MODERNIZING THE FINANCE FUNCTION

Transforming the finance function into a strategic business partner

November 15, 2016
Agenda

• What do we mean by “modernizing the finance function?”
  − Key components
  − Maturity spectrum
  − Achieving optimal finance performance

• Common gaps where finance can have an impact on ROI (with real life examples)
  − Award lifecycle management advisory & planning
  − Indirect and direct cost allocations to service/program delivery with activity based costing and other costing methods
  − Field service process improvement & alignment
  − Spend visibility and vendor management
  − Budget and forecast redesign
Finance functional roles are much more strategic and much less transactional than they historically been.
Fundamentals of the finance function

• Efficient month-end close process, ideally in about five business days
• Clearly defined roles to support balance sheet management and internal controls
• Defined FP&A resources and tools
• Collaborative capability to provide internal customers/areas with key financial analytics to help them optimize their delivery
Modernizing the finance function defined

Finance transformation is the process of resetting an organization’s finance function so that it can better achieve its primary goal of supporting the mission of the organization.

This is done by ensuring that finance is properly aligned to the organization’s mission and that it is operating effectively from a people, process, technology and control standpoint, linking strategy to execution.
Key components of performance

- Alignment of your organization structure, span of control, activities and roles for each functional process area
- Alignment of services and functional processes based upon geographies, strengths, current and planned technologies
- "Volunteer" skillsets transition to specialized/certified finance and accounting professionals
- The reengineering of functional processes, which is typically designed to overcome current challenges and to align with leading practices
- Process improvements are powered by technology enhancements for maximum efficiency gain (not vice versa)
- The implementation of a leading practice application to better enable and automate functional processes
- Technology enabled transformations are typically process led and efficiency gains are created by maximizing the use of the application features and functionality

Finance Performance & Capabilities

- Identification of controls in place to mitigate risk of errors
- Data, process and reporting and governance
- Identification of key metrics
- Data driven decision support and actionable analytics
- Enables critical reporting needs driving strategic insights
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- Data driven decision support and actionable analytics
- Enables critical reporting needs driving strategic insights
Modernizing the finance function: Maturity spectrum

There is a strong correlation between companies that are “thriving” and those that have a continuous improvement culture, including in their finance function.*

- From RSM’s Monitor 2014 and 2015 surveys.
## Modernizing the finance function: Maturity spectrum

<table>
<thead>
<tr>
<th>Category</th>
<th>Transactional/Process &amp; Risk Management</th>
<th>Business Partner</th>
<th>Strategic Business Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Planning</td>
<td>• No formal planning</td>
<td>• Formal but disconnected planning</td>
<td>• Integrated planning</td>
</tr>
<tr>
<td></td>
<td>• Subjective decision making</td>
<td>• Limited data used in decision making</td>
<td>• Objective data-driven decision making</td>
</tr>
<tr>
<td>Budgeting and Forecasting</td>
<td>• Annual budget preparation</td>
<td>• Budget and forecast preparation</td>
<td>• Rolling forecasts implemented</td>
</tr>
<tr>
<td></td>
<td>• Reports indicate if high-level targets were met</td>
<td>• Moderate understanding of key drivers</td>
<td>• Thorough understanding of key drivers with a focus on forecast accuracy and predictability</td>
</tr>
<tr>
<td>Management Reporting and Analysis</td>
<td>• Reporting is a manual process</td>
<td>• Standard, recurring management reports with detailed analysis</td>
<td>• Reporting drives re-forecasting decisions</td>
</tr>
<tr>
<td></td>
<td>• Reports indicate if high-level targets were met</td>
<td>• Ability to drill-down and around on results, as needed</td>
<td>• Real-time results</td>
</tr>
<tr>
<td></td>
<td>• Reporting is a manual process</td>
<td>• Reporting drives re-forecasting decisions</td>
<td>• Dashboards/scorecards with KPIs (visualization)</td>
</tr>
<tr>
<td>Planning Accuracy</td>
<td>• Material variances in planned to actual performance explained</td>
<td>• Reasonably accurate planning</td>
<td>• Predictability in planning, resulting in increased target accuracy</td>
</tr>
<tr>
<td>Risk Management</td>
<td>• Limited understanding of key business risks</td>
<td>• Identification of select upside and downside risks</td>
<td>• Identification of key upside and downside risks with pro-active planning based on likelihood and impact of events</td>
</tr>
<tr>
<td>Organization Structure</td>
<td>• Decentralized business planning functions</td>
<td>• Centralized business planning</td>
<td>• Centralized function providing decision support</td>
</tr>
<tr>
<td></td>
<td>• Score keeper role</td>
<td>• Limited strategic influence</td>
<td>• Tightly integrated and aligned with other business units</td>
</tr>
<tr>
<td>Technology</td>
<td>• Disparate systems and no one single data truth</td>
<td>• Integrated and automated technology (i.e. CPM, BI)</td>
<td>• Full utilization of CPM/BI software</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Common information platform</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• On-demand, self-service culture</td>
</tr>
</tbody>
</table>
Why does this matter to my organization?

• Improved ability to demonstrate value aligned with fundraising
• Better decision-making
• Increased donor engagement
• Improved employee satisfaction
• More efficient use of resources
• Improved mission-driven outcomes
COMMON GAPS & CLIENT EXAMPLES
Common gaps

• Where can finance modernization have a real impact on ROI?
  − Award lifecycle management advisory & planning
  − Service/program profitability through indirect and direct cost allocations
  − Field service process improvement & alignment
  − Spend visibility and vendor management
  − Budget and forecast redesign
AWARD LIFECYCLE MANAGEMENT
Award lifecycle management defined

Successful award lifecycle management follows these principles:

- Accurate and effective management of project resources and expenditures
- Consistent policies and processes
- Seamless flow through each phase
- Award requirements are successfully fulfilled
- Compliance concerns are minimized / eliminated
- Successful stewardship of entrusted funds and the impetus for future awards
Award lifecycle management: Closed Loop
Award lifecycle management: Situation

- Organization’s mission is to drive educational equity and excellence
- Challenges around restricted funding compliance and reporting
- Missing opportunities to partner with relevant funding sources
Award lifecycle management: Outcome

Approach
- Deep dive into existing processes
- Compliance review
- System requirements definition
- Future state process mapping
- Detailed Roadmap

Results
- Eight themes to transform the business
- Closed Loop Award Lifecycle Management Framework
- Path to easing federal audit restrictions
SERVICE/PROGRAM “PROFITABILITY”
Service/program profitability defined

• Nonprofit organizations by nature aim for breakeven financial results

• Accurate cost accounting standards across all operations are necessary in order to understand the relative profitability of mission programs and services

• Why does this matter?
  – Active revenue streams and efficient operations are required for long-term sustainability
  – Funder compliance demands are increasing to drive efficiency with their money to ultimately deliver more outcomes
Example model

Indirect Costs (Overhead)
Personnel and non-personnel costs i.e. Fin., HR, IT, Legal, Rent, etc.

Direct Costs
Personnel and non-personnel costs i.e. Donor acquisition, program delivery, etc.

Allocations
Various Allocation methods

Cost per service/program unit
More accurate visibility to true cost of services and programs

Greater transparency and understanding of costs enables improves opportunities to maximize efficient utilization of resources.
Service/program profitability: Situation

- International provider of health products and services was asked by large funders to demonstrate providing more outcomes year over year with same resources.
- Until now, funders only required that their donation was spent toward the mission, and with few reporting requirements.

**But funders are increasingly more sophisticated placing new requirements on grantees**
- This meant the organization had to become more efficient with their operations.
- They didn’t have costing information because they never had to show this before.
- Many global complexities.
Service/program profitability: Outcome

Approach

• Understand and document business environment and current state of cost allocations
• Improve cost allocation methodology and establish data foundation, reporting and analytics
• Develop and execute an Activity Based Costing model and pilot in order to define cost accounting standards for the organization
• Develop future state / roadmap and costs so the organization could report back to funders

Results

• Visited several country locations to define a model and piloted
• Refined the model based on several months of observation
• Provided a roadmap for global deployment and training
FIELD SERVICE PROCESS IMPROVEMENT & ALIGNMENT
Field service process improvement & alignment defined

• Mission delivery is often funded by either restricted or unrestricted funding from donors

• In either case, the Finance Department must manage forecasted, budgeted and actual revenues and expenses closely – especially in complex global delivery environments

• This requires an efficient service/program delivery lifecycle with consistent methods and tools so that if:
  – Restricted: the organization can deliver well enough to satisfy donor requirements
  – Unrestricted: Management can appropriately prioritize services and programs that drive the greatest mission impact
Continuous cycle to optimize mission impact

- Focuses on **proactivity**
- **Innovation** feeds growth and sustainability
- People, processes, and technology are **aligned** to highly satisfy beneficiaries at each stage
Field service process improvement & alignment: Situation

• An organization in transition from a fully unrestricted funding operating model desired to scale up to attract larger donors to drive more outcomes

• Success in attracting funds proceeded organizational changes in delivery process and infrastructure

• Faced challenges in continuing to run the business while growing and transforming the business at the same time

• Needed a roadmap with timeline that would improve consistency of standard operating procedures

• Critical element was to develop a new funding model based on how the organization was scaling up leveraging more restricted funding
Field service process improvement & alignment: Outcome

Approach
- Understand global program lifecycle
- Facilitate sessions with global field personnel to learn about commonalities and differences in delivery
- Assess of people, process, technology and toolsets
- Identify gaps and issues, and define an action driven roadmap for improvement

Results
- Phased roadmap for transformation across each of the lifecycle stages for Process, Foundational / organizational, and technology improvements
- Conducting Phase 2 activities by performing detailed design for the opportunity management to better inform the forecasting process
SPEND VISIBILITY AND VENDOR MANAGEMENT
Spend visibility and vendor management

• Spend visibility is pivotal to your success
• Third parties can provide specialization and expertise
• Effective relationships with vendors and suppliers begin long before pricing discussions and contracts are signed
• A good relationship requires:
  − Understanding your organization’s needs/goals
  − Finding a good match
  − Negotiating a fair agreement
  − Ongoing communication concerning service expectations and performance
There are a number of factors that impact vendor management programs:

- Centralized vs. decentralized spend management
- Visibility to spend data
- Amount of maverick and uncontrolled spend
- Procurement process automation and efficiency
- Current focus on managing indirect spend
- Use of bidding processes, RFP’s and reverse auctions
- Historical relationship with key suppliers
- Relationship between procurement and internal customers
Spend visibility and vendor management: Situation

- Large multi-campus community college
- Procurement was practiced inconsistently across the campuses, creating significant inefficiencies

<table>
<thead>
<tr>
<th>People</th>
<th>Policies and Processes</th>
<th>Customer and Vendor Relationships</th>
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</thead>
<tbody>
<tr>
<td>• Functions exist not commonly found in procurement</td>
<td>• Lack of standardization in tools and forms reduces efficiency</td>
<td>• Customer feedback not included in department objectives</td>
</tr>
<tr>
<td>• Current organization is result of historical process and negotiations, not tied to strategic direction</td>
<td>• Manual workarounds in common purchasing process that should be automated</td>
<td>• Policies, training and guidebooks are outdated and cumbersome to navigate</td>
</tr>
<tr>
<td></td>
<td>• Manual workarounds in common purchasing process that should be automated</td>
<td>• Multiple redundant vendors</td>
</tr>
</tbody>
</table>
Spend Visibility and Vendor Management: Outcome

• **Approach**
  - Vendor Management *Rapid Assessment®*
    - Spend Analysis: What does the data tell us?
    - Strategic priorities: What are we here to do?
    - Functional ownership: What functions should we perform?
    - Organization structure: What teams do we need?
    - Customer relationships: What are their requirements?
    - Vendor relationships: How do we get more value from the “right” vendors?

• **Results**
  - Procurement put representatives on campuses to improve relationships and expedite the requisition process
  - The vendor contracting process moved towards standardization through a common contract request form
  - Procurement began development of major department goals and key team member objectives
  - Leadership acceptance that a centralized Procurement organization does increase the value provided to campuses through better buying and decreased risk
BUDGET AND FORECAST REDESIGN
Rethinking your budget

Strategy

What is our mission?
How are we relevant?
Which choices will make us more effective?

Planning

How will we align resources with our mission?
How will we measure our progress?

Budgeting

How will we ensure and demonstrate accountability?
How do we encourage behaviors needed to execute the mission?

Forecasting

How will we adjust to reflect changing conditions?
Budgeting and planning best practices framework

- Frequency
- Level of Detail
- Driver Based Budgeting
- Participation and Collaboration
- Leverage Technology
- Process Management
Budgeting process: Situation

• Organization focused on the development, promotion and improvement of library and information services in order to enhance learning and ensure access to information for all

• Cumbersome financial/operational reporting, control issues, unsupported legacy ERP
Budgeting process: Outcome

Approach

• Business process improvement, financial system design, implemented integrated solution set:
  – Dynamics GP integrated to iMIS
  – Prophix CPM
  – SharePoint with KnowledgeLake

Results

– Cut 10 days from month end close
– Cut 4 weeks from year end close
– Improved timeliness of information, internal controls and document management
– Improved decision-making and effectiveness
IN SUMMARY
Finance’s role in addressing these gaps

• Form strategic partnerships with operations
• Better understanding the mission and delivery allows data to become information
• Assisting with mission delivery drives cost savings and more efficient use of resources
• Specific vendor and spend analytics help leaders focus on the appropriate metrics
• Optimizing the budget process provides better insights for the organization and significantly improves users’ lives
• Developing meaningful timely reports to make strategic decisions
How can you address gaps and transform your finance function?

<table>
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<tbody>
<tr>
<td>• Meaningful and actionable management reporting and information access</td>
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<tr>
<td>• Enable strategy, capital agenda, and relevance to stakeholders</td>
</tr>
<tr>
<td>• Align and integrate finance organization with strategy, mission, and operations</td>
</tr>
<tr>
<td>• Develop metrics/KPI’s to measure success</td>
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<tr>
<td>• Profitability analysis</td>
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<tr>
<td>• Optimize strategy execution</td>
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<tr>
<th>Governance</th>
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<tbody>
<tr>
<td>• Rationalize and monitor controls</td>
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<tr>
<td>• Centralized management reporting</td>
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<tr>
<td>• Effective master data governance</td>
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<tr>
<td>• Task management tracking</td>
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<table>
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<tr>
<th>Efficient Operations</th>
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</thead>
<tbody>
<tr>
<td>• Reduce complexity</td>
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<tr>
<td>• Global standardization</td>
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<tr>
<td>• Eliminate duplicative tasks and reduce manual activities</td>
</tr>
<tr>
<td>• Efficient and effective operating model</td>
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<tr>
<td>• Identify highest ROI projects</td>
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<tr>
<td>• Continuous improvement</td>
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Click the “Ask a Question” button, type your question in the open area and click “Ask Question to Submit.”
QUESTIONS AND ANSWERS?
THANK YOU FOR YOUR TIME AND ATTENTION
In summary

• RSM US LLP provides comprehensive, end-to-end solutions and services for the not-for-profit industry. Our solutions are delivered by consultants with deep industry expertise and a focus on helping clients meet their growth and business goals.

• Contact us for more information about how we can help your organization reach its goals in 2016.
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