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Seven Actions Controllers Should Take Now to Prepare for 2010

Management Issue

For Current Members of Hackett Process Advisory Programs

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Executive Summary

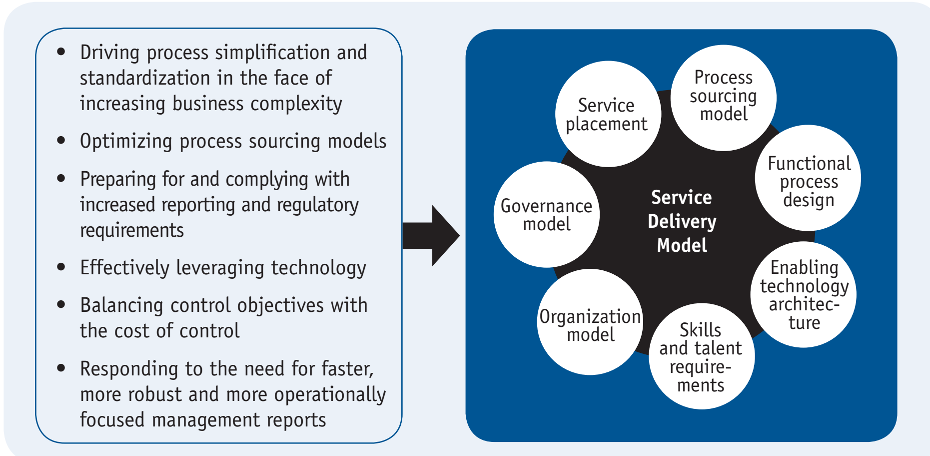
As if being in the grip of a global economic recession weren't enough of a challenge, companies are facing added barriers to competitiveness. Some apply to the entire enterprise, such as increasing effectiveness while reducing costs. Others are specifically within the power of the Controller's organization to influence, such as responding to the need for more robust and operationally focused management reporting. By rethinking their Service Delivery Model and selectively applying the best practices that will optimize specific aspects of that model, Controllers can create a plan of action to strengthen the function at the same time that they support the goals of the enterprise as a whole.

Situation Update

In an era marked by historic levels of volatility, the pressure on companies to ensure adequate and proper financial controls is higher than ever. Yet, given the current economic environment, this goal must be accomplished at the lowest possible cost. A challenge even in the best of times, this dual mandate has become even more difficult due to additional factors, such as management's need for faster preparation of reports and ever-stricter financial reporting requirements and regulations. The Controller's job is further complicated by the need to make major decisions about technology and sourcing.

The likelihood of a slow economic recovery makes it essential to shape the Controller's organization in a way that will help companies be competitive within the context of an increasingly competitive global operating environment. As a result of the pressures faced, Controllers – and the entire finance function – should rethink their Service Delivery Model **(Fig. 1)**.

FIG. 1 Controllers are facing a host of challenges that are forcing them to revisit their Service Delivery Model



Source: The Hackett Group, 2009

The Best Practices of Top-Performing Controllerships

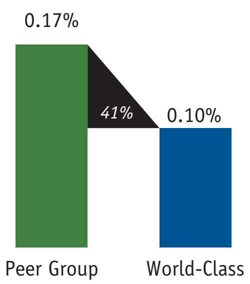
While the cost of the overall finance function continues to drop, there are many areas in which most Controller's organizations still have room to make improvements that will free resources for high-value activities.[1] Based on its proprietary database of the best practices of over 2,000 companies, The Hackett Group has identified seven specific actions being taken by top-performing organizations that increase their performance, funded by improvements in the function's operational efficiency.

For example, at world-class companies, carrying out controllership activities costs 41% less and requires 45% fewer FTEs than at companies in the peer group **(Figs. 2, 3)**. Processes are so streamlined through simplification and automation that 14% of these organizations completely close their books in fewer than 4 days **(Fig. 4)**. The process costs and staff liberated from this time-consuming activity can be redirected in ways that deliver greater effectiveness.

A Holistic Approach to Improvement Provides the Best Results

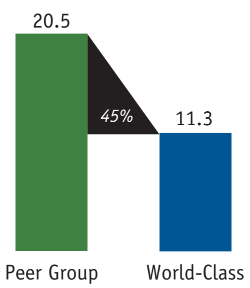
Each of the seven initiatives discussed in this analysis, if supported appropriately by enablers such as people and technology, will in itself provide benefits if deployed. However, a coordinated approach is optimal, and best accomplished with a clear Service Delivery Model, which is a road map for determining what services get executed where, how and by whom. Many leading-edge controlling organizations are selecting and adopting best practices with an eye toward how they can optimize the different facets of their Service Delivery Model **(Fig. 5)**.

FIG. 2 Controllership process cost as a percent of revenue, 2009



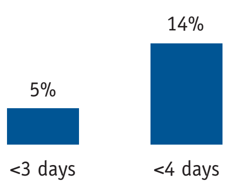
Source: The Hackett Group, 2009

FIG. 3 Number of controllership FTEs per US$ billion of revenue, 2009



Source: The Hackett Group, 2009

FIG. 4 Percent of world-class companies that close their books in four days or less, 2009



Source: The Hackett Group, 2009

[1] In Hackett's process taxonomy, Controller activities include Cash Disbursements (accounts payable; travel and expenses), Revenue Cycle (credit; customer billing; collections; cash application); and Accounting and External Reporting (fixed assets; inter-company accounting; general ledger accounting; cost accounting; and cxternal reporting).

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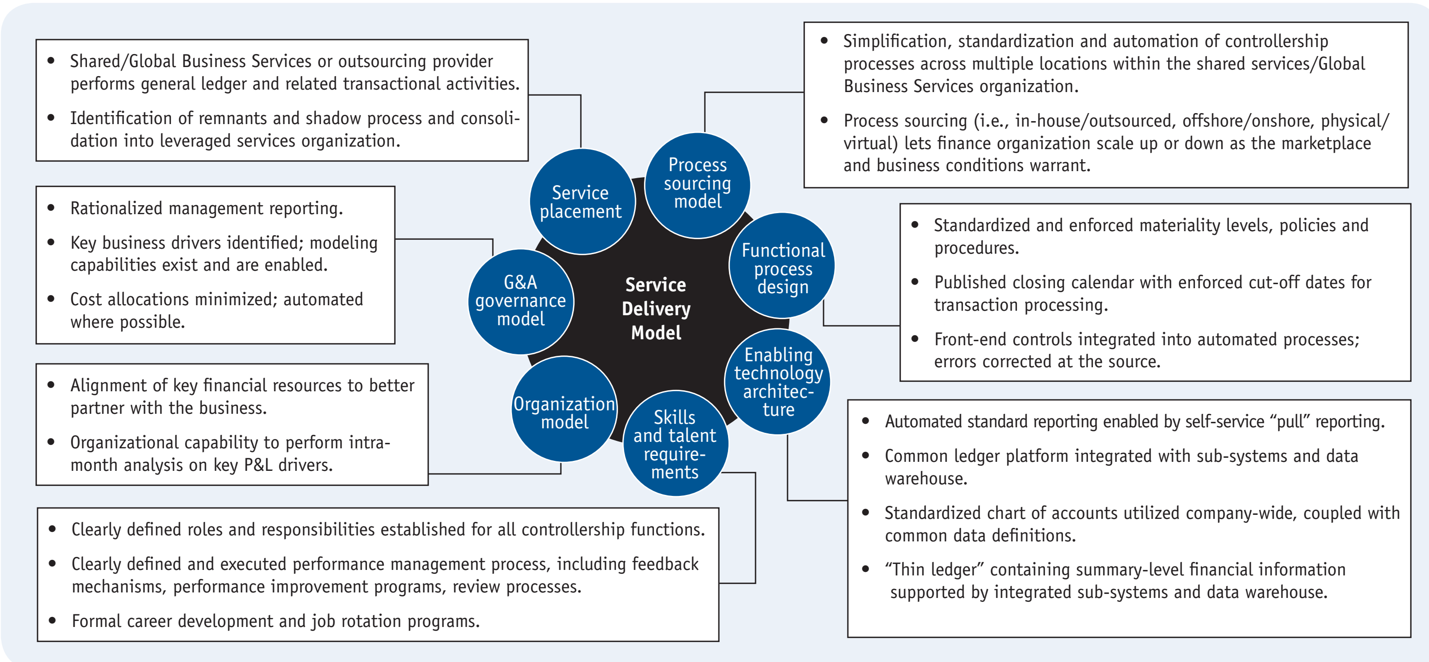
FIG. 5 Top-performing controllership organizations are adopting the best practices that optimize their Service Delivery Model



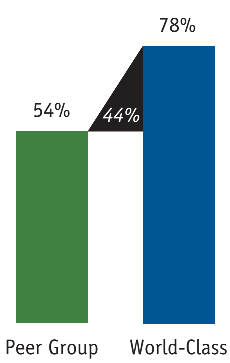
Source: The Hackett Group

Seven Actions to Take Now

The Hackett Group has identified seven actions that controllers can take in the short to medium-term that leverage existing enablers and deliver greater effectiveness while reducing costs. The initiatives will also position the Controller’s organization to help improve the financial health of the entire enterprise.

1. **Rationalize management reporting volumes, automate standard reporting and enable self-service “pull” reporting; rationalize the chart of accounts and leverage the company’s data warehouse (Fig. 6)**. Streamlined management reporting volumes and processes allow the Controller’s organization to focus more on interpretation and analysis.
2. **Centralize account reconciliations and leverage risk profile assessments, technology; conduct peer reviews to reduce cost and improve performance.** This improves the efficiency and effectiveness of financial reporting control and the safeguarding of assets.
3. **Identify key business drivers and develop the organizational capability to perform intra-month analysis on key P&L drivers.** Key-driver business management and early analysis enable the enterprise to take corrective action sooner.
4. **Reverse-engineer the close process to identify information dependencies, workload bottlenecks and opportunities for leverage; perform root-cause analysis on manual entries to identify upstream issues.** A streamlined close process is an indicator of efficient transactional and financial processes and enables the Controller’s organization to focus on more value-added activities.

FIG. 6 Percent of business performance reports generated from a central data repository versus the general ledger, 2009



Source: The Hackett Group, 2009

5. **Implement and enforce standardized materiality levels and related best practices.** Minimizes the need for spot judgments and enables greater control and easier compliance.
6. **Automate processes supporting DSO (e.g., billing and cash application) and invest in tools and processes to boost collection effectiveness; improve completeness, accuracy and timeliness of operational and financial cash reporting.** Contributes to working capital creation and the effectiveness of cash-flow decision making.
7. **Identify shadow processes and process remnants and consolidate these into a leveraged services organization, such as Global Business Services.** Enables greater process leverage enterprise wide and eliminates duplicative efforts.

Strategic Implications

The global economy has sustained a traumatic shock. Irrespective of when the it recovers, Controllers and their organizations must make sure they are improving their capabilities in activities that will help them be as efficient and effective as possible, both now and when better times return.

At a minimum, they should focus on lowering the costs of their routine operational activities and driving effectiveness through a holistic approach to service delivery. However, when identifying savings opportunities, rather than make across the board cuts that may actually impair effectiveness, they should model their actions on the proven best practices of top performers.

The specific actions described in this analysis will help them create a plan of action, one whose priorities are aligned with and support those of the enterprise as a whole.

Related Hackett Research

"Without the Appropriate G&A Service Delivery Strategy, Companies' Ability To Be Truly Optimized Is Lost," May 2009

"Global Business Services: More Than a Name Change," May 2009

"Economic Crisis Is Accelerating Globalization of G&A Processes," December 2008

Defining G&A Service Delivery Strategy and Model

The G&A Service Delivery Strategy is defined as an organization's strategic plan, Service Delivery Model, and transformation capability and road map for the delivery of general and administrative services. The G&A Service Delivery Strategy defines what work gets executed where, how and by whom.

The G&A Service Delivery Model is an integral part of the strategy and includes the organizational model, technology platforms, function sourcing model, service placement strategy, end-to-end process design, governance model and talent strategies needed to deliver G&A services efficiently and effectively.

Service placement, process sourcing and organizational modeling are particularly critical components of the Service Delivery Model, defining which G&A processes are executed at the corporate, business unit, self-service and leveraged services (Global Business Services) level.

About The Hackett Group

The Hackett Group, a global strategic advisory firm, is a leader in best practice implementation, advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe, Australia and India and is publicly traded on the NASDAQ as HCKT.

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About the Advisors

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Mr. Marchionni provides finance leaders with insight and analysis gained during over 20 years of work in consulting and in the private sector. He has particular expertise in the areas of revenue and cost management; working capital management; process reengineering and strategic planning, forecasting and analysis. Prior to joining The Hackett Group, Mr. Marchionni, a Certified Public Accountant, served as CFO of a privately held diversified consumer products company. Previously, he was Vice-President of Finance for Atlanta Gas Light Company, a wholly owned subsidiary of AGL Resources, a $1 billion publicly traded diversified energy company. In this role, he was responsible for the financial operations of an $800 million business unit, including capital investments, revenue management, cost reduction initiatives, strategic planning and financial analysis.

Gene Sheikh

Senior Research Director, Finance Executive Advisory Program, The Hackett Group

Mr. Sheikh is responsible for leading The Hackett Group's finance executive and research agenda across a range of issues in finance, including transformation, business insight, globalization, partnering and talent management. Prior to joining the Hackett Group, Mr. Sheikh spent a number of years in strategy consulting at A.T. Kearney and Bain & Company as well as in industry with GE Healthcare and United Airlines. While at Bain & Company, he developed corporate and growth strategies for Fortune 100 clients in the US and Asia, advised private equity firms on M&A strategy and performed strategic due diligence.

Sean Kracklauer

President, Advisory Services and Research, The Hackett Group

Until his appointment to head The Hackett Group's Research and Advisory Services, Mr. Kracklauer led the company's Finance Transformation practice, where he was responsible for assisting CFOs and other senior finance executives with setting strategy, structuring organizational and process redesign, and implementing solutions to improve the effectiveness and efficiency of the finance organization. He has held consulting and executive financial management positions in the financial services and technology industries over the past 19 years. His expertise includes Sarbanes-Oxley Section 404 compliance, finance and accounting business process outsourcing, rationalizing accounting operations processes, finance strategy, business performance management, planning and budgeting process redesign, activity based management, and functional design for business intelligence systems.