A Balanced Scorecard for the Finance Function

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After 22 years in the finance function across disciplines, industries and countries, I am still daunted by the question of effectiveness of the function. What determines effectiveness of the finance function in contemporary organisations? How can we create a KPI dashboard to measure this effectiveness? Like me, most CFO's grapple with this question and understandably so. It's not easy to quantify and metricise the value the finance team in any organisation brings on the table. Paradoxical isn't it? Aren't we the function that talks numbers and metrics to help business take optimal decisions? Why can't we measure our own function's effectiveness?

In the following sections, we will look at a framework for finance function to measure its effectiveness and create a balanced scorecard for itself. Let's start with the role of finance in a typical organisation, which has a value chain characterised by brands, innovation, manufacturing, selling and delivery.

Finance Plays Midfield

As I write this article, the 2014 FIFA world cup is under way and being an ardent football fan, I am tempted to use a football analogy to finance. If an organisation were a football team, finance plays midfield. Let me explain that. Typically, finance plays the following roles in an organisation:

1. Shaping business strategy and ensuring funding for growth
2. Reporting monthly, quarterly, annual results and ensuring compliance with external stakeholder requirements
3. Building robust annual plans and enabling effective performance management against those plans via data and insights which facilitate optimal, timely decision making
4. Driving productivity and managing working capital
5. Building and strengthening the governance framework of an organisation via effective internal controls and proportional ownership
6. Leading specialised activities such as treasury and taxation

Over the years, organisations have evolved in response to the dynamic changes in their external environment, such as, consumer and customer needs, competitive intensity and regulatory complexity. These forces have had a bearing on what is expected from contemporary finance organisations compared to their counterparts a couple of decades ago. Finance teams and CFOs today are expected to be as much business partners and helping their boards and ExCom deliver on business goals as much as ensuring strong governance and reporting results. Going back to the football analogy, today, CFOs play more of a midfield role compared to the goalkeeper/defender's role of their counterparts a couple decades ago. The midfield role involves creating goal scoring opportunities by shaping strategy and providing decision making support while also falling back when needed and strengthening the defence by ensuring strong internal controls and supporting risk management.

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Measuring Finance Deliverables

In line functions such as sales and operations, key performance indicators are clearly identifiable and can be objectively measured. For instance, sales KPIs are generally captured as volume, revenue and cost to sell and similarly operations KPIs straddle operating

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efficiencies, cost to convert and order fill rates. Finance deliverables are harder to quantify and measure as output is both quantitative and qualitative.

Typically, finance KPIs can be broadly classified into the following buckets:

1. **Service Delivery/Business Partnership:** These KPIs help measure the effectiveness of cross functional support provided by finance to line functions such as sales and operations. Examples of such KPIs are - turnaround time for distributor claim settlements, capital and revenue spend proposals, performance management and decision making support, funding for growth and expansion, among others.
2. **Process Effectiveness/Capability:** Process KPIs help capture finance deliverables on strengthening internal control and governance, standardisation and automation and transaction processing.
3. **Productivity and Efficiency:** This in a sense is the name on the door for the finance function. Given the function's ability to quantify input, output and payback for business initiatives, finance plays a key role in helping drive efficiency and optimisation within the organisation.
4. **Quality:** Quality straddles most finance deliverables. Take the example of closing the books; it needs to be accurate, timely and comprehensive, or of high quality, in other words. Another example is how effectively finance analyses data and trends to provide insights for decision making. Here again effectiveness of the delivery depends on the quality. The same goes for governance and strategic planning.

There are other ways of categorising finance deliverables. One such is to look at the impact of finance on functional and cross functional parameters:

1. **Functional Deliverables/KPIs:** These KPIs help measure the effectiveness of activities where finance is the FPR. These are typically in the areas of financial reporting, internal control and audit and transaction processing.
2. **Cross Functional Deliverables/KPIs:** These help measure finance support to line functions and overall business results delivery. Typically these include strategy and planning, performance management, decision making support and funding for growth and shareholder return.

Creating a Dashboard for Key Finance Deliverables

Let's continue the discussion on metricising finance deliverables along the key themes of service, process, efficiency and quality. The objective is to look at some key finance team deliverables and the KPIs they tick. These are not exhaustive and

Key Objective Number	Key Objective Deliverable	Service/ Partnering	Process	Productivity/ Efficiency	Quality
1	Financial Reporting		X	X	X
2	Governance and internal Controls		X		X
3	Strategy and Business Planning	X	X		X
4	Performance Management	X	X		X
5	Transaction Processing		X	X	X
6	Funding for Growth	X		X	
7	Analytics and Insights for Decision making	X			X
8	Cross Functional support and responsiveness	X		X	X
9	Productivity and Working Capital Management		X	X	X
10	Standardisation and Automation	X	X	X	X
	KPI Count	**6**	**7**	**6**	**9**

are not meant to be in any order of importance.

As is apparent from the above table, most finance deliverables tick more than one KPI type. Judging by the KPI count one can infer that partnering, process and efficiency are equally important deliverables for the finance function. Quality straddles almost all finance output and this is what separates a good finance team from a great finance team.

Converting the KPI Dashboard into a Balanced Scorecard

Taking the above dashboard forward one can score each deliverable on a scale of 1-5 and track the weighted average score for each deliverable as illustrated in the table below:

Key Objective Number	Key Objective Deliverable	Service/ Partnering	Process	Productivity/ Efficiency	Quality	Average Score
1	Financial Reporting		3	3	4	3.3
2	Governance and internal Controls		4		3	3.5
3	Strategy and Business Planning	4	3		3	3.3
4	Performance Management	3	3		4	3.3
5	Transaction Processing		4	4	4	4.0
6	Funding for Growth	4		3		3.5
7	Analytics and Insights for Decision making	3			3	3.0
8	Cross Functional support and responsiveness	4		3	3	3.3
9	Productivity and Working Capital Management		2	2	3	2.3
10	Standardization and Automation	3	3	3	3	3.0
	Average Score	**3.5**	**3.1**	**3.0**	**3.3**	**3.2**

A good mix of functional and cross functional deliverables make for a good balanced scorecard. Finally, the scoring has to be objective. This typically should be done by a CFO or his finance leadership team.

The weighted score for each deliverable and the weighted score for each KPI type can be tracked over different periods of time. In order to make this dashboard effective, it's important to select the top ten deliverables of the finance function as relevant to one's organisation. A good mix of functional and cross functional deliverables make for a good balanced scorecard. Finally, the scoring has to be objective. This typically should be done by a CFO or his finance leadership team. It's good to get the cross-functional scores inputted by the CEO and his non-finance executive committee members.

In Conclusion:

In today's dynamic business world, finance plays a key role in ensuring sustained strong performance in organisations. As in football, the mid-field is where the match is won or lost and finance plays mid-field in most organisations today. Think of the role Iniesta and Xavi have played in Spain's recent success or Ozil and Schweinsteiger for Germany. An effective finance organisation typically delivers the following:

1. Creates efficiency and value. In other words, delivers "more for less"
2. Balances people, technology and policy to make processes effective and efficient
3. Standardises and harmonises data to create "One version of the Truth"
4. Strengthens control environment via internal controls and proportional ownership
5. Leverages ERP, centres of excellence and shared services to support decision making

Creating a balanced scorecard for the finance function goes a long way in quantifying its effectiveness and helping track and improve its performance over time. ■