



## **ENTERPRISE VALUE ENHANCEMENT – 3**

### **BUILDING A CONTEMPORARY FINANCE FUNCTION**

**Source: JFU**  
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Our recent Notes discussed the relationship between risk management and enterprise value, and proposed a working agenda for managing risk as a means of value enhancement. This Note outlines the approach to building a contemporary finance function that can make a contribution in enterprise value enhancement by providing good and relevant information for risk management in addition to that for other traditional purposes.

#### **Preliminary tasks**

We have explained in our earlier Notes why the CFO or the finance function of an enterprise is in the most relevant position to produce information for managing growth, risk and enterprise value. It is because the finance function in its traditional role needs to understand and analyze the business for the purpose of collecting and collating data in a meaningful way for various reporting purposes. Thus it can also organize itself to capture data and produce information for risk and value management purposes, as long as it is equipped with the tools and experience and is empowered to do so.

The finance function in its traditional role is typically organized to fulfill custodianship and controllership: keeping books and records, compiling financial statements for historical transactions, forecasting revenue, budgeting costs and it may be involved to a certain degree in supporting decisions. As a consequence, the focus of its tasks is producing information to measure the financial performance and position of business units, operations, projects and transactions.

In its contemporary role, this Note advocates that the finance function should also focus on producing information for monitoring the parameters that dictate changes in enterprise value as a new area of interest in its portfolio of duties. Accordingly, when analyzing the business for this purpose, the finance function should suitably shift its focus, bearing in mind the benchmarked yardsticks established for monitoring risk and value. With this focus, we would propose the following as the preliminary tasks to be performed in preparation for the planning and implementation of a contemporary finance function:

1. Analyze business not only as a profit making scheme, but also as a value adding system
2. Establish the value chain, revenue model and financial plan
3. Determine group entities, legal structure, mode of operation and transactional flows
4. Define the organization of operating functions and risks
5. Understand the existing duties, qualifications, organization and deliverables of the finance function
6. Determine what is expected of the contemporary finance function and define new deliverables in this role

### **Observations, design and implementation, feedback and adjustments**

The actual building of a contemporary finance function is a continuing education for all involved. The main objective is that the finance function can evolve over time in the light of experience in setting standards and responding to variances. This process will focus the enterprise and all interested parties on what is crucial to value enhancement, and move all towards a better state of affairs. Most importantly, this process will enhance transparency and the quality of information produced. This will give all stakeholders a better view of the enterprise from all aspects including those that impact immediate performance as well as longer term value.

It is our view that such an effort in the continuing improvement of accountability will surely be translated into higher credibility for the enterprise, thus lowering the expectation of return to investors and lenders, and hence lowering risk measured with WACC and raising the enterprise value accordingly. We can discuss in the future how one can capture the benefit of higher enterprise value in practice.