Role of Finance in the New Millennium

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CHANGES IN BUSINESS WORLD

The last two decades have been an extremely dynamic period for the business community and change was the only constant during this period. This will prevail in the future.

The main drivers for change are:

• Competitive pressure
• Impact of information and telecommunication technology
• Globalisation of business
• Changing business and organisation structures
• Focus on value
• Demand for knowledge and skills
• Changing work environment

IMPACT ON FINANCE

The finance function itself is affected both by these broad changes and by other specific changes and demands. Business needs finance to add value to supply better information, to embrace technology, to adopt new processes to reduce costs, and to react to social and political forces.

It appears likely that:

• Business Unit and Group Finance people will be focused on adding value, having far greater input to strategy and general business decisions than is typical today. Rather than just
crunching the numbers, finance people will be an integral part of business decision-making.

- Finance will be providing far more sophisticated information to businesses and to external stakeholders, faster, than is currently typical.

- Technology will change many aspects of finance dramatically - integrated systems, on-line analytical processing etc.

- Transaction processing will be concentrated in shared service centres or be outsourced to reduce cost, increase effectiveness and free up business unit finance people for the value adding activities.

Therefore new and enhanced skills will be needed by accountants in business:

- Strategic and general business skills, combined with a thorough understanding of the business, its markets and operations.

- Sophisticated accounting and finance skills with a focus on Value Based Management.

- First class people skills to influence rather than direct subordinates, peers and others. Excellent communication, negotiation and change management skills will be mandatory.

- Knowledge and understanding of the capability of a wide variety of technology and its actual and potential impact on the business.

**UNIQUE ROLE OF THE FINANCE FUNCTION**

The finance function is uniquely positioned to take a leadership role in a company's transformation process for a number of reasons:

- Finance touches every point in the value chain and has more
Finances outlook on other functional departments than any other area,

- Finance has the overall responsibility for information management and delivery, and

- The finance function is viewed by organisations as the interpreter, communicator and educator regarding the financial impact of various management decisions.

**FINANCE'S NEW ROLE**

The primary role of finance in the emerging world is to add value and requires focusing on some key principles:

- Aligning priorities with overall business strategy,

- Providing information critical to the decision-making process,

- Participating as an equal business partner within the organisation,

- Providing timely and cost-effective service,

- Ensuring delivery of high-quality services,

- Developing an effective balance between compliance, control, and efficiency,

- Eliminating or reducing "non-value-added" activities, and

- Identifying and meeting "best-in-class" companies to benchmark performance.

There will be less emphasis on transactions and more on decision support.
CREATING A FINANCE ORGANISATION THAT "ADDS MORE VALUE AT A LOWER COST"
THE EVOLVING ROLE OF FINANCE

TODAY
- Process Transactions
- Raise Capital
- Pre Tax Returns
- Manage Costs
- Implement Accounting Control
- Create and facilitate Budgeting
- Perform Internal Audits
- Monitor / Report Financial Results

FUTURE
- Assess Business
- Conduct Value - adding Business Analysis
- Develop, Company-wide Performance Metrics

We are in the process of transforming into this new role at a rapid rate and are getting involved in other areas with which up to recently were unfamiliar.

I will focus on two areas i.e.

- Timeous information critical to business decisions and transfer of knowledge
- Value adding analysis
TIMEOUS INFORMATION CRITICAL TO BUSINESS DECISIONS

More information, as distinct from data, is needed by management to guide the company.

Traditionally the finance function has provided management reports consisting of historical financial data.

Performance reporting is needed now instead of historical data. Reporting should comprise a range of measures, financial and non-financial, predictive and reactive, in order that readers gain an overall view of the organisation.

This information is needed daily instead of monthly and should be interpreted or easy to interpret with subsequent actions to correct.

What is needed is "Relevance, speed and accuracy, rather than precision and history".

On Rustenburg we have come a long way in achieving this and I will spend some time on our daily management report, which incorporates financial as well as non-financial measures. It is a typical Du Pont analysis:
BENEFITS ACHIEVED WITH THIS DU PONT MODEL

- Knowledge and understanding of the business were created to a very low level
- Understanding of the interrelationship of all components of our business and processes were created
- Focus areas are identified in time for corrective action i.e. Cost related
- Production / Efficiency related
- Available daily and compared to business plan on a daily basis
- Broken down to section level at the shafts
- Unpay areas can be identified and focus points for corrective action can be identified
- The effects of action plans can be modelled (Demonstration at presentation).

VALUE ADDING ANALYSIS

Value adding is taking it a step further than traditional measurement of profits. The traditional profit measurement is no longer the best indicator.

We have developed a model named "Anglo Platinum Value Added" as a joint initiative between finance and operations.

The principles of the Value Added thinking is that in order to assess whether or not we are really adding value to our shareholders we need to ensure that the profits that we make on the shareholders money that we have tied up in the business, exceed the return that they could earn on other similar investments. The concept is similar to that of someone borrowing money from the bank and investing it in the market - they will only create value if the return that they get out of the market is greater than the return that the bank expects for lending them the money.

This return that is expected by our shareholders is called the cost
of capital.

In order to add value we will therefore have to make a return / profit that is greater than our cost of capital. The AVA tool has been designed for specifically that purpose - to evaluate to what extent the operating decisions that we make add value.

You can still make a profit but at the same time destroy value when your cost of capital invested to create the profit is higher than your return.

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\text{Return (Profit)} > \text{Cost of Capital} = \text{Value Added} \\
\text{Return (Profit)} < \text{Cost of Capital} = \text{Value destroyed}
\]

This AVA Assessment Tool will enable the business analysts and the management teams to run scenarios and evaluate the impact of their operational decisions on their operational decisions on their bottom line or value added. They can evaluate the net impact of reducing inventories, or the impact of delaying capital expenditure until it is required as well as the impact of increasing tons or reducing dilution or labour numbers. The most important change is that they are made aware of not only the profit impact but also the impact of value added after financing costs.

Every decision where capital investment is needed should be evaluated on a basis of value adding.

This is a new concept in the mining industry and considerable change in mindset from where we were a few years back but we believe that it is achievable and will assist us in getting the most out of our operations and the people employed therein.
CONCLUSION

A more general understanding of business is needed to enable a contribution from all members of the business team. The shifting emphasis of the finance function from the traditional "scorekeeper" to a "business partnering" role has occurred. Companies have to be sharper and more focused. The two models discussed are key enablers in the process of understanding and change.