

# E1: Managing Finance in a Digital World

## The roles of the finance function in organisations

### Change: the new norm

Change is the new norm in many organisations due to seismic shifts in the level of **competition**, customers' expectations, the global political outlook and fast paced **technological change**.

### The roles of the finance function

<b>1. ENABLES</b> organisations to create and preserve value	<ul style="list-style-type: none"><li>• Planning</li><li>• Forecasting</li><li>• Resource allocation</li></ul>
<b>2. SHAPES HOW</b> organisations to create and preserve value	<ul style="list-style-type: none"><li>• Performance management</li><li>• Control</li></ul>
<b>3. NARRATES HOW</b> organisations to create and preserve value	<ul style="list-style-type: none"><li>• Financial (corporate) reporting</li></ul>

### Stakeholders

- A stakeholder is a group or individual, who has an **interest** in what the organisation does or an **expectation** of the organisation
- Three types; **internal**, **connected** and **external**.

### Mendelow's power-interest matrix

		Interest	
		Low	High
Power	High	Keep satisfied	Key players
	Low	Minimal effort	Keep informed

## Corporate social responsibility (CSR)

The company is **sensitive to the needs of all stakeholders and not just shareholders**. Benefits include:

- Method of differentiation
- Attract high calibre staff
- Brand strengthening
- Identification of new market opportunities and changing social expectations.

**Corporate governance**, set of processes and policies by which a company is directed, administered and controlled.

- The need arises due to the **separation of ownership and control** which results in a potential **agency problem**.

The **UK Corporate Governance Code** sets out guidelines on the:

- use of AGM
- Board
- Chairman and CEO
- Non-executive directors (NEDs)
- Audit, Remuneration and Nominations committees

## Activities performed by finance professionals to fulfil their roles

### Finance activities from information to impact framework

Information → Insight → Influence → Impact

**5 A' s - assemble, analyse, advise, apply, acumen.**

**Assembling information:** collects data to prepare information about the organisation

- Broad role of **REPORTING**

**Analysing for insights:** provides insight to users by analysing information

- Broad role of **QUESTIONING**

**Advising to influence:** communicates insight to influence users

- Broad role of **DEVELOPING SOLUTIONS**

**Applying for impact:** supports the implementation of decisions to achieve the desired impact

- Broad role of **DEPLOYING SOLUTIONS**

**Acumen:** connects the different activities to each other.

**Data**, is defined as facts or figures in a raw, unprocessed form.

**External sources** include:

- suppliers
- customers
- Newspapers, journals, the internet
- The government

These sources will have their **limitations**

**Internal sources** include:

- accounting records
- payroll data
- production data
- sales and marketing data

**Information** is the data that has been processed in such a way that it has meaning to the person who receives it.

Finance professionals '**assemble**' and then '**analyse**' it for insights.

**Good information** will be: accurate, timely, relevant (fit for purpose), concise and cost effective.

### Types of information

**Financial:** finance may **make mistakes when analysing quantitative information** for insights:

- Analysis based on inappropriately presented information
- Failure to evaluate figures using a suitable comparator
- Data sampling inappropriate resulting in information which is not 'good'

**Non-Financial:**

- Main limitation of **quantitative information** is that judgement is needed due to its subjective nature
- Overcome by looking at trends or transforming into quantitative information.

### How finance connects the different activities in the organisation

1. It provides information and insight to other functions **enabling** them to create and preserve value.
2. It works with other functions to **shape how** the function creates and preserves value.
3. It works with other functions to achieve the desired organisation impact for the function, **narrating how** function creates and preserves value

## The structure and shape of the finance function

### Types of structures

**Entrepreneurial**  
- structure is built around the owner(s) / managers(s)

**small organisation**

**Functional**  
- groups together employees that undertake similar tasks

**Divisional**  
- Splits organisation into several divisions  
- either product based or geographically based

**Matrix**  
- a combination of a functional and divisional structure

**large organisation**

### Functional structure

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Standardisation / efficiency</li> <li>• Specialists are more comfortable</li> <li>• Career opportunities as employees can work their way up through the function</li> </ul>	<ul style="list-style-type: none"> <li>• Empire building and conflicts between functions</li> <li>• Slow to adapt to market changes</li> <li>• Not suitable for an organisation that is rapidly growing and diversifying</li> </ul>

### Divisional structure

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Enables product / geographical growth</li> <li>• Clear responsibility for divisions</li> <li>• Top management free to concentrate on strategic matters</li> </ul>	<ul style="list-style-type: none"> <li>• Duplication</li> <li>• Lack of goal congruence</li> <li>• Potential loss of control</li> <li>• Specialists may feel isolated</li> </ul>

**Centralisation**, in a *centralised* structure, the upper levels of the organisation's hierarchy retain the authority to make decisions.

**Decentralisation**, in a *decentralised* structure, the authority to make decisions is passed down to units and people at lower levels. Below advantages & disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Senior management free to concentrate on strategy</li> <li>• Better local decisions due to local expertise</li> <li>• Better motivation due to increased empowerment of employees</li> <li>• Quicker responses due to reduced bureaucracy and increased autonomy</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of control and lack of standardisation</li> <li>• Lack of goal congruence</li> <li>• Poor decisions made by inexperienced managers</li> <li>• Training costs</li> <li>• Duplication of roles within organisation</li> </ul>

**Span of control:** how many people report to one superior

**Tall organisations**, many managerial levels (hierarchies) which leads to *narrow span of control*

**Flat organisations**, few managerial levels (hierarchies) which leads to *wide span of control*

## Contemporary transformation of the finance function

- **Technology** now allows machines to monitor operational costs and patterns of organisational efficiency
- This provides an **opportunity** for the finance function to **refocus its energy on revenue and value creation, working with others and across the organisation** to drive business transformation and to create shareholder value

## Shape of the finance function

Traditional hierarchical triangle → Segregated triangle → Digital age (Diamond shape)

The **shape is evolving** as a result of advances in **technology**, the **changing mandate** of the finance function and the **changing capabilities** of the finance function.

**Share service centre (SSC)**; the centralisation of routine processing into one place

### Establishment of SSC driven by two main factors



#### Globalisation

- Many organisations grew in size with operations and processing centres in several countries.
- A SSC enabled the consolidation of these activities to one site.

#### Advances in technology

- Enabling automation of many of the lower level tasks carried out by the finance function

## Shared services and outsourcing of finance operations

- **Outsourcing** means contracting out aspects of the work of the organisation previously done in-house, to specialist providers

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Cost reduction</li> <li>• Retained function can concentrate on role as business partners</li> <li>• Access to superior capabilities &amp; resources</li> <li>• Shift resources from operation to innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of control</li> <li>• Time and cost to manage the service</li> <li>• Disruption and resistance to change</li> <li>• Risk of data / breaches</li> <li>• Erosion of internal knowledge and skills</li> </ul>

## Levels of the diamond shape:

1. **Senior finance team** - lead finance team
2. **Strategic business partnering** - work with internal & external stakeholders to influence
3. **Digital centres of excellence** - specialists generate further insight
4. **Smart finance 'factories'** - assemble and extract data to provide info and preliminary insight