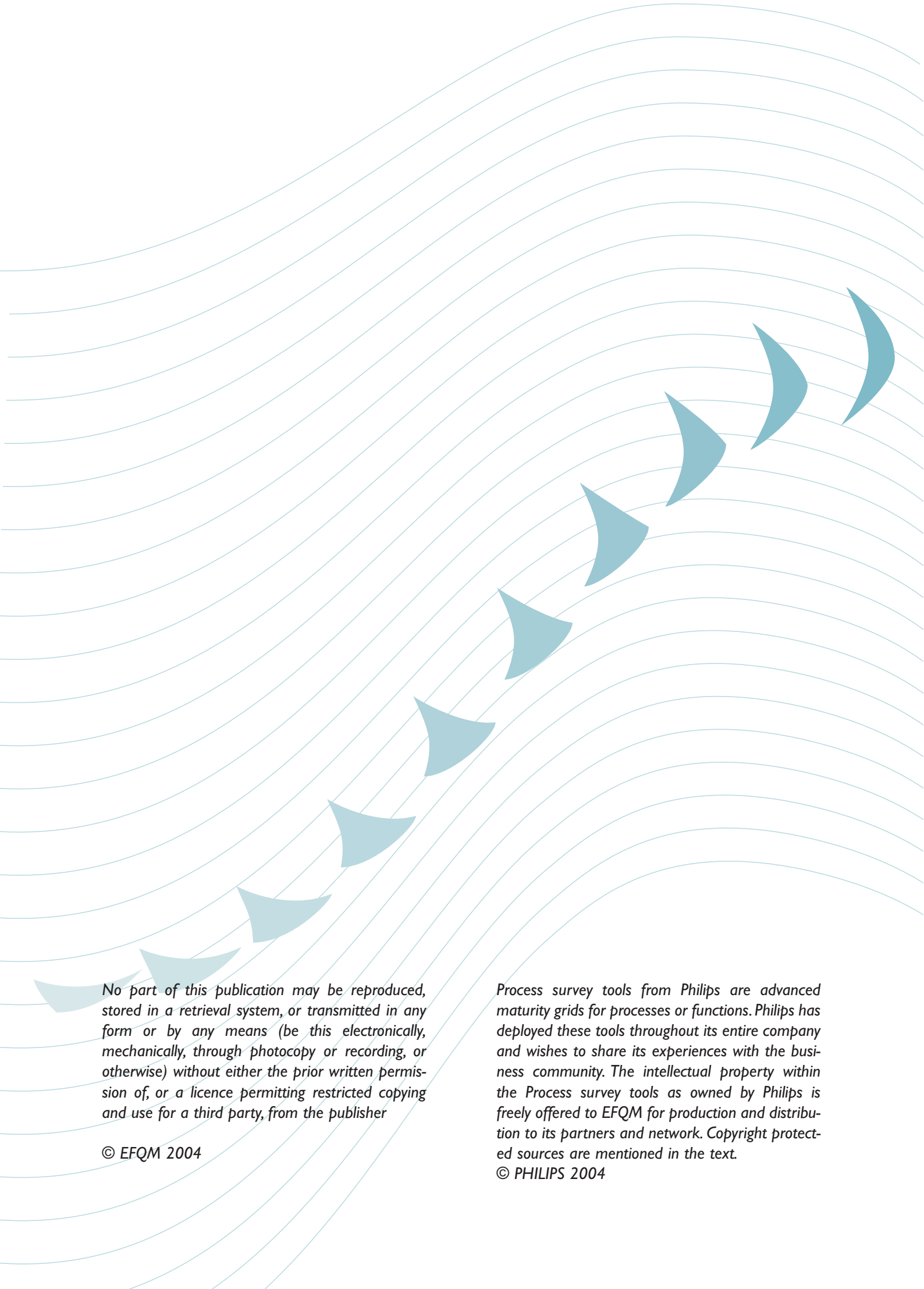
EFQM

Process Survey Tool for Finance



Process Survey Tool For

Finance

EFQM and Philips

Philips is one of the founding members of EFQM and has been a member ever since. A long-standing relation with the EFQM evolved which resulted in many forms of co-operation. Philips is strongly involved in the model development as well as the design of the award process. One the members of the Group Management Committee of Philips is Governor of the EFQM and year on year several Philips employees take part in EQA assessments and other activities like study groups. Philips uses the EFQM Excellence Model as their prime assessment and improvement methodology in all parts of the organisation worldwide.

The company wide improvement program in Philips is called "BEST" (Business Excellence through Speed and Teamwork). This program consists of several approaches and tools and is strongly embedded in the business processes. One of the most important tools used in the BEST program are the Process Survey Tools (PST) that are meant to assess the maturity of a process. As part of its strategic commitment to helping organisations generally improve their performance, Philips has decided to make some of the PSTs available widely through EFQM and its partners network.

About EFQM

EFQM® is a membership based not for profit organisation, created in 1988 by fourteen leading European businesses, with a Mission to be the driving force for sustainable excellence in Europe and a Vision of a world in which European organisations excel.

EFQM has promoted the concept of partnership with similar National organisations in Europe and its members to help promote sustainable excellence in European organisations. All of these National organisations have worked with EFQM to develop the Fundamental Concepts of Excellence and to promote the EFQM Excellence Model. Contact details for our partners can be found at http://www.efqm.org

By January 2004, EFQM membership had grown to around 700 organisations from most European countries and most sectors of activity. Together with the National organisations the membership network runs to thousands of organisations with several million individuals employed in those organisations.

In addition to being the owner of the EFQM Excellence Model and managing The European Quality Award, EFQM also provides a portfolio of services for its members.

About Koninklijke Philips Electronics

Koninklijke Philips Electronics of the Netherlands (NYSE: PHG, AEX: PHI) is one of the world's biggest electronics companies and Europe's largest, with sales of EUR 29 billion in 2003. With activities in the three interlocking domains of healthcare, lifestyle and technology and 165,600 employees in more than 60 countries, it has market leadership positions in medical diagnostic imaging and patient monitoring, color television sets, electric shavers, lighting and silicon system solutions. News from Philips is located at www.philips.com/newscenter.

Introducing Process Survey Tools

Process Survey Tools (PSTs) are maturity grids designed for specific processes or functions. PSTs help to assess the maturity of a process or function and give clear indications on how to improve to reach next levels of maturity. Each process is broken down into a number of " elements" or sub-processes that make up the entire process. Typically there are 10 to 15 elements in each of the PST processes.

For each of the elements, a maturity scale has been created – ten levels of maturity starting from basics in step 1 and culminating in worldclass performance in step 10. By assessing their position against the maturity scales for each of the elements, organisations can establish a "maturity profile" for a particular process and gain an insight into the steps they need to take to move in the direction of world class. The procedure clearly provides a basis for benchmarking progress with others within or outside the organisation.

The level descriptions in the elements are based on various sources and own Philips' experience. They all reflect expert knowledge on the road to worldclass for the described processes.

Software will be made available to facilitate the assessment process as well as for presenting results as bar charts, spider diagrams and for analysing performance over time. This software will be known as the **PST supporting e-Tool**
For more information on how to apply the PSTs, please use the separate **PST Guide** that accompanies each PST.

Positioning against the EFQM Excellence Model

For any organisation, improving performance from self-assessment or other approaches usually means working for improvement in the whole network of processes through which the organisation's goods and services are produced and delivered. Processes lie at the heart of the EFQM Excellence Model.

There are clear links between the criteria of the EFQM Excellence Model and processes for which there are PSTs - for example:
"Marketing and Sales" links into criterion part 5c
"Manufacturing" links into criterion parts 4e and 5d.
"HRM" links into criterion 3.
Thus the PSTs will be of assistance and provide guidance to organisations, using self-assessment against the EFQM Excellence Model, wishing to improve their processes.
Clearly the maturity steps for each of the elements are specific to the process under consideration and therefore are defined differently for different elements. However the logic of the PDCA cycle is built into the levels of the maturity scales for each of the elements of all of the processes and, to a substantial degree, these levels reflect the RADAR tool of the EFQM Excellence Model.

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INTRODUCTION

The PST for Finance covers 11 elements or sub-processes which can be divided as follows:

- *transaction processes:* accounts payable, accounts receivable, intercompany accounts and tangible fixed assets;
- *accounting processes:* general ledger & closing and reporting;
- *controlling processes:* cost accounting, currency management and inventory control;
- *business planning process:* operational planning and forecasting;
  NOTE: strategy is not included because this tool has been designed for usage in the operational organisations, which are focused on strategy execution; budgeting has been integrated into operational planning and forecasting.
- *enabling process:* people capability and finance excellence.

For each of above sub processes a cumulative maturity scale has been defined. These descriptions enable an organisation to determine the current level of maturity of the processes and the steps to be taken to improve further.

The maturity scales are cumulative and are only met when all previous levels have been achieved. If an organisation has already some elements of a higher scale in place but has not qualified for the previous levels this cannot yet be taken into account for the rating.

The PST for Finance has been designed for self-assessment and to support the development of continuous improvement plans for all finance processes. Furthermore it can be used for benchmarking with other organisations within the company and for sharing best practices. Organisations scoring low on a particular element can and should learn from organisations with high scores.

2. SCOPE OF THE TOOL

Process Survey Tools are designed to stimulate continuous improvement. The PST for Finance has been designed for usage in Finance departments of operational organisations, factories, sales organisations, warehouses etc, involving all people who are stakeholders of the defined processes.

Next to PST, other tools could be used in the finance departments of the operational units in the area of business risk management. PST is positioned in the area of continuous improvement tools such as ISO.
This implies that the PST does not replace any business risk management tool, however it is recognized that some overlap exists, although the tools are used from different perspectives.
In this perspective, the following aspects have been recognized as part of a definition on World Class Business Controls:

- ownership by business management, empowered throughout the organisation;
- avoiding duplications through an integrated approach of business risk management and continuous improvement tools;

- assurance for management that operational risks are adequately taken care of:
  - no shortcomings in the control framework
  - effectiveness of operational controls
  - cost-effectiveness by providing an optimized balance between benefit and costs on business risks versus controls
  - focus on continuous improvement
  - reliable financial and non financial information and reporting (e.g. business balanced scorecard);
- increases effectiveness and efficiency on business processes;
- supported by an automated system/intranet.

Business controls are an integral part of management and operational processes and are therefore not included in this PST as a separate sub process; financial controls are considered as an integral part of the finance processes described in the PST for Finance.

3. ASSESSMENT CRITERIA

The purpose of this Process Survey Tool for Finance is to stimulate a continuous improvement program to support the Finance departments within the company on their journey towards Finance Excellence. In too many organisations Finance is still mainly seen as a transaction oriented scorekeeper; a transformation towards a cost effective, business and value driven world class Finance department is reflected in the maturity scales. A general categorisation of these scales is:

scale 0:	informal organisation
scales 1 –3:	functional organisation with focus on transaction management
scales 4 – 6:	process oriented organisation with focus on risk management and control
scales 7 – 10:	organisation focused on integral business management

The definition of level 7 represents an internal best practice level whilst in level 10 world class has been described. The input for defining world class has been supported by using the Arthur Andersen KnowledgeSpace® Global Best Practices database.

4. USE OF THE TOOL

The tool will provide insight in the maturity of each finance process and compare it to World Class performance. The maturity levels are cumulative; an organisation can only meet a step when all previous maturity levels are also met.

Involvement of all people in the Finance department is an essential requirement to successfully use the tool; e.g. Accounts Receivable should be assessed by the responsible credit manager and his team, supervised by the controller of the site. Where appropriate the input of other stakeholders of the process, e.g. sales representatives and order desk is highly recommended.

As part of the continuous drive for improvement towards World Class, a concrete action plan needs to be defined based upon the results of the assessed processes and the next

level(s) of maturity as defined in the PST. As this tool will be used by all Finance organisations throughout the company, information will be available for sharing best practices throughout the organisations, creating a learning environment.

Practical guidelines for using the tool:

- Elements not relevant to an organisation should be ignored (e.g. fixed assets for commercial organisations and accounts receivable for an industrial organisation assuming no direct sales to thirds);
- read the left page as an introduction to the sub process before starting the assessment;
- score the organisation's maturity level using the right page;
- identify opportunities for improvement;
- plot the scores of all sub processes in the maturity grid to define the overall maturity level and to set priorities to meet the next levels ;
- collect information on best practices available within the company;
- prepare a concrete improvement plan within a 6-12 months timeframe, which includes actions, resources and milestones;
- implement improvements and prepare reporting to monitor progress;
- after completion of the agreed upon improvements, use the PST again to define the next steps towards World Class;
- having achieved a score of 7 (internal best practice) or higher, a peer assessment by a small team external to the own organization of the company is recommended before publication.

5. DEFINITION OF SPECIFIC TERMS AND ABBREVIATIONS USED

ABC	Activity Based Costing
Accruals:	(pre)-booking of outstanding liabilities for which a purchase order has been issued and the service has been delivered but the invoice has not yet been received
AP:	Accounts Payable (outstanding payments to external suppliers)
AR:	Accounts Receivable (outstanding debt from external customers)
BBS	Business Balanced Scorecard
BIW:	Business Information Warehouse
BOM:	Bill Of Material
Business Controls:	the framework of controls that ensures the management of an organisation that operational and business risks are adequate defined and covered.
CAP:	Corrective Action Plan
Dunning letter	Letter to push the customer to pay
DPO:	Days Payable Outstanding
DSO:	Days Sales Outstanding
EAN code:	European Article Numbering Association code ("barcode")
EDI:	Electronic Date Interchange
ERP:	Enterprice Resource Planning
F&A:	Finance and Accounting
FIFO:	First In First Out; technique used in inventory accounting
Financial controls:	see business controls but limited to the finance function
GL:	General Ledger
Intercompany accounts:	outstanding debt/payments with internal suppliers/customers
IT:	Information Technology
KPI:	Key Performance Indicator
Maturity grid	Overview of scores plotted in a graph
Maturity scale:	A cumulative performance measurement scale for processes
MD:	Management Development
NON-BOM:	Non Bill Of Material related purchases
NPR:	Non Product Related purchases (=NON-BOM)
P&L	Profit and Loss Account
PDCA-cycle:	Plan, Do, Check, Act cycle

PO:	Purchase Order
PST:	Process Survey Tool
QMS:	Query Management System
Self assessment:	A methodology to define your own position against a predefined scale
SWOT	Strength, Weakness, Opportunities and Threats analysis

Tangible fixed assets:Land, buildings, machines, equipment

Element 1 ACCOUNTS PAYABLE

Process flow chart:
See appendix1.

Definition:
Accounts Payable is the process whereby payments are settled for goods and services purchased. From an accounting perspective the process involves:

Invoice Handling	Invoice payment	Control activities
• Invoice receiving	• Payment proposal	• Query management
• Invoice registration	• Payment approval	• Reporting
• Invoice matching with ordering procedure (PO) and actual delivery of goods or services	• Payment run	
• Invoice archiving	• Payment archiving	

Scope:
The Purchasing process is to a large extent influencing the effectiveness and efficiency of the Accounts Payable process:

- availability of electronic purchase order;
- negotiating the terms and conditions;
- master data collection and update (use EAN code);
- assist in the QMS process. A query management system (QMS) is in place where all queries (e.g complains, returns and price differences), their root causes and the solutions are registrated and reported on a regular basis.

The processing of the incoming goods will also influence the effectiveness of the Accounts Payable process.

World Class description:

- BOM - supplies: Self billing has been implemented and three way matching is in place;
- Non-BOM - supplies: E-procurement is implemented, electronic invoicing is in place and three way matching is carried out;
- Services: Self billing and corporate purchase card are implemented.

Element 1 ACCOUNTS PAYABLE

0.	Informal organisation: no formal AP policy and guidelines exists and all the following activities are executed manually in a subledger: invoice registration, invoice approval, invoice payment.
1.	A formal policy (e.g. dealing with: segregation of duties, use of systems/tools, terms and conditions, DPO reporting) is available, preferably based on company guidelines, but it is not yet deployed. Activities are still executed manually. Basic financial controls e.g. segregation of duties or compensating controls are not in place.
2.	Policy is deployed and followed for the most part (75%) and invoices are manually recorded in a separate subledger. Segregation of duties or compensating controls and work instructions are in place.
3.	All purchases are supported by purchase orders or equivalents authorised by the appropriate level of management. BOM invoices are manually matched with purchase orders (or their equivalent) and receipt notes. For non-BOM a three way or two way matching - for low value items (below EUR 1000) - is in place. Automatic payment proposals are generated for authorised invoices.
4.	The Accounts Payable subledger is fully integrated with the general ledger (and reconciled automatically) and is capable of delivering information for cash management purposes.
5.	Reporting on business and process performance (KPI's), like DPO, percentage of invoices passing through the matching process the first time, outstanding queries, supplier info, is in place and electronic payment to suppliers is implemented based on the payment run of the ERP system.
6.	Automatic (three way) matching is available for BOM and (two or three way) for non BOM items.
7.	Facilities for handling EDI invoices and or self billing are in place and used for selected suppliers (80/20). Scanning in operation for all other incoming invoices including electronic approval. Purchase cards are used where relevant.
8.	Self-billing is implemented where appropriate. One screen now available per supplier with all relevant financial and non-financial information.
9.	As 8 + EDI documents available for other purchases, Query Management System (QMS) in place. Paperless office now in place.
10.	Direct enquiry by suppliers into Accounts Payable system including appropriate master data maintenance by supplier.

Element 2 ACCOUNTS RECEIVABLE

Process flow chart:
See appendix 2.

Definition:
The three basic processes that make up the accounts receivable function are:
- remittance processing including payment methods and automated processing;
- credit management including communication of credit policies, credit checks and approvals, and credit maintenance;
- collections including methods to monitor and motivate internal and external collections agents, collections techniques, and technology.

The process of Accounts Receivable involves risk management and maximising collections and minimising outstanding money.
A query management system (QMS) is in place where all queries (e.g complaints, returns and price differences), their root causes and the solutions are registrated and reported on a regular basis.

Risk management:	**Maximize collections and minimize outstanding money**:
• Risk assessment/credit judgement	• Subledger function & bookkeeping transactions
• Credit control/credit check	• Claim complaint handling management
• Sales/management support	• Reconciliation/payment matching
• Financial support to customers	• Reporting
• Credit rating	
• Reporting	

Requirements of a World Class Accounts Receivable/credit management system:
- polices & terms and conditions;
- clear delegation of authority;
- escalation procedures;
- automation: dunning, matching, external information etc.;
- proactive behaviour;
- teamwork (sales team and credit control);
- staff training, work instructions & knowledge transfer;
- value added reporting;
  - Business Performance (DSO, overdues, total exposure)
  - Process Performance (cost to process one invoice, number of invoices not matched, claims not solved before due date
  - Number and reasons for credit notes;
- benchmarking & performance measurement;
- customer satisfaction;
- ethical behaviour.

Element 2 ACCOUNTS RECEIVABLE

0.	Informal organisation: no local policy only terms & conditions exist.
1.	Local credit policy exists, but company driven guidelines (as far as issued) are not followed or deployed.
2.	Local credit policy updated and implemented in accordance with company (as far as issued) driven guidelines.
3.	Insight in outstanding invoices. Sending dunning letters & statements and matching of payments is performed manually. Basic risk assessment techniques are in place and deployed.
4.	Automatic execution of: matching payments, dunning letters, sending statements and order blocking according to criteria.
5.	Proactive behavior is in place. Queries are collected in advance of due date using the 80/20 rule. A software system to generate dunning letters and statements is in place. Reporting on business and process performance (KPI's) is in place.
6.	Queries are communicated to all relevant departments (e.g. order desk) and solved within an agreed period. The credit department and customer are informed.
7.	Credit information is made available to all relevant personnel. Non financial information is also available to the credit department. External information is integrated directly into the ERP system. A one-screen solution for customer information (logistics, sales and credit positions) is available.
8.	Local system is connected to an advanced system to gain insight on the global/cross border customer. Queries are solved before the due date.
9.	Customers have access to their own financial status in our system.
10.	Paperless office: 100% of transactions are performed automatically: - Invoices and shipping documents are sent electronically to the customer - Customers are capable of accepting such messages - All queries and corrections are communicated and resolutions (credit notes) are sent/communicated electronically - Customers can view their status as it exists in our system - Customers pay electronically and payments are booked and matched in our systems automatically - Ultimately we can access our status in our customers system.

Element 3 INTERCOMPANY ACCOUNTS

Definition:
Intercompany accounting is the process whereby transactions between organisations belonging to the same company are recorded in the financial administration system.
Both related parties are required to properly register, report and reconcile all intercompany transactions in the month of invoicing according to the company calendar.
Purchase orders (or equivalents) are issued for intercompany purchases both for goods and services.
Other basic process elements are already covered in the accounts payable and accounts receivable processes and therefore not repeated in this element.

Scope Definition:
Trade transactions:
- invoicing for supplies and services;
- debit/credit notes for supplies and services;
- payment and settlement of these transactions.

Non trade transactions:
- loans, bank account, capital transactions etc.;
- payment and settlement of such transactions.

World Class performance:
An integrated system is in place in which all intercompany transactions can be simultaneously processed between suppliers and customers providing a continuous insight in the intercompany position of all organisations through Internet. There are no open positions anymore.

Element 3 INTERCOMPANY ACCOUNTS

0.	Informal organisation: although company guidelines and instructions exist, they are not fully adhered to.
1.	Inter-company trade transactions are supported by a purchase order (or its equivalent) that allows accurate processing of the invoice & debit/credit note.
2.	Intercompany EDI is available for exchange of electronic messages. Invoicing of goods and services is done according to corporate guidelines. Invoices received after a specific deadline are booked in the next month; sender is informed to correct his intercompany balance in accordance. The sender has the responsibility and obligation to ensure that the receiving party is able to receive the invoices on time (as above).
3.	For each payment a remittance-advice is sent to the payee in time (refer to 2). All payments are made in accordance with corporate guidelines. Both parties update their intercompany accounts based on the expiring date on this remittance advice.
4.	For each period under review statements of accounts are exchanged and reconciled to the own accounts. All differences are being investigated and solved within one month and corrective actions are taken to avoid these differences in the future. Query management system and escalation procedures are now in place.
5.	Intercompany EDI-messages for invoicing and forwarding goods are fully integrated with the financial systems. All processes are efficient and effective; intercompany current account does not require anymore a dedicated "specialist".
6.	Joint responsibility of intercompany accounts between receiving and sending parties. Parties are co-responsible for each other's balances.
7.	All remittance-advices can be handled by EDI. The exchange of statements of account can also be handled by EDI.
8.	All EDI-messages (steps 5 & 7) can be automatically processed into the relevant systems.
9.	All EDI-messages (steps 5 & 7) are automatically processed into the relevant systems.
10.	An integrated system is in place in which all intercompany transactions can be simultaneously processed between suppliers and customers providing a continuous insight in the ICA position of all organisations through internet. There are no open positions anymore.

Element 4 TANGIBLE FIXED ASSETS

Definition:
Fixed assets are physical resources used for production of a company's goods and services, long-term in nature and usually subject to depreciation. Such assets include equipment (machinery, furniture, tools), building structures (offices, factories, warehouses), and land.

Scope:
The Tangible Fixed Asset process covers those processes that fall after the approval for investment has been granted through the correct channels. The processes start by establishing basic control through recording processes, which follow company directives.

Discriminating factors:
The following statements are describing the underlying discriminating factors on which the maturity scale is defined:

- recording processes are enhanced by sound procedures, with further checking and verification. At this level, for example, control of the recording processes and sound procedures will enable the organisation to avoid errors in not claiming the correct tax deductions for depreciation;

- reviewing processes are introduced to ensure controls are being maintained. Project costing is introduced to provide reporting facilities. This will require some system integration, which in turn should enhance and simplify the control processes;

- although F&A retains primary responsibility for fixed asset control, middle levels of the maturity profile will be characterised by an extension of the processes into other parts of the organisation, aided by system integration;

- at later levels, ownership becomes a strong characteristic, after processes are seen to be deeply embedded in the organisation. This can then enable some forward planning to take place, and should be accompanied by further system integration, enabling cross-functional information to be made available;

- with an extended information system providing relevant information and key performance indicators, management has the basis to benchmark performance internally.

World Class performance:
Maintaining detailed records of long-lived assets and of the accumulated depreciation and depletion of those assets over time. Accurate and timely acquisition, tracking, maintenance, and disposal of fixed assets are the aims of asset management, and are measures of efficiency, performance, and revenue generation. This includes closely monitoring the complete life-cycle costs of property, plant, and equipment and finding ways to use resources more profitably.

Element 4 TANGIBLE FIXED ASSETS

0.	Basic recording and an asset register are in place. Duties/taxes are booked correctly.
1.	Company instructions are followed and some additional recording is in place; equipment is identifiable, including non-capitalised assets and leased assets. Depreciation according to group life classes. Assets existence is reviewed regularly by F&A.
2.	Compliance with company capital investment procedures is secured and an audit trail starting from budget authorisation is there. Extended procedures are implemented e.g.; a separate register for assets under construction, accepting assets and validation to specification, registration of assets off company premises and small value assets.
3.	Increased financial controls are in place: project costing including timely recording on the correct G/L account; insurance valuation is updated regularly; ownership details are correctly administered (titles, deeds, mortgages etc.); tools accounting procedure is implemented; proper authorisation procedure for asset disposal.
4.	Integration of ordering/receipt/clearing with AP processes. Quotations and grants/incentives are reviewed prior to ordering. Compliance with tax regulations.
5.	Internal asset movements are controlled by cost center management; progress payments are authorised by project management, and approved by purchasing. Tools amortisation is reviewed at least twice per year and valued accordingly.
6.	Project control by integrated project manager. Reviewing potential over-valuation, write-offs and pperiodic valuation reviews of all asset (including external valuations) is carried out by a combined team of F&A and relevant stakeholders. Planning of major overhauls is available and authorised by the appropriate level of management.
7.	Post-evaluations of cost-benefits are performed and corrective actions are taken when necessary. All capital/fixed asset related processes are described in organisation-wide operational manuals and periodic management review is in place.
8.	Investment plans are available including rranking and risks. Asset performance data/KPI's are available, and shared with other functions (eg. central engineering). Review of life classes in close co-operation with company management.
9.	Periodic review of future requirements for land/space (including opportunity assessment of alternatives). System links with manufacturing maintenance. KPI's are benchmarked internally. Future asset performance reviewed against asset valuations.
10.	Integration with business planning enhancing complete control and external benchmarking within the industry. Continuous upgrading of business plans with asset performance and valuations. Cash forecasting for remaining life.

Element 5 GENERAL LEDGER & CLOSING

Process flow chart:
See appendix 3.

Definition:
The G/L & closing process describes the activities between the ending of the book month and the closure of the general ledger of that month. It assumes that 'closing' must be completed before the reporting process starts. Fiscal and statutory requirements are excluded from this survey's scope, as they should have no impact on the closing process and consequently the reporting on company accounting principles.

Discriminating factors:
Six discriminating aspects, grouped in three categories, describe the steps in the maturity grid:

- Requirements:
  Company chart of accounts and accounting instructions
  Adherence is a prerequisite to further improvement.
  Organisation & Procedures
  Clear job descriptions with clear responsibilities need to ensure that no conflict of interest can arise. The activities are mapped (flowcharts) and timetables are used to monitor deadlines. Proper documentation exists in line with Business Controls and ISO- requirements.
- Drivers:
  Speed / timeliness of the process
  Shorten the closing process in order to pull reporting forward, while maintaining the quality.
  Quality / accuracy / completeness of the general ledger.
  In a maturing environment the determination of accruals will move towards automatic fact-based calculations by the system using the available data in the system. The same is valid for value adjustments on stocks or debtors and most provisions: from static control calculations to automatic algorithms.
- Enablers:
  Use of I.T.-systems.
  ERP systems (like SAP) offer on-line, real-time functionality with respect to (internal) controls, reconciliation, audit trails and specification of accounts. Typically, transactions are entered only once. As a consequence entries in sub-ledgers generate automatically G/L-bookings, safeguarding the integrity between general ledger and sub-ledger(s).
  Continuous improvement
  Using the PDCA-cycle with adequate performance measurements, the process moves from reactive (error-correction) to pro-active. This implies active involvement of F&A-staff in continuous improvement of business processes. Multi-disciplinary teams are used to tackle problems. Benchmarking is used to support improvements.

World Class performance:
Integrated financial systems assure that the G/L is feeded in such a way that closing can be done at any required moment within a timeframe of a few hours, meeting all requirements and allowing finance staff to work in a deliberate and calm manner throughout the period rather than in a few hectic days.

Element 5 GENERAL LEDGER & CLOSING

0.	Informal organistation: the setup of the G/L is not based on the company chart of accounts and/or accounting practices are not compliant with the relevant instructions. No evidence of a structured approach towards monthly closing; there is no document showing the overall closing process and basic procedures/instructions are missing or outdated.
1.	The G/L is based on the company chart of accounts and complies with administrative instructions. There is some evidence of a structured monthly closing process; the overall process is documented, but some detailed procedures are still missing.
2.	The monthly closing process is well structured, processes are mapped and all accounting procedures/instructions are up-to-date and implemented. Responsibilities are documented; timetable for closing exists and is adhered to. Various systems provide financial data, requiring manual reconciliation with the G/L. Typically, too many transactional errors are found. Substantial amounts and/or number of transactions are booked on suspense accounts. Clearing suspense accounts takes place during and even after the closing process. Performance measurement is partially done, but not consistently used to initiate corrective actions. Reporting is delivered on time. The organisation needs more than 3 normal working days, using considerable extra time.
3.	Interfaces between various systems and the G/L are in place, requiring limited manual reconciliation. The PDCA-cycle is fully implemented within the finance function so that corrective actions and performance measurement take place in a structured manner. Accruals are estimated at the end of the closing process based on the quarterly rolling forecast and historical trends. The organisation is able to complete the closure within 3 normal working days, but unexpected events force staff to revert to extra time.
4.	Unexpected events during the closing process are rare, the closing process is performed within 3 normal working days. Accruals are still estimated at the end of the closing process, but derived from actual business activities rather than the quarterly rolling forecast or trends. Value adjustments on stocks and debtors and provisions are still reviewed at month end. Subsequent transactions are entered during the closing process.

5.	An ERP-system has been partly implemented, financial data are still partly obtained from other not interfaced internal systems. Within the ERP-system reconciliation between sub-ledger(s) and G/L is safeguarded by the integrity of the system. Transactional errors have reduced because of the available screening functionality in the system. There is proof that suspense account(s) are being reviewed and cleared during the month. End-of-month activities still exist but are limited. F&A-staff drives corrective actions beyond the boundaries of their own department, however it appears difficult to sustain the improvements, as the root cause of the problem reappears after some time. Information from the ERP system is used to determine a number of accruals on fact basis during the month, i.e. cost centers are charged upon receipt of a service and the account invoices-to-be-received is credited. Other accruals: as step 4.
6.	There is some evidence that activities, currently still executed at month's end, are being examined with the objective to remove bottlenecks for earlier closing, preferably by adding functionality to the ERP-system. The closing process is consistently completed within two normal working days.
7.	The ERP-system (or systems fully interfaced with the ERP systems e.g. e-procurement and travel reimbursement applications) is the only source of financial data. G/L-account specification can be directly retrieved from the system. Limited (not material) use of suspense accounts for which instant clearance is done.
8.	Accruals, value adjustments, provisions etc. are handled with automatic routines (like algorithms), generating the appropriate transactions using the available data and tables in the system. At month's end, only few transactions are required to complete the G/L; the closing process is consistently completed within one normal working day. All corrective actions, requiring participation of staff from inside and outside the own department, are organized using competent multi-disciplinary teams. Management takes an active role in ensuring sustainability of the improvements via reviews and audits. Effectiveness is proven. Benchmarking is done within the company to assess the quality, speed and cost-effectiveness of the closing process.
9.	External (outside the company) benchmarking gives valuable input with regards to the quality and speed of the closing process as well as its cost effectiveness.
10.	Reaching world class by being able to close at any required moment within hours.

Element 6 REPORTING

Definition:
The reporting process describes the process of providing (non) financial information on the progress towards achieving the business goals to management and other stakeholders. This information meets the needs of the recipient and is available within the time frame and frequency required.
The business objectives and goals are not static, but will change in time. Therefor, there is a constant need to evaluate and redefine the structure and content of the information. This requires an active role of management by taking ownership of this process.

Characteristics of World Class:
Business Information Warehousing (BIW) enables an organisation to structure data towards the specific information needs of a manager or management team. While ERP-reporting facilities are mainly functional-driven (sales, production, purchasing, logistics, finance), BIW enables clustering data of the ERP and other systems into integral business management information i.e. a sales manager requires information on orders, invoices, customers, received payments and overdues, customer complaints and various logistic performance indicators.
Typically, the data are structured in multi-dimensional 'cubes' allowing users to view the data from multiple aggregation levels and multiple angles i.e. the above-mentioned sales manager reviews his gross margin per customer or per sales channel, per product/article-groups, along time axis (actual, forecast, trends), per country or per sales representative.

The Business Balanced Scorecard design is well structured:

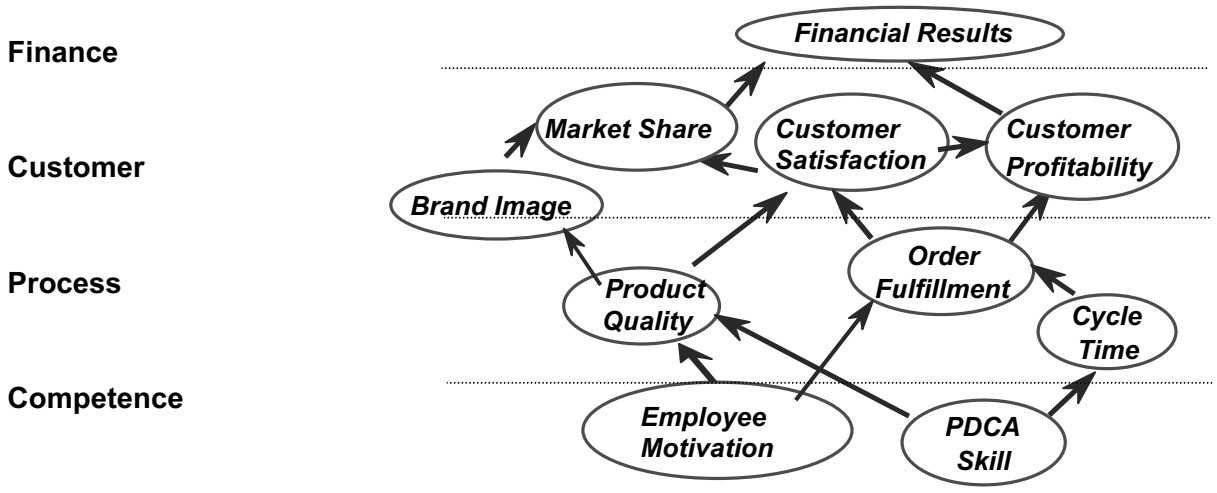


Fig. 1 example critical success factors and interrelations

Based on the critical success factors and the interrelations the key performance indicators are selected and reported as a basis for management review.

Element 6 REPORTING

0.	Informal organisation: no evidence of a structured approach. Reporting is processed without closing.
1.	Some evidence of a structured approach: timetables are applied, tasks and responsibilities of F&A staff are defined. Some procedures/instructions are missing or outdated. The process starts after closing and is paper-based. Data are gathered manually from various systems. Different formats exist, errors are likely to occur.
2.	A structured approach is implemented. All procedures /instructions are in place and adhered to. The reporting structure is well documented, comprising list of recipients, required information per recipient, reporting deadline(s) to meet, reporting formats to use etc. Standardization of reporting formats is actively pursued. F&A staff starts measuring own performance. Most improvements are triggered by recipients.
3.	Performance indicators are used to measure the quality and timeliness of reporting. Multiple sources of data are used, spreadsheets and downloads transform data into the required reporting formats. Reports include budget and forecast data. Reporting is mainly paper-based. First initiatives on BBS.
4.	One data source for all reporting in place, spreadsheets transform data into required formats. Documented routines ensure reliable, timely and complete data transfer from the source system. BBS is used as the cornerstone of reporting. Graphs are used to focus on trends and deviations from plan. Non-standard reporting is minimal.
5.	ERP system is partly implemented, ensuring consistency between high aggregation level- and detailed reporting. BIW covers part of the information requirements. Weekly reports are made for specific subjects, but mainstream is still a monthly cycle. Company-reporting is done via upload-techniques from ERP/BIW.
6.	The BIW covers all relevant information requirements, feeded from ERP- and legacy systems as well as external sources, and allows the user to retrieve information in the format and aggregation level (drill-down functionality) as required.
7.	BIW is used in a cost effective way to provide on line real time the information.
8.	Threshold-levels and traffic-light methods are used, allowing the user to focus on exceptions and trend breaks. BBS is fully implemented, including drill down.
9.	Algorithms allow extrapolation of trends and what-if scenarios. Sensitivity analysis, opportunity/risk management is facilitated. Benchmarking information is reported.
10.	One cost effective I.T.- infrastructure covers all info requirements. Steering towards World Class business performance is fully supported by the reporting process.

Element 7 COST ACCOUNTING

Definition:
A methodology that ensures that all costs are assigned to products/services/distribution channels in order to create cost awareness and control throughout the whole chain to drive that appropriate decisions and actions are taken to increase shareholder value.
NOTE: Internal services are to be considered as products/services in this context.

Scope:
Whereas customer values and competitive realities impact the final pricing decision, full insight in costs is required for the decision-making process. A full understanding of the costs of producing goods or providing services is necessary to balance a customer's need to get value with a company's need to cover costs and earn profits.

Cost accounting:
- emphasises a profit-driven approach;
- helps establish pricing parameters;
- promotes cost control and profitability;
- enables accurate determination of contribution margins;
- supports product and customer portfolio management;
- enables inventory valuation and parts costing.

World Class cost accounting:
A fully integrated automated system for cost accounting is in place. ABC techniques relevant for the type of organisation (industrial, sales or distribution) are used as a basis for customer and product portfolio management. Top down and bottom up target setting is based on market driven profitability and cost analysis covering the full business chain and used in post calculation and business planning to optimise value creation over the chain.

Element 7 COST ACCOUNTING

0.	There is limited awareness of costs and consequently limited cost control per product/services; only categorical P&L account available (actuals).
1.	Registration of actual produced quantities of products/services is available. Still no costs measurement per product/services in place.
2.	In the forecasting process the categorical P&L account is available at organisational level derived from a consistent sales and production planning volume. All according to agreed local rules and company guidelines.
3.	Costs have been assigned to the main activities; costprices are derived from these. Costs of previous period and forecasts are used as a reference for short term cost control. Intercompany transfer prices are based on company guidelines.
4.	Nature of costs has been analysed and cost drivers (minimum number but representative) per main activity have been identified. These cost drivers are accepted by the owners and agreed with management.
5.	Cost calculation model based on cost drivers has been defined, agreed and owned by the organisation. Controls are in place to safeguard proper use of the model.
6.	ABC costing or equivalent methods are used as a tool to encourage corrective actions and validate business decisions. Business planning- and cost accounting processes are aligned (planned costs are derived from good movements plan and cost prices). Proper post calculations are available and used to feed continuous improvement.
7.	Analysis versus internal benchmark and/or market price is made, leading to target setting throughout the chain.
8.	The organisation uses this information for product and customer portfolio management.
9.	External benchmarking is performed. The results of portfolio management are input for strategic action plans (SWOT analysis).
10.	A fully integrated automated system is in place. Top down target setting is based on market driven strategic plans including a cost analysis covering the full business chain.

Element 8 CURRENCY MANAGEMENT

Definition:
Currency risk management is the process to control the impact of exchange rate fluctuations on the business performance. The process starts with the identification, sourcing and measuring of currency exposure. The next step is to determine a cost-effective currency risk strategy. The organisation implements and executes this strategy. Hedging, a financial transaction that offsets the effect of the currency fluctuations is an important instrument within this strategy.

Scope:
The impact of exchange rates on business performance depends on the variability of the exchange rates that are relevant to the business and the sensitivity to these currency movements.

Characteristics:
Local currency risk management is based on a structured and common approach, which is well defined and communicated in a company global policy document.

Management of currency risk is an integral part of managing an operating company. The identification of currency exposures is a process following reliable forecasted cash flows per currency on organisational level. Foreign currency risk should be allocated to individual business decisions and contracts. A well-organised documentation system shows the link between the hedged item and the hedging instrument.

World Class performance:
A fully automated risk identification and measurement process is supported by an ERP system, combining both committed and anticipated foreign exchange exposures. Execution of currency hedges is done through an easily accessible internet deal execution tool, which produces relevant documentation and reporting for management.

Element 8 CURRENCY MANAGEMENT

0.	There is limited currency risk awareness and hedging is only done on a case by case basis. .
1.	Currency risk management is executed based on local policy documents or local instructions.
2.	A company policy has been issued. This document is the basis for local execution.
3.	A structured approach is in place towards identification, measurement and reporting on currency exposures.
4.	There is an overall good discipline in how the policy is applied in the organisation in respect of measurement, reporting and hedging.
5.	Full attention in the management team on the currency policy and the effects on the local business performance. The process is supported by skilled people and the effects of currency risk are an integral part of the internal management reporting.
6.	An effective documentation process, supported by a system, showing the relationship between the hedged transaction (invoices and/or orders based) and the hedging derivative is in place according to FAS 133. Procedures are in place to perform a hedge effectiveness analysis.
7.	Currency risk management is incorporated in the management decision process.
8.	The policy has become a living document and a benchmark for the organisation. The follow up on policy and procedures is subject of regular self-assessments and compliance audits.
9.	A well structured risk identification and measurement process combining both committed and anticipated foreign exchange exposures is in place. Execution of currency hedges is done through an easily accessible internet deal execution tool, which produces relevant documentation and reporting for management.
10.	A fully automated risk identification process is supported by the ERP system.

Element 9 INVENTORY CONTROL

Definition:
The inventory control process describes the activities and involvement of Finance staff from basic stock accounting to participation in integral inventory control and management. Cross-functional co-operation within the organisation is a pre-requisite to improve on the maturity scale.

Discriminating factors:
Scale 0-4: main focus on transaction management. The Finance staff is preliminary occupied with inventory registration tasks and related value adjustments in accordance with the company accounting principles.

Scale 5-7: an ERP system is in place and Finance staff is now able to focus on control elements as integral cost management, risk management, publication of KPI's reflecting not only financial information but cross-functional metrics and the support of corrective actions as participant in a cross functional team.

Scale 8-10: Finance staff is focussed on integral business management.

World Class performance:
Finance staff is part of a management team that has achieved world class in industry. Benchmarked KPI's prove that minimal inventories are kept at lowest integral costs maintaining excellent service levels.

Element 9 INVENTORY CONTROL

0.	Informal organisation: no evidence of a structured approach. Basic procedures and process descriptions are missing or outdated. Company accounting principles are not adhered to.
1.	Inventory registration is based on the company accounting principles. High level process descriptions are in place.
2.	Detailed process maps are available and adhered to based on company accounting principles and company instructions covering e.g. value adjustments (obsolescence, eliminations of: intercompany profit, research- and development costs and general- and administrative expenses) and FIFO adjustment.
3.	A well-balanced set of controls, combining continuos cycle counting and planned (partly or full) stock counts is implemented and there is proof of its effectiveness. Adjustments are recorded instantly in the sub-ledger and GL. Transaction errors are cleared immediately.
4.	Inventory management is based on high quality inventory control information on excess stocks with direct relation to sales and manufacturing. KPI's (e.g. stocks as percentage of production value or sales, obsolescence, ageing, excess stock, safety stock, stock accuracy) are in place.
5.	ERP system in place; value adjustments and KPI's are provided by the ERP system. Reconciliation GL and subledger is handled as an automatic routine in the ERP system.
6.	To support an adequate inventory management integral costs and the related cost drivers are defined and used as an input to define CAP's.
7.	Cross functional metrics covering costs, assets, service level and required flexibility are in place. CAP's are defined in a cross functional team which includes the Finance function. Internal benchmarking is in place using KPI's.
8.	Effectiveness of CAP's proved; quarterly rolling forecasts are reliable. Value adjustments are handled with maximum use of automatic routines available in the ERP system.
9.	External benchmarking within industry in place using KPI's.
10.	Achieving world class in industry. Benchmarked KPI's prove that minimal inventories are kept at lowest integral costs maintaining excellent service levels.

Element 10 OPERATIONAL PLANNING AND FORECASTING

Definition:
Forecasting is the quantitative and qualitative method to predict the development of key performance indicators (value drivers) in a business.
Forecasting is an integral part of performance management:

- strategic planning;
- operational planning and forecasting
- periodic performance review/forecasting;
- incentive compensation.

The forecasting process leads to a confirmation or adjustment (corrective and pro-active) in operational plans to optimise business performance. It (re)allocates financial, physical and human resources, which are required to achieve short term goals in line with the strategic objectives.

Characteristics:
Forecasting takes place at least once per quarter and covers at least five quarters ahead (rolling), depending on company guidelines. Key financial and non-financial performance targets are reflected in the business balanced scorecard. The process is owned by business management and is a basis for defining actions and new targets. Communication and deployment throughout the organisation is well structured resulting in well-documented action plans.

World Class performance:
A frequent planning and (rolling) forecasting process (at least once per quarter) including continuous monitoring (early warning systems) of threats and opportunities and the continuous assessment of scenario's (effectiveness), is in place. There is a proven alignment with strategic goals, which ensures long-term value creation (EPR).

Element 10 OPERATIONAL PLANNING AND FORECASTING

0.	No formal forecasting process exists.
1.	Forecasting process exists, but not derived from company guidelines; at due date a top-down quarterly rolling forecast is made by F&A and communicated to central F&A department.
2.	Forecasting process is derived from company guidelines.
3.	There is an integrated forecast within the organisation involving all key decision-makers. Internally the forecasts are aligned, clearly owned by local management and agreed with next higher level management.
4.	A structured (partly automated) forecasting system ensures internal consistency and efficiency in the process. Integration with the business unit forecast is secured.
5.	The forecast is reviewed and approved by higher-level management with the annual operating plan as a reference. The reliability of the forecast is measured, reported and periodically monitored within agreed bandwidth.
6.	Targets and actions are jointly agreed upon and well communicated and documented in all levels of the organisation (e.g. by using the carousel model).
7.	The process leads to a confirmation/update of targets and related actions for financial and non-financial key performance indicators reflected in the Business Balanced Scorecard.
8.	Latest external (anticipated) developments are the basis for updating the forecast and defining actions to meet or exceed the key performance targets.
9.	The forecasting process accommodates change and response to competitive threats and opportunities. Forecasts are dynamic, but not revised to cover up for poor performance or poor planning. The forecast provides various scenario's (what/if).
10.	Frequent planning and (rolling) forecasting process (at least once per quarter). Continuous monitoring (early warning systems) of threats and opportunities and continuous assessments of scenario's (effectiveness). Proven alignment with strategic goals. The process leads to long-term value creation (EPR).

Element 11 PEOPLE CAPABILITY & FINANCE EXCELLENCE

Introduction:
The quality of the finance process will only be as good as the people who are driving it. A highly skilled set of finance professionals, who are business focussed and motivated to become world class, can built the leadership culture the company needs to create value.

Scope:
This element ensures that the people in the finance organisation have the ability and mindset required to achieve world-class performance.

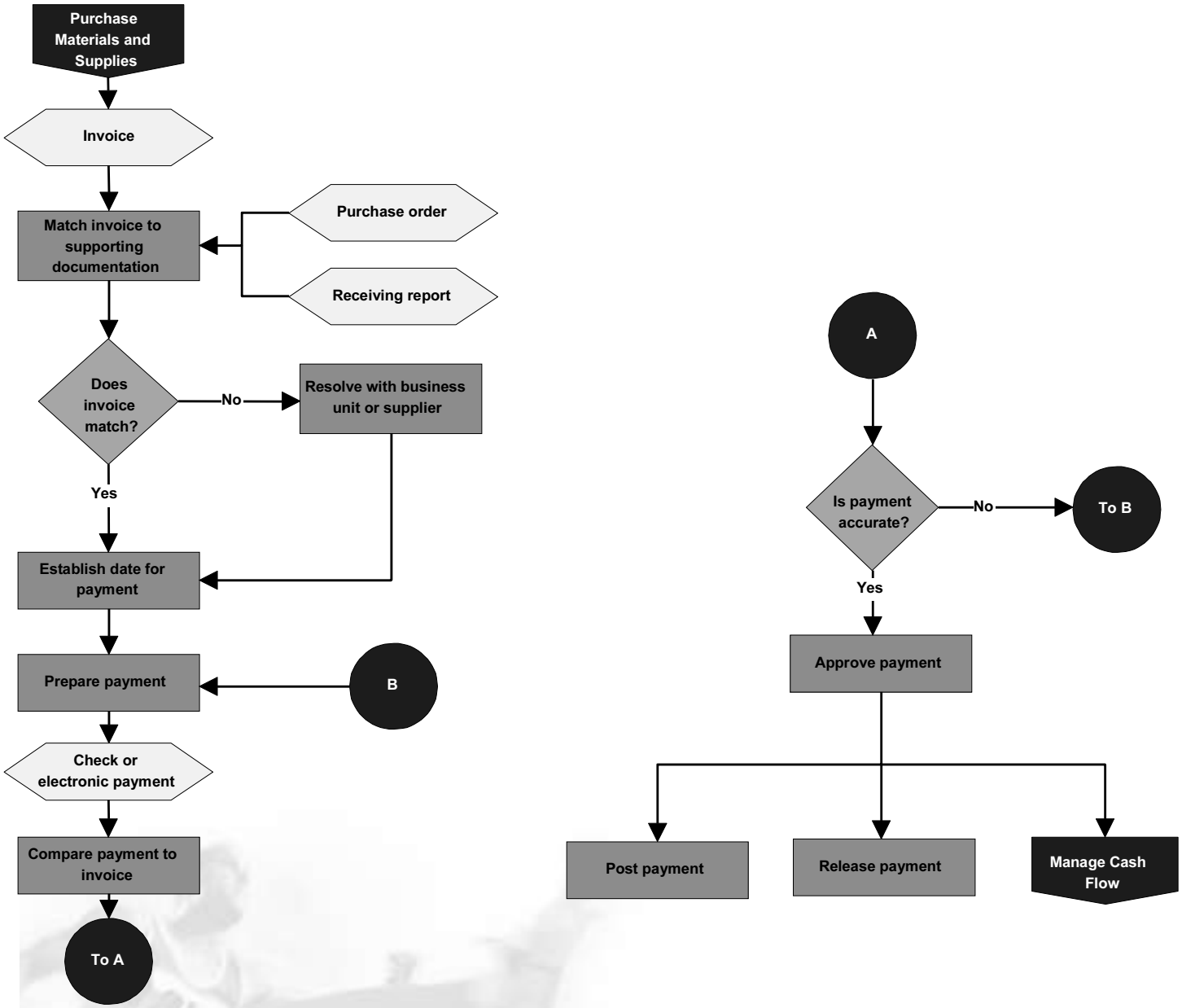
Characteristics:
A clear understanding of capabilities, professional skills and leadership competencies required to excel in the finance function are: availability, implementation and usage of tools and training needed to support our people to excel, an atmosphere of coaching, motivating and continuous learning and a clear understanding how finance can become a value adding and business driven function.

World Class performance:
The most knowledgeable, skilful, motivated, business- and value driven people suitable for the job to be performed are joining the finance teams in the company They take control of their own career, develop continuously and increase their value for the business. The finance organisation is a team of people that shares above objectives and known as one of the most motivating and challenging organisations in the industry. Our finance capability is viewed as worldclass and attracts top finance candidates from the best companies and the most superior institutes. The company' finance people are 'most wanted' in the external labour market. There is a culture where the driving force is to achieve finance excellence as a competitive advantage.

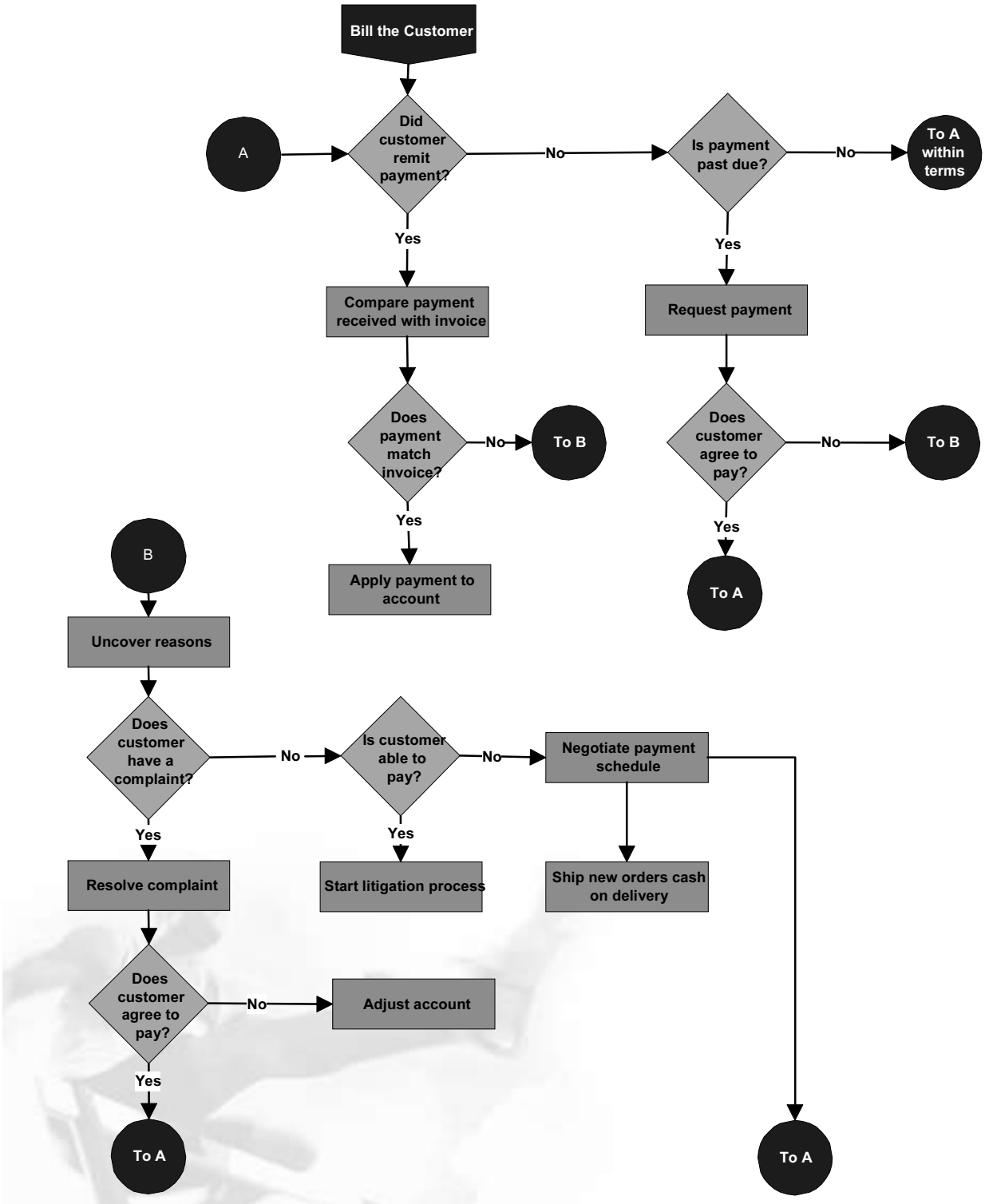
Element 11 PEOPLE CAPABILITY & FINANCE EXCELLENCE

0.	Finance is a transaction-oriented organisation in the unit isolated from the business processes.
1.	Management development process is limited to annual performance appraisals which are recorded on the standard form with limited attention for explanations and task settings. Job descriptions are available.
2.	It is recognised by the unit that the finance function shifts its focus from scorekeeping and transaction processing towards a business oriented value-adding function. For relevant controlling functions job requirements are defined accordingly, succession planning and training programs reflecting this are defined.
3.	The implication of moving the finance function towards a pro- and interactive (business) partner implies new functional skills and competencies. This is mentioned in the performance appraisal documents.
4.	A structured framework of competencies is known and used to assess the current capability of existing resources in line with the needs according to business strategy/challenges. These competencies are embedded in performance appraisals and training programs as well as for decision making on internal and external recruitment. A structure is in place for communication to the appropriate next management level.
5.	Appropriate actions/interventions are executed to meet the business strategy/ challenges.
6.	State of the art MD-tools and MD-activities like development centres are supporting the alignment with business strategies. There is evidence of appropriate attention for structural individual career/personal development planning.
7.	The finance organisation is now business and value driven. Evidence can be found of a self learning environment in which the finance manager is focused on team building, motivating and coaching. This is reflected in a score of 7 or higher in the elements 1-10 of this PST for Finance.
8.	The units finance people are acknowledged by other units throughout the company as the most knowledgeable, skilful, self learning, motivating and value driven finance people and are regularly asked to help, resource and teach within the company.
9.	Same but within the industry.
10.	The finance organisation of the company has become the most knowledgeable, skilful and motivated finance organisation that attracts top potential finance candidates from the best companies. The most superior institutes and top companies attract our people.

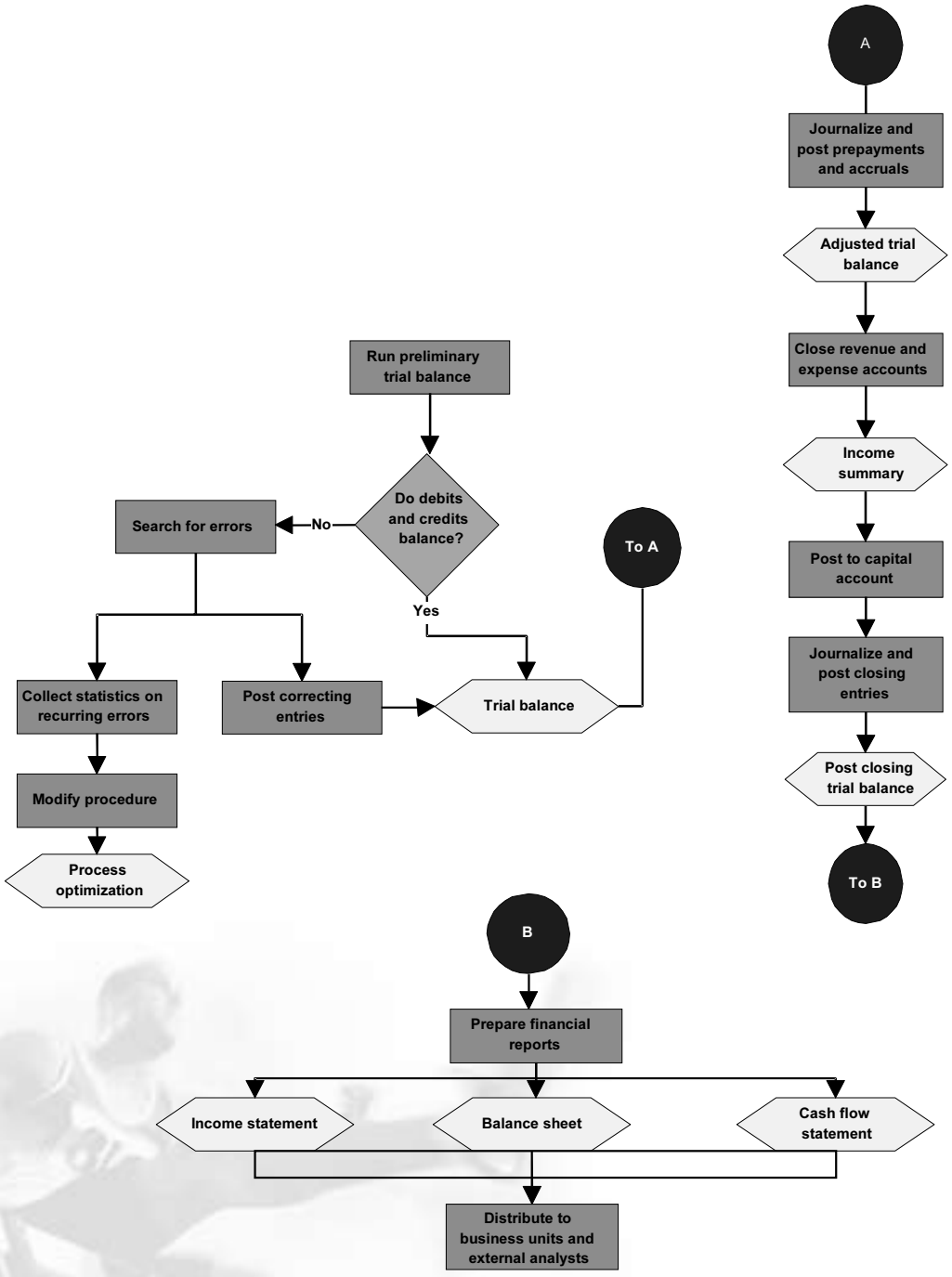
Appendix 1: PROCESS FLOWCHART ACCOUNTS PAYABLE



Appendix 2: PROCESS FLOWCHART ACCOUNTS RECEIVABLE



Appendix 3: PROCESS FLOWCHART CLOSING



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