In Business for You

FINANCE FIRST: UNLOCKING INNOVATION

UNIT4 FINANCIAL MANAGEMENT

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Creating “Financial Culture”

Moving towards prevention and training

Promoting financial culture – an awareness of how business decisions affect financial reality and how all staff can improve the company’s bottom line – is one of the top priorities for CFOs in the coming years. This guide will help you understand the importance of a finance-first mindset, and how to start building one in your business today.

Digital transformation is bringing major change to companies, both in terms of business models and working methods. Today, it’s easier for different departments to work together thanks to new digital tools. However, this demands better cross-functional communication so everyone can better understand their contribution. **Especially regarding finances, where each action can have a positive or negative effect on cash flow and final profitability.**

Digital transformation is a particularly exciting opportunity for CFOs, who now face the challenge of maximizing cash efficiency in extremely uncertain circumstances. However, this challenge can’t be met at the end of a process (such as meeting customer payment deadlines) but demands **a global approach and more collaborative work.**

Get on board

The first step: get all managers on board.

Finance has always been key to ensuring a company's smooth operation and agility. But few managers have a precise understanding of how a delay in planning or delivery, a delay in signing an order, or an increase in non-compliance can affect cash flow.

The CFO, therefore, plays a central role as a business partner, monitoring profitability and seeking to improve cash flow. This is now done by getting involved in all departments of the company, so that employees can make an early impact in terms of good management practices.

As a result, many CFOs are prioritizing the improvement of their internal communication. The objective? To act preventively and cooperatively to identify risks early, and manage related financial changes.

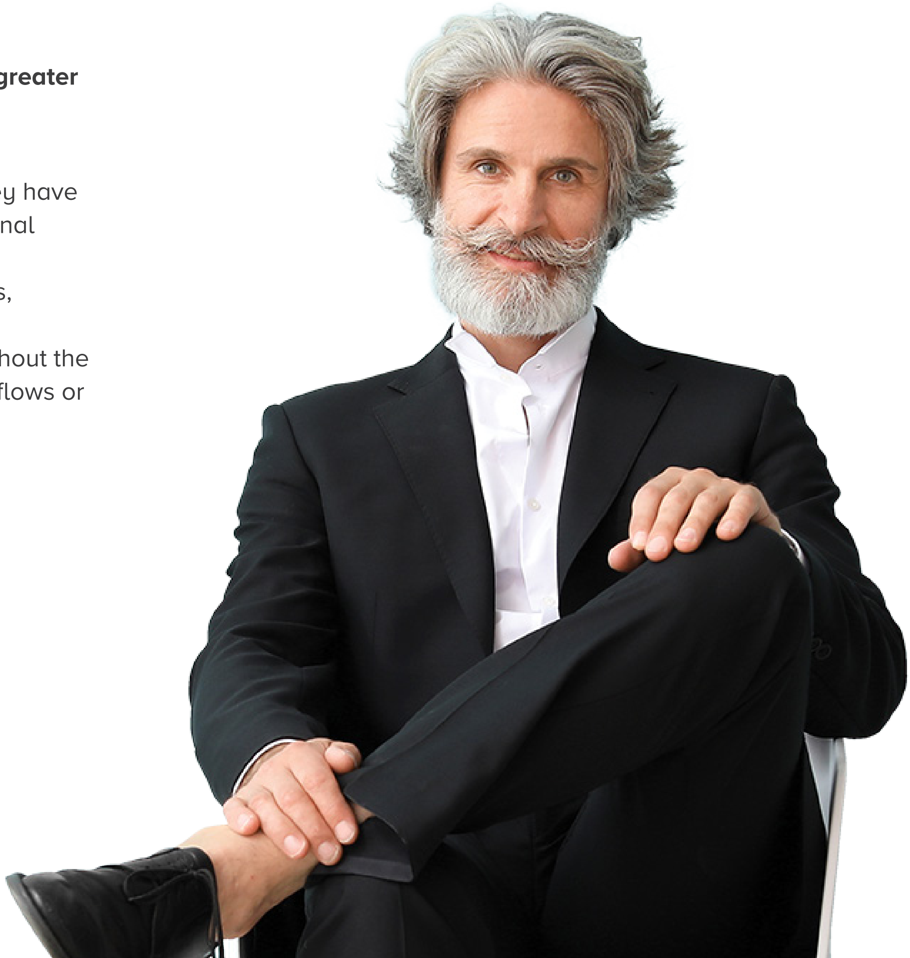
The Finance Department is thus moving from a monitoring role to "preventive finance", with a greater emphasis on internal training.

The CFO is perfectly positioned to do this, as they have a global vision and remain the guarantor of internal procedures. One of their strengths is to evaluate decision-making by considering impacts on costs, revenues, and investments. “Preventive finance” contributes to improving decision-making throughout the company by explaining how it impacts financial flows or other people.

Each operational manager can " quantify" their decision-making more easily when aided by a better financial culture.

Therefore, the CFO must play a facilitating role in building a more profitable and efficient business through 3 key steps:

- Putting finance at the heart of the company, and become more involved in the evolution of business activities
- Adopting the 3 fundamentals of success to accelerate financial awareness and gain employee buy-in
- Recognizing the importance of IT tools in the success of this approach



Evolution of business activities

To advance financial culture, CFOs must adapt and extend their role as a business partner. And secure a commitment to continual process improvement from other departmental leaders.

The Finance Department is closely involved in all decisions concerning company structure. And in recent years, CFOs have continued to strengthen their strategic focus. Broadening their traditional scope of activity to cover legal and strategic issues related to organizational change.

To guarantee their influence, CFOs must develop a better leadership relationship with middle managers. And depending on the company, this isn't necessarily easy.

First, identify the departments that can most meaningfully help to improve cashflow. This will allow you to begin seeding financial best practices in the teams where it really matters.

But be aware that new practices will always have an impact – on everything from the way you do business to the personal development of your people. For example, the objectives of job descriptions or internal processes may need to change to accommodate them.

Financial culture starts with people

To succeed, build a strong partnership with your CHRO.

When optimizing cashflow and collection, the CFO will need to be involved at every stage of the sales cycle. Identifying both opportunities to improve, and risks to mitigate.

In fact, it's at the level of business and sales teams that financial culture is at its most powerful. (After all, they're the ones who generate the revenue).

But if you work more closely with sales teams, you'll have to relax the normal finance approach respecting procedures above all else. For example, if finance doesn't adapt its follow-up actions to suit the customer's needs or situation, it can lead to tactical errors that might damage the relationship.

Encouraging sales to adopt a better financial culture means developing a reciprocal relationship.

Everyone has a lot to gain by developing this kind of synergy. Finance can get involved from the moment Sales respond to calls for tenders to help assess profitability and identify the risks associated with certain prospects, and help the whole organization to make better decisions.

In addition, a stronger financial culture among sales teams has a strong bearing on sales growth. Sales representatives will be better able to talk to CFOs at their customers' and prospects' offices when they're discussing ROI or TCO. By mastering the fundamentals of finance, they can take a more confident and robust line when talking to prospects.

Under these conditions, the CFO becomes a true business partner in the development of the company's sales.

3 Key factors for success

Focus on communication, sharing, and training.

The CFO's priority is to act as a business partner. Promulgating a financial culture can't be done effectively if other departments see it as intrusive or interfering. If they do, your efforts will only serve to disrupt normal processes and slow down the company's development.

To prevent stepping on people's toes (and introduce new ways of working that really improve performance), take the following three steps.

#1 - Establish transparent internal communication on financial objectives

Communication is a true accelerator to spread the financial and cash optimization culture. The Finance Department must be well in line with the company's business processes and, above all, with the constraints operational managers experience in the day-to-day. It's pointless to try and talk to people about balance sheets or income statement items if you can't make them relevant to what they have to deal with in the normal course of their work.

Give managers visibility on concrete financial elements: the importance of investments, cash flows, etc., **so that they can understand the effects of their daily work on the company's finances.** Find ways to show the impact of customer payment discrepancies on the cash flow curve.

The objective is to ensure that everyone immediately knows how to positively influence the company's financial performance.

#2 - Create an incentive system based on the company's financial performance

Communicating objectives in a transparent manner obviously raises an interesting possibility: all employees involved in the cash optimization process should ideally have an interest in the company's financial objectives. This can be expressed through profit-sharing and incentive policies, but the company can also choose to make contributions to cash flow part of their bonus scheme for those who're able to make them.

We can see that becoming more transparent about financial goals will also help managers to understand their role and their team's role. Helping them break out subtasks that can be assigned to individual team members as part of this new incentive structure.

Lastly, consider your commissions policy for sales representatives: if their bonuses are based on orders taken, it won't be easy for them to be involved in meeting payment deadlines. But if they're rewarded in terms of net margin received, it will. Of course, this depends on your vertical and business model. But adopting a culture of cash optimizsation demands that you ask all the right questions.

#3 - Teach by training non-financial managers in finance

A "quick-win" project that can produce fast results and get the ball rolling is to organize financial training for non-financial managers.

As each manager or project manager takes responsibility for their activity's financial scope, they'll need to understand the essential principles of revenues, costs, and investments to better anticipate the effects of their decisions. Share your mastery of best practices in an instructive way to support these new responsibilities.

Note that this doesn't mean that newly-trained managers should be left to act as self-reliant experts. Simply that they'll have a better understanding of how an event or decision can affect cashflow.

The importance of tools

Think “digital-ready”

CFOs must become involved in IT projects to ensure that tools are straightforward enough for collective productivity.

One of the essential prerequisites of a strong financial culture is the ability to access and share information easily across the whole business. And one of the essential prerequisites for this is a reliable ERP system that centralizes data repositories and processes in a single environment.

The latest generations of ERPs are "digital-ready". They integrate numerous tools and help put an end to isolated ways of working between different departments which have previously been a hindrance to helping us all understand how our decisions affect the bottom line.

The CFO must become more involved in information system development projects. With 3 key priorities:

#1 – Improve administrative efficiency and productivity

In order to better ensure cash optimization, employees must spend less time on administration. **The Finance Department must help to automate administrative and accounting processes and minimize the need for manual checks.**

Other departments cannot be asked to participate in improving financial performance if they are unable to perform basic actions in an integrated fashion.

ERP makes it possible to integrate and automate business processes by concentrating on the restitution of analyses and the issuing of alerts. It enables the CFO to constantly increase the productivity of internal teams.

#2 – Integrate finance into operational reporting

The CFO has a key role to play in ensuring that the tools used in decision-making work well together. **Without integrated reporting, you can’t guarantee that the Finance Department's forecasts are well aligned with Sales forecasts.**

This ties in with the importance of transparent communication. If the operational schedules also include indicators related to invoicing and customer payment deadlines, managers, and project managers can immediately see the customer's payment behaviour. Similarly, if commercial reporting no longer stops at order signature dates, and includes billing and payment projections, it’ll be easier for sales teams to understand the margins and workload contributed by a potential new customer.

#3 – Adopt tomorrow's digital tools today

Encouraging financial culture creates an ideal opportunity to deploy new tools adapted to today's digital applications.

If your objective is to increase the efficiency and productivity of employees, there are fundamental questions to be asked about their current situation. Do they enter their expense claims in input grids,, via a web portal, or do they take a photo of their receipts with their smartphone and immediately assign them to a customer and project? In the same way, when they enter their times, do they have to validate the breakdowns line by line, or can they use a digital assistant who will take care of entering this for them?

These are just two examples, but they can both be time-consuming and lead to a loss in productivity. Seiieze opportunities offered by digital transformation to renew internal tools by prioritizing automation and the simplest possible user experience – and you’ll be rewarded with greatly increased efficiency.

This is why digital assistants allow employees to interact with the ERP directly to achieve results via greatly simplified interactions in an intuitive UX.

The benefits

Spreading financial culture to all levels of the company amounts to "marketing" finance internally. The CFO's involvement in the evolution of business activities can bring a real dynamism to cash optimization. And contribute to the improvement of overall performance.

Just as strategy is not just the responsibility of the CEO alone, finance is not just the CFO's responsibility – but of everyone in the organization.

By working hand in hand with other departments, the Finance Department of tomorrow becomes more collaborative, and acts as an engine for improvement for the whole business.

Each employee, having understood the financial impact of their actions on internal procedures, will be able to contribute.

The special relationship that the CFO can create with business teams is a powerful accelerator of value creation and agility.

By working more closely with Sales Management, the CFO provides many benefits and can make a positive contribution to the company's growth. The same goes for synergy with the Marketing Director.

In fact, the latter now integrates more and more information from "big data" to better understand markets and their development. Using this information to develop new offers, services, and pricing. Having previously structured a common, integrated reporting system, the CFO will be able to complement the Marketing Director's work with their own analytical reporting. They will be able to highlight revenue flows in such a way that the projected profitability of new initiatives can be better analyzed in the light of existing financial flows.

Ready to learn more?

To discover how the right tools can facilitate the development of financial culture in your business – and positively affect whole-organization performance – check out our products for professional services organizations at https://www.unit4.com/industries/professional-services-software

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