incentives / programmes / schemes that are on offer from the government. Leveraging on these programmes / schemes will make the productivity journey more structured and increase the likelihood of success.