Finance function: Leveraging a source of competitive advantage for selected South African companies in KwaZulu-Natal

Submitted in fulfillment of the requirements of the degree of Master of Technology in Cost and Management Accounting in the Faculty of Accounting and Informatics, Durban University of Technology, Durban, South Africa

Patricia Maureen Shewell

2011

SUPERVISOR: **Dr M de Beer**

CO-SUPERVISOR: **Mr S Kharwa**

Approved for final submission

_____

Dr M de Beer (PHD)

_____

Mr S Kharwa (M.Com; M.Tech)

DECLARATION

I hereby declare that this study represents the original work by the author and has not been submitted in any form to another university. Where use is made of the work of others, it has been duly acknowledged in the text and included in the list of works cited.

_____ 25 August 2011

P M Shewell Date

ABSTRACT

As a result of current business trends, South African companies are being forced to examine changes in the finance function. The purpose of this research is to establish and examine the paradigm shift in the finance functions of selected South African companies in KwaZulu-Natal, and to develop a measuring tool to determine the degree to which these functions are evolving to be more in line with a value adding paradigm.

A mixed methods approach was used in this study, with qualitative analysis supported by some quantitative analysis. A case study approach was adopted, and non-probability sampling using the purposive method was applied to select eleven respondents. The data was gathered by means of both a questionnaire and follow up interviews. The data has been analysed using a combination of both descriptive and inferential statistics, and qualitative analysis.

It was found that the majority of respondents were not measuring the cost of, nor were they focused on reducing the resources allocated to the finance function. In addition, the major portion of finance function resources remain focused on the accounting processing roles of the finance function. However, an increasing emphasis on the decision support and strategy formulation roles was discovered.

A measuring tool was developed and applied to the finance functions of respondents. This brought the researcher to the conclusion that the finance functions of respondents could not be confirmed as value adding business units. It was recommended that finance function resources be mapped according to the various roles identified. The measuring tool could then be applied to reveal potential areas of change that would result in the finance function transforming into a value adding business unit. Future research into an appropriate finance function performance measurement system, and the impact on the training of accountants of the changing finance function paradigm, was identified.

To my loving family for their support and dedication.

ACKNOWLEDGEMENTS

The author would like to acknowledge the support and assistance of the following persons:

- My supervisor Dr M De Beer for her support and commitment in guiding me from the very beginning of this project.
- Mrs G Hendry for assistance with the statistical analysis.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS

CHAPTER 1

INTRODUCTION

1.1 Introduction

In the current operating environment, South African companies in KwaZulu-Natal need to be implementing changes in the role of the finance function. An international review of current trends in terms of the role of finance, revealed four key themes. The overriding theme is that finance needs to become more value adding in an organization. In order to become value adding, the finance function is required to become more cost effective. In other words, its resource consumption relative to the size of the business needs to be reduced. In addition to this, efficiencies need to be realized in the accounting processes role, which is the traditional focus of the finance function. Resources which are freed up in the process of becoming more efficient, need to be redistributed to a broader decision support role throughout the business.

1.2 Motivation

In order to determine whether the finance functions of South African companies in KwaZulu-Natal are becoming more value adding, it is necessary to determine whether identified international trends can be identified in the finance functions of these companies. Specifically, are these finance functions changing their focus from accounting processes to decision support activities, and are they seeking to reduce their consumption of resources?

Current international trends represent a paradigm shift in the accounting profession. Reporting on a study undertaken by the International Federation of Accountants (IFAC), Connell (2001: 6) identifies certain principal changes in the profession. Firstly, accountants are moving from accounting processes to decision support activities which are aligned with current business strategy. In addition, the report

indicates that skill sets are changing, predicting that the demand for financial accounting skills is expected to drop, whilst there will be an increased demand for the skill of problem solving. Furthermore, the control mindset is also changing from compliance to business risk management. It is required that all this must be achieved at a lower cost than is presently the case. Connell (2001) further states that the key drivers to these reported changes are globalisation, knowledge, speed and the fact that business is now conducted in an environment characterised by strategic thinking and change management.

Boisvert (2001b: 1-2) conducted research in which he sought to identify key activities in the strategic deployment of the finance function. Based on these activities, he established profiles of deployment of finance function resources, and positioned participating companies in terms of the profiles. In doing this he sought to define efficient practices, and determine whether the companies were evolving toward a more strategic deployment of finance function resources.

Gould and Fahy (2005a: 27) reported that initial finance function transformations were intended to deliver efficiency in transactional processing, stewardship and control and, at the same time, reduce costs. However, to advance further, the transformation must go beyond systems and processes and focus on providing meaningful information to enable decision making based on the needs of both internal and external customers.

The changes identified by Connell (2001) and Gould and Fahy (2005a), and encompassed in the strategic deployment of the finance function outlined by Boisvert (2001), would suggest that to be adding value, the finance function of South African companies in KwaZulu-Natal should be evolving in a similar way.

1.3 Research problem

If the finance functions of South African companies in KwaZulu-Natal do not transform they will lose a valuable opportunity to add value to the core business. The

need for the finance function to become more value adding has been articulated by among others, Lenihan and O'Malley (2002: 23), who have indicated that the finance function must be a business partner which assists business in maximizing value. Similarly Court (2005: 78) stated that the finance function had a role to play in enabling added value for businesses.

Although changes occurring in the finance functions of companies internationally are widely reported (Boisvert, 2001b, Connell, 2001 and Gould and Fahy, 2005a), no research has been carried out in South Africa to determine whether South African companies are implementing similar changes. Key factors in these reported changes were a reduction in resources allocated to transactional processing, a shift in resources toward decision support activities and a reduction in the extent of resources consumed by the finance function.

Internationally, Court (2005) has indicated that although many organisations had already been working toward making the necessary changes, others were struggling to make the transition. On the other hand Gould and Fahy (2005b: 19) found that successful organisations had implemented transactional efficiencies, but had struggled with the move to a business partnering role. One of the primary barriers to implementing changes to the finance function, as reported on by Von Arnum (2004: 19), was a lack of performance metrics to measure improved performance.

To ensure that companies in KwaZulu-Natal do not lose the opportunity to add value through a transformed finance function, a measuring tool needs to be developed which encompasses key value adding criteria for the finance function. This would aid companies in determining whether their finance functions are transforming toward a value adding paradigm.

1.3.1 Main objective

The purpose of this research is to investigate a paradigm shift in the finance function of selected South African companies in KwaZulu-Natal in terms of resources allocated, accounting processes and decision support activities. This information will

then be used to develop a measuring tool for use by these companies to confirm that value is added through the evolving finance function.

1.3.2 Sub-objectives

- to develop a construct of the finance function of a business.
- to establish the key criteria which, if achieved, would lead to value being added by the finance function.
- to analyse the changes in the resources allocated to the finance function in terms of the level of resources and the benchmarking of the cost of the finance function.
- to establish the current status of the accounting processing role of the finance function in terms of the apportionment of resources
- to ascertain and evaluate the extent of the shift in the apportionment of resources from accounting processes toward the decision support and strategy formulation roles of the finance function.
- to put forward a measuring tool for use by selected South African companies in KwaZulu-Natal to confirm the degree to which value is added through their finance functions.

1.4 Rationale

There have been extensive developments in the role of the finance function in companies over the last ten years. Boisvert (2001a) carried out two studies in Canada in 2001. In the first he sought to define strategic deployment of the finance function, and identified the key roles of the finance function. This first study was to inform later research by Boisvert (2001b) which sought to identify the past participation of members of the finance function, and their anticipated future actions, in respect of the key roles.

Robinson (1999: 690) reported that the finance function could no longer operate in a "functional silo" and needed to be able to quantify its contribution to the business as

a whole. To determine whether the finance function is repositioning itself, it is necessary to establish a measuring tool by which selected South African companies in KwaZulu-Natal can be identified as having embraced this shift toward a business partnering role for their finance functions.

1.5 The status of the changing role of the finance function

In establishing the extent of research into the changing role of finance for South African companies, the following was identified. The South African Institute of Chartered Accountants (SAICA) (2008) commissioned the first research study into the changing role of the finance function in South African companies. SAICA specifically examined the changing role of the chief financial officer (CFO). SAICA (2008) sent a questionnaire to the CFOs of the 40 largest companies listed on the Johannesburg Securities Exchange, to obtain their views on the changing role of CFOs in South Africa. The findings of this research are reported in Chapter Two.

To date no research has been carried out to determine the degree to which shifts in the role and focus of the finance function as a whole, are being experienced by South African companies in KwaZulu-Natal. The aim here is to determine the degree to which the paradigm shift, which sees the finance function repositioning itself as a strategic business partner, can be identified in selected South African companies in KwaZulu-Natal.

1.6 Scope

The research covered registered companies operating out of KwaZulu-Natal, that are majority South African owned or managed, and that have a finance function staff of more than three persons. The finance functions of these companies are the focus of the study. More specifically, examined are personnel allocated to the finance function, the cost of the finance function as a percentage of turnover, and the skills required of finance personnel. In addition, the motivations for changes in the finance

function are investigated. The research excludes all aspects of the company that do not relate specifically to the role of the finance function.

1.7 Delimitations

Only companies with a majority of South African shareholders, or those which could be identified as having autonomous South African operations, have been included in the research. It was the intention of the study to identify a paradigm shift in the finance function of South African controlled companies. There are companies operating in KwaZulu-Natal, South Africa that are majority owned by investors from outside of South Africa. In most of these cases, the finance structure in the South African operation would be influenced by the parent company. Any reengineering of the finance function that these companies have undertaken, may have been influenced from outside of South Africa.

In addition only companies with a finance function staff of more than three persons were selected. The aim was to ensure that it would be possible to allocate personnel between the various finance function tasks. In retrospect this was not necessary as even with one person it should be possible to allocate a percentage of their time to the various finance function roles.

Percentages, rather than the absolute number of employees involved in each role of the finance function are utilised. In the majority of instances where an employee is responsible for tasks which overlap different finance function roles, respondents were not able to identify accurately how much time was allocated to each role, and such employees were reflected in more than one role. By converting the staff numbers into percentages, a weighting of resource to the respective role is identified. This weighting, whilst not an accurate measure of actual resource allocated to the various roles, allowed a comparison of the relative weighting of resources allocated to each role.

1.8 Potential benefits

There are a number of benefits that will arise from this research. In terms of the problem statement, a construct of the finance function will be developed. This will enable the resources of the finance functions of the selected South African companies in KwaZulu-Natal to be mapped relative to a broader value adding paradigm as identified in the literature. In addition, it allows for the relative resource allocation between the various roles of the finance function to be established. Furthermore, ascertaining the degree to which the identified value adding criteria have been achieved provides an opportunity for the benchmarking of the finance function against international standards.

In addition, the changing role of finance is expected to impact on the skills required of finance professionals, and therefore on the training of accountants. Much of the research sponsored by professional accounting bodies internationally, on the role of the finance function, has been conducted to inform changes to their training programmes. The SAICA (2008) study conducted by Voogt is one such example. Identifying and benchmarking the current resource consumption of the transactional processing role, and the shift in resources from this role and toward decision support and strategy formulation will assist in informing the necessary changes in skills required by finance professionals.

Furthermore, once the degree of finance function integration into decision support and strategy formulation structures in the selected South African companies in KwaZulu-Natal has been identified, there will be an indication whether these companies are being globally competitive in this regard.

Requiring that the finance function becomes more cost effective, and that accounting processes become more efficient so that resources can be reallocated, would also affect the way the performance of the finance function of the selected South African companies in KwaZulu-Natal is measured. If the aim is not simply to become more efficient in the traditional role, but to broaden the involvement of the finance function, performance measures need to be developed that will support this aim.

1.9 Research outline

In Chapter One the motivation and rationale leading to the research problem and the underlying sub-problems are outlined. The state of the art, scope and delimitations as well as the potential benefits are expounded on.

Chapter Two provides a review of the relevant literature. The finance function is established as a potential value adding business partner. Current research regarding the criteria that will result in the finance function adding value are evaluated. Each of these factors is developed further by outlining how they have been found to play a part in re-engineering the finance function into a value adding partner. A theoretical framework for the finance function based on research undertaken in Canada by Boisvert (2001b: 1), was identified. The degree to which re-engineering exercises are bearing fruit is covered, and finally current South African research into the topic is reviewed.

In Chapter Three the research design and methods and procedures are set out. The population is identified as all South African owned and controlled companies, and the sample selection procedure is outlined and explained. A construct of the finance function, developed based on the framework of Boisvert (2001b: 1), and the outcomes of a pilot study, is introduced. The questionnaire, which includes questions that focus on the size of the finance function and the apportionment of resources between the finance function roles outlined in the construct, is reviewed. The statistical analysis that has been undertaken to support the findings is also identified.

The findings from each of the questions are charted or tabulated in Chapter Four, and are examined in terms of the salient features that were identified.

In Chapter Five the findings are analysed and interpreted and linked back to the research problem and sub-problems. In doing so, any difficulties experienced with some of the questions are also highlighted. The findings are then compared to the

literature review and the construct is developed. From this analysis some preliminary conclusions are drawn.

Chapter Six is the concluding chapter in which the problems and sub-problems are revisited. The research procedure is reviewed and the final conclusions are drawn through relating the findings to the problem statements. The benefits from the research are presented and potential for further research is recognised.

1.10 Conclusion

This chapter has recognised a perceived paradigm shift in the accounting profession internationally. This reported shift demands a move from accounting processes to decision support activities, necessitating a change in skills, and to be achieved at lower overall finance function cost. These changes in the role of the finance function have been summarised into key themes;

- that the finance function is required to transform into a value adding activity,
- that this is achievable through reducing costs and
- resources need to be transferred away from transactional processing, and toward decision support and strategic activities.

The objective has been identified as how to establish this paradigm shift in selected South African companies in KwaZulu-Natal, and how to develop a measure which can be utilised to determine the degree to which finance functions can be confirmed as value adding business units. The sub-problems explore the problem by identifying the need to develop a construct for the finance function, identifying each of the value adding criteria, and examining further specific changes in the resources and the role of the finance function

The research procedure covering the population, and the questionnaire used, has been outlined. The scope of the research covering the finance functions of selected South African companies in KwaZulu-Natal was described, and the fact that the research

was limited to South African owned or managed entities was clarified. In addition, the proposed benefits to be gained from the research have been presented.

The themes outlined and the current position in respect of these will be further developed and substantiated in the literature review which follows in Chapter Two. More specifically, the current identified trends which informed the main objective and each of the sub-objectives will be presented.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The main objective and sub-objectives as outlined in Chapter One covered the establishment of a perceived paradigm shift in the finance function of selected South African companies in KwaZulu-Natal. A rationale for the research as well as the scope and delimitations of the study were included.

The perceived paradigm shift was that the finance function should develop a more value adding role within the company. To support this, the value adding role of the finance function was examined. This involved identifying the necessity for the finance function to become value adding, as well as ascertaining the criteria that determine added value. The criteria identified included the requirement that resources allocated to the finance function be decreased, and the necessity for efficiency in accounting processing be improved. For this reason, these factors were included in the review. Since the shift also requires a greater deployment of resources to decision making activities, it was also necessary to examine the broader role of the finance function and to examine the reported trends in achieving a broader finance function. The unit of analysis of the study was established as the finance function of all companies in the population. In order to define what is meant by the finance function, a theoretical framework was established. In addition, the South African position was reviewed.

2.2 The value adding role of the finance function

The main objective identified was to establish a paradigm shift in the finance function of selected South African companies in KwaZulu-Natal, and in doing so, to

develop a measuring tool which could be used to confirm whether the finance functions are value adding entities.

The need for the finance function to become value adding was examined. Following on from this, it was necessary to establish the key criteria which, if achieved, would lead to value being added by the finance function. The factors determining added value were therefore, ascertained.

2.2.1 The need for finance to become value adding

There are many references made in accounting literature to the need for finance to begin to assume a more value adding role in business for instance (Lenihan and O'Malley, 2002: 23 and Court, 2005: 78). Lenihan and O'Malley (2002: 23) indicated that the finance function of a business must organise itself in such a way that it is, and is seen to be, a business partner which is in a position to support business units in pursuing strategic objectives and maximising value. This view recognised the need for a shift in the way that finance is organised, in order to support the value adding objectives of the firm. Lenihan and O'Malley (2002) added that in an environment where competitive advantage was often short lived, finance had a role to play in companies being able to adapt their strategies and operations to changes in the business environment.

Court (2005: 78) indicated that boards of directors and the investment community were putting the spotlight on the finance function and were looking for even greater added value. He further recognised that finance had a role to play in an increasingly competitive environment in enabling added value for organisations.

The question that arises is where and in what ways can an organisation derive added value? According to Porter's (1990) value chain model, a company's activities could be separated into primary and support activities. Regardless of their position, all activities contribute to buyer value. He further asserted that competitive advantage was achieved through either cost advantages in performing activities or differentiation, resulting from uniqueness in the way activities are performed.

Porter's (1990) model classified the finance function as part of the firm's infrastructure, and therefore sees it as a support activity. In terms of the model the finance function could therefore be a source of competitive advantage. Additionally, applying Porter's competitive advantage model, the re-engineering of the finance function in order for it to become a source of competitive advantage, would require the identification of opportunities where a cost advantage or differentiation is the source of that advantage.

In terms of a guide issued by the United States General Accounting Office (2000: 4) the role of the finance function has historically centred on oversight and control. However, this guide asserted that dramatic changes in the business environment have now caused this role to change. The guide further asserted that the changes were as a direct result of increased competition in an emerging global market. This increased competition results in pressure being put on finance functions to reduce costs, add value and increase the company's competitive advantage.

Fahy in Trapp (2002: 1) reported on a Chartered Institute of Management Accountants (CIMA) project which tracked the development of the finance function. He indicated that although the cost controls that resulted from a restructured finance function were important, just as important was the information that a properly focused finance function could provide. This, the report stated, was because it ensured that the business was alert to changes in the market and had superior insights that were likely to make all the difference in the modern business environment.

2.2.2 The factors determining added value

The research objective specifies further that if value is to be added by the finance function, three factors need to be considered: cost, accounting processes and decision support. Vollmers (1997: 64) used the term re-engineering to describe a restructuring of the finance function. Highlighting a process for accountants to follow in re-engineering the finance function, Vollmers (1997: 64) indicated that such re-engineering sought to reduce costs whilst maintaining productivity. She

further suggested that the focus should be on reducing the time spent on transaction processing activities that do not add value, and redistributing this time to areas of decision support. Here the development of the three pronged approach to the finance function adding value, which is embedded in the research objective, is indicated. This three pronged approach incorporates reducing finance costs, improving on efficiencies in accounting processing and moving resources into decision support. Boisvert (2001b: 3-9), included both the transactional activities and statutory activities roles in his definition of accounting processing activities. Furthermore, he included implementing corporate strategy, managing business risk and managing organisational performance as part of the decision support activities.

A focus on efficiencies in transactional processing, reducing costs, and allowing for the freeing up of resources for decision support is also apparent in Kennedy (1998) and Lenihan and O'Malley (2002). Kennedy (1998: 29) who reported on the redesign of the finance department at Monsanto Canada, indicated that the approach that was followed gained efficiencies from transaction processing and then deployed these resources to higher-value activities. Lenihan and O'Malley (2002: 23) asked what world-class companies did differently, and once again the answer was twofold: they reduced transaction processing costs and reorganised the finance function.

Trapp (2002: 1) indicated that finance specialists seeking to add value needed to become more "commercially minded", that is more mindful of the business objectives of the firm. He further asserted that this required placing more emphasis on decision support. This again showed that there was the need for a shift in focus for the finance function if it was to become value adding. In addition, this shift required recognition of the commercial objectives of the firm, and an increased emphasis on decision support activities.

2.3 Decreasing the extent of resources allocated to the finance function

As indicated by Vollmers (1997: 64) and Lenihan and O' Malley (2002: 23), one of the essential steps towards adding value has been identified as a focus on reducing

the resources allocated to the finance function. It is therefore necessary to determine the degree to which this focus is evident in reported change strategies. Also important, is to determine how finance cost is measured. Any focus on cost control would need to be supported by a performance measurement system that would enable these costs to be tracked over time.

2.3.1 Focus of reducing the resources allocated to the finance function

Lenihan and O'Malley (2002: 23) set out the challenge facing finance and highlighted both the need to reduce transaction processing costs, and the need to re-organise and refocus to provide value adding information or services. They further reported that reduction in transaction costs, which they defined as the tasks which, by their very nature are low value added, such as closing books and producing standard reports, should be handled in one of two ways: either by actively reducing them through shared service centres, or eliminating part of them by, for example, using lights out processing. Lights out processing is a term used to describe an approach whereby a process is reduced to its most basic steps, using available technology to execute and control the process. Marsden (2010: 44) described shared service centres as those centres where large multi-divisional organisations centralise their finance function operations, sometimes from business units around the world. These centres then operate to a common set of rules and procedures, enabling consistency and standardisation of output.

Gould and Fahy (2005a: 27) reported on key trends in cutting finance's operating costs, as identified through the CIMA Strategic Enterprise Management (SEM) initiative. These included shared service centres, improved productivity through regional consolidation, common processes and standardisation, and e-enabled processes. Lights out processing is, in Gould and Fahy's (2005a) opinion, still some way off, and importantly they also indicated that realising savings from shared services typically takes more than five years. Marsden (2010: 44) confirmed this in that he reported that although shared service centre's have proved their worth in reducing costs, it was expensive and required great effort, to set one up. The number of such centres is however growing. Marsden (2010: 44) reported on a CIMA survey

in which more than half of respondents worked in a business that utilised such shared service centres.

In a study of 22 American electric utilities companies, Gattenio (2000: 44) found that re-engineering of the finance functions had been successful in reducing costs and improving productivity. However, the study also found that there had not been a corresponding increase in time allocated to decision support activities. Gattenio's (2000) findings are evidence of a focus on cost reduction, but also an indication that re-engineering of the finance function needs to go beyond cost control.

Despite this evidence of a focus on cost control, an Accenture Management Consulting (2008) research study found that finance executives were aware that they needed to improve their finance capabilities. However, the majority of their respondents reported not understanding the finance function cost structure, and were therefore were not able to determine their annual cost of finance.

2.3.2 Measuring the cost of the finance function

When it comes to measuring and controlling the cost of the finance function, United States General Accounting Office (2000: 48), Kennedy (1998: 29), and Lenihan and O'Malley (2002: 25), all used statistics from The Hackett Group who publish benchmark statistics for measuring performance of the finance function. The *Hackett Book of Numbers* (2006) indicated that world-class companies spent 0.67 percent of revenue on the finance function, compared with the 1.22 percent of average companies. They also employed 56 percent fewer full time equivalent (FTE) employees in finance, per billion dollars of revenue. Therefore, the most commonly mentioned measures for consumption of resources by the finance function are full time equivalent employees measured against revenue and finance function cost as a percentage of revenue.

2.4 Efficiency in accounting processes

The finance function has traditionally been primarily responsible for the management of accounting processes in a company. Johnston, Brignall and Fitzgerald (2002: 1326) listed the three main activities of the finance function as day-to-day recording and periodic reporting of financial transactions, financial management and management accounting. These three activities include specifically, providing financial information for investment decisions, managing the finance mix and dividend decisions, managing working capital, recording transactions and reporting thereon, and financial control systems. This traditional understanding of the role of the finance function is summarised in Table 2.1.

In terms of improvements in these processes, Boisvert (2001b: 15) found that managers in the study believed that performance in transactional processes would be markedly superior in the future. All companies in the study were seeking to improve transactional processes. However, he ascertained that strategic deployment requires more than just improving transactional processes.

The United States General Accounting Office (2000: 4) reported that according to a 1997 study by a major public accounting firm, most company financial officers (CFOs) in 1989 were spending 75 to 80 percent of their time on fiduciary issues, essentially external reporting. By contrast, their goal today is to spend just 20 percent of their time on such issues and the balance of their time performing strategic support activities such as cost analysis or business performance analyses.

Gould and Fahy (2005a: 27) indicated that initial finance function transformations were intended to bring about efficiency through the initiatives mentioned. These included shared service centres and the standardisation of processes. However, they went on to say that if finance was to advance, it had to move beyond systems and processes and provide meaningful information for decision making to customers. In the view of Gould and Fahy (2005a) the customers of the finance function include the executive management and front-line staff and external stakeholders.

The results of these studies (Boisvert, 2001b); (United States General Accounting Office, 2000); Gould and Fahy (2005a), indicated that there was evidence that the focus of efforts to improve the value adding role of the finance function had to start with improving the efficiency and effectiveness of performing these traditional finance function support activities. Furthermore, as a result of these improvements, cost reduction would be achieved. However, the studies also indicated that the approach of improving efficiency in the traditional role and reducing costs would need to be supported by a strategy of realigning these resources to provide a more strategic service to the organisation by the finance function.

2.5 Decision support activities

2.5.1 Defining a broader role for the finance function

In understanding the term 'decision support activities' as it relates to the finance function, there is the traditional view that this encompasses the role the finance function plays in providing information for management decision making. This is referred to by Johnston et al. (2002) as the "Management Accounting" activity of the finance function. Examples of the activity would be investment analysis, budgets and management reports including variance analysis. As indicated in their report, traditionally this information has been predominantly financial in nature.

On the other hand, Boisvert (2001b: 1) identified five key activities as representing strategic deployment of the finance function. These are:

- Improving transactional processes;
- Producing information for decision making;
- Managing organisational performance;
- Creating value for shareholders;
- Managing risk and business opportunities.

In Boisvert's (2001b) definition of these key activities, accounting processes, as they are outlined in 2.4, are encompassed in just the first, 'improving transactional

processes'. The paradigm shift from the traditional deployment of the finance function as reflected in Johnston et al (2002), to the value added concept of Boisvert (2001b: 3) is illustrated in Table 2.1.

Table 2.1 Deployment of the finance function

Traditional deployment of the finance function . Johnston et al. (2002)	**Strategic deployment of the finance function** (Boisvert)(2001b: 3)
• Providing financial information for investment decisions • Managing capital structure • Managing working capital • Recording transactions and reporting thereon • Financial control systems	• Improving transactional processes • Producing information for decision making • Managing organisational performance • Creating value for shareholders • Managing risk and business opportunities.

This suggests that Boisvert (2001b: 16-32) held a broader view, which implied that decision support activities for the finance function should encompass direct involvement in strategic and operational decision-making throughout the firm. This is evidenced by examples of decision support activities presented by Boisvert (2001b) which range from analysing customers and markets, to providing after sales service, measuring performance and developing corporate strategy.

Analysis of the broader finance function role

Further support for the broader role of finance comes from an executive guide issued by the United States General Accounting Office (2000: 7) that indicated that a world-class finance function would be characterised by producing a number of outcomes. These outcomes included improved business analyses, innovative solutions to business problems, reduced operating costs, increased ability for ad-hoc business analysis and improved overall business performance.

Lenihan and O'Malley (2002: 23-25), when dealing with what they referred to as the second aspect of achieving a world-class finance function, that is re-organisation of the finance function, they cited a number of key aspects that encompass the new role of the finance function. These included understanding the business and its value

drivers, communication and facilitation skills and a strong credibility with business managers. In addition, the finance function must produce information to measure strategic intent, operations, responsibilities, actions and rewards and risk management. In the opinion of Lenihan and O'Malley (2002) value-added services would include understanding and monitoring physical, financial, organisational, customer and employee/supplier assets. A further element would be monitoring the business risk of the finance function as well as that of its partners. Lenihan and O'Malley (2002) also stressed that key to a world class finance function is supporting the definition of strategy. They further proposed that the process of defining strategy should include the linkage of strategy to operations and monitoring, valuing, and reporting on new opportunities. Existing networks and business processes should also be questioned, the competitor landscape analysed, and workable scenarios produced. These activities again reflect a broader and more strategic involvement of the finance function in the business than that suggested by Johnston et al (2002), and reflect certain similarities with the roles outlined by Boisvert (2001).

Court (2005: 78) expressed the view that initiatives such as outsourcing, could result in significant benefits such as process improvements, faster transaction time and cost savings to the finance function. However, these initiatives often left behind a much leaner finance function, which in turn meant that the finance director and the team that remained had to find new roles for themselves. Court (2005) indicated that the new finance director had to think more like a managing director, and less like a process manager. Their contribution should improve the quality of business decision-making. Furthermore their new role should include being involved in the identification and pursuit of new opportunities, shaping company culture, and in building the company's reputation. He also indicated that the finance director and finance team needed to be visible at all levels, and act as the conscience of the business on procedures and leadership. They should be contributing to business performance and producing business performance information.

In summary Boisvert's (2001b) broader role for the staff of the finance function included improving transactional processes, producing information for decision

making, managing organisational performance, creating value for shareholders and managing risk and business opportunities. As indicated, these five roles are also evidenced to a greater or lesser degree in the views of the United States General Accounting Office (2000), Lenihan and O'Malley (2002) and Court (2005). The similarities are summarized in Table 2.2.

Integration of the finance function

Also evident in the new role of the finance function is the increased integration of finance function staff throughout organisations. Brannen and Cummings (2005: 8) supported a broader involvement of finance personnel in their report which indicated that companies with high performing finance functions make those functions the driver of a value centred culture throughout the organisation. They also stated that these companies integrated finance professionals throughout the company, where they could be called upon to use their expertise to assist in generating more value for the company.

Correia, Langfield-Smith, Thorne and Hilton (2008: 10) indicated that finance function staff were increasingly being located within operating divisions to allow for a close working relationship with operations managers.

2.5.2 Trends in achieving a broader finance function

Court (2005) is of the view that while many organisations are already working to make these changes a reality, there are others that are struggling to make the transition. He also suggested that a change management process was required which should begin with an assessment of the current situation, and required that a set of expectations be developed to show how the finance function could be expected to contribute to business performance in the future.

Table 2.2: Comparative definitions of the Strategic deployment of the finance function.

Strategic deployment of the finance function (Boisvert)(2001b:3)	**World-class finance function** (Gates) (US GAO Guide) (2000)	**Key aspects that encompass the new role of the finance function.** (Lenihan and O'Malley) (2002)	**New role of finance** (Court) (2005)
• Improving transactional processes.	• Reduced operating costs.	•	• Process improvements resulting in faster transaction time and reduced costs.
• Producing information for decision making.	• Improved business analyses. • Increased capability to perform ad-hoc analysis.	• Producing information to measure strategic intent, operations, responsibilities actions, and rewards and risk management.	• Producing business performance information.
• Managing organisational performance.	• Improved overall business performance.	• Understanding the business and its value drivers, communication and facilitation skills, and a strong credibility with business managers • Understanding and monitoring physical, financial, organisational, customer and employee and supplier assets.	• Contribute to business performance.
• Creating value for shareholders.	• Innovative solutions to business problems.	• Supporting the definition of strategy. • Analysing the competitor landscape and coming up with workable scenarios.	• Play a role in shaping company culture, and engage in building the company's reputation.
• Managing risk and business opportunities.	•	• Monitoring the finance function's own business risk and also that of its partners. • Monitoring, valuing, and reporting on new opportunities, questioning existing partner networks and business processes.	• Ensuring opportunities for change are identified and pursued. • Are visible at all levels. • Act as the conscience of the business on procedures and leadership.

On the other hand Van Arnum (2004: 19) reported on a survey conducted to identify the attributes of a world-class finance function, and how companies rated the performance of their own finance functions. Her survey found that finance departments' actual performance was not meeting the level of their executives' expectations. More than one quarter of respondents indicated that they did not have performance metrics for their finance functions, and more than half said that a lack of metrics to measure improved performance was or had been a primary barrier to improving the performance of the finance function.

Van Arnum (2004: 19) further reported on the possible reasons why finance functions may not be performing as required. In order of importance, the barriers to improvement were found to be as follows:

i. A resistance to change.
ii. A lack of clearly defined metrics for directing improvements in the finance function.
iii. A lack of understanding of roles that would define a world-class finance function.
iv. Vested interests and the protection of jobs and budgets.
v. A lack of understanding of what specific actions could be undertaken to improve the role of the finance function in the business.

Gould and Fahy (2005b: 19) found that successful organisations have implemented the transactional efficiencies outlined above, including the move to shared service centres, and they had established expert centres for tax, treasury and internal audit. They showed that organisations have struggled however, with the move to a more business partnering role. Gould and Fahy (2005b: 19) asserted that the reason for this could be ascribed partly to increasing regulatory and compliance requirements. Further obstacles included a lack of integration in IT systems, an inability to change the corporate culture, the fact that transactional processing still dominated the resources, and unsophisticated processes. In order to overcome this they suggested three strategies that are essential for achieving the partnering role. These are finding and retaining the right finance skills, developing strong teamwork abilities and,

where necessary, developing tools that would enable the finance function to make a contribution in a broader spectrum of business decisions, including in marketing and research and development.

A further research study undertaken by Accenture Management Consulting (2008) indicated that few finance executives believed that their finance function was performing optimally. In addition they believed that they lacked a number of key elements required to improve performance, including the data, tools, organisational structure and skills necessary.

This is borne out by Davis and McLaughlin (2009: 35-40) who carried out a survey of the level of business partnering of the finance units of Fortune 1000 firms. They examined the function's involvement in high level business decisions as well as which sub functions of finance offered the best opportunities for business partnering. Also examined was the degree of involvement of the sub functions of finance with other business functions, including sales and marketing, manufacturing, information systems and human resources. In summary the study found that the level of partnering was not optimal. Few of the firms were found to have clear plans to promote business partnering, which took into account the opportunities for partnering of the different sub functions of the finance function. The main impediment to partnering in the Davis and McLaughlin (2009) study was found to be a lack of awareness among financial managers of opportunities for partnering and the methods they could use for successful partnering with other business functions.

One company that has reportedly implemented a successful change programme in their finance function is Unilever. Tarasovich and Lyons (2009: 26-29) report on the redesign of the finance function at Unilever which began in 2005 and was intended to transform the finance team into what was termed "partners in value creation". The finance function at Unilever had until then, been decentralised, with the result that they had never worked under a consistent edict. The following five step transformation process was followed:

i. Defining the finance function of the future in terms of both culture and systems and processes.
ii. Developing finance strategies which aligned with the company's overall strategy.
iii. The development of a global centre of excellence for the finance function, the aim of which was, *inter alia*, to facilitate sharing of best practice and provide opportunities for learning.
iv. The development of innovative business partners, by identifying the competencies required of finance that would enable them to deliver the company's overall strategy. This included providing skills that enabled finance to partner with internal and external customers, and providing a Balanced Scorecard approach to measurement of performance.
v. Re-organising the finance function into three main areas. These areas were firstly finance business partners who were integrated into planning, sales, supply chain management and brand management. The second area was shared services, which included transactions and information management, and finally expertise services, which included activities such as tax and treasury.

Tarasovich and Lyon (2009) credited this transformation process with the finance team playing a key role in the success of the businesses brands over the four years to 2009.

It becomes increasingly apparent that even though the need for the finance function to assume a broader and more strategic role has been shown in numerous studies over the past ten years (Van Arnum, 2004: 19; Gould and Fahy, 2005b: 19; Accenture, 2008 and Davis and McLaughlin, 2009), it remains an elusive goal for many organisations. However, where this broader strategic role has been achieved, as in the case of Unilever, the finance function has been able to make a significant contribution towards achieving the strategic aims of the business.

2.6 Theoretical framework

In his Canadian study, Boisvert (2001b: 3-9) outlined the key roles of the finance function included under accounting processes and decision support activities. (Table 2.3)

Table 2.3: Key roles of the finance function.

Accounting processes	**Decision support activities**
• Transactional activities • Statutory activities	• Implementing corporate strategy • Managing business risk • Managing organizational performance

Source: Boisvert (2001b: 3-9)

To confirm our understanding of the roles of the finance function they can be compared with the description of Johnston et al. (2002: 1326) who provided the following as main activities of the finance function: day-to-day recording and periodic reporting to outsiders, financial management including finance mix and dividend decisions, and management accounting. Although apparently narrower than Boisvert's (2001) definition, the two can be aligned. (Table 2.4)

Table 2.4: Comparative definitions - Key roles of the finance function.

Boisvert (2001b: 3-9)	**Johnston, Brignall and Fitzgerald.** (2002:1326)	**Gattenio** (2000: 40-47)
Accounting processes • Transactional activities • Statutory activities	**Accounting processes** • Day-to-day recording • Periodic reporting	**Transactional processes**
Decision support activities • Implementing corporate strategy • Managing business risk • Managing organisational performance.	**Decision support activities** • Financial management • Management Accounting	**Decision support activities** **Control and risk management**

On the other hand, Gattenio (2000: 40-47), separates finance activities into transaction processing, control and risk management activities, and decision support activities. Again, there is a clear link with the roles outlined by Boisvert (2001b),

whose definition differs only in that it includes risk management with decision support activities. This is shown in Table 2.4.

Boisvert's (2001b) list of five key roles of finance (Table 2.3) was considered an appropriate theoretical framework for the finance function. However, in this study, explorative research by means of a pilot study was undertaken to determine what each of the five key roles encompasses from a South African perspective.

2.7 The South African position

Very little has been written about the changing role of finance from a South African perspective. Louw (2005: 10) wrote an anecdotal story titled 'The finance function of the future', published in *Accountancy SA*. In this story he presented a fictional case study of a company whose finance function had transformed itself from a traditional transaction-focused function into what he referred to as a high value-added finance function. The changes described, though fictional, are reported by Louw (2005) as being based on a finance function effectiveness performance metric developed by Price Waterhouse Coopers. Price Waterhouse Coopers (2008: 1-4) described the metric as providing a high level view of finance function effectiveness, and it is used by them to assist companies in evaluating the performance of the finance function. Furthermore, the change initiatives described by Louw (2005) closely tracked the changes seen as necessary, based on the international literature discussed above.

In Louw's (2005: 10) fictional company, the necessity to understand and measure the cost of finance was targeted initially. This was reported as a time consuming exercise which is possibly the reason why many companies do not track the cost of their finance functions. Looking into the future he reported this cost as having decreased relative to revenues, thus reflecting the necessity to manage the cost downward.

The next issue he raised was the fact that initially 73 percent of finance function time was spent on transactional processing. A number of issues were discussed that had caused this, including stand alone information technology systems in all locations

leading to significant amounts of time being spent on processing and reprocessing. He hinted at what needed to change in order for the finance function to become more efficient in the transactional processing role. He then proposed a number of interventions which would lead to a reduction in time on transactional activities.

Finally Louw (2005: 10) reported on how the time which was made available by the interventions, was utilised. In some cases it was allocated to improving the information to support decisions, and setting up systems so that increased compliance and regulatory requirements could become value added services as opposed to costs to the business. In addition, he saw finance becoming a source of information for the marketing department. It could also contribute strategically, by allowing better management of relationships with external stakeholders. Through this fictional case study he therefore recognised the need for finance to be transformed into a value-added function, and he confirmed the three pronged approach, namely cost reduction, improvement in transactional processing efficiencies, and a shift toward a more decision focused role.

A more recent initiative in South African resulted in SAICA's (2008) report detailing the results of research carried out into the changing role of the South African CFO. This research focused on six key areas, all relating to the changing role of the CFO. These areas included what CFOs were currently spending their time on, and what they foresaw they would be spending time on in the future. The research also examined what skills they required at the time and what skills they saw as being important in the future. The final two areas were the tools and strategies currently used, and those expected to be important in the future. A model of the key focus areas for a CFO was developed to be used in the SAICA (2008) study. In essence this model outlined the key roles of the CFO: compliance and transactional officer, planner and strategist, corporate governance manager, and a growth and innovation catalyst. The study results indicated that when ranked in order of importance both now and in the future, the role of planner and strategist was ranked first for both now and in the future, with compliance and transaction officer being ranked second now, but growth and innovation catalyst being ranked as second in the future. The fact that

planner and strategist was ranked first, and that there was a shift toward a growth and innovation role in the future, suggested a recognition that finance needed to become more of a business partner.

2.8 Conclusion

In this chapter the changing role of the finance function has been established. This included the findings of a research study in Canada by Boisvert (2001b), which analysed the strategic deployment of the finance function and, the research of Lenihan and O'Malley (2002) on the challenges facing the finance function. The literature has revealed that the finance function is transforming into a value-adding business partner. The approach to achieving this shift was reviewed by examining the part played in achieving the transformation by cost reduction, improved transactional efficiencies and a broader more strategic role for finance. A theoretical construct of the finance function was established. The aim was to establish the degree to which similar changes are evident in the finance functions of selected South African companies in KwaZulu-Natal in order to ascertain whether these functions are value adding.

In the next chapter the research process and design is presented. The population is established, and the sample selection procedure detailed. Problems that were experienced with initial data collection attempts are set out. A construct of the finance function is developed and presented based on relevant literature and further expanded by means of a pilot study. The pilot study's purpose, process and results are explained. The purpose of each of the questions posed in the questionnaire is examined and analysed in terms of the expected results. The data analysis that was carried out is also outlined.

CHAPTER 3

METHODS AND PROCEDURES

3.1 Introduction

The literature indicates that there has been a trend in how the finance function is improving efficiencies in its traditional transactional role. This improvement is then seen to facilitate a shift in available resources to decision support activities. Furthermore, there is a reduction in resources consumed by the finance function. It is suggested that the finance function can add value to the organisation through these changes (Vollmers, 1997: 64; Kennedy, 1998: 29). The intention was to determine whether similar shifts in the finance function could be identified within selected South African companies in KwaZulu-Natal. A theoretical framework for the finance function, based on the work of Canadian researcher Boisvert (2001b) was identified.

The research paradigm is analysed in this chapter. The research design covering the population, including the initial distribution of the main questionnaire is described. In addition the sample selection procedure, the scope and characteristics of respondents and the delimitations are outlined. Purposive sampling was used and the sample was made up of eleven respondents. The established theoretical framework was further developed by means of a pilot study. The results of the pilot study were examined, and the final construct to be used to define the finance function was specified. Furthermore the pilot study was used to test the validity and reliability of the research instrument. This is followed by an exposition of the questionnaire, which included the data collection procedure, in other words, the distribution of a questionnaire and the follow up interview. Also covered are the development of the questionnaire, and the linking of the questions to the objectives. The questions are then presented and examined in detail, outlining their intended purpose and the expected results. All this is supported with details of the data analysis procedures that were carried out.

3.2 Analysis of research design

The approach followed can be described as falling between the constructivist and the postpositivist paradigms. In can be described as constructivist in the respect that it did not start out with a theory against which the finance functions would be measured, but developed a theory through the literature survey and through the pilot study interviews. Mackenzie and Knipe (2006: 3) defined this as the constructivist paradigm. In so doing, a construct of the finance function was developed and the determinants of a value adding finance function were identified. However in examining the ontology, epistemology, axiology and methodology of the approach, it is clear that the study contained elements of both the postpositivist and the constructivist paradigms.

Ontology

In terms of ontology, the approach which was followed did arrive at core ideas, which implied one true approximate reality in respect of the role and functioning of the finance function. This can be said in that the construct of the finance function that was developed, was used to define the main roles and activities of the finance function. As such the approach can be characterized as postpositivist (Ponterotto, 2005: 133).

Epistemology

In the pilot study, interviews were conducted to confirm and expand the construct of the finance function. These interviews were relatively short (30 – 60 minutes), structured and administered consistently to all participants. As such, the intense interaction between researcher and the participant as envisioned by the epistemology underpinning the constructivist approach (Ponterotto, 2005: 133) did not arise. The epistemology would therefore be classified as falling between postpositivism and constructivism.

Axiology

The expectations as to the paradigm shift in the role and functioning of the finance function, based on trends identified in the literature, were identified and outlined in

the introduction. This in terms of axiology would lean toward the constructivist paradigm (Ponterotto, 2005: 133).

Methodology

Face-to-face interviews were conducted, which allowed for probing and clarification on the part of the researcher, including some explanation of themes uncovered in the literature. However, this protocol did not change from one interview to the next, which would be expected in a strict application of the constructivist approach (Ponterotto, 2005:133). In this respect, once again the approach would be classified as falling between the constructivist and postpositivist paradigms.

Qualitative vs. quantitative

The data collection method combined interviews and a structured questionnaire, so that the final data base consists of both quantitative and qualitative data. This can be described as a mixed-methods approach. According to Mackenzie and Knipe (2006, 5) the postpositivist paradigm tends to use predominantly quantitative approaches to data collection, whereas the constructivist paradigm uses predominantly the qualitative approach. As the study combined elements of both the constructivist and the postpositivist paradigm, it was appropriate that the mixed methods approach be applied. Mackenzie and Knipe (2006) stress that neither paradigm is restricted to using exclusively one approach or the other. On the contrary, they indicate that much research is now combining the two in what they describe as the mixed-methods approach.

Nature of qualitative and quantitative analysis

The qualitative approach followed can be described as consensual qualitative research as defined by Ponterotto (2005, 133). Consensual qualitative research combines the ontology, epistemology and axiology described above, and characterises this study. In addition, Ponterotto (2005) describes consensual qualitative research as research which leads to the verification and explanation of literature based themes as well as some degree of discovery. This accurately describes the process followed in arriving at the construct of the finance function and

determining the criteria that establish a finance function as value adding. Data collected in interviews was coded and analysed on a thematic basis.

In testing the finance functions of the respondents against the core theory established in terms of the role and functioning of the finance function, the research was non-experimental. That is it dealt with relationships between variables with no planned intervention by the researcher (Welman and Kruger, 2001: 84). To this end, a field study survey was deemed more appropriate than experiments or laboratory studies. Statistical analysis was ustilised in the analysis of this quantitative data

3.3 Research design

3.3.1 Population classification

Originally it was decided that the population should be made up of all South African companies listed on the main board of the Johannesburg securities exchange (JSE), and with majority South African shareholders. Using *Profile's Stock Exchange Handbook* (2005) as a source, the population size would have been 291 companies. A questionnaire was distributed to the chief financial officers of each of these companies. A negligible response was received, and the information obtained was in most instances incomplete and therefore not usable. A small number of respondents did indicate an unwillingness to supply the information, or to supply all the information, owing to its propriety nature. However, in most cases, no response was received at all. Should sufficient acceptable data have been obtained, the advantage of this approach would have been that the results could have been generalised to the entire population.

3.3.2 Population

The study focus was therefore changed to a population that included registered companies in KwaZulu-Natal. It was not possible to accurately ascertain the number of registered companies in KwaZulu-Natal. Repeated requests for this data from the Companies and Intellectual Properties Registration Office (CIPRO) produced results that could not be relied on.

Furthermore, the population was limited to companies that have a finance function staff of more than 3 persons that were South African owned or managed, and were prepared to make themselves available for the study. The study required that companies give an indication of how time is allocated between different finance function roles. It was in order to make this allocation more feasible, that size was determined by number of finance function personnel. It would not be possible to enumerate the subset of the population that includes companies that are registered in KwaZulu-Natal, are South African owned and have a finance function staff of three or more persons.

3.3.3 Sample selection

The problems experienced with the initial attempt to collect data from the wider population made it necessary to focus attention on companies that were prepared to make themselves available for the study, and to provide the necessary information. Owing to this a non-probability approach using purposive or judgmental sampling was selected. Creswell (1994: 120) describes this technique as one where potential respondents are chosen on the basis of their convenience and availability. Babbie (2010: 193) describes the approach as one where the sample is selected on the basis of knowledge of the population and the purpose of the study. Furthermore Babbie (2010) indicates that this approach is justified where the study is concentrated on a subset of a population, and many members of the subset are easily identifiable, but enumeration of all of them would be nearly impossible.

Potential respondents were identified through contacts and networking. Those identified that met the requirements of the study, that is that companies which were South African owned or managed and had a finance function staff of three or more persons, were then approached to participate in the study. This characterises typical case sampling as outlined by Henry (1990: 21), a purposive sampling design where researchers select a few cases that are felt to be usual. Twelve companies were approached, and eleven responses were received. These eleven constituted the sample, and the results received are reported and analysed in Chapters 5 and 6

respectively. The disadvantage of this approach is that the sample size is limited, and the results cannot be generalised over the entire population.

3.3.4 Scope

Only companies with operations based in KwaZulu-Natal that are South African owned or managed were considered for selection. Therefore, only companies registered in KwaZulu-Natal in which the majority of shares are held by South Africans or those which have autonomous South African operations have been included in the research. This is because the aim was to identify whether South African companies were implementing finance function strategies that are evident in international trends. The policies of companies operating in South Africa but not majority South African owned, could have been influenced by the international parent company and if they had been included, the results of the study would not have been indicative of a South African trend. Where a company could be identified as having autonomous South African operations however, this risk was nullified.

Initially the intention was to examine only listed companies, to give the critical mass to ensure clear delineation of finance personnel between the different finance roles. The thinking was that this delineation might be a little more difficult for smaller finance functions. However, as there was very limited response to the attempt to collect data from such companies, it was decided to broaden the population to include both listed and private companies. The measurement that was developed applies equally to listed and private companies, and it was felt that applying it to both would not impact on the results of the study.

3.3.5 Delimitations

There was some overlap in personnel among the various roles which respondents could not accurately separate out, so percentages and not the absolute number of employees involved in each of the identified five finance function roles were used. The result of this is that the percentage of resource allocated to each of the five roles is an indication of the weighting of resource to each of the roles, and is not an accurate reflection of the actual resources allocated to the role.

3.3.6 Sample size

The sample consists of eleven respondents who were examined on a case study basis. A case study approach where the experiences of a single organisation or small range of organisations are reported appeared to be more feasible for studies where input is required from senior finance personnel. Voigt in "The South African CFO of the future", conducted a survey on behalf of SAICA (2008: 3) and distributed questionnaires to 40 CFOs of the largest companies on the JSE, based on market capitalisation as at November 2007. She received only 18 responses. Boisvert (2001b: 1), in his study on the strategic deployment of the finance function, involved only 14 Canadian companies, and noted that because of the limited number of participants, the results of the study could not be generalised to Canadian companies as a whole.

These examples reflect the difficulty experienced in obtaining information from senior finance personnel in the wider population. This difficulty is further borne out by the significant number of case study examples found in the literature for example Kennedy's (1998) Monsanto study in Canada and Gattenio's (2000) study of electric utilities in America.

3.3.7 Characteristics of the respondents

The eleven respondents included one local government organisation, two public sector companies and eight private companies. Only one of these companies had participated in the pilot study. Of the other two respondents who had provided feedback during the pilot study, one had been acquired by an international group and was no longer majority South African owned. The other had devoted significant time to the pilot study and was not available to participate in the final study.

The eleven respondents varied widely in terms of size when measured by the number of finance function employees. The smallest had three employees and the largest 777 (Table 3.1). As only two respondents were public companies, the relative size on a turnover or asset basis could not be established for all respondents. This information was not in the public domain for private companies, and respondents were not

prepared to make the information available. The respondent with 777 employees was a local government organisation, with the largest finance function in the study. The second largest with 205 employees was the largest of the public companies and reported revenue of R6.8 billion in 2009.

Therefore it is apparent that it is the scale of these organisations that is the reason for their having significantly larger finance functions than the others. Most of the organisations surveyed did have operations spread over more than one centre. Although these operations were largely confined to South Africa, some did have international ventures.

Table 3.1: Finance function size

Respondent number	Number of finance function employees (August 2009)
1	205
2	11
3	7
4	15
5	15
6	35
7	32
8	3
9	777
10	23
11	20

Source: Compiled from research findings

3.4 Pilot study

3.4.1 Role of the pilot study

The principal roles of the pilot study were as follows:

Further development of the construct of the finance function

To expand on the theoretical framework of the finance function, and develop a construct of the finance function to be used in the measuring instrument for the main study. The literature did not produce a comprehensive definition of what the finance function encompasses. However, Boisvert's (2001b:1) findings in this regard (Table 3.1) were considered an appropriate framework on which to base a construct of the finance function. The pilot study was used to further develop this framework by linking the current activities of the finance functions of the companies in the pilot study, with the respective roles identified in the framework.

Development of questions testing motivation for and benefits gained from change initiatives

To test the questions proposed in the draft measuring instrument which were intended to enable the assessment of the motivation for changes in the finance function, the assessment of what advantage is gained, and whether any advantage gained is in line with expectations. Opinion was sought on the following:

- When re-engineering the finance function what is the motivation?
- How is the success of the re-engineering exercise measured?
- How is finance function performance measured, and what benchmarks are used?

Additional benefits to be gained from the pilot study

In addition to the main purpose, the pilot study was also used to test the validity and reliability of the measuring instrument. This included soliciting an opinion on whether it could be answered without the intervention of the researcher. This was deemed necessary to be able to judge whether the questions were understandable to the interviewee, and whether in their opinion the information required to answer the questions was readily available. Furthermore, the pilot study was used to test whether the range of questions would be wide enough to address the questions raised in the objective and sub-objectives.

3.4.2 Pilot study procedure

The approach followed for the pilot study was to interview the study participants. The interview was structured in the following way:

- The background to and aims of the study were outlined.
- The aims of the pilot study were outlined, and linked to the main study.
- The pilot study questionnaire (Appendix C) was presented, and answers and comments recorded.
- Opinion was sought about how best to obtain information regarding the motivation behind changes that companies may make to the finance function, and on the proposed questions in this regard, which had been included in the pilot study questionnaire.
- The draft main questionnaire was presented, with participants being asked to complete the questionnaire, and to comment on any problems experienced in completing it.

3.4.3 Pilot study sample selection

As the study was being conducted from Durban it was decided to limit the participants in the pilot study to those listed companies that had their head offices in Durban. Using the 2005 edition of *Profiles Stock Exchange Handbook* (2005), five companies were identified which met this criterion. All five were contacted, with the objective of meeting with them.

Contact was made with the secretary of the financial director. This was followed with a letter of introduction emailed via the secretary to the financial director, requesting a meeting. The initial emailing elicited one negative response and one positive and no responses from the other three. These non responses were followed up with further telephone calls. This resulted in interviews with three of the five companies originally identified.

3.4.4 Pilot study enquiries

Interviews

Limited information was obtained during the interviews. This was because the persons interviewed required further time to collect the information required, and to comment on the main questionnaire in its draft form.

Feedback in respect of the motivation for the re-engineering of the finance function, and general comments on its role and structure were invited. It was found that none of the companies had an objective performance measurement system in place for the finance function, although one expressed interest in pursuing a benchmark exercise for the finance function. Conversely, another expressed some concern about the wisdom of focusing on cost cutting in the finance function, foreseeing possible risk implications. The responses about the role and structure of the finance function differed between the companies. One indicated separate and diverse finance functions for subsidiaries. Another, although having separate finance functions for subsidiaries, reflected more consistency in reporting and more input from head office. Some evidence of a more broad based finance function was reflected in only one of the companies. (Table 3.2)

The interviewees undertook to complete both the pilot study questionnaire and draft questionnaire following the interview, however not all did. There was a full report back from Company One, including a completed draft questionnaire and completed pilot study questionnaire which contained a detailed outline of the activities carried out by the finance function. Information regarding the activities and roles of the finance function was obtained from Company Two. No further information was forthcoming from Company Three.

Table 3.2: Feedback from the pilot study

Feedback in respect of:	Company 1	Company 2	Company 3
The motivation for changes in the role of the finance function, and how performance of the finance function is measured:	• Cost of finance as a percentage of sales was not measured. • No objective formal measurement of the finance function. • Concern expressed about the wisdom of focusing on cost cutting with possible risk implications. • Perception existed that efforts to improve on transaction processing were necessary to free up time for increasing statutory and legislative demands being placed on the finance function.	• It was not possible to gauge easily what this was, or how the success of the changes was measured. • Detailed benchmark information for the production side of the business is produced, and interest was expressed in pursuing a benchmarking exercise for the finance function.	• There does not appear to be any formal objective performance measurement system in place at this time. • Again no attempt is made to measure cost of the finance function. Some input into motivation for changes in the finance function, and how success of these changes would be measured was promised with further feedback.

General comments on the role and structure of the finance function.	• Each subsidiary runs a separate finance function with finance managers.
	• There is, however, consistency in structure and reporting requirements.
	• Head office input:
	  • Consolidations are at head office.
	  • Certain other functions are handled centrally.
	  • Head office plays an advisory role to subsidiary finance functions, especially as regards changes in legislation etc.
		• There is evidence of a more broad based finance function.
		• Finance personnel now being incorporated into a new projects department.
		• Finance personnel employed in the marketing department.
		• Organograms of the finance functions of all the main types of operation will be required in order to get a picture of the full range of finance function involvement.
			• The group is quite diverse, and operates separate finance functions for the different types of operations.
			• Accordingly, it was decided that an organogram of the finance function for each type of operation, as well as that of the corporate (head office) finance function would be provided.
			• Each of the company's separate operations is currently operating a different accounting system as well, which provides some problems for them in attempts to streamline their finance operations.

Source: Compiled from pilot study feedback

Pilot study questionnaire

Based on the feedback from Companies One and Two, the theoretical framework (Table 2.3) for the finance function, was further expanded. The five roles of finance included in the framework were transactional activities, statutory activities, implementing corporate strategy, managing business risk, and managing organisational performance. These had been included in the draft measuring instrument, and pilot study questionnaire. The companies returned information indicating what was understood by each of these roles in the context of their organisation, by listing various finance function activities under each role. This information was developed into the construct of the finance function to be used in the main questionnaire.

Feedback on main questionnaire

In addition, from an analysis of the information provided by company one, questions were confirmed that would test the motivation for changes in the finance function, and assess results achieved from such changes. Company One accepted the main questionnaire in its draft form. However, they indicated that in some of the questions estimates were likely to be provided, as companies did not regularly keep the required information. No information regarding the main questionnaire in its draft form was received from Companies Two and Three.

3.5 Construct of the finance function

A construct of the finance function was developed to provide a consistent definition of the finance function for the study. As indicated in previous sections, this was based on the five key roles, which Boisvert (2001b) identified as representing strategic deployment of the finance function. This description was expanded on in the pilot study, by ascertaining what the pilot study respondents understood by each of the five roles. Based on the responses received, the construct of the finance function, Table 3.3, was developed, and was used in compiling the final questionnaire used in the study.

Although the finance functions of companies may be differently organised, the intention was to provide a consistent frame of reference through the construct. Companies were therefore asked to use this construct, which was incorporated into the main questionnaire, as a guide in assessing their allocation of resources to the five finance roles and in determining an appropriate response to questions.

Table 3.3: Construct of the finance function

Developing and implementing corporate strategy:	**Managing business risk:**	**Managing organisational performance:**	**Transactional activities:**	**Statutory activities:**
Budget preparation	Internal audit	Management reporting	General journals and trial balance preparation.	Consolidations
Analysis of returns	Risk reviews	Ratio analysis	Accounts payable	Quarterly and annual reports
Scenario planning	Risk reporting	Cash flow projections and management	Accounts receivable	International Financial Reporting Standards
Identifying opportunities	Workshops	Human resources	Reconciliations	Companies Act
	Insurance	Information systems development	Asset management	Tax
	Treasury		Inventory and purchasing management	
			Payroll	

Source: Compiled from pilot study feedback

3.6 Questionnaire

The main questionnaire was designed and distributed to the selected sample. A follow up interview was conducted to ensure that questionnaires were completed fully, to clarify responses where necessary, and to improve on the response rate. At this point it could then be ensured that the questionnaire had been completed by the CFO or someone with equivalent knowledge of the finance function structure at the organisation. The questionnaire aimed to measure, and provide some explanation for, changes in the

resource allocation to and within the finance function. This was achieved by examining changes over the past five years, and changes expected to occur over the next five years.

Development of the questionnaire

The draft questionnaire was initially introduced to the pilot study participants. The only possible problem indicated by them with this first draft of the questionnaire, was that some of the numerical data was not readily available in the company, and therefore companies could only provide estimates. When the questionnaire was initially administered to the JSE listed companies it was not adjusted to account for this. However, from the small number of replies that were received, it was clear that some questions were not understood and some information provided was based on estimates rather than fact. As a result of this a revised questionnaire was prepared for the final study (Appendix A), and a qualitative approach was adopted as opposed to the quantitative approach first attempted. In this instance, questions were adjusted to enable the researcher to get the respondents' views on the changes in the finance function that had occurred, and that were expected to occur, as opposed to reflecting changes in actual numbers of finance personnel employed over the period under review.

Establishing changes in the extent of resources allocated to the finance function

Boisvert (2001b: 6) used finance function cost as a percentage of sales to benchmark the cost of the finance function and thereby measure the overall size of the finance function. This appears to be a generally accepted measure, and has been considered as one measure of the extent of resources allocated to the finance functions (Q10 and Q11). Gattenio, (2000: 2) uses full-time equivalent employees per billion dollars of revenue as a measure of the size of the finance function. Therefore, as a second measure of extent of resources, changes in the total number of employees over a five-year period were established (Q4.1 and Q4.2).

Establishing the current status of the accounting processing roles, and shifts in the apportionment of resources

To assess how the finance function resource was apportioned, the number of employees allocated to each role was requested (Q3), as well as perceived past and future changes in this allocation (Q5.1 and Q5.2).

Supporting measures – key value adding criteria

A reduction in the extent of resources employed in the accounting processing role, and an identified shift in resources from accounting processing to decision support and strategy formulation was being sought. These are the key criteria that have been identified as necessary for finance to transform itself into a value added function. Boisvert (2001b: 1, 4) measured these changes by assessing the perceptions of management, and this approach was followed in the questionnaire for this study.

Therefore, in addition to the questions relating to the extent of finance function resources and the apportionment of these resources, questions were included that would provide supporting evidence of any emphasis on reducing the extent of resources allocated to the finance function. Questions that would evidence efforts to improve efficiencies in accounting processing, and those that would indicate and increasing emphasis on the decision support roles would also be included.

These supporting measures included examining the motivation for changes in the finance function and the benefits that have arisen as a result of these changes (Q14 and Q15). This was to ascertain whether the changes had been motivated by, and/or have had any impact on either the extent of resources or the apportionment of resources between the accounting processing role and decision support role of the finance function. Also included was a question relating to the outsourcing of the finance function roles (Q7) and the skills that would be required of finance personnel in the future (Q12).

.

A detailed analysis follows of all the questions in the main questionnaire, and their link to the identified paradigm shift in terms of extent of resources, and the accounting processing and decision support activities of the finance function.

3.6.1 Nature of business (Q1)

Question 1 indentified the nature of the business, listing the options identified in Table 3.4. The purpose was to establish the spread of types of respondents involved in the study, and to identify whether there was any variation in the replies to further questions that could be identified as being industry specific. It was expected that responses would not be industry specific, because the general paradigm shift in the finance function identified in the literature (Boisvert, 2001b; SAICA, 2008) has not been perceived as being peculiar to particular industry types. This can be ascribed to the generic nature of the finance function across organisations, where the role of the finance function in organisations can be considered common across all industry sectors.

3.6.2 Organogram (Q2)

The second question was aimed at determining the current staff complement of the finance function. Question 2 required that an organogram of the finance function be provided, if one was available. During the pilot study it became clear that in some cases the study participants would prefer to provide an organogram of the finance function, if they had one, as opposed to answering a question on the number or percentage of staff employed in each of the five roles. Question 2 was therefore added to accommodate this. The organogram assisted in determining the number of staff involved in each of the five finance function roles. This was the used to complete Question Three.

Table 3.4: Industry options listed in the questionnaire

• Agricultural
• Education
• Finance
• FMCG
• Information technology
• Investment
• Local government
• Manufacturing
• Mining
• Property
• Retail
• Shipping
• Telecommunications

3.6.3 Current resource allocation (Q3)

Question 3 listed the five roles and called for the number of people involved in each of the roles. This question addressed the extent and allocation of finance function resources to accounting processing and decision support roles respectively. Converting this data into percentages would reflect the current relative resource consumption of each of the roles and would show where the finance resources were currently concentrated. By examining the resource allocation of the finance function, the extent of resources currently allocated to each of the finance function roles needed to be established. Question 3 provided this data because the total number of employees involved in each role was established. Additionally, in examining the accounting processing and decision support roles, evidence was sought of the current resources allocated to the accounting processes roles, and an increasing emphasis on decision support activities. In companies where this change in emphasis was already evident, lower percentages allocated to the transactional processing role would have been expected, relative to companies where the

shift had not yet being experienced. This should also be the case, but to a lesser degree, in the statutory activities role.

The statutory activities role has been affected in recent years by the shift to International Financial Reporting Standards (IFRS), which has meant that companies have had to accommodate a change to reporting in line with these standards. This has also been the case internationally. Accommodating this change means that although financial reporting is one area where technology should potentially enable a saving in resources, this has not yet been the case for many companies. At the implementation stage, the changeover to accommodate the new legislation has been found to increase resource consumption.

3.6.4 Number of finance employees (Q4)

Question 4.1 and 4.2 identified whether the total number of people employed in the finance function had increased or decreased over the past five years, and whether it was expected to increase or decrease over the next five years. These questions addressed the sub-objective relating to the extent of resources allocated to the finance function. The number of employees in the finance function was being used as a measure of the extent of these resources. In examining the size of the finance function, the importance placed on reducing the resources consumed by the finance function was able to be established. Lenhihan and O'Malley (2002), Gould and Fahy (2005a) and Gattenio (2000) amongst others have reported that, companies internationally are looking to decrease the relative size, and therefore cost, of their finance function. It is this expected change that is being addressed by Question 4.

In order to determine whether the finance function has increased or decreased in size (Question 4.1), a change in the absolute size of the finance function must first be established. To match international trends, a decrease in the total number of personnel would be expected. However, this does not provide a foolproof measure, because an

increase could be have been the result of a growing company. The reason for any increase or decrease was therefore confirmed in Question 9 which if read together with the answer to Question 4.1, enabled an analysis of whether the increase or decrease was relative or not.

Question 4.2 addressed whether the trend over the past five years was expected to change into the future. The expectation was that a decreasing trend, if already established, would continue into the future. Alternatively, if a decrease had not yet been experienced, this would be expected within the next five years.

3.6.5 Allocation of resource between accounting processes and decision support (Q5)

Questions 5.1 and 5.2 addressed the need to identify an emphasis on shifting resources from the accounting processing roles and allow these to be reallocated to decision support and strategy formulation roles. These questions addressed the resource allocation between accounting processing and decision support activities. The international trends identified within the finance function are threefold, the first being the decreasing size of finance. The second and third trends are the shift in resources away from accounting processing toward decision support. Question 5.1 again listed the five roles of finance, and asked whether there had been an increase or decrease in the percentage of time allocated to each role over the past five years. If the resources shift was already evident, a decrease in time allocated to transactional processing, and a concurrent increase in resource allocated to the decision support roles would have been expected. To a lesser degree, a decrease in time allocated to statutory activities was also expected.

Question 5.2 projected forward and queried whether an increase or decrease in the percentage of time allocated to each of the five roles was expected over the next five years. Once again, the purpose of the question was to identify if any existing trend was

expected to continue. Alternatively, if the trend had not yet been identified, was it expected to occur in the near future? The expected result was that if a decrease in time allocated to either or both transactional and statutory activities had been experienced in the past, this would continue. If it had not yet been experienced, it would be expected in the future.

These questions did not address the absolute size of the finance function, which had already been covered by Question 4. The aim was to identify whether relatively more or less of the available finance resource was allocated to each of the performance areas.

3.6.6 Internal reallocation of finance responsibilities (Q6)

Question 6 addressed whether any of the finance activities (as detailed under the five roles of finance) were carried out by any part of the organisation other than finance. This question addressed additional resources that may be allocated to the various finance function roles. As indicated in the literature review, a broader role is envisaged for the finance function in the future (Boisvert, 2001b; Brannen and Cummings, 2005), and this has been identified as already in place in international organisations, This transformation has arisen partly because of the increased need for information. Brannen and Cummings (2005: 8) found that companies with high performing finance functions needed to be implementing similar policies and procedures throughout the organisation. These companies integrated finance professionals throughout the company. The concern arises that if there is a need within the organisation for finance to play a broader role, and the need is not fulfilled, the required expertise will be drawn in from elsewhere.

This question aimed to identify if the finance activities per the construct developed, were currently being carried out by people not identified as being part of finance. The expected result would be that if finance was not becoming more involved in decision support activities, there would be more likelihood of these activities being undertaken in the organisation by someone else.

3.6.7 Outsourcing (Q7 and Q8)

Questions 7 and 8 addressed the issue of outsourcing the activities of the finance function. Question 7 established whether any of the finance function activities within the five performance areas were outsourced, and Question 8 established when the outsourcing began.

Some companies have sought to use outsourcing as a means to achieve efficiencies in business processes. Evidence in the literature review showed that this was also the case in the role of the finance function (Vollmers, 1997; Marsden, 2010). In an early account of steps which a company needed to consider in re-engineering the finance function, Vollmers (1997) reported that a possible approach to cost saving was outsourcing. Identifying the degree to which outsourcing of finance function roles was used by the respondents, was therefore incorporated into the study. This question was intended to identify endeavours to gain efficiencies in the accounting processing role.

One aim of the follow up interviews was to identify whether outsourcing that occurred was internal or external. Lenihan and O'Malley (2002) and Gould and Fahy (2005a) make mention of the trend toward shared service centres as a means toward gaining efficiencies in transactional processing. In other words, whether the finance function was carried out by organisations completely separate from the organisation, or if there was any evidence of shared service centres being used within the organisation. Because most companies in the sample were of medium size, it was expected that if any outsourcing did take place, it would be external.

However, outsourcing remains an indicator of a company's intentions to gain efficiency in finance operations. The timing of the decision (Q8) would indicate if this was a relatively new occurrence. Was it driven by the need to become more efficient and competitive, or was a historic occurrence, in most cases then driven by the fact that the company did not have the internal expertise to manage the function? This distinction

would need to be confirmed during the follow up interviews. Examining the issue of outsourcing then aimed to identify if outsourcing was used as a means to gain efficiencies in transactional processing, and therefore formed part of the evaluation of the current status of the accounting processing role.

3.6.8 Factors affecting the finance function (Q9)

Question 9 was an unstructured question requiring the respondent to list three external or internal factors that have affected the size and functioning of the finance function over the past five years. The resultant analyses of the changes in size and functioning assisted in identifying whether company growth had affected the size of the finance function. In addition, where the statutory activities role had not shown the expected decrease in resource consumption, this could be explained if the change to IFRS and increased compliance requirements were identified as being a significant factor affecting the size and functioning of the finance function. These factors would therefore provide further clarity on whether changes in the size of the finance function were relative to changes in company size. In addition, the factors would provide further insight into the changes in the apportionment of finance resources. It was expected that compliance issues and company growth would be identified by the majority of companies in the sample as amongst the three factors affecting growth.

3.6.9 Benchmarking finance function cost (Q10 and Q11)

Use of benchmark statistics by Kennedy (1998) and Lenihan and O'Malley (2002) amongst others, showed that the cost of finance as a percentage of sales was a frequently used benchmark of the size of the finance function. This was then considered, in addition to the number of employees (Q4), as a measure of the size of the finance function.

The pilot study questionnaire included a question requesting the finance cost as a percentage of sales. However, the companies interviewed in the pilot study did not

measure the cost of the finance function separately and were not able to accurately determine the cost of the finance function as a percentage of sales. As a result, this question was removed, and replaced by Question 10.

Question 10 identified whether the cost of the finance function was measured separately. If the answer was in the affirmative, this cost as a percentage of sales, and finance personnel cost as a percentage of the total finance cost, were required in Question 11. It would be expected that if there was an emphasis on decreasing the relative size of the finance function, this performance measure would be in place in the company. Conversely, if finance function cost was not measured separately, this would indicate less importance being placed on reducing this cost. Based on the pilot study results, it was not expected that a significant number of companies in the sample would report on the cost of the finance function separately. For those that did, the cost of the finance function would be measured against international benchmarks as an indication of whether the companies were competitive in this regard. This would in turn show a commitment to cost containment.

Finance personnel costs as a percentage of total finance function cost was required in Question 11. This is also only measureable if finance function cost is identified separately by the company. The importance of this to the study was that it would confirm the use of personnel and time as an appropriate indicator of the size of the finance function and the allocation of finance resources in this sample of companies. This is the assumption behind the use of staff numbers and percentage of time allocated in Questions 4 and 5 respectively. Although not all companies in the sample were expected to measure finance cost, a high percentage was expected for those companies that do.

3.6.10 Finance skills (Q12)

Question 12 referred to a list of finance skills and asked which were expected to become more important, less important or remain of the same importance in the future. The skills listed covered a wide spectrum and ranged from information technology, the various accounting and management skills, to communication and literacy skills. (Table 3.5)

Coupled with the move from an emphasis on accounting processing to decision support, was a requirement for an up-skilling of finance staff that would make them more proficient in higher level skills required for management decision-making and participation in strategic level activities. Gould and Fahy (2005b) reported that one of the key factors in achieving a 'business partnering' role, is finding the right finance skills. Accenture Management Consulting (2008) mentioned skills as one of the key elements to achieving optimal performance for the finance function. Accordingly, a shift in the focus of finance would be expected to be coupled with a recognition that finance staff would have to be equipped with broader skills in the future.

Table 3.5: Finance skills

• Communication and literacy skills
• Financial Accounting
• Financial Management
• General Management
• Information Technology
• Management Accounting
• Numeracy
• Strategic Management
• Taxation

This question then included reference to some more traditional finance skills such as financial accounting and taxation, and some broader skills such as strategic management and general management. If companies recognised that these broader skills were

becoming more important, this would again be an indicator of the changing focus of the finance function for the respondents. Identifying the broader skills as being of increasing importance would therefore confirm that there was a move away from the traditional accounting skills and towards a broader decision support role.

The expectation was that the skills required for a broader role, being financial management, management accounting, strategic management, general management and communication and literacy skills would be identified by the majority of companies in the sample as being of increasing importance. Numeracy, financial accounting and taxation would be expected to be listed as of the same or lesser importance by the majority. If information technology was seen as facilitating the increased efficiencies in the accounting processing roles, it could be seen as being of more importance in the future. However as Information technology has been recognised for some time as being of importance to finance staff, this could be reported by the sample companies as being of the same importance in the future.

3.6.11 Competitive advantage (Q13)

Whether the finance function could be a source of competitive advantage was the subject of Question 13. The main objective addresses the issues of size, and accounting processing and decision support activities, to determine whether value is being added by the finance function. The need for the finance function to become more value adding has been established (Lenihan and O'Malley, 2002; Court, 2005: 78). This question sought to identify whether this trend was being recognised by the companies in the sample. It was expected that the majority of companies would see the finance function as a potential source of competitive advantage for the company.

3.6.12 Advantages of change initiatives (Q14 and Q15)

Questions 14 and 15 addressed issues that have motivated changes in the finance functions of the respondents. Respondents were asked in Question 14 to rank eight key

performance areas in terms of their importance as motivating factors in the changes made to the finance function over the past five years. Question 15 listed the same eight key performance indicators and asked respondents to rank them in terms of the advantage that was actually gained from the change initiatives.

Certain of the factors would indicate an emphasis on reducing the extent of resources allocated to the finance function. Some improved transactional processing efficiency and others would be classed as indicators of improved decision support activity. The ranking from Question 14 would therefore be an indicator of which of these three broad aims was seen as being more important. The ranking from Question 15 would indicate what advantage had actually been gained, and whether this aligned with the motivations in Question 14.

It was expected that, based on the identified international trend, the main motivating factor would have been a reduction in time spent on transactional processing and a reduction in finance cost, these being the first steps in reported change initiatives (Kennedy, 1998; Lenihan and O'Malley, 2002). On the other hand, a shift toward a focus on decision support activities would be evidenced by higher rankings for improved decision making information, improvement in organisational performance and increased shareholder value, improved risk management and enhanced identification and implementation of new business opportunities.

3.7 Data analysis

Data collected during the interviews, and the open ended question from the main study, was coded and analysed on a thematic basis. This included the pilot study interview responses and the answers to Question 9.

Furthermore statistical analysis to support the quantitative data collected was conducted. The data collected was analysed using a combination of both descriptive and inferential statistics. The raw data is included as Appendix D.

The inferential analysis includes Chi-square goodness-of-fit tests applied to Questions 4 to 7 and Questions 12 to 15. This analysis examined whether one response was selected significantly more often that other responses. Chi-square tests of independence were also applied to all possible cross-tabulations of two variables in order to ascertain whether significant relationships exist between variables.

Further to this, an analysis was undertaken to determine whether there was an improvement in the accounting process using the responses to Question 10 and Question 5.1. Here it was determined in which cases a 'yes' response to Question 10, was matched with a 'decrease', in Question 5.1.1, and an 'increase' for Questions 5.1.2 to 5.1.5. That is whether the cost of finance is measured (Q10) was matched with a decrease in resources allocated to transactional processing (Q5.1.1) and a corresponding increase in statutory and decision support activities (Qs 5.1.2 – 5.1.5)

For Questions 14 and 15, which dealt with the motivations for, and advantages gained from changes in the finance function, the mean and mode for each of the eight ranked outcomes was calculated. In addition Spearman's correlation was carried out on each pair of questions in Question 14 and Question 15; for example Question 14.1 with Question 15.1, in order to establish whether the scores in the pairs were correlated.

Spearman's correlation was also undertaken to ascertain whether a correlation existed between the number of 'yes' answers to the last three role options in Question 6, performance management, developing corporate strategy and business risk management, and the number of 'decrease' or 'no change' answers on the same three roles, for both Question 5.1 and Question 5.2.

Testing for differences in rankings for Questions 14 and 15 were carried out across Questions 4.1 and 4.2, for the increase and or decrease in the size of the finance function. Kruskal Wallis (Conover, 1971) and the median tests were carried out on all elements of Question 14 and Question 15 to see whether differences in ranking existed for respondents that indicated an increasing finance function size over respondents that indicated finance function size decreasing.

3.8 Conclusion

This chapter has outlined the methodology used in conducting the study. It also included an examination of the population, being all companies operating in the wider Durban area that were medium sized or larger and were prepared to make themselves available for the study. A review was carried out of the scope of the study, which stated that within the population, the study would focus on the finance functions of companies that are South African owned and managed. The review also included the delimitations. Additionally the sample selection method has been explained and justified.

Furthermore, the development of the main questionnaire and the link between the questions and the main objective and sub-objectives statements has been outlined. The questions used in the questionnaire, which included questions relating to the allocation of resources between the different finance roles, the extent of resources allocated to the finance function and the skills required of finance personnel, have been explained in depth. The statistical analysis which was carried out to support the findings has been detailed. This included goodness-of-fit tests, tests of independence and correlations where appropriate.

In the next chapter the findings of the study are analysed and a tabulation of results and a description of the general outcomes in respect of each question are dealt with.

CHAPTER 4

RESEARCH FINDINGS

4.1 Introduction

The research design and methodology were outlined in the preceding chapter, including the identification of the population, the sample selection procedure and the scope and delimitations of the study. Based on the construct of the finance function, questions were phrased to identify changes that have occurred and are expected to occur in the finance function, in line with the main objectives. This questionnaire was distributed to the respondents, and follow up interviews were conducted.

Eleven completed questionnaires were received and the respondents made themselves available for a follow up interview. It must be emphasised that the data presented in this chapter only relates to the respondents surveyed, and cannot be generalised over the whole population.

In this chapter the findings are presented in respect of each question, with a brief explanation supported by a chart or table. In so doing, the nature of respondents was outlined, and the current allocation of resources to the different finance function roles established. The changes in the number of finance function employees, and shifts in the focus of these employees between finance function roles were also identified. Other questions established the outsourcing of finance function roles, the benchmarking of the cost of the finance function and future skills that would be important for finance function employees. In addition, the factors considered by respondents to have influenced the size and functioning of the finance function were tabled. Finally, past changes in the finance function were evaluated by ranking potential motivations for, and

benefits achieved from the changes. A summary of these research findings concludes the chapter.

4.2 Nature of respondents (Q1)

A description of the nature of business of the respondents was required. The respondents in the sample were identified as being from six different industries, these being Agriculture, Manufacturing, Information Technology and Outsourcing, Shipping, Local government and Leisure. (Table 4.1)

Table 4.1: Nature of respondents

Respondent number	**Nature of business**
1 & 5	Agriculture
2, 4, 6, 8&10	Manufacturing
	Other:
3	• Information Technology\ Outsourcing
7	• Shipping
9	• Local government
11	• Leisure

The majority of the respondents (46%) were from the manufacturing sector, followed by agriculture (18%) (Chart 4.1). However, despite the small sample, there was a spread of participants from a reasonably wide range of industries.

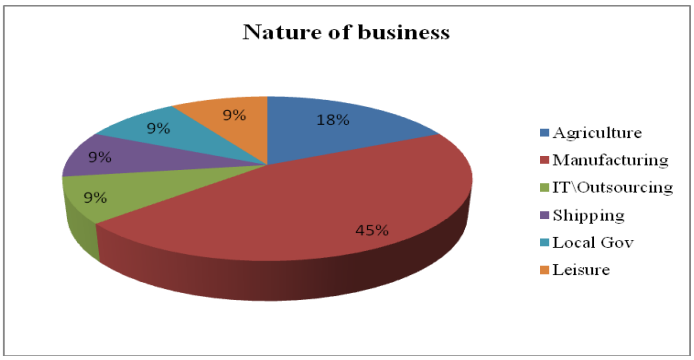

Chart 4.1: Nature of business

4.3 Current resource allocation (Q2 and Q3)

An analysis of the current resource allocation was considered important in order to establish the relative importance of each of the key finance function roles identified in the construct of the finance function. In addition, this would give an indication of where resources are currently concentrated, and provide a base position from where one could analyse expected future movements. The five key roles identified in the construct were the accounting processing roles of transactional activities and statutory activities, and the decision support roles (including developing and implementing corporate strategy, managing business risk and managing organisational performance). Finance resources were measured in terms of personnel, as this had been identified as the principle finance resource. In response to Question 2 an organogram of the finance function was required, where one was available. This was used to assist the respondents in determining the allocation of personnel to each role, as requested in Question 3.

The results from Question 3 are summarised in two ways. The average percentage allocation of resources across all 11 respondents, to each of the five finance roles was determined, and is illustrated in Chart 4.2. This represents the average by finance function role, of the percentage resource allocated to each role by the 11 respondents. In addition, the individual percentages are also presented separately by role, and are illustrated, in Charts 4.3 to 4.7.

4.3.1 Average percentage allocation of resource to each finance function role (Q3)

The current average resources allocated to each of the five finance funtion roles, confirms the roles consuming the most and the least resources for the majority of respondents. (Chart 4.2)

This clearly showed that almost half of finance resource (48%), as measured by personnel allocated to the roles, went to transactional processing for all respondents.

Business risk management emerged as the role consuming the second highest proportion of resources (17%), with the statutory role consuming the least (9%).

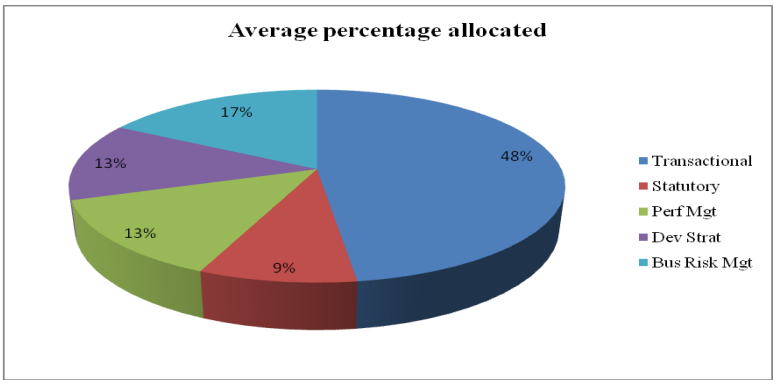

Chart 4.2: Average resources allocated to each of the five finance roles

4.3.2 Individual percentages for each finance function role (Q3)

Transactional processing

By a large margin, Respondent 1 had the greatest percentage (77%) of resources allocated to transactional processing. The lowest percentage allocated to this role (31%) was recorded for Respondent 7 (Chart 4.3). Four of the eleven respondents recorded more than 50 percent of all finance resource allocated to this role, and for all respondents, transactional processing still consumed more resources than any of the other four roles.

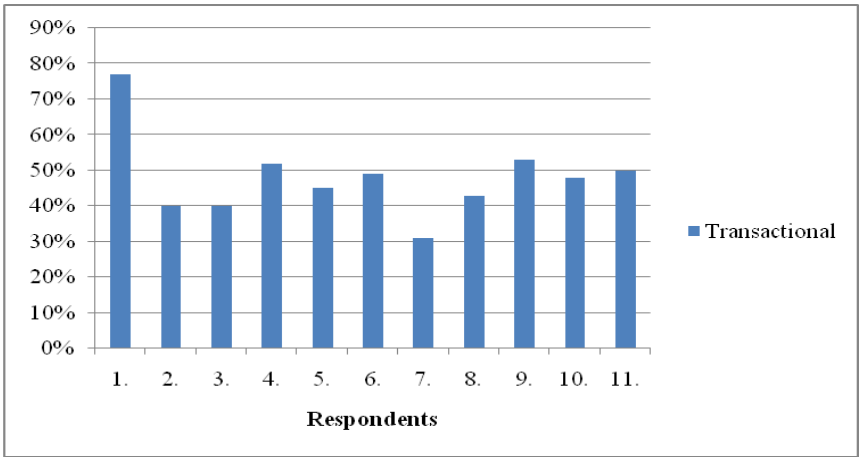

Chart 4.3: Transactional processing

Statutory activities

The largest percentage of resources (20%) allocated to the statutory activities role was for Respondent 6 in the study, whereas the lowest percentage (2%) was for Respondent 9 (Chart 4.4). The majority of the respondents (73%) in the study reported less than 10 percent of resources being allocated to this role (Chart 4.2).

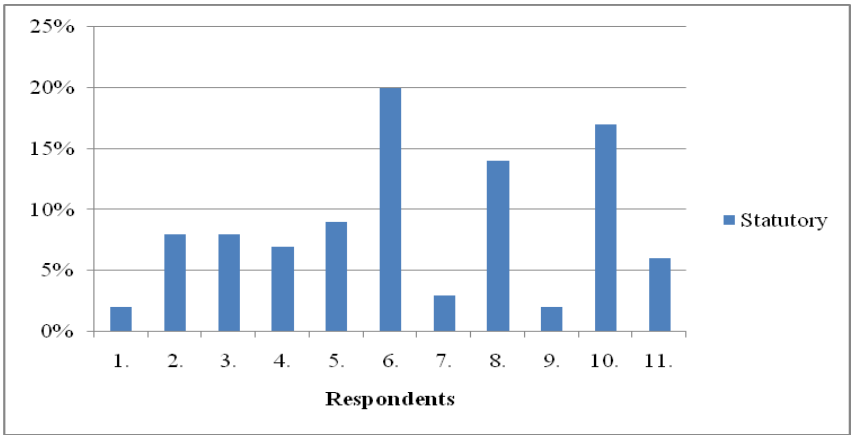

Chart 4.4: Statutory activities

Managing organisational performance

When compared to the other respondents, Respondent 11 allocated the highest percentage (21%) of resources to the managing organisational performance role. The lowest percentage (3%) was recorded for Respondent 9. Four respondents allocated more than 15 percent of their resource to this role whilst seven respondents allocated more than ten percent (Chart 4.5).

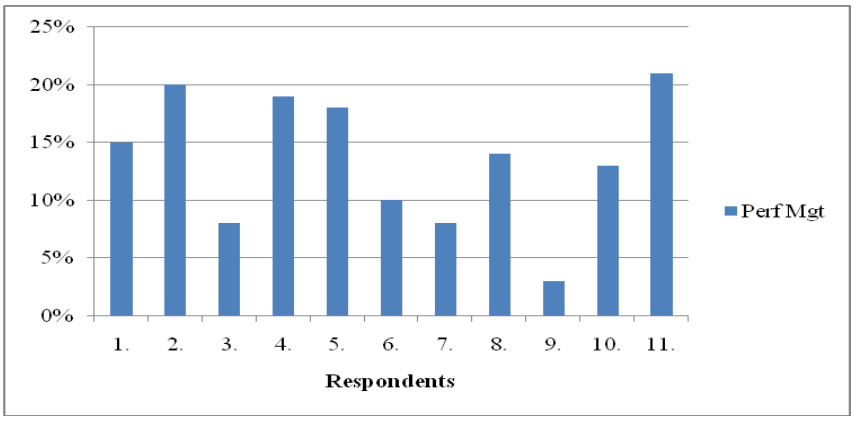

Chart 4.5: Managing organisational performance

Developing and implementing corporate strategy

The highest percentage (31%) of resources allocated to the developing and implementing corporate strategy role was for Respondent 7, whereas both Respondents 1 and 4 devoted only around four percent of resources to this role, the lowest in this category. However six respondents did allocate over 13 percent of all finance resources to this role, with the majority being in the band 13 to 20 percent (Chart 4.6).

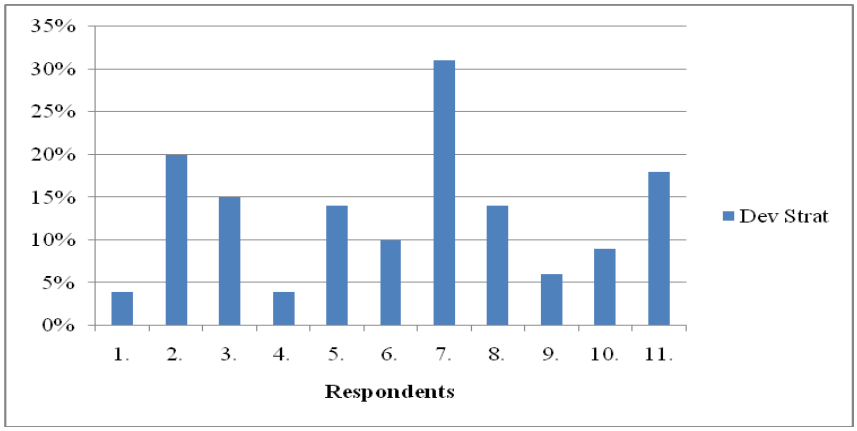

Chart 4.6: Developing and implementing corporate strategy

Managing business risk

The highest percentage (36%) allocated to risk management was for Respondent 9, and Respondent 3 was slightly above 30 percent. Nine of the eleven respondents recorded

more than ten percent of all resources being allocated to risk management, making this the second largest consumer of resource for the majority of respondents (Chart 4.7).

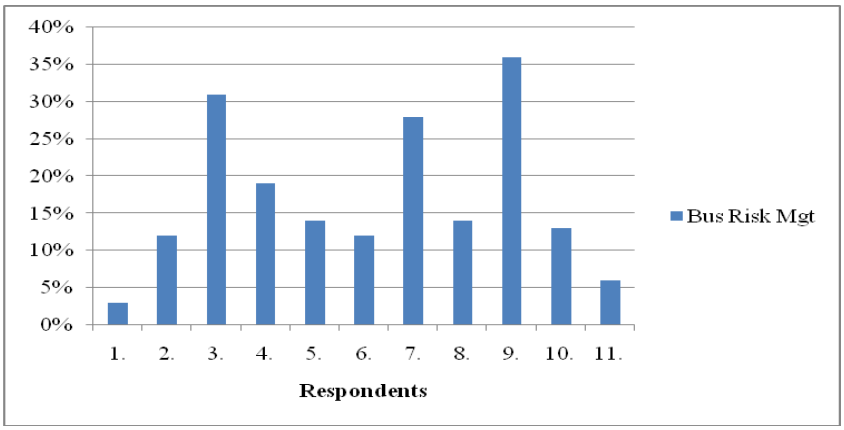

Chart 4.7: Managing business risk

4.4 Number of finance employees (Q4.1, 4.2)

Question 4.1 aimed to identify whether there had been an increase, a decrease or no change in the absolute size of the finance function over the past five years. In Question 4 size was defined as the number of people employed in the finance function. Question 4.2 on the other hand identified the change that was expected over the next five years. The number of respondents selecting each of the 'increase', 'decrease' or 'no change' options, was converted to a percentage (Chart 4.8). The chart shows the responses for both Question 4.1 (past five years) and 4.2 (next five years).

The majority of respondents (91%) indicated an increase in the number of employees in finance over the past five years, with a small proportion (9%) indicating a decrease and none indicating that the size of finance remained the same. When examining the situation over the next five years, the situation is quite different. In this instance fewer respondents (46%) were expecting a continued increase in the size of finance, whereas more (36%) respondents were expecting finance to remain the same size as it is currently.

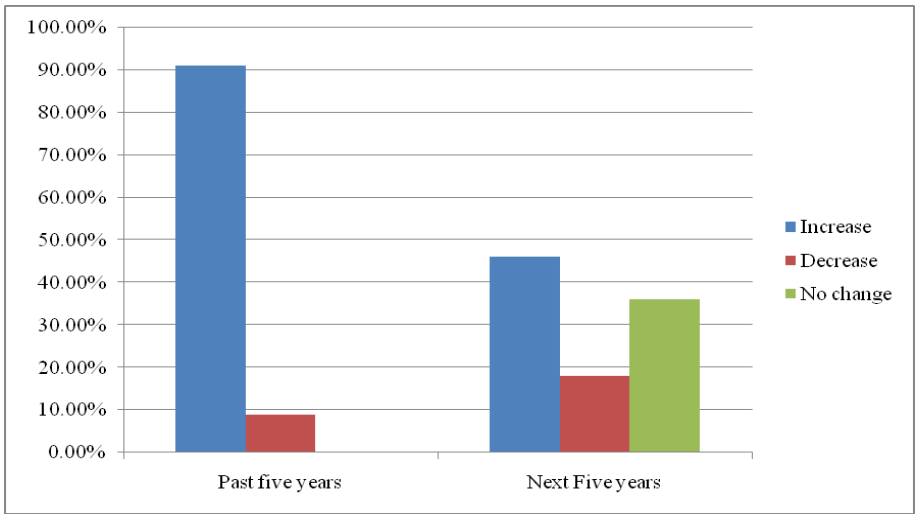

Chart 4.8: Change in total employees of the finance function

4.5 Shifts in focus of finance staff (Q5.1, 5.2)

Following on from the examination of the absolute size of finance, Question 5 examined whether there had been a shift in focus evidenced by a reallocation of resources between the five major finance roles. Questions 5.1 and 5.2 established whether there was an increase, decrease or no change reflected in the percentage of time allocated to each of the five roles. Similarly to Question 4, Question 5.1 asked the question in respect of the past five years and Question 5.2 in respect of expectations over the next five years (Charts 4.9 and 4.10).

Over the past five years only a small percentage of respondents (9%) reported an increase in resources allocated to the transactional role, whereas almost half of the respondents (46%) reported a decrease, and the balance reported no change. In terms of the other four roles, the majority saw an increased alloction to these roles. This ranged from 55 percent showing an increase in the statutory role to 73 percent showing an increase in the business risk management role.

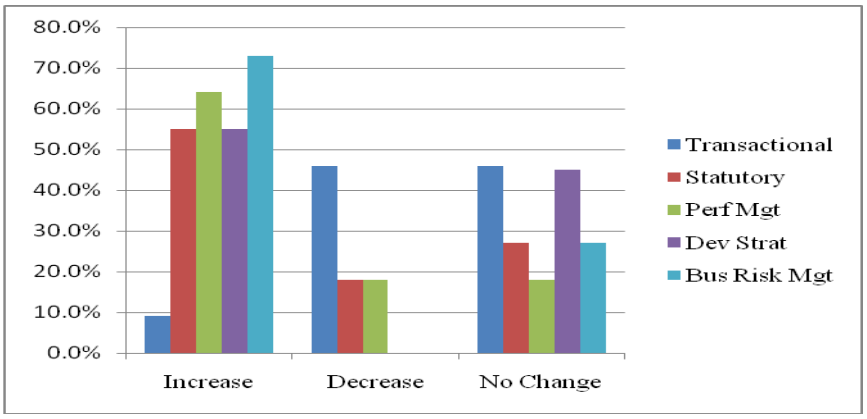

Chart 4.9: Resource reallocation – past five years

The above trends were amplified over the next five years. Only a small percentage (9%) expected a future increase in resources allocated to transactional processing. On the other hand a significant majority (82%) expected resources allocated to the transactional processing role to decrease. Business risk management had the most respondents (81%) expecting an increase in resources allocation. In the case of both organisational performance management and developing and implementing business strategy a large number (73%) also saw a potential increase in resources required in the future. No repondents foresaw a decrease in resources allocated to the developing and implementing corporate strategy role, or to business risk management. Both of these reflected either no change in resources required or an increase in resources required.

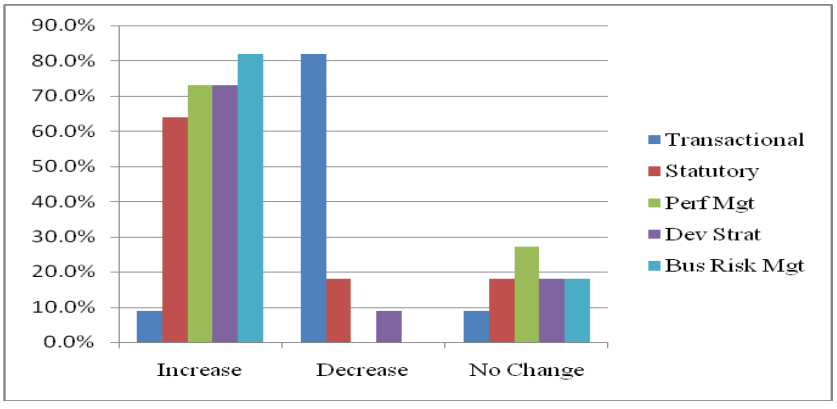

Chart 4.10: Resource reallocation – next five years

4.6 Internal reallocation of finance responsibilities (Q6)

This question sought to identify whether activities defined as being part of the role of the finance function were being undertaken in the organisations by persons other than finance staff. The responses here were either 'yes', this role is to some degree performed by staff other than finance personnel, or 'no' the role is undertaken entirely by finance staff (Chart 4.11).

It is clear from the findings that in every aspect of the role of finance, some companies were using staff from other parts of the organisation to achieve the required outcomes. This was mostly so (82%) with managing organisational performance. Interestingly, even with the transactional processing role, more than half (55%) of respondents identified some degree of involvment from other aspects of the organisation. The statutory role was the least likely to have input from other aspects, with a large number (73%) of respondents indicating no involvment from other internal parties.

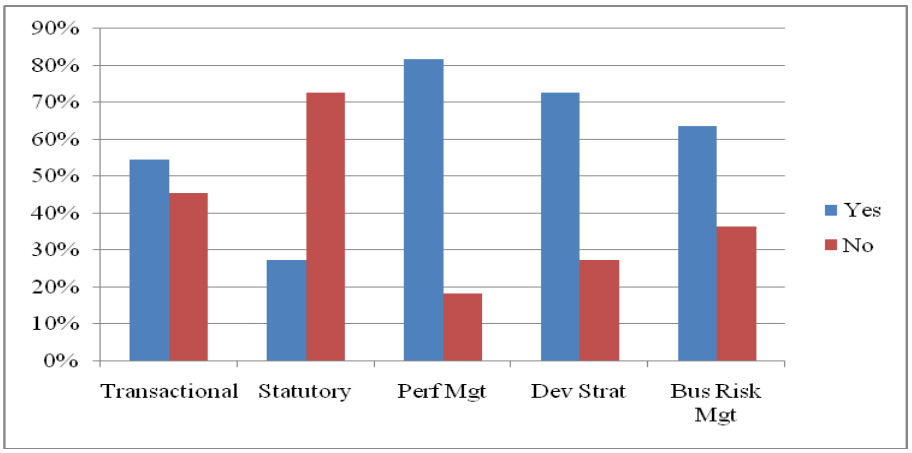

Chart 4.11: Internal reallocation of finance responsibilities

4.7 Outsourcing (Q7 and Q8)

The respondents were asked to identify whether any aspect of each of the five roles of the finance function was outsourced. A yes or no answer was required (Chart 4.12).

Across the board, very few of the respondents used any form of outsourcing. The aspect least likely to be outsourced was developing and implementing corporate strategy, where no companies in the sample were outsourcing activities. Transactional activities, statutory activities and measurement of organisational performance were all equally likely to have some level of outsourcing (27%). Where outsourcing did take place, the timing of the outsource decision was determined (Q 8). In every case where outsourcing has taken place, the decision had been taken more than five years ago.

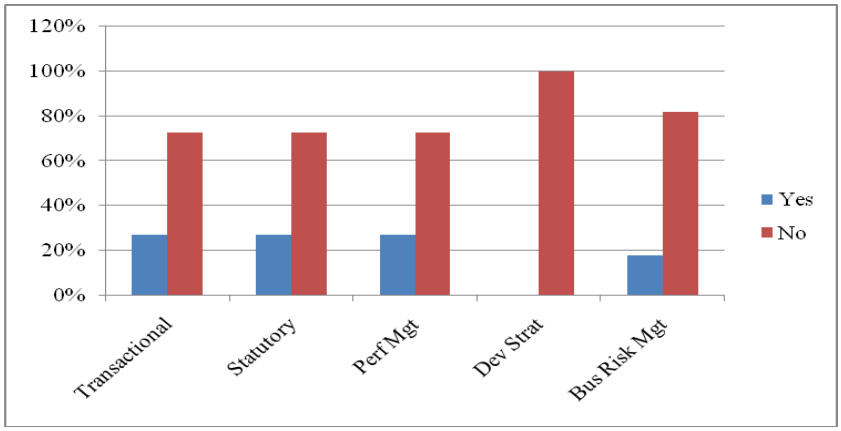

Chart 4.12: Outsourcing of finance responsibilities

In the follow up interviews confirmation was sought of whether the outsourcing that did take place was external or internal. This was to ascertain if there was any evidence of a move toward the use of shared service centres. No internal outsourcing was found to be taking place.

4.8 Factors affecting the finance function (Q9)

The respondents were asked to identify three factors that had affected the size and functioning of the finance function over the past five years. The intention was to determine the factors driving finance function change, both in respect of size and apportionment of resources. The factors mentioned were found to be linked to common themes, and therefore were coded on a thematic basis and tabulated (Table 4.2).

The most commonly mentioned factor (73%) was increased compliance requirements. The second most common factor was growth in the business (64%) and this was followed by introduction of new and or improved information systems. General external business factors were mentioned by only three respondents, and these related mainly to economic conditions. It is clear from this that the changing legislative environment and business growth are the factors most commonly driving the changes in finance for the companies in the sample (Table 4.2).

4.9 Benchmarking of finance function cost (Q10 and Q11)

Finance function cost as a percentage of sales was established as an accepted international benchmark of the size of the finance function (*Hackett Book of Numbers*, 2006). However, in the the pilot study it was determined that the companies selected for that study did not keep a separate measure of finance function cost. These questions ascertained whether the cost of finance was measured separately by the respondents (Q10). If respondents answered in the affirmative, the cost of finance as a percentage of sales and the finance labour cost as a percentage of total finance cost were determined (Q11). The findings confirm those of the pilot study, in that less than half (46%) of the respondents kept a separate measure of the cost of finance (Chart 4.13).

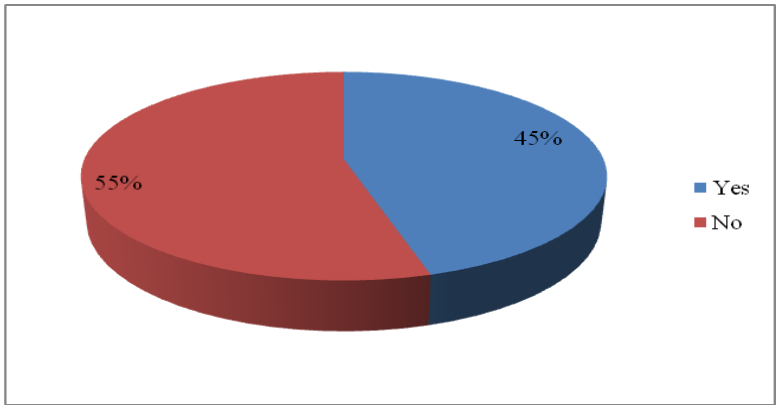

Chart 4.13: Cost of the finance function measured?

Table 4.2: Developments affecting the size and functioning of the finance function

Related to → / Company no.	Business growth	Increased compliance requirements	Improvements in information technology	General internal business environment	General external business environment
1	Acquisitions		New information technology (IT) system	New standard costing system	
2	Growth in business Creating capacity for potential growth	Increased compliance requirements			
3	New customers	Increased regulatory requirements e.g. Tax and VAT	IT improvement		
4		Statutory reporting requirements – IFRS	New IT system		The economic environment
5	Growth in business	Increased emphasis on corporate governance		Changing focus of board of directors	
6		Increased compliance requirements specifically Tax and IFRS or BEE reporting requirements		Change in business structure	
7			IT improvement	Recruitment and training	Boom to recession, the economic environment
8	New business ventures				
9		New accounting standards (IFRS) Changes in legislation			
10	Growth in business	Increased legal requirements			Decrease in competitors
11	Growth in business	Increased need for improved governance		Increased demand for improved management reporting	

It was only possible to get a measure of finance cost relative to sales for those respondents that measured the cost of the finance function separately. Of these, the lowest percentage recorded was one percent of sales, the highest was seven percent and the average four percent. Labour cost as a percenatge of total finance cost was also ascertained in order to confirm that labour was the most significant element of the total cost of finance. The lowest finance labour cost to total finance cost percentage recorded was 64 percent, the highest was 92 percent and the average was 79 percent (Chart 4.14).

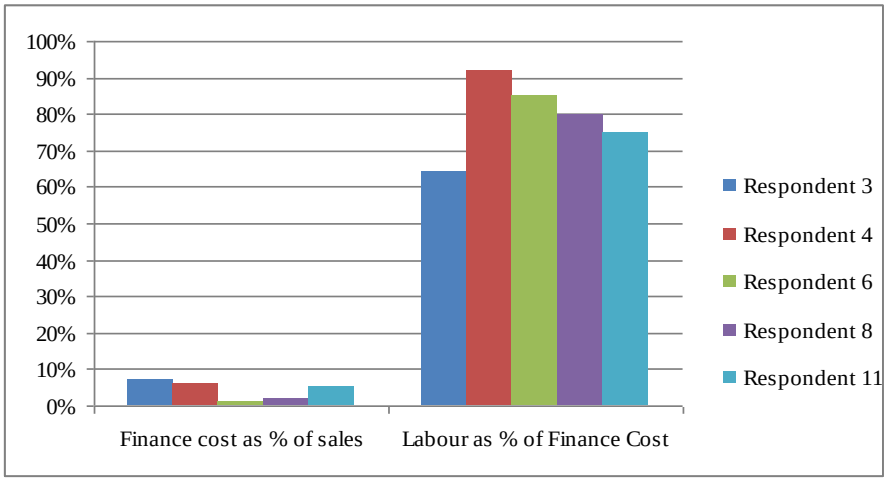

Chart 4.14: Finance function cost analysed.

The majority of respondents did not measure finance cost separately. This meant it was not possible to measure the relative cost of finance, or finance labour cost as a percentage of finance cost in these respondents.

4.10 Finance skills (Q12)

The relative importance of a range of skills for future finance personnel was determined. This was considered an important subsidiary indicator of what role these personnel are going to be expected to play in the future.

The skills seen as being of increasing importance in the future by a majority of respondents were information technology, management accounting, general management, strategic management and communication. Of these, information technology was ranked as of the most importance by most respondents (91%). In each case a large number of respondents ranked these five skills as being of greater importance in the future, the lowest being for management accounting skills (64%). Of the skills being ranked by the majority as of the same or lesser importance, numeracy and financial accounting skills were ranked as such by most respondents (91%). Financial management was seen as being of the same or lesser importance by 64 percent of respondents, the smallest majority in this category (Chart 4.15). Only three respondents ranked any of the skills as being of lesser importance in the future, and so in most cases all the skills were considered to be of the same or greater importance in the future.

In summary, the data shows clear majorities in five skills that will be of more importance in the future. The other four skills listed were largely indicated as being of the same importance in the future by the majority of respondents.

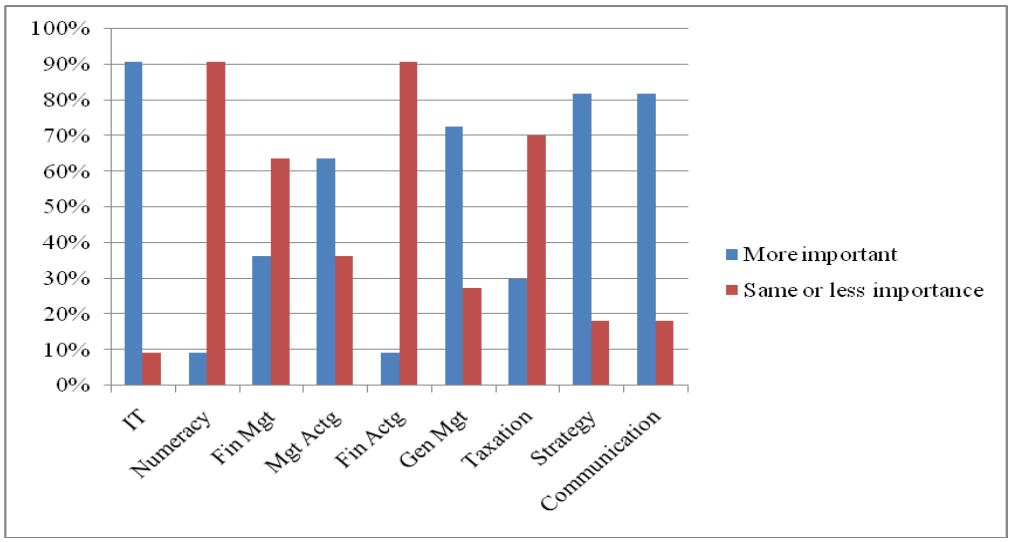

Chart 4.15: Relative importance of skills

4.11 Competitive advantage (Q13)

In order to understand what advantage was sought by respondents when making changes to the finance function, their opinion on whether the finance function could be a source of competitive advantage for the company was required. All respondents answered in the affirmative.

4.12 Motivation for changes in the finance function (Q14)

Addressing the potential advantages to be gained from making changes in the finance function, respondents were asked to rank potential advantages in terms of their relative importance as motivating factors when making changes to the finance function. Eight potential advantages were listed and a ranking from one to eight was therefore required. The mode and the mean for each of the potential advantages, as reflected in the answers obtained from respondents, were compiled (Table 4.3).

Reduced finance cost as a percentage of sales was clearly ranked at number eight by the majority of respondents, and was least favoured as a motivating factor in considering changes to the finance function. At the other extreme, improved decision making was clearly favoured at number one as the most important motivating factor, and improvement in organisational performance was clearly ranked at number two.

Table 4.3: Ranking of factors motivating changes in the finance function

Motivating factors	Mean	Mode	Summary position
Improved decision making	2.5	1	1
Improvement in organizational performance	3.1	2	2
Increased shareholder value	4.5	3	3
Improved risk management	4.3	4	4
Enhanced implementation new business opportunities	4.6	2/5	5
Reduced time on transactional processing	5.2	6/7	6
Enhanced identification new business opportunities	6.1	7	7
Reduced finance cost as % sales	6.8	8	8

4.13 Advantages gained from changes in the finance function (Q15)

The same eight potential advantages to be gained from changes in the finance function were then ranked in terms of actual advantages deemed to have been gained from recent changes in the finance function. The intention here was to ascertain whether the advantages gained were different from those contemplated when the change initiative was planned. The mean, mode and suggested rankings in this case were compiled (Table 4.4).

Here again, reduced cost as a percentage of sales was clearly ranked by the majority as the benefit least obtained from change initiatives. Improved decision making was again ranked by most respondents as the principle benefit gained from change initiatives.

Table 4.4: Ranking of benefits accruing from past change initiatives

Benefits accruing	Mean	Mode	Summary position
Improved decision making	2.7	1	1
Improvement in organizational performance	2.8	3	2
Increased shareholder value	4.1	3	3
Improved risk management	4.1	2/6	4
Enhanced identification new business opportunities	5.3	5/7	5
Enhanced implementation new business opportunities	5.5	4/6	6
Reduced time on transactional processing	5.5	7	7
Reduced finance cost as % sales	6.9	8	8

4.14 Summary of research findings

Industrial sectors covered (Q1)

The spread of the participants of the research covered a wide range of industries with most of the respondents from the manufacturing (45%) and agriculture (18%) sectors.

Measuring and allocation of finance resources (Q3)

In measuring the finance resources in terms of personnel allocated to the various roles, it was found that on average almost half is centered on transactional processing (48%)

followed by business risk management (17%) and the lowest score being statutory role (9%). In fact, for all respondents, transactional processing was still consuming more resources than any of the other roles. On the other hand, for statutory activities the majority (73%) recorded less than 10 percent of the resources as being allocated to this role.

It would also appear that the decision support roles did not attract a high allocation of resources. For instance, the highest allocation to the managing of organisational performance for a respondent was 21 percent with the lowest 3 percent. This was also true for the resources allocated to the developing and implementing of corporate strategy where the majority of respondents allocate between 13 and 20 percent. Nevertheless, the resource allocation of risk management of more than ten percent of all resources for nine out of eleven respondents, and an average allocation of 17 percent, makes this, on average, the second largest consumer of resource.

Change over past and future five years (Q4.1, Q4.2, Q5.1and Q5.2)

The history of the past five years showed that the majority of the respondents (91%) had experienced an increase in the number of employees in the finance function. This was not true for their estimation of the next five years where only half (46%) of the respondents expected this trend to continue. This also differed in respect of the allocation of resources to the transactional role. Only a small percentage (9%) said that resources allocated to transactional processing had increased over the past five years. However, almost half (46%) of the respondents felt that resources allocated to transactional processing had decreased over the preceding five years.

In respect of the three decision support roles, however, the majority deemed resources allocated to these roles to have increased over the past five years, with business risk management showing the highest (73%) number of increase responses. In the case of

these decision support roles, this increasing trend was expected to continue into the future.

Internal and external resources (Q6)

In most cases the respondents were using internal resources from other functions in the organisation to assist with the finance function activities. This was mostly with the managing of organisational performance (82%) and was even evident in the transactional processing role (55%), but was least likely (73%) for the statutory role. In the area of external assistance, very few of the respondents used outsourcing, certainly none for implementing corporate strategy.

Outsourcing as a means to improving efficiencies in accounting processes (Q7 and Q8)

Here the degree to which finance function roles were being outsourced was examined. Very few (27%) respondents were found to use outsourcing in respect of any of the finance function roles.

Factors influencing changes (Q9)

When companies reported on the factors which in their opinion had caused a shift in the size and functioning of the finance function, it was found that the factor with the most impact was that of increased compliance requirements (73%). This was followed by the growth of the business (64%) and then the introduction of new or improved information systems.

Measuring cost of finance (Q10 and Q11)

As was found in the pilot study, less than half of the respondents kept a separate measure of the cost of finance. As most of the respondents did not measure the finance cost separately, it was not possible to measure the relative cost of finance for these respondents.

Required skills for finance function personnel (Q12)

Of the skills which were considered of more importance in the future, most respondents selected information technology, followed by management (both strategic and general) and communication. On the other hand the skills seen as being of the same importance in the future by the most respondents were financial accounting and numeracy.

Potential motivations for and advantages of change initiatives (Q14 and Q15)

As potential motivation for, and advantages to be gained from making changes in the finance function, the reduction of the cost of the finance function was considered the least important. However, the most important motivation for change initiatives was improved decision making. This was also the main benefit gained.

4.15 Conclusion

The findings presented have, in respect of the resources allocated to transactional processing and decision support, largely been in line with the expected findings as outlined in Chapter Four, where the rationale for each of the questions was presented. But in respect of the size of the finance function and an emphasis on reducing the size of the finance function, this has not been the case. In the next chapter these findings are further examined and interpreted as the size, and accounting processing and decision support roles of the finance functions of respondent companies are examined and evaluated. Relevant statistical analysis is presented to support this evaluation. Furthermore these findings will be related to the relevant literature.

CHAPTER 5

ANALYSIS AND INTERPRETATION

5.1 Introduction

The findings from the research questionnaire were outlined in the previous chapter. The responses from each question were charted and examined to identify the exceptions and points of interest.

The degree to which value has been added by the finance functions of respondents will be analysed in this chapter, with reference to the key criteria established as indicators of a value adding finance function. The criteria are derived from the key elements of the paradigm shift in the finance function identified in the literature review (Vollmers, 1997: 64; Kennedy, 1998: 29). An overall analysis of the surveyed finance functions will be carried out. The following value adding criteria will be examined: the decreasing of the overall resources allocated to the finance function, managing the extent of these resources allocated to the accounting processing roles through improved efficiencies, and a shift in resources toward the decision support roles.

This overall analysis of the average results across the group of eleven respondents will be followed by a case study analysis by respondent, grouped by industry where appropriate.

When the analysis of the respondents using the key criteria was complete, the confirmation of the finance function as a value adding tool for business units was examined. This covered the development of an appropriate measuring tool and its application to respondent finance functions. A summary of the degree to which the value adding criteria are being met concludes this examination.

5.2 Overall analysis of surveyed finance functions

The resources allocated to the finance function were measured by benchmarking the relative cost of these resources where possible (Q10 and Q11). Furthermore, whether the size of the finance function is seen to be increasing or decreasing (Q4) was examined along with the factors affecting size (Q9). In addition, the importance attached to decreasing the relative size of the finance function was established (Q14.1 and Q15.1).

In accordance with the sub objectives, a construct of the finance function was developed, as presented in Chapter Three. Accounting processing activities were defined in this construct as including the transactional processing and statutory roles of the finance function. On the other hand, decision support activities were defined as developing and implementing corporate strategy, managing business risk, and managing organisational performance roles of the finance function. In assessing a shift in the allocation of resources between accounting processing and decision support, the relative allocation to each of these five roles (Q3), and past and prospective shifts in this allocation were examined (Q5.1 and Q5.2). Supplementary measures of improved efficiency in accounting processing included an evaluation of outsourcing practices (Q7 and Q8), and the value placed on such improvements in past change initiatives (Q14.2 and Q15.2).

Further evidence of a shift toward a broader decision support role for the finance function was sought by examining the extent to which other business units were performing finance function activities (Q6), and the relative importance of a range of finance skills in the future (Q12). Furthermore, the value placed on higher level strategic motivations in past change initiatives (Q14.3-Q14.8 and Q15.3-Q15.8) was assessed.

To evaluate the extent to which the finance functions which were evaluated showed evidence of the paradigm shift identified through the literature review, an average perspective was first assumed. This required that the average responses to the questions related to the respective criteria were determined, and these were then compared to the

expected trends. The aim was to identify whether it could be confirmed that the finance functions of the respondents were generally conforming to the criteria outlined in the introduction. If so, it could be confirmed that there was a general trend toward a more value adding role.

5.2.1 Decreasing the extent of resources allocated to the finance function

Increases/decreases in finance function size over past and future five years (Q4)

The first value adding criterion identified was the need to reduce the extent of resources allocated to the finance function. This was measured initially by establishing whether resources assigned to the finance function over the past five years had increased or decreased (Q4.1), and also whether the increase or decrease was expected to continue over the next five years (Q4.2). The findings showed that the majority of respondents (91%) experienced an increase in the size of the finance function over the past five years, whereas in the next five years, a much smaller majority (46%) were expecting this increase to continue. Against expectation, these results indicate that there has not been an emphasis on reducing the resources allocated to the finance function over the past five years. Although resource allocation was expected to stabilise over the next five years for some respondents (36%), this still did not reflect any emphasis on reducing the size of the finance function.

Factors affecting changes in size (Q9)

The fact that there was no evidence of an emphasis on decreasing finance function size is, to some degree, explained by the factors indicated as influencing the size and functioning of the finance function (Q9). Seven out of the eleven companies (64%) reported either growth in the business or acquisitions as being relevant factors. This growth came by increasing their customer base, or in some instances broadening the scope of the organisation, and by establishing international operations. Eight out of eleven (73%) companies reported increasing compliance requirements as having

affected the finance function. This was mainly related to the impact of having to comply with the new international financial reporting standards (IFRS), but also included increased taxation reporting requirements as well as general business related legal requirements such as Black Economic Empowerment (BEE). This was supported by the discussions with the respondents, where both the growth and compliance issues were identified as being reasons for the increasing size of the finance function.

Benchmarking the cost of the finance function – a relative measure (Q10 and Q11)

If company growth was established as the explanation for the increase in the absolute size of the finance functions of respondents, it is possible that the relative size of the finance function could still have been established as reducing. Therefore, to account for company growth, a relative measure of finance function size needed to be established to determine whether the finance function size had increased relative to the size of the company. This was addressed by identifying whether finance function cost was measured by the respondents, and if so, by evaluating this cost relative to sales (Q10 and Q11).

Kennedy (1998) and Lenihan and O'Malley (2002) indicate that the relative size of the finance function is most often measured in terms of finance cost as a percentage of turnover. To this end, it was established whether respondents kept a record of finance function cost (Q10), and were thus able to measure finance function cost as a percentage of sales. If the answer was yes, then the cost of the finance function as percentage of sales was called for (Q11). This in turn enabled an evaluation of the relative size of the finance function. It was expected that if reducing the cost of the finance function was of some importance, then this cost would be separately measured. Based on the results of the pilot study, it was expected that the majority of respondents would not have a separate measure of finance function costs, and therefore would not be able to measure finance function cost as a percentage of sales. It was found that less than half (46%) of the study respondents measured the cost of the finance function separately. This,

together with the continued increase in the size of the finance function, would confirm that reducing the extent of resources allocated to the finance function was not a major consideration amongst the respondents.

A Chi-square test of independence was undertaken on the cross-tabulations of a 'yes' response to the question of whether finance cost was measured (Q10) and whether there was a reported reduction in finance function size (Q 4.1), or an expected future reduction in finance function size (Q4.2). This was to establish if there was any association between the responses. The intention was to establish if a 'yes' indicating that the finance function cost being measured (Q10) was associated with a reduction in finance function size either in the past five years, or based on expectations for the next five years (Q4.1 and Q4.2). No significant relationship was found. Therefore, there is no statistical evidence to suggest that measuring the cost of the finance function is associated with a decrease in the size of the finance function for the study participants.

Effect of factors influencing changes on finance function size (Q9)

Currently five of the eleven participants (46%) measure the cost of finance, but only one (9%) of these was expecting the size of finance to decrease over the next five years. An explanation for this could be the issues of company growth and increasing compliance requirements given as responses to reasons for changes in finance function size and functioning (Q9), discussed above. In the opinion of the majority of the respondents, these factors precluded any opportunity to reduce the size of the finance function.

Having accounted for company growth however, there was an expectation that in order to add value, the size of the finance function needed to be reducing. This was supported by evidence in the literature that some companies see a growth phase as an opportunity to transform finance and bring costs down. Trapp (2002) cites the example of Hewlett-Packard, who grew their business 200 percent to 300 percent before increasing the finance function headcount.

In respect of increasing compliance requirements and the effect of these on company size, Gould and Fahy (2005) indicated that CFOs are finding it difficult to redefine finance to meet the decision-support needs of companies whilst at the same time reducing cost without exposing the business to the risk of non-compliance. It was, however, suggested in Louw's (2005) fictional account of a transformed finance function, that compliance can add value where embedded controls lead to better management of key risk areas, and ultimately to a situation where the benefits from improved control outweigh the compliance costs.

Both increased compliance requirements and company growth therefore cannot be seen to nullify the requirement that in order to add value, a finance function must have as an objective, the reduction in the relative cost of finance over time.

Potential motivation for and advantages from change initiatives (Q4.1, Q4.2, Q14.1 and Q15.1)

As a further measure of whether an emphasis on reducing finance function size was evident, reduced finance function cost as a percentage of sales was listed as one of the potential factors motivating changes to the finance function (Q14.1), and potential advantages to be gained from changes in the finance function (Q15.1). When ranked alongside the other seven potential factors, reduced cost as a percentage of sales was ranked number eight in terms of the mode, that is least important, as both a motivating factor for (Q14.1) and a benefit from(Q15.1) past changes. A Chi-square goodness of fit test applied to the motivations for (Q14.1) and results from (Q15.1) finance function changes found that significantly more respondents than expected ranked 'reduction in finance function costs' in eight position (Table 5.2). The mean score for this option as a motivating factor (Q14.1) was 6.8, and as a benefit from changes (Q15.1) it was 6.9. This was the lowest mean ranking for both questions. The low ranking indicates that this was quite clearly the least important objective for past change initiatives in the

finance functions of respondents. This confirms that reducing the extent of resources and thus cost of the finance function was not seen as important.

Both Kruskal Wallis (Conover, 1971) and the median test were carried out on all options listed as motivating factors (Q14) and potential advantages from (Q15) changes in the finance function, to see whether differences in either mean or median ranking existed for the increase, decrease or no change options relating to the size of the finance function (Q4.1 and Q4.2). No significant differences were found to exist. Therefore, the average ranking for each motivating factor (Q14) and potential benefit (Q15) were not affected by whether finance size was seen as increasing, decreasing or remaining static in the future. An interrelationship between the changes in the size of the finance function and the motivations for changes made to the finance function would have been expected if reducing the size of finance was one of the key objectives of the finance function. Again this would confirm that, against expectation, reduction in the size was not a key objective for respondents.

Summary in respect of reducing the extent of resources allocated to the finance function (Q4, Q9, Q10, Q11, Q14 and Q15)

The analysis of whether there was evidence of a focus on reducing the resources allocated to the finance function across the respondents tried to determine changes in the size of the function (Q4), and the reasons for such changes (Q9). In addition, the measurement of the cost of finance relative to sales as an indicator of relative size (Q10) and reducing this cost as a motivating factor and advantage gained (Q14 and Q15) in past change initiatives was established. The average ranking for reducing the finance function cost as a motivation and an advantage of past change initiatives was eight (Q14 and Q15). This was the lowest ranking.

In respect of each of these factors no evidence was found of a general focus by respondents on reducing the extent of resources allocated to the finance function. It

must be concluded that based on the average analysis of the relevant responses, against expectation, there was no trend toward a reduction in the extent of resources allocated to the finance function evident.

5.2.2 Improving efficiencies in accounting processing

The next criterion which was evaluated was the current standing of accounting processing and the importance placed on improving efficiencies in accounting processing. Boisvert's (2001b) outline of a strategically deployed finance function on which the construct of the finance function used in the questionnaire was based, defines accounting processes as the transactional processing and statutory activities roles. It was therefore these two roles that were the main focus in evaluating the accounting processing role.

Current status of accounting processes in terms of resource allocation (Q3)

In order to establish the current status of accounting processes, the current weighting of staff among the five different accounting roles was established by asking for the number of staff currently involved in each of the five roles (Q3). This was then converted into a percentage allocation for each role, for each respondent. The findings indicated that transactional processing still consumed the major portion of finance function resource for all eleven respondents with an average of 48 percent. This indicated that for the respondents the bulk of finance resources were still allocated to transactional processing. Conversely, the results for the statutory activities role showed an average of nine percent of resources allocated to this role, the lowest of the five roles. If the transactional and statutory roles were combined, between 34 percent and 79 percent of resources were allocated to accounting processing, with the majority in the range 45 percent to 60 percent.

In order to evaluate this apportionment, the percentages were benchmarked against international norms. Bosivert (2001c) indicates that of the companies he surveyed in a

sample population, 80 percent of finance function resources were allocated to statutory and transactional activities combined, whereas the most efficient companies allocated less than 60 percent. Lenihan and O'Malley (2002) indicated that at the time of their study, the average finance function was spending 65 percent of time on transactional processing. The companies in his study were expecting a shift over the next few years down to 15 percent. If the average allocation of resources in this study is compared with the averages of Lenihan and O'Malley (2002), it is clear that the majority of respondents are meeting what was considered to be an efficient target in 2001\2002. However, in terms of the Lenihan and O'Malley's (2002) standard, within a period of eight years to from 2002 to 2010 this would have been expected to have reduced to 15 percent. (Table 5.1).

Table 5.1: Percentage of resources allocated to transactional processing.

	Lenihan and O'Malley (2002)		Respondents
	In 2002	Anticipated by 2010	Current average
Percentage of time spent on transactional processing:	65%	15%	48%

Evidence of improving efficiencies in accounting processes (Q5.1 and Q5.2)

An increase, decrease or no change in the proportion of available finance function time allocated to transactional processing and statutory activities in the past five years was identified in Q5.1.1 and Q5.1.2 respectively. This was in order to establish improved efficiencies in the accounting processing role. To establish future trends in this regard, the respondents were also asked whether there was expected to be an increase or decrease in the proportion of available time allocated to these activities going forward (Q5.2.1 and 5.2.2). The basis for this question was that improved efficiencies in accounting processes should result in time being freed up. This time could then be reallocated to the broader finance function roles. This would therefore facilitate establishing a broader role for the finance function.

For transactional processing, an equal number of participants indicated that the proportion of resources allocated had decreased (46%) or remained the same (46%), over the past five years. When looking forward to the next five years the majority (82%) of respondents expected the proportion of resources allocated to transactional processing to decrease. This was in contrast to the statutory activities role where the majority (55%) of respondents indicated an increase in the resources allocated to this role in the past, and a greater majority (64%) expected it to continue to consume a greater proportion of resources in the future.

Chi-square goodness of fit tests were carried out on increases or decreases in resources allocated to the five identified finance function roles (Q5.1 and 5.2). In respect of the transactional processing and statutory activities roles, the only significant result was the expected increase or decrease in transactional processing time in the future (Q5.2.1). Significantly, more participants than envisaged expected the time allocated to transactional processing to decrease in the future. Therefore, statistically the majority of participants were expecting a decrease in the resource allocation to transactional processing in the future.

With both the average responses and the statistical analysis of these responses, it is evident that improved efficiencies in transactional processing have been experienced to some degree, and are expected to increase into the future. However, this was not expected to be the case in respect of the statutory activities role. There was therefore no conclusive evidence to suggest that companies were seeking to improve efficiencies in all aspects of accounting processing.

Means of improving efficiencies in accounting processes (Q7 and Q8)

In order to identify whether companies were seeking to improve efficiencies in the finance function roles, reported practices used to gain such efficiencies were ascertained from the literature. One practice employed in gaining efficiencies in transactional

processing and statutory activities was outsourcing (Lenihan and O'Malley, 2002; Gould and Fahy, 2005a). Outsourcing takes one of two forms: either a move toward internal shared service centres, or outsourcing to external partners. Lenihan and O'Malley (2002) discussed shared service centres as a means of reducing transactional processing costs. Gould and Fahy (2005a) indicated that to achieve the necessary transactional processing efficiencies, companies have moved information processing to shared service centres or have outsourced this function.

The degree to which respondents made use of outsourcing for any of the five finance function roles was therefore identified (Q7). A move to outsourcing would provide evidence that companies were looking to outsourcing to improve efficiencies in the finance function role. A Chi-square goodness of fit test applied to the responses in respect of whether or not each of the five finance function roles were outsourced (Q7), revealed that corporate strategy activities and business risk management were significantly more often than not, not outsourced. None of the finance function roles were significantly more subject to outsourcing. Therefore, the results indicate that business strategy and business risk management are the roles least likely to be outsourced. An expectation that transactional processing or statutory activities would be more likely to be subjected to outsourcing, indicating that this was a significant approach to improving accounting processing, was not evident amongst the respondents.

Further analysis of the findings indicated that although very few respondents used any form of outsourcing at all, transactional processing, statutory activities and measurement of organisational performance were all equally likely to have some level of outsourcing. This shows that if outsourcing was used by the respondents, it would be most likely be in the accounting processing roles, and providing information for decision making roles. The timing of the outsourcing decision (Q8) in all cases had taken place more than five years previously. By establishing the timing of the decision it was hoped to ascertain whether it was indicative of the current trends to increase efficiency and

competitiveness. As the outsourcing that was taking place was not a recent trend for the respondents, it cannot be seen as confirming a current drive toward improved efficiency. All outsourcing was to external partners, though in one case it was to a company in the same group. This reveals that shared service centres were not used by the respondents.

Relative importance of improving efficiencies in transactional processing (Q14.2 and Q15.2)

Reduced time spent on transactional processing was listed as the second potential factor motivating changes to the finance function (Q14.2), and potential advantages to be gained from changes in the finance function (Q15.2). A high ranking here would establish improving efficiencies as a significant factor for respondents when making changes to the finance function. It was anticipated that these efficiencies would be sought first, in order to facilitate a shift in resources to broader finance roles. However, when ranked alongside the other seven potential motivating factors (Q14), reduced time on transactional processing was ranked number six or seven in terms of the mode. That is it was bi-modal. In terms of benefits from past changes (Q15) it was ranked 7th. The mean score for this option as a motivation (Q14) was 5.2 and as a benefit (Q15) it was 5.5. This was the second lowest mean and modal ranking for both questions. The results therefore showed that although, as discussed above, respondents expected decreasing resources to be allocated to transactional processing in the future, this was one of the least important objectives for participating companies when re-engineering their finance functions.

Summary in respect of the accounting processing (Q3, Q5, Q7, Q8, Q14 and Q15)

Efficiency in the accounting processing role was established by determining the percentage of resources allocated to transactional processing and statutory activities (Q3) and benchmarking these against established standards. In addition, it was hoped to find whether there was a trend toward reducing the allocation of resources to these two roles (Q5.1 and Q5.2). Additional evidence of the importance of improving efficiency in

accounting processing was sought by identifying whether there was a trend toward outsourcing as a means of gaining efficiencies (Q7 and Q8) and whether reduced time on transactional processing was an important factor in past change initiatives (Q14 and Q15).

In respect of the requirement for respondents to be trying to improve efficiencies in the accounting processing role, mixed results were found. Although there was some evidence of respondents seeking to allocate less resources, particularly to the transactional processing role in the future, this had not been a significant motivating factor for them in past change initiatives. There was also no conclusive evidence of an overall trend toward outsourcing as a means of gaining such efficiency, and no evidence of the use of internal shared service centres.

Against expectation, it was therefore not conclusively shown that the respondents were generally seeking to reduce resources allocated to the accounting processing roles.

5.2.3 Increasing involvement by the finance function in decision support activities

The final value adding criterion to be evaluated was whether the finance functions of the selected companies were becoming increasingly involved in decision support activities, A number of factors were considered, including changes in resource allocation in respect of these activities (Q5.1 and Q5.2), an evaluation of skills requirements (Q12), the distribution of the finance function activities through the organisation (Q6) and the factors motivating changes to the finance function (Q14 and Q15).

Changes in resources allocated to decision support activities (Q5.1 and Q5.2)

It was ascertained whether increases, decreases or no change, (Q5.1) had occurred in the apportionment of resources among the five key accounting roles, and what changes were expected in the future (Q5.2). In assessing improving efficiencies in accounting processing activities, responses were evaluated in respect of the first two roles, that is

transactional processing and statutory activities. In evaluating decision support activities, the emphasis was on the other three roles, which are managing organizational performance, developing and implementing corporate strategy and managing business risk. If the finance functions of the respondents were becoming increasingly involved in decision support activities, an increase in the allocation of resources to these three roles would have been expected.

In evaluating the results it became clear that the overall trend was toward increasing resource allocation to the decision support roles. The majority of respondents have had an increase in resources allocated to these roles over the past five years (Q5.1). The highest proportion (73%) reflected an increase for the business risk management role, and the smallest majority (55%) was reflected for developing and implementing corporate strategy. No companies showed a decrease in resources allocated to business risk management and developing and implementing strategy. Two respondents (18%) reported a decrease in resources allocated to managing organisational performance. When evaluating the next five years (Q5.2) this increase in resource allocation to the decision support roles was even more marked. This was most significant for business risk management (83%), but a significant majority (73%) is expecting an increase in the other roles.

These findings are supported by Chi-square goodness-of-fit tests which was applied to the three decision oriented roles. Evaluating the past five years (Q5.1), significantly more respondents than expected reflected an increase in the role of business risk management. For the developing corporate strategy role and the measuring organizational performance role the results were not found to be significant. However, when analysing the next five years (Q5.2), significantly more respondents than expected chose the increase option for all three roles: measuring organisational performance, business risk management and developing and implementing corporate strategy. It was

clear from this that an increasing trend already established over the past five years, was expected to expand further over the next five years.

Broadening of the skills base for finance function personnel (Q12)

A further indicator of an increasing focus on the decision support activities was an awareness of the need for finance staff to broaden their skills base. This was recognised in the literature review. Gould and Fahy (2005b) list three strategies that are key to achieving the business partnering role that they envisage. These are finding and retaining the right finance skills, developing strong teamwork abilities and where necessary developing tools that will enable finance to make a contribution in a broader spectrum of business decisions. Accenture Management Consulting (2008) indicated that few finance executives believed that their finance function was performing optimally, and one of the key elements hampering improved performance was seen to be the necessary skills. Voigt in SAICA (2008) used an assessment of the skills that chief financial officers (CFO's) require now, and the skills they see as being important in the future, as one of the key indicators of how the role of the CFO is changing.

Nine finance skills were listed and respondents were asked to indicate whether the skills would be more important, less important or of the same importance in the future (Q12). In retrospect, it was felt that the 'less important' option should not have been included, as it was unlikely that less of any particular skill would have been called for. This option was in fact only selected three times across all nine skill options, and for analysis purposes has been linked with the same importance responses.

Chi-square goodness-of-fit tests applied to all nine skills revealed that information technology, general management, strategic management and communication and literacy skills were seen as being more important in the future by significantly more respondents than expected. This confirmed that the broader management skills were being rated as being of more importance in the future. Financial accounting and numeracy skills were

seen by significantly more respondents than expected to be of the same importance in the future. These are skills that have traditionally been focused on in the training of accountants, and the respondents were thus reflecting that these were not less important, but needed to be maintained. (Chart 5.1)

Further analysis showed that management accounting skills were also seen as more important in the future by a majority of respondents (64%). Whilst management accounting is a skill that supports the broader decision management role of finance, the slightly lower majority here would be a reflection of the fact that this skill has also been traditionally part of the training of accountants, and could be seen therefore as a current skill. A majority of respondents (64%) saw both tax and financial management skills as being of the same importance in the future. Again, this could be explained by the fact that these are skills in which accountants are traditionally well versed. (Chart 5.1)

In summary, all the skills seen as more important by a majority of respondents which have been proven to be statistically significant can be identified as being broader than traditional financial accounting skills. This is supportive of a broader role for the finance function.

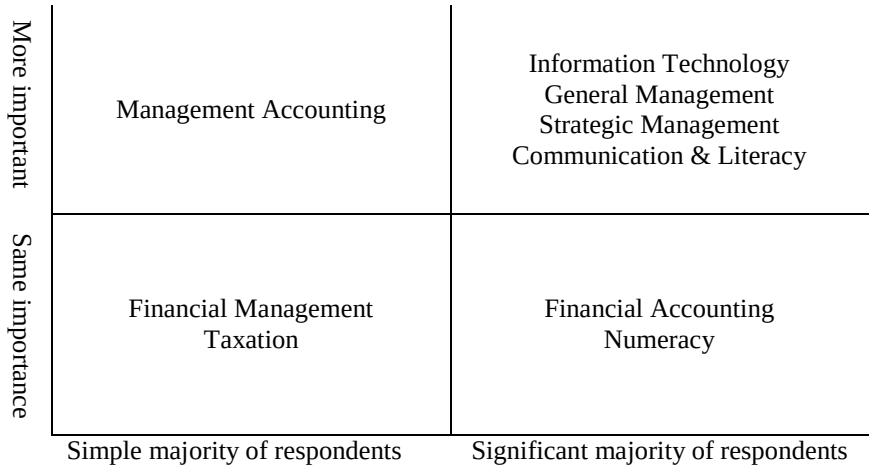

Chart 5.1: Summary responses on future importance of skills (Q12)

This in turn can be seen to support the premise that these companies envisage a broader role for their finance functions in the future. In discussions with respondents around the issue of skills, more often than not they were reporting an increase in the number of finance staff being employed with higher level qualifications, and that this trend was expected to continue into the future.

Distribution of the finance function roles within the organisation (Q6, Q5.1 and Q5.2)

One potential outcome of finance not assuming a broader more strategic role in the organisation, would be for more of this role to be assumed by other business units. To determine to what degree any of the finance function roles was being undertaken by staff from outside of finance, the involvement of other personnel in each of the finance function roles was ascertained (Q6). The degree to which this was happening, specifically with the more strategic and decision focused roles could be an indicator of the finance function not fulfilling the required role.

The number of responses which confirmed the involvement of other personnel (Q6) for managing business performance, business risk management and developing and implementing corporate strategy was calculated. These were compared with the number who indicated a decrease or no change in the amount of resources allocated to these roles, both in the past and expected in the future (Q5.1 and Q5.2). A correlation was thus being sought between not allocating more finance resources to these three roles (Q5.1 and Q5.2), and other company personnel undertaking the responsibilities (Q6). Spearman's correlation was applied to the two numbers to ascertain whether a correlation existed between the number of affirmative responses (Q6) and the number of decrease or no change responses (Q5.1 and Q5.2 last three options). If other staff were undertaking these three roles, was it as a result of the finance function not allocating more resource to the roles? No significant correlations were found.

In the interviews it was ascertained that the involvement by other internal parties in the five key finance roles was for one of two reasons. Some of the respondents had branches without dedicated finance staff, and operations staff would therefore provide support to the finance function. In other cases roles such business risk management and development of corporate strategy required input from a broad spectrum of management staff, and these were therefore not the preserve of the finance function alone. It was therefore felt that this question was not specific enough to achieve its aims, as involvement by other parties did not necessarily translate into a lack of involvement on the part of the finance function.

Potential advantages from increased involvement in decision support roles (Q14 and Q15)

Finally, in assessing the increasing involvement of the finance function in decision support activities, the motivation for and results of past changes in the finance function (Q14 and Q15) were again examined. Here, improved decision making was clearly ranked as the most important reason for past changes in terms of both the mean and the mode, and as the benefit most derived from past reorganisations of the finance function. The second ranked option was improvement in organisational performance, both in terms of the mean and the mode. This was the case for both the motivation for changes in the finance function (Q14) and the advantages gained from changes in the finance function (Q15). These responses show clearly that achieving a more decision information focused role was the most important motivation for any changes made to the finance function. (Table 5.2)

The link between the eight options given as potential motivation for changes, and benefits from changes, in the finance function (Q14 and Q15), and the five key roles of the finance function, has been established This has been analysed in conjunction with the summary ranking derived from the mean and mode for each option. Noticeably, the highest ranked options were linked to the managing organisational performance role,

whereas the lowest ranked options were linked to the accounting processes roles of transactional processing and statutory activities. This leaves the options related to the strategic roles as of median importance. Lenihan and O'Malley (2002) who saw the finance focus on transactional activities shifting from around 65 percent in 2002 down to 15 percent over the next few years, also recorded business decision support increasing from 25 percent to 40 percent, and what they referred to as "new value services", increasing from zero to 35 percent over the same time period. The rankings by respondents in respect of the motivation for and benefits from changes to the finance function reflected this reported trend toward more emphasis on decision support, and to a slightly lesser degree toward strategic objectives. (Table 5.2)

Table 5.2: Finance function roles and motivations for and advantages from change initiatives (Q14 & Q15)

Finance function roles	**Potential motivation for changes to the finance function (Q14)** **Potential advantages from changes to the finance function (Q15)**	**Summary ranking**	
		Q14	**Q15**
Transactional activities	• Reduction in finance cost as a percentage of sales	8	8
	• Reduced time spent on transactional processing	6	7
Statutory activities	• Reduced time spent on statutory activities	6	7
Managing organizational performance	• Improved decision making	1	1
	• Improvement in organizational performance	2	2
	• Increased shareholder value	3	3
Managing business risk	• Improved risk management	4	4
Developing and implementing corporate strategy	• Enhanced identification of new business opportunities	7	5
	• Enhanced implementation of new business opportunities	5	6

Source: Compiled from research findings

The close rankings between motivation for changes (Q14) and the benefits derived from changes (Q15) were confirmed by a Spearman's correlation test carried out on each pair of questions. For example, 'reduction in finance cost' as a motivation (Q14) correlated with 'reduction in finance cost' as a benefit derived (Q15) and so forth. There was a significant positive correlation on all but two of the options, confirming a high degree of correlation between the rankings. This indicates that, to a large degree, respondents were of the view that the results obtained from change initiatives were in line with the motivation for such changes.

Summary in respect of increased involvement in decision support activities. (Q5.1, Q5.2, Q6, Q12, Q14 and Q15)

Increased involvement by the finance function in decision support activities was evaluated with reference to increasing resources being allocated to the three roles classified as decision support roles (Q5.1 and Q5.2). These roles were managing organisational performance, managing business risk and developing and implementing corporate strategy. As further support of this shift, the skills seen as of increasing importance for finance function personnel were identified (Q12) and linked to the decision support roles. This was also the case for certain of the factors ranked as motivating factors and benefits gained from past change initiatives (Q14 and Q15), which were also then evaluated. The degree to which other functions within the organisation were carrying out finance function activities (Q6) was also examined.

In evaluating these factors, it was concluded that respondents were identifying a trend toward the increased importance of the decision support roles of the finance function going forward. This was indicated by on average more resources having being allocated to these roles by respondents in the past, and this trend being expected to increase into the future. In addition, the skills supporting these roles were being reported by the majority as being of more importance in the future. Furthermore, the decision support roles underpin the motivations for recent past change initiatives in the finance function,

as indicated by the high rankings given to these motivations by the respondents in general.

The findings in respect of a trend toward increasing importance of the decision support roles of the finance function were therefore found to be in line with expectations.

5.3 Analysis of respondents' finance functions grouped by industry

To determine whether responses to any questions were industry specific, a statistical analysis was carried out to establish whether the different responses to relevant questions between respondents from the manufacturing industry and the others as a group, were statistically significant. For this analysis the two respondents from the agriculture industry were grouped with the individual respondents from shipping, information technology (IT), leisure and local government, and compared with the group of five manufacturing respondents. No significant differences were established. This was expected, due to the generic nature of the finance function across organisations.

A case study approach was followed in analysing the respondents' finance functions. To facilitate this analysis, respondents were classified into three groupings, agriculture, manufacturing and other. In this instance 'other' included the individual respondents from shipping, local government, leisure and information technology. This analysis was intended to reveal common trends across respondents, and to highlight and explain exceptions where they occurred. As with the analysis and interpretation of the average responses, the degree to which the respondents were meeting the identified value adding criteria was assessed. These key value adding criteria were identified as decreasing the extent of resources allocated to the finance function, improving efficiencies in accounting processing activities, and a resultant shift in resource toward the decision support roles of the function (Vollmers, 1997: 64; Kennedy, 1998: 29). Evaluating the respondents in respect of these criteria was therefore achieved by evaluating the individual responses to the respective questions related to an emphasis on decreasing the

extent of resources allocated to the finance function. Also those questions aimed at assessing efficiencies in accounting processing activities, and those disclosing evidence of a shift in finance function resources to decision support activities.

5.3.1 Agriculture

Decreasing the extent of resources allocated to the finance function

Respondents one and five were positioned in the agricultural industry and were public companies. The absolute size of the finance function for respondent one was 205 persons, and for respondent five, 15. Therefore, although both were public companies and were in the same industry, there was a significant difference in size between the two. Both respondents reported an increase in the size of the finance function over the past five years, and saw this increasing further in the future (Q4.1 and Q4.2). For respondent one, the introduction of new accounting and management accounting systems and business acquisitions were advanced as explanations for this increase (Q9). For respondent five the growth of the business, including a broadening of their operations nationally, and a change in the focus of the management together with an increased emphasis on corporate governance were advanced as reasons for increases in finance function size.

Neither of the respondents measured the cost of the finance function as a separate cost, and so it was not possible to benchmark this cost as a percentage of sales (Q10 and Q11), which had been proposed as the accepted measure of the relative size of the finance function. If respondents were not measuring the cost of the finance function, it would be expected that reducing the cost of finance as a percentage of sales would not be a significant motivating factor for these respondents in making changes to their finance functions. Both ranked this at the eighth (the lowest ranking) in terms of both a motivation for and benefit received from past changes (Q14.1 and Q15.1).

The expected decrease in size of the finance function was therefore not evident in these respondents. Furthermore, it can be concluded that it was not a priority for their finance functions over the next five years.

Improving efficiencies in accounting processing

In assessing the level of efficiency achieved in accounting processing activities so far, the allocation of resources to the transactional processing and statutory activities roles was evaluated (Q3). By far the majority (77%) of the finance function resource for respondent one was allocated to transactional processing activities, but a much lower percentage (45%) was allocated to this role by respondent five. Respondent one's allocation to this role was the highest of all respondents whilst respondent five's allocation was more in line with the average for manufacturing (46%) and the others as a group (44%). Respondent one was made up of a number of distinct businesses units under a single corporate entity. The finance function here was decentralised and did not follow a standard model in each business unit. The structure of the organisation could therefore be seen to influence the extent of resource allocated to transactional processing in this case. Respondent five did not operate such a decentralised structure, and could therefore be expected to have a lower allocation to transactional processing. Gould and Fahy (2005: 27) reported that the key steps to cutting finance's operating costs included improved productivity through regional consolidation, common processes and standardisation. Where there is no standardisation of processes, efficiencies in transactional processing are more difficult to achieve.

Statutory activities on the other hand consumed only 2% of resources for respondent one, one of the lowest. This was likely to be a head office role, and therefore less affected by the diverse business operations. Respondent five had 9% allocated to statutory activities. Resource allocation can therefore be seen to be very different between the two respondents, despite their being in the same industry. (Chart 5.2 and Chart 5.3.)

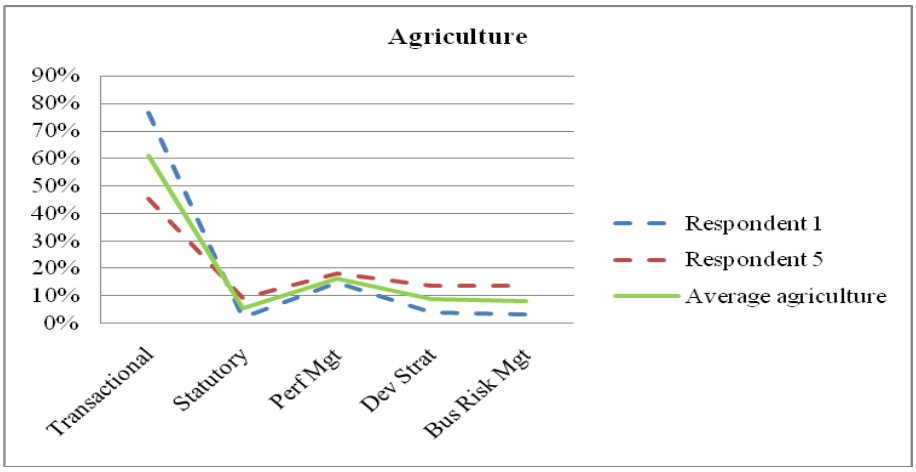

Chart 5.2: Resource allocation – agriculture respondents

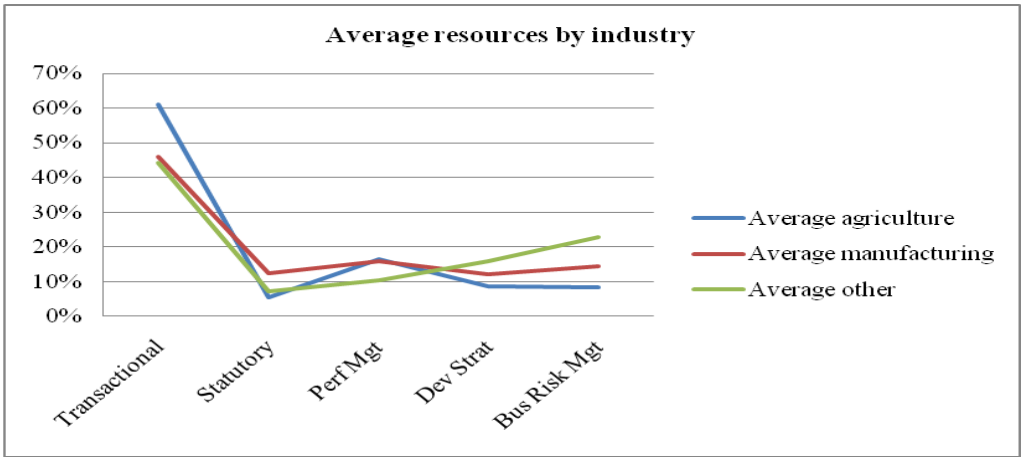

Chart 5.3: Average resource allocation – agriculture, manufacturing and other.

A decrease in resources allocated to transactional processing and statutory roles over the past five years (Q5.1.1) had however been experienced for respondent one and this decrease was expected to continue (Q5.2.1). This would indicate that some improved efficiencies in the accounting processing roles were being experienced. By contrast, respondent five had seen no change in the transactional role and an increase in the statutory role over the past five years. Going forward, respondent five anticipated a decrease in the transactional role and a further increase in resources allocated to the statutory role. Future efficiencies in transactional processing were therefore being

expected here. On the other hand, the fact that respondent five cited increasing compliance as a factor affecting the size of the finance function, would explain why an increase in the statutory role was anticipated.

When evaluating the importance placed on reducing time on transactional activities as a motivation for changes in the finance function (Q14), this was ranked 7th for both respondents. A low priority on improving such efficiencies was therefore indicated. This was against the expectation of an emphasis on improving such efficiencies.

The agricultural companies therefore were very different when it came to the resources allocated to transactional processing and statutory activities. The largest of them, respondent one, had a very diverse structure, and this could provide an explanation consistent with the literature for the extent of resource allocated to the transactional role. Respondent one also differed from the manufacturing and other respondents in this regard, whose results more closely aligned with those of respondent five. Both, however, predicted that resources allocated to transactional processing would decrease in the future, even though improving efficiencies in the transactional role was considered of low importance. There was therefore no clear outcome on the importance placed on improving efficiencies in accounting processing activities, for either respondent one or five.

Increasing involvement by the finance function in decision support activities

Decision support activities were defined in terms of the construct as managing organisational performance, managing business risk and developing and implementing corporate strategy roles. When measuring the allocation of resources to these roles for the agriculture respondents (Q3), respondent one's allocation to these roles was much lower than respondent five's. This would be expected given the extent of resources allocated to transactional processing for respondent one. This was most marked in the business risk management and developing corporate strategy roles where respondent one

allocated three percent and four percent respectively, whereas respondent five allocated 14 percent to both (Q3).

However, all three decision support roles have shown an increase in resource allocation over the past five years (Q5.1.3-Q5.1.5) for both respondents. This increase was expected to continue (Q5.2.3-Q5.2.5) for respondent one, but resources allocated to developing strategy and business risk management would stabilise for respondent five. This could be explained by the fact that respondent five already had a broader finance function. However, a continued shift of resources toward decision support would be in line with the expectations, as these roles reflect the envisaged broader role of the finance function, and the resources allocated to transactional processing were not yet in line with international best practice.

Skills in support of decision support activities

An evaluation was conducted of skills which were seen as more important for finance function staff in the future. This was to determine whether these skills were representative of the shift in the role of the finance function toward the broader decision support roles (Q12). When evaluating what skills were seen as more important in the future, respondent one indicated information technology, general management, communication and management accounting. These skills were those that had been identified as supporting a wider finance role. However, it would have been expected that strategic management skills would have been included here. Respondent five cited strategic management skills as being of more importance, and also mentioned financial management instead of management accounting, which was seen as being of the same importance.

Linking motivations for past changes to decision support activities

As further evidence of the importance placed on improving the finance function's involvement in decision support activities, the factors motivating past changes in the

finance function and benefits gained from such changes for these respondents were evaluated (Q14 and Q15). The identification of new business opportunities and the improved implementation of new business opportunities were the highest ranked of the motivations for past changes in the finance function (Q14), by respondent one. These are strategic roles. For respondent five improved decision making and improvement in organisational performance were the highest ranked motivators. This gives some indicator of how the role of the finance function was viewed by these two respondents. Respondent one was focused on new business opportunities, and respondent five more on improved decision making and performance. These would both be viewed as a broader role than the traditional finance role, which was more focused on accounting processes and record keeping.

Summary evaluation of agriculture respondents

In establishing the finance function as value adding, an emphasis on decreasing the extent of resources allocated to the finance function was expected. In addition, improving efficiencies in accounting processes were sought, allowing for resources to be released and transferred to decision support activities.

For the two agriculture respondents, it was found that a broader role for the finance function was envisaged. This was indicated through reported increases in allocation of resources to decision support roles, which was expected to increase into the future. This change was further supported by the skills which were reported by these respondents as being of more importance in the future. This trend toward a broader role was in line with expectations. However, neither respondent demonstrated a concurrent emphasis on improving accounting processing efficiencies. Respondent one had the highest allocation of resources to transactional processing but they reported a decrease in the allocation over the past five years and foresaw this continuing. For respondent five the current allocation to transactional processing was more in line with the average for the group and was also expected to decrease. However, it was in the statutory role that resource

efficiencies were not expected by either respondent. In respect of decreasing the extent of resources allocated to the finance function as a whole, neither of the companies saw or foresaw a decrease.

It is therefore concluded for respondent one and two that, although the need to broaden the role of the finance function was acknowledged through the responses, there was no conclusive concurrent emphasis on improving the efficiencies in accounting processes in general. Neither was there an emphasis on decreasing extent of resource allocated to the finance function.

5.3.2 Manufacturing

Decreasing the extent of resources allocated to the finance function

There were five respondents positioned in the manufacturing industry. These were respondents two, four, six, eight and ten. Of these respondents, eight was the smallest in terms of absolute number of finance function employees, with only three finance employees. Respondent six was the largest with 35 employees. Like the agricultural respondents, and in fact all but one of the respondents in total, these manufacturing respondents have seen an increase in the resources allocated to the finance function over the past five years (Q4.1). Of the manufacturers only respondents eight and ten did not see this increase continuing in the future, but foresaw no change over the next five years (Q4.2). Again, this did not correspond with the expectation arising from the international paradigm shift, which sees a reduction in size as one of the aims of the finance function as it becomes more value added.

In addressing the reasons for changes in size and functioning of the finance function over the past five years (Q9), a common theme amongst the manufacturers was business growth and increasing compliance requirements in the field of tax, IFRS and even including employment equity reporting (BEE). Some examples of business growth would be the start up of an international branch, and the withdrawal of certain key

competitors from the market of one of the respondents. They were therefore indicating that the reason why the finance function had increased in size was that there was no capacity to deal with business growth and the added responsibility brought about through a changing legal environment.

Three of the five manufacturing companies kept a separate measure of finance function cost, and were therefore able to calculate finance function cost as a percentage of sales as a relative measure of the size of the finance function. Of these, respondent six reported the lowest finance function cost (1.3%) as a percentage of sales. Benchmarking findings from *The Hackett Book of Numbers* (2006), indicate that world class companies achieve percentages as low as 0.67%, with the average company achieving 1.22%.

Although not achieving world class standards, the measuring of finance function cost was viewed as evidence of some focus on controlling the cost. To confirm this, correlation was sought between those who measure the cost of finance, and their respective ranking of the motivation "reduction in finance cost as a percentage of sales", for changes in the finance function (Q14.1). Mixed results were found. For example, respondent six measured the cost of finance, and had the lowest finance function cost as a percentage of sales, but ranked reducing finance cost as a motivation for changes in the finance function at number seven, the second lowest ranking, showing no correlation. On the other hand, respondent eight also measured the cost of finance, and ranked reducing finance function cost at number four as a motivation, confirming that controlling this cost was of more importance to them.

In summary it can be concluded that, as was the case for the agriculture companies, the expected decrease in size of the finance function was not evident in all manufacturing respondents. Respondent eight, who saw no change in the size of the finance function going forward, measured the cost of finance and ranked control of this cost higher than most, can be seen to be the only respondent with a focus on maintaining the size of the

finance function. Furthermore, it can be concluded that for the majority of respondents, such a cost reduction was not a priority for their finance functions over the next five years.

Improving efficiencies in accounting processing

As was the case for the agriculture industry, transactional processing consumed the most resources for the manufacturing respondents. However, here the variation between the highest and lowest allocation was not as significant. Respondent four showed the highest (52%) allocation and respondent two the lowest (40%). The average resources allocated to transactional processing for this group was 46 percent (Chart 5.4). When compared to agriculture and the group of other respondents, this was close to the average for the others (43%), but the high percentage for respondent one in the agriculture group resulted in a higher average for that group, as discussed above (Chart 5.3).

There was much greater variation in the allocation to the statutory activities role, with respondent six allocating the highest percentage (20%) and respondent four the lowest (7%). This latter respondent indicated both increased statutory reporting and BEE reporting when addressing reasons for changes in size and functioning of finance (Q9), and this could explain the higher allocation to the statutory role.

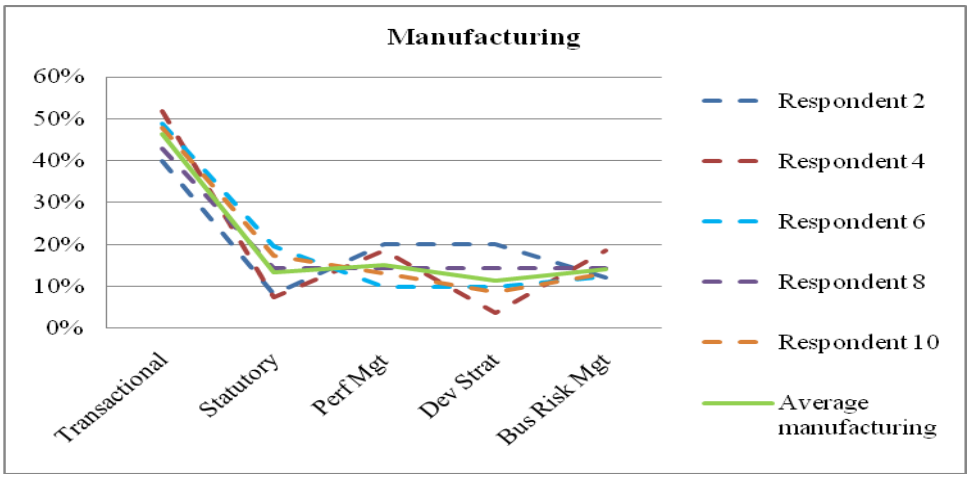

Chart 5.4: Resource allocation – manufacturing respondents

The shift in resources allocated to these two roles was also evaluated. The majority position regarding the transactional role was that resources allocation had decreased over the past five years, and for the statutory role that the resource allocation had increased (Q5.1). There was more variability when considering the next five years. Two respondents saw a decreased allocation to transactional processing, two foresaw an increase and one no change. There were therefore mixed results in terms of the improved efficiencies in transactional processing going forward, with only two of the five respondents (respondent two and four) indicating that such efficiencies had been achieved in the past and would continue to be achieved in the future. On the question of the statutory role, the majority position both based on the past five years and looking forward, was that resources allocated here would increase. Therefore no reduction in resource allocation to accounting processes could be expected from improved efficiencies in the statutory role.

In addition, the importance placed on reducing time on transactional activities as a motivation for changes in the finance function (Q14), was assessed, based on the rankings allocated by respondents. The rankings varied from a ranking of one for respondent eight to a ranking of eight for respondent six, with similar rankings for the benefits gained from such changes (Q15). The mean ranking for the manufacturers was five. The priority on improving such efficiencies was therefore higher here than for the agriculture grouping, but was not a primary motivation for changes.

In summary, for the two traditional accounting processing roles, although a mixed response was seen for transactional processing , there was no conclusive evidence of an emphasis on achieving improved efficiencies in these roles. Respondent two indicated a reduced allocation to transactional processing in the past and expected this to continue in the future. This respondent also ranked this as the third highest priority when making changes to the finance function, and was therefore the respondent most focused on

improving transactional processing efficiencies. The expected emphasis on improving such efficiencies was therefore not evidenced for all manufacturing respondents.

Increasing involvement by the finance function in decision support activities

In terms of the three decision support roles, the manufacturing respondents showed little variation from the manufacturing average in respect of resources allocated to each of these roles. There were two exceptions to this: respondent four allocated only 4 percent of resource to developing strategy, against an average of 11 percent for the group, and this respondent had the highest allocation to transactional processing (52%). In addition, respondent two allocated 20 percent of resource to performance management and developing strategy, against averages of 15 percent and 11 percent respectively. Respondent two had the lowest allocation to the transactional role (40%) of this grouping. These exceptions were evidence that efficiencies in transactional processing do allow for more emphasis on the decision support role, as expected.

Where there had not already been an increasing allocation of resources to decision support roles however, an increase was expected in the future (Q5.1 and Q5.2). An example here would be respondent four, who as indicated previously, allocated only four percent of resources to developing corporate strategy. This respondent indicated no change in resource allocated to this role over the past five years (Q5.1.4), but expected an increased allocation over the next five years (Q5.1.5).

Skills in support of decision support activities

In evaluating the importance of skills for finance function personnel going forward, the more strategic skills of information technology, management accounting, strategic management, general management and communication were seen as more important in a significant majority of cases for manufacturing respondents. The traditional skills of financial accounting, financial management, tax and numeracy were indicated as being of the same importance by the majority of the respondents. This finding confirms the

expectation that the more strategic skills would be of increasing importance in the future, and was in line with the agriculture grouping.

Linking motivations for past changes to decision support activities

The highest ranked motivations for past changes in the finance function (Q14), by manufacturing respondents were improved decision making and improvement in organisational performance. This was in line with respondent five from the agriculture grouping, and also in line with the average for all respondents. This represented the shift in emphasis of the finance function toward a more managing organisational performance role, as these two outcomes would result from improvements in this role.

Summary evaluation of manufacturing respondents

In summary, respondent two was assessed as achieving most of the key criteria defined as resulting in added value in the manufacturing group. Respondent two foresaw an increase in the size of finance over the next five years, and did not measure the cost of the finance function as a percentage of sales, or see reducing this as a priority in making changing to the finance function. However, this respondent did have the lowest allocation of resources to transactional processing of this group, and the highest to the decision support roles. This was combined with the emphasis on improving time spent on transactional processing, which was ranked at three. In addition, as was the case for all manufacturers, respondent two saw the strategic finance function personnel skills as more important in the future and ranked improved organisational performance and improvements in new business implementation as the highest motivation factors in making changes to the finance function. The only criterion not met for this respondent was the expected reduction in the extent of resources allocated to the finance function.

5.3.3 Other

Three respondents from different industries and one local government organisation made up the final grouping. These industries bore no relation to each other, and the

respondents were therefore grouped simply to identify if the trends established in agriculture and manufacturing sector could be identified for individual respondents in this group.

Decreasing the extent of resources allocated to the finance function

The local government organisation, respondent nine, was the largest of all respondents with 777 finance function employees. It was included in the sample once it had been established that the paradigm shift which had been identified was relevant to public sector organisations as well as companies (United States General Accounting Office: 2000). The three other respondents, respondents three, seven and eleven, ranged in size from seven to 32 employees.

Respondent three was the only respondent from the sample to reflect a decrease in size of the finance function over the past five years and to expect this decrease to continue over the next five years (Q4.1 and Q4.2). This decrease has been realised despite recording an increase in the number of customers, and increased reporting requirements (Q9). This respondent was in the information technology (IT) industry, providing outsourced information technology solutions for its clients, and reflected IT improvements as one of the factors affecting the size of the finance function (Q9). The sophistication of the IT system would therefore explain the ability of this respondent to achieve these cost advantages. The local government organisation was the only other in this group to reflect an expected decrease in resources allocated to the finance function over the next five years, although it experienced an increase over the past five years. Again, changes in legislation and changing accounting standards were cited as reasons for the past increases (Q9).

Respondents three and seven both measured the finance function cost separately, achieving percentages relative to sales of 7% and 5% respectively. This was significantly higher than the average company outcome reported in the *Hackett Book of*

Numbers (2006) of 1.22%. As for the manufacturing group, it was evident that the measuring of the finance function cost did not necessarily translate into a high priority being placed on reducing the finance function cost. Respondent three measured the finance function cost, and experienced a decrease in the size of the finance function, but did not see reducing finance function cost as a priority, having ranked this motivation at eight (Q14). Respondent 11, however, also measured the cost of the finance function, did not expect a decrease in the size of the finance function, but ranked this at five in terms of motivation for changes in the finance function.

In summary, respondent three was the only respondent from this group that indicated a decreasing finance function size over the next five years, and also measured the cost of finance. However, the cost of the finance function as a percentage of sales for this respondent was high (7%) and reducing this was not reflected as a priority (Q14 and Q15). This is contradictory given that some cost efficiencies would have been expected for this respondent as the size of finance was reported as decreasing in the future, against a reported increasing customer base (Q9).

It can be concluded that, as was the case for agriculture and manufacturing, there was not much emphasis on reducing the extent of resources allocated to the finance function on average for this group of respondents.

Improving efficiencies in accounting processing

Respondent seven had the lowest allocation (31%) of resources to transactional processing of all respondents, while respondent three had the second lowest (38%) (Chart 5.5). Respondent seven's percentage can be explained by the nature of the business. It was explained that in the shipping industry, a number of traditional finance functions, such as debt collection, are carried out by operations staff that have direct contact with the ships, and thus do not form part of the responsibility of the finance function. Respondent three who was in the information technology industry, allocated

only 38 percent to transactional processing, and if combined with statutory activities, allocated only 46 percent of its resources to these two roles that together are defined as accounting processing. The sophistication of their information systems would be the main factor that resulted in the efficiencies for this respondent, and this was closely aligned with what was being shown in the literature as a means for gaining the necessary efficiencies. Gould and Fahy (2005) refer to "e-enabled processes" as being one of the means to achieving the level of efficient transactional processing aimed at.

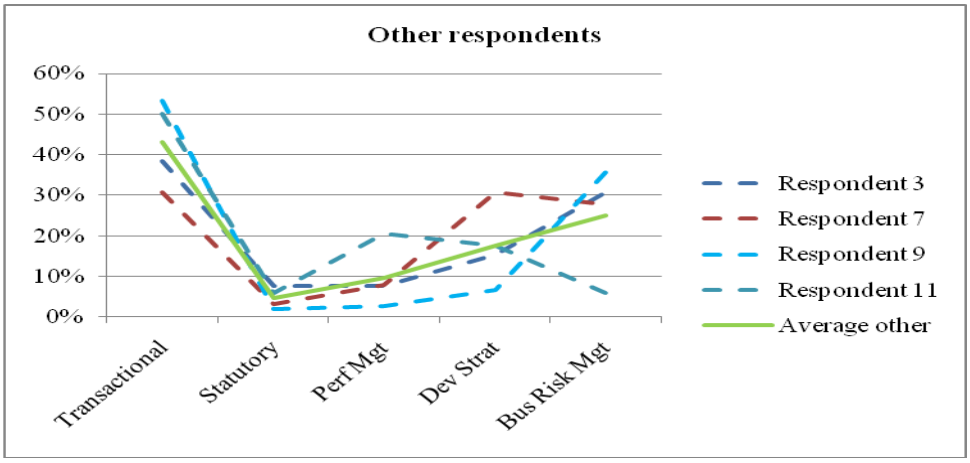

Chart 5.5: Resource allocation – other respondents

When examining the change in apportionment of resources between the roles, the majority of respondents reported no change in allocation to transactional processing over the past five years (Q5.1). They did, however, see this allocation decreasing over the next five years (Q5.2). This could be compared with the manufacturers, who reported a decrease in allocation over the past five years, but only two of the five foresaw a decrease going forward. Amongst this group there was evidence therefore of a degree of recognition that a shift in resources away from transactional processing in the future would be realised. In terms of the statutory role however, only respondent three had experienced a decrease in resource allocation to this role over the past five years, or foresaw such a decrease over the next five years.

Respondent three therefore achieved the second lowest combined percentage allocations (46%) to the accounting processing roles. A link can be drawn between the relatively low percentage of resources currently allocated to these roles by respondent three, and their ability to shift resources from these roles to the area of decision support. As has been discussed, this ability has been facilitated by their sophisticated information systems. On the other hand, respondent seven had the lowest combined allocation to these two roles (34%), in this case facilitated by the nature of the operations.

In the area of reducing time on transactional processing, respondent three ranked this at seven, with the others in the group allocating a more median priority (4 – 6). The efficiencies in this role achieved by respondent three came about without the recognition of this as a priority in change initiatives.

In general then, some efficiency in the accounting processing roles was evident in respondent three and seven. Although respondents nine and eleven reported no change and a decrease in resources allocated to the transactional role respectively, and expected a decrease going forward, their respective allocation to this role currently was above the average for all respondents. Overall there is evidence of recognition that efficiencies in the transactional processing role need to be realised. This is not the case, however, for the statutory role.

Increasing involvement by the finance function in decision support activities

The respondents which had a higher allocation to the decision support were respondents three and seven, who as indicated above, achieved the efficiencies in the accounting processing roles. This was particularly so for respondent seven who allocated 31 percent and 28 percent to developing corporate strategy and business risk management respectively. These were the highest allocations to these two roles of all respondents. It is clear that achieving the efficiencies in accounting processing is key to achieving a broader role for the finance function.

Skills in support of decision support activities

The majority of the 'other' respondents foresaw an increasing allocation to decision support activities in the future (Q5.2). Generally speaking, the respondents recognised the increasing importance of the decision support element of the role of the finance function. This is supported by the responses about the relative importance of the various skills in the future (Q12). Here, once again, the more strategic and broader finance skills, supporting both performance management and strategic management, were largely reported as being more important in the future.

Linking motivations for past changes to decision support activities

When evaluating what was seen as the most important motivations (ranked one and two) for changes in the finance function (Q14), the responses varied within this group. However, only the local government organisation ranked reduced time on accounting processing as number one, with all the others having decision support motivations in the top two. As for the agriculture and manufacturing groups, this supported the view that respondents were seeking to establish a broader role for the finance function.

Summary evaluation for other respondents

Overall, respondents three and seven stood out in this group as the respondents with finance functions most representing a value added model. This was particularly so with respondent three. This respondent foresaw a reduced size for the finance function, achieved efficiencies in the transactional processing role, and had a devolved finance function where 46 percent of finance function resources were allocated to developing strategy and business risk management combined. Respondent seven did not foresee a reduced finance function size, but achieved efficiencies in transactional processing, and saw a reduced allocation to this role in the future. In addition, 49 percent of finance function resources were allocated to developing strategy and business risk management in this organisation.

5.4 Confirming that value is added through the finance function

A paradigm shift in the finance function was identified together with the key elements of this shift, through the literature review (Vollmers: 1997; Kennedy: 1998; Lenihan and O'Malley: 2002). Also identified was the aim of this paradigm shift, which was documented as re-engineering the finance function into a value adding business partner (Lenihan and O'Malley: 2002; Court: 2005). The elements of the paradigm shift that were identified, were recognised as the key criteria necessary to achieve a value adding finance function. These value adding criteria are reducing the extent of the resources allocated to the finance function, improving productivity in the accounting processing roles and moving resources to decision support. The aim of this study was to develop a measuring tool for the selected companies in KwaZulu-Natal whereby these key criteria would be identified, and thereby establish the degree to which their finance functions conform to the value adding paradigm.

5.4.1 Development of measuring tool

To assess whether any of the finance functions of the respondents could be considered to be adding value, the degree to which they were achieving each of the key elements of the shift was examined. In Section 5.3 the respondents were grouped and a preliminary analysis of their adherence to the value adding criteria was carried out in the summary paragraphs for each group. However, this analysis did not allow for the measurement and comparison of the degree to which each of the respondents were meeting the value adding requirements. To facilitate such a measurement, a tool was designed incorporating the identified value adding criteria, to establish which if any respondents could be seen to have a focus on reducing resources allocated to the finance function, whilst at the same time showing efficiency in accounting processes and a corresponding shift in resources to decision support activities. In order to measure whether the criteria were evident, responses to questions from the questionnaire were linked to these three value adding criteria.

The measurement tool required that a value of one be ascribed to relevant question responses as follows. A 'yes' response to whether the cost of finance was measured (Q10), and a 'decrease' response to whether the size of finance had increased or decreased over the past five years (Q4.1) were used as indicators of an emphasis on decreasing the resources allocated to the finance function. To measure the efficiency in the accounting processing activities, a 'decrease' response to changes in the extent of resources allocated to the transactional processing role and the statutory activities role (Q5.1.1, and Q5.1.2) was measured. In addition, to measure the increased emphasis on the decision support roles, an 'increase' response was sought for resources allocated to the other three accounting roles (Q5.1.3 – Q5.1.5). Adding the scores would give a value between zero and seven, with zero representing no value adding criteria met, and seven representing a finance function which conformed to all value adding criteria. (Table 5.3)

Table 5.3: Measuring tool to establish a finance function as value adding

Question	Required response	Score
Measures finance function cost (Q10)	**Yes**	1
Size of finance function increased/decreased over past five years (Q4.1)	**Decrease**	1
Increase, decrease or no change in resources allocated to each of the five finance function roles over the past five years (Q5.1)		
• Transactional activities	**Decrease**	1
• Statutory activities	**Decrease**	1
• Developing & implementing corporate strategy	**Increase**	1
• Managing business risk	**Increase**	1
• Managing organisational performance	**Increase**	1
Total score		**7**

Source: Compiled from research findings

5.4.2 Application of measurement tool to respondent finance functions

The measuring tool was applied to the finance functions of the respondents, based on their responses to the relevant questions. Respondents three, four, six, nine, and 11 all responded 'yes' to measuring the cost of finance (Q10). Of these respondents four, six

and 11 indicated that there had been a decrease in resources allocated to transactional activities over the past five years. None of these three companies indicated a decrease in resources allocated to statutory activities. However, respondent four indicated increases in organisational performance and risk management; respondent six indicated increases in corporate strategy and risk management; and respondent 11 indicated increases in organisational performance and risk management. The respective scores out of seven, for each of the eleven respondents, ranged from zero for respondent nine to six for respondent three. (Table 5.4)

Table 5.4: Testing respondent finance functions for added value

Question	Required response	Respondent number										
		1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Measures finance function cost (Q10)	**Yes**	0	0	1	1	0	1	0	1	0	0	1
Size of finance function increased/decreased over past five years (Q4.1)	**Decrease**	0	0	1	0	0	0	0	0	0	0	0
Increase, decrease or no change in resources allocated to each of the five finance function roles over the past five years (Q5.1)												
• Transactional activities	**Decrease**	1	1	0	1	0	1	0	0	0	0	1
• Statutory activities	**Decrease**	1	0	1	0	0	0	0	0	0	0	0
• Developing & implementing corporate strategy	**Increase**	1	0	1	0	1	1	1	0	0	1	0
• Managing business risk	**Increase**	1	0	1	1	1	1	1	0	0	1	1
• Managing organisational performance	**Increase**	1	1	1	1	1	0	1	0	0	0	1
Total score		**5**	**2**	**6**	**4**	**3**	**4**	**3**	**1**	**0**	**2**	**4**

Source: Compiled from research findings

Respondent three emerged as the respondent with the most value adding finance function. In addition, although this respondent had seen no change in resources allocated to transactional processing over the past five years (Q5.1), they foresaw decreases in both the transactional and statutory roles over the next five years (Q5.2). It could be concluded that within the next five years, the finance function of this respondent would conform to all the value adding criteria.

5.5 Summary of conclusions in respect of the sub-objectives

5.5.1 Development of a construct of the finance function

A construct of the finance function was developed and presented in Chapter Three. This construct was incorporated into the questionnaire to serve as a consistent definition of the finance function. In addition, current finance function resources were mapped according to this construct (Q3) and changes in apportionment of resources between accounting processing roles and decision support roles were assessed in terms of the roles defined in the construct (Q5.1 and Q5.2). This construct therefore served as an important precursor to the final measuring tool developed and presented in this chapter.

5.5.2 Establishment of key criteria which lead to value being added by the finance function

The factors found to underlie the perceived paradigm shift in the finance function were identified in Chapter Two as the key criteria which, if achieved, would lead to value being added by the finance function. These have been recognised as decreasing the extent of resources allocated to the finance function, and also improving efficiencies in the accounting processing roles. This must then result in the freeing up of resources which could be transferred to the decision support and strategy formulation roles.

These criteria formed the basis of the measuring tool presented in this chapter, which allowed for an assessment of the degree to which the respondents finance functions could be confirmed as value adding.

5.5.3 Analysis of changes in the extent of resources allocated to the finance function

Based on both the average evaluation across all respondents, and that of the individual respondents, the value attributed to reducing the extent of resources allocated to the

finance function was determined. Against expectation, on average, no emphasis on such a reduction was identified amongst respondents.

From the analysis it is clear that on average the respondents were meeting some of the requirements for adding value. However, in applying the measurement tool in respect of the requirement for there to be a focus on reducing the extent of resources allocated to the finance function, only respondent three scored two for the questions related to extent of resources. A further four respondents scored one out of the two available points. Therefore the majority showed no evidence of an overall focus on reducing the extent of resources allocated to the finance function. This requirement has therefore clearly not been met.

Alternative measures of extent of resources allocated to the finance function

It was established that common measures of resources allocated to the finance function were, cost of the finance function as a percentage of sales and full time equivalent staff numbers per billion dollars of revenue (*Hackett Book of Numbers*, 2006). Ideally these measures would have formed part of the measurement tool proposed. However, the pilot study that was carried out revealed that not all companies measure the cost of finance in this manner. This meant that it was not possible to use cost of the finance function as a percentage of sales as a relative measure of the size of finance function in the measurement tool. To comply with international best practice in the management of finance function resources, it would be expected that companies would be measuring the finance function cost and establishing finance function cost as a percentage of sales as corresponding measuring tool. It can be concluded that the fact that this was not the case amongst the majority of respondents is in itself evidence of a failure to recognise this as key to becoming more value adding.

It is recommended that companies map the resources allocated to the finance function in terms of the construct developed in Chapter Three, and that the cost of these resources

be measured separately. This would enable a more accurate measure of the extent and cost of the finance function resource and the allocation of the resources between finance function roles.

5.5.4 Establishing the current status of the accounting processing role of the finance function

The current allocation of resources to accounting processes was identified, and any emphasis placed on improving efficiency in accounting processes was established. It was found that transactional processing consumed the most significant proportion of finance function resources, and on average did not conform to international benchmarks.

Some efficiency in this role had, however, been realised and further efficiencies were anticipated in the future. This trend is represented by a reduction in resources apportioned, in particular to transactional processing. This was, however, in conflict with the finding that improvements in transactional processing were not specifically targeted in past changes to the finance function. Respondent one was the only respondent scoring two for the two questions relating to improved efficiencies in accounting processing. By contrast, five respondents showed a decrease in resources allocated to transactional processing over the past five years, only two showed a corresponding decrease in resources allocated to statutory activities. The fact that resources allocated to statutory activities were not decreasing has been shown to be linked to the changes in the legislative environment over the past five years. However, despite these changes, it was held that companies should be looking at means of improving efficiencies in statutory activities, and therefore in accounting processes generally.

The conclusion in respect of the accounting processing role is therefore that in terms of the measurement tool, although there is evidence of improvements in allocation of resources to transactional processing, this is not the case for the statutory activities role.

Alternative measures of efficiency in accounting processes

Taking other indicators of improved efficiencies in accounting processing into account, the requirement for improving efficiencies in accounting processing was ranked lowest in terms of objectives for past changes in the finance functions (Q14.1). Furthermore, the weighting of the resources allocated to transactional processing, at an average of 48 percent, was not outside of the norm established by Lenihan and O'Malley (2002) (Q3). However, these researchers established a benchmark of 15 percent as the future aim for companies, no respondents have achieved this.

The full time equivalent number of staff allocated to each of the finance roles was not generally measured by respondents. For the purposes of this study, respondents were asked to use the construct developed to map their finance human resources. Although not completed on a full time equivalent basis, which would have more accurately accounted for staff split over more than one role or function, this did enable a relative weighting to be calculated.

The lack of any measure of the allocation of resources between roles points to a failure to recognise that key to becoming more value adding is the realigning of current resources between the accounting processing and decision support roles. Allocation of finance function personnel on a full time equivalent basis between the various finance function roles as designated in the construct, is therefore recommended.

Means to efficiency in accounting processes

It was found that few respondents used any form of outsourcing in the finance function. Having established outsourcing either to external partners or internal shared service centres as a key means of achieving both cost benefits and improved efficiency for the finance function, it would have been expected that more of the respondents would have been making use of such initiatives. The other key initiative in improving efficiency was the increased use of information technology. As in the case of respondent three, where

advanced information technologies are in place, this has had an impact on the capacity of the finance function to add value.

5.5.5 Ascertaining and evaluating the shift in resources toward the decision support and strategy formulation activities of the finance function

A potential increase in involvement of the finance function in decision support and strategy formulation activities has been evaluated. Respondents indicated that finance function resources were increasingly being transferred to decision support and strategy formulation activities, and the skills supporting these roles were becoming more important. Therefore, in respect of the requirement for a shift in emphasis toward this wider role, there was conclusive evidence to support this.

Four out of the eleven respondents scored three for the three questions relating to this value adding criterion in the measurement tool, with a further three respondents scoring two out of the three. This indicates that the majority of respondents have experienced an increase in resources apportioned to the decision support and strategic roles of the finance function.

However, at this stage, growing the finance function seems to be the approach taken to ensure that resources are available to meet the widening demands on the finance function. The expected strategy of improving efficiencies in accounting processing to facilitate the shift to the wider role for the finance function was therefore not conclusively supported by the results.

Alternative measures of the shift in resources to decision support

The following trends are further evidence of the shift toward the decision support roles. The skills seen as more important in the future have been evaluated, and were found to include those that support the more strategic role (Q12). In addition, the principal motivations for re-engineering the finance function in the past were better decision

making, improving performance and then the more strategic business aims. These options were ranked highest by respondents (Q14 and Q15).

5.5.6 Proposed measuring tool to confirm the degree to which value is added through the finance function

A measurement tool was proposed that combined indicators of all three key value adding elements. This was then applied to assess the degree to which the finance functions of individual respondents conform to the value adding paradigm. None of the respondents' finance functions were found to fully conform to the value adding paradigm in terms of the measurement tool. However, one respondent expected to meet the requirements within the next five years.

It is recommended that following from the proposed allocation of resources to the various finance function roles on a full time equivalent basis, and the separate costing of such resources, this measurement tool could be applied to monitor progress toward transforming the finance function of the company into a value adding entity. Furthermore, the tool provides a means of establishing where improvements in the finance function need to be concentrated to ensure that value is added.

5.6 Conclusion

In order to confirm whether value is added through the evolving finance functions of respondent companies, it was necessary to evaluate these finance functions against identified value adding criteria. These criteria were the extent of resources allocated to these finance functions, the current status of the accounting processing role in terms of the apportionment of these resources, and the extent of the shift in resources away from accounting processes and toward the decision support and strategy formulation roles. The literature review revealed that a decrease in the extent of resource allocated to the finance function was required. In addition, efficiency in accounting processing allowing

for the freeing up of resources to be transferred to decision support roles was necessary. Establishing evidence of these criteria would allow for the finance function to be confirmed as contributing to added value. This chapter evaluated the findings in respect of these three value adding criteria.

Questions from the research questionnaire were linked to each of the three value adding criteria. An analysis was then conducted by further examination and interpretation of the results of average responses across all respondents. In addition, respondents were grouped by industry where possible, and in the context of the industry, the findings for each respondent were then interpreted with reference to the three key elements of a value adding finance function. From this, a preliminary evaluation of the finance functions that most conformed to the value adding criteria was conducted. Furthermore, a measurement tool was proposed which could assess the degree to which the finance functions of respondents could be confirmed as adding value.

In the next chapter the main components of the study will be summarised and the general importance of the research will be established. Furthermore, possible further research problems that have been identified as a result of this study will be proposed.

CHAPTER 6

SUMMARY AND CONCLUSIONS

6.1 Introduction

A perceived paradigm shift in the accounting profession motivated this research into the changing role of the finance function in a selection of South African companies in KwaZulu-Natal. A review of the literature established that the finance function needs to transform into a value adding business entity, and identified and examined approaches toward attaining this objective. The study focussed on developing a measurement tool to determine the degree to which the finance functions of South African companies in KwaZulu-Natal were transforming into value added entities. In this chapter the main objective and sub-objectives and the research process are revisited. The conclusions reached are summarised, and recommendations are made based on findings. In addition, the research benefits are established. Possible additional research areas that have been identified as a result of this study are proposed.

6.2 Research process revisited

The research objective was to establish and examine the paradigm shift in the finance functions of a selection of South African companies in KwaZulu-Natal in order to develop a measuring tool that could be used to determine the degree to which value is being added by the finance function. This involved an evaluation of the key criteria that result in finance functions becoming more value adding. The underlying objectives were to develop a construct of the finance function, which would enable the establishment and evaluation of the extent of resources allocated to the finance function, the current status of the accounting processing activities, and a shift in resource toward the decision support and strategy formulation activities of the finance function.

The population for the study was identified as all South African owned and controlled companies in KwaZulu-Natal. Initially only listed companies were to have been included in the study. However, a very poor response to a questionnaire distributed to these companies necessitated a change in approach. The final sample therefore consisted of companies in KwaZulu-Natal that agreed to participate in the study. These included companies from six different industries, and included two listed companies, one local government organisation and eight medium sized private companies.

The questionnaire that was developed sought to identify the changes that had occurred in the finance functions of the participating companies over the past five years, and the related changes that were expected to occur over the next five years. The questions focussed on the extent of resources allocated to and relative size of the finance function, and on the allocation of resources within the finance function. In addition, changing skills requirements for finance staff and the motivations for changes in the finance function were identified. This questionnaire was distributed to the companies in the sample, and follow up interviews were conducted to validate responses. The findings of the survey were analysed using inferential statistics, median and mode calculations on ranking orders, and benchmarking responses where applicable.

6.3 Conclusion on the research objectives

The premise of this research was that the finance functions of South African companies in KwaZulu-Natal would be focussing on reducing their operating costs by reducing resources consumed, whilst at the same time improving on efficiencies in their traditional transactional and statutory roles in order to add more value to the organisation. In addition, it was expected that there would be a corresponding increasing focus on improving their input into the decision making and strategy formulation activities of the business, thereby adopting a business partnering role. These

key criteria were established as underpinning the perceived paradigm shift in the role of the finance function.

Reducing the extent of resources allocated to the finance function

It can be concluded, based on the findings and analyses that there was no general focus on reducing the cost of the finance function. This is because finance functions have not decreased in size over the past five years for the respondents, and very few respondents monitored the cost of their finance functions.

Improving efficiencies in accounting processing activities

In respect of improving efficiencies in the transactional processing and statutory roles, the results are inconclusive. This is because, although fewer resources are allocated to transactional processing, this is not the case with the statutory role. Additionally, an improvement in transactional processing was not ranked highly by the respondents as a motivation for instituting changes in the finance function.

Increasing involvement in decision support and strategy formulation activities

An increasing involvement in decision making and strategy formulation activities was evident. Respondents were keen to allocate more resource to these activities. The skills necessary to support this broader role were ranked as more important for the future. In addition, improved decision support was the highest ranked option as a motivation for instituting changes in the finance function.

In addition to the average analysis of the responses of all respondents, respondents were grouped by industry where possible, and individually evaluated within the industry groupings. Where individual responses differed from the average, the differences were found to result mainly from the organisational structure and nature of the operations. It is concluded that industry affiliation was not found to influence the responses.

Construct and Measuring tool to establish value added by the finance function

A measure was developed that was applied to the respondents' answers to determine the degree to which their finance functions could be said to be adding value. In summary, this involved determining the distribution of the personnel resource of the finance functions in terms of the construct developed. This gave an indication of the total resources allocated to the finance function and how these resources are allocated between the roles. Evaluating this information, the measurement tool allocated a score to the responses to questions developed to establish the size and benchmarking of the finance function resource, and to those questions indicating past shifts in allocation of finance function resource among the five identified roles.

Applying this measuring tool it was ascertained that none of the respondents in the study met all the value adding criteria. However, it was possible to ascertain which respondents were closest to conforming to the value adding paradigm, and against which criteria they fell short of meeting this paradigm.

6.4 Recommendations based on findings

Based on the findings the following recommendations are made:

6.4.1 Construct of the finance function

A construct of the finance function was developed. This enabled respondents to map their finance resources by numbers of personnel allocated to each of the key roles. One of the most important outcomes of this research was the finding that respondents did not typically monitor allocation of resources between key roles. As management and control of both the extent of and allocation of resources within the finance function has been established as key to becoming value adding. It is recommended that finance function resources be mapped according to the construct. This would enable both the monitoring of the resources allocated in total, and the apportionment of resources between the roles.

6.4.2 Extent of resources allocated to the finance function

Remarkably, it was found that respondents were not focussed on reducing the extent of resources allocated to the finance function. Cost as a percentage of sales and full time equivalent staff numbers per billion dollars of revenue were recognised as common benchmarks of the relative allocation of resources to the finance function. As shown by the findings, the majority of respondents did not measure the cost of the finance function. It is recommended that finance function cost be measured, and this cost as a percentage of sales be benchmarked and monitored to support initiatives to reduce the relative size of the finance function.

6.4.3 Efficiency in accounting processes

In terms of the allocation of resources to the accounting processes role, the principal findings were that the average percentage weighting of finance function resources allocated to transactional processing activities fell within international norms. However, further efficiencies would be required to bring this weighting within best practice levels envisaged by Lenihan and O'Malley (2002). It is highly recommended that the full time equivalent staff allocated to each of the finance function roles as envisaged by the construct, be established. This would enable the construct to be populated with more accurate data, and would support the monitoring and control of the resources allocated to each of the roles. Initiatives designed to improve efficiencies in both accounting processing and statutory activities could then be monitored by their impact on the percentage of resources allocated to these roles, whereas this is not currently being done.

6.4.4 Increasing involvement in decision support and strategy formulation

An increasing focus on the decision support and strategic roles was shown. However, identifying resources specifically allocated to these roles, as is envisaged in 6.4.3 above, will ensure improved management and control of these resources, and ensure the continued transformation of the finance function into a strategic business partner.

6.5 Research benefits

It is proposed that the construct, together with the measuring tool, can be used by South African companies to map their current resources allocated to the finance function, and to then determine the degree to which value is being added. Furthermore, where the criteria are not being met, this provides insight into where improvements can be made to further evolve the finance function into a value adding business entity.

6.6 Further research

6.6.1 Performance measurement system

One problem associated with measuring changes in the finance function was that not many respondents were found to have means in place to measure the extent of resources allocated to the finance function, or how these resources were allocated. This problem was first identified during the pilot study, and was confirmed during the main study. As indicated in the literature, transforming the finance function into a value adding business unit requires that finance cost be reduced over time, efficiencies in traditional roles need to be improved and resources shifted to more value adding activities. To support these objectives, relevant performance measures need to be in place. This requires that current resources allocated to the finance function need to be clearly and separately identified. Research into what would then constitute an appropriate finance function performance measurement system is recommended.

6.6.2 Skills requirements

The findings showed that a range of skills, including strategic management and general management, were ranked by respondents as being more important for finance function personnel in the future. No skills were shown to be less important. The impact of these changing skills requirements on the training of accountants needs to be further researched, to ensure that training programmes remain relevant to the changing needs of industry.

6.7 Conclusion

The measuring tool which was developed showed that no respondents were fully conforming to a value adding paradigm for the finance function. Only one respondent evidenced a focus on reducing the extent of resources allocated to the finance function, and there were mixed results about the efficiencies gained in accounting processes. However, the majority did show a shift in resources to decision support and strategy formulation activities.

In order to conform to the value adding paradigm, respondents would need to recognise the importance of reducing the extent of resources allocated to the finance function and of improving efficiencies in accounting processes. These steps were seen as key to transforming the finance function into a value adding business entity. Resources allocated to the finance function, and the apportionment of these resources, need to be monitored and benchmarked in order to support any change initiative that is implemented.

Future research into an appropriate tool for measuring finance function performance is recommended. This would support any change initiatives implemented, and enable a more accurate assessment of the degree to which value is being added. In addition, the evolving role of the finance function has implications for the training of accountants, and this needs to be further analysed in order to ensure the relevance of training programmes.

REFERENCE LIST

Accenture Management Consulting. 2008. *The changing role of the finance organisation in a multi-polar world.* [online]. Available at: https://microsite.accenture.com/financemastery/Documents/hpf_ExecSum_v03_sp.pdf [Accessed 11 November 2009].

Babbie, E.R. 2010. *The practice of social research*, 12th edition. Belmont, Calif.: Wadsworth, Cengage Learning.

Boisvert, H. 2001a. Profiling Success. *CMA Management.* [online] May: 31-33. Available at: http://international.westlaw.com [Accessed 11 December 2009]

Boisvert, H. 2001b. Analysis of the strategic deployment of the finance function. *Research Report, CMA International centre*. [Received via e.mail]

Boisvert, H. 2001c. *Strategic deployment of the finance function* [online]. Available at: http://canarie2.hec.ca/cicma/an/projet.cfm?no_projet=63fichier= 1rep=ffin. [Accessed 26 April 2002]

Brannen, L. and Cummings, J. 2005. What makes a first class finance function? *Business Finance* [online], 11(3): 8. Available at: http://proquest.umi.com [Accessed 5 October 2006].

Connell, B. 2001. *The transformation of the profession.* Paper read at the International Federation of Accountants (IFAC) council meeting held in Miami on 14 November 2001. [online]. Available at: http://www.ifac.org/MediaCenter/?q=node/view/291. [Accessed 14 March 2005].

Conover, W.J. 1971. *Practical nonparametric statistics.* New York: John Wiley and Sons.

Correia, C. Langfield-Smith, K., Thorne, H. and Hilton, R.W. 2008. *Management accounting: information for managing and creating value.* Maidenhead: McGraw-Hill.

Court, S. 2005. Repositioning the finance function from making policy to designing strategy. *Accountancy Ireland.* [online], 37(2)**:** 78-79. Available at: http://proquest.umi.com. [Accessed 5 October 2006].

Creswell, J.W. 1994. *Research design qualitative and quantitative approaches.* 1994. Thousand Oaks, Calif. Sage Publications Inc.

Davis, T.R.V. and McLaughlin, L.P. 2009. Finance's partnering role (part 1): Is finance a business partner yet? *Strategic Finance,* [online], 90(9): 35-40. Available at: http://proquest.umi.com. [Accessed 17 February 2010].

Gattenio, C.A. 2000. Beyond lean and mean. *Electric Perspectives,* [online], 25(3): 40-47. Available at: http://proquest.umi.com. [Accessed 14 March 2005].

Gould, S. and Fahy, M. 2005a. The Future of finance. *Financial Management,* July/August: 27-30.

Gould, S. and Fahy, M. 2005b. The Future of finance. *Financial Management,* December/January: 19-21.

Hackett book of numbers. 2006 [online]. Available at http://thehackettgroup.com/about/alerts/alerts_2006/alert_11162006.jsp [Accessed 12 March 2010]

Henry, G.T. 1990. *Practical sampling.* Newbury Park, Calif. Sage Publications Inc.

Johnston, R., Brignall, S. and Fitzgerald, L. 2002. The involvement of management accountants in operational process change: Results from field research. *International Journal of Operations and Production Management* [online], 22 (12): 1325-1339. Available at http://proquest.umi.com [Accessed 14 March 2005].

Kennedy, S. 1998. Checking the strategic course of the finance function at Monsanto. *CMA* [online], 72(6): 29. Available at http://proquest.umi.com [Accessed 10 May 2006].

Lenihan, B. and O'Malley, M. 2002. Finance function: Are you geared for the challenges ahead. *Accountancy Ireland* [online], 34(2): 23–25. Available at http://proquest.umi.com [Accessed 10 May 2006].

Louw, J. 2005. The Finance function of the future. *Accountancy SA.* Johannesburg. July: 10-14.

Mackenzie, N. and Knipe, S. 2006. Research dilemmas: Paradigms, methods and methodology. *Issues in Educational Research* [online], 16(2): 193-205. Available at http://www.iier.org.au/iier16/mackenzie.html [Accessed 4 October 2010]

Marsden, A. 2010. Enterprise management. *Financial Management*. London. May: 42-45.

Ponterotto, J.G. 2005. Qualitative research in counseling psychology: A primer on

research paradigms and philosophy of science. *Journal of Counseling Psychology.* Washington, DC. 52(2): 126-136.

Porter, M.E. 1990. *The Competitive advantage of nations.* London: Macmillan.

Profile's Stock Exchange Handbook. 2005. Johannesburg: Profile Media. 73-302.

Price Waterhouse Coopers. 2008. *Finance function effectiveness*. [online]. Available at http://www.pwc.com/sg/en/advisory/finance-function-effectiveness.jhtml [Accessed 16 January 2010]

Robinson, L. 1999. Scorekeepers to business partners: Repositioning the finance function. *Total Quality Management* [online], 10(4/5)**:** 690–696. Available at http://proquest.umi.com [Accessed 10 May 2006].

Sekaran, U. 2003. *Research methods for business*. 4th edition. New York: Wiley.

Tarasovich, B. and Lyons, B. 2009. Finance flies high. *Strategic Finance.* [online], 91(4): 25-29. Available at http://proquest.umi.com [Accessed 17 February 2010].

The South African Institute of Chartered Accountants (SAICA). 2008. *The South African CFO of the Future.* Johannesburg. SAICA

Trapp, R. 2002. Restructuring the finance function: Finely-tuned finance. *Accountancy* [online], 129(1301)**:** 1. Available at http://proquest.umi.com [Accessed 10 May 2006].

United States. General Accounting Office. 2000. *Executive guide: Creating value through world-class financial management.* Atlanta.

Van Arnum, P. 2004. Executive leadership: Finance Functions. *Chemical Market Reporter* [online], 265(22): 19. Available at http://proquest.umi.com [Accessed 10 May 2006].

Vollmers, G. 1997. Reengineering the accounting and finance functions. *The CPA Journal* [online], 67(5): 64-65. Available at http://proquest.umi.com [Accessed 19 April 2005].

Welman, J.C. and Kruger, S.J. 2001. *Research Methodology*. 2nd edition. Cape Town: Oxford University Press.

APPENDIX A

QUESTIONNAIRE

This questionnaire aims to identify changes in the finance function of your company. As people are the key resources of the finance function, most of the questions deal with the allocation of employees between key areas.

1.	What is the nature of your business?	Please Tick	What is the nature of your business?	Please Tick
	• Manufacturing		• Mining	
	• Information technology		• Shipping	
	• Education		• Property	
	• Finance		• Investment	
	• Retail		• Local government	
	• Agricultural		• Telecommunications	
	• FMCG		• Leisure	

For the purposes of this study the finance function is split into five performance areas. The table below shows each of these five areas, and serves as a guide to further define them, by listing the activities that should be included under each. In answering the questions below please use this guide in assessing your allocation of resources between performance areas and\or determining an appropriate response.

Developing and implementing corporate strategy:	**Managing business risk:**	**Managing organisational performance:**	**Transactional activities:**	**Statutory activities:**
Budget preparation	Internal Audit	Management Reporting	General journals and trial balance preparation.	Consolidations
Analysis of Returns	Risk Reviews	Ratio analysis	Accounts payable	Quarterly & Annual Reports
Scenario planning	Risk Reporting	Cash flow projections and management	Accounts receivable	GAAP
Identifying opportunities	Workshops	Human Resources	Reconciliation's	Companies Act
	Insurance	Information Systems development	Asset management	Tax
	Treasury		Inventory and purchasing management	
			Payroll	

2.	Provide an organogram for the finance function in your business, if available.

3.	Indicate the number of personnel allocated to each of the functions mentioned below:	.Number
	Performance areas:	
	• Transactional activities	
	• Statutory activities	
	• Managing organizational performance	
	• Developing and implementing corporate strategy	
	• Managing business risk	
	• Other (list)	
	•	
	•	
	•	

4.1	Have you experienced an increase or decrease in the total number of personnel employed in the finance function in the past five years? (tick one)	Increase	Decrease	No Change
4.2	Do you expect an increase or decrease in the total number of personnel employed in the finance function in the next five years? (tick one)	Increase	Decrease	No Change

5.1	Have you experienced an increase or decrease in the percentage of time allocated to each of the performance areas, in the past five years. (Tick either increase or decrease for each)	Increase	Decrease	No Change
5.1.1	• Transactional activities			
5.1.2	• Statutory activities			
5.1.3	• Managing organizational performance			
5.1.4	• Developing and implementing corporate strategy			
5.1.5	• Managing business risk			

5.2	Do you expect an increase or decrease in the percentage of time allocated to each of the performance areas, in the next five years. (Tick either increase or decrease for each)	Increase	Decrease	No Change
5.2.1	• Transactional activities			
5.2.2	• Statutory activities			
5.2.3	• Managing organizational performance			
5.2.4	• Developing and implementing corporate strategy			
5.2.5	• Managing business risk			

6.	Indicate, by means of a tick in the appropriate column, whether any activities within the performance areas are carried out by any part of the organization other than the finance function.		
	Performance areas:	**Yes**	**No**
	• Transactional activities		
	• Statutory activities		
	• Managing organizational performance		
	• Developing and implementing corporate strategy		
	• Managing business risk		

7.	Indicate, by means of a tick in the appropriate column, whether any whether any activities within the performance areas were outsourced?		
	Performance areas:	**Yes**	**No**
	• Transactional activities		
	• Statutory activities		
	• Managing organizational performance		
	• Developing and implementing corporate strategy		
	• Managing business risk		

8.	If you answered yes to the outsourcing of any function, indicate the year in which outsourcing commenced.	

9.	
	List three key internal and/or external developments that have affected the size and or functioning of the finance function of your business over the past five years.
	•
	•
	•

10.	Do you measure the cost of the finance function in your company? (please tick)	Yes	No

11.	If you answered yes to question 10: • indicate the cost of the finance function as a % of gross sales, • indicate the cost of finance function labour as a % of total finance function cost.	

12.	Indicate whether, in your opinion, the following skills for finance personnel, will become more important, less important or remain of the same importance, over the next five years. (tick one column for each)	**More important**	**Less important**	**Same importance**
	• Information Technology			
	• Numeracy			
	• Financial Management			
	• Management Accounting			
	• Financial Accounting			
	• General Management			
	• Taxation			
	• Strategic Management			
	• Communication and literacy skills			

13.	In your opinion, can the finance function be a source of competitive advantage for the company?	Yes	No

14.	The following eight factors have been identified as possible motivating factors for changes in the finance function of organisations. Rank these factors in terms of their relevance in motivating changes that have been instituted in the finance function of your organisation over the past five years. **(Rank from 1: Most important through to 8: Least important)**	Ranking
14.1	• Reduction in finance function cost as a % of sales	
14.2	• Reduced time spent on transactional processing	
14.3	• Improved decision making	
14.4	• Improvement in organisational performance	
14.5	• Increased shareholder value	
14.6	• Improved risk management	
14.7	• Enhanced identification of new business opportunities	
14.8	• Enhanced implementation of new business opportunities	

15.	Rank the key performance indicators in terms of benefits achieved from change initiatives in the finance function in your organusisation over the past five years. **(Rank from 1: Most achieved through to 8: Least achieved)**	Ranking
15.1	• Reduction in finance function cost as a % of sales	
15.2	• Reduced time spent on transactional processing	
15.3	• Improved decision making	
15.4	• Improvement in organisational performance	
15.5	• Increased shareholder value	
15.6	• Improved risk management	
15.7	• Enhanced identification of new business opportunities	
15.8	• Enhanced implementation of new business opportunities	

APPENDIX B

QUESTIONAIRE RESPONSES

Question 1: Nature of the business

Company number	Industry
1.	Agriculture
2.	Manufacturing
3.	IT\Outsourcing
4.	Manufacturing
5.	Agriculture
6.	Manufacturing
7.	Shipping
8.	Manufacturing
9.	Local Gov
10.	Manufacturing
11.	Leisure

Question 2: Organogram

Respondents were asked to provide an organogram if available. If available, this was only to assist them in answering question 3. Therefore responses in this instance are not relevant to the results

Question 3: Current resource allocation

Number of persons involved in each of the five finance function roles.

		Number of employees				
Company number	Industry	Transactional	Statutory	Performance management	Developing strategy	Business risk management
1.	Agriculture	157	4	30	8	6
	% of total	77%	2%	15%	4%	3%
2.	Manufacturing	10	2	5	5	3
	% of total	40%	8%	20%	20%	12%
3.	IT\Outsourcing	5	1	1	2	4
	% of total	38%	8%	8%	15%	31%
4.	Manufacturing	14	2	5	1	5
	% of total	52%	7%	19%	4%	19%
5.	Agriculture	10	2	4	3	3
	% of total	45%	9%	18%	14%	14%
6.	Manufacturing	20	8	4	4	5
	% of total	49%	20%	10%	10%	12%
7.	Shipping	20	2	5	20	18
	% of total	31%	3%	8%	31%	28%
8.	Manufacturing	3	1	1	1	1
	% of total	43%	14%	14%	14%	14%
9.	Local Gov	415	14	20	50	278
	% of total	53%	2%	3%	6%	36%
10.	Manufacturing	11	4	3	2	3
	% of total	48%	17%	13%	9%	13%
11.	Leisure	17	2	7	6	2
	% of total	50%	6%	21%	18%	6%
Average %		48%	9%	13%	13%	17%

Question 4: Number of finance employees

Question 4.1 asks whether the total number of finance function employees has increased or decreased over the past five years. Question 4.2 asks whether the total number of finance function employees is expected to increase or decrease over the next five years.

Company number and industry		Total number past (Q4.1)			Total number future (Q4.2)		
		Inc	Dec	N\C	Inc	Dec	N\C
1.	Agriculture	✓			✓		
2.	Manufacturing	✓			✓		
3.	IT\Outsourcing		✓			✓	
4.	Manufacturing	✓			✓		
5.	Agriculture	✓			✓		
6.	Manufacturing	✓					✓
7.	Shipping	✓			✓		
8.	Manufacturing	✓					✓
9.	Local Gov	✓				✓	
10.	Manufacturing	✓					✓
11.	Leisure	✓					✓
Percentage of total		91%	9%	0%	45%	18%	36%

Inc = Increase; Dec = Decrease; N\C = No change

Question 5: Shift in focus of finance staff

Question 5.1 asks whether there has been an increase, decrease or no change in the percentage of finance resource allocated to each of the five finance function roles over the past five years. Question 5.2 asks whether there is expected to be an increase, decrease or no change over the next five years.

Company number and industry		Q 5.1 Decrease/Increase/No change					Q 5.2 Decrease/Increase/No change				
		Transactional(Q5.1.1)	Statutory(Q5.1.2)	Performance management (Q5.1.3)	Developing strategy (Q5.1.4)	Business risk management (Q5.1.5)	Transactional (Q5.2.1)	Statutory (Q5.2.2)	Performance management (Q5.2.3)	Developing strategy (Q5.2.4)	Business risk management (Q5.2.5)
1.	Agriculture	D	D	I	I	I	D	D	I	I	I
2.	Manufacturing	D	I	I	NC	NC	D	NC	NC	I	I
3.	IT\Outsourcing	NC	D	I	I	I	D	D	I	I	I
4.	Manufacturing	D	I	I	NC	I	D	I	I	I	I
5.	Agriculture	NC	I	I	I	I	D	I	I	NC	NC
6.	Manufacturing	D	I	D	I	I	NC	NC	NC	I	I
7.	Shipping	NC	NC	I	I	I	D	I	I	I	I
8.	Manufacturing	NC	NC	NC	NC	NC	I	I	NC	NC	NC
9.	Local Gov	NC	NC	NC	NC	NC	D	I	I	D	I
10.	Manufacturing	I	I	D	I	I	D	I	I	I	I
11.	Leisure	D	I	I	NC	I	D	I	I	I	I
Increase as % of total		9%	55%	64%	55%	73%	9%	64%	73%	73%	82%
Decrease as % of total		45%	18%	18%	0%	0%	82%	18%	0%	9%	0%
No change as % of total		45%	27%	18%	45%	27%	9%	18%	27%	18%	18%

Question 6: Internal reallocation of finance responsibilities

Question 6 asks whether any of the finance activities as detailed under the five roles of finance are carried out by any part of the organisation other than finance. A yes or no answer for each of the five roles was required.

Company number and industry		Q 6 Activities performed by other sections (yes \ no)				
		Transactional	Statutory	Performance management	Developing strategy	Business risk management
1.	Agriculture	N	Y	Y	Y	Y
2.	Manufacturing	N	N	Y	Y	Y
3.	IT\Outsourcing	N	N	Y	Y	N
4.	Manufacturing	Y	N	Y	Y	N
5.	Agriculture	Y	Y	Y	Y	Y
6.	Manufacturing	N	N	N	Y	N
7.	Shipping	Y	N	Y	Y	Y
8.	Manufacturing	Y	Y	Y	Y	N
9.	Local Gov	N	N	N	N	Y
10.	Manufacturing	Y	N	Y	N	Y
11.	Leisure	Y	N	Y	N	Y
Yes as a percentage of total		55%	27%	82%	73%	64%
No as a percentage of total		45%	73%	18%	27%	36%

Question 7 and 8: Outsourcing

Question 7 asks whether any finance function activities were outsourced. Question 8 asks if outsourcing is taking place, when it was first instituted.

Company number and industry		Q7					Q8
		Outsourcing Yes\No					Year outsourced
		Transactional	Statutory	Performance management	Developing strategy	Business risk management	
1.	Agriculture	N	N	N	N	N	
2.	Manufacturing	Y	Y	N	N	N	10 years ago
3.	IT\Outsourcing	N	N	N	N	N	
4.	Manufacturing	Y	Y	Y	N	N	2001
5.	Agriculture	N	N	Y	N	Y	1997\1980
6.	Manufacturing	N	N	N	N	N	
7.	Shipping	Y	N	N	N	N	+- 15 years ago
8.	Manufacturing	N	Y	Y	N	Y	2008
9.	Local Gov	N	N	N	N	N	
10.	Manufacturing	N	N	N	N	N	
11.	Leisure	N	N	N	N	N	
Yes as a % of total		27%	27%	27%	0%	18%	
No as a % of total		73%	73%	73%	100%	82%	

Question 9: Factors affecting the finance function

Question 9 is an unstructured question requiring the company to list three external or internal factors that have affected the size and functioning of the finance function over the past five years.

Summary responses by company:

Respondent 1.

- New IT System
- New Standard costing system
- Acquisition

Respondents 2.

- Growth in business
- Potential opportunities for growth
- Compliance

Respondent 3.

- New customers
- Increased regulation eg. Tax, Vat
- IT Improvement

Respondent 4.

- New IT System
- Statutury reporting (IFRS)
- Economic environment

Respondent 5.

- Increased emphasis on Corporate governance
- Growth of business
- Changing focus of board of directors

Respondent 6.

- Change in business structure (led to decrease)
- IFRS \ Tax compliance
- BEE reporting

Respondent 7.

- Boom to recession
- IT Systems contribution
- Recruitment and training

Respondent 8.

- New business ventures

Respondent 9.

- Changes in legislation
- New Acounting Standards

Respondent 10.

- Growth in business
- Increased legal requirements
- Decrease in competitors

Respondent 11.

- Growth in business
- Increased demand for improved management reporting
- Increased need for improved governance

Question 10 and 11: Benchmarking finance function cost

Question 10 asks whether the cost of the finance function is measured separately, and if the answer is in the affirmative, question 11 asks for finance function cost as a percentage of sales and finance personnel cost and total finance function cost.

Company number and industry		Q10		Q11	
		Cost measured?		Cost as % sales	Labour as % Fin Cost
1.	Agriculture	N			
2.	Manufacturing	N			
3.	IT\Outsourcing	Y		7%	64%
4.	Manufacturing	Y		6%	92%
5.	Agriculture	N			
6.	Manufacturing	Y		1.3%	85%
7.	Shipping	N			
8.	Manufacturing	Y		2%	80%
9.	Local Gov	N			
10.	Manufacturing	N			
11.	Leisure	Y		5%	75%
Yes as a % of total		45%	Ave	4%	79%
No as a % of total		55%			

Question 12: Finance skills

Question 12 looks at a list of finance skills and asks which are expected to become more important, less important or remain of the same importance in the future.

Q12										
Company number and industry		Skills - More Imp\Less Imp\ Same Imp								
		IT	Num	FM	MA	FA	GMgt	Tax	Strat	Comm
1.	Agriculture	M	S	S	M	S	M	L	S	M
2.	Manufacturing	M	S	S	M	S	S	S	M	M
3.	IT\Outsourcing	M	S	S	M	S	M	S	M	S
4.	Manufacturing	M	S	M	M	S	M	S	M	M
5.	Agriculture	S	S	M	S	S	M	S	M	M
6.	Manufacturing	M	S	M	M	S	S	M	M	M
7.	Shipping	M	M	S	S	M	M	M	M	M
8.	Manufacturing	M	S	S	S	S	M	S	S	M
9.	Local Gov	M	L	S	S	S	M	N\A	M	M
10.	Manufacturing	M	S	S	M	L	S	M	M	M
11.	Leisure	M	S	M	M	S	M	S	M	S
More important as a % of total		91%	9%	36%	64%	9%	73%	27%	82%	82%
Same importance as a % of total		9%	82%	64%	36%	82%	27%	55%	18%	18%
Less important as a % of total		0%	9%	0%	0%	9%	0%	9%	0%	0%
N/A								10%		

Question 13: Competitive advantage

Question 13 asks whether the finance function can be a source of competitive advantage. All eleven companies answered this question in the affirmative.

Question 14 and 15: Advantages of change initiatives

Sample participants were asked in question 14 to rank eight key performance areas in terms of their importance as motivating factors in changes made to the finance function over the past five years. Question 15 lists the same eight key performance indicators and asked participants to rank them from the perspective of what advantage was actually gained from the change initiatives.

Key to abbreviations used below:	
Cost =	• Reduction in finance function cost as a % of sales
Time =	• Reduced time spent on transactional processing
Dec =	• Improved decision making
Org Perf =	• Improvement in organisational performance
S\H value =	• Increased shareholder value
Risk Mgt =	• Improved risk management
New Bus ID =	• Enhanced identification of new business opportunities
New Bus Imp =	• Enhanced implementation of new business opportunities

Q14									
Ranking of motivating factors for changes in finance function									
Company number and industry		Cost	Time	Dec	Org Perf	S\H Value	Risk Mgt	New Bus ID	New Bus Imp
		Q14.1	Q14.2	Q14.3	Q14.4	Q14.5	Q14.6	Q14.7	Q14.8
1.	Agriculture	8	7	4	5	6	3	1	2
2.	Manufacturing	8	3	5	1	6	4	7	2
3.	IT\Outsourcing	8	6	1	4	5	3	7	2
4.	Manufacturing	6	5	1	2	3	4	7	8
5.	Agriculture	8	7	1	2	5	6	4	3
6.	Manufacturing	7	8	1	2	3	6	4	5
7.	Shipping	5	6	3	2	1	4	7	8
8.	Manufacturing	4	1	2	3	8	7	6	5
9.	Local Gov	8	1	6	7	3	4	2	5
10.	Manufacturing	8	7	1	5	6	2	3	4
11.	Leisure	5	6	2	1	3	4	8	7

Q15									
Ranking of results from changes in finance function									
Company number and industry		Cost	Time	Dec	Org Perf	S\H Value	Risk Mgt	New Bus ID	New Bus Imp
		Q15.1	Q15.2	Q15.3	Q15.4	Q15.5	Q15.6	Q15.7	Q15.8
1.	Agriculture	8	7	2	3	5	6	1	4
2.	Manufacturing	8	2	4	1	3	5	7	6
3.	IT\Outsourcing	8	7	1	3	5	2	6	4
4.	Manufacturing	5	6	3	2	4	1	7	8
5.	Agriculture	8	7	1	4	6	2	5	3
6.	Manufacturing	7	8	1	2	3	6	4	5
7.	Shipping	6	6	6	6	1	6	7	8
8.	Manufacturing	4	1	2	3	7	8	5	6
9.	Local Gov	8	4	7	1	2	3	5	6
10.	Manufacturing	8	7	1	5	6	2	3	4
11.	Leisure	6	5	2	1	3	4	8	7

APPENDIX C

PILOT STUDY QUESTIONNAIRE

1	Provide an organogram for the finance function in your organisation as it is structured now, and also as it was structured in 2000.

(Organogram to be attached)

2.	Define the term 'finance function' in the context of your organization?

3.	List, under each of the headings below, the activities undertaken by the finance function in your organisation.					
	Implementing corporate strategy:	**Managing business risk:**	**Managing organisational performance:**	**Transactional activities:**	**Statutory activities:**	**Other:**

4.	Can the finance function be a source of competitive advantage for the company?	Yes	No

5.	In instituting changes in the finance function over the past five years, rate the importance of the following key performance indicators on a scale of 1-5 in terms of their relevance as motivating factors in driving the changes. 1:Very important 2: Important 3: Uncertain 4: Slightly important 5: Not important	Rating
	• Reduction in finance function cost as a % of sales	
	• Reduced time spent on transactional processing	
	• Improved decision making	
	• Improvement in organisational performance	
	• Increased shareholder value	
	• Improved risk management	
	• Enhanced identification and implementation of new business opportunities	
	• Other:	
	•	

6.	Rate the key indicators from 1 – 4 in terms of results achieved from change initiatives in the finance function over the past five years. 1: Definite benefit 2: Some benefit 3: Not much benefit 4: No benefit	Rating
	• Reduction in finance function cost as a % of sales	
	• Reduced time spent on transactional processing	
	• Improved decision making	
	• Improvement in organisational performance	
	• Increased shareholder value	
	• Improved risk management	
	• Enhanced identification and implementation of new business opportunities	
	• Other:	
	•	

APPENDIX D

STATISTICAL ANALYSIS

Chi-square goodness-of-fit tests – significant results

This test was applied to all questions to ascertain whether any one option was selected significantly more or less often than expected.

Question 4

	p-value	Significantly more respondents than expected selected:
Has an increase or decrease in the total number of personnel employed in the finance function been experienced in the past five years in the past five years? (Q4.1)	<0.0005	Increase

Question 5.1 and 5.2

	p-value	Significantly more respondents than expected selected:
Increase or decrease in time spent over the past five years (Q5.1)		
• Managing business risk	0.01	Increase
Expected increase or decrease in time spent over the next five years (Q5.2)		
• Transactional activities	0.004	Decrease
• Managing organizational performance	0.01	Increase
• Developing and implementing corporate strategy	0.026	Increase
• Managing business risk	0.002	Increase

Question 6

	p-value	Significantly more respondents than expected selected:
Were any activities within the performance areas are carried out by any part of the organization other than the finance function? Yes or No (Q6)		
• Managing organisational performance	0.035	Yes

Question 7

	p-value	Significantly more respondents than expected selected:
Were any activities within the performance area outsourced? Yes or No (Q7).		
• Developing and implementing corporate strategy	0.001	No
• Managing business risk	0.035	No

Question 12

	p-value	Significantly more respondents than expected selected:
Will the following skills become more important, less important or remain of the same importance, for finance personnel, over the next five years (Q12).		
• Information technology	<.0005	More important
• Numeracy	0.004	Same importance
• Financial Accounting	0.004	Same importance
• General management	0.01	More important
• Strategic management	0.002	More important
• Communication and literacy	0.002	More important

Question 14 and 15

Question number:	First option provided:	p-value	Significantly more respondents than expected selected:
Q14: Motivation for changes in finance function	Option 1: Reduction in finance function cost as a percentage of sales.	0.0009	Rank 8
Q15: Benefits from changes in finance function		0.0009	Rank 8

Chi-square tests of independence – significant results

This test was carried out for all possible cross-tabulations of two variables to ascertain whether any significant relationship exists between the variables. Because of the small sample exact test were used thus bypassing the conditions necessary for validity.

Question 12.1 – 12.9 x Question 5.1.1 – 5.1.5

Cross-tabulation of Q12.1- Q12.9, the relative importance of a range of skills in the future, with Q5.1.1 – Q5.1.5, the changes in allocation of resources between the five finance function roles over the past five years.		p-value
Q12.4 vs Q5.1.1	More than expected of those who experienced 'no change' in resources allocated to transactional activities (Q5.1.1) believe management accounting will remain of the 'same importance'.	0.030
Q12.4 vs Q5.1.2	More than expected of those who experienced 'no change' in statutory activities (Q5.1.2), believe management accounting will remain of the 'same importance'.	0.033

Question 5.1.1 – 5.1.5 x Question 15.1 – 15.8

Cross-tabulation of Q5.1.1 – Q5.1.5, the changes in allocation of resources between the five finance function roles over the past five years with Q15.1- Q15.8, the ranking of benefits gained from past change initiatives.		p-value
Q5.1.2 vs Q15.5	More than expected of those who experienced 'decrease' in resources allocated to statutory activities (Q5.1.2), ranked 'increased shareholder value' (Q15.5) as 5.	0.010
Q5.1.4 vs Q15.6	More than expected of those who experienced 'increase' in resources allocated to developing and implementing corporate strategy (Q5.1.4), ranked 'improved risk management' (Q15.6) as 2 or 6.	0.045
Q5.1.4 vs Q15.8	More than expected of those who experienced 'increase' in resources allocated to developing and implementing corporate strategy (Q5.1.4), ranked 'enhanced implementation of new business opportunities' (Q15.8) as 4; and those who experienced 'decrease ' in developing and implementing corporate strategy (Q5.1.4), ranked 'enhanced implementation of new business opportunities' (Q15.8) as 6.	0.045
Q5.1.5 vs Q15.8	More than expected of those who experienced 'no change' in resources allocated to business risk (Q5.1.5), ranked 'enhanced implementation of new business opportunities' (Q15.8) as 6.	0.036

Spearman's and Pearson's correlation

Spearman's and Pearson's correlation was carried out on each pair of questions in Q14 and Q15, that is Q14.1 vs Q15.1; Q14.2 vs Q15.2, etc. in order to see whether scores in the pairs are correlated.

Correlation for each option, of motivation for changes in the finance function (Q14) with benefits achieved from changes (Q15).

Eight options listed, as given in question 14 and 15:		Spearman's rho	p-value
1	Reduction in finance function cost as a % of sales	0.967	<.0005
2	Reduction in time spent on transactional processing	0.919	<.0005
3	Improved decision making	0.8	0.003
4	Improvement in organizational performance	0.277	0.41
5	Increased shareholder value	0.778	0.005
6	Improved risk management	0.39	0.235
7	Enhanced identification of new business opportunities	0.922	<.0005
8	Enhanced implementation of new business opportunities	0.791	0.004