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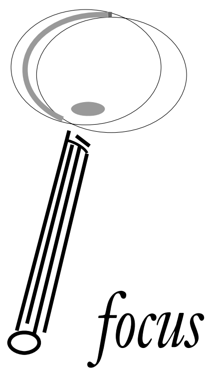
A New Direction for Finance



Learning Objectives:

By the end of this chapter, you should be able to:

- Identify the goals and basic elements of "The New Finance."
- Describe the new competitive business environment.
- Explain the new environment for individual firms.
- Describe how firms are linking finance to basic corporate strategy.
- Explain how firms are turning finance into a value-added activity.
- Describe the issues involved in managing change.

As we start the 21st century, business is undergoing significant changes. Computer technologies introduced in the last quarter of the century have changed the texture and the course of business worldwide. The advent of e-commerce and globalization have accelerated the pace of change. The emphasis on increasing shareholder value through productivity gains has forced businesses to rethink many of their basic processes. During this same period, no area of business has changed more than finance. The universal use of computers and the introduction of Enterprise Resource Planning (ERP) software in larger firms has changed the way businesses are managed and has changed managers basic expectations about the finance function.

All of these broader currents have combined to change the finance function in a very short time. The changes are irreversible and financial managers and accountants will have to retool their skills to remain relevant in this new business environment. This chapter surveys the outline of "The New Finance" and explores the implications of the changes for finance professionals. The next chapter will concentrate on the particular challenges and skills needed by finance and accounting professionals in business and industry.

OUTLINE OF "THE NEW FINANCE"

Like it or not, finance will never be the same. The wide-spread introduction of computers into the business world nearly forty years ago, started a revolution that is only now being fully realized and fully appreciated. The ability to automate many of the routine, low-value tasks of the finance department has become a reality. Automation not only has decreased the need for manual processing, but also for many of those who used to handle the processing. Finance departments are shrinking as automation replaces humans.

At the same time, finance and accounting professionals in business and industry are enjoying an expanded role and responsibilities as the business environment in general, and financial management in particular have evolved. Finance professionals are being called upon to perform different and more important functions in this new business environment.

Definition of "The New Finance"

These new demands require new knowledge and skills. The profession has responded with the development of "The New Finance." "The New Finance" is a term describing the expanded roles and responsibilities of finance and accounting professionals in business and industry. The following excerpt from www.AICPA.org describes the content of "The New Finance":

> The New Finance is a term . . . to describe the revolutionary changes that have taken place globally in financial management in the last decade. The New Finance encompasses hard-core management accounting topics like cost management (ABC, target costing, etc.), cash flows, discount rates, and capacity management; manufacturing issues like just-in-time production, distribution channels management, and competitive intelligence; as well as softer topics like benchmarking, performance measurement, cross-functional teams, managing change, etc. In summary The New Finance is less about accounting and more about management—and becoming strategic decision makers in our companies.

The emphasis is on providing a future-focused skill set that prepares finance professionals to act as true business partners.

Focus of "The New Finance"

Now that automation is freeing finance professionals from their traditional data-gathering and reporting duties, they are assuming a new, more proactive role in the firm. They will be lending their financial expertise to management teams that will be implementing a number of cutting-edge practices and processes. To survive in this new environment, finance and accounting

Exhibit 1–1

Selected Competencies in "The New Finance"

1. Continuous Improvement Programs
2. Process Redesign
3. Value Chain Analysis
4. Comprehensive Competitive Intelligence
5. Activity Based Management
6. Strategic Cost Management
7. Effective Benchmarking
8. Outsourcing
9. E-Commerce
10. Best Practices

professionals in business and industry need to be aware of these management practices and processes and will need to retool to develop new skills to meet the demands of their expanding role as strategic business partners and advisors. A few of these new competencies are discussed in this section. A list of these competencies is also found in Exhibit 1–1.

Continuous Improvement Programs

Many of the practices and procedures in The New Finance relate back to the concept of continuous improvement, or "Kaisin," actually pioneered by Doctor Demming. Managers realize that enhancing shareholder value is not a one-time event, but a continuous process. In today's competitive global environment, firms need to excel in every process to pull ahead of the pack to deliver superior performance and superior returns to shareholders. This requires the firm to continuously improve its performance. To deliver this improvement the firm must have both a culture and a structure that encourage and reward innovation. This must be a basic strategy of the entire corporation including the finance department.

Process Redesign

A basic facet of continuous improvement is process improvement. Firms need to rethink how each business process operates, looking for opportunities for improvement. In fact, many processes may have developed informally with little thought about efficiency. Because processes are developed at different times there may be little coordination between processes resulting in redundancies and inefficiencies. For example, the same data may have to be collected twice, once for financial accounting and once for the tax department.

A first step in process improvement is process mapping. This allows managers to follow and document a process across departmental lines and even outside the business. Process mapping is discussed in more detail in Chapter 6. Exhibit 1–2 illustrates the steps in a typical process improvement program.

Exhibit 1–2

Steps in a Typical Process Improvement Program

1. Select processes for evaluation
2. Map process
3. Document process
4. Identify any breakthrough opportunities
5. Map the redesigned process
6. Implement new practices

Value Chain Analysis

Value chains are processes that add value to a company. Although some value chains have a direct impact on revenue, others provide service to customers. For example, forward-thinking firms like Charles Schwab and Sony are discovering that customer relationships are a key to deriving long-term value from a customer. These forward-thinking firms have realized that customer satisfaction is at the core of long-term profitability, and companies that ignore this fact do so at their peril. Accordingly, companies like Schwab and Sony work hard to build relationships with individual customers by better understanding what these customers really want and individualizing their products and services to deliver what their customers want. The days when companies could "push" demand are over. Companies need to identify value chains that build long-term relationships and then identify the crucial performance drivers that contribute to long-term customer satisfaction.

Value chains not only extend beyond departmental lines, but also outside the company to suppliers, distributors, and customers. A value chain analysis frequently is undertaken with collaboration between diverse departments as finance, engineering, production, and service. Improvements in the value chain may come at different stages in the chain. The strategic vision derived from analyzing value chains can provide important contributions to the firm's continuous improvement efforts and long-term profitability.

Comprehensive Competitive Intelligence

In today's competitive business environment with slim profit margins and short product life, firms need to avoid being "blind sided" by the competition or a technological innovation. The Encyclopedia Britannica Company is a good example of a market leader that suffered once the Internet increased access and decreased the cost of information. To stay competitive firms must engage in traditional and web-based competitive intelligence to assure that they will not be left behind in the new economy.

Activity Based Management

Activity based costing revolutionized thinking about product costs. Finance professionals will continue to play a role in implementing activity based management systems in forward-looking companies as firms strive to become low cost efficient producers. Shorter product life-spans will mean that companies will have to recover their fixed costs over much shorter time spans which makes accurate product costing even more vital.

Strategic Cost Management
Strategic cost management and product costing are expected to be of more importance in The New Finance. Competitive pressures will force firms to find ways to more efficiently provide high-value products and services. Cost management differs from cost accounting in that it is largely divorced from the financial reporting system. Strategic Cost Management is discussed in more detail in Chapter 2.

Effective Benchmarking
Although benchmarking is not a new concept, it is now a major process in the continuous improvement process. Finance professionals are in the forefront in helping firms to implement and interpret benchmarking information. Benchmarking against other finance departments can help with reengineering the finance function. This topic is addressed in Chapter 7.

Outsourcing
Outsourcing various business functions can result in significant efficiencies for some firms. Many finance departments are now outsourcing even "core" finance activities. Functions like tax work, treasury functions, information technology (IT), and even human resources (HR) can be outsourced. Although outsourcing can provide economies, the process also carries risks. Outsourcing is normally a "one way street." The costs of reversing an outsourcing decision are enormous.

E-Commerce
Even "bricks and mortar" businesses are flocking to the Internet. Although e-commerce transactions represent only a small portion of all commerce, that percentage is growing. Business-to-business sales are expected to be the fastest-growing segment of the Internet. Finance professionals will be involved in support for these efforts including EDI (electronic data interchange) and building financial controls for e-commerce.

Best Practices
The New Finance also embraces the use of other "best practices" and processes like just-in-time (JIT) production systems, the use of self-directed work groups, and strategic partnering which can all have an impact on the firm's long-term success. These issues are discussed in more detail in Chapter 6.

The New Business Environment

The world business economy really has changed in the last ten years. The advent of e-commerce and globalization have changed the business environment for both large and small firms. There have been both winners and losers.

Some companies—like IBM—have been forced to reinvent themselves to survive. Business analysts now recognize that what contributes to long-term success is not "hard" assets, but "competencies" including the ability to exploit knowledge in an organization.

Increased Global Competition

A major change in the environment is the internationalization of business. Although multinationals are still the leaders, even smaller companies are getting more involved as trade barriers are repealed, and communication and transport costs fall. Although globalization provides an opportunity, it is also a threat. North American firms will increasingly have to compete with low cost, innovative foreign competitors. Only those firms that can reengineer themselves into more efficient producers will survive. When the manufacturers in the former communist countries in Eastern Europe returned to free market conditions, most of them were too inefficient to compete with their western counterparts. Only the efficient can survive in today's competitive global economy.

Pace of Technological Innovation

Technological innovation is at the heart of many of the changes in today's business environment. Even relatively low tech businesses are benefiting from technology. Construction firms are projected to report the greatest increase in the use of the Internet in the next decade as they eliminate much of the paperwork used in construction projects.

Wal-Mart is an another excellent example of a business involved in a mature industry that has leveraged IT technology. Wal-Mart's ability to leverage its IT expertise gives it a competitive advantage among discounters.

The pace of technological innovation should not be expected to slow. Finance professionals also need to keep abreast of these changes to act in their new business advisory roles.

Shortened Product Life Cycles

Another characteristic of the new environment is shorter life cycles for products, especially consumer goods. This development has forced competitors to speed up development times through innovative use of technology. Boeing and Chrysler once developed their products using a series of elaborate mock-ups. Both firms have moved to doing design work and modification on computer. Not only does this save money, it also cuts over a year from the development stage of the plane or vehicle. This also places greater demands on finance professionals during the developmental stage as engineers grapple with design changes to make the product more profitable.

NEW FIRM ENVIRONMENT

Increased competition in the overall economy has led individual firms to restructure themselves and rethink their operations to stay competitive. An ex-

Exercise 1–1: The New Business Environment

INSTRUCTIONS: ☛ Identifying trends in the new business environment that will affect the way finance professionals do their work. After each of the brief scenarios involving Ketchum Corp. indicate which trend it exemplifies.

1. Ketchum's new client/server architecture includes a central data warehouse that is accessible by all finance professions whose PCs are hooked to the network.

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2. As a part of a reorganization, Ketchum's finance department was downsized and a level of management eliminated completely.

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3. When Ketchum introduced an intranet within the organization it was also able to process travel authorizations and reimbursement requests electronically, eliminating nearly all the paper forms previously required.

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4. In granting credit, Ketchum previously required all credit applications to be handled through its home office. The process often took over a week. After field managers complained of lost sales because of the delays Ketchum was able to decentralize credit-granting decisions and was able to cut the decision time to an average of two days—a 100 percent improvement in turnaround time.

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5. Ketchum learned that one reason that its shipments were delayed were that two of its suppliers were chronically late because their computer system did not match up well with Ketchum's. Ketchum's shipping department worked to rectify the problem with the suppliers.

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amination of some of these changes illustrates their impact on the finance function. These changes are also listed in Exhibit 1–3.

Dividends from Technology

The promise of the computer revolution is now being realized in businesses worldwide. Increases in productivity are now being realized because managers have discovered how to more effectively harness the abilities of com-

Exhibit 1–3

New Firm Environment

1. Dividends from Technology
2. Leaner Organizations
3. Flatter Organizations
4. Open Access to Financial Information
5. Emphasis on Improving Processes
6. Emphasis on Value Claims

puters to collect, store, and sort data. The World Wide Web has greatly increased access to information even to smaller firms. The impact of technology is shaping individual firms as well as the environment in which they operate.

Leaner Organizations

One consequence of these technological changes is leaner organizations. Although some downsizings have been ill-considered and counterproductive, many more were really overdue. Businesses have learned to operate without whole levels of middle managers. The increased productivity of many firms can be traced partly to technology and partly to the realization that wealth creation demands more efficiency.

Flatter Organizations

By their nature leaner organizations are almost always flatter organizations with fewer levels of management. This change has a number of implications. Management will be less hierarchal which means that the company's decision-making speed should increase. It also suggests that lower-level employees will be making far more decisions than in the past.

Open Access to Financial Information

Progressive firms with flat organizations typically allow employees throughout the firm to have access to better financial information. "Real time" financial information stored in data warehouses will be available on an "as needed" basis. Empowered with this information employees will be able to make better decisions. This will lead to product improvements, innovation, and increased customer loyalty. All of these will have a direct impact on the organization's bottom line.

Finance professions play a role here because they can help coach other managers on how to access the information and can provide assistance in explaining the implications of the data. This collaborative effort should lead to better decision making and stronger bottom line performance for the firm.

Emphasis on Improving Processes

Many firms are benefiting from focusing management attention on internal processes. This is an outgrowth of the "continuous improvement" movements started in the last decade.

Traditionally, businesses have been organized along functional lines like finance, marketing, engineering, and human resources. Although there were benefits from organizing activities around these functions it also created barriers and turf wars, with managers competing rather than cooperating with one another. In many companies this competition is akin to the Navy and Air Force competing for a bigger chunk of the defense budget.

This functional conception of the business is evolving as companies have started focusing on "processes" rather than "functions." Rather than focusing on the firm as a collection of "functional silos" that interact only occasionally, the new focus is on processes that cut across functional lines. This new vision has forced managers to forge links across departmental lines. Gone are the days when the finance department didn't talk much to the marketing department. Today they are forced to be business partners.

In financial auditing a similar trend emerged decades ago when auditors started examining cycles rather than specific accounts. Rather than focus on balance sheet accounts then income statement accounts, auditors learned to focus on a cycle. For example, auditors found it more productive to focus on the sales cycle with both balance sheet and income statement accounts. Businesses are doing much the same thing when they focus on earning processes rather than functions.

Emphasis on Value Chains

This emphasis on processes can include not only different functional areas in the firm but also entities outside the firm, both upstream and down. For example, a reseller might look at the "value chain" that includes the supplier, the reseller itself, and the ultimate customer. The focus is on "value creation" rather than on business function. Forward-looking companies realize that their value chains typically extend outside the firm itself. Each chain is only as strong as its weakest link.

To maximize efficiency and effectiveness the reseller's managers might have to focus efforts at either the supplier or customer end of the chain. For example, if the reseller is having problems with quality control or inappropriate designs, the problem might be best addressed at the supplier end of the chain. Likewise, by collaborating more closely with customers about their needs, the reseller will be in a much better position to supply input to the supplier.

ALIGNING FINANCE AND CORPORATE STRATEGY FOR GROWTH

Although finance has always been a core concern of top management, finance has also been largely divorced from strategic planning. Although finance is

Exercise 1–2: Process Improvement

INSTRUCTIONS: ☛ List at least 3 of the 6 steps in improving a process. In the process improvement sequence, when is it possible to identify a breakthrough opportunity?

1. ______________________________

2. ______________________________

3. ______________________________

Breakthrough opportunities can be identified ______________________________

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always tied to tactical decisions through the budget, many firms have not implicitly tied finance to their long-term strategic planning except in the most general way. While this approach may seem wrong-headed, there are at least two explanations for the approach. First, most corporate planners are lacking in financial expertise. Second, finance departments have a natural reluctance to concentrate on firm-wide income projections based on conjecture. In this environment strategic planning has not been tied to financial measures in any meaningful way. Accordingly, finance professionals have not always played a role in formulating strategy.

Finance Professionals as Business Partners

The new emphasis in finance is on becoming full business partners who can assist management in strategic decision making. This requires finance and accounting professionals in business and industry to assume new roles and responsibilities. The emphasis is on planning transactions rather than on reporting them.

Many forward-looking organizations worldwide, such as Scandia and Aetna Insurance, have all started processes to more closely link financial measures and strategy. Some firms have adopted metrics and other performance measures to more closely gauge the effectiveness of tactical decisions in achieving long-term strategic goals. These strategic tools will be discussed in Chapters 4 and 5.

Transforming Strategy into Action

The key to linking finance and strategy is to develop measurement tools that allow managers to transform that strategy into measurable action. In most cases this has forced companies to carefully reexamine what they are measuring, how they are measuring it, and when the measuring data need to be available to managers. The result has been an increased emphasis on developing new measurement techniques that include not only financial but also nonfinancial data, and providing it to managers in real time.

Developing Metrics

During the last five years, the most profitable U.S. businesses have discovered "metrics." This is business-school jargon for nontraditional financial measurement systems. Metrics measure the unique "drivers of performance" that make a company profitable and valuable in the long run. While traditional accounting systems are historical records that measure performance, metrics concentrate on measuring the current activities that contribute to the long-term success of the company. Performance measures are typically implemented with "best practices" initiatives and other process improvement programs. Chapter 5 details how a firm can develop its own sets of metric performance measures to see if its business plan is actually producing results. These new metrics measure wealth creation by relating financial performance to shareholder value. Traditional measures—such as Net Income and earnings per share (EPS)—make no charge for the cost of capital and overstate wealth creation for the shareholders. Two of the more popular metrics are Economic Value Added (EVA®)* and Cash Flow Return on Investment (CFROI).

Balanced Scorecard

A number of companies worldwide have embraced the balanced scorecard approach. The balanced scorecard, pioneered by Robert S. Kaplan and David P. Norton of the Harvard Business School, compiles a balanced set of financial and nonfinancial performance drivers that help managers guide corporate strategy and determine if the strategies in place are being met by current tactics. The balanced scorecard and other performance appraisal techniques are detailed in Chapter 4.

REFOCUSING THE FINANCE FUNCTION

As mentioned earlier, finance and accounting will never be the same. Finance staffs have been cut in half and are doing more with less. Finance reengineering is addressed in Chapter 7.

Finance as a Value-Added Activity

One of the biggest changes in finance is the "mindset" of finance professionals. Ten years ago hardly anyone in a finance job thought they were in an entrepreneurial area. Although finance departments have always produced useful information and Chief Financial Officers (CFOs) strived to operate efficiently, there was no drive to enhance the firm's bottom line.

*EVA is a registered trademark of Stern Stewart & Company.

Today CFOs have to heed the mantra to enhance shareholder value. CFOs have accomplished more in this area in the last five years than in the preceding 95 years. With their vast number of repetitive transactions, finance departments were ripe for process improvements and cost reductions. In company after company reengineering basic finance functions like accounts payable have results in millions of dollars of savings. The reengineering has been contagious and hardly any finance departments have been left untouched by the changes sweeping over the corporate world.

The Lean Finance Function: Doing More with Less

Efforts to enhance shareholder value have also hit finance departments which are now expected to have efficient "lean and mean" management structures. In many firms, finance and accounting are now required to "do more with less." The effective use of technology has the potential to reduce the size of many finance departments. Because many of the routine low-value jobs will be automated, the remaining staff will have to refocus on activities that are more planning- or strategy-oriented. Chapter 2 discusses these issues in more detail.

Role of Finance in Firm-Wide Process Improvements

Finance professionals can be expected to play a key role in implementing process improvements throughout the firm. Cost management and financial forecasting skills will be useful skills on cross-functional reengineering teams.

Focus on the Whole Firm

In repositioning finance from a staff function to a value-added feature of the organization, finance professionals need to expand their focus. Whereas finance staff tended to focus on the operation of the finance function, in the new environment the focus needs to be on the entire organization. Finance professionals will be providing financial advice and information on decision making in a variety of contexts so they need to be knowledgeable about all the firm's operations. In this environment generalists rather than specialists will be in demand.

THE CFO AS CHANGE AGENT

The CFO plays an important role in refocusing the finance function. Charged with turning finance from a cost to a value-added enterprise within the organization, the CFO has to be a champion of change both within and outside the finance department.

Overcoming Stereotypes

Although professionals in the finance department may be ready and able to assume roles in setting strategy and efficient execution, finance should not underestimate the challenge of overcoming the "bean counter" stereotype that is all too common in many organizations. Many nonfinancial managers still continue to perceive Certified Public Accountants (CPAs) and other finance professionals as engaged primarily in data entry. Although nothing could be further than the truth, the stereotype lingers augmented by prissy accountants in movies and television shows. The American Institute of Certified Public Accountants' (AICPA's) efforts in educating the public—and nonfinancial managers—that CPAs are business advisers and consultants is a good first step. Within an organization financial professionals won't enjoy an improved image unless they take active steps to improve that image.

An articulate CFO can help overcome many of these outdated stereotypes by showcasing the skills and abilities of finance professionals. In fact, many nonfinancial managers have little idea about the changes in finance's role in the organization. An outspoken CFO who publicizes the new role can do much to enhance the status of their staff within the organization. The CFO needs to make the case that finance professionals are core managers not staff functionaries.

Increased Visibility

One consequence of these changes is increased visibility not only for the CFO but for other finance professionals. Although CPAs in business and industry may have once spent most of their time interacting with other finance professionals, in the new environment an increasing amount of time will be spent working on cross-functional teams with nonfinance colleagues. This will greatly increase the individuals visibility across the business.

Managing Change

The New Finance represents a major change in the texture of the finance function. Although improvements seldom come without change, change can be difficult to accommodate and needs to be managed. Finance managers need to anticipate the consequences of change. Once these likely consequences are expected, managers can be ready to deal with them in a nonthreatening way to ensure that the changes are effected as smoothly as possible and efficiencies realized as quickly as possible. A checklist of issues relating to change management is found in Exhibit 1–4.

Exhibit 1–4

Checklist: Managing Change

1. Expect Resistance
2. Understand Resistance
3. Listening Deeply
4. Need for Flexibility
5. Involve the Staff
6. Work through Conflicts
7. Don't Do Too Much Too Soon
8. Managing Change in a Changing Business

Expect Resistance

It would be a serious mistake not to anticipate resistance to implementation of The New Finance. Long-term employees may feel threatened by changes in the department. Inevitably it occurs at the same time the department is being downsized because of technological innovations. The New Finance will require new skills and a new attitude. Not surprisingly, employees who are comfortable with the status quo will have to be convinced the changes are worthwhile. They must be convinced that this is not just "change for change's sake."

Understanding Resistance

In a large firm, most employees will already have a bias against another corporate initiative. Most employees have already been involved in time-consuming planning efforts or reorganizations that produced few tangible results.

When the finance function is being reengineered and asked to "do more with less" employees will recognize that the department will be downsized and those remaining will be asked to work harder. In the short term, neither of these changes is going to seem positive.

Some staff may simply be unprepared to act as business advisers. They may be uncomfortable in this role, especially when advising upper management from other areas. Managers should identify learning opportunities for staff to make them more comfortable and more effective in their new role.

Listening Deeply

When implementing change it is necessary to listen to people's comments. Some individuals will merely react, and react without thinking. Reaction to change is often negative. Managers need to listen carefully to gage whether the negative response is merely a negative reaction to the concept of "change" rather than a reaction to the substance of the change. On the other hand, if staff object not because there is a change but because they believe the change unwise or impractical, managers need to listen and accept the criticism.

Need for Flexibility

Although resistance is often resistance to the concept of change rather than to the specific changes themselves, sometimes criticism of change is valid. Frontline employees often understand why a change might be impractical, or may have consequences unforeseen by top management. Managers need to be flexible in adapting anticipated changes to accommodate valid criticisms.

Involve the Staff

People are far more likely to "buy in" to a change in which they have input. Avoid imposing change from the top down without employee input. It is hard to convince employees that they will be team members if they are excluded from the planning process. Success in implementing change is far more likely if the staff have a stake in the changes.

Work through Conflicts

Although conflicts are probably inevitable when change is introduced, how they are handled will make a lasting difference in the finance department. Although legitimate criticism should be listened to and heeded, back-stabbing and foot-dragging should not be tolerated. In today's tight job market losing experienced staff is expensive so it is normally cost-effective to resolve conflicts rather than hire replacements for the complainers. A good alternative for resolving on-the-job conflicts is to use mediation or other Alternative Dispute Resolution (ADR) techniques.

Don't Do Too Much Too Soon

Although some change consultants counsel that all processes should be changed all at once, most managers take the view that too much rapid change can also cause an organization to stumble. The best policy is gradualism—introduce a few new practices and procedures, perfect them, and then add others.

Managing Change in a Changing Business

Implementing change in an established business is hard enough, but when the business itself is changing, complexity is multiplied. Corporate America is undergoing a mind-numbing reshuffling. On the one hand mergers and acquisition are at an all time high. But "spin-offs" of divisions and whole business units are also running at a record pace. Like professional baseball teams, many corporations look radically different each year. Implementing The New Finance becomes harder when the organization itself is undergoing radical changes. When two companies are merging and finance operations are being combined, managers may be able to pick and choose the best practices and procedures used by each firm to build a world-class finance function. Even the best practices and procedures will be of little use unless managers also manage the merger of the two corporate cultures.

Exercise 1–3: Managing Change

INSTRUCTIONS: ☛ As the business environment changes, finance must change with it. Change is less risky when managed. Read over the following scenario involving Jim and his manager, Sharon, in the Finance Department. List four reasons why Jim may be uncomfortable with major changes in finance's role.

Sharon: Jim, did you read the e-mail from the CEO about the reorganization of our department?

Jim: Yes, and it doesn't look good . . . at least for us . . . does it? Of course, we've gone through two other reorganizations since I've been here—I guess one more won't hurt.

Sharon: Well, we haven't worked out all the details yet. I do know we're all under pressure to get the stock price up.

Jim: If Sales can't sell move more product they'll have to wring more fat out of the home office. I thought we were already running pretty thin around here.

Sharon: Its too early to say for sure, but it may not be business as usual unless we turn things around. We're going to be taking on new roles and working with managers out in the field offices more.

1. ____

2. ____

3. ____

4. ____

NEW FINANCIAL TOOLS FOR THE NEW FINANCE

This course examines both the new environment for finance professionals and many of the new and traditional strategic tools that will help finance professionals become full business partners. The next chapter will examine the specific steps finance professionals need to be recognized as business partners. The chapter will also address the skill set needed as finance professionals move from collecting data to financial analysis in their new decision-support role in the organization.

The following chapters will discuss specific strategic tools. Not all strategic tools are new ones, and Chapter 3 reviews Porter's theory of competitive advantage and how it links to financial strategy. The chapter also discusses how traditional tools used in financial analysis like Return on Assets (ROA) and Return on Common Shareholders' Equity (ROCSE) can be used to link finance and strategy. Chapters 4 and 5 discuss more recent innovations in finance. Chapter 4 examines the use of the balanced scorecard and other performance measures that seek to identify and measure discrete measures of performance that enable a firm to achieve above average performance. Chapter 5 is devoted to metrics. The chapter compares and contrasts EVA, CFROI, and Total Shareholder Return (TRS), and discusses both the theoretical and practical implications of adopting a metric measurement system.

Chapter 6 is devoted to strategic process improvement, an area that will demand more attention from finance professionals in the next decade. The chapter discusses the mechanics involved in process mapping and steps required in overhauling processes. The chapter also discusses implementation of Best Practices firm-wide. The final chapter in the course, Chapter 7, discusses how firms are redesigning the finance function. Most firms now expect the finance department to do more with less. The chapter discusses the nuts and bolts of reengineering efforts and the need to overhaul technology as part of the process. The chapter concludes with a discussion of the human side of reengineering.

In this chapter you learned:

- In the new millennium finance professionals are entering a new work environment; like it or not, finance will never be the same.
  - There is a new competitive business environment with a faster pace of innovation, lower profit margins, more competition, and less margin for error.
  - There is also a new environment for individual firms with downsized, flatter organizations. This leaner look places more responsibility on middle managers.
- Technology is freeing finance professionals from data gathering to engage in more problem solving.
- In response to the changes in business practices and new firm environments, "The New Finance" provides a focus that charts new career paths for finance professionals.
- The focus of "The New Finance" provides the means of linking finance to basic corporate strategy. Finance professionals are becoming true business partners.
- Forward-thinking firms are turning finance into a value-added activity. The savings from streamlining basic processes can be immense.
- Changes in both workplace in general and the finance department in particular can be disruptive and managers need to be prepared to actively managing change.

ANSWERS TO EXERCISES

Exercise 1–1

Trends include:

1. Open access to information
2. Leaner organizations and/or flatter organizations
3. Dividends from technology
4. Emphasis on process improvement
5. Emphasis on value chains

Exercise 1–2

The 6 steps in a typical process improvement program include:

1. Select processes for evaluation
2. Map process
3. Document process
4. Identify any breakthrough opportunities
5. Map the redesigned process
6. Implement new practices

Breakthrough opportunities can be identified only after the process is mapped and analyzed.

Exercise 1–3

Finance staff may be uncomfortable with change for a number of reasons including staff will:

1. Probably be downsized
2. Be asked to do more work
3. Be asked to learn new skills
4. Be asked to assume new roles and responsibilities
5. Perceive the request as "change for change's sake"

Review Questions

INSTRUCTIONS: Here is the first set of review questions in this course. Answering the questions following each chapter will give you a chance to check your comprehension of the concepts as they are presented and will reinforce your understanding of them.

As you can see below, the answer to each numbered question is printed to the side of the question. Before beginning, you should conceal the answer in some way, either by folding the page vertically or by placing a sheet of paper over the answers. Then read and answer each question. Compare your answers with those given, For any question you answer incorrectly, make an effort to understand why the answer given is the correct one. You may find it helpful to turn back to the appropriate section of the chapter and review the material of which you were unsure. At any rate, be sure you understand all the review questions before going on to the next chapter.

1. The focus of "The New Finance" is on: — 1. (b)
(a) managerial accounting.
(b) new competencies to fit the new business environment.
(c) cutting-edge generally accepted accounting principles (GAAP).
(d) more accurate variance analysis.

2. The technique in which an individual or team studies work flow from start to finish, documenting the steps in chronological order is called: — 2. (d)
(a) flowcharting.
(b) work flow analysis.
(c) process study.
(d) process mapping.

3. A value chain: — 3. (a)
(a) may extend outside the firm.
(b) leads in only one direction.
(c) are procedures that sap value from a process.
(d) are the same as cost drivers.

4. All of the following are part of the new business environment except: 4. (c)
  (a) increase in global competition.
  (b) faster pace of innovation.
  (c) lengthened product life cycles.
  (d) falling trade barriers.

5. All of the following are part of the new firm environment except: 5. (d)
  (a) flatter organizations.
  (b) leaner organizations.
  (c) emphasis on improving processes.
  (d) smaller organizations.