



Evolution of Accounting and Closing & Financial Infrastructure

- Introduction to the 12th SAP FBPW -

Juergen H. Daum,
Chief Solution Architect, BSAG, SAP

SAP Finance Best Practice Workshop (SAP FBPW), September 27-28, 2007 in Copenhagen

Introduction of Juergen H. Daum



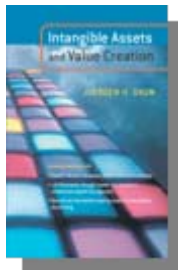
- ▶ **CFO adviser and Chief Solution Architect, Business Solutions Architects Group at SAP EMEA**
- ▶ **Author, lecturer and trainer in enterprise management, finance transformation, innovation management and entrepreneurship, and founder of the International Institute of Enterprise – Heidelberg (www.iioe.eu)**

Career background:

- ▶ CFO in a mid-sized German company before joining SAP in 1992
- ▶ Five years in SAP's field organization in Germany and Europe: sales, consulting, product management with the focus on financials and enterprise management
- ▶ Five years in SAP's product development: Product Manager SAP R/3 EC and Strategic Enterprise Management (SEM), Program Director for mySAP Financials
- ▶ Since 2002: advising CFOs, and finance professionals of European companies - current focus on finance transformation & enterprise performance management

Frequently publishing and speaking on enterprise management, finance transformation and other management topics; author of the books "Intangible Assets and Value Creation" (2003) and "Beyond Budgeting" (2005) - more at <http://www.juergendaum.com>

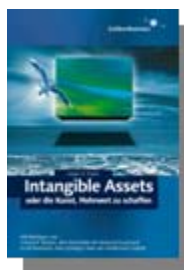
Books:



Intangible Assets and Value Creation
by Juergen H. Daum

John Wiley & Sons,
Chichester, 2003
ISBN 04708455120

More information at
<http://www.juergendaum.com/mybook.htm>



**Intangible Assets
oder die Kunst,
Mehrwert zu schaffen**
von Jürgen H. Daum

Galileo Press, Bonn, 2002
ISBN 3-89842-112-0

Mehr Informationen unter:
http://www.juergendaum.de/mybook_d.htm



Beyond Budgeting
von Jürgen H. Daum (Hg.)

Martin Meidenbauer Verlag,
München, 2005,
ISBN 3-89975-533-2

Mehr Informationen unter:
http://www.beyondbudgeting.de/bb-buch_d/bb_buch_d.htm

Upcoming:

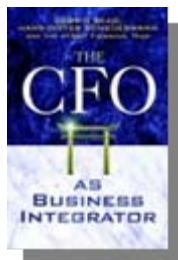


**Finance
Transformation
– Der CFO als
Business Partner**

von Jürgen H. Daum (Hg.)

Martin Meidenbauer Verlag,
München, 2007,
ISBN 978-3-89975-105-5

Contribution to book's of others (selection):



**The CFO
as Business Integrator**

by Cedric Read and
Dieter Scheuermann

John Wiley & Sons,
Chichester, 2003
ISBN 047085149X



**Intangibles
in der Unter-
nehmenssteuerung**

von Peter Horváth und
Klaus Möller (Hrsg.)
Vahlen, München, 2004
ISBN 3-8006-3035-4



**Neugestaltung
der Unternehmens-
planung**

von Peter Horváth und
Ronald Gleich (Hrsg.)
Schäffer-Poeschel,
Stuttgart, 2004
ISBN 3791021079

**Business Performance
Measurement
– An Introduction**

by Shyam Sunder
Kamberhammettu (ed.),
Le Magnus University Press,
Hyderabad, 2005
ISBN 81-89333-00-3

For the complete publication list see: <http://www.juergendaum.com/publications.htm>

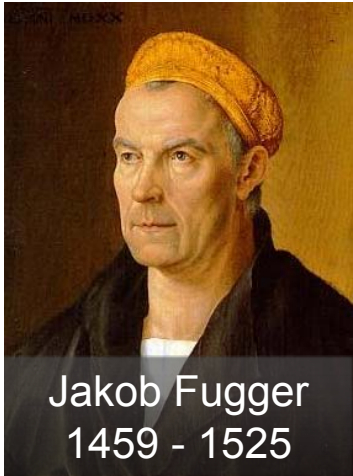


Accounting and Closing & Financial Infrastructure: early application examples

Current challenges, best practices, and customer examples

Next practice business trends
+ implications for the financial infrastructure

Accounting and Closing & Financial Infrastructure: early application example I

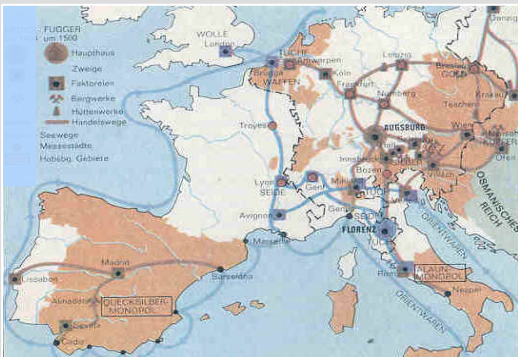


He was the architect of the first multinational company ever (around 1500): The „Jakob Fugger and Gebrüder Söhne“ company was:

- engaged in mining and copper & silver trading, banking (he was the banker of the emperor) and in international trading
- headquartered in Augsburg, Germany, with ‚subsidiaries‘ (called ‚Faktoreien‘) all over Europe

His challenge:

➔ To control the widespread network of subsidiaries



The solution:

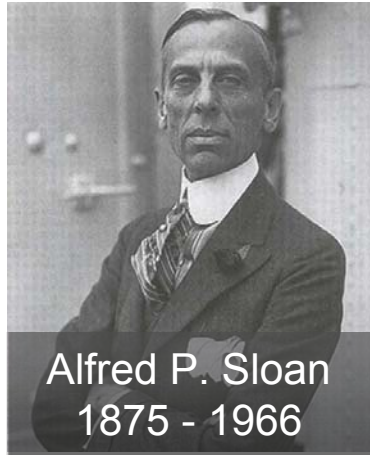
- ➔ Introduction of double entry accounting to record all transactions in the subsidiaries
- ➔ Subsidiaries had to send every couple of weeks a report to headquarters including accounting data and news from local markets



Jakob Fugger with his Chief Accountant Matthäus Schwarz in his „Golden Office“

See: Daum, J.H., Die Evolution der Finanzfunktion – eine Einführung. In: Daum, J.H: (Hg.), Finance Transformation: Der CFO als Business Partner, München, 2007

Accounting and Closing & Financial Infrastructure: early application example II

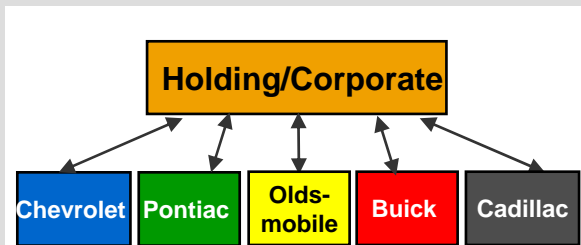


He was the architect of the first modern corporation: the General Motors Corporation, where he - as president and CEO - created (in the 1920s/1930s) a management system to manage:

- the first large divisional industrial corporation
- the first corporation that combined central Shareholder Value-oriented Portfolio Management with decentral business/operational Management of the different divisions

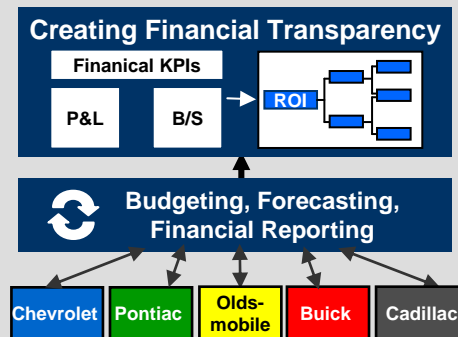
His challenge:

→ To control the economic success of a large divisional industrial organization that is managed in a decentral way



The solution:

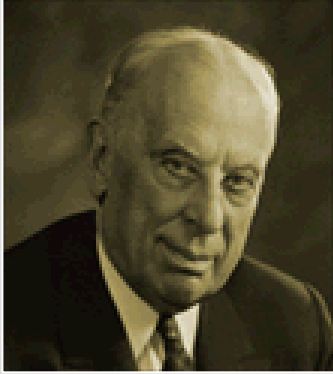
→ Introduction of an appropriate financial control infrastructure:



Donaldson Brown (1885-1965), VP Finance of General Motors, who developed the new financial control instruments in the 1920s

See: Daum, J.H., Die Evolution der Finanzfunktion – eine Einführung. In: Daum, J.H: (Hg.), Finance Transformation: Der CFO als Business Partner, München, 2007

Alfred P. Sloan: the role of the financial control infrastructure at GM



Alfred P. Sloan
1875 - 1966

„How could we exercise permanent control over the whole corporation in a way consistent with the decentralized scheme of organization? [...]

It was on the financial side that the last necessary key to decentralization with coordinated control was found.

That key, in principle, was the concept that, if we had the means to review and judge the effectiveness of operations, we could savely leave the prosecution of those operations to the men in charge of them.“*

**With the new financial / budgetary control model they created at GM
the foundation for modern corporate / general management**

*Source: Sloan, A.P., My Years With General Motors, 1963 (new edition: 1990), p. 139-140



Accounting and Closing & Financial Infrastructure: early application examples

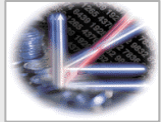
- Current challenges, best practices, and case examples

Next practice business trends
+ implications for the financial infrastructure

Current challenges I: Globalization of financial markets + increasing corporate complexity

Globalization of financial markets:

financial markets



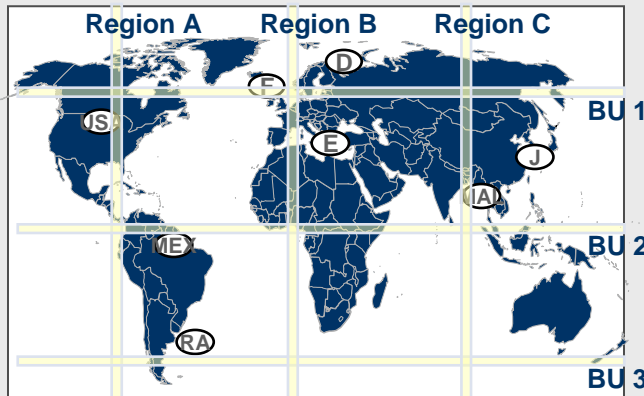
Investor- / analyst- expectations

top management



other stakeholders

„translation“ of investor expectations in internal SHV-targets



Monitoring and control of target achievement

- Open financial markets increase „competitive pressure“ on enterprises to create shareholder value
- The growing influence of shareholders on enterprise policy requires professional shareholder value management
- This requires an alignment between management- and external financial-reporting

Growing corporate complexity:

- Size (e.g. GM had 11000 employee in 1922, today 327000)
- Geographic coverage
- More complex business models

Increased risk of fraud and ‚bad governance‘



- Investors and the public demand better governance and risk management
- Companies have to prove that they have the capabilities for „good corporate governance“ to earn / re-establish reputation with investors and other stakeholders

The consequence: new accounting standards (IFRS) and new regulations to ensure „good corporate governance“ (e.g. SOX)

“

Ultimately there isn't any reason why a transaction in Boston should be accounted for any differently than one in Brussels or Brisbane. And if they are accounted for in the same way its going to open up the capital markets.

Say you are on Wall Street, reviewing a Dutch company. You'll have other things to think about, but accounting is not going to be one of them. That's going to reduce cost of capital. That will save a lot of money.”

Sir David Tweedie, chairman, IASB

IFRS objectives:

- ▶ **One accounting-language worldwide**
- ▶ **„management approach“ (→ need to harmonize external/internal reporting)**
- ▶ **„true and fair view“ from an investor perspective (→ „fair value accounting“)**

“

My advice to other CFOs, especially of big companies that are highly diversified, is to have a very centralized financial-control [system]....You have to have very active enforcement in your regions and in your groups...

One should not use complexity [of the organization] as an excuse for not [having] effective processes and financial controls. You have to apply very strong processes and discipline, and make sure ...executives know at any given point what their responsibilities are and that all your people are trained time and again.”*

Joseph Kaeser, CFO, Siemens

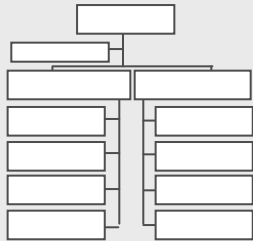
- ▶ **Centralized financial control (system)**
- ▶ **Effective processes for financial control**
- ▶ **Clear responsibilities (organization)**
- ▶ **Ongoing training (people)**

*Source: Calabro, L., Siemen's Joseph Kaeser faced with steering the global conglomerate through a major bribery scandal, in: CFO.com, June 01, 2007

Current challenges II: Globalization of product markets and of an enterprise's business

1980er

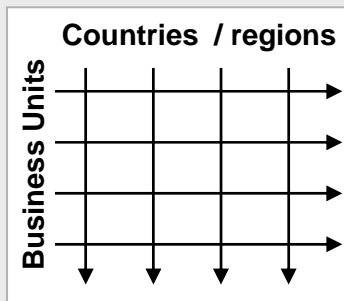
"International"
company



- with foreign subsidiaries
- functionally organized

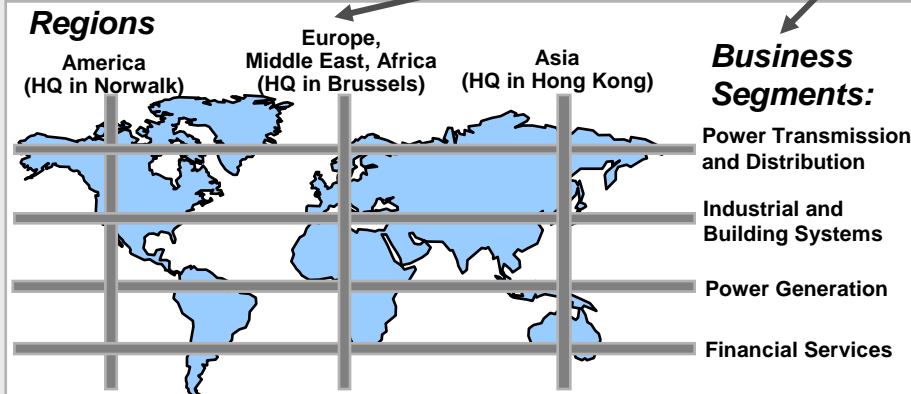
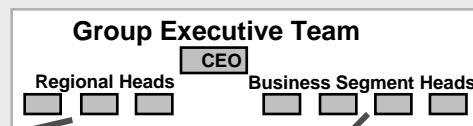
1990 / 2000er

Transnational
enterprise



- ▶ Realization of scale effects through global sales and cross-country leverage of resources
- ▶ Global control of business units
- ▶ Global standardization of business processes

The model example of the 80s/90s*:



more globally standardized financial processes & finance efficiency improvements through best practice sharing

*see the ABB case study in : Daum, J.H., Intangible Assets Value Creation, John Wiley&Sons, 2003, pp. 144-164



The consequence: new „business models“ for Finance&Control – customer example

Customer example (Chemicals):

Step 1:

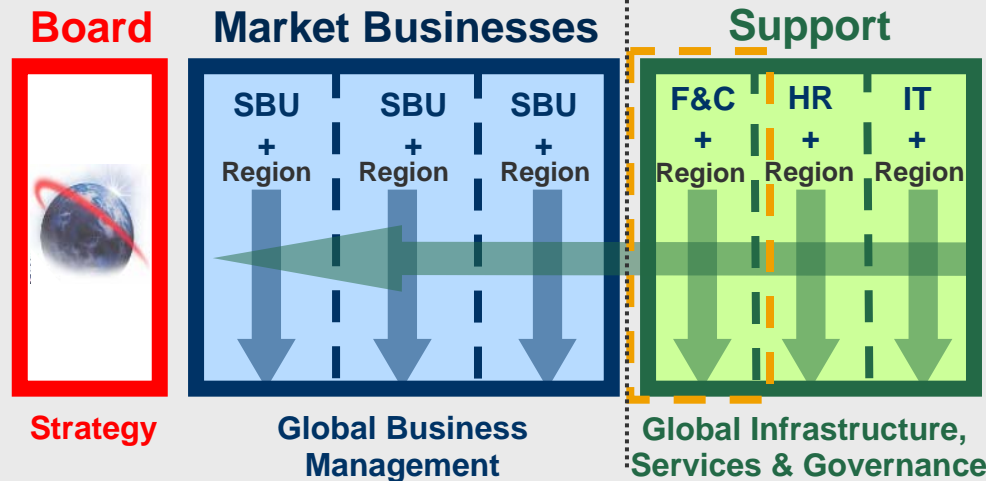
Business Transformation

– from a country-based to a global business unit driven organisation

Step 2:

F&C Transformation

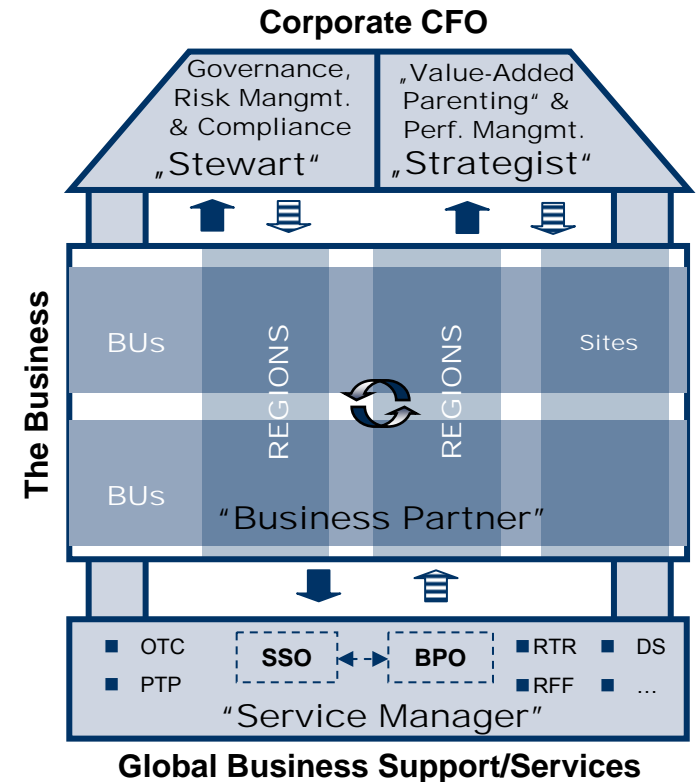
– from local ‚admins‘ to global F&A-Services



Measures and results:

- ▶ Foundation of a F&C Services Organization, first with regional, then with global responsibility
- ▶ Global standardization of F&C processes by ‚cherry-picking‘ existing local best practices
- ▶ Transformation of the organization from a country-based to a process-based organization
- ▶ Reduction of internal complexity and significant improvement of service quality
- ▶ Reduction of total F&C-cost/revenue from 1,6% to 1,1%

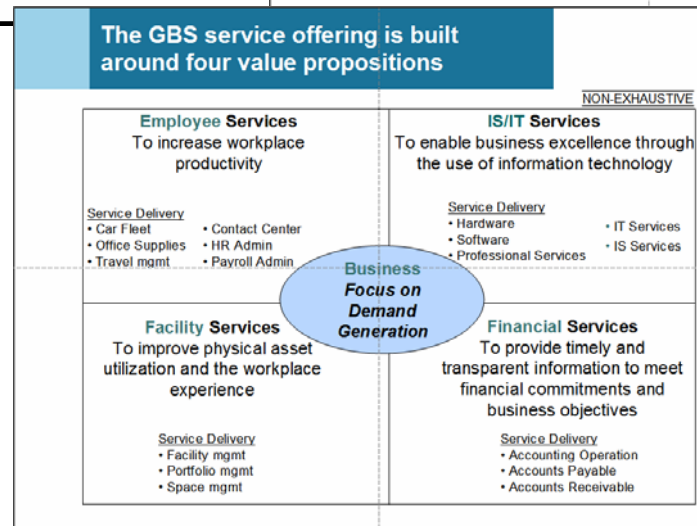
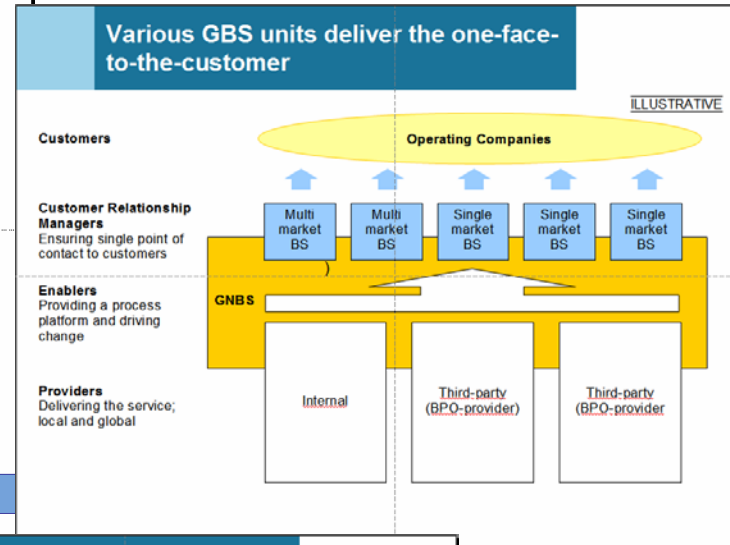
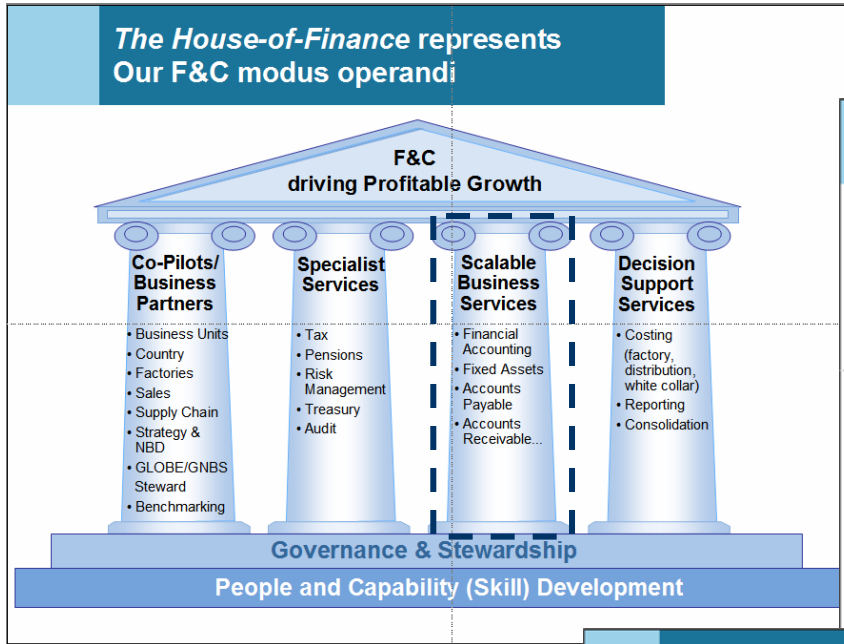
The new best practice „business model“ for Finance&Control:



Consequence for F&C:

- ▶ Common, standardized processes and IS
- ▶ A clear split of tasks between ‚business support‘ (transactional services and/or second level support) and ‚business partnering‘

Customer example (Consumer Products): Moving to Global Business Services (GBS)



Customer example (Banking): Operational Business Model Transformation triggers Finance Transformation

Strategy

Our Vision:

“To be the number one bank in Ireland with dynamic businesses growing internationally”

Our Strategy:

- Maximise returns from our leading position
- Substantially grow our businesses in the emerging markets
- Grow our portfolio of niche, skill-based businesses internationally

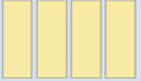
Page 7

Strategy

Execution Requires a Fundamental Shift in Our Operating Model


From...

‘vertically integrated’ operating model with operations and support within Business Units



To...

‘horizontal’ operating model where operations and support capabilities are provided to Business Units by Group functions and centres of competence



Page 8

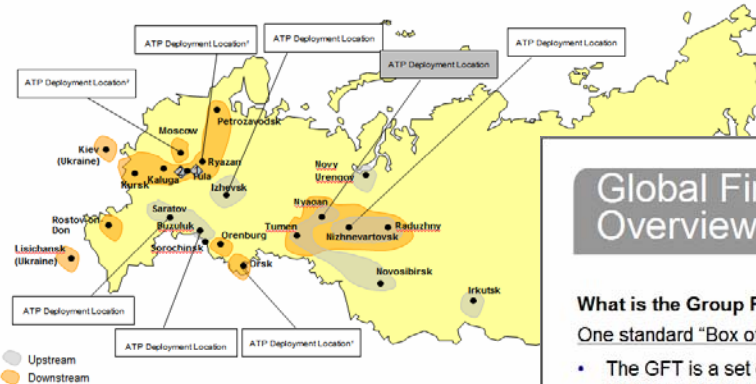
Key Objectives of 1Finance

- True Business Partnering for our customers → Effectiveness
- High-performance environment for our employees → Effectiveness
- Finance Processes Excellence → Efficiency

Customer example (Oil & Gas): Implementing the new Financial & IS Infrastructure

Deployment Approach – Regional Hubs

Accounting Operations are provided by a set of Regional Accounting Centres (Hubs). ATP was deployed through RACs.



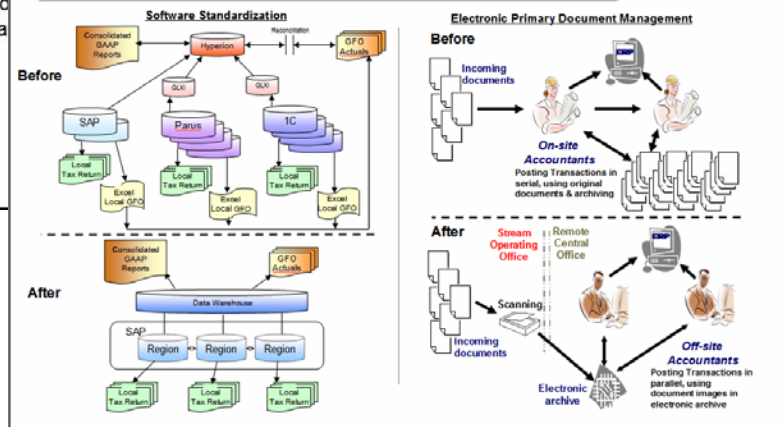
Global Financial Template Overview

What is the Group Financial Template (GFT)?

One standard "Box of Data", everywhere:

- The GFT is a set of processes designed and built upon a wide standard SAP platform, utilizing electronic document handling technology to provide a group-wide financial framework.
- The group-wide financial framework will provide consistent data and controls across the entire group.
- The platform (when built) provides a foundation for driving enterprise-wide applications such as a data warehouse, SPR, etc.).

Two Key System Elements of GFT





The Corporate Financial Infrastructure comprises the processes, roles/people, organization structures, and information systems that are essential for the effective and efficient operation of an organization from a financial perspective by:

- ▶ **helping to secure the financial governance and compliance (the ‚financial peace‘) of the organization**
- ▶ **enabling for the efficient supply of high quality financial services to the business**
- ▶ **providing the information & tools for effective decision making and business navigation**

Source: Daum, J.H., Die Evolution der Finanzfunktion – eine Einführung.

In: Daum, J.H: (Hg.), Finance Transformation: Der CFO als Business Partner, München, 2007

The Financial Infrastructure

Purpose:

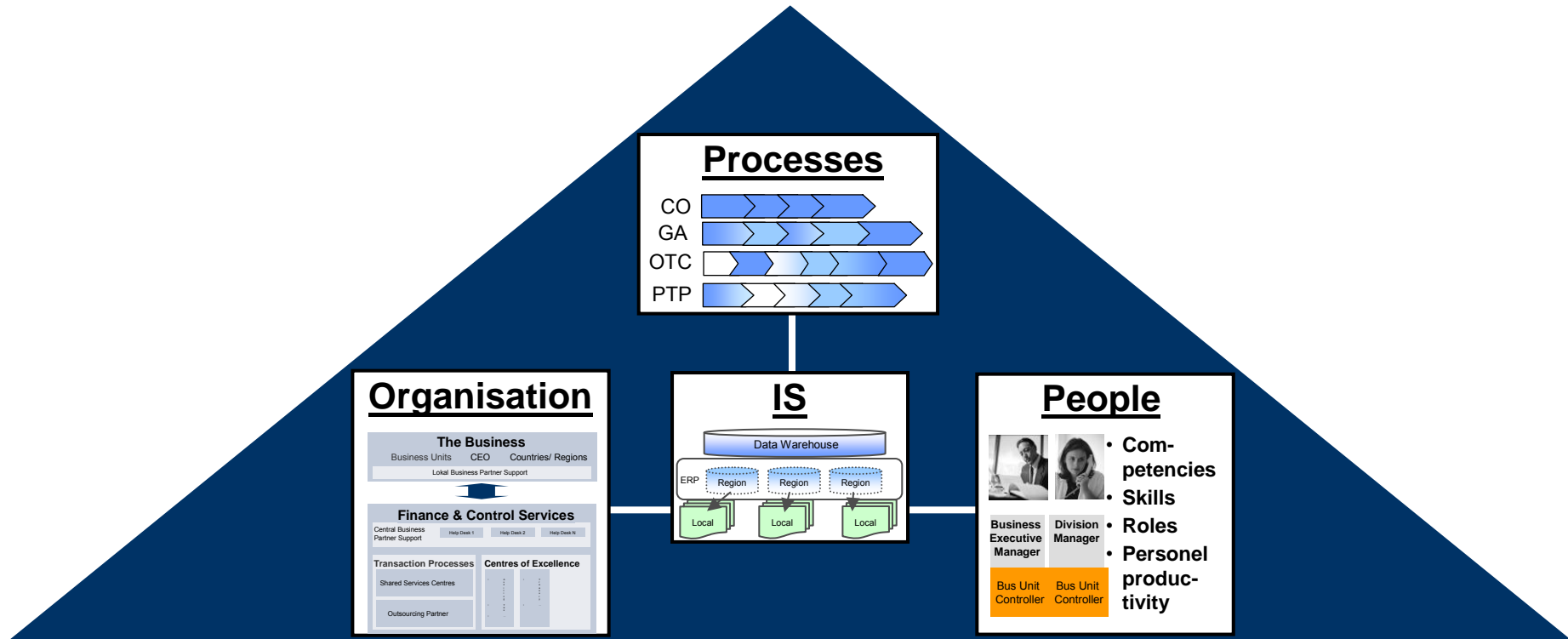
Enable for efficient and effective finance operations that provide:

**Financial Governance
& Compliance**

Business Services

**Decision & Navigation
Support**

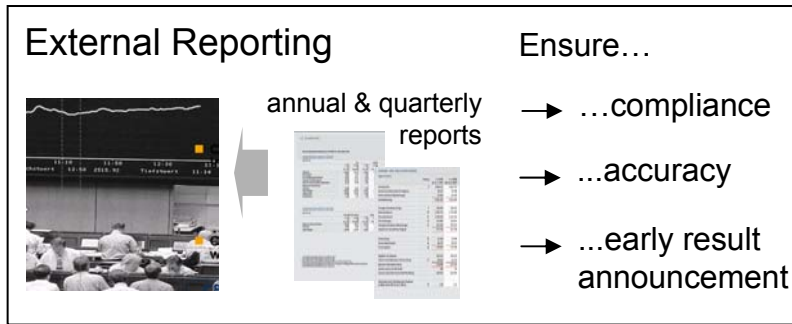
Triggering the financial infrastructure requirements:



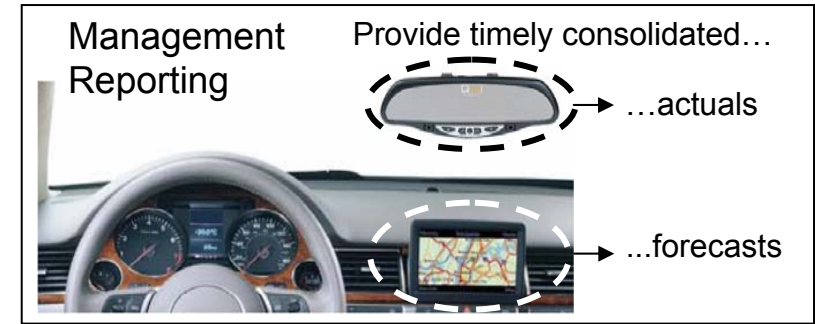
*source: Daum, J.H., Finance Transformation: Bestandsaufnahme der aktuellen Entwicklungen in europäischen Unternehmen, in: Daum, J.H: (Hg.), Finance Transformation: Der CFO als Business Partner, München, 2007

Example: Accounting & Closing Infrastructure

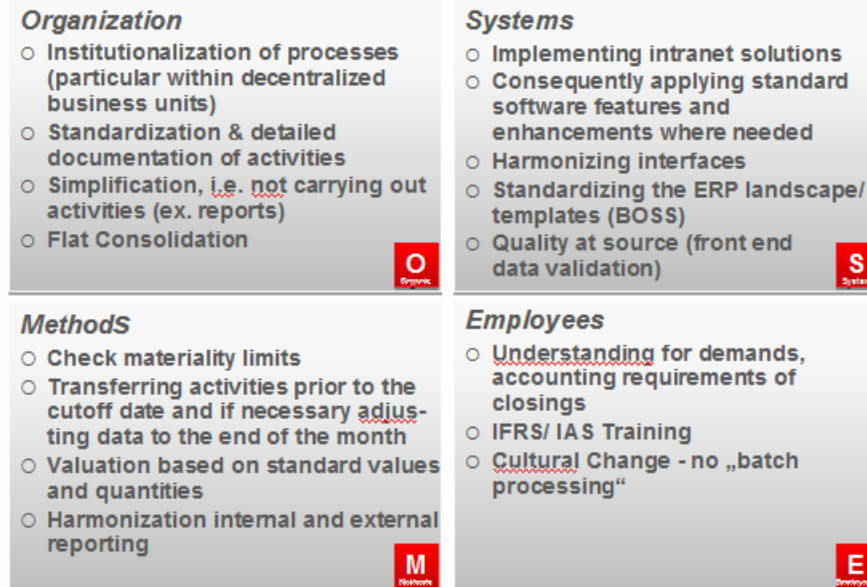
Purpose: Financial Governance & Compliance



Purpose: Decision & Navigation Support



Financial Infrastructure Requirements (Customer example):



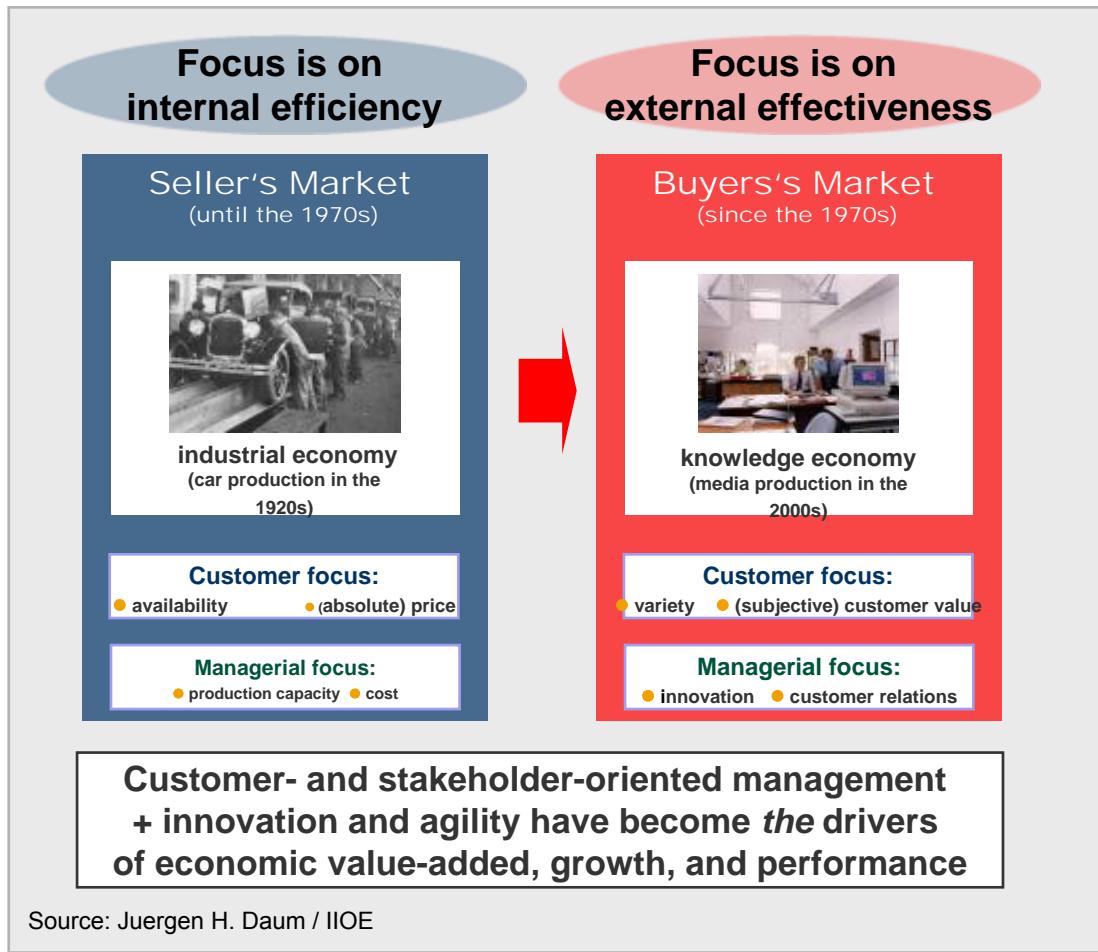


Accounting and Closing & Financial Infrastructure: early application examples

Current challenges, best practices and case examples

— ■ Next practice business trends
+ implications for the financial infrastructure

Next practice trend in enterprise management I: Change in the value creation orientation of enterprises



European CEO's Top 10 Challenges

1. Speed, flexibility, adaptability to change
2. Profit Growth
3. Sustained and steady top-line growth
4. Consistent execution of strategy
5. Stimulating creativity / entrepreneurship
6. [Product] Innovation
7. Customer loyalty / retention
8. Speed to market
9. Tight cost control
10. Improving productivity

Source: The Conference Board, 2006

Consequence for enterprise control:

Focus on organic growth and its drivers: customer value creation, innovation, and adaptability – rather than just on cost management and productivity improvements



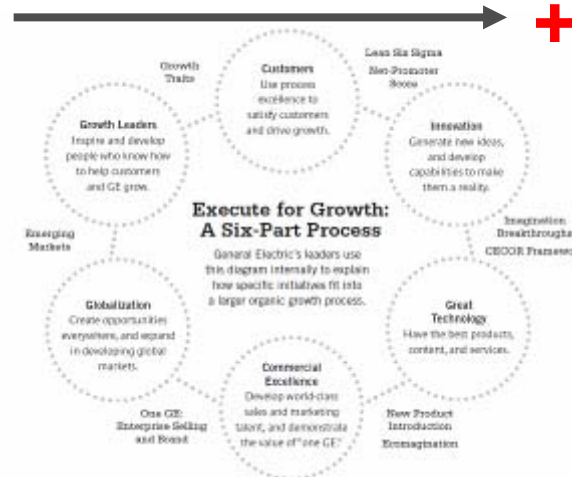
Jeffrey R. Immelt,
Chairman &
CEO – GE

“After I became CEO [in 2001] I looked at the world [...] and realized that over the next ten or 20 years there would be not much tailwind.

It would be more global market, it would be driven by innovation, and a premium would be placed on companies that could generate their own growth. We have to change the company – to become more innovation driven – in order to deal with this new environment [and to be able to achieve an average organic growth rate of 8% = 2-3x world GDP growth]”

The (old) Productivity Tool Kit

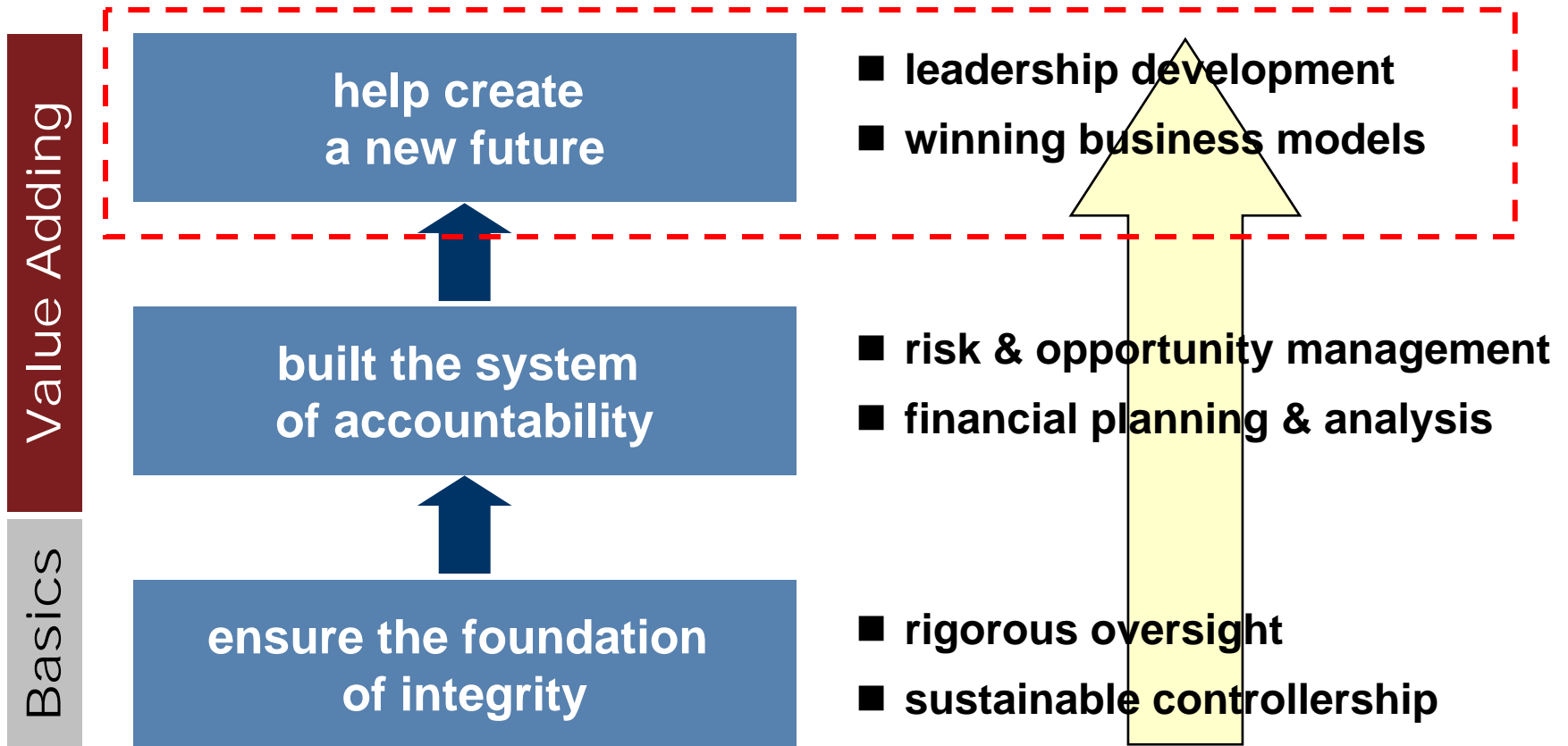
- Best Practice Sharing
- Change Acceleration Process
- Crotonville Customer Program
- Multigenerational Product Development Plan
- Process Mapping
- Quick Market Intelligence
- Simplification
- Six Sigma
- Work-out



The (new) Growth Tool Kit

- Acquisition Integration Framework
- At the Customer, for the Customer
- CECOR Marketing Framework
- Customer Dreaming Sessions
- Growth Traits and Assessments
- Innovation Fundamentals
- Innovation Labs and Tool Kit
- Lean Showcase
- Lean Six Sigma
- Net Promoter Score

*Source: Growth as a Process – An interview with Jeffrey R. Immelt, in: Harvard BusinessReview, June 2006
(http://www.ge.com/files/usa/stories/en/Growth_The_HBR_Interview.pdf)





“One major issue [for finance is] to develop the role further to improve support to better manage the business – and not just leave it up to the CEO to drive the business, to drive results..”*

Michael Silbermann, CFO of Microsoft Germany, Munich, D

**„help to drive
the business“**

**„help to develop
the ‚pipeline‘, rather
than just report on it“**



“If we are honest, most finance professionals are still at the backend of the pipeline, still analyzing what others have done.

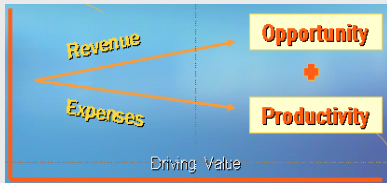
The challenge in the future will be to help to develop the pipeline rather than reporting on the pipeline and on the ideas of others.”*

Paul Koppelman, CFO of Commercial BHP Billiton, The Hague, NL

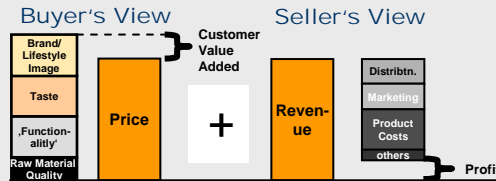
*Statements made during the panel discussions at the SAP CFO Roundtable, 24 May 2006 in Prague, Czech Rep..

Next practice business trends and their implications for the financial infrastructure

1. Change in the value creation orientation of enterprises



Focus on organic profitable growth...

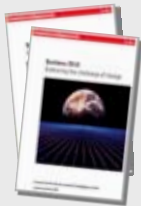


...require extended performance management models

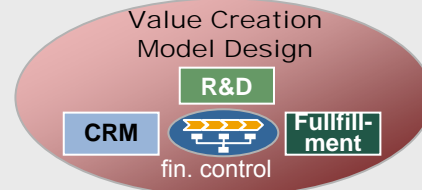


Need for analytics / reporting beyond the financials

2. Growing importance of business model innovation



- Revisit your business model - regularly
- Be nimble, be quick
- Know thy customer, and invite him in
- Do what you do best



Business model innovation will become the source of differentiation...

...leading to regular reconfigurations of the value creation model + of fin. infrastructure



Need for more flexibility and adaptability

3. Growing importance of business networks / organisational innovation



We will see more alliances, cooperations and business partnerships...



...requiring concepts for a collaborative financial infrastructure



Need to move beyond the borders of the company

“ „Companies and researchers have focused so far mainly on technological innovations. However, most breakthroughs have been achieved by those companies that came up with innovations *in management*.“

(Gary Hamel, in an interview in FAZ, 7.11.2005)

Thank You !

Jürgen H. Daum

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Website: <http://www.juergendaum.com>