IAFEI Quarterly
Special Issue
September 22, 2014

Special Issue: China´s Finance Masters

Transforming Finance for High Performance

INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

IAFEI Quarterly

Special Issue: China´s Finance Masters

The electronic professional journal of IAFEI
(International Association of Financial Executives Institutes)

September 22, 2014, www.iafei.org

Letter of the Editor **September 22, 2014**

Dear Financial Executive,

You receive the

IAFEI Quarterly, **Special Issue,**
China´s Finance Masters
Transforming Finance for High Performance

This is another issue of the electronic professional journal of IAFEI, the International Association of Financial Executives Institutes. This journal, other than the IAFEI Website, is the internal ongoing information tool of our association, destined to reach the desk of each financial executive, or reach him, her otherwise, at the discretion of the national IAFEI member institutes.

The attached 28 pages Study addresses the finance transformation as a key driver of Chinese enterprise transformation, as well as the challenges faced by Chinese CFO´s in undertaking such finance transformation.

For the quick reader this Study gives three overviews:

- Executive Summary, pages 4 and 5
- Key Findings and Insights, page 6
- Conclusion and Recommendations, page 26

The Study itself is a joint work of **Accenture** and of **China Association of Chief Financial Officers**, **CACFO**. Accenture in collaboration with CACFO jointly surveyed finance executives at large Chinese SOEs, state owned enterprises. Completed questionnaires were collected from 95 companies, 40 percent of which were among China´s top 500 enterprises. Slightly more than half of the respondents (51 percent) were CFOs. In addition, seven in depth interviews were conducted with CFOs of Chinese enterprises.

We wish to make the results available to all IAFEI member institutes, and we do thank the Chinese IAFEI member institute CACFO as well as Accenture to give permission for re-issuing this study.

Once again, I conclude with our ongoing invitation to IAFEI member institutes, and to their members, to send us articles for inclusion in future IAFEI Quarterlies, and to also send to us your suggestions for improvements.

With best personal regards

Helmut Schnabel

Helmut Schnabel

accenture

consulting | technology | outsourcing

High performance. Delivered.

China's Finance Masters

Transforming Finance for High Performance

Contents

Executive Summary

Amid the "new normal" of global volatility and uncertainty, Chinese enterprises face myriad challenges, among which is the pressing, unprecedented task of management transformation. Specifically, while maintaining competitive advantage in the domestic market, corporate managers need to promote management transformation to expand businesses beyond home geographies, establish core capabilities, and boost competitiveness.

Finance transformation is a key driver of Chinese enterprise transformation. For Chinese companies, finance strategy has become a core component of the overall corporate strategy, and the finance function is increasingly redirecting its focus toward value creation. The finance organization also is playing a more prominent role in corporate governance. The overwhelming majority of large enterprises have, by and large, centralized their management of the finance organization. As finance management standardization has been continuously pushed forward and information systems have developed rapidly, the finance organization has forged ahead in providing accurate, timely finance information. Also, as they refocus the finance function on value generation, finance executives consider finance organizational transformation, lean finance management, and improved finance management capabilities as some of their most important priorities.

To explore the current state and developing enterprise finance management trends, as well as the challenges faced by CFOs in undertaking finance transformation, Accenture in collaboration with the China Association of Chief Finance Officers (CACFO) jointly embarked on a comprehensive research effort in 2012. The research included a survey of Chinese state-owned enterprises (SOEs) representing 15 industries, as well as in-depth qualitative interviews with CFOs of large SOEs. To understand how Chinese CFOs' perspectives compared with those of their peers in other areas of the world, we benchmarked these results against those from the Accenture 2011 High Performance Finance Study, which covered six subject areas: finance management and controls, capital management, compliance and risk management, performance excellence, driving growth, and response to changes.

Our research found that CFOs of Chinese enterprises are increasingly cognizant of the need to focus the finance function on corporate value creation. However, this shift will be difficult to achieve without finance transformation to embed the practice of cross-departmental finance management within the entire organization and develop top-flight finance talent. Developing a value creation-oriented finance organization and improving its capabilities require CFOs to play three major roles.

First, at the level of corporate strategy, Chinese CFOs must be value-creation advocates, nurture a value-creation corporate culture, and spearhead decision making in resource allocation that maximizes value creation. Second, in business operations, CFOs should be the bridge between the enterprise's overall strategy, operations, and performance, and help enhance the enterprise's execution ability, thus facilitating finance transformation. Third, CFOs must act as talent mentors and lead finance transformation by attracting and training top finance talent.

We also found that while Chinese finance executives are still focusing on cost management in the current economic environment, in the foreseeable future they will consider strengthening key finance functions—especially budgeting, capital management, and risk management—a key priority.

For most Chinese enterprises, the budgeting process should be optimized, and budget management systems and methods are yet to be perfected or standardized. Although these enterprises have reached a fairly high level of capital concentration, they will need to increase cash flow transparency, improve the accuracy of capital forecasting, enhance the efficiency of capital utilization, establish finance early warning mechanisms, and monitor capital risks through information technologies. In the risk management area, Chinese enterprises should consider building comprehensive risk management capabilities, setting up an effective risk-aversion governance structure, introducing cross-functional risk management mechanisms, and infusing risk management into the enterprise's operational activities, thereby shaping a multi-dimensional risk management culture.

In addition, the current study probed the significant role and potential of information technologies in promoting finance transformation in Chinese enterprises. Generally, China's business management is directly constrained by inadequate finance information systems and limited capabilities for mining and integrating business and finance data. The study revealed that Chinese enterprises' information systems are still focused on ensuring accuracy and timeliness of finance information processing and disclosures. In the future, greater efforts should be extended to increasing transparency and standardization of finance data. In this regard, "Big Data" has the potential to effectively integrate business and finance information and, by tapping and analyzing the seemingly unlimited amount of cross-functional information, generate useful insights for enterprises' growth and decision making.

The study suggests that finance transformation in Chinese enterprises should stick to the principle of "value creation," standardize functional processes, measure and monitor business operations in an accurate and timely manner, accentuate the leading role of finance management in optimizing the enterprise's internal resource allocation, and better utilize specialized finance management tools and quality data to participate in and support enterprise decision making.

Based on our research, Accenture has developed five recommendations Chinese enterprises may want to consider as they pursue the transformation of their finance organization.

- Nurture and improve value-creation-centered finance management capacity and culture, and develop capabilities in key areas such as strategic planning, investment decision making, and mergers and acquisitions.
- Expand finance functions, explore and implement high-performance finance models, and strengthen cooperation with other functions. Chinese CFOs should act as close partners of the organization's top management team and decision makers, thus expediting transformation of the finance organization from its basic accounting focus into one that helps create corporate value and provide decision-making support.
- Establish a closed-loop enterprise performance management system, achieve lean budget management and cost management, improve alignment of performance metrics with corporate values and goals, and optimize resource allocation. Chinese CFOs should work to achieve excellence in capital management and risk management to help position the company for sustainable growth in a volatile and uncertain economic environment.
- Create high-performance capital management and risk management systems to help manage their business through environmental volatility and uncertainty and thus drive sustainable growth.
- Increase the level of finance standardization and system integration to address challenges in the Big Data era by tapping into and analyzing the vast amount of cross-functional business and finance data to generate business insights for enhanced decision-making.
- Implement innovations in talent development and training approaches to attract more skilled staff that are key to the creation of a specialized finance management team dedicated to high performance.

Key Findings and Insights

In the "new normal" of global market volatility and uncertainty, Chinese enterprises face myriad challenges. The era of rapid domestic economic growth driven by low costs and exports appears to be fading. Enterprises are plagued by overcapacity and encounter fiercer market competition and the need to comply with increasingly stringent laws and regulations.

These factors have added to the complexity and difficulty of risk management. Externally, the continually fluctuating global market for bulk commodities has added to the uncertainties of the supply chain network. Furthermore, as they seek to expand globally more quickly and effectively, Chinese enterprises find they need stronger capabilities for managing the internationalization process and addressing global market risks.

In these turbulent conditions, CFOs play a central role in helping enterprises develop and implement strategies for transformation and responding to competition. By excelling in these challenging roles, many CFOs have solidified the position of the finance organization within the enterprise.

However, the finance organizations of Chinese enterprises are faced with a series of new challenges in helping the enterprise accomplish its strategic goals and promoting finance transformation. Are they ready for these challenges?

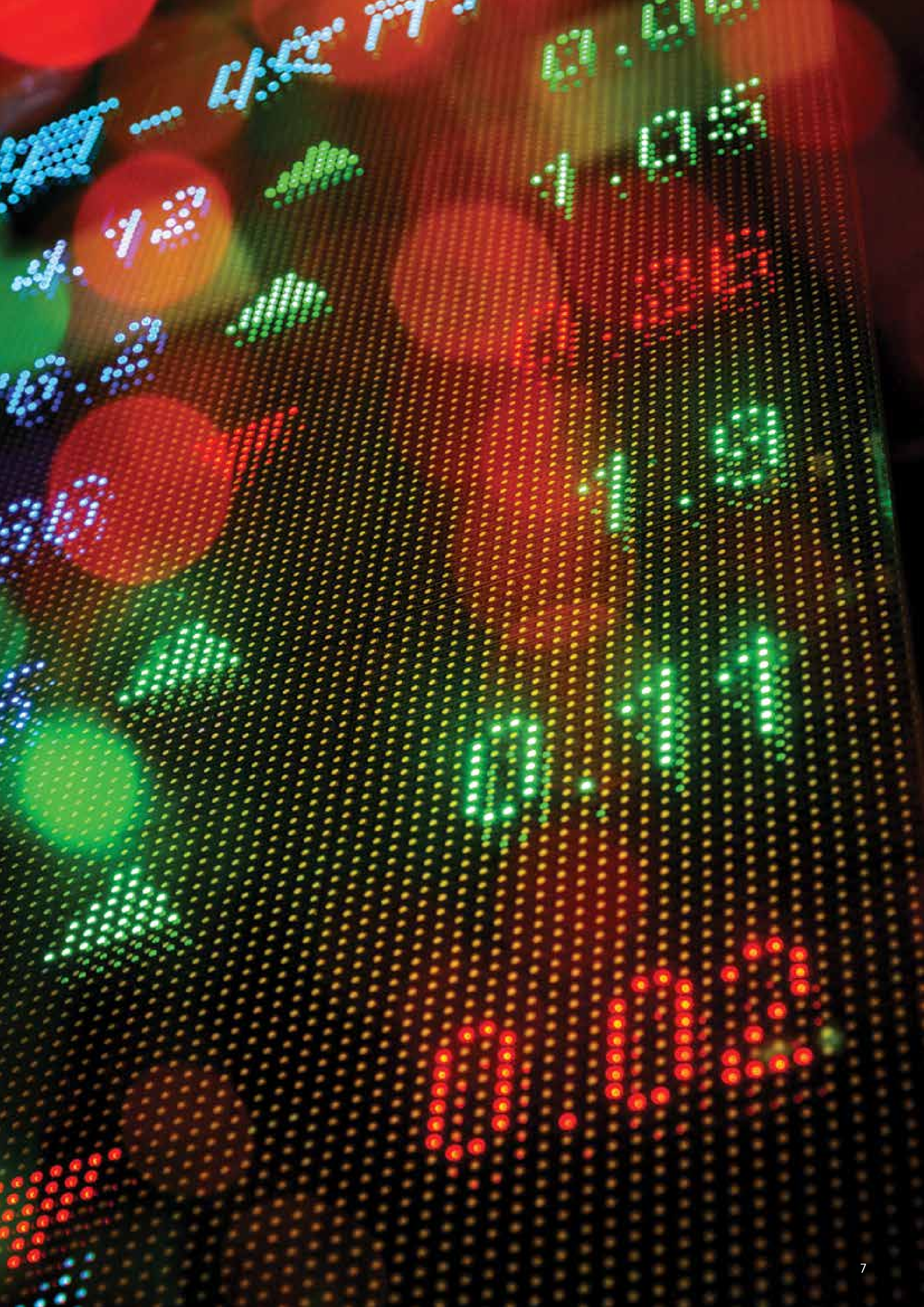
Through the *Accenture 2012 Study on High Performance Finance of Chinese Enterprise*s we explore how Chinese finance executives are navigating the path toward high performance and addressing the challenges of finance transformation. Our study covers six key aspects of finance management: finance management and controls, capital management, compliance and risk management, performance excellence, driving growth and response to changes.

A particularly noteworthy aspect of the research is the comparison of Chinese enterprises with leading finance organizations around the world. Those leaders, dubbed "finance masters," were identified by the Accenture 2011 High Performance Finance Study. Enterprises featuring such a high-performance finance organization are more capable of dealing with the myriad of complex challenges they encounter in today's volatile business environment and, thus, are more likely to grow and expand more strongly and profitably than their competitors.

As part of our 2011 study, we surveyed more than 530 finance executives and approximately 300 C-level executives (including CEOs, COOs, CIOs, and CMOs) from large global enterprises, and conducted in-depth interviews with additional CFOs and COOs from the world's leading companies. In our 2012 study, we surveyed 95 companies—40 percent of which are among China's top 500 enterprises. Just over half (51 percent) of those surveyed were CFOs. Participating enterprises in our 2012 survey represented 15 industries, with most respondents coming from the energy, industrial equipment, electronics and high-technology, construction and real estate, and consumer goods and services sectors. We also conducted focused qualitative interviews with seven CFOs/chief accountants representing industry leaders. (See the Methodology section for more details on research participants.)

Overall, based on an analysis of the 2012 data benchmarked against the results from the 2011 study, the following five key findings emerged:

1. Chinese enterprises lag behind their counterparts in developed countries in finance management capabilities centered on corporate value creation, which are critical for successfully responding to market volatility and uncertainty and ensuring sustainable enterprise growth. Therefore, CFOs of these companies should focus on improving their capabilities in mergers and acquisitions and in charting the course of enterprise growth.
2. In navigating the "new normal" of market volatility and uncertainty, the finance organizations of Chinese enterprises should consider improving their performance management capabilities by more closely aligning business operations with resource allocation and continuously strengthening their budgeting, capital management, and risk management core competencies.
3. The finance organizations of Chinese enterprises need to further explore how the use of such models as shared services and outsourcing can dramatically improve finance organization performance. Most Chinese enterprises are far behind companies in other areas of the world in the use of such models.
4. In the era of Big Data, Chinese enterprises will need to upgrade their information management systems to help improve finance standardization and systems integration.
5. Further development of Chinese finance organizations is constrained by inadequate finance skills.



Finding 1

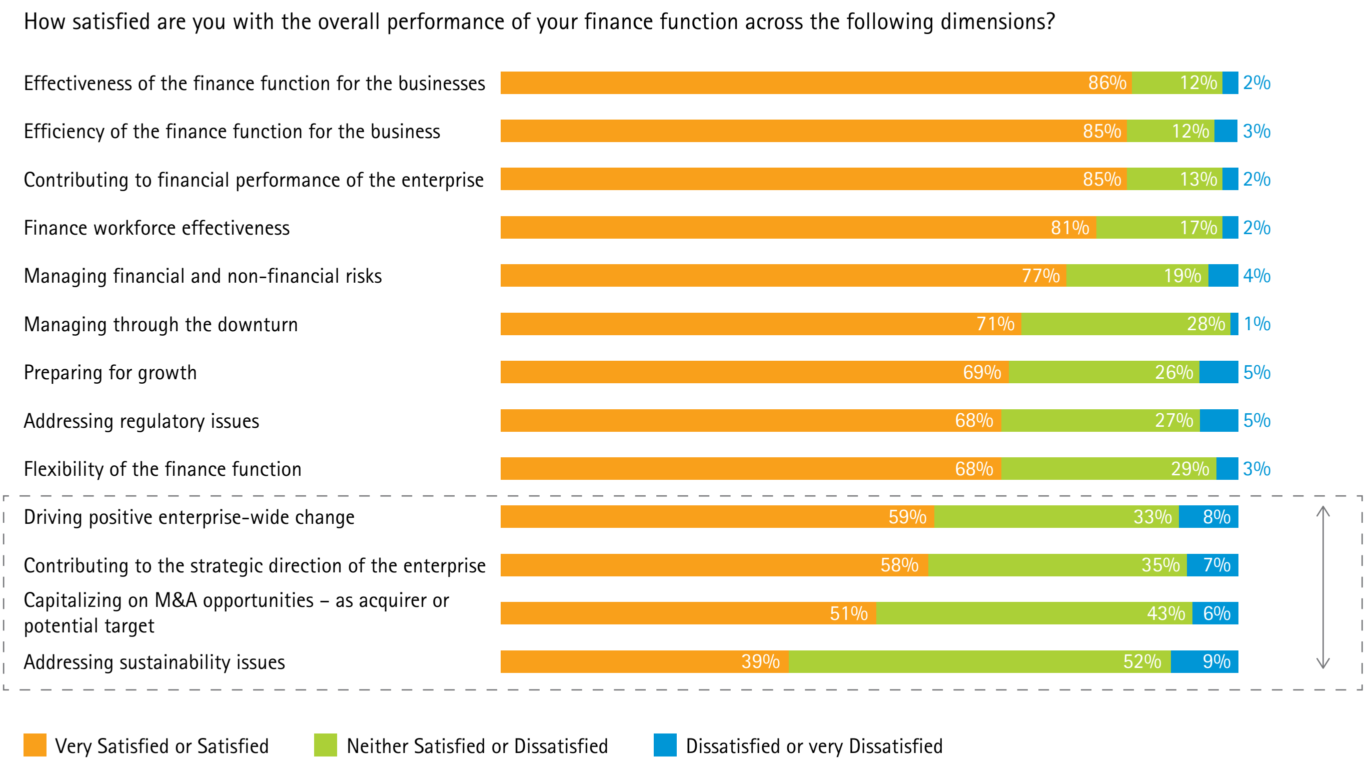
Chinese enterprises lag behind their counterparts in developed countries in finance management capabilities centered on corporate value creation, critical for successfully responding to market volatility and uncertainty and ensuring sustainable enterprise growth. Therefore, CFOs of these companies should focus on improving their capabilities in mergers and acquisitions and in charting the course of enterprise growth.

At the heart of finance transformation is the development of value-creation-oriented finance management capabilities. As stewards of the finance transformation process, finance executives should drive the necessary changes, shift attention from the day-to-day functions such as accounting and cost control to corporate strategic planning and shareholder value creation, optimize operational processes, and provide more vigorous support in corporate decision making.

Currently, Chinese enterprises are challenged by the transformation from extensive to lean finance management. As the external market environment becomes increasingly volatile and complex, the time for companies to purely seek economic growth has passed. Today, Chinese CFOs face several critical questions that require immediate answers: How to generate sustainable growth? How to achieve exponential growth rates through mergers and acquisitions? How to best contribute to the development of corporate strategy?

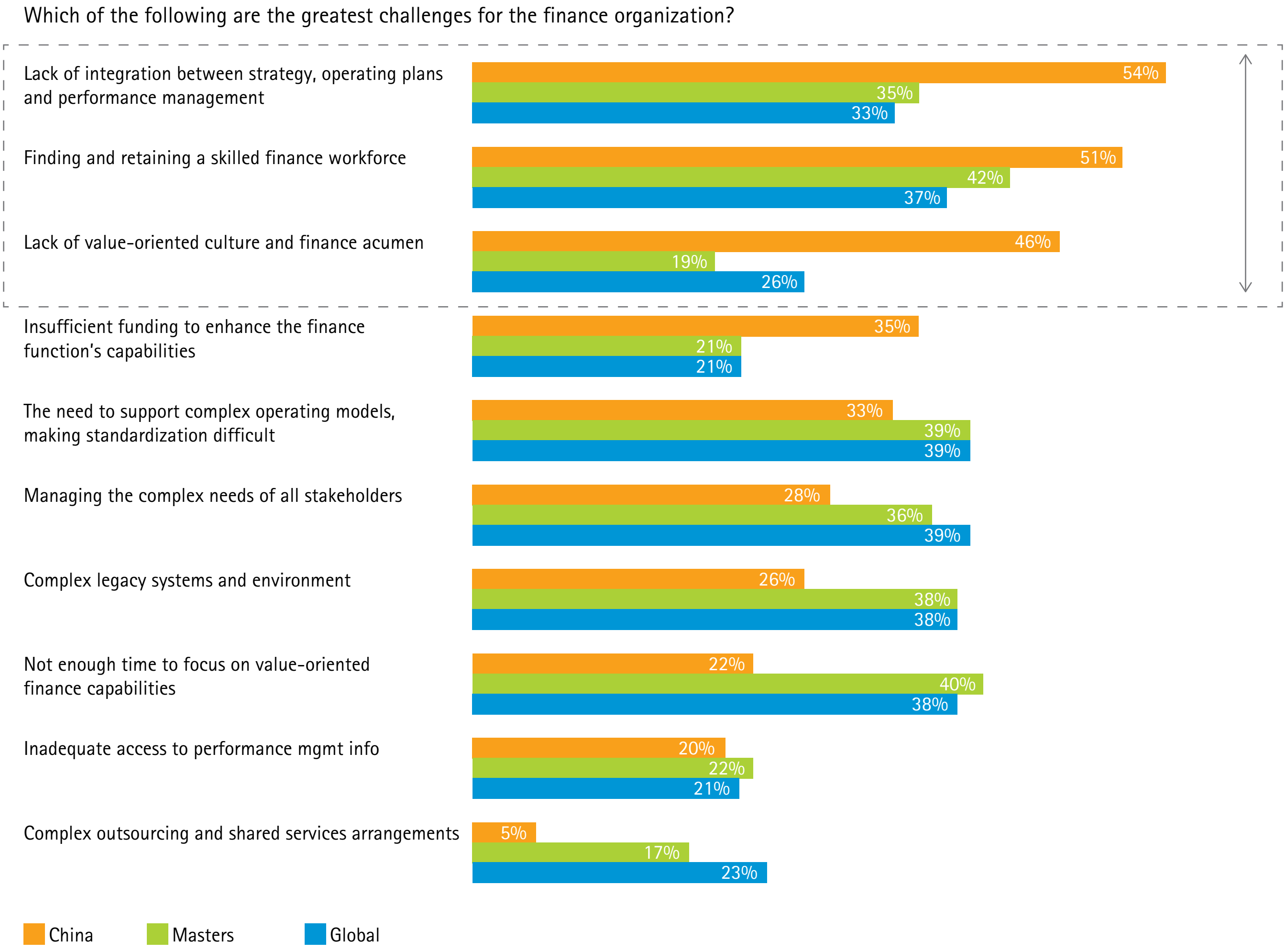
Our research suggests that while finance executives are generally satisfied with the overall performance of the finance organization in implementing various functions, they are less pleased with their performance in the four aspects concerned with corporate strategic planning and execution, i.e., corporate mergers and acquisitions, enterprise strategic planning, internal restructuring, and sustainable enterprise growth (Figure 1).

Figure 1. Finance executives' satisfaction with the overall performance of the finance function



In our surveys and interviews, Chinese CFOs tend to focus on value creation, suggesting that finance organizations should play a more active, leading role in enterprise strategic planning and execution, cross-functional coordination, and resource allocation, thus helping the enterprise maximize value creation. In responding to the question, "What are the problems that need to be addressed by the finance function in your organization?" finance executives cited the lack of coordination and alignment of enterprise strategy formulation, operational planning, and performance management as a major challenge for finance organizations. The major challenge for finance masters is that the organization is so engaged in meeting the complex needs of all stakeholders that it has no time to strengthen its value creation-oriented finance skills (Figure 2).

Figure 2. The main issues that need to be improved in the finance organization



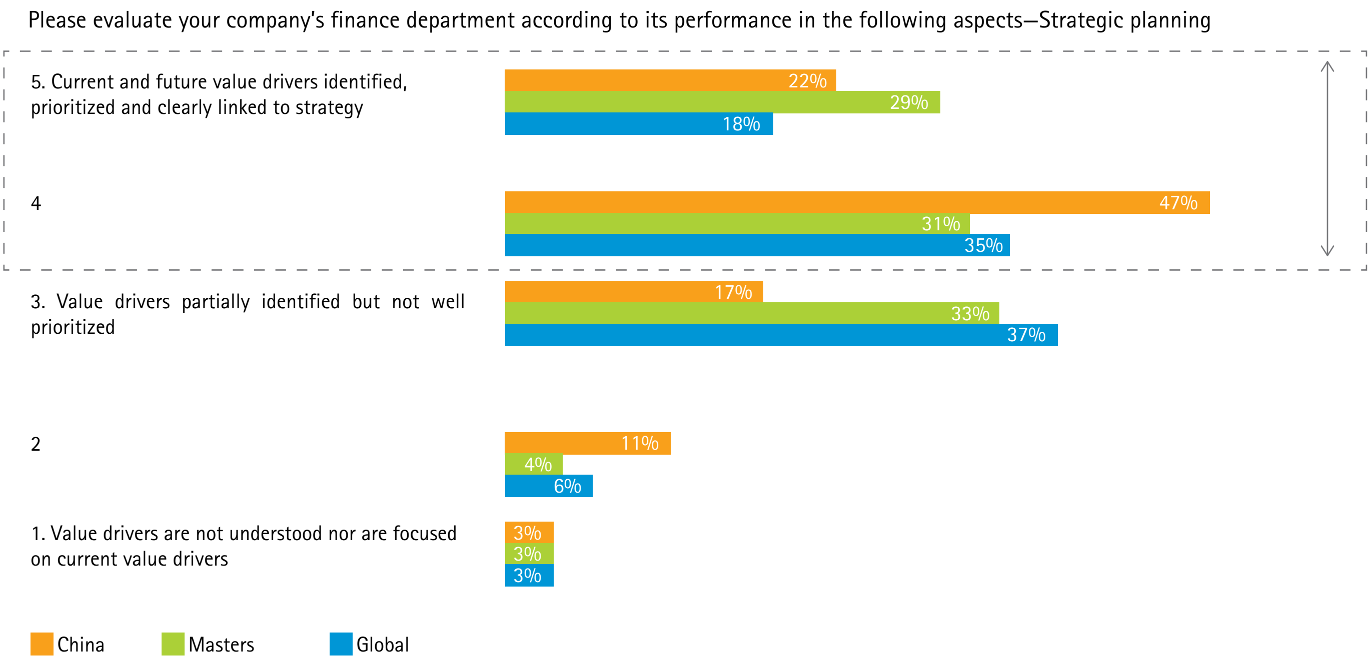
Nearly half of the surveyed Chinese enterprises indicated that they had identified some value creation drivers, but they did not rank them in order of importance. Additionally, they tended to emphasize the drivers of current rather than potential value creation. As a result, their strategic planning was isolated, with operational objectives and budgeting varying with it only under exceptional circumstances. Therefore, lack of coordination and alignment of strategy, operational planning, and performance management constitutes one of the biggest challenges for the finance organizations of Chinese enterprises.

In contrast, nearly 30 percent of finance masters have mapped out and ranked both current and potential drivers of value creation. At the same time, they have been able to align strategic planning with operational objectives and resource allocation to enable the enterprise to respond more effectively to the volatile and ever-changing market environment (Figure 3).

One of the most important building blocks for a successful corporate function in developing value creation-oriented management capabilities is an organizational culture that features and recognizes such an orientation. However, nearly half of the Chinese enterprises in the survey indicated that their organizations "lack a value-creation-oriented culture and finance sensitivity." This is a stark contrast with the less than 20 percent of finance masters that reported the same.

In addition to forging value-creation-oriented finance capabilities, finance organizations supported enterprise growth by engaging in various activities that top management believed are hallmarks of mature and high-performance finance organizations. Most finance master organizations (58%) support value creation by participating in corporate activities, such as integrating the finance organization into the enterprise value chain, improving finance capabilities, proactively responding to changes in regulatory regimes, participating in top management decision making, providing the enterprise with more data and data analysis methods, and seeking out new growth opportunities.

Figure 3. Finance organizations' performance in strategic planning



Finding 2

In navigating the "new normal" of market volatility and uncertainty, the finance organizations of Chinese enterprises should consider improving their performance management capabilities by more closely aligning business operations with resource allocation and continuously strengthening their budgeting, capital management, and risk management core competencies.

Immediate concern: cost control

Since the 2008 global finance crisis, the Chinese domestic market has become increasingly challenging, significantly adding to the complexity of enterprises' risk management. In Accenture's 2012 survey, approximately 90 percent of the executives polled indicated that doing business was increasingly difficult in the current economic environment. And 88 percent of enterprises reported that mounting production costs had significantly squeezed profitability.

Finance executives, more than any others in an enterprise, are sensitive to production cost pressures. China's rapid economic growth in the past decade has been accompanied by a significant increase in the cost of doing business, especially in such things as land, raw materials, labor and energy. The country's labor cost advantage, for instance, has eroded, with compound growth rates of labor costs averaging 19.7 percent per annum over the 2006-2011 period. At the same time, energy costs have been on the rise, with the compound growth rates of natural gas and electricity prices averaging 5.34 percent and 3.96 percent, respectively, over the 2001-2011 period[1].

Most 2012 study respondents appear to be more concerned than finance masters with driving down costs and less concerned than masters with making growth-oriented investments. Sixty percent of Chinese CFOs, compared with less than 40 percent of finance masters, cited cost reduction as their overriding priority (Figure 4).

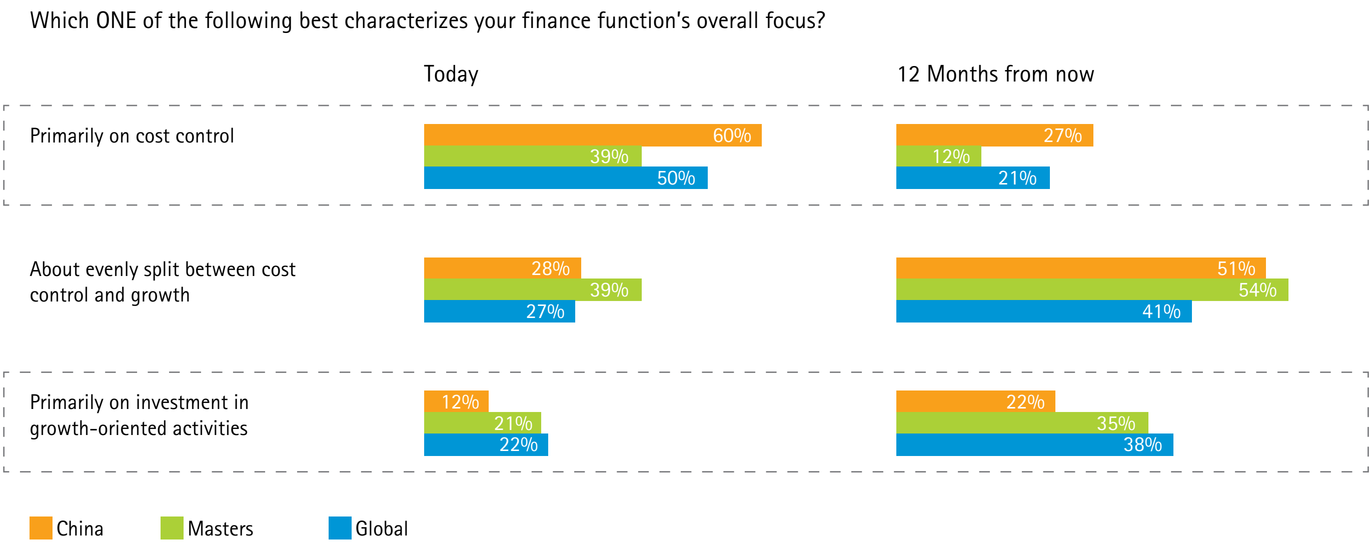
Future concern: budgeting and capital and risk management

Our survey also found that 94 percent of finance executives in Chinese enterprises believe they need to harness risks and challenges and thus alleviate profitability pressures. Respondents indicated they would deem building up and enhancing budgeting, capital and risk management capabilities a priority in the future, in a bid to better manage through the volatile and uncertain external environment (Figure 5).

Lean budgeting management and optimal resource allocation

Budgeting management links corporate strategy, operational planning, and performance management. It is an

Figure 4. Cost control is the top priority for Chinese finance organizations at present



1. Source: General Administration of Customs, Price Monitoring Center under NDRC, *China Statistical Yearbook* and Accenture Research.

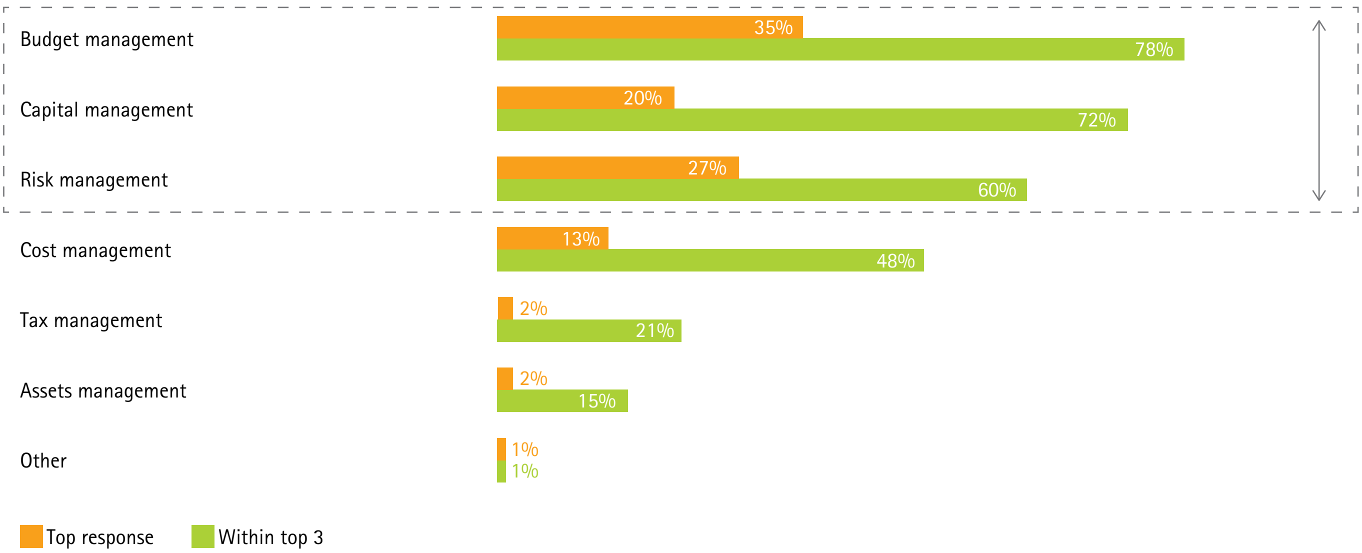
important vehicle through which the finance function participates in strategic decision making, operational management, and performance appraisals, as well as a vital means for resource allocation in accordance with the corporate strategy and business objectives. Budgeting is a process whereby corporate strategies and business objectives are broken down and executed in practice, and not the sole responsibility of the finance department; rather it requires consistent engagement of top management and other functions.

Although the CFOs of some Chinese enterprises have recognized budgeting management as a systematic, cross-functional endeavor bridging strategic planning and performance appraisals, by and large it remains the domain of the finance organization. A CFO participating in our survey said that although the budgeting process at his company covered virtually all key functions and top managers, few of them were held accountable for it. Despite his recognition that budgeting involves not only goal management but also control over business operations, his finance organization was ineffectual in exercising control and guidance on the company's overall business processes due to a lack of deep understanding of the corporate businesses. As a consequence, budgeting had limited constraining effects on the enterprise's operational management and was unable to be revised in a timely fashion in response to changes in the external environment or adjustments in the enterprise strategy.

Our study suggested that some enterprises were plagued with a chronic lack of corporate governance mechanisms that support inter-departmental coordination, thus rendering the budgeting process an isolated, ineffective activity. During one interview, a CFO of a large enterprise recommended accelerating budgeting reforms to ensure that the budgeting process involves multiple functions and provides a desirable level of support for enterprise decision making.

Figure 5. In the future, more focus on budget, capital and risk management

In the current economic situation, which areas of the treasury function will you emphasize in the future?



When it comes to the overall performance of budgeting management, Chinese enterprises have basically established a sound system. However, our study suggests there is considerable room for improvement in the development of lean budgeting management. According to CFOs in our survey, the existing budgeting processes need to be optimized, as they suffer from outdated methods and practices and lack of standardization (Figure 6).

In addition to including all functions in the budgeting process, budgeting management should shift from static to dynamic to enable the enterprise to more effectively respond to market volatility. Our research revealed that budgeting management at large Chinese enterprises remains largely static in nature. Only 15 percent of Chinese enterprises in our study had adopted rolling forecasts to replace annual planning cycles to remain agile, focused, and flexible to meet changing business needs, and had aligned finance results with major factors driving value creation, both current and future. In this regard, Chinese enterprises lag far behind the finance masters.

The experience of finance masters indicate that rolling forecasts likely will eventually replace the static budget. However, effective implementation of rolling forecasting requires: (1) a dynamic budgeting preparation mechanism involving both top management and various functions; (2) a robust business and finance information system that accurately reflects the state of enterprise operations and captures market changes in a timely manner; and (3) a deeper understanding among the finance function of the business to enhance finance's control of operational processes.

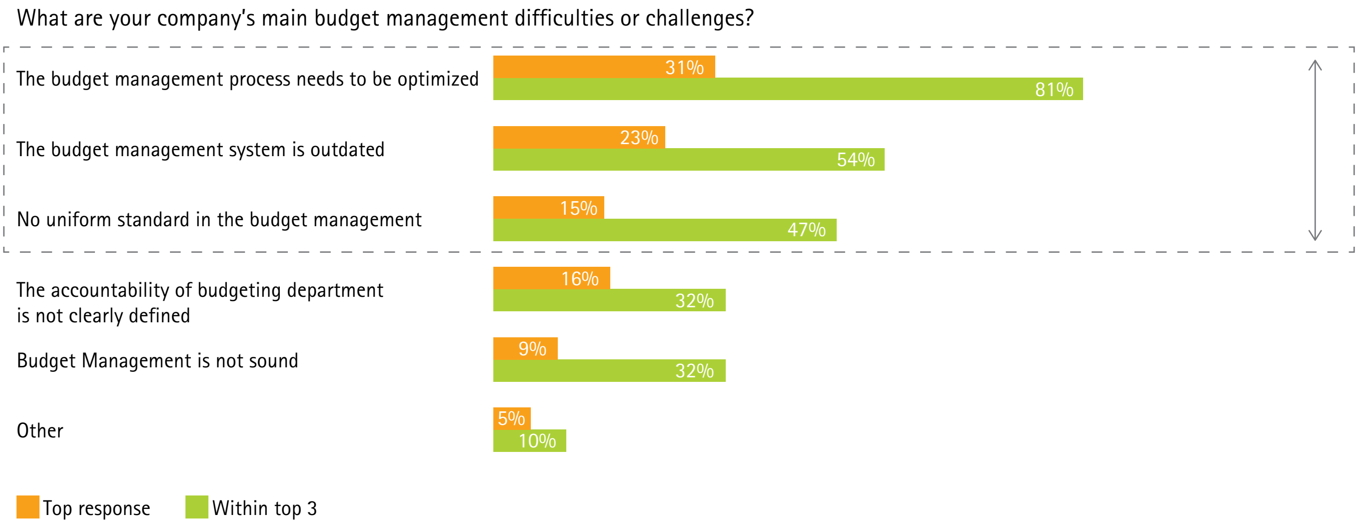
Improving efficiency of capital utilization by perfecting the capital management system

Centralized finance management is essentially designed to help integrate enterprise resources to support value creation for the whole organization. Our study shows that Chinese enterprises now face the challenge of improving the efficiency of capital utilization. Finance executives named high capital costs and low efficiency of capital utilization as the major difficulties besetting capital management, followed by inadequate capital management systems and high risks of capital management (Figure 7).

On the other hand, as shown in Figure 8, finance organizations in Chinese enterprises have achieved a high level of capital centralization, with approximately 75 percent of surveyed companies reporting they can collect, on a timely and daily basis, capital into the corporate capital pool.

Across-the-board centralized capital management for integrating company resources and reducing finance costs is a pervasive practice in finance masters. A sound capital management system features improved capital transparency, monitoring of capital risks by using information technologies, capital risk early warning mechanisms, and accurate, timely capital forecasting. In addition, capital managers are responsible for external financing and managing market risks (e.g., foreign exchange risks and finance derivatives market risks). Hence, a highly competent team is required to analyze and address environmental changes and volatility.

Figure 6. Major budget management challenges



Comprehensive risk management

A high-performance risk management system is crucial to respond to environmental volatility and achieve sustainable growth. However, the finance executives in our study reported relatively low satisfaction with risk management when compared with finance and accounting operations, finance function management, corporate wealth management, and enterprise performance management (Figure 9).

Figure 7. Capital management issues

What are your company's main capital management difficulties and issues?

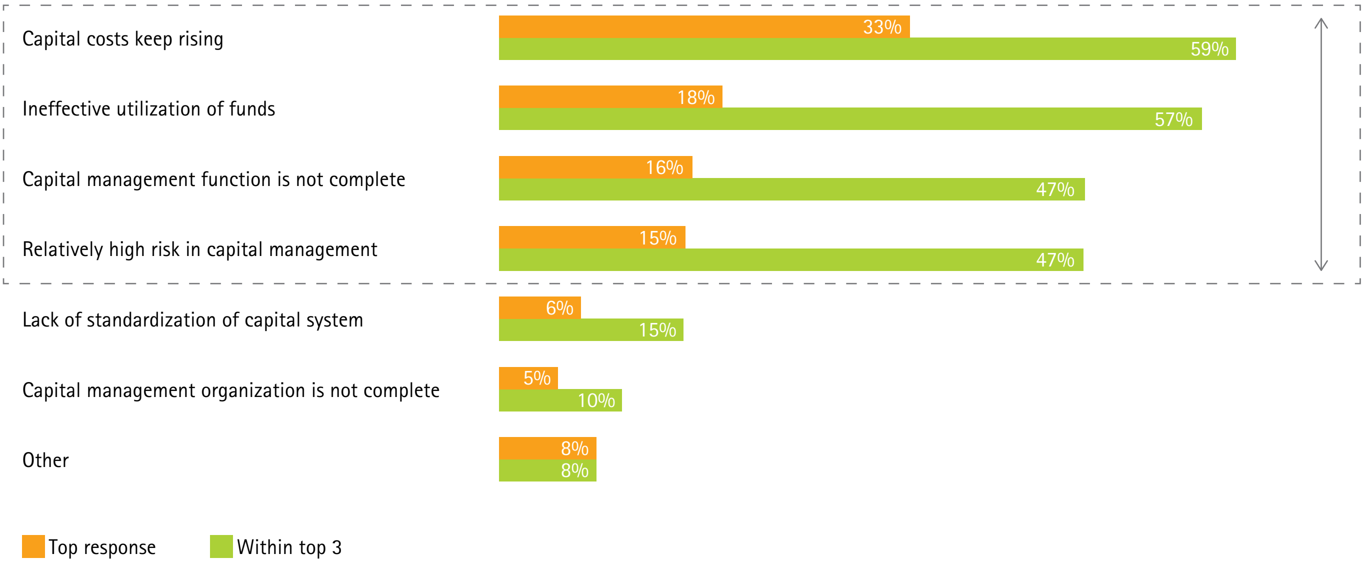


Figure 8. Capital management efficiency

How efficient do you believe your capital management is at collecting capital?

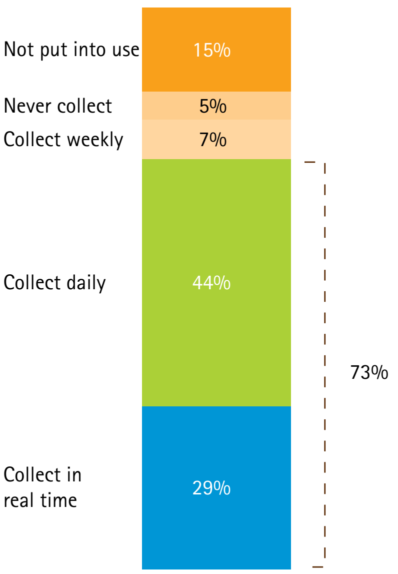
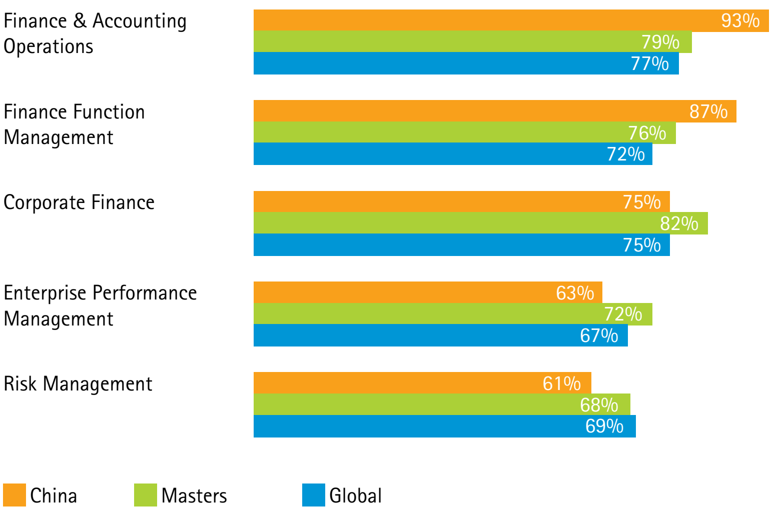


Figure 9. Weak risk management capabilities among Chinese finance organizations

How satisfied are you with the performance of your finance function in each of these capabilities?



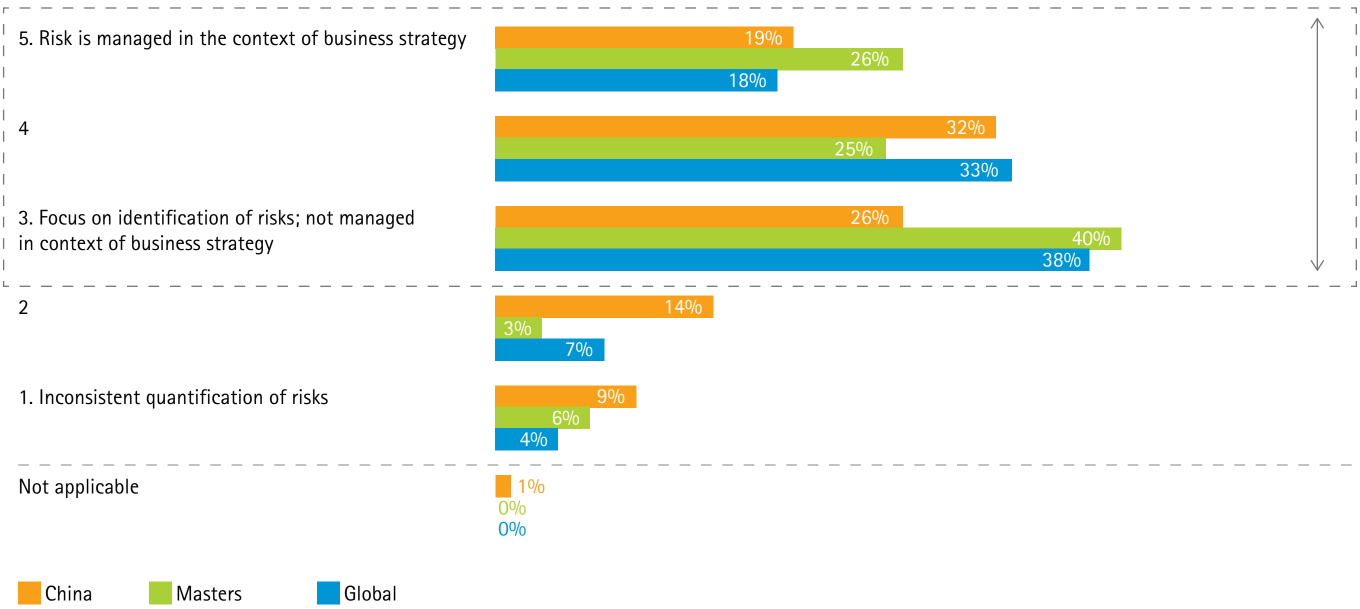
Chinese finance executives are encountering a broad set of risks, which include foreign exchange risks, interest rate risks, risks of bulk commodities markets, and credit risks of upper- and lower-stream enterprises. In addition to managing operational risks, including capital risks, they also have to address regulatory compliance. Because risks are becoming increasingly complex and diverse, CFOs need to see risks in a new light, treating them as a "portfolio" to be managed and mitigated.

While most Chinese enterprises participating in our survey reported doing well in identifying and assessing risks, they generally lacked such a "risk portfolio" perspective. Management of commercial and operational risks (involving processes, personnel, and systems) requires Chinese enterprises to engage personnel from various functions and at various levels, and follow the guidance of corporate strategy (Figure 10).

Strategic investment risk management best illustrates and epitomizes comprehensive risk management. In our survey, a finance executive candidly told us that his company had not yet put in place a comprehensive investment risk management system and, in fact, the company's strategic decision makers were unable to perform in-depth studies on investment projects. In carrying out its responsibilities in investment decision making and risk management, the finance organization had difficulty exercising controls on the investment decision due to a lack of coordination and collaboration with the technology departments. In addition, the company had not established a post-investment assessment mechanism. The executive said his organization had an urgent need to set up and institutionalize an investment risk review mechanism, under which risk assessments for major investment decisions are confirmed organizationally and procedurally and involve the participation of personnel from various functions and at various levels. Another finance executive went a step further, indicating that a higher-profile risk management and control system involving the board of directors, the board of supervisors, and top management should be established and that a post-investment assessment mechanism comprising risk management, internal review, and follow-up assessments should be in place to better manage investment risks.

Figure 10. Business and operational risk management performance in Finance organizations

Please evaluate your finance department according to its performance in the following aspects—Business risk and operational risk (processes, people, systems)



Finding 3

The finance organizations of Chinese enterprises need to further explore how the use of such models as shared services and outsourcing can dramatically improve finance organization performance. Most Chinese enterprises are far behind companies in other areas of the world in the use of such models.

An emerging best practice in finance management consists of either commissioning the shared finance service center to manage day-to-day accounting operation processes or outsourcing such operations entirely. Outsourcing of such processes often makes sense, because they have little relevance to management decision making, are used frequently, and can be easily standardized. A shared finance service center helps save costs, frees up a number of finance personnel for more value-added work, and promotes transformation of the finance organization from being focused on basic accounting operations to being focused on value creation and decision-making support.

In the past two decades, shared services have emerged as a prevailing business model among business support services. More than 75 percent of the global 500 companies have stated that they currently use shared services of one form or another. Companies adopt shared services as they strive to meet the needs and wants of demanding customers, drive down costs, and improve service quality. Shared service centers are increasingly moving out of their "backroom" operations to become enterprise partners, helping solve end-to-end business problems and improve overall enterprise value creation in innovative ways.

Chinese enterprises significantly fall below global averages in the percentage of day-to-day accounting processes assigned to shared-service centers or outsourced. This is true despite the fact that these enterprises are shifting from a situation of less mature accounting processes and skills to one that is quickly evolving and improving to meet global standards. According to our survey, less than 20 percent of Chinese companies, compared with 35 percent of the global masters, would consider either shared services or outsourcing to handle account payables, travel and expense reimbursement (Figure 11).

The above clearly illustrates the substantial challenges Chinese enterprises face in transforming their finance organization, in both comprehensive process reengineering and finance organizational restructuring, which are prerequisites for the implementation of shared services. However, this does not suggest finance executives of Chinese enterprises are unaware of the value of shared services or outsourcing. On the contrary, they are quite knowledgeable about the cost and efficiency advantages that shared services and outsourcing can generate through the centralized processing of massive amounts of simple, repetitive transactions. Also, they remain sanguine about the prospects of process standardization and data transparency that shared service providers are capable of.

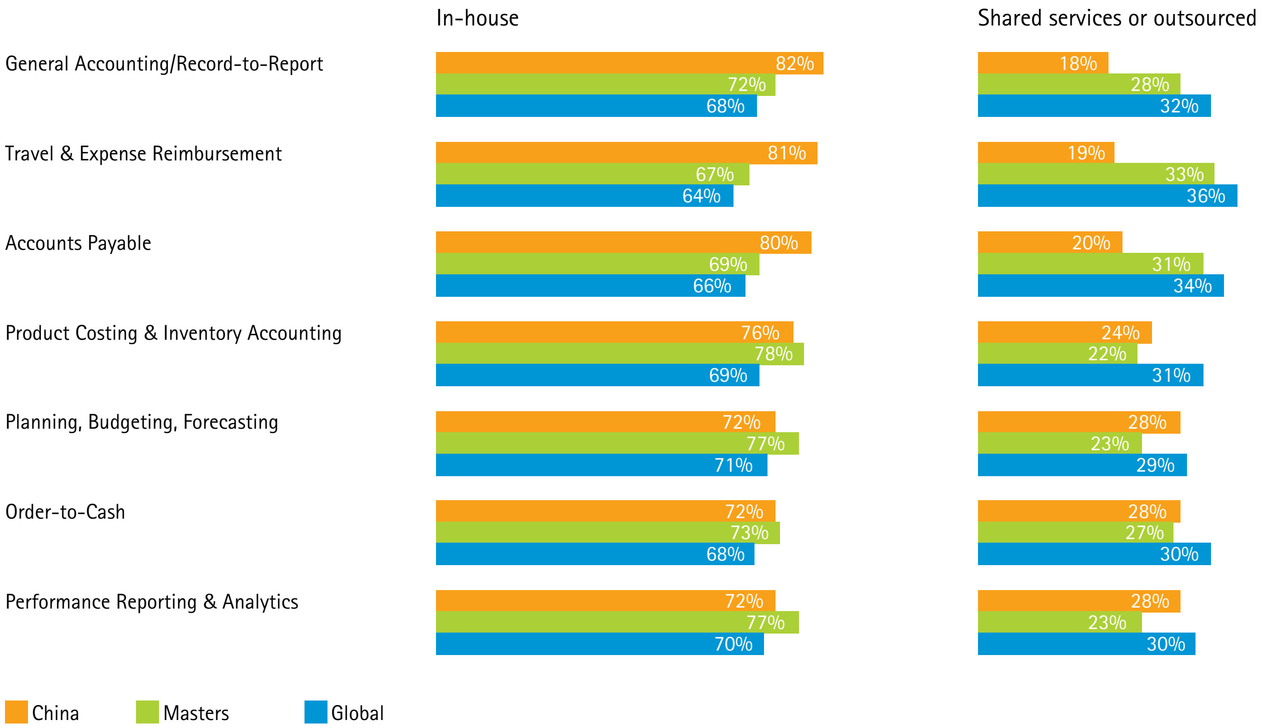
In our study, a CFO whose company had embarked on implementing finance shared services told us the essence of such services was service-sharing and cost-effectiveness. While some functions like IT applications, accounting, and taxes were managed at his company's headquarters, its shared finance service center, operating on enterprise resource planning (ERP) systems, was located in Tianjin. As a result, the company was able to downsize the team of finance personnel and transfer them to more value-added finance functions.

Some of the finance executives whose companies had not adopted shared services emphasized that while these services are aimed at reducing costs, the focus of their firm was long term, looking at establishing standardized processes and improving management levels, standardization and transparency to enhance operational processes control.

However, Chinese enterprises have to clear a number of hurdles in establishing finance shared services. Transferring resources freed up through shared services to other posts can be difficult—especially if the people are to be relocated geographically within the country—due to a host of complex issues, including social security considerations. Centralization of transaction processing may involve some tax issues as well. A third challenge is the lack of an effective business data information management platform to be standardized and integrated, something some enterprises have yet to establish.

Figure 11. Shared services and outsourcing

For the following processes, what percentage is managed in-house versus a shared service or outsourced?



Finding 4

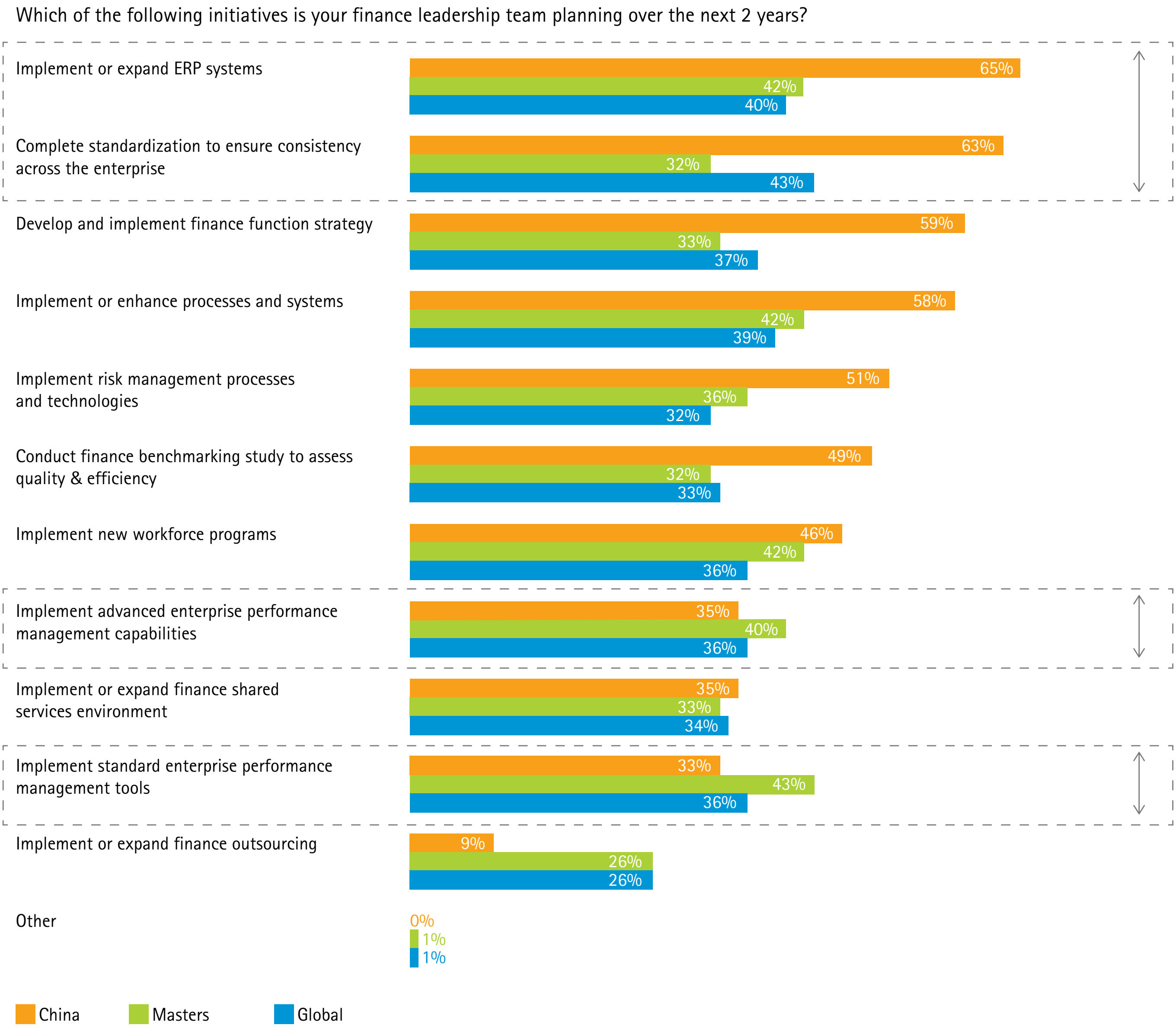
In the era of "Big Data," Chinese enterprises will need to upgrade their information management systems to help improve finance standardization and system integration.

A powerful information platform is essential for a modern finance organization. Without it, a company would struggle to develop effective finance shared services; create a high-performance finance organization; align corporate strategy, operations and performance; improve budgeting management; and effectively engage in risk management and capital management.

As part of their finance transformation agenda, large Chinese enterprises have prioritized process centralization and standardization. The finance executives in our research said achieving standardized finance management to ensure consistency of finance processes within the company is the focus of their work for the next two years, compared with finance masters, which emphasize the importance of developing advanced tools for enterprise performance management and implementing finance standardization (Figure 12).

Chinese enterprises and finance masters have differing priorities. Chinese enterprises remain concerned with introducing or improving information systems and, thus, aim to increase finance process centralization and standardization. On the other hand,

Figure 12. In the coming two years, Chinese finance executives will be focused on standardizing their finance management



finance masters have already established their own advanced information systems and are trying to develop and implement more sophisticated enterprise performance management tools.

Enterprise information systems have been developing rapidly. The large-scale implementation of ERP by Chinese enterprises since the 1990s has laid a solid groundwork for the development of information systems. Powerful information systems contribute to finance process standardization as well as reinforce controls on corporate businesses. During our interviews, some CFOs emphasized that the lack of standardization of finance data had made it difficult or impossible to perform in-depth data analysis—the basis for making recommendations for improving business practices—highlighting the significant role that standardization plays in company's business management.

Our interviews further suggest that among large Chinese enterprises, the role of information systems differs from that of their international peers, reflecting a maturity gap in information system management capabilities. Chinese companies primarily leverage their information system to process finance and accounting information. This helps them enhance their finance management capabilities and process standardization, key to timely, accurate reporting and disclosure to shareholders. As well, SOEs collect accounting and finance information across the country through an integrated information system. Information systems thus ensure that finance documents from subsidiaries are directly transmitted to the headquarters' finance division for accurate, timely preparation of finance statements. However, finance masters have moved a step further and shifted their focus to data mining and analysis for better decision making and value creation.

The rapid development of information technologies in the age of Big Data, however, has the potential to narrow these gaps. Tools for data mining, collection, and analysis are being developed apace. Cloud computing, for example, has had widespread application in the areas of data collection, storage, and analysis. All these translate into a significant challenge for finance management.

Big Data is committed to breaking down information storage silos to mine and analyze the vast amounts of business, financial, market and personnel information a company has accumulated over the years and, in the process, generate insights for driving business growth. But the rise and growing prevalence of Big Data is disruptive to existing information management systems. Previously, enterprises have emphasized internal finance and business information standardization as a worthy goal to ensure consistency between finance and business information. In the Big Data era, however, highly efficient data analysis is possible even with non-standardized data formats, thanks to the availability of more advanced data mining and analysis tools.

In the meantime, Big Data has created challenges for business management as well. The use of Big Data for the comprehensive processing of vast amounts of information requires the enterprise to be able to break down the boundaries of different business segments and departmental data silos. As for finance management, the first priority is to achieve a high level of integration of business and finance information before it is processed and analyzed to inform decision making.

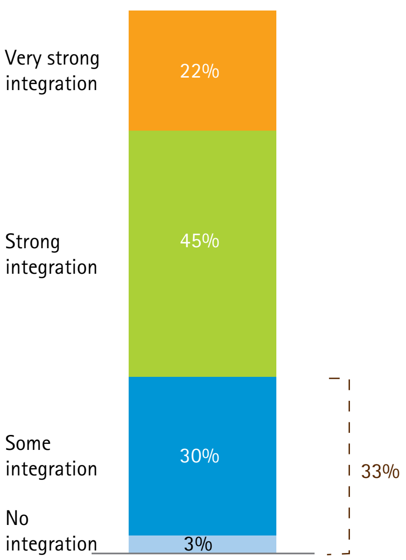
Our study shows that Chinese enterprises have begun to emphasize the integration of finance and business information systems. However, about one-third of Chinese CFOs surveyed reported that this had yet to be achieved at their companies (Figure 13).

Some enterprises have keenly recognized that outdated data management would not benefit decision making. One of the CFOs we interviewed indicated that the information systems at his company provided limited support for decision making and that many finance management proposals could not be put into practice because the information platform lagged behind. His company had planned to construct a basic data platform, determined to transform the accounting-based ERP system into a dedicated decision making support system. Based on the Big Data concept, the company had decided to mine and utilize a set of management data and supporting data.

The emergence of Big Data has provided a substantial opportunity for enterprises to speed up finance transformation. Big Data can help CFOs integrate their company's internal data from various business units and, thus, improve the consistency of information system management across the entire organization. CFOs should be empowered to involve business analysis and operation, incorporating data provision, data analysis, and resource allocation into their management responsibilities to promote the transformation of the finance function from basic accounting operations to decision-making support.

Figure 13. The integration of finance and operational information systems has yet to be achieved

How well does your company's financial information system integrate with the business system?



Finding 5

Further development of Chinese finance organizations is constrained by inadequate finance skills.

Finance transformation within Chinese enterprises will not happen without a high-performance finance team. Thus, Chinese enterprises need to improve their recruiting and training of finance personnel for the function to continue to develop.

Identifying, attracting, and training finance talent is one of the three major challenges faced by the finance organizations of Chinese enterprises. According to our study, Chinese finance executives generally noted that their companies had difficulty attracting highly skilled finance talent because they couldn't offer them competitive salaries and benefits (Figure 14).

When it comes to retaining talent, the study suggested that Chinese CFOs believed incentives based on both individual and corporate performance was the best way to retain them, while finance masters, in contrast, believed that competitive compensation packages and benefits were the best approach (Figure 15).

Our research showed that Chinese enterprises lag behind finance masters in both finance personnel salary and performance evaluation. Salary gaps persistently hinder the flow of personnel among different enterprises. Furthermore, there is a large disparity between Chinese enterprises, particularly SOEs, and private or foreign-funded companies in terms of corporate culture, which also impedes personnel mobility across different organizations. Therefore, ensuring that highly trained finance personnel are able to fully develop or exercise their skills in an organization, and are capable of supporting value creation, is a major challenge businesses face as they seek to transform their finance organization. To attract talent, companies must not only offer competitive salaries but also develop high-performance finance organizations and a value-creation-centered corporate culture to provide finance personnel with a career development platform.

In our interviews, many finance executives from large enterprises confirmed how important it is to attract finance talent. Some CFOs also believed that reform of the compensation system and availability of ample opportunities for advancement and training are the keys to attracting and retaining high-caliber finance talent. One CFO reported that his company had recruited such talent in recent years based on compensation system reform and an open, competitive hiring process. In addition, the company provided recruits with sufficient advancement and training opportunities so that each of them exercised his or her abilities to the fullest extent possible. As a result, the company's finance personnel turnover rates declined significantly.

Nevertheless, barriers exist that hinder the mobility of finance talent. The CFO used to be a prominent position in SOEs and was filled through a highly competitive recruitment process both at home and abroad. Today, however, CFO positions are usually filled by finance personnel transferred among SOEs. Cases in which professional finance executives established at foreign-funded enterprises became qualified CFOs of SOEs have been few. On the other hand, the lack of transparency of corporate governance and significant risks in accounting and compliance at private enterprises often end up scaring away high-end finance talent, despite these enterprises' avid pursuit of such talent.

Our study also revealed that obsolescence of some finance skills was common in Chinese enterprises. Most companies have recognized their skills challenge and are taking steps to encourage employees to upgrade their skills and knowledge.

Improving the capabilities of finance professionals is the key for more effective finance management, but doing so is difficult given the pace of change. Consider the accounting function, for instance, which has had to quickly learn new concepts such as transfer pricing and fair value, which have been introduced as a result of the convergence of Chinese accounting standards with international accounting standards. Keeping up with these and other developments requires continuous learning on the part of not only the finance staff, but also finance executives. A competent CFO must be deeply knowledgeable about his or her field of practice, excel in cross-functional coordination, and possess a broad vision. Some of the CFOs we interviewed pointed out that Chinese CFOs should not only have professional knowledge of finance, accounting, and risk management, but also be acquainted with production processes, marketing, law, and other related fields.

Figure 14. Finance workforce gap

Which of the following statements apply to your finance workforce?

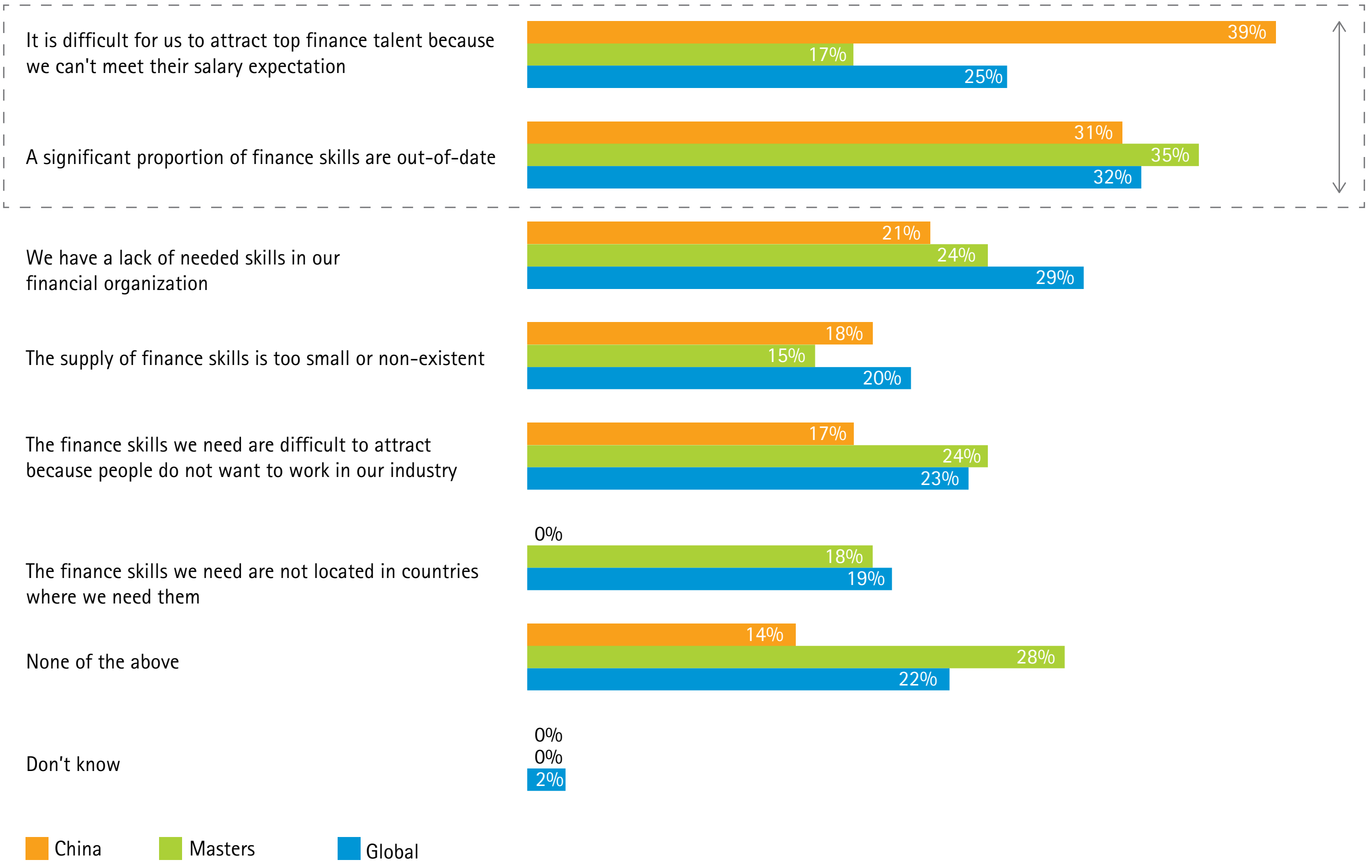
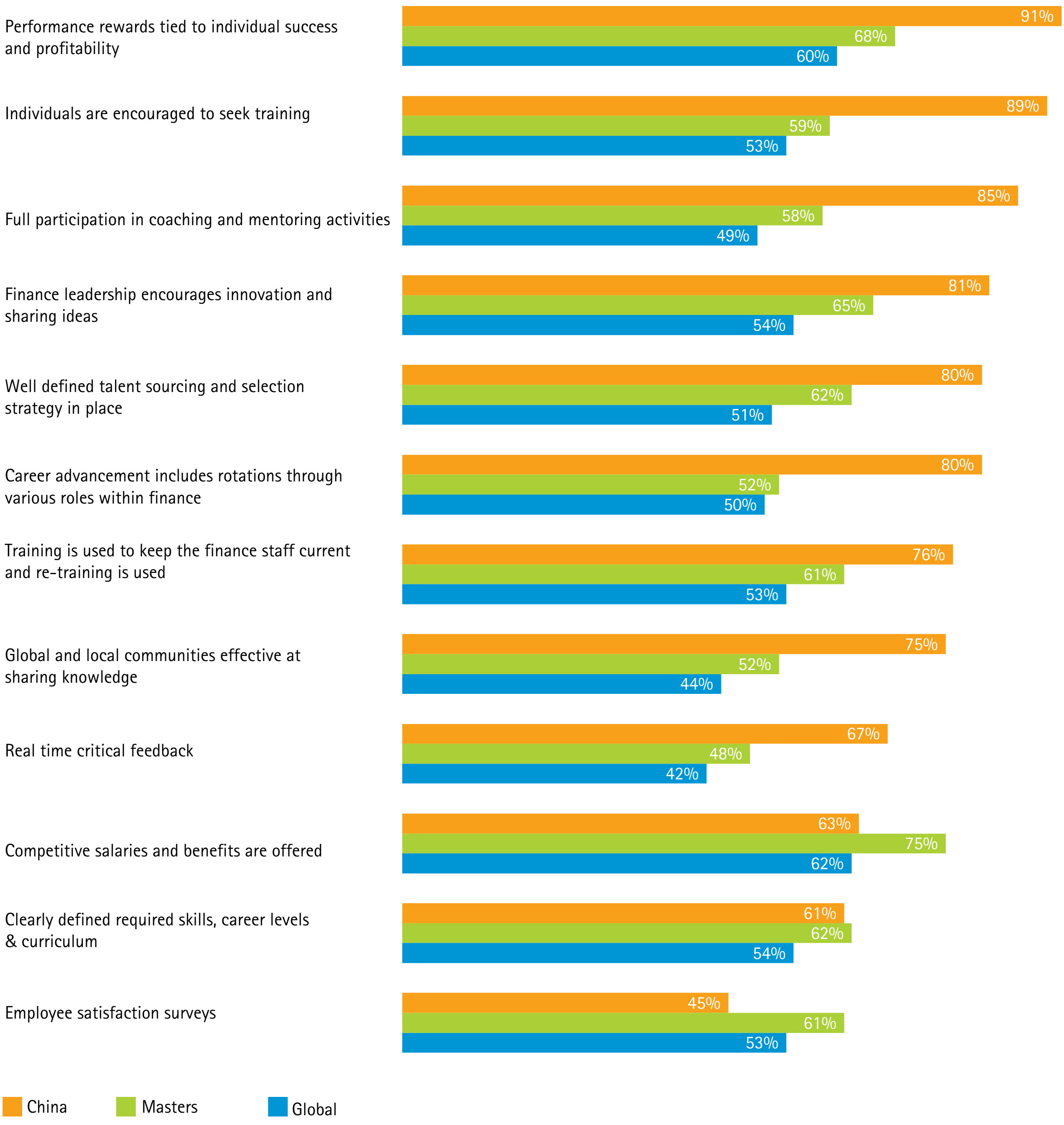


Figure 15. Action to manage financial employees

Which action do you use to manage your finance talent?



Conclusion and Recommendations

While finance organizations in Chinese enterprises have become highly competent in the basics of finance, our survey clearly indicated that respondents believe finance management needs to shift its focus toward value creation to help the enterprise address emerging challenges in its quest for stronger growth.

Some visionary Chinese CFOs have already made significant efforts to transform their finance organizations to that end. However, Chinese enterprises still have much work to do to reach the level of finance masters in the area of finance management.

Based on our research, we have identified five key actions that Chinese enterprises may want to consider and that can help them in their efforts to create a high-performance finance organization:

• To effectively cope with environmental volatility and thus ensure sustainable growth, Chinese enterprises may want to upgrade their finance management capabilities so they are oriented toward value creation and focused on supporting enterprise growth. These enterprises should pursue resource allocation and decision-making that have the potential to maximize value creation, and measure and monitor the operations in an accurate and timely manner. They should improve their day-to-day finance transaction processing capabilities by using shared service centers as well as their management capacity in such specialized fields as M&A and global capital operation. In addition, the finance management team should take an active part in the enterprise's activities, such as strategic decision making, operations, and mergers and acquisitions, thus helping maximize value creation.

• Chinese CFOs (usually addressed as "chief accountant" in SOEs) may pursue the transformation of finance organizations, expand their functions, and improve their standing in the corporate governance framework. The last point is especially important. Thus, to establish a finance organization centered on value creation, a Chinese business should authorize its CFO and enable its finance department to assume more duties and responsibilities, allow the CFO to play a bigger role in corporate strategic decision making, and explore innovative, practical approaches to modeling finance operations and resource optimization. CFOs should effectively communicate with CEOs and top management to gain the support of executives from other functions, which can help give them a stronger voice in decision making. CFOs also should engage more in business analysis and management and enlarge their scope of management to include data providers, analysts and departments responsible for resource allocation. Only by doing so can they achieve a smooth transition from basic accounting operations to value creation and decision making.

• Chinese companies should build up a closed-loop performance management system, where executives can increase rigor in their budgeting and cost management, and forge closer alignment of performance appraisals with corporate goals and objectives. Budget management should be closely aligned with current and potential enterprise value drivers and form dynamic budgeting mechanisms covering enterprise decision makers and various functional units. Robust business and finance information systems that accurately represent the state of enterprise operations and capture environmental changes in a timely manner should be established to guide business operations. In addition, high-performance capital management and risk management systems will help to sail through environmental volatility and uncertainty towards sustainable growth. To make a high-performance finance organization a reality, these enterprises should commit themselves to the following aspects in accordance with their specific conditions and the characteristics of the industries in which they operate: optimizing capital management systems, utilizing funds more effectively, improving forecasting accuracy and controlling financial risk. They should construct a comprehensive risk management system involving executives and implement risk controls in a number of areas—including strategy, operation, processes and marketing—by relying on a robust internal control system, the use of specialized risk management tools, and integrated information systems.

• Improved information infrastructure can serve as a facilitator that capitalizes on the latest outcomes in information management tools, helps them keep pace with the revolutionary wave driven by Big Data, and enables them to conduct intensive mining and analysis of the vast amounts of internal business and finance information to generate valuable insights for decision making.

• Finally, Chinese enterprises may need to address their talent and skills challenges. CFOs should pursue innovative personnel recruiting and training programs to close the skills gaps many of them have within their finance team. CFOs also should enhance their own skills (particularly in leadership), improve their strategic planning capabilities, develop a broad vision, and gain a better understanding of business operations so they can more effectively lead value-creation-oriented finance transformation. A mechanism able to pool and retain good personnel should also be developed.

By following these suggested actions, Chinese enterprises can take major strides toward building a high-performance finance organization that can help the enterprise create greater value in a challenging, volatile and uncertain business environment.

Methodology

The study is part of the Accenture Global High Performance Finance Study. Both the survey and interviews were jointly conducted by Accenture and CACFO. This study is based on three sources of data:

1. Accenture 2011 High Performance Finance Study

This study, the fourth of its kind conducted by Accenture between January 2011 and August 2011, comprised surveys of 536 finance executives in more than 20 countries representing 14 industries. More than 25 percent of the respondents were CFOs; others were chief finance supervisors, vice presidents in charge of finance, and managers in charge of finance. More than 85 percent of participating companies and governments represented in this survey have revenues of more than US$1billion and more than half have revenues of more than US$5 billion.

2. Quantitative survey of finance executives at Chinese SOEs

From August 2012 to September 2012, Accenture in collaboration with CACFO jointly surveyed finance executives at large Chinese SOEs. We collected completed questionnaires from 95 companies, 40 percent of which were among China's top 500 enterprises. Slightly more than half (51 percent) of the respondents were CFOs. Enterprises surveyed represented a total of 15 industries, with the top five being energy, industrial equipment, electronics and high technologies, construction and real estate, and consumer goods and services. Fifty-five percent of the participating enterprises had revenues exceeding 0.77 billion US dollars in 2011.

The survey data were analyzed and benchmarked against the results from Accenture 2011 High Performance Finance Study.

3. In-depth interviews with finance executives

From September 2012 to December 2012, Accenture conducted in-depth interviews with the CFOs of seven Chinese enterprises, leaders in their respective industries. We used the qualitative data gained from these interviews to add depth to the quantitative data generated by our survey.

Figure 16. Revenue of Participants' Organizations in 2011

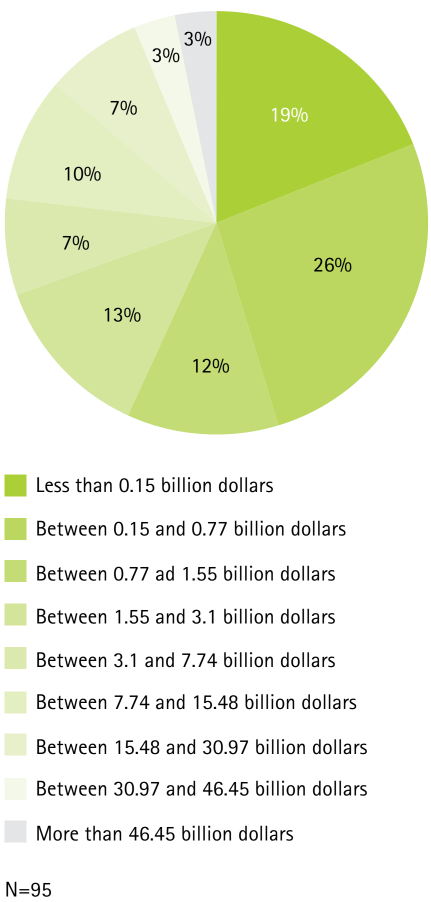


Figure 17. Job titles of participants

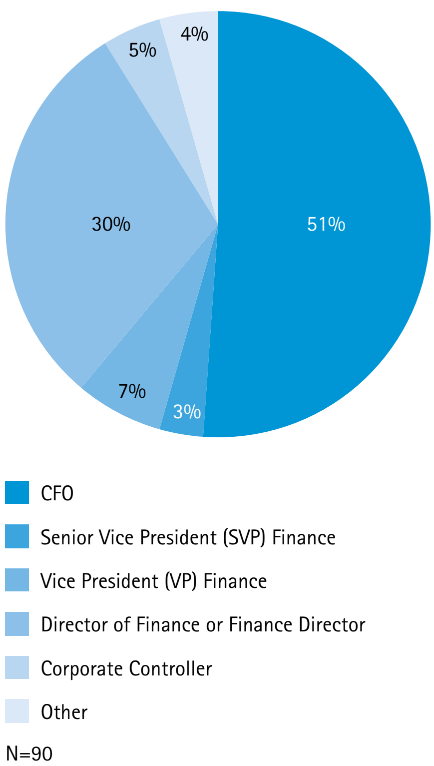
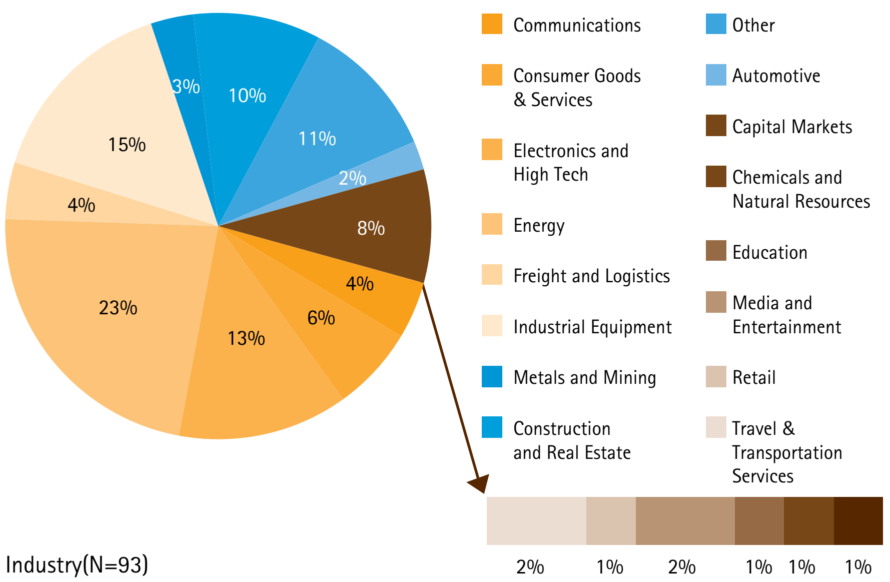


Figure 18. Industries of participants



Executive Sponsors

Luis Ceniga, Senior Managing Director, Accenture Management Consulting, Greater China

Bob Li, Managing Director, Finance & Enterprise Performance, Accenture Management Consulting Greater China

Research team

Ralph Wang, Managing Director, Accenture Management Consulting, Greater China

Xuyu Chen, Senior Marketing Manager, Accenture Management Consulting, Greater China

David Wu, Director, Accenture Management Consulting, Greater China

Joanna Li, Manager, Accenture Management Consulting, Greater China

Junmei Shen, Director of Department of International Cooperation, CACFO

Acknowledgement

We would like to thank Accenture employees Jeff Beg, Catherine Lu, Claire Yang, Haralds Robeznieks, Michelle Ganchinho, Deborah Hinson, Yulia Wan and Alex Broeking for their contribution to this document and the CFOs who we interviewed for our study.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. As a Fortune Global 500 company, Accenture has more than 261,000 people worldwide serving clients in over 120 countries. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012.

Accenture has conducted business in Greater China for more than 20 years. Today, it has approximately 8,400 people working in Greater China, throughout offices in Beijing, Shanghai, Dalian, Guangzhou, Hong Kong and Taipei. With a proven track record, Accenture is focused on leveraging local best practices and successes, and is dedicated to delivering premium client value and results. Accenture helps clients define strategy, streamline business processes, integrate systems, promote innovation and enhance overall competitive advantage to ultimately attain high performance.

For more information about Accenture, please visit its corporate homepage www.accenture.com and its Greater China homepage www.accenture.cn.

Disclaimer

13-0703_lc/11-6495