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TOOLKIT

Restructuring an Organization's Finance Function

Seminar for Management

Final Version

September 30, 1996

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Seminar Agenda

Session 1:	Introduction to the Finance Function and its Processes
Session 2:	Overview of Organizational Structures
Session 3:	Elements of the Finance Function
Session 4:	Revenue Cycle Process Flows
Session 5:	Expenditure Cycle Process Flows
Session 6:	Barter Cycle and Petty Cash Process Flows
Session 7:	Departmental Roles and Responsibilities in the Organization
Session 8:	Restructuring and Implementation Plans
Session 9:	Homework

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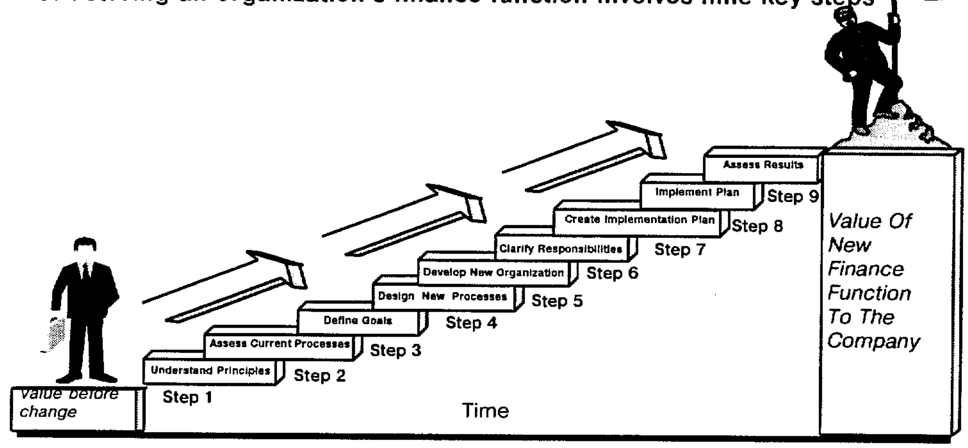
INSTRUCTOR'S NOTES:

The timeline for the seminar is given in the handouts for the seminar participants. The presenter should note that the seminar's agenda is organized in two dimensions: sessions and steps. Each session is based on a major concept (e.g. principles of designing, revenue cycle process flow, roles and responsibilities). Sessions are approximately equal to each other in time terms. Restructuring steps on the other hand, represent major blocks of restructuring the finance function and one restructuring step can be stretched across several sessions or one session can cover several restructuring steps. A more complete picture of restructuring steps is presented on the next slide.

Seminar Objectives (1)

Restructuring an organization's finance function involves nine key steps



This method was developed on the basis of recent experience in restructuring manufacturing firms in Russia

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INSTRUCTOR'S NOTES:

Due to the specific nature of each company's operations not all recommendations will be pertinent to your company.

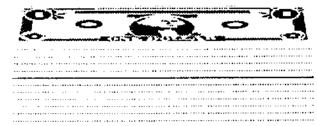
Expected Result

Upon the completion of the seminar you will understand the general approach in restructuring finance function.

This process is aimed at making the role of the finance function more effective.

Seminar Objectives (2)

Financial management is an integral part of the overall company management and is essential to the company's success in the market place



The seminar's objectives are:

- To understand the need for restructuring the finance function
- To understand the 'role' of the finance function in the organization
- To provide a methodology/process for redesigning and implementing the restructuring of the finance function
- To address practical issues of restructuring through cases, exercises and audience participation

Format of the Seminar

The seminar will encourage your full participation in discussion sessions ...

... and will include class exercises and homework assignments to help you understand the material presented, practice using it and discuss the results with the presenter

We will use a 'Learning by Doing' method in this seminar

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INSTRUCTOR'S NOTES:

The 'Learning by Doing' method means that theoretical postulates will be supported by practical examples and exercises. The audience will be encouraged to participate in this process and deal with practical issues.

During the Seminar We Will Concentrate Our Discussion Around the Finance Function - Covering Processes, Cycles and Departments

- **Process** - a series of tasks or procedures, which together, facilitate the completion of an entire transaction
  - *Example*: The process of authorizing the purchase of major raw materials for the production
- **Cycle** - a set of sequential processes performed by various departments to achieve the four primary activities of any business - expenditures, revenue generation, production and financing
  - *Example*: Processes of negotiating the purchase with the vendor, authorizing the purchase, obtaining the goods, paying to the vendor and recording the transaction, combined together, constitute the Expenditure cycle
- **Department** - a subdivision of an enterprise with distinct responsibility for performing specific activities and tasks of a process and which has jurisdiction over the employees performing these tasks
  - *Example*: Finance department is typically responsible for final authorization of the purchase (i.e. performs last activity in the authorization process) and has the power to reject purchases, approved by other departments

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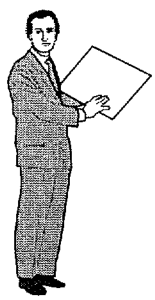
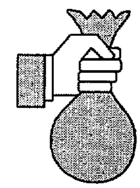
INSTRUCTOR'S NOTES:

In this part of the seminar, the participants will consider a case which demonstrates why a comprehensive finance function is needed at an enterprise. Also, the participants will learn what the key factors are in the successful finance function and what major factors one has to take into account while restructuring the finance function.

Case Study: AOOT Siluet - General Information



- Product line: fur-garments
- Location: Urals
- Sales volume in 1995: 70 b RUR
- Net profit: 9 b RUR
- Total assets: 800 b rubles
- Number of employees: 2,000
- Shareholders:
  - Employees 41%
  - State Property Committee 20%
  - Management 10%
  - Others 29%
- Major customers: Ministries of Defense and Internal Affairs, large wholesalers



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Case Study: AOOT Siluet - Business Situation

Background

Viktor Lyubimov has just been appointed as a Finance Director. The General Director was not satisfied with work of the previous Head of the Finance Department. Viktor Lyubimov is given carte blanche to design and improve the finance function. He is faced with a number of questions:

- What should be the role of the finance function of the enterprise?
- How should the efficiency of the finance function be measured?
- How should the finance function be organized?
- What changes have to be introduced into the present organization?
- How should the responsibilities be allocated in the new organization?
- How much time is needed and available for implementing the changes?

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INSTRUCTOR'S NOTES:

These questions are traditional while checking the efficiency of the existing finance function or creating a new one.

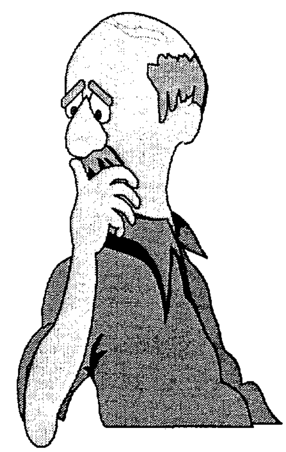
Ask participants which additional questions may face Viktor Lyubimov. Tell them that Viktor Lyubimov is confronting a completely new situation for him and many other questions may be legitimate.

Transition to the next slide: first, Viktor Lyubimov has decided to analyze the current situation and compose a summary list of the existing problem areas.

Case Study: AOOT Siluet - Problem Areas

The General Director specifically asked Viktor Lyubimov to address several problems:

- The company failed to obtain bank financing to meet its working capital requirements
- Accounts receivable amount to 25% of annual sales; 50% of the receivables are older than 90 days
- Wages have been delayed for two months
- Many products are unprofitable and hard-to-sell
- The company's account is frozen due to late tax payments
- Overheads are too high for the current production level



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INSTRUCTOR'S NOTES:

Ask the participants if these problems sound familiar to them. Although the details are not important there may be useful insights into the business practices of the participants' companies.

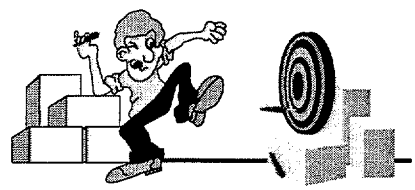
How are these problems being solved at the participants' enterprises?

The presenter should summarize briefly what the participants said. While he is doing that he should leave an impression (but not say directly) that what was said represents pieces of one picture rather than an integrated approach. This impression can be established by asking questions like

- Do you really believe it will work?
- Will this solution entail other problems?
- Would this problem re-occur again under such an approach?

Case Study: AOOT Siluet - Possible Solutions

Viktor Lyubimov tried to attack the problems one by one



- He tried to execute a greater control over sales... but it turned out that sales contracts do not even pass through the finance department
- He decided to analyze the product portfolio... but the planning department did not have the latest data on the material replacement costs
- He wanted to forecast the cash flow for the next month... but the sales department could not give reasonable estimates of future sales
- He wanted to analyze costs... but quickly became confused in the accounting 'tricks'

Finally, after a week of fruitless work, Viktor Lyubimov realized that solving problems separately will not help - a comprehensive and holistic approach is needed...

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INSTRUCTOR'S NOTES:

It has to be emphasized that each action taken by Viktor Lyubimov was doomed to fail because all of these problems are interconnected and solving one requires to solve all the others as well.

Also mention that Viktor Lyubimov was trying to solve not the problems but their consequences.

Case Study: AOOT Siluet - Major Problem: An Underdeveloped Finance Function

Problem area	Activity needed
The company failed to obtain a bank loan to replenish its working capital	Obtaining finance requires a special set of activities including financial analyses and studies
Accounts receivable amount to 25% of annual sales and 50% of AR are older than 90 days	If the management reporting system were in place, appropriate actions would have been taken
Wages have been delayed for two months	Working capital & cash management should anticipate cash shortages & work to minimize them
Many products are unprofitable and hard-to-sell	Product portfolio management is directed at maximizing product line profitability
The company's account is frozen due to late tax payments	Tax planning allows penalties and sanctions to be minimized
Overheads are too high for the current production level	Cost management is needed for establishing an optimal cost structure

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INSTRUCTOR'S NOTES:

The activities listed on the right-hand side of the table are all part of the Finance Function. The Finance Function is not solely responsible for all these activities (e.g. product portfolio management is an area of the marketing department). However, the Finance Function contributes to each one of them. If one if these activities is undeveloped then the Finance Function is not developed either. Also, these activities are not isolated from each other and have to be undertaken together.

The case considered is not just hypothetical. Many enterprise experience similar problems.

The method of restructuring the finance function described in this seminar gives answers to many questions confronting the restructure. There are examples of successful restructuring which employed this method.

Successful Restructuring of the Finance Function at a Major Metal Producer Significantly Improved Financial Management

Before Restructuring:

- Information on accounts payable and receivable was not available
- Information on expected and actual cash inflows and outflows was impossible to summarize
- Important documents (contracts, invoices) were consistently misplaced
- The company was unable to obtain bank credits during the last year
- Management had no information to measure performance

After Restructuring:

- Proper document turnover is in place
- Information for budgeting and control purposes is available
- Debts rescheduled with both the government and vendors
- More than $0.5 m of unutilized resources 'discovered'
- Major financial activities standardized and assigned to specific individuals
- 10% cost reduction achieved

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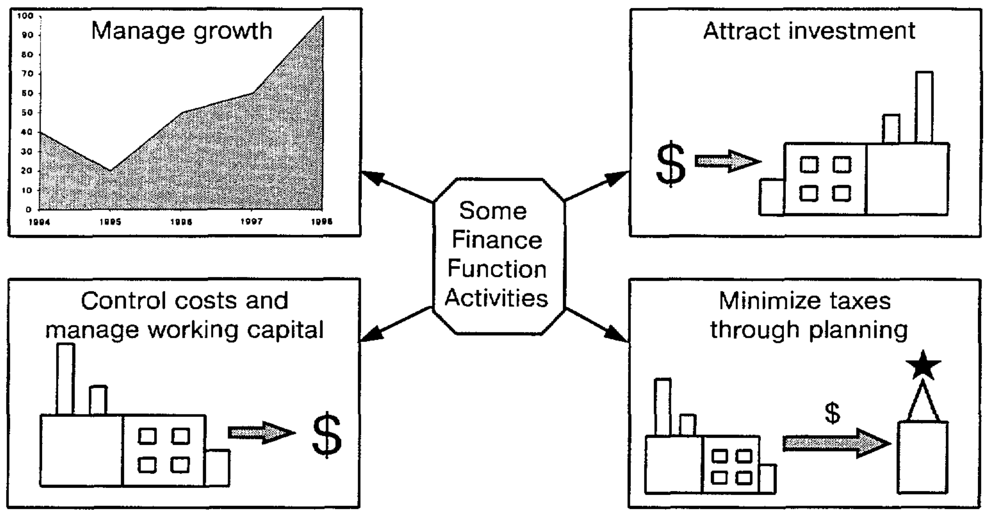
INSTRUCTOR'S NOTES:

In addition to these tangible results, even more importantly, as a result of these changes the company obtained a viable finance function.

A Viable Finance Function is Essential for Successful Operation in a Competitive Business Environment

A successful finance function will allow the company to achieve tangible benefits



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INSTRUCTOR'S NOTES:

- Without a recognizable finance function and structure in a company, it is difficult to attract reliable foreign/Russian investors or obtain bank financing
- Only a strong finance function will be able to implement tax minimization procedures, managerial accounting and optimal resource allocation
- Growth can be supported only with a flexible finance function allowing the company to assess opportunities and exercise control over business
- A properly settled finance function minimizes misuse and fraud
- Potential benefits from restructuring can far exceed the restructuring costs:
  - Several companies received benefits from $200,000 up to $5,000,000.** (Results of the Financial Management Assistance Project, conducted at 8 Russian enterprises)

The Costs of A Poorly Managed Finance Function Can Be Significant

Failure in Control Systems

- Without systematic and complete knowledge about available financial resources and liabilities, companies may lose up to 20% of their assets:*
  - 'distorted' cost calculations will lead to wrong pricing decisions
  - inflows will not be coordinated with outflows
  - unearned interest and inflation losses
  - expenses which could have been avoided

Limited Investments

- Without a recognizable and efficient finance operation in a company, it is difficult to attract reliable investors (foreign/Russian)

Irregular Tax Payments

- Without proper document turnover accountants will base tax calculations and financial reporting on distorted revenue and cost figures

Management of Growth

- Without clearly defined roles and outputs in the finance function, growing Russian companies often collapse or experience periods of severe cash crisis

Source: * - Expert magazine, #15, 15.04.96, Page 26.
roff1e/Page 14

INSTRUCTOR'S NOTES:

Limited investments - a foreign or Russian investor is interested in how well its funds will be used in order to get his/her proper rate of return. The finance function plays a vital role in convincing the investor that his/her funds will be used appropriately if:

- there is a high degree of control executed by finance function
- projects are well-assessed
- processes are organized efficiently

Irregular tax payments - under the new finance function the accounting department regularly plans for tax payments.

Managing growth - the finance function is most effective when duties and responsibilities are allocated between the departments in such a way that no overlapping in the areas of competence occurs. A clear division of responsibilities helps identify staffing and skill problems as well as other internal and external business problems which may arise during business growth.

Refer back to the case of AOOT Siluet and point out some other costs.

The Primary Responsibility of the Finance Function is to Optimize the Use of Company Resources

The finance function is composed of necessary processes, cycles and departments which together:

- Supports revenue generation at all stages with financial analysis
- Manages costs via analyzing the necessity of purchase, authorizing every expenditure (including capital expenditures) throughout the company
- Tracks available financial assets and outstanding liabilities
- Manages cash inflows and outflows, including tax payments
- Seeks optimal sources and terms of financing
- Facilitates barter transactions
- Supports financial analyses of projects at all stages
- Performs budgeting, planning and forecasting for the company and its business units
- Accounts for and records every transaction undertaken by the company
- Facilitates transfer of earned wealth to the employees and shareholders

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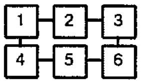
General Principles of Organizing the Finance Function



1. Organize the company around core processes rather than tasks or people
2. Perform each critical activity in <u>only one</u> department
3. Simplify and flatten the organizational hierarchy
4. Reward performance and make it contribution driven
5. Inform and train all employees
6. Don't be afraid to introduce radical change.

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INSTRUCTOR'S NOTES:

1. Organize around the process, not around tasks or people:

   Instead of creating a structure around functions or departments, build the company around three to five core processes, with specific performance goals.

2. Perform each critical activity in <u>only one</u> department:

   Sales and marketing, finance, accounting, human resources, etc.;

   Authorization, accounting, planning, etc.

3. Simplify and flatten hierarchy and use teams to manage change:

   Assign 'owner' to each task performed and hold him accountable for measurable performance results;

   Define relations between owner and remaining structure;

   Assign no more than 6-7 activities to an employee.

4. Reward performance and make it contribution driven:

   It will support the restructuring effort and add value to the bottom line.

5. Inform and train all employees.

6. Don't be afraid to experiment:

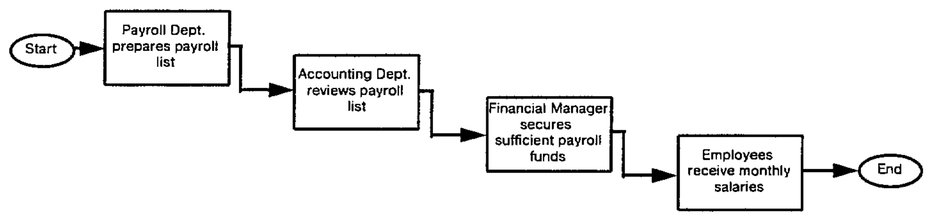
   There is no universal 'restructuring science'. The real science is finding what will work in each particular company.

Reorganize the Finance Function Around Key Financial Processes

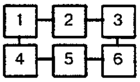
What is a process?

- A process is a series of tasks or procedures, which together facilitate the completion of a transaction.
  - Example: All of the tasks which move a customer order forward to production, shipment, and recording in the books as a sale represent one process - the sales process
- A process generally represents the completion of an entire transaction.
  - Example: Four of the most basic transactions are sales, collections, purchases, and payments

Sample Process Flow: Monthly Payroll



Creating an Organizational Structure Around Processes is Necessary Because ...

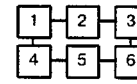


- Processes, not functions define the way in which the organization operates
- Taken together processes enable the organization's transactions to be completed
- Processes are adapted over time, but typically do not change as dramatically as other resources within the organization
- Fundamental processes of the organization survive long after a specific manager or employee has retired.
- The organization's management and staff are often constrained by sub-optimal processes.

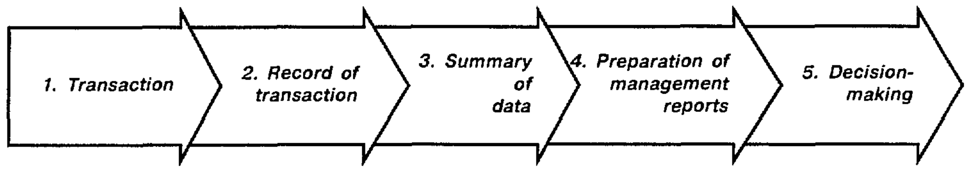
Eventually, each financial process, not function, should link related tasks to yield a product or service to a customer, vendor, financial institution or management

Note: Specific processes will be discussed in detail in the following sections of the seminar.

Processes are the Key to an Efficient Finance Function



- Flows of information in the process need to be as simple as possible
- Data should move between only those people who really need it



- If process flows are correct, then the actual level of effort is minimized
- Duplication of effort and conflict of authority do not arise

All necessary financial processes should be in place when establishing/reforming the finance department

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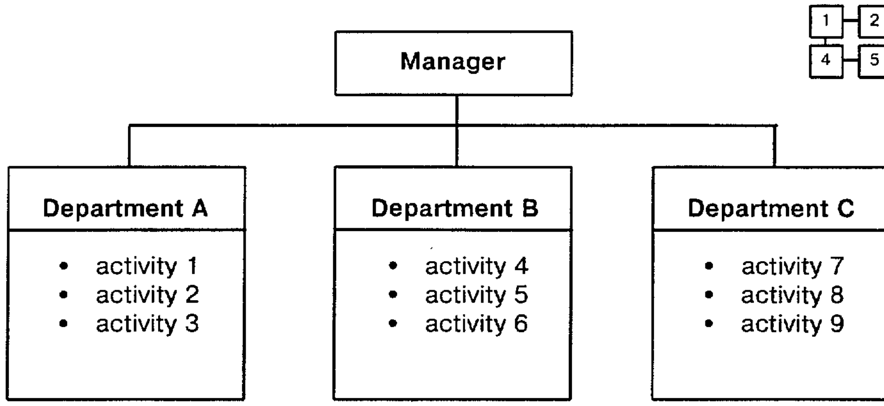
Perform Each Critical Activity in Only One Department



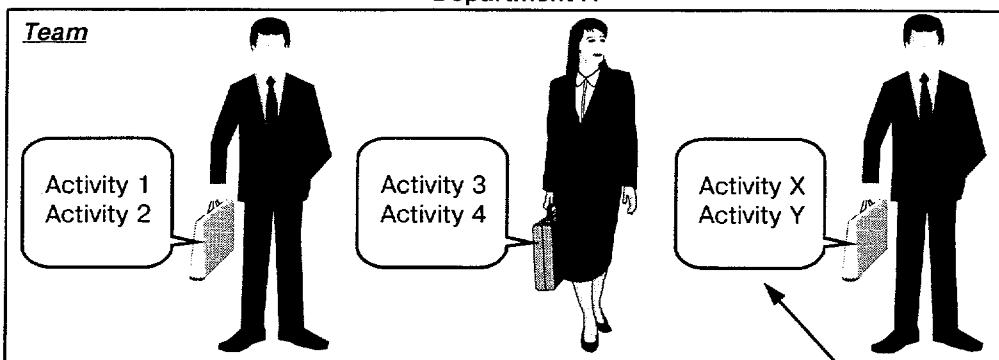
Keep all the information on that activity in one place

Note: Specific activities will be discussed in detail in the following sections of the seminar.

Ensure Employee Accountability and Responsibility

Assign activities to specific individuals and hold the 'owner' of the activity accountable for his/her work

Department A



No more than 6-7

Reward performance based on employee contribution

Note: Human ability to deliver quality results often drastically diminishes when the amount of different tasks is a double-digit number.

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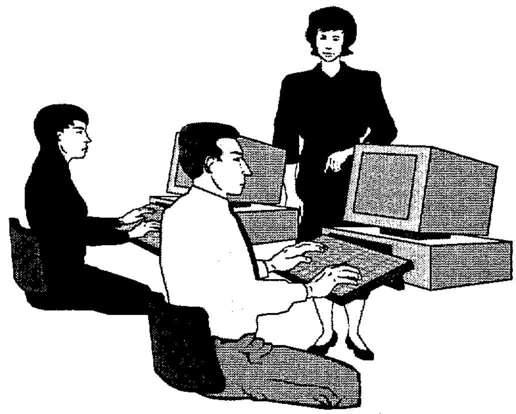
Invest in Training Your Employees

Create a formal and frequent training schedule for all employees



Everyone in a department should be familiar with all of the activities in the department

Develop Human Resources in Your Company and Make Employees Capable of Implementing Managerial Ideas

Training employees on an ongoing basis is absolutely essential because ...

- Business is constantly changing, so tools and skills become obsolete unless they are constantly developed
- Skilled labor is always in short supply, so develop your own skilled labor
- Training is an investment in your greatest capital - people
- Training motivates employees, provides them with a sense of common objectives and proves you recognize their value
- Training existing employees leverages institutional knowledge
- Training can expose additional unrecognized gaps in skills
- Training is usually less costly than hiring new employees
- Training ensures dissemination of accumulated knowledge and information throughout the company

Determine What Will Work Best in Your Particular Company

Don't hesitate to experiment - but plan and control experiments based on the established principles and objectives behind restructuring the finance function

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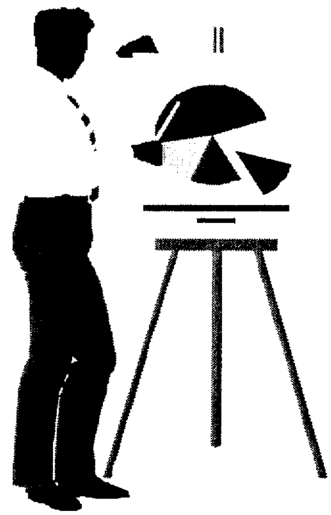
4	5	6



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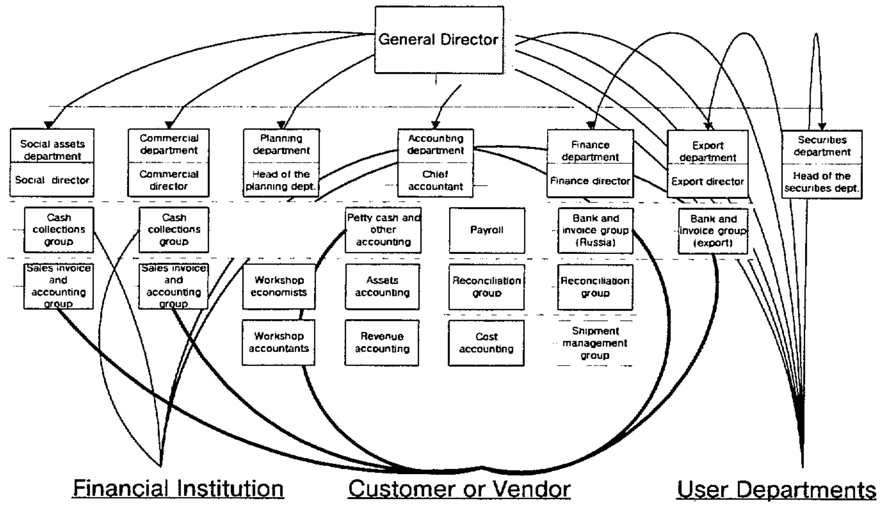
This session describes the common problems created by the inefficient organization structure in most Russian companies. It compares the common structure at a Russian company with the structure designed to maximize the benefits of the finance function for the company

This session will provide answers to many questions in participants minds. The remaining part of the seminar will be devoted to explaining the rationale behind the solutions we propose.

The Typical Organization Structure in Russian Companies Leads to Unclear Responsibilities, Conflicting Roles and Inefficiencies

Example: Finance function in a Russian manufacturing firm before reorganization



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INSTRUCTOR'S NOTES:

This is a typical organizational structure in a Russian company. This chart shows who does what in the company.

Ask the participants if something look wrong on the chart i.e. if their companies have a significantly different structure.

The major problems of this structure are presented on the next slides. Ask participants which problems look obvious on this chart.

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Common Problems Created by the Existing Structure

- Management has to contact many departments to obtain complete information on a particular issue:
  - *Example:* information on accounts payable is stored in the finance department, export department, commercial department (sales of barter goods) and social assets department (social payments)
- Some important functions are not performed leading to ineffective management:
  - *Examples*: cost analysis, cash flow analysis, receivables collections
- Unclear division of duties and responsibilities between departments may lead to the unnecessary confrontation and no one doing the job:
  - *Example:* accountants do not perform particular reconciliation transactions since they believe it is the job of sales department
- Data provided to management not consistent across departments and over time:
  - *Example:* at company XYZ, shipments to customers in CIS were recorded both by export department and finance department
    Example: information on sales in the commercial department is usually incomplete or distorted

Problems - Continued

- Departments independently and differently perform procedures which should be linked and uniform, thus undermining the effectiveness of data generated:
  - *Example:* sale approval often takes place in many places around the company: commercial department, sales department, top management office, finance department
- Authority does not necessarily follow responsibility - effective delegation is impossible:
  - *Example:* middle managers are often ordered to complete certain tasks, but other managers may not want to work jointly because 'they were not informed by General Director'
- Some non-finance activities are performed within the finance structure thus decreasing the effectiveness of the finance function:
  - *Example:* at company ABC, shipments were managed from the finance department
- Document turnover deadlines rarely met, thus entire organization is in danger of penalties, fines for improper tax calculation and financial loss in current transactions:
  - *Example:* accountants are often not able to complete month-end close because other departments have not submitted necessary documents

roff2e/Page 4

Problems - Continued

- Accounting function is usually dominant over finance function - accountants bear ultimate responsibility before regulating agencies and thus treat all other departments in an authoritative manner:
  - *Example:* accountants can be frustrated from time to time because some transactions of the company are poorly structured resulting in tax penalties
  - *Example:* the finance function is weakly developed and does not play a major role in the company; as a result, tax implications and accounting issues tend to dominate in decision-making
- Financial institutions are often frustrated by different departments and external parties involved:
  - *Example:* payments often flow from many parties (because bank account is frozen), thus the bank has to contact several points in different organizations
- No one manager works continuously to direct and coordinate finance activities
- Workshop accountants report to a manager and are not independent, thus motivated to serve interests of their workshop, not of the firm
- Customers/vendors do not have single point of contact

roff2e/Page 5

INSTRUCTOR'S NOTES:

The instructor should mention that from the "Western" point of view, the last but one item on the list (workshop accountants being accountable to workshop managers) presents a very serious problem.

The discussion can be summarized in questions like:

•Do these problems sound familiar?

•Is it easy to solve these problems?

•What can be the net effect of having these problems?

A Finance Function that Performs Poorly Can Generate Financial Disaster for the Company

Tasks not performed, or performed poorly	Consequences
Accounts receivable monitoring	Bad debts, late payments, high working capital costs
Short-term and long-term cash flows projections	Firm confined to expensive crisis cash management
Identifying collateral and unused assets	Poor use of asset base - finance cost increased
Budgeting and adjustment of plan for variances	Management cannot take appropriate decisions
Accountants report to shop managers	Biased cost calculations and thus wrong pricing decisions
Finance function activities coordination	Imbalance finance function
Meeting document turnover deadlines	Frustration between the employees, danger of tax penalties
Managerial accounting	Management is unaware about company's true performance

roff2e/Page 6

INSTRUCTOR'S NOTES:

These are just some of the examples what consequences an inefficient finance function may have. Usually, these problems come together and may lead may lead to bankruptcy.

Ask the participants again if they associate these problems with what is happening at their enterprises. Are the consequences the same? Are there any other?

An Analysis of Companies With Liquidity Problems Revealed That A Poor Finance Function Was the Main Cause

10 most common reasons for bankruptcy:

- Aging of accounts receivable and notes receivable
- Wrong pricing decisions
- Spendthrift expenditures
- Excessive accounts payable
- Shortage of working capital
- Limited share capital compared to borrowed capital
- Excessive capital expenditures
- Poor cash flow management
- Excessive discounts offered
- Credit sales policy

All of these problems could have been avoided with a properly working finance function

roff2e/Page 7

The Finance Department in a North American/European Company is More Consolidated Than at a Typical Russian Enterprise

Typical structure of a North American/European finance department

Management Group: Finance Director and Group Managers

Group 1: ***Treasury and Tax***
- Banking
- Specific accounting (cash inflows and outflows)
- Tax management
- Insurance
- Payroll
- Foreign currency exchange

Group 2: ***Financial Analysis***
- SWOT analysis
- What products should be produced?
- Cost reduction analysis
- Buy vs. produce analysis

Group 3: ***Financing/Investments***
- Credit organizations
- Equity financing
- Idle cash management
- Hedging

Group 4: ***Internal Audit***
- Cost accounting
- Budgeting
- Auditing
- Financial analysis

Group 5: ***General Accounting***

Group 6: ***Capital Projects***

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INSTRUCTOR'S NOTES:

Let us look at the finance function in a typical Western company. Ask the participants what they like in the given structure and if it is applicable in Russia. (The answer is "not completely" because market infrastructure and company's procedures are not well developed.)

Summary

Although very useful, Western experience is not directly applicable to Russian companies. But it should be kept in mind that this is what we should target for in the long run.

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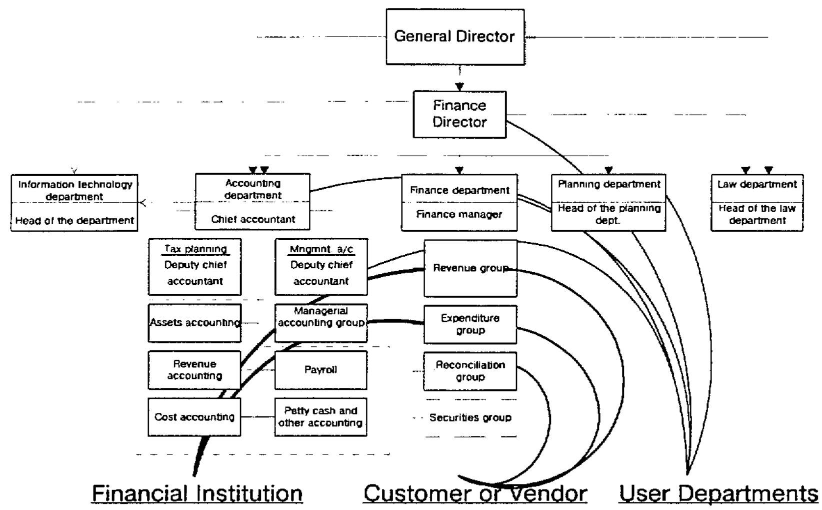
Proposed Formal Structure to Support an Effective Finance Function at a Medium-Sized Manufacturing Company



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INSTRUCTOR'S NOTES:

The instructor should mention that the reason for proposing this structure will de discussed in more detail later. The most important issues for discussion on this slide are:

- Every company must have a finance department.
- Three departments (planning, accounting and finance) are sufficient to execute the finance function effectively.
- Chief Accountant should officially report to General Director but work closely with the Finance Director. We will address the division of duties and responsibilities in detail later.
- Although the law department is directly accountable to the GD, it should work closely with the Finance Director for providing necessary legal logistics in transaction structuring.
- The information technology department should report to Finance Director because the major emphasis of that department is on accounting and financial aspects of the business.
- This a merely a structure. Important: this structures differs radically in terms of 'what it does to the company' from what most Russian companies employ now. A mere imposition of this structure will not be beneficial unless various methods and tools employed by the Finance Function are learned. Many of these tools are considered in this seminar.

Advantages of the Alternative Structure Proposed - Defining Responsibility, Direction of Roles, Efficiency

Some advantages of proposed structure

- Data moves more quickly enabling quicker analysis, response and reporting times
- Centralizes financial management and information storage
- Provides ultimate responsibility for managing finance function, financial reporting (but not accounting), and securing internal control/management information to Finance Director
- Ties authority to responsibility
- Priorities and goals set from top down
- Serves enterprise interests rather than those of business units
- Critical tasks are assigned from single source and therefore not duplicated
- Promotes build-up of financial expertise within the accounting and finance departments
- Establishes uniformity of approach and calculation

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Job Description: Finance Director

- Overall Responsibilities:
  - Assumes overall responsibility for the finance function in the organization
  - Sets financial objectives and policies
  - Monitors company's financial performance
- Key Tasks:
  - Manage operations of finance and planning departments
  - Develop and implement effective processes for working capital management, planning, and management reporting
  - Maintain relationships with banks and financial institutions and arrange for financing at the lowest prudent cost
  - Report to shareholders on company's financial goals and performance
  - Ensure that all reporting and tax requirements are met;
  - Hire and develop skilled professional staff
- Previous Experience and Qualifications Required:
  - Higher economics/finance education
  - 7-10 years of relevant professional experience, including 3-5 years in a senior position in financial management
  - Strong analytical and management skills
  - Computer skills

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Job Description: Head of the Finance Department (Finance Manager)

- Overall Responsibilities:
  - Manages day-to-day financial operations of the company
- Key Tasks:
  - Manage work of department staff
  - Develop authorization processes for sales and purchasing transactions, and for barter deals
  - Manager accounts receivable and accounts payable
  - Ensure that payments are processed and reconciliation process is conducted in a timely manner
  - Control short-term cash management, budgeting and forecasting
  - Determine working capital requirements
  - Arrange for short-term bank loans
  - Conducts financial analysis to facilitate management decisions
- Previous Experience and Qualifications Required:
  - Higher economics/finance education
  - 4-5 years of relevant professional experience
  - Strong analytical and management skills
  - Computer skills

roff2e/Page 12

Job Description: Head of the Planning Department

- Overall Responsibilities:
  - plans company operations and analyzes company's financial performance
- Key Tasks:
  - manage work of department staff
  - coordinate development of monthly, quarterly and annual plans
  - analyze deviations from planned performance
  - develop and manage cost accounting function
  - analyze cost dynamics, propose methods of cost reduction
  - develop company pricing policies
  - conduct profitability analysis of product lines, individual business units and company as a whole
  - support management decisions with economic analysis
  - prepare industry and government statistical reports
- Previous Experience and Qualifications Required:
  - higher economics/finance education
  - 4-5 years of relevant professional experience
  - strong analytical and management skills
  - computer skills

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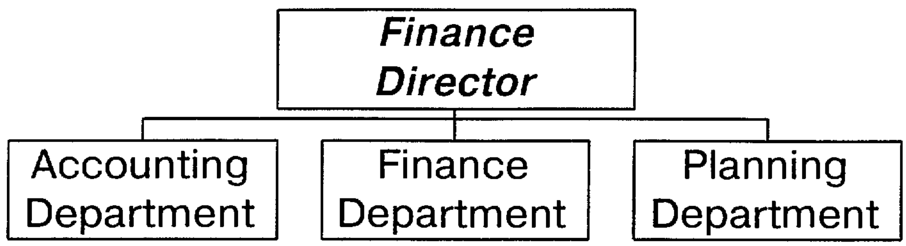
In Choosing Qualified People for Finance Function Positions, It Is Important to Specify the Direction in Which Each Department Will Work

The core departments of the finance function are accounting, finance and planning



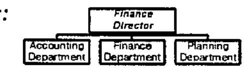
INSTRUCTOR'S NOTES:

We just considered the qualifications of people needed to effectively execute the finance function.

We are now going to talk about the main functions of departments under the finance function.

The Finance Department is Responsible for Managing the Financial Resources of the Company and Authorizing Transactions

The Finance Department should perform the following functions:



- Review customer credit terms and approve sales contracts
- Manage accounts receivable: monitor receivables and track payments received on a daily basis, prepare accounts receivable aging schedule, take measures to collect outstanding receivables (this does not mean that the sales department is not responsible for getting payments)
- Approve barter transactions
- Authorize purchase orders through review of available funds
- Manage accounts payable
- Process payments through banks in a timely manner.
- Control short-term cash management through weekly cash budgeting
- Analyze liquidity of the company
- Determine working capital requirements, obtain bank loans (if needed)
- Analyze investment opportunities and asset divestment proposals
- Conduct other financial analysis to facilitate managerial decision making

Note: Detailed duties and responsibilities will be discussed in Session 7 of the seminar.

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INSTRUCTOR'S NOTES:

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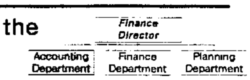
Create a Managerial Accounting Group Within the Accounting Department, to Meet the Information Requirements of Management



In the long run, the managerial accounting group can assume the responsibility of an internal independent auditing group

Monthly financial package prepared by managerial accounting group includes:

- Balance Sheet
- Detailed Profit and Loss Statement
- Cash Flow Statement
- Uses of profit
- Break-even point analysis
- Contribution to fixed costs analysis
- Ratio analysis e.g. current ratio, quick ratio, inventory turnover ratio
- Analysis of cost drivers, changes in actual expenses over time, deviation analysis covering budgeted and standard production cost

roff2e/Page 16

INSTRUCTOR'S NOTES:

An internal independent auditing group is responsible for making sure that the accounting practices of the company meet a defined set of standards (whether these are external or internal standards) and recommends changes if necessary.

The ratio analysis should focus on determining the company's financial health. The three major types of ratios are:

- Liquidity ratios - determine the ability of the company to meet its short-term and long-term obligations.
- Profitability ratios - measure the ability of the firm to earn an adequate return on sales, total assets and invested capital.
- Asset-utilization ratios - measure the speed at which the company is turning over its accounts receivable, inventory and other assets.

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The Planning Department Should Supplement the Activities of the Finance and Accounting Departments

- Develop forecast production plans with Sales, Production and Engineering Departments
- Develop quarterly budgets and maintains budgets for divisions, departments, business units
- Develop and monitor production costs and consumption standards
- Calculate budgeted cost of all products/services including transfers between business units
- Generate pricing data (in coordination with other departments)
- Assess balances of work-in-progress by product as of first day of each month
- Together with the Finance Department develop investment memoranda, business plans, proposals and other external documents (takes final responsibility)
- Together with marketing prepare relevant industry and government statistical reports
- Estimate social assets costs

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INSTRUCTOR'S NOTES:

After defining the major directions and competencies of the departments it is now important to address the way staffing is done.

Unskilled Staff Can Be More of a Constraint than Bad Processes

Examples of skill gaps in Russian companies

- Head of the Finance Department is unable to use spreadsheet software available to the firm
- Finance Department employees do not understand the concept of cash flows
- Chief Accountant is unable to calculate break-even point for the company
- Accounting Department is using computers only to print invoices
- Planning Department is preparing sales budgets based on last year's sales
- Chief Accountant is not able to arrange proper document flow around the company
- Head of the Planning Department is unable to develop company-wide planning process
- Head of the Production Planning Department is unable to predict in timely manner input needs for signed contracts

roff2e/Page 18

INSTRUCTOR'S NOTES:

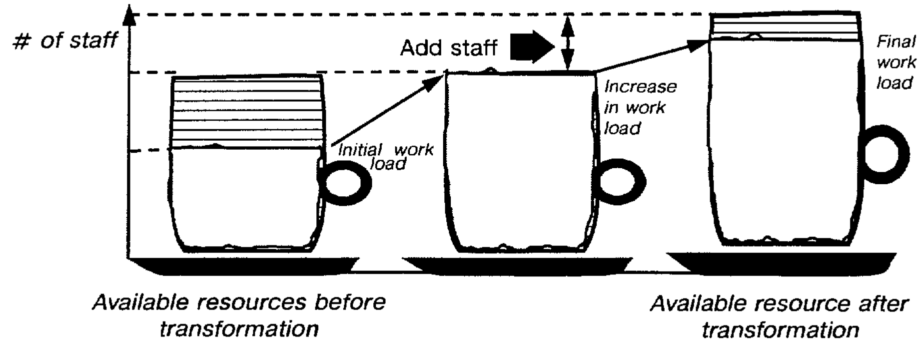
The instructor should mention that sometimes bad processes or procedures do not allow to do the job. But even good processes can fail if the employees are not adequately qualified.

Some of the benefits that could be achieved if the above skill gaps were liquidated are:

- Head of the Finance Department himself/herself performs spreadsheet analyses of company's activities and has a developed database to use
- Finance department employees use the cash flow concept in evaluating transactions
- The Chief Accountant knows what the boundary is between profitable and unprofitable operations
- Computer databases are used intensively by various departments to analyze customers, sales, assets.
- Sales are predicted on the basis of demand derived from the analysis of competitors' sales and trends in the market
- Documents are in place and available at first call
- The activities planned correspond to reality and the number of crises is diminished
- Contracts are executed on time and the customers are happy

Identify Staffing Needs Only During the Implementation Phase Using an Incremental Approach

In transforming complex functions like the finance function, optimal resource allocation decisions are achieved on an incremental basis



Staff size should be adequate to handle work flow, but not larger

Arrange timing of tasks to maximize use of available time (e.g. financial reporting cycles spaced between payroll and invoice payment cycles)

Establish backup systems for situations when key employees are sick or on vacation.

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INSTRUCTOR'S NOTES:

It is impossible to specify the number of staff in general because each company has its unique specifics. Nevertheless, some guidance will be provided later in the seminar.

What Can Be Done to Improve the Current Performance of Finance Function?

Mostly Important:

- Agree among top management to the need for finance function restructuring and on goals of finance restructuring
- Assemble Restructuring Team headed by the Finance Director

Begin To:

- Consolidate and centralize the finance function, it's activities and processes
- Train and hire, if necessary, adequate human resources
- Appoint Finance Director to head the Finance Function, or broaden adequately the authority and responsibility of current Finance Director
- Harmonize and synchronize the financial activities performed
- Make everybody accountable for the performance of particular activity
- Initiate budgeting as quickly as possible
- Assure consistency of the data and information generated

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The Goal of the Restructuring Team is to Assess the Existing Finance Function, Create and Develop a Transition Plan from the Current Finance Function to the Desired One

- Assemble ***Restructuring Team*** at minimum comprised of:
  - Finance Director
  - Head of Finance Department
  - Head of Planning Department
  - Chief Accountant
  - Representatives from each key user department: sales, purchasing, etc.;
    - the team should be supported with line accounting and financial staff to perform the analysis
- Assign Finance Director to champion the restructuring effort and to report results to General Director
- Delegate adequate authority and responsibility to the team to restructure finance function at the enterprise.
- General Director signs an Executive Order which mandates the completion of a restructuring plan within a determined period of time
- General Director conducts weekly meetings with the ***Restructuring Team***

Produce restructuring plan

roff2e/Page 21

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The Restructuring Plan is Produced By the Restructuring Team

Proposed content of the restructuring plan

- Purpose and goals of the new centralized financial structure
- Assessment of current processes, finance function and structure including identified weaknesses and strengths
- Proposed new process flows with comments covering:
  - Revenue
  - Expenditure
  - Barter inflow
  - Barter outflow
  - Petty cash
  - Control systems
- Proposed organizational structure (including staffing estimates)
- Division of duties and responsibilities between departments:
  - Finance department
  - Accounting department
  - Planning department

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4 6

Restructuring Plan Content - Continued

- Other issues of the proposed financial structure:
  - Staffing requirements and proposed hiring
  - Proposed interdepartmental meetings, participants and agenda
  - Clarification of duties and responsibilities
- Recommendations to other departments:
  - Sales
  - Purchasing
  - Other
- Performance criteria
- Content of monthly financial package (the content of the package will be discussed in other modules)
- Computerization strategy
- Staff location
- Staff remuneration

roff2e/Page 23

INSTRUCTOR'S NOTES:

The instructor should explain that the following part of the seminar will be devoted to answering the question of "why we recommended the above". We will also look at restructuring from the restructuring team's point of view i.e. we will identify what and how should be analyzed in order to write a successful restructuring plan.

Seminar Agenda

Session 1:	Introduction to the Finance Function and its Processes
Session 2:	Overview of Organizational Structures
Session 3:	**Elements of the Finance Function**
Session 4:	Revenue Cycle Process Flows
Session 5:	Expenditure Cycle Process Flows
Session 6:	Barter Cycle and Petty Cash Process Flows
Session 7:	Departmental Roles and Responsibilities in the Organization
Session 8:	Restructuring and Implementation Plans
Session 9:	Homework

roff3e/Page 1

INSTRUCTOR'S NOTES:

This session covers the first four steps of designing a new finance function: understanding principles (what are the major cycles and other elements supported by finance function?), assessing strengths and weaknesses of current processes (what are the criteria according to which one could measure the efficiency of the finance function?), identifying the goals (how to set measurable targets for the finance function departments?), designing new processes. The latter step consists of several sections and we will cover the first four in this session: what should be the principles of the process flow design? what useful tools can be used in document turnover? how can a filing system be organized? what does a tiered authorization mean and why is it important?

Incremental Benefits Are Achieved Along the Way, But the Full Value of Restructuring Will Be Realized at the End

The greatest benefits accrue over time as the organization matures and begins to need and draw value from all the features of the new finance function

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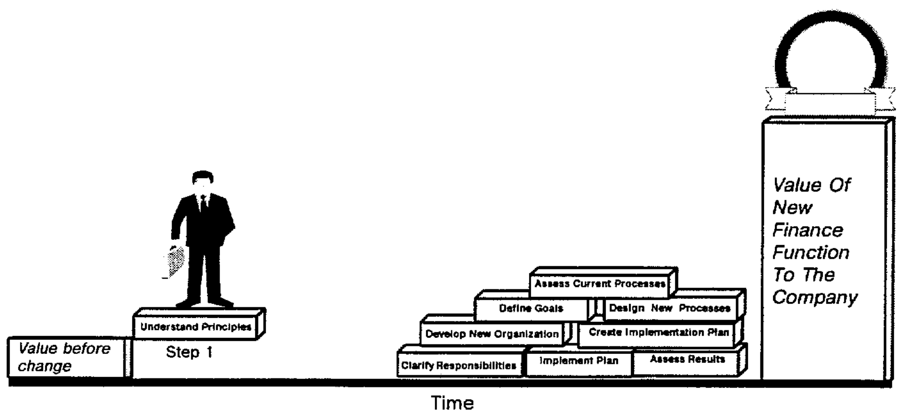
Step 1: Understand the Principles of the Finance Function Organization

Phases of the Finance Function Restructuring Plan



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The Processes in Every Company Can Be Grouped Into Four 'Cycles'

Sequential processes comprise cycles:

- **Expenditure Cycle**: the purchase of goods and services from an external party.
- **Production Cycle**: the use of raw materials, labor and overhead to produce finished goods.
- **Revenue Cycle**: the exchange of goods and services with an external party.
- **Financing/Investment Cycle**: the generation of capital resources and the use of these resources to invest in capital assets.

Every organization can be described by defining the above four cycles

roff3e/Page 4

INSTRUCTOR'S NOTES:

The finance function is comprised of all processes which extend from revenue and expense generating activities of the organization. These processes typically commence and terminate outside the finance department (usually commence in the sales or purchasing departments and terminate in the accounting department). But all processes are controlled by the finance department at some stage.

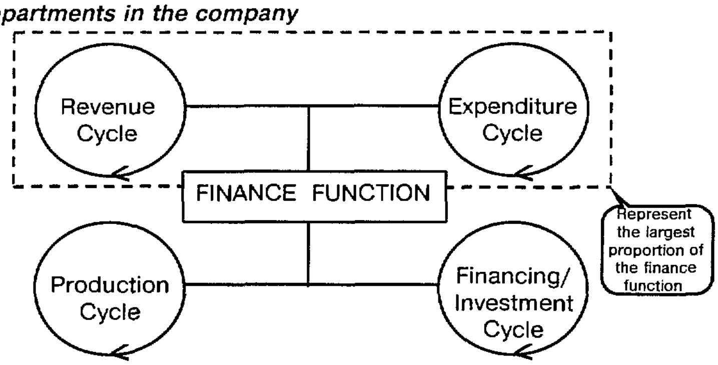
The sale of goods, which is a financial transaction, commences in the sales department when salespeople begin to negotiate with potential customers. The process terminates when the accounting department records the sale transaction in the company's general ledger. At some point in the middle of the process, the contract draft is authorized by the finance department.

If the finance department is the heart of the organization, then these processes are the arteries which carry necessary information to and from the finance department to all other points.

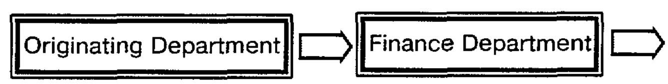
- The finance function is distinct from the financing cycle. The latter is the cycle of raising capital, either short-term (working capital) or long term (debt or equity), employing this capital among alternative needs, and benefiting from returns on the employment of this capital which are greater than the cost of the capital, itself.
- The finance function is designed to place the greatest responsibility for the financial health of the organization in the finance department. If all other departments take care of their responsibilities (sales dept. sells high volume of products, purchasing dept. purchases raw materials economically, production dept. produces quality products, accounting department accurately records transactions, etc.) the finance department will manage the liquidity and long-term viability of the organization.
- The production cycle is specific to a particular operation, and is thus not flowcharted here.
- The finance cycle is a creative, fluid, and iterative process, not always controlled sequentially, and often dependent upon the culmination of events external to the organization's control. Therefore, this cycle, too, is not flowcharted.

Elements of the Finance Function Are Present in All Four Basic Operational Cycles of the Company

Finance function goes far beyond the finance department embracing nearly all the departments in the company



Revenue Cycle
Expenditure Cycle
Production Cycle
Financing Cycle



Note: Revenue and Expenditure cycles will be covered in full detail. Production cycle depends on specific company's operations. Financing cycle is described in Corporate Finance module.

roff3e/Page 5

INSTRUCTOR'S NOTES:

The finance function embraces nearly all the departments in the company

- Elements of finance function are present in all cycles of the company:
  –however, in Russian businesses, the revenue and expenditure cycles together currently represent the largest proportion of the finance function and have the greatest daily exposure to fraud and abuse due to the fact that financial markets are not well developed.
- The finance function goes far beyond the financial department:
  –the respective processes in revenue and expenditure generating activities typically commence and terminate <u>outside</u> the finance department (begin: sales or purchasing dept., end: accounting dept.);
  –the processes in capital-generating activities typically commence and terminate <u>inside</u> the financial department.

Today we will attempt to provide the tools necessary to improve Revenue and Expenditure cycles due to their generic applicability to any organization.

- The Production Cycle depends on a specific company's operations.
- The Financing Cycle implies that the company is dealing with external parties, what can not be standardized to the extent that revenue and expenditure cycles can be standardized.

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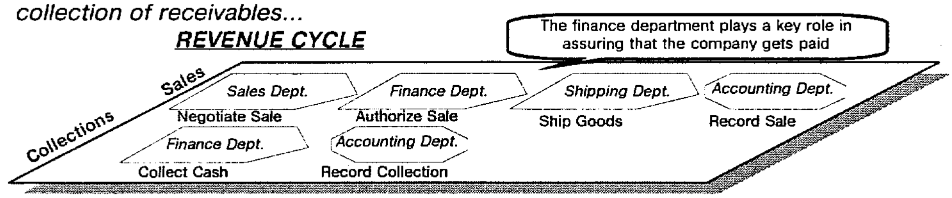
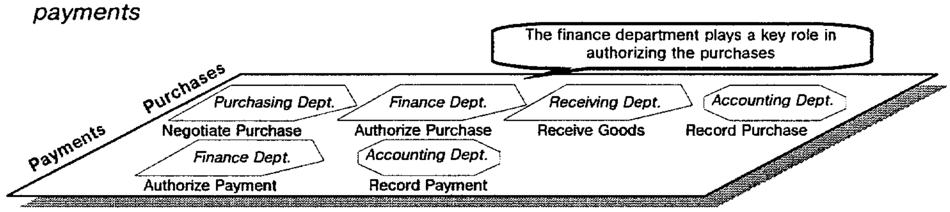
Cycles are Comprised of Sequential Processes Performed By Various Departments

The revenue cycle mostly consists of the sales of the company's products and collection of receivables...



... while the expenditure cycle involves purchases of inputs and subsequent payments



EXPENDITURE CYCLE

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INSTRUCTOR'S NOTES:

This slide presents an overview of the Revenue and Expenditure Cycles. It is one step forward in detailing the cycles. All 6 elements of the cycles should be carefully considered. Only after the participants understood them, the presenter should proceed with the next slide.

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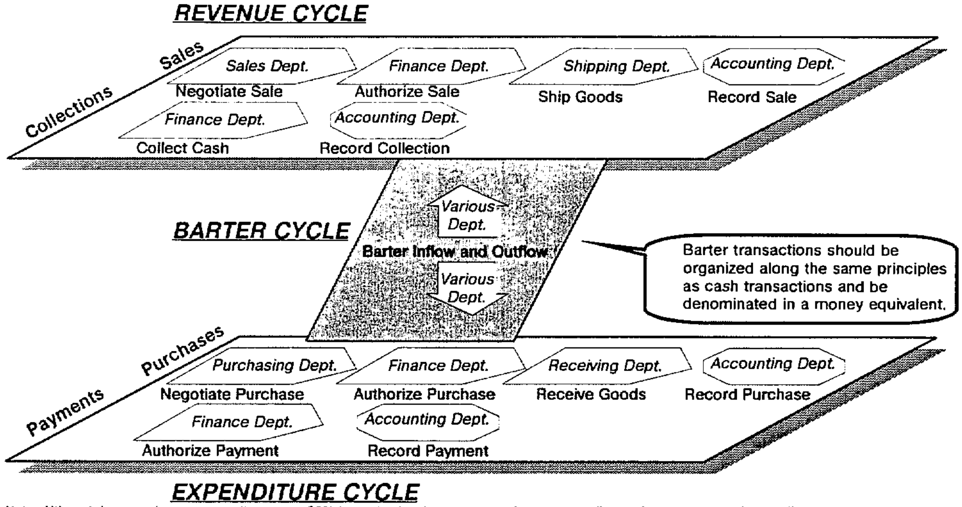
In the Russian Environment Barter Is an Inseparable Part of the Finance Function

Barter ties revenue and expenditure cycles in cash-hungry Russian economy



Note: Although barter sales may constitute up to 80% in total sales, barter transactions are usually poorly structured and controlled.

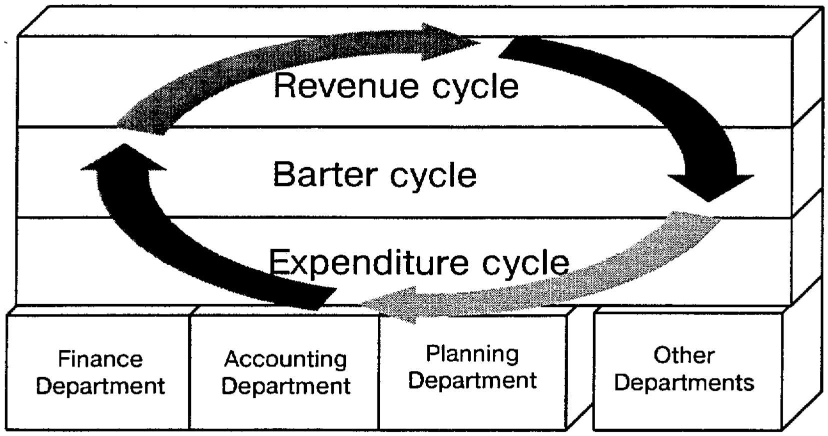
roff3e/Page 7

INSTRUCTOR'S NOTES:

Effect: Barter transactions break down the walls that separate revenue cycle transactions from expenditure cycle transactions. As a result, barter transactions dramatically increase exposure of the firm to impropriety.

Special attention should be paid to the barter part of the slide. Ask the participants if they are satisfied with the way barter transactions are conducted at their enterprise? Why? Are the participants sure that barter transactions are profitable?

Revenue, Expenditure and Barter Cycles Represent the Core Activities of the Finance Function



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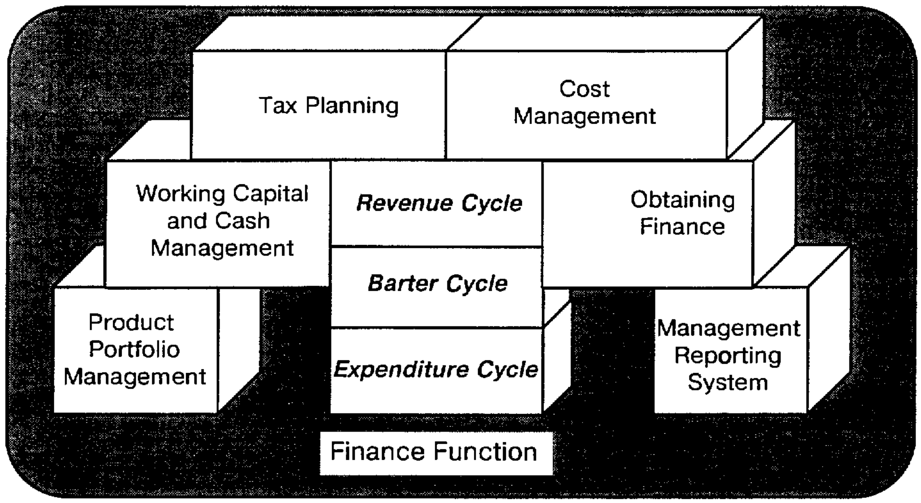
However There Are a Number of Other Activities Which, Together With the Core Activities, Constitute the Finance Function



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INSTRUCTOR'S NOTES:

These 9 blocks embrace all the scope of work conducted by the finance function. None of these blocks can exist separately from the others and if one of the blocks is removed the whole structure will collapse.

Using short examples in the next slides we will illustrate how each one of the activities fits into the finance function.

The instructor should note that the surrounding blocks (product portfolio management, working capital and cash management, tax planning, cost management, obtaining finance and management reporting system) are all subjects of the other Toolkit modules.

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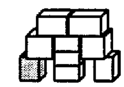
Product Portfolio Management is Aimed at Optimizing the Product Line From the Standpoint of Profitability and Market Attractiveness

Attractive products



II - Does the market look attractive ?

I - Does it fit with what we want to do (corporate strategy) ?

Product Portfolio Management

III - Is it going to be a profitable product ?

IV - Will people (customers) want to buy that product ?

Planning Department

Marketing Department

Example:

Products which do not cover variable cost are identified and cut, freeing resources for investment in products with market potential.

NOTE: Product Portfolio Management is covered in full in the Product Portfolio Management module.

roff3e/Page 10

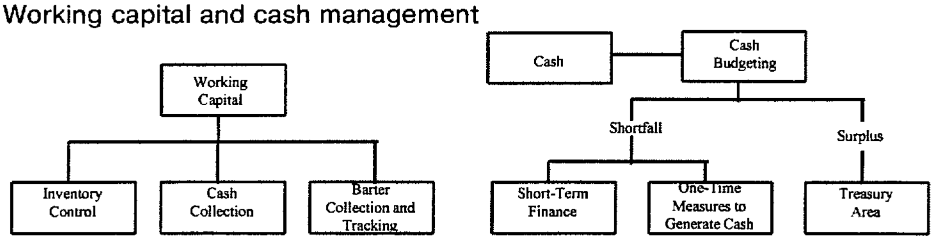
INSTRUCTOR'S NOTES:

The planning and marketing departments are equally responsible for the product portfolio element of the finance function. The planning department performs all the profitability calculations and compares them with actual results. The marketing department suggests what product to produce.

Good Working Capital and Cash Management Practices Aim to Ensure that the Necessary Level of Liquidity Is Maintained

Adequate Liquidity

Working capital and cash management



Example: Finance Department

A 3% discount offered to customers who pay in cash within 10 days of purchase may encourage customers to pay more promptly, therefore, allowing the company to meet its working capital needs more easily (by decreasing the need for external financing and cutting costs).

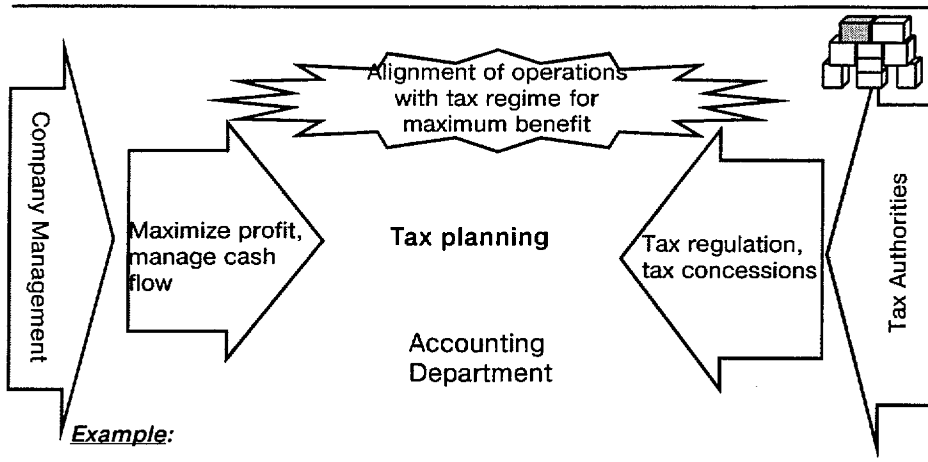
NOTE: Working capital and cash management is covered in full in the Working Capital and Cash Management module.

roff3e/Page 11

INSTRUCTOR'S NOTES:

The finance department holds the full responsibility for working capital and cash management by determining working capital and cash needs and ways of meeting these needs.

Among Other Benefits, Appropriate Tax Planning May Help the Company Minimize its Penalty Costs



Example:

The company develops a tax schedule and establishes internal deadlines for allocating resources needed to pay taxes.

NOTE: Tax planning is covered in full in the Tax Planning module.

roff3e/Page 12

INSTRUCTOR'S NOTES:

The accounting department should plan in advance what taxes there are to pay and how much resources are needed.

54

The Main Objective of Cost Management Is to Use Financial Resources Efficiently

Higher Profitability

Cost Management

Planning Department   Finance Department

Examples:

Transferring production from two underutilized workshops into one will reduce energy costs and other overheads.

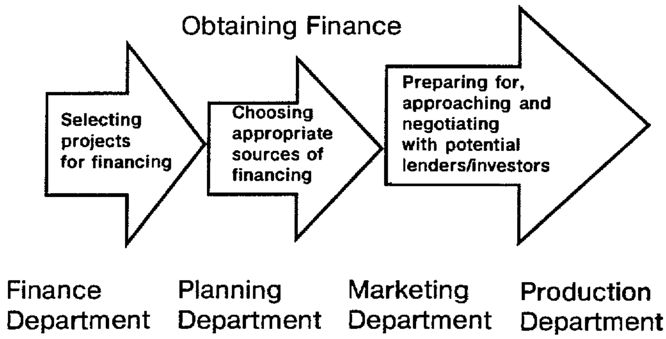
NOTE: Cost Management is covered in full in the Cost Management module.

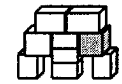
roff3e/Page 13

INSTRUCTOR'S NOTES:

The planning department should be carry the primary responsibility for cost management but the finance department should provide support and goal setting. The planning department must provide information on what expenses there are and if there is any way of avoiding them. The finance department, on the basis of this information should execute control over expenditures.

Understanding the Information Needs of An Investor Will Enhance the Company's Chances of Obtaining Finance





Not just to raise funds, obtain the optimal financing to meet the needs of your enterprise

Example:

Marketing department spots an opportunity, production department provides a production schedule, planning department gives cost estimates, finance department assesses the opportunity and prepares an investment memorandum with resources needed, return on investment, etc.

NOTE: Obtaining Finance is covered in full in the Obtaining Finance module.

roff3e/Page 14

INSTRUCTOR'S NOTES:

The finance department carries the primary responsibility for obtaining finance but other departments are supposed to deliver significant help (e.g. in business plan writing, collecting data, etc.)

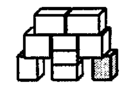
The finance department determines the need for finance, evaluates projects, identifies sources of finance, prepares the company to obtain finance.

The Finance Function Should Enable Management to Make More Informed Decisions

Help management with control of business

Help management with planning decisions

Help management measure results



Management Reporting System

Managerial accounting

Other departments

Example:

Using a different base for overhead allocation (as compared to the one dictated by accounting regulations), the managerial accounting group provides management with information which more accurately meets their needs.

NOTE: The Management Reporting System is covered in full in the Management Reporting System module.

roff3e/Page 15

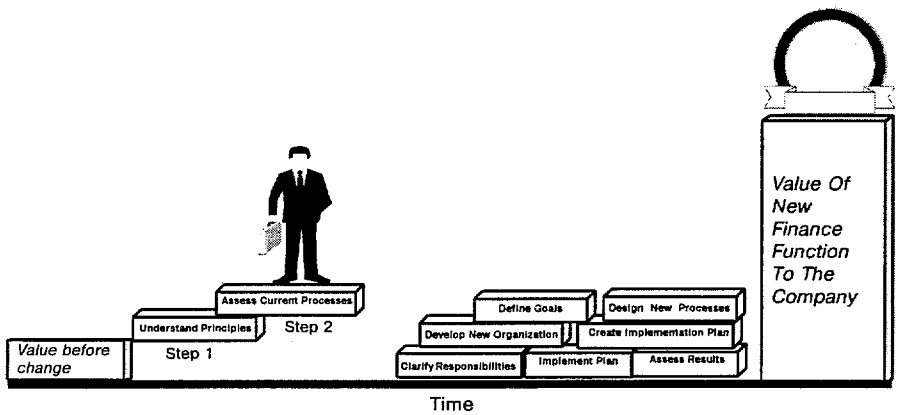
INSTRUCTOR'S NOTES:

The department blocks which give start to arrows are the responsible departments.

Management reporting system is the responsibility of many other departments (planning, purchases, etc.) but it is coordinated by the managerial accounting group which uses standards acceptable for management decision making.

Step 2: Assessing the Strengths and Weaknesses of Current Processes

Phases of the Finance Function Restructuring Plan



roff3e/Page 16

INSTRUCTOR'S NOTES:

Assessing the current processes is important not only by itself but it also helps in safeguarding assets: essentially protecting the organization against areas of exposure which would lead to fraud, unintentional loss, embezzlement, etc. These areas of exposure already exist in the Russian environment (due to lack of established and enforced internal controls) and are exploited frequently. Cash disappears, computers disappear, supplies are stolen, etc.

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Analyze Financial Processes With the Aid of Questionnaires

Does the current process...	*Yes*	*No*
• Generate accurate information?	☐	☐
• Generate information quickly?	☐	☐
• Ensure no duplication of effort?	☐	☐
• Match skills of personnel to responsibilities?	☐	☐
• Facilitate optimal management of financial resources?	☐	☐
• Safeguard the financial assets of the organization?	☐	☐
• Generate information and facilitate decision-making at all levels of the organization?	☐	☐
• Rely on written (vs. verbal) transfer of information?	☐	☐

If you answered "NO" to any of these questions,
your company's financial processes need to be redesigned

Note: Complete sample assessment of finance function will be conducted as a homework with subsequent review of results with the presenter.

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The Effectiveness of a Finance Function Should Be Measured Along Several Key Dimensions

Measure	*+ Effective (strong)*	*Ineffective (weak) -*
Documentation and storage of information in one place	Centralized, systematic and thorough	Documents are located in different places
Processing speed	Timely	Impedes other processes
Management reporting	Consistent and accurate	Does not support decision-making
Financial statements reporting	Conforms to RAP standards	Does not conform to RAP standards
Control over cash	Adequate control in place	Misuses and frauds are happening
Timely information flows	Deadlines are met	Deadlines are not met
Financial forecasting	Periodical forecasts available	No forecasting

Note: RSA Standards = Russian Statutory Accounting Standards.

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INSTRUCTOR'S NOTES:

Exercise #1: Case Study

List weaknesses in the financial processes according to the proposed theme and discuss the possible reasons as to why each particular weakness exists in the company.

List of proposed themes:

1. *Information flows and storage of documents.*
2. *Culture of work with the documents.*
3. *Division of duties and responsibilities, authority and reporting.*
4. *Existing skills base to perform the processes.*
5. *'Competition' between the accounting and finance functions.*

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INSTRUCTOR'S NOTES:

Make this exercise (as well as all other exercises) into an interactive discussion. Encourage active participation of the audience. Ask the participants to list weaknesses in the financial processes according to the proposed theme. Discuss all the themes on the list one after another (each new topic is introduced after the discussion on the previous one is finished). Take a new blank slide and write answers of the seminar participants on this slide. Discuss with participants the possible reasons as to why each particular weakness may exist in the company. When the discussion on the theme is finished, summarize results of discussion for participants (see the next two slides), then proceed to the next theme. Discuss each specific subpoint.

It is very important to bring up all the weaknesses listed on the next two slides in the presentation during your discussion. After having discussed each subpoint ask the participants whether they have experienced these weaknesses at their own companies.

Time: 15 min.

Weaknesses in the Financial Processes in Russian Companies

- Failure in information flows around the company:
  - the oral form is still dominant
  - lack of organization of information (d-bases, files, etc.)
  - information flows are not centralized in one department at one stage
- Staff is not motivated to maintain and track financial documents:
  - vital documents (contracts, invoices) are often kept in different places
  - deadlines for one department to submit a document to the next department in the process are rarely met or do not exist
- Functions are performed in a duplicated manner:
  - different departments perform the same function (invoicing, etc.)
  - finance function is often performed by non-financial departments
  - purely non-financial activities performed (shipment coordination, etc.)
- Some important functions are not performed on a routine basis or are performed without due diligence:
  - managerial accounting to support decision making
  - tax management
  - receivables collection

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Weaknesses in the Financial Processes in Russian Companies (2)

- Poor skill base:
  - financial management tools are not used (cash flow analysis, cash budgeting, factoring, etc.)
  - lack of adequate utilization of computer facilities:
    - computer is often used only as a printer
    - spreadsheet programs are not used on a company-wide basis
- Finance function is supplementary to accounting:
  - poor staffing in financial departments
  - planning department is not involved in day-to-day operations
  - time lag, lack of coordination between planning and accounting departments
- Unclear division of duties, responsibilities, authority and reporting:
  - leads to unnecessary confrontation between departments
  - some important managerial positions do not exist
  - goals of the departments often do not serve the company as a whole
- Middle level management has no experience in decision making at executive level:
  - lack of clarity in allocating responsibility and authority.

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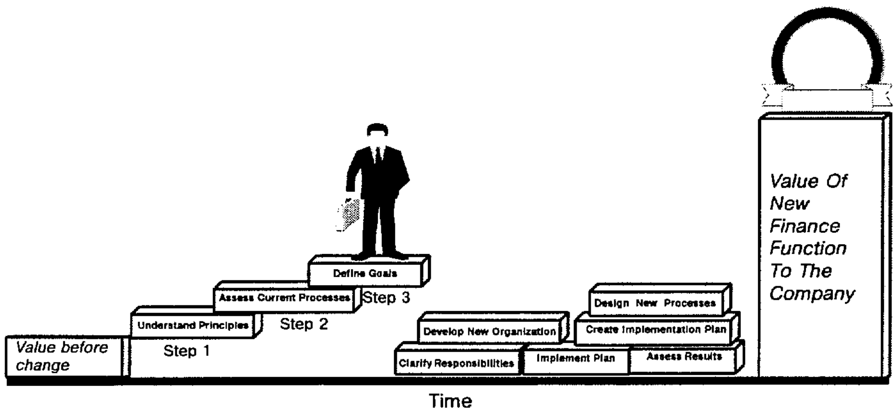
Step 3: Define Goals of Improved Finance Function

Phases of the Finance Function Restructuring Plan



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Selecting Goals Are Important for Evaluating Efficiency of the Finance Function

In order to select a goal, start by:

- Assessing the current strengths and weaknesses
  - emphasis should be placed on processes or activities which are currently not very efficient
  - establish a goal first and then see whether this goal satisfies goal characteristics
- Characteristics of goals
  - Specific (no ambiguities like "improve" or "enhance")
  - Measurable (establish tangible targets: reports, savings, calculations)
  - Attainable (there is no use to establish a goal which will never be achieved; at the same time a goal should require an effort)
  - Time-bound (a deadline should be established for each target)
- Make corrections to the goals as you proceed

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Set Specific, Measurable, Attainable and Time-Bound Targets for the Finance Function Which Can Be Assessed Throughout the Restructuring

Examples of measurable goals:

- Exercise control over sales:
  - *Target: No more than 10% of past-due accounts receivable*
- Reduce internal reporting delays and delays in financial reporting:
  - *Target: Generate monthly reports within 10 days after month-end close*
- Strengthen control over cash management:
  - *Target: Ability to forecast cash flow 90 days in advance*
- Prepare financial forecasts which include sensitivity analysis:
  - *Target: Forecast profit under different operating scenarios.*
- Reduce cost of business transactions:
  - *Target: Reduce number of days finished goods sit in inventory from ... to ....*

Note: Sensitivity analysis measure change impact of alternatives on one variable (usually, net profit).

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INSTRUCTOR'S NOTES:

Exercise #2

List additional objectives and measurable targets for reorganizing financial processes in the organization

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INSTRUCTOR'S NOTES:

Ask participants to list additional objectives and measurable targets. Summarize all the comments on a flip-chart or on a new slide, then show the slide from the presentation (Finance function mission and specific activities, #16) and compare whether each activity has a measurable target.

Other examples of measurable targets:

•Concentrate critical information of one type in one place:
  –Target: Provide information on demand in 1 day:
    –with respect to one customer or vendor (when many financial transactions involved);
    –with respect to one financial transaction (when many customers and vendors involved);
    –available financial and material resources as of today;
    –outstanding payables as of today.

•Reduce internal reporting delays and delays in financial reporting:
  –Target: Monthly reports within 10-20 days after month-end close.

•Strengthen control over cash management:
  –Target: Ability to forecast cash flow 90 days in advance.

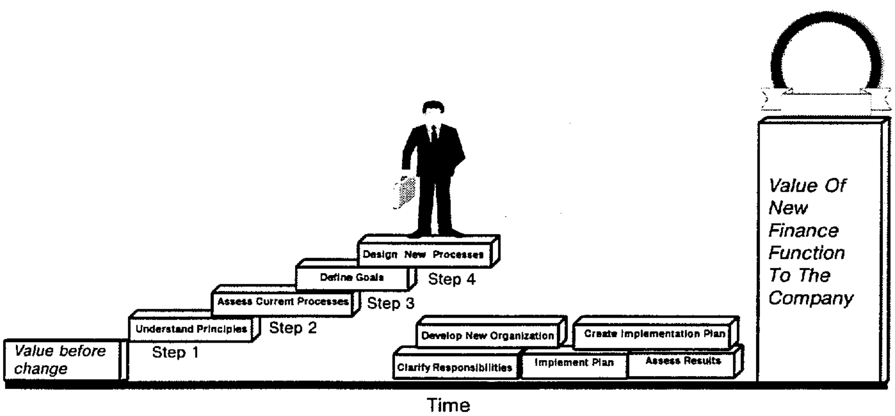
•Preparation of financial forecasts which include sensitivity analysis:
  –Target: Ability to forecast profits with respect to different expense level.

•Reduce cost of business transactions:
  –Target: Cut interest expense by half through better planning of loans.

Time: 5-10 min.

Step 4: Design Better Processes

Phases of the Finance Function Restructuring Plan



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Step 4: Design Better Processes

- Substep 4.1: Principles of process flow design
- Substep 4.2: Useful tools in document turnover
- Substep 4.3: Filing system organization
- Substep 4.4: Tiered Authorization
- Substep 4.5: *Tool 1* - Standard Revenue Cycle Process Flow
- Substep 4.6: *Tool 2* - Standard Expenditure Cycle Process Flow
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- Substep 4.10: *Tool 5* - Petty Cash Process Flow
- Substep 4.11: Summary

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Process Flows Should Incorporate Basic Standards of Successful Businesses

These standards include the following:

- Processes are sequential, continuous and documented.
- Processes exhibit strong internal controls and safety mechanisms.
- Processes are constructed to enable management to trace important information.
- Processes are constructed to decentralize routine decision-making to lower levels of management provided skills exist and common goals and standards are accepted by the organization.
- Processes are constructed to eliminate duplication of effort.
- Processes do not rely on verbal procedures.
- Processes should be efficient and cost effective

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INSTRUCTOR'S NOTES:

Process flows are much wider than just the document turnover. Process flows describe how an individual transaction is reflected in documents, information generated and decision making (e.g.. a sale, a purchase, etc.). Principles of process flow design include:

•Sequential, continuous and written processing:

–Departments in each cycle should be linked so that at every step only two (maximum three) of them are involved in communication;
–Documents should not 'get lost' on someone's desk, or come back to a departments that processed them;
–Only arrival of a <u>written</u> set of documents developed by predecessor department triggers the processing of the next activity in department.

•Strong internal control: segregation of duties and responsibilities will ensure that no single department 'owns too much of a process' or carries too heavy a burden in performing an activity.

•Completeness: all transactions have associated documents prepared.

•Authorization is passed to lower levels of management:

–Top management should limit involvement in the process;
–Several stages of authorization in the processes should be strictly defined and enforced.

•Principles are important because they set performance standards.

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Step 4: Design Better Processes

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It is Not Only Important to Organize Proper Process Flows But to Provide Structure and Direction to the Document Flow

Why?

- Documents should not 'get lost' on someone's desk, or come back to a departments that processed them
- Preserve sequential and written communication - only arrival of a written set of documents developed by the preceding department triggers the processing of the next activity in department
- It should be possible to track a document easily anywhere in the system, and determine who has done what to it, when, where and why
- Centralize storage of documents of one type
- All transactions must have associated documents prepared
- Documents should be designed to allow quick data selection:
  - with respect to one party (customer, vendor, etc.) when many transactions are involved
  - with respect to one transaction (e.g. purchase of metal ingots for oil) when many parties are involved

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Introduce a 'Financial Transaction' Concept and Cross-Referenced Document Coding to Ensure Full Information with Respect to Every Customer/Vendor and Employee Responsibility

- 'Financial transaction' is a complete transaction undertaken by the company in the revenue, expenditure or barter cycles (e.g. purchase of wool, sale of a car).
- Department which starts a 'financial transaction' assigns to it a unique 6-digit code, which is reproduced at all documents generated by this transaction. Person or group of people who started the transaction are called *responsible group.* Each group is assigned with two-digit number. For example, a whole department can be a group - administration, since the volume of transactions is small; or an employee responsible for purchase of input in large volumes.

XX XX XX

Double-digit code of a *responsible group* within the department. Assigned by Finance Director once a year.	Double-digit date code: last number of a year, and letter of a month in which the transaction was opened (from A to L)	Double-digit ordinal number of a transaction opened by the *responsible group* in the department during a month (becomes 00 at the first day of every month)

Example: 24-6C-17

Note: Use also Individual Taxpayer Number as another tool of document control in internal financial documentation. It will provide information on vendor or customer when many transactions are involved.

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Document Control Will Facilitate the Speed of the Process Flow and Add Clarity

Additional concepts of document control:

- *Trigger process:* entry, and only the entry, of a document into a department will trigger the next procedure in a process (examples will be discussed later).
- *Pre-numbering*: all documents should be pre-numbered sequentially to control 'inventory' of documents (control can be done in a log).
- *Color or formatting coordination*: in some companies, different colors are used for different documents to facilitate immediate identification and easier filing.

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A Coherent Filing System Is a Critical Element in Properly Functioning Process Flows

Example of Filing System organization (two types of files):

- Tickler (or temporary) files

  Tickler files are reviewed daily to trigger certain processes which are necessary before the entire 'financial transaction' is considered complete

  ➡ Organized by date

  Example: Use of vendor tickler file to initiate payment efforts to suppliers at the latest possible date

- Permanent files

  Permanent files are used to store documentation of completed transactions such as sales for which payment has been collected

  ➡ Organized by customer/vendor

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Each Department Has Its Own, Unique Files

Departmental files may include:

Finance Department	Vendor Tickler Files Customer Tickler Files Permanent Vendor File Permanent Customer File
Accounting Department	Vendor Tickler Files Customer Tickler Files Permanent Vendor File Permanent Customer File
Sales Department	Permanent Sales File
Purchasing Department	Permanent Purchases File

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INSTRUCTOR'S NOTES:

It is important to note that the Vendor Tickler File in the Finance Department and in the Accounting department are different because they are used for different purposes and because different documents are stored there.

The full set of documents which needs to be kept in each of the files follows in the detailed process description in the further slides.

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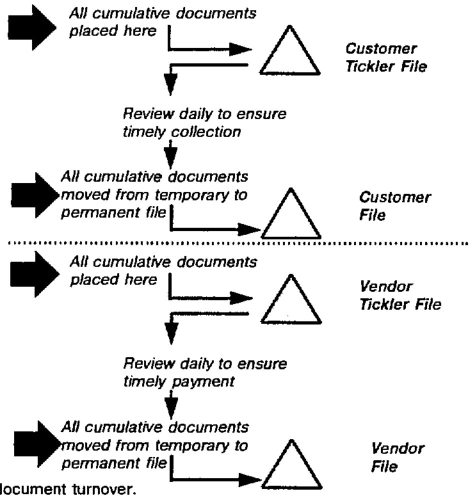
Finance Department: Sample Filing System Organization

- Revenue Cycle
  - Sales: Finished Goods shipped and sales invoice sent
  - Collections: Payment received from the customer
- Expenditure Cycle
  - Purchases: Input with invoices is received
  - Payments: Payment made to vendor



Note: See process flows to understand the nature of document turnover.

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Accounting Department: Sample Filing System Organization

- Revenue Cycle
  - Sales: Sales invoice recorded in books

    All cumulative documents placed here → ***Sales Invoice Tickler File***

    Hold until receipt of documents confirming customer payment

  - Collections: Customer payment recorded in books

    All cumulative documents moved from temporary to permanent file → ***Sales Invoice File***

- Expenditure Cycle
  - Purchases: Purchase invoice recorded in books

    All cumulative documents placed here → ***Voucher Package Tickler File***

    Hold until receipt of documents confirming our payment

  - Payments: Our payment recorded in books

    All cumulative documents moved from temporary to permanent file → ***Voucher Package File***

Note: See process flows to understand the nature of document turnover.

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'Tiered Authorization' Provides a Proper Tradeoff Between Speed of Purchases and Control Over Expenses

Larger purchases require higher levels of authorization

- Tiered Authorization Concept:
  - Purchases in the amount of less than X (e.g. 0.05% of last year's annual sales) are authorized by finance department managers
  - Purchases in the amount of more than X are authorized by CFO
  - Unique, high value purchases are approved at the Weekly Financial Council Meeting:
    - finance department prepares a list of all purchase requests (demand for money) for these items and distributes to the meeting participants prior to the meeting
    - finance department <u>must</u> also summarize all funds available for purchases (supply of money) and express opinion regarding how to allocate funds among purchase requests
- Weekly Financial Council Meeting:
  - Approves unique, high value purchases
  - Is conducted in the extended variant on a monthly basis:
    - purpose of the meeting: financial transaction review, monthly purchase plan approved at the beginning of the month
    - participants: finance, accounting and responsible departments
    - expected outcome: reconciliation on financial transactions

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INSTRUCTOR'S NOTES:

Ask the participants how they control expenses. Do they use some sort of the system above? Would the system described help reduce the General Director's involvement? Would it concentrate top management's attention on high value purchases? Would it help cost management?

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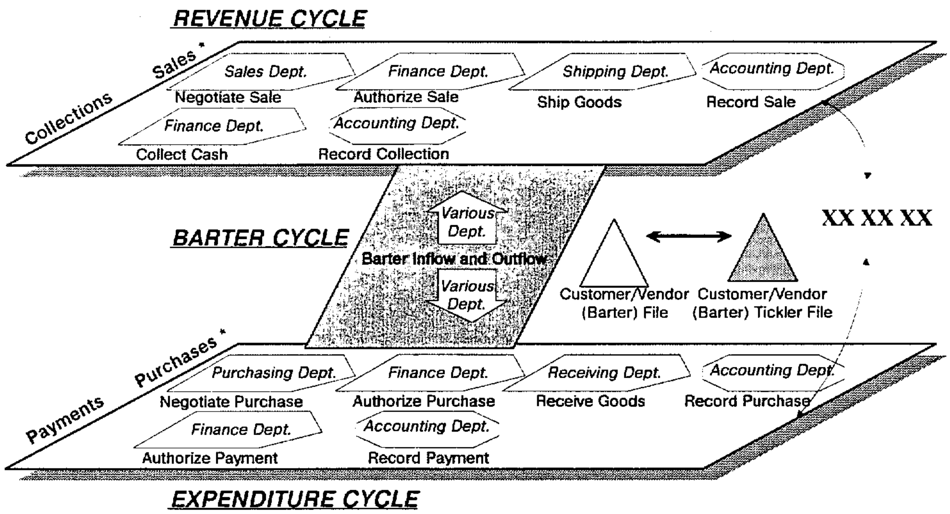
Summary of the Finance Function



Note: * - Tiered Authorization Concept, XX XX XX - Financial Transaction Code.
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Exhaustively Designed Process Flows are the Cornerstone of Superior Finance Function, Which Will Provide the Company with Multiple Competitive Advantages

We have accomplished the following:

- Discussed the finance function's main elements and its role in the company
- Introduced critical steps to restructuring a finance function
- Introduced and detailed 4 most important operational cycles for every company
- Introduced and started the discussion on the most efficient organizational structure of the finance department and division of duties and responsibilities

We will accomplish the following:

- We will cover the basics of the Revenue, Expenditure and Barter Cycles and learn how to draw a well-structured process flow and document turnover
- We will discuss in greater detail responsibilities of each major department involved in the finance function

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Seminar Agenda

Session 1:	Introduction to the Finance Function and its Processes
Session 2:	Overview of Organizational Structures
Session 3:	Elements of the Finance Function
Session 4:	**Revenue Cycle Process Flows**
Session 5:	Expenditure Cycle Process Flows
Session 6:	Barter Cycle and Petty Cash Process Flows
Session 7:	Departmental Roles and Responsibilities in the Organization
Session 8:	Restructuring and Implementation Plans
Session 9:	Homework

roff4e/Page 1

INSTRUCTOR'S NOTES:

This session is the first to cover one of the three major cycles in any company - the revenue cycle. It includes the description of the process flow using a step-by-step approach. The revenue cycle process flow design is a part of step 4 in redesigning the finance function.

Step 4: Design Better Processes

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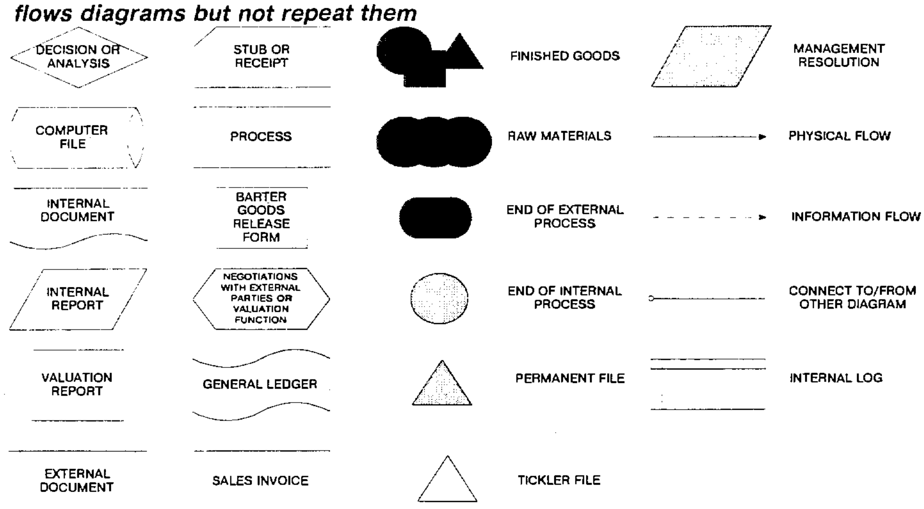
roff4e/Page 2

Process Flow Keys

We will include narratives to the process flows which will support the process flows diagrams but not repeat them



roff4e/Page 3

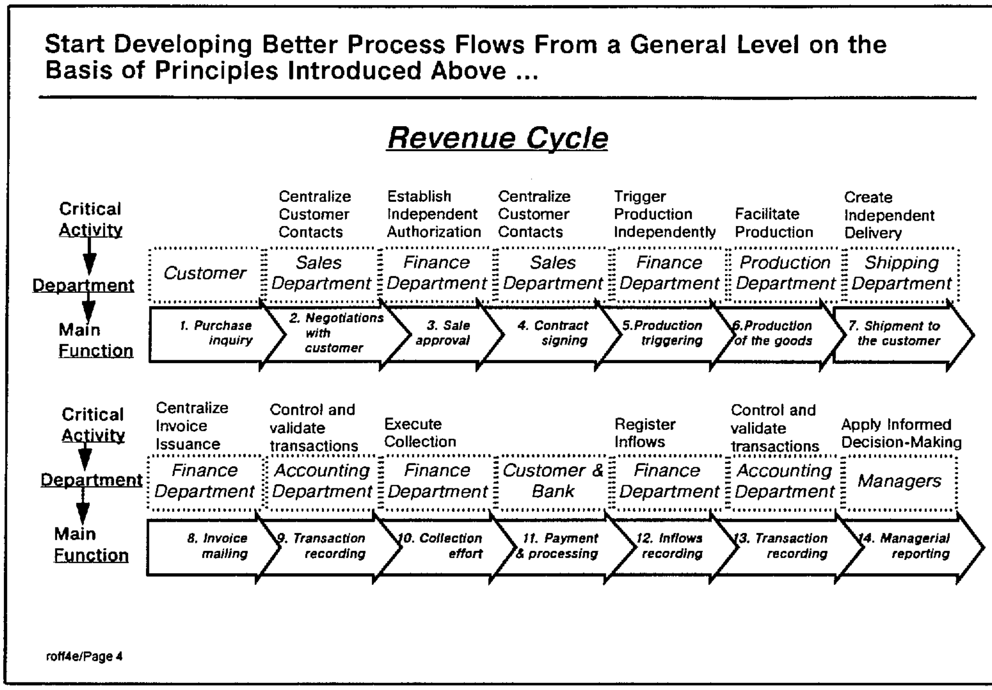
INSTRUCTOR'S NOTES:

Depending on the audience the presenter should consider a strategy of presenting the process flows. For example, several options can be considered:

•Present the revenue cycle in great detail, and then explain that other cycles are the same and are based on the same principles.

•Present the revenue cycle but not in great detail, skip the expenditure cycle, present the barter cycles, skip petty cash.

•Allow only 15-30 minutes for each cycle, do not explain each one of them in great detail.



INSTRUCTOR'S NOTES:

Reshow the slide where expenditure, revenue and barter cycles are shown together (slide #89).

Explain that these cycles need to be elaborated in order to be useful and applicable. Then show again the current slide. It is a second step in elaborating the revenue cycle.

Explain every step on the current slide. Ensure that everybody agrees and understands the general logic flow. Explain for example, that the sales department must centralize all contacts with the customers in order to be effective; the finance department must approve all contracts in order to execute financial management, etc. Note that the sales department is the only point for contact for the customers, this is why it has the final negotiation rights. The finance department needs to trigger the production, because this is the point where the financial resources are actually committed. Decision to trigger production should be very simple and be based on the financial part of the deal, not on any other reasons (availability of raw materials, idle capacity, etc.) [Production processes are not supposed to be covered in full in this module. They are specific to each enterprise]. Eventually, everybody should understand the general logic behind the chart. It can also be noted that it is a very simple process which is understandable on the intuitive level. It should not differ drastically from what Russian companies use at the moment.

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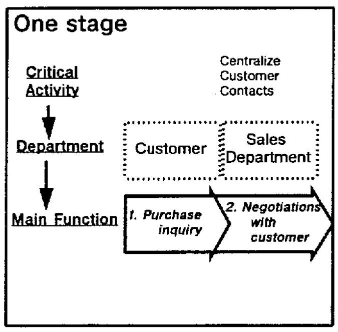
... And Detail Each Stage of Them As a Second Step

Questions which should be answered at each stage in a process:



- What documents to prepare?
- How many documents to prepare?
- How many copies of each?
- Who should receive a copy of a document?
- In what order should the documents be processed?
- What are the processing time and periodicity of the document?
- Which department is responsible for processing?
- What documents, where and how to store?
- Which department or individual has decision and authorization power over what stage?
- Who controls/validates the process performance?

Principles

Sequential, continuous, written communication | *Simplicity* | *Document control* | *Storage* | *Strong internal control* | *One critical activity - one department*

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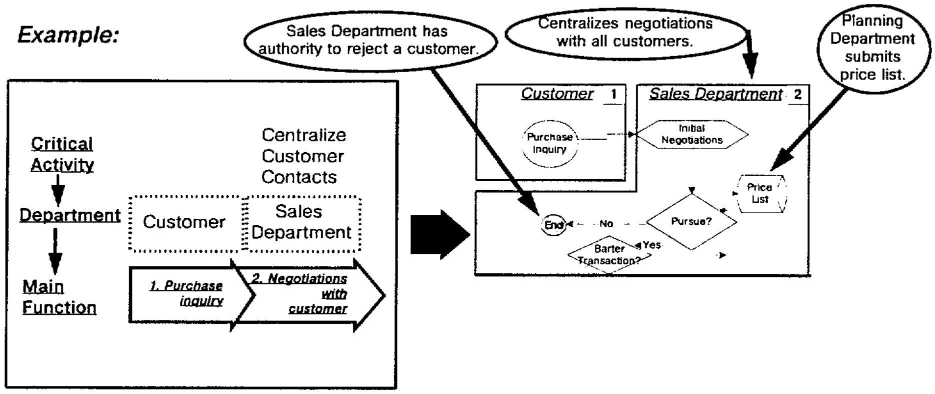
Use 'Step-by-Step Detailing' Approach in Developing Process Flows: Step 1

Example:



roff4e/Page 6

INSTRUCTOR'S NOTES:

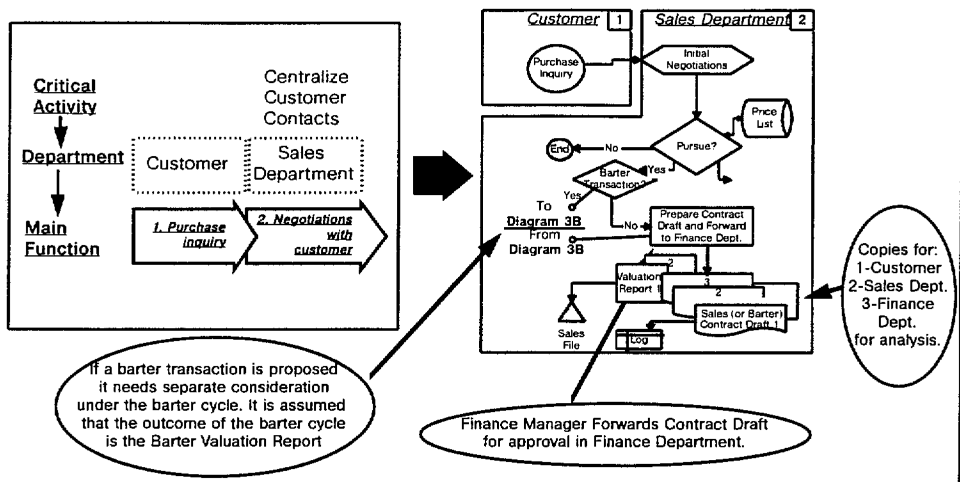
A purchasing inquiry goes to the sales department which after initial negotiations either rejects the customer or quotes the price and qualifies the transaction as barter or cash. The price list is prepares by the planning department on the basis of the following information:

- •Market price info from the marketing (or sales) department
- •Price/profit/volume analysis from the sales department
- •Cost analysis from the planning department

The sales department determines on the basis of its own criteria (order volume, previous dealings, etc.) whether a customer should be given a discount or should a prepayment be done. The finance department will approve or reject the order.

Use 'Step-by-Step Detailing' Approach in Developing Process Flows: Step 2

Example:

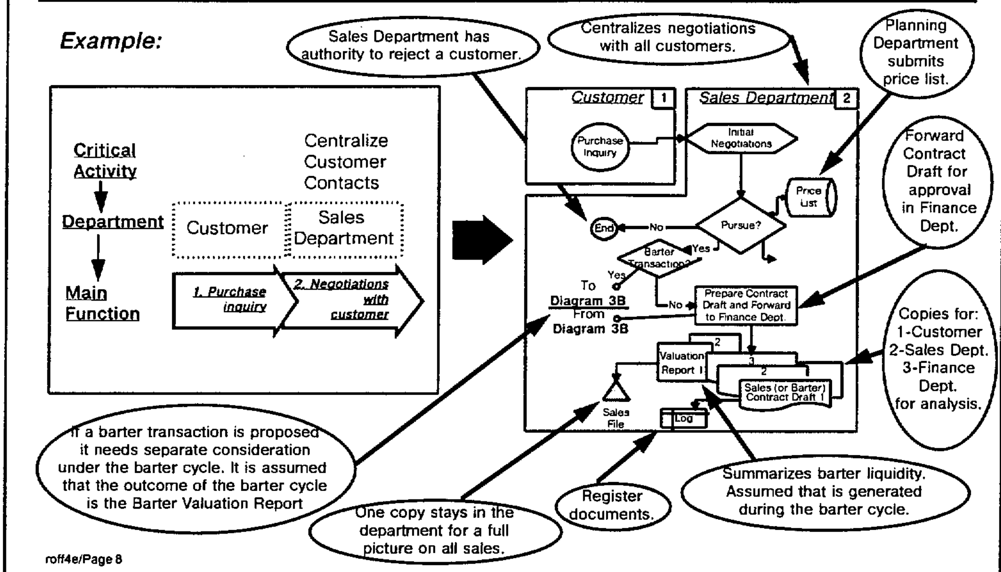


roff4e/Page 7

INSTRUCTOR'S NOTES:

If the sales department qualifies the transaction as barter another process is used which will be considered later. In either case, three copies of a contract draft must be prepared. One copy is given to the customer for the review and future references, one copy stays in the sales department for sales analysis and the last one is given to the finance department for the financial approval.

Use 'Step-by-Step Detailing' Approach in Developing Process Flows: Step 3



INSTRUCTOR'S NOTES:

The financial department should conduct an analysis of barter liquidity if the transaction is qualified as such. Contracts' essential information (name of the customer, date, order amount, terms of payment) should be recorded in a special log journal.

The last three slides were to demonstrate how a process should be designed. We have just considered the first two blocks of the sales process - purchase inquiry and sale negotiations. The success of designing a process depends on how well the issues of what documents to prepare, how many of them, where to forward them, etc. are addressed at each stage.

The next several slides demonstrate the full revenue cycle.

Slides with narratives contain either important restructuring recommendations or critical issues on the process flows, or suggestions which help read the process flow diagrams, or explanations of treatment of every-day business situations.

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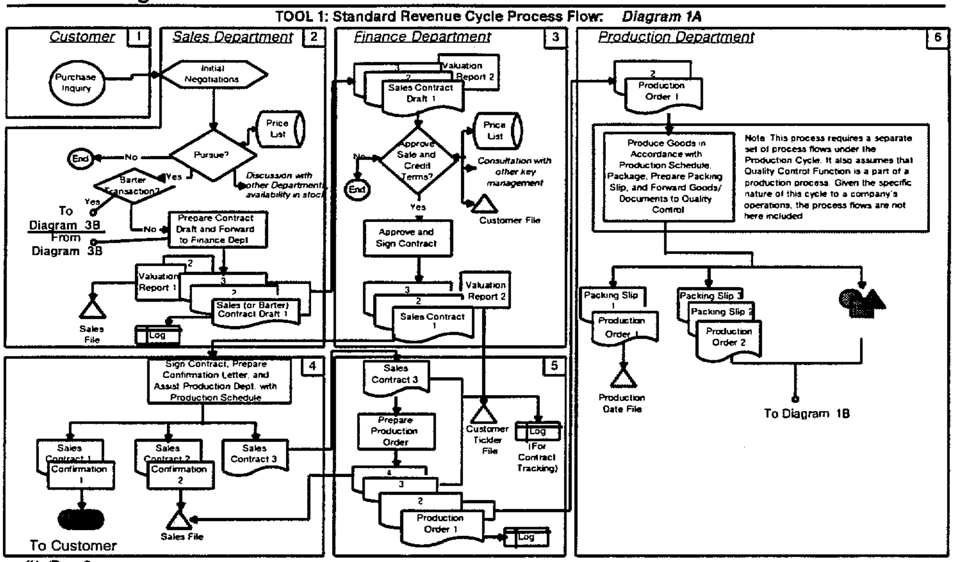
Revenue Cycle Starts From the Sales Order Negotiations and Processing ...



roff4e/Page 9

INSTRUCTOR'S NOTES:

The presenter may wish to show the slide with revenue cycle blocks each time a block is finished. This slide covers the first six 6 blocks of the revenue cycle.

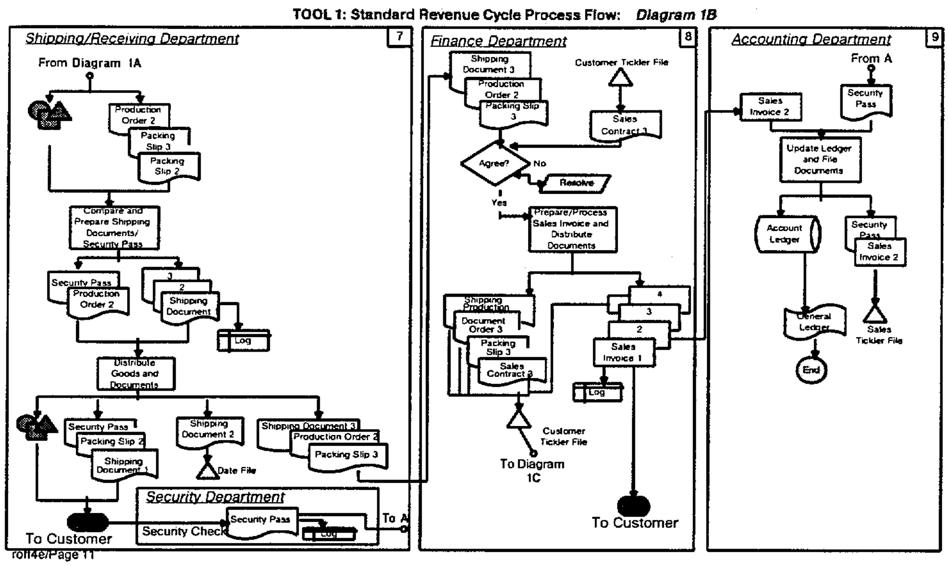
- Purchase inquiry - a customer places a request with sales department to purchase goods
- Negotiations with customer - a sales department quotes the price, prepares a contract draft and forwards it to the finance department
- Sale approval - finance department checks the contract terms, analyzes the customer, places information in the customer tickler file, approves and signs the contract, sends the approved contract to the sales department which confirms the contract for the customer.
- Production triggering - finance department gives an order to the production department to produce goods. A copy is given to the sales department which is stored with the contract, one copy stays with the finance department for contract tracking and two copies are forwarded to the production department.
- Production of the goods - goods are produced according to specifications and shipped to the warehouse. One production order copy accompanies the goods. The other copy stays with the production department for production analysis.

Narrative to Diagram 1A

- Revenue cycle is described for the credit sales case. In case of prepayment, the document flow remains the same except for the payment block, which is moved from Diagram 1B and Diagram 1C (see later) and inserted after the contract is signed by the parties. Barter sales will be covered separately.
- It is assumed that the sales department centralizes sales function of the company and is responsible for its completion. For instance, it can be organized into three groups: sales in Russia, export sales, and barter sales to third parties.
- Before accepting a production order, an enterprise must assess its profitability. Price list should result from the merging of all available information in the planning department: actual cost calculations prepared internally, general market pricing information obtained from sales department, price-profitability calculations from the financial department.
- Sales approval, shipments and sales accounting functions should be divided among the financial, shipping, and accounting departments.
- Production process is usually described by a separate process flow and is not within the scope of this seminar.

roff4e/Page 10

... Passes Through Shipment and Invoice Stages and Subsequent Timely Accounting ...



INSTRUCTOR'S NOTES:

This slide covers the next 3 blocks of the revenue cycle.

- Shipment to the customer - the shipping department prepares shipping documents and ships the goods to the customer with a packing slip and one shipping document. One copy of the shipping document stays at the shipping department. The other copy along with the production order and a packing slip are forwarded to the finance department. Security checks are done along the way.
- Invoice mailing - finance department checks the correspondence of the shipping document to the sales contract and prepares a sales invoice. Two copies of the sales invoice stay at the finance department, one is forwarded to the customer and one is given to the accounting department. The shipping document, production order, packing list, sales contract and invoices are placed in the customer tickler file.
- Transaction recording - accounting department updates the account and general ledgers on the basis of the sales invoice and places the sales invoice in its own sales tickler file.

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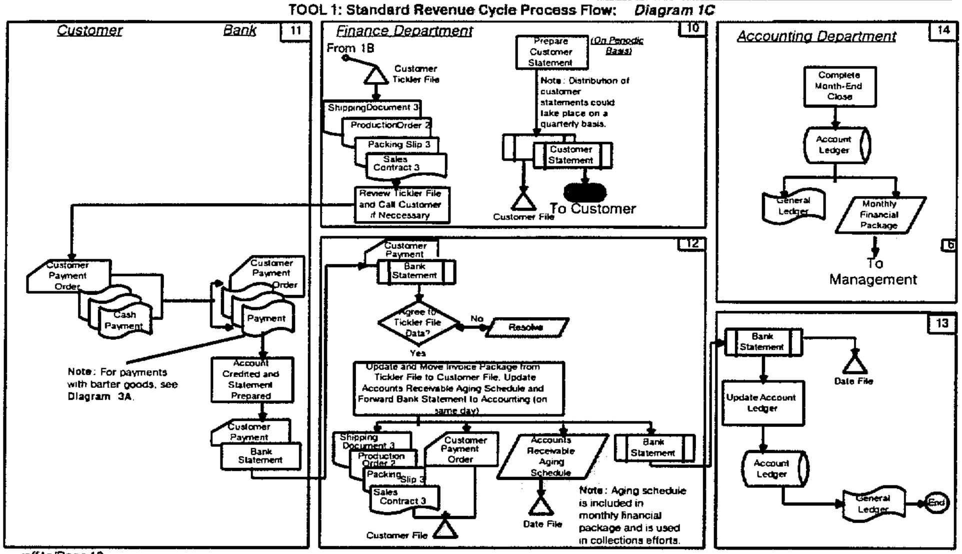
Narrative to Diagram 1B

- Sales invoice is issued in the finance department on the basis of shipping documents. But if the enterprise provides service to a third party, then the usage memo prepared by the service department is enough evidence to issue a sales invoice.
- Finance Department is responsible for performing a clerical check through all the documents according to the scheme and for conducting internal reconciliation if these documents don't match.
- Customer Tickler File should be reviewed on daily basis.
- Shipping/Receiving department can be organized into two groups independent from each other and reporting to different people. However, it is not necessary to separate support personnel (loaders, movers, etc.).

roff4e/Page 12

... And Finishes With Customer Payment Collection and Proper Recordkeeping

TOOL 1: Standard Revenue Cycle Process Flow: *Diagram 1C*



roff4e/Page 13

INSTRUCTOR'S NOTES:

The last five blocks of the revenue cycle are:

- Collection effort - finance department if necessary calls the customer for payment. The customer statements should be prepared regularly and copies should be directed to the customer and stay at the finance department in the customer file.
- Payment and processing - the customer initiates a payment, the company receives it.
- Inflows recording - finance department verifies the payment via the bank statement and then updates relevant information (accounts receivable schedule) and places the shipping document, production order, packing list and sales contract in the permanent customer file. The bank statement is forwarded to the accounting department.
- Transaction recording - accounting department records the transaction in the account and general ledgers on the basis of the bank statement.
- Managerial reporting - the information on sales and accounts receivable schedule are part of the monthly financial package and are directed to the management for decision making

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Narrative to Diagram 1C

- Daily review of tickler file should result in coherent receivable collection effort.
- Finance department should be in the position to report 'who has paid, according to which contract and for which shipment'. If a partial payment of a transaction takes place, this should also be reported. This will help to identify the best paying clients and to direct received resources for execution of their orders.
- Failure to meet internal deadlines in document turnover may result in penalties from tax inspection.
- Ideally, by the end of each month the accounting group prepares month-end closure, managerial accounting group creates monthly financial package (to be covered in other modules of toolkit), and finance department prepares customer statements.

roff4e/Page 14

INSTRUCTOR'S NOTES:

The participants are asked to analyze what documents they will have in their departmental files at the end of this stage?

Sample Time Benchmarks on Revenue Cycle

Top management establishes timing of document turnover and adjusts these benchmarks, or trains employees, if deadlines are not met.

- Sales department assesses proposed order and prepares necessary documents within 5 days
- Finance department authorizes or rejects sale within 2 days
- Sales department should try to sign the contract within 3 days
- Production department delivers finished goods to the warehouse on the completion date
- Shipping documents reach the finance department no later than the next day after shipment
- Sales invoice delivered to the accounting department on the same day as issued
- Bank statement and invoice stub delivered to accounting department on the next banking day
- Accountants prepare entries (including adjustment entries) in the journals the same day

Note: Timing can be controlled by filling in the date of finalizing the document before forwarding it.

roff4e/Page 15

INSTRUCTOR'S NOTES:

Specific deadlines depend on the size of the company and the historical segregation of duties. It is important to follow the deadlines if the company attempts to realize the full value from process flows.

Seminar Agenda

Session 1: Introduction to the Finance Function and its Processes

Session 2: Overview of Organizational Structures

Session 3: Elements of the Finance Function

Session 4: Revenue Cycle Process Flows

Session 5: Expenditure Cycle Process Flows

Session 6: Barter Cycle and Petty Cash Process Flows

Session 7: Departmental Roles and Responsibilities in the Organization

Session 8: Restructuring and Implementation Plans

Session 9: Homework

roff4e/Page 16

INSTRUCTOR'S NOTES:

In this session, the participants will learn what the major blocks of the expenditure cycle are, what departments are involved, what their respective roles are, and how the paperwork could be organized.

Step 4: Design Better Processes

- Substep 4.1: Principles of process flow design
- Substep 4.2: Useful tools in document turnover
- Substep 4.3: Filing system organization
- Substep 4.4: Tiered Authorization
- Substep 4.5: *Tool 1* - Standard Revenue Cycle Process Flow
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- Substep 4.10: *Tool 5* - Petty Cash Process Flow
- Substep 4.11: Summary

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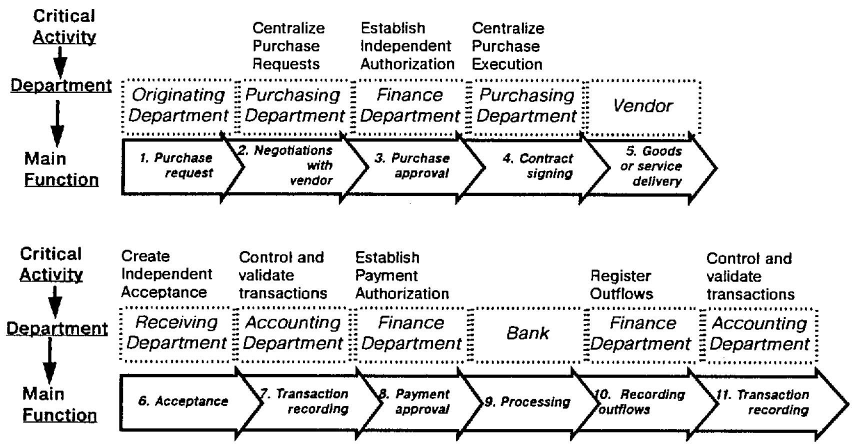
The Most Important Element on Expenditure Cycle Is Authorization of Expenses

Expenditure Cycle



roff4e/Page 18

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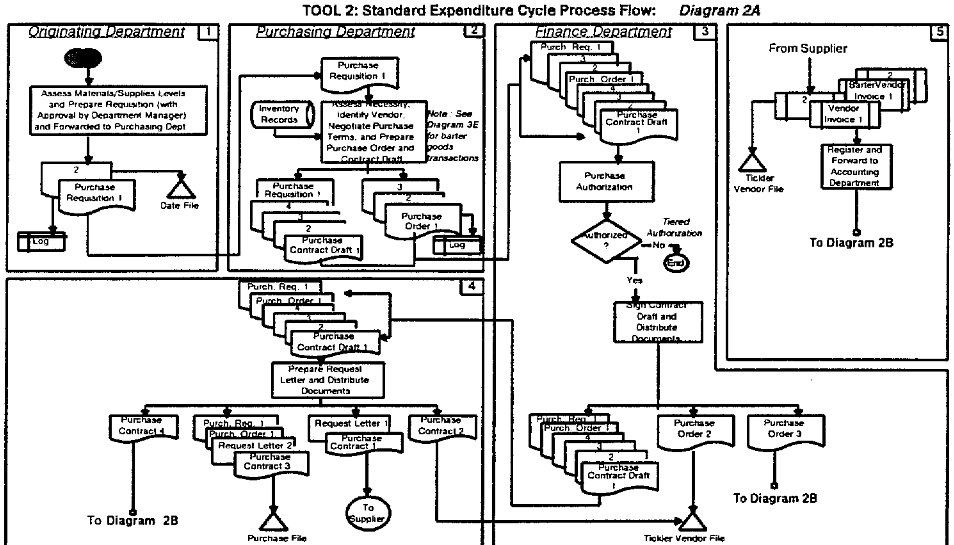
Expenditure Cycle Starts With Purchase Request and Expense Approval ...

TOOL 2: Standard Expenditure Cycle Process Flow: *Diagram 2A*



roff4e/Page 19

INSTRUCTOR'S NOTES:

The presenter should employ the same method as used for the revenue cycle i.e. step by step explaining on the basis of major blocks of the expenditure cycle. This slide covers the first blocks.

- Purchase request - the originating department prepares two copies of the purchase requisitions for materials needed, places one copy in its data file and sends the second copy to the purchasing department.

- Negotiations with vendor - purchasing department decides whether a purchase is really necessary and if it is, conducts preliminary negotiations, prepares 4 copies of the purchase contract draft (with the original) with a vendor and 3 copies of the purchase order and then, along with the purchase requisition sends them to the finance department.

- Purchase approval - finance department analyzes the purchase and if it is OK, signs the contracts and sends all 4 copies along with a copy of the purchasing requisition and purchasing order back to the purchasing department. One copy of the purchase order stays at the finance department and one copy is sent to accounting.

- Contract signing - a signed contract and request letter are forwarded to the supplier. Other copies are stored at the department and sent to the finance department and accounting.

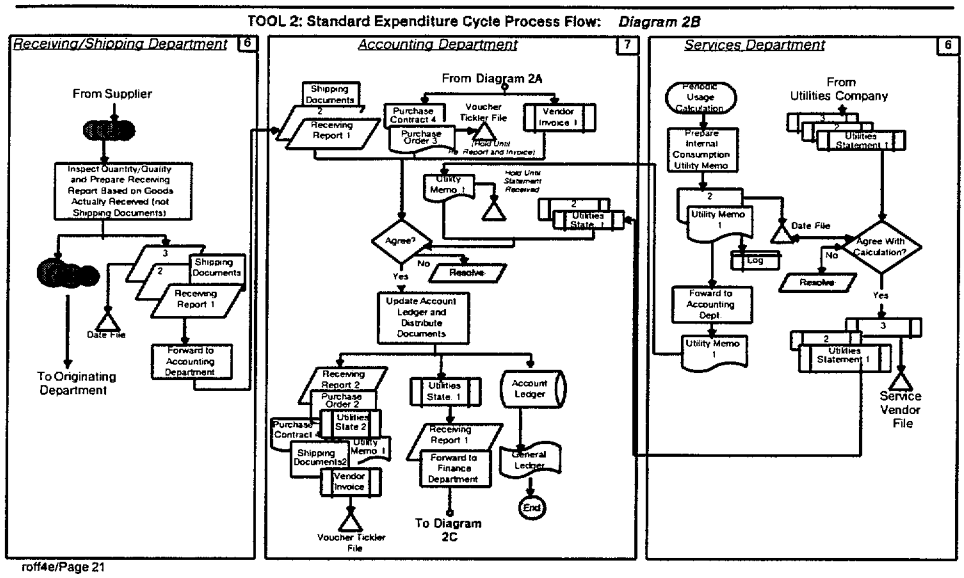
- Goods delivery - warehouse receives goods with invoices from the supplier.

Narrative to Diagram 2A

- Expenditure cycle is described for the credit purchase case. In case of prepayment the document flow remains the same except the payment block, which is moved from Diagram 2C (see later) and inserted after the contract is signed by the parties. Barter purchases will be covered separately.
- Purchase department centralizes purchase function and issues purchase order. From time to time, purchase department can delegate actual purchase but not responsibility to other department.
- Purchase order should be designed to include barter transactions as well.
- Financial department will serve as a marketplace for all purchase orders (demand) and available funds (supply). For purchases beyond the certain limit, which is set by the general director, and discussed at financial council meetings, the financial department should systematize all purchase orders and issue departmental opinion whether the purchase is reasonable or not.

roff4e/Page 20

... Flows Into Subsequent Delivery of Goods and Services ...



roff4e/Page 21

INSTRUCTOR'S NOTES:

This slide covers the next 2 stages of the expenditure cycle distinguishing between physical goods and utilities.

- Acceptance - receiving department accepts the goods according to the specifications, prepares a receiving report (name of vendor, date of receiving, amount, etc.) and sends it along with the two copies of the shipping document to accounting. One shipping document is filed at the receiving department. In the case of utilities, the services department plays the role of the receiving department checking internal consumption rate with bills received and transferring the documentation to the accounting department.
- Transaction recording - accounting reconciles the receiving report, shipping document, purchase order, purchase contract and vendor invoice (or vendor invoice and utility memo), resolves problems and records the transaction in the account and general ledgers. All the documents except for the receiving report which is forwarded to the finance department, are filed at the accounting department.

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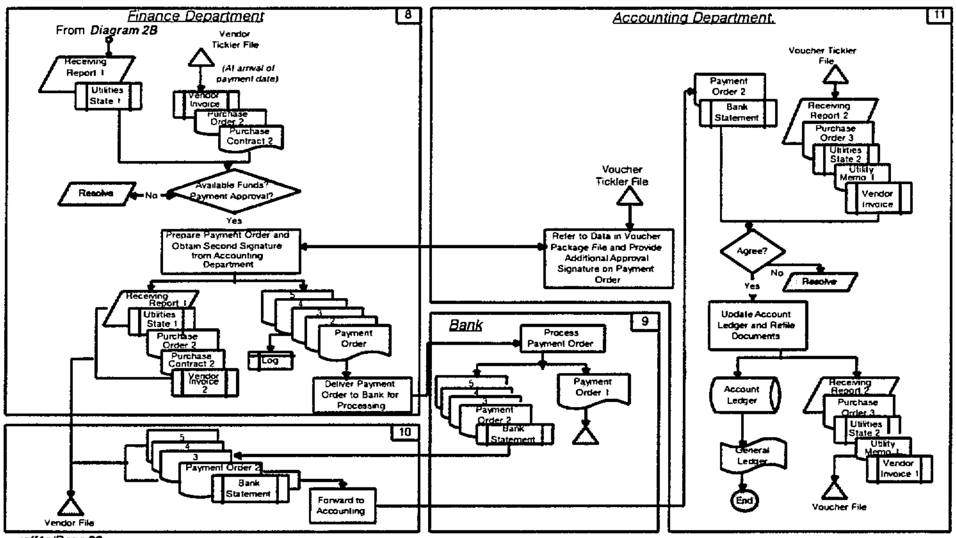
... And Ends With Proper Recordkeeping of All Expenses

TOOL 2: Standard Expenditure Cycle Process Flow: *Diagram 2C*



roff4e/Page 22

INSTRUCTOR'S NOTES:

The last 4 blocks of the expenditure cycle are:

- Payment approval - on the basis of various documents the finance department authorizes the payment if the funds are available. If not, it may call the customer and warn him of the problem. The payment order should be signed by two people: one from finance department and one from accounting. This is done to ensure the appropriate disbursement of funds. All the documents except for the payment order are filed in the vendor file in the finance department for future references. 5 copies of the payment order are forwarded to the bank.
- Processing - the bank processes the payment and files one copy for its own use.
- Recording outflows - 4 copies of the payment order and a bank statement are delivered to the finance department. The finance department uses payment orders for reporting and analysis purposes and sends one copy with the bank statement to accounting for recording.
- Transaction reporting - accounting department uses the bank statement, payment order and other documents from the voucher tickler file to ensure that the funds disbursed correspond to the amount needed. It then records the transaction.

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Narrative to Diagrams 2B and 2C

- Accounting department performs a clerical check between what was ordered, received, and specified in Vendor's invoice. If there is any discrepancy in the above, responsible department for the financial transaction (first two digits in the financial code) should conduct reconciliation.
- Responsibility is also attained by department approving procedure.
- If the enterprise purchased a service, then the document cycle doesn't change. Service provider and service department agree on usage calculation, which are then forwarded to the accounting department.
- Vendor Tickler File will help to systematize all payments due and to direct funds to the most needed inputs.
- Vendor Tickler File and Vendor File are always updated, so that at any given moment in time it is possible to use the latest information for analysis.
- Once a month an expanded financial council meeting should take place. The purpose of the meeting is the financial transactions review and coordination between the departments. Participants of the meeting are finance department, accounting department and operational departments involved in the revenue and expenditure cycles.

roff4e/Page 23

INSTRUCTOR'S NOTES:

The participants are asked to analyze what documents they will have in their departmental files at the end of this stage?

Sample Time Benchmarks on Expenditure Cycle

Top management establishes timing of document turnover and adjusts these benchmarks, or trains employees, if deadlines are not met.

- Originating department issues purchase requisition not later than 20 days before the purchase deadline
- Purchase department should try to sign the contract within 3 days and meet the purchase deadline
- Finance department authorizes or rejects the purchase within 2 days
- Receiving department forwards receiving report no later than the morning of the next day
- If a service was consumed then internal usage balance should be forwarded to accounting department no later than the 2nd day of the next month
- Finance department prepares payment order, processes order at bank, obtains bank statement, and forwards to the accounting department on same day

Note: Timing can be controlled by filling in the date of finalizing the document before forwarding it.

roff4e/Page 24

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Seminar Agenda

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Session 6:	**Barter Cycle and Petty Cash Process Flows**
Session 7:	Departmental Roles and Responsibilities in the Organization
Session 8:	Restructuring and Implementation Plans
Session 9:	Homework

roff6e/Page 1

INSTRUCTOR'S NOTES:

In this session, the participants will learn what the major blocks of the barter cycle and petty cash process are, what departments are involved, what their respective roles are, and how the paperwork could be organized. Barter plays a vital role at many Russian enterprises and the more thorough is the organization of the process, the greater are the chances that barter transactions will be more beneficial to a company.

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Step 4: Design Better Processes

- Substep 4.1: Principles of process flow design
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- Substep 4.11: Summary

roff8e/Page 2

Standardize Barter Transactions As Much As Possible

Barter transactions.....

- Are necessitated by the economic environment in Russia:
  - barter may enable a company to beat competition
  - barter may decrease turnover time with some non-paying customers
  - barter may lead to sales expansion, etc.
- Will continue to be prevalent in Russia for the next few years
- Do not fit into standardized revenue or expenditure cycles
- Are labor-intensive
- Are highly exposed to impropriety

Why standardize?

- Reduce labor costs to complete these transactions
- Eliminate potential for impropriety
- Facilitate accurate accounting
- Create guidelines for future negotiations along 'best observed practice'

roff6e/Page 3

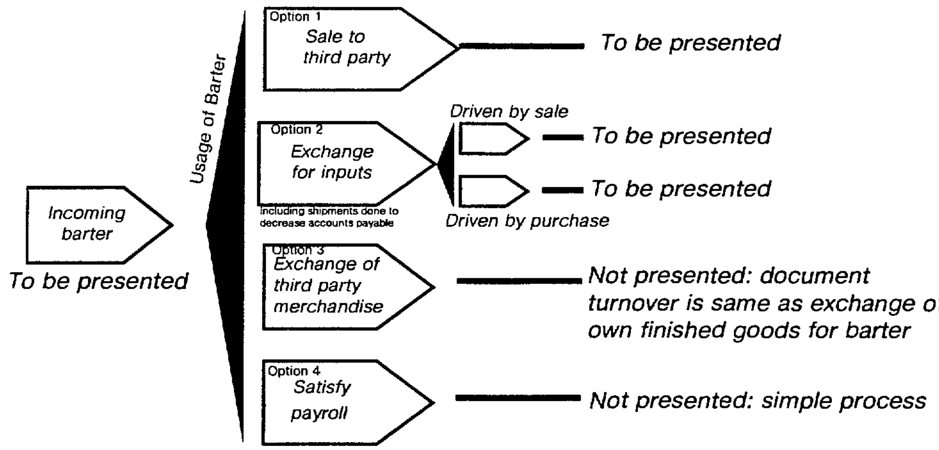
INSTRUCTOR'S NOTES:

May want to refer back to slide at the beginning of the presentation to reintroduce the concept of how barter transactions dissolve the boundaries between the revenue and expenditure cycles.

Barter transactions are also critical to the survival of many Russian firms in the short to medium term, yet highly exposed to impropriety. Therefore, the provided process flow charts are deemed necessary.

Although Barter Transactions Can Be Fairly Sophisticated, Every Barter Transaction Possesses Standard Inflow and Outflow Characteristics

Formalized inflows and outflows of barter transactions will facilitate barter management



roff6e/Page 4

INSTRUCTOR'S NOTES:

Explain that the success of standardization of barter transactions strongly depends on the classification of barter deals signed by the enterprise. If each barter transaction can be classified as one of the above types then successful standardization is possible.

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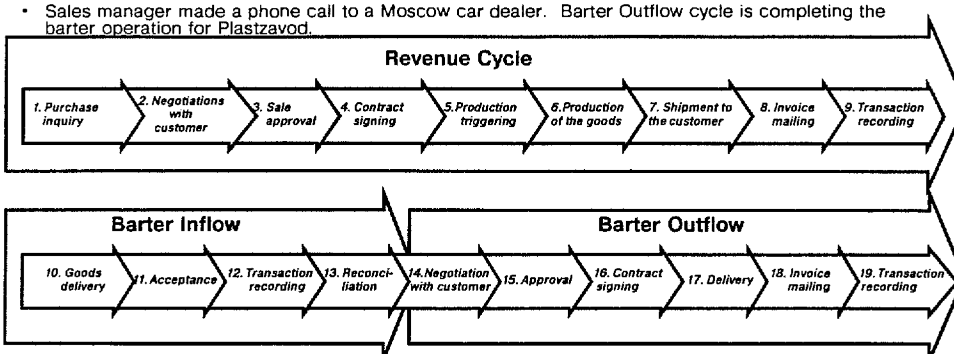
By Combining These Three Cycles We Can Map Out the Whole Process of This Barter Operation

- Plastzavod, a plastic parts manufacturer, wants to exchange 1000 dashboards for 10 cars with VAZ.
- Knowing that the dashboards are needed at VAZ, a Sales Department representative contacted VAZ. The process that follows is shown by nine steps of the Revenue Cycle.
- 10 nice looking Ladas were delivered to Plastzavod and appropriate steps were taken to process the transaction: This is represented by the Barter Inflow Cycle.
- Sales manager made a phone call to a Moscow car dealer. Barter Outflow cycle is completing the barter operation for Plastzavod.



The consequential use of three cycles helped Plastzavod perform the barter transaction with the necessary accuracy. Plastzavod was able to sell the dashboards to VAZ and made a profit on selling Ladas to the automobile dealer.

roff6e/Page 5

INSTRUCTOR'S NOTES:

The barter transaction described on this slide involves a part of the revenue cycle (except for the last five blocks of the revenue cycle) and flows into the barter inflow-outflow stages. Plastzavod will be able to cash its profit only after it sells the cars.

Step 4: Design Better Processes

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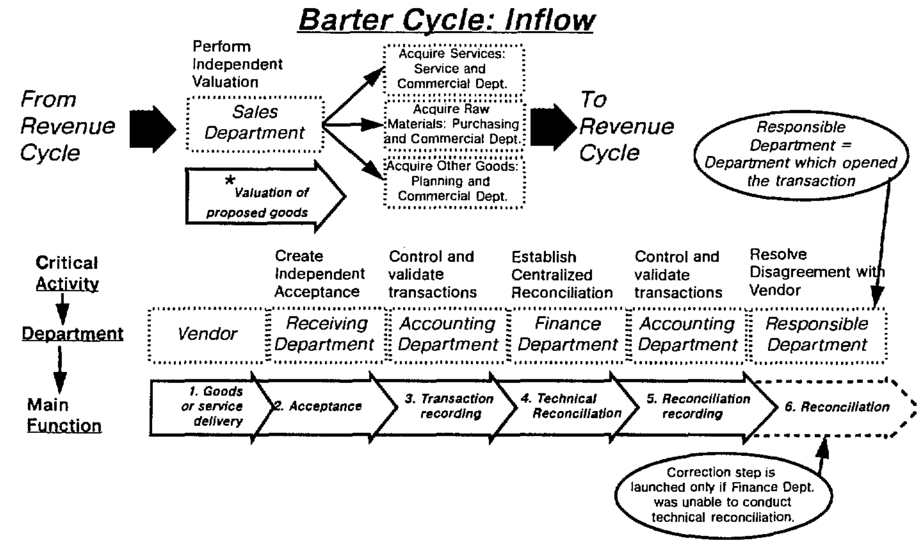
roff6e/Page 6

Barter Inflow Should Be Organized Along the Same Principles As Cash Transactions



roff6e/Page 7

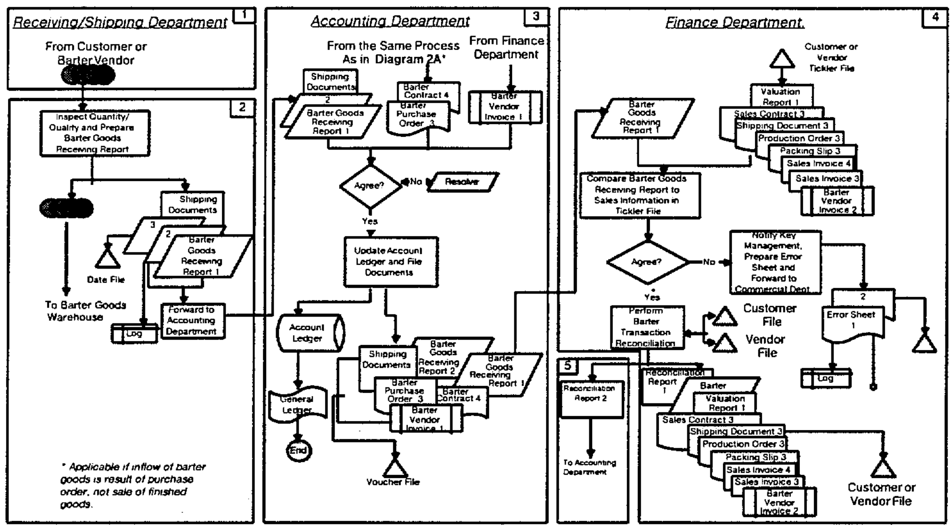
INSTRUCTOR'S NOTES:

The presenter should explain that barter transactions involve coordination of many departments. This could be achieved in practice by 1) classification, 2) assigning responsibility for the specific sets of transactions. This slide suggests how responsibilities should be assigned: when barter is proposed in exchange (from the revenue cycle), the sales department should value the proposed goods with the assistance of other departments - see the options on the other slide.

The arrow diagram reflects the inflow of barter goods irrespective of the nature of transaction: sale of finished goods, exchange for barter or inflow of raw materials in exchange for barter.

Standardized Incoming Barter Flow Will Allow for Timely Reconciliation ...

TOOL 3: Incoming Barter Goods Process Flow: ***Diagram 3A***



roff6e/Page 8

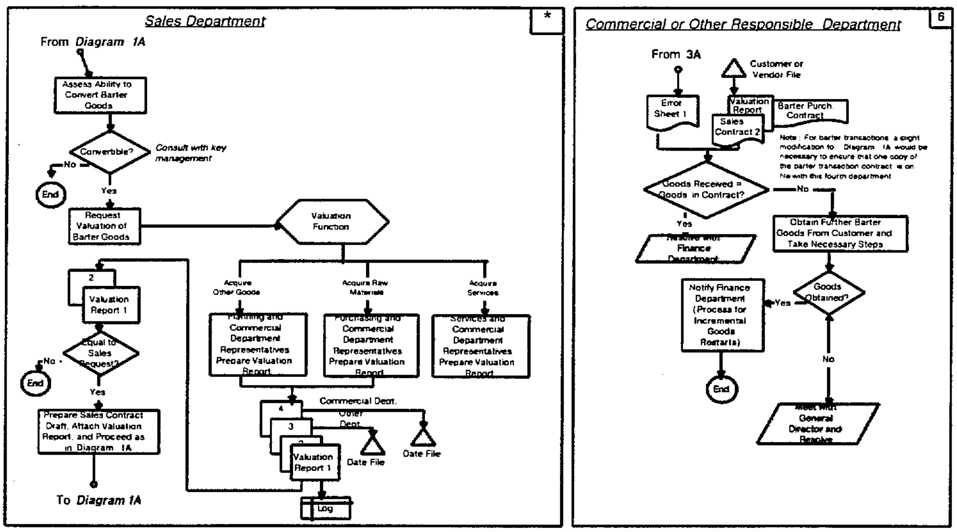
INSTRUCTOR'S NOTES:

Barter is broken down into two major parts: inflow and outflow. This slide demonstrates the first 5 blocks of the incoming barter flow.

- Goods or service delivery - a customer or supplier delivers his goods (services.) to the warehouse.
- Acceptance - shipping department inspects the quality of goods according to specifications and prepares a report (name of supplier, date, amount, etc.). One copy of the report stays in the shipping department for references, the other two together with the shipping documents are sent to the accounting department for processing.
- Transaction recording - accounting department compares the documentation on goods received with the invoice presented by the vendor as well as the purchase order to determine any discrepancies (documents are presented by purchasing, finance departments and supplier). All ledgers are updated and all copies are filed in the department. The receiving report goes to finance.
- Reconciliation - the finance department conducts this by comparing all the necessary information in the customer and vendor files.

... And Perform Adequate Valuation of Incoming Goods

TOOL 3: Incoming Barter Goods Process Flow: *Diagram 3B*



roff6e/Page 9

INSTRUCTOR'S NOTES:

This slide is to show the valuation process and the last block of barter inflow.

- Valuation - the sales department assesses the opportunities to convert barter goods into cash or other goods and depending on the situation, requests the relevant departments (planning, purchasing or services) to prepare a valuation report which should give an estimate of the market value of barter goods. This valuation report is then attached to the sales contract draft and all these documents are forwarded to the finance department as in the revenue cycle.
- If the finance department discovers that the value of goods received does not match the amount needed according to the sales contract, it prepares an error sheet which is then re-forwarded to the commercial or other department. The responsible department then takes actions directed at correcting the situation.

Narrative to Diagrams 3A and 3B

- When the customer wishes to pay for company's finished goods or services by barter, valuation function must be applied before a final decision is made. Commercial and Purchasing departments (depending on the case) must assess market value and liquidity of incoming barter goods.
- On a weekly basis commercial department or purchases department should forward report with barter beginning balances, uses of barter for the week and barter ending balances (in units and in currency).
- If problems with quality or timing or quantity arise, it is function of a responsible department to reconcile with supplier. Financial and/or accounting department can only inform the management and/or responsible department.
- Error Sheet plays a role of indicator in case the barter financial transaction is incomplete. Firstly, it goes to responsible department, and only secondly to top management (from responsible department).
- Accounting department should account barter on separate accounts.
- Finance department matches the documents, closes the financial transaction and, if necessary, conducts reconciliation.

Note: Time benchmarks are the same as on previous cycles because the cycles are comprised from the similar blocks.

roff6e/Page 10

INSTRUCTOR'S NOTES:

The participants are asked to analyze what documents they will have in their departmental files at the end of this stage?

Step 4: Design Better Processes

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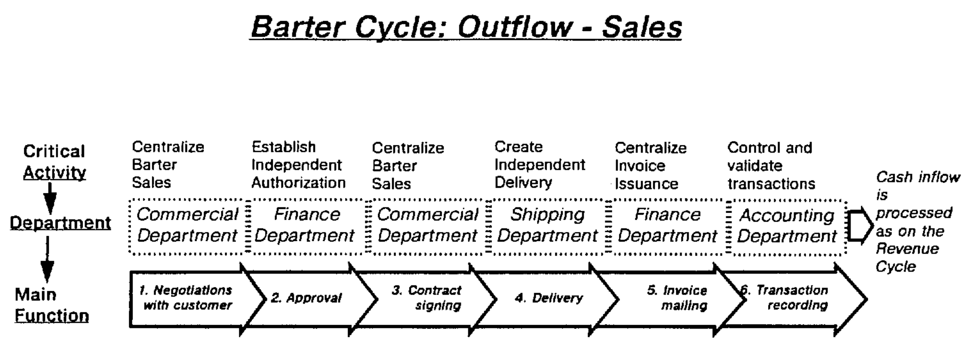
roff6e/Page 11

Being a Source of Revenue, Barter Outflow in Sales to Third Parties Should Pass Through Authorization Stage With Finance Department



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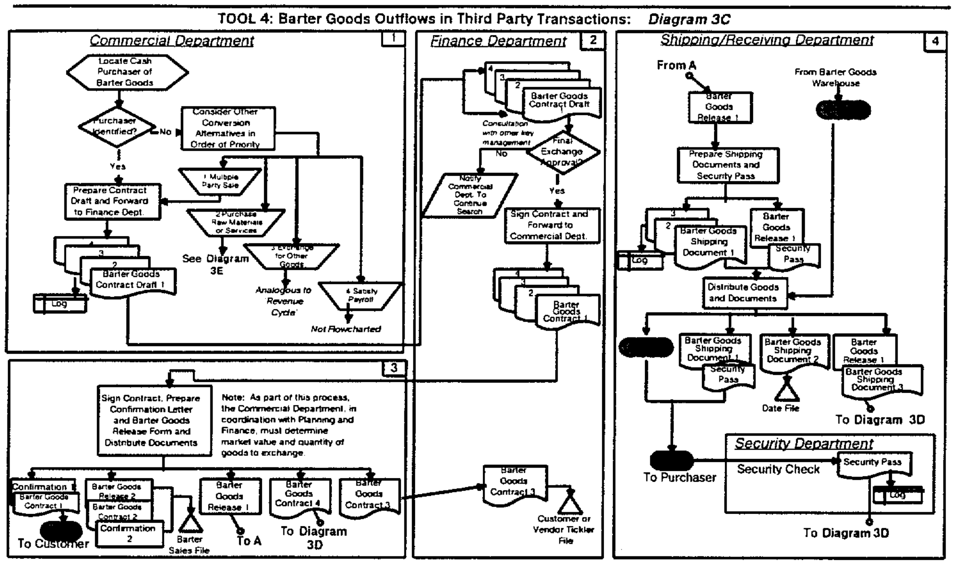
INSTRUCTOR'S NOTES:

Barter sales should be treated in the same way as finished goods sales.

Standardized Barter Sales to Third Parties ...



roff6e/Page 13

INSTRUCTOR'S NOTES:

The first 4 stages of the barter outflow process. Again, the presenter should name each block as he goes through the process. This process is appropriate when barter goods cannot be used inside the company or resold.

• Negotiations with customer - the commercial department should prepare 4 copies of the contract draft (provided that a purchaser is identified) and forward them to the finance department.

• Approval - finance department analyzes the exchange from the point of view of benefits for the company, signs the contracts and sends them back to the commercial department.

• Contract signing - commercial department (sales department) signs the contracts, prepares appropriate documentation and while keeping some papers sends the rest to finance, shipping and customer. Note that no deal is struck without finance department's participation.

• Delivery - shipping department releases the goods only when it gets all the necessary papers from the commercial department. It keeps record by entering data in a special journal and storing some of the documents. In parallel, it sends the shipping document and the barter goods release to the finance department.

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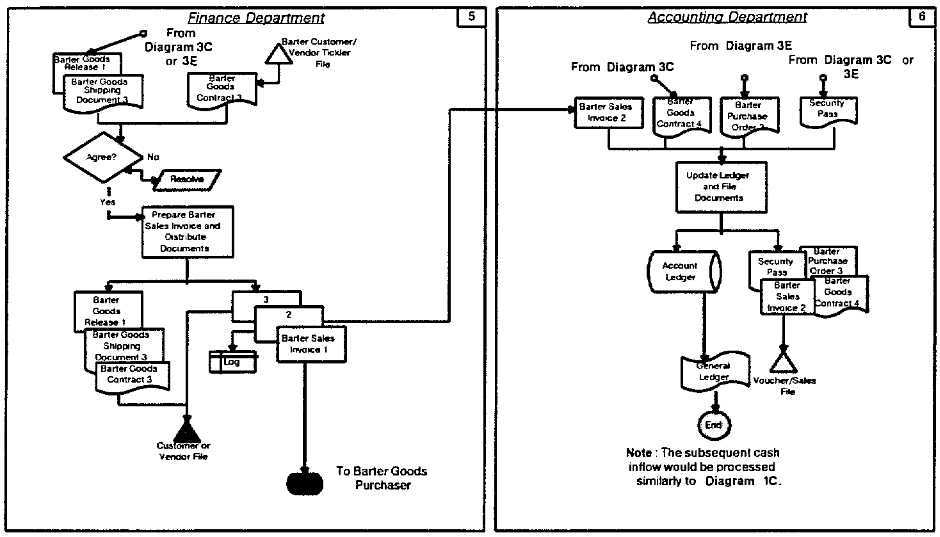
... Will Allow Management of Barter Outflows

TOOL 4: Barter Goods Outflows in Cash or Third Party Transactions: *Diagram 3D*



roff6e/Page 14

INSTRUCTOR'S NOTES:

The last two stages of the barter outflow process.

- Invoice mailing - before the finance department issues an invoice it has to make sure that the amount and value of goods shipped corresponds to the contract (the latter is stored in the barter customer file). If data reconcile, the finance department prepares an invoice and sends it to the customer while filing copies of relevant documents in the customer/vendor file. These documents will be used for controlling the completion of the transaction as well as for internal reporting purposes (management reporting system).

- Transaction recording - straightforward transaction recording by the accounting department on the basis of documents received from the finance, commercial, purchasing departments. The subsequent process of incoming cash flows is analogous to that of the revenue cycle (it involves the customer, bank, finance and accounting departments). The presenter may wish to show the relevant slide 1C of the revenue cycle.

Narrative to Diagrams 3C and 3D

- It is essential to sign Barter Valuation report with barter deal analysis and conversion deadlines at previous stages. It is the responsibility of commercial department to assess the liquidity of proposed barter and to identify the potential customers.
- Price for the barter should be established by other department (e.g. planning).
- Commercial department is responsible for barter sales to third parties while the purchases department is responsible for barter transactions in exchange for raw materials even if commercial department is involved.
- Deadlines on barter conversion should be approved by the finance department, as they condition the consumption of working capital necessary to finance the barter goods while they are held.

Note: Time benchmarks are the same as on previous cycles because the cycles are comprised from the similar blocks.

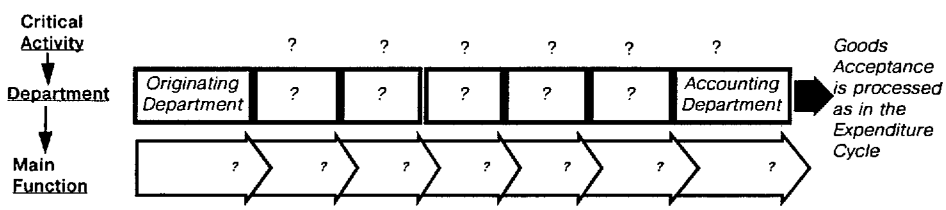
roff6e/Page 15

INSTRUCTOR'S NOTES:

Exercise #3

Create general process flow for purchases of raw materials for barter. The process should begin with how the purchases are launched by the Originating Department and end with how the company's barter goods are shipped and the shipment is recorded in the Accounting Department. Use the format presented below.

Barter Cycle: Outflow - Raw Materials Purchases



roff6e/Page 16

INSTRUCTOR'S NOTES:

Discuss steps in the process flow with participants, write answers of participants in the blank boxes (go step by step). The answer on the next page in the presentation should be first covered (with paper). Open the slides step-by-step.

It is very important not just to write down the right answer in each blank box, but to discuss with seminar participants why this answer is the right one. In order to achieve this, write down all answers of seminar participants on a blank slide, and discuss each one. Select the right answer and explain you arguments to seminar participants, then move to the next box. Stress attention of the audience on the processes in the Purchasing Department and on the role of support departments in the purchasing process.

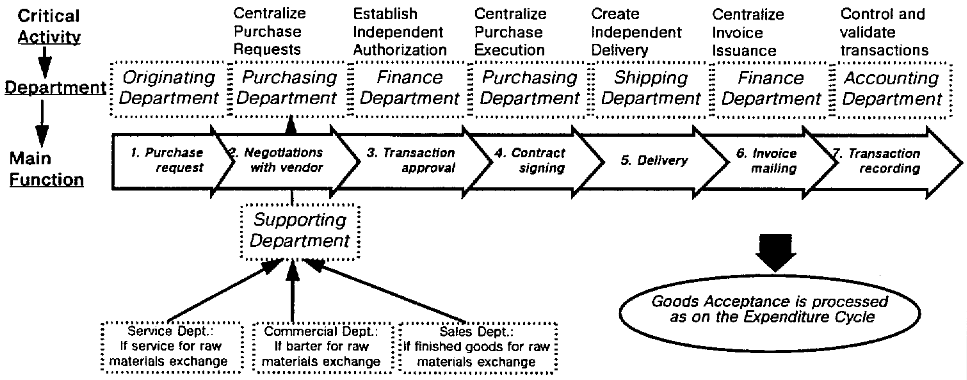
Answer the questions at every step:

- Which department should be involved?
- Who should receive documents?
- What is the critical activity they perform?
- What is their function?
- Do you think an extra step is needed?
- Is there anything redundant in this process?

Time: 15 min.

Purchases of Raw Materials for Barter Should Have the Same Basic Stages As the Expenditure Cycle

Barter Cycle: Outflow - Raw Materials Purchases



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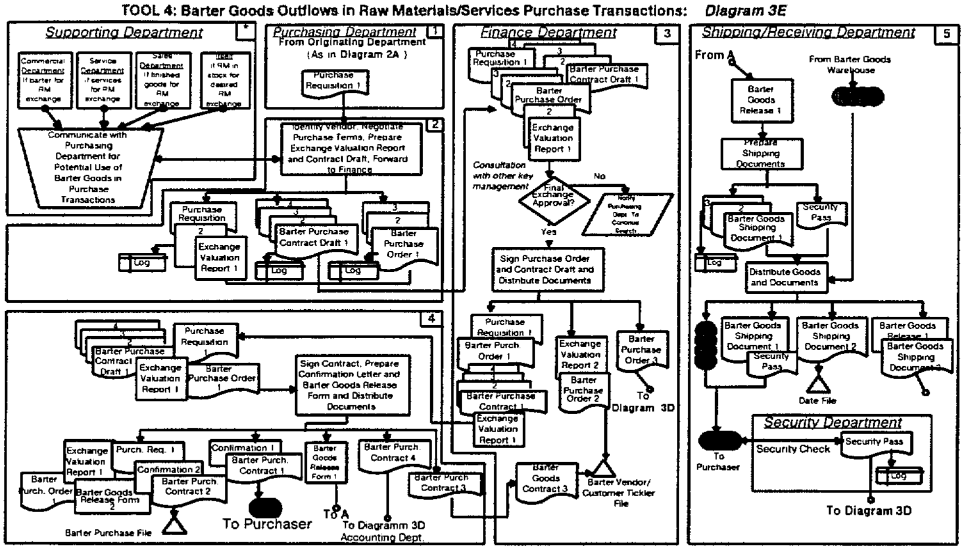
Standardization in Purchases of Raw Materials for Barter Will Add Clarity to This Process

TOOL 4: Barter Goods Outflows in Raw Materials/Services Purchase Transactions: *Diagram 3E*



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INSTRUCTOR'S NOTES:

A variation of this process (getting raw materials for finished goods) is very common at many Russian enterprises. The first 5 blocks of the barter outflow for raw materials purchase cycle.

- Purchase request - the purchase request is prepared by the originating department using the same algorithm as in the expenditure cycle. The purchase requisition is sent to purchasing.

- Negotiations with vendor - purchase department with the support of other department prepares 4 copies of the barter purchase contract draft and issues a barter purchase order. Along with the exchange valuation report (types of goods traded, amount, terms of delivery, etc.) these documents are sent to the finance department.

- Transaction approval - finance department approves the transaction on the financial grounds (signs the documents), files copies and sends other copies back to purchasing and accounting.

- Contract signing - purchasing also signs the contract (note two signatures on the contract: finance and purchasing), prepares other relevant documents and forwards them to the purchaser, finance and accounting.

- Delivery - upon receiving the barter goods release the shipping department prepares shipping documents and releases the goods. The shipping document copy is filed.

- Invoice mailing and transaction recording are the same as barter outflow with finance and accounting being the major acting parties.

Narrative to Diagram 3E

- The purchasing department is responsible for all raw material purchases irrespective what method of payment is used: cash or barter.
- Based on vendor demands, the purchasing department must communicate with commercial department on the subject of barter goods exchange, with service department on the subject of service exchange and with sales department on the subject of final goods exchange. Also, the opportunity to exchange raw materials in stock for desired raw material should be assessed.
- Deadlines on barter conversion should be approved be the finance department, as they condition the consumption of working capital necessary to finance the barter goods while they are held.

Note: The time benchmarks are the same as on previous cycles because the cycles are comprised of the similar blocks.

roff6e/Page 19

INSTRUCTOR'S NOTES:

Exercise #4
Case: Chart Basic Processes Through a Revised Organizational Structure

A company has the following six departments: Finance, Planning, Accounting, Production, Purchasing and Sales. Finance, Planning, and Accounting report to the Finance Director. Design a process for each of the transactions below, showing how the documents will move through the system, where authorization will be needed and by whom, where documents will need to be verified, where records will be made and kept, etc.

Transaction - Company sells 1000 units of finished goods, accepting a 90-day note for half of the selling price, and 50 tons of raw material from a third party who owes money to the purchaser for the other half.

roff6e/Page 20

INSTRUCTOR'S NOTES:

Ask someone to present the results. Write down all answers on a flip-chart or on a blank slide. Evaluate answers of everybody against the process flows shown earlier and discuss deviations from the standard.

Encourage active participation of the audience.

Time: 3-5 min. preparation + 5-10 min. discussion

Step 4: Design better processes

- Substep 4.1: Principles of process flow design
- Substep 4.2: Useful tools in document turnover
- Substep 4.3: Filing system organization
- Substep 4.4: Tiered Authorization
- Substep 4.5: *Tool 1* - Standard Revenue Cycle Process Flow
- Substep 4.6: *Tool 2* - Standard Expenditure Cycle Process Flow
- Substep 4.7: Introduction to barter transactions
- Substep 4.8: *Tool 3* - Incoming Barter Goods Process Flow
- Substep 4.9: *Tool 4* - Outgoing Barter Goods Process Flows
- Substep 4.10: *Tool 5* - Petty Cash Process Flow
- Substep 4.11: Summary

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Standardize the Process of Petty Cash Inflows and Outflows

Petty cash in Russian companies.....

- Plays a vital role in daily transactions due to the underdeveloped financial infrastructure
- Is usually maintained in higher balances as a percentage of total cash balance than in companies operating in more developed environments
- Is usually maintained in several locations throughout the organization
- Is exposed to insufficient controls, thus risks of impropriety

Why Standardize?

- Minimize exposure to impropriety
- Formalize and disseminate 'best demonstrated practices'

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INSTRUCTOR'S NOTES:

Cash management is a crucial element to the survival of many Russian firms, yet petty cash is typically loosely controlled and significant in value (since the majority of settlements are in the form of cash). The following flowchart can help control cashflows better in this area.

Narrative to Petty Cash Cycle

Petty cash policy and time benchmarks on every enterprises are imposed by Regulations in Cash Accounting.

- The process of cash receipts and disbursements should be centralized in one petty cash window accessible to both employees and the clients
- Second cashier and not staff from any other department should perform cash collection if it is necessary to receive cash outside the company (for instance, servicing commercial department clients or social payments)
- Wherever allowed by regulations, the cashiers should report to Finance Director rather than Chief Accountant. Failing that, cashiers may still report to Chief Accountant but all cash allocations take place on the basis of a daily plan submitted by finance department. All in all, Head of the Finance Department should be explicitly informed of all cash inflows and outflows
- Deadlines on petty cash process are established by Russian regulations
- Usually enterprises elaborate their own internal cash policy on the basis of regulations. The policy may cover upper cash limits, timing of expense reporting, eligibility, priority purchases, etc.

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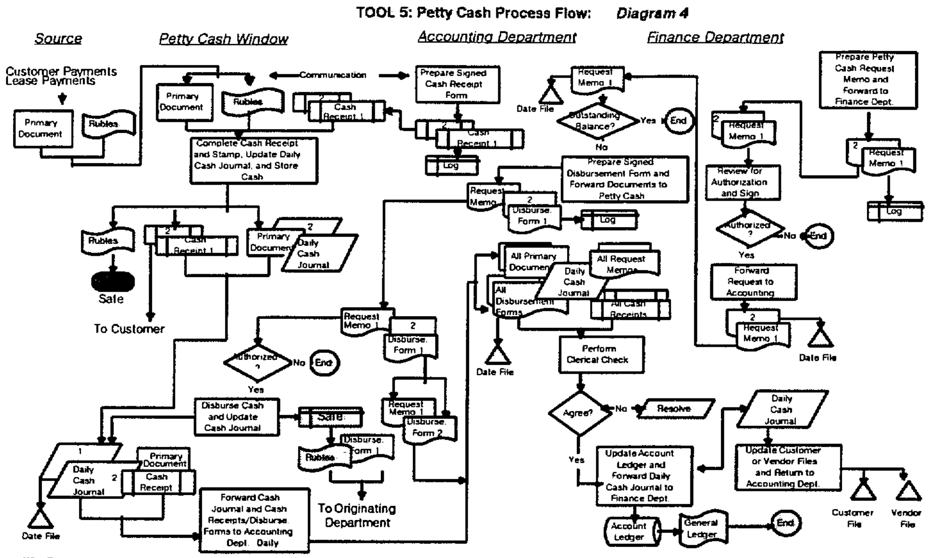
INSTRUCTOR'S NOTES:

The petty cash process flow presented in the next slide should be very similar to the one in use at Russian companies. The interesting aspect is the addition of a loop: documents arrive at the finance department for customer & vendor file update.

Petty Cash Recording Completes the Picture With Vendor and Customer Balances



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INSTRUCTOR'S NOTES:

The petty cash process flow consists of two major parts: receiving cash and disbursing cash.

- Receiving cash - a cashier receives cash, fills out a cash receipt (which is prepared in accounting) and updates the cash journal. A copy of the cash receipt is stored at the petty cash office whereas the primary document (such as payment order), another copy of the cash receipt and the cash journal are forwarded DAILY to accounting department. The latter in turn, performs a check to make sure that the amount of cash received is equal to the amount of primary documents and it is all properly recorded and updates the general and account ledgers. The cash journal is then forwarded to the finance department which updates its own files. Note that the finance department receives just the cash journal and not the primary documents or receipts. The process is finished when the cash journal returns to accounting.

- Cash disbursement - all petty cash memos must be initially authorized by the finance department and only then sent to accounting. Accounting also reviews the request and prepares a disbursement form which, together with the request memo are sent to the petty cash window. The petty cash window disburses the funds and sends disbursement forms to accounting. The rest of the process flow is the same as for cash receiving.

Step 4: Design Better Processes

- Substep 4.1: Principles of process flow design
- Substep 4.2: Useful tools in document turnover
- Substep 4.3: Filing system organization
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- Substep 4.10: *Tool 5* - Petty Cash Process Flow
- Substep 4.11: Summary

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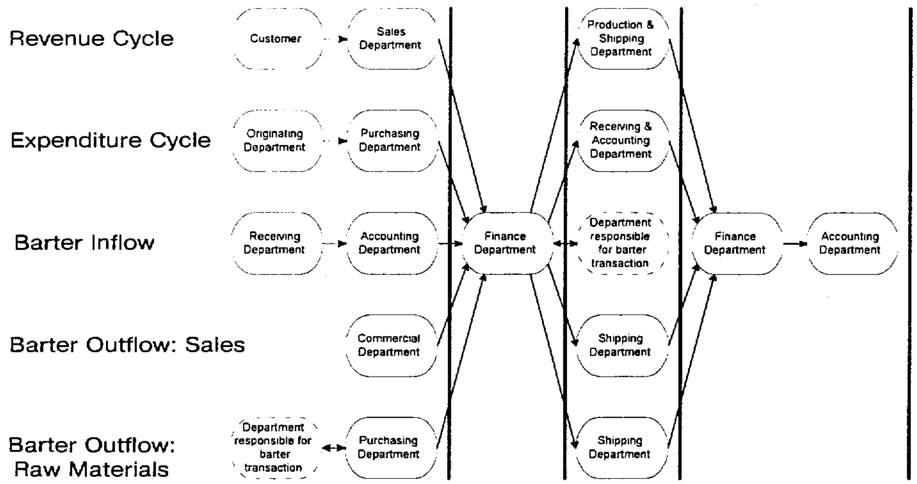
Design Better Processes - Summary

Proposed standardized cycles satisfy all the process flow principles introduced above and provide control at critical stages.



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Measurable Business Benefits of Implementing New Processes

Adapting and implementing variations of the process flows just presented will...

- Free up the General Director's and other top management daily schedule
- Reduce time delays in completing tasks
- Accelerate the collection of cash
- Extend cash payments to the latest day possible
- Eliminate duplication of tasks between the departments
- Eliminate unnecessary purchases
- Eliminate any existing misappropriation of cash/barter goods
- Eliminate misplacement of important documents
- Minimize wasted time, and therefore costs
- Diminish need for credit financing
- Assign ultimate responsibility for performing particular tasks to specific departments or people

Seminar Agenda

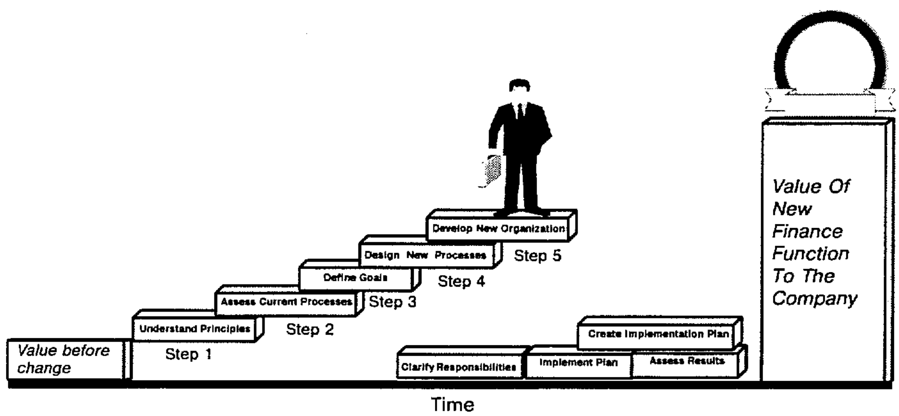
roff7e/Page 1

INSTRUCTOR'S NOTES:

Dividing roles and responsibilities between major departments of finance, accounting and planning is important for successfully implementing the restructuring. The implementation itself will be discussed in Part 2 of the Seminar but creating a new organizational structure is the last step before proceeding with implementation. New duties and responsibilities should be developed on the basis of newly designed processes covered in the previous sessions. Segregating roles and responsibilities becomes easy if based on the process flows.

Step 5: Develop A Finance Function Organizational Structure to Support New Processes

Phases of the Finance Function Restructuring Plan



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INSTRUCTOR'S NOTES:

- It is natural to want to see how the organization will be structured before beginning to design the processes and departmental responsibilities. But only after an organization identifies and understands its cycles (revenue, expenditure, production, and financing) can it then build an organizational structure which supports and enables these processes.
- Later, we will see that just as creating process flows based on the organization's cycles facilitates the construction of a rational organizational structure, so, too, does constructing a rational organizational structure facilitate the development of roles and responsibilities at the departmental level.

General Principles of Establishing An Organizational Structure to Perform the Finance Function

Use the improved process flows to generate a new, more meaningful organizational structure

- Develop new organizational structure only after critically analyzing currently existing processes
- If necessary, develop rationalized version of process flows and adjust organizational structure on the basis of findings and improvement recommendations
- Build the financial structure around three departments: financial, accounting and planning
- Give the Finance Director responsibility for managing the finance function and direct reporting responsibility to the General Director
- Give the Finance Manager responsibility for daily management of finance department and direct reporting responsibility to the Finance Director
- Apply cost efficiency criteria and leverage existing skills base when establishing new organizational structure
- Balance authority and responsibility between executives

roff7e/Page 3

Allocate Resources Between Departments and Construct An Organizational Structure After Establishing Processes

Use 6 steps to redesign organizational charts

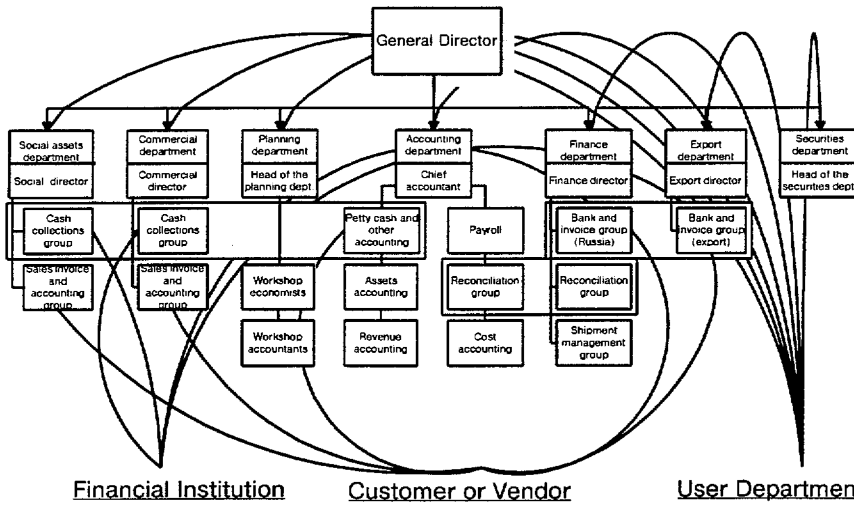
1. Draw and analyze current structure	*2. List current duties and authority*	*3. Separate developed processes into duties*	*4. Compare current and desired duties*	*5. Adjust organizational structure*	*6. Operate*
List top management List major departments List major functions List reporting lines	List all current duties under each of the departments Show major information flows	List all duties which arise from the new process flows Centralize duties by nature Assign each financial duty to one of the three departments: Finance, Planning or Accounting	Compare current and desired duties by departments Draw roadmap for change: create new positions, reallocate duties, shift authority, etc.	Shift departments, duties and staff as necessary Map the resulted duties performed in each of the departments Go back to step 4 if necessary	

- Organizational structure supports and fosters fundamental business processes of the company
- Management creates an organizational structure which:
  - moves various processes logically through to completion
  - eliminates delays in completing processes
  - secures a minimum level of internal control to prevent error or fraud

roff7e/Page 4

Analyze Current Organization Structure By Drawing Lines of Communication or Information Exchange Between Departments and With External Parties

Example: Finance function in a Russian manufacturing firm before reorganization



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INSTRUCTOR'S NOTES:

This structure was developed on the basis of practical experiences at various Russian enterprises. The major purpose of this chart to allocate duties and responsibilities in such a way as to:

- Centralize finance function
- Efficiently execute control over business operations
- Let each organizational unit be uniquely responsible for one area
- Make sure that all activities of the finance function are supported

Designing an organizational chart always raise a question of how many people should be employed in each department. The next slide will discuss this point.

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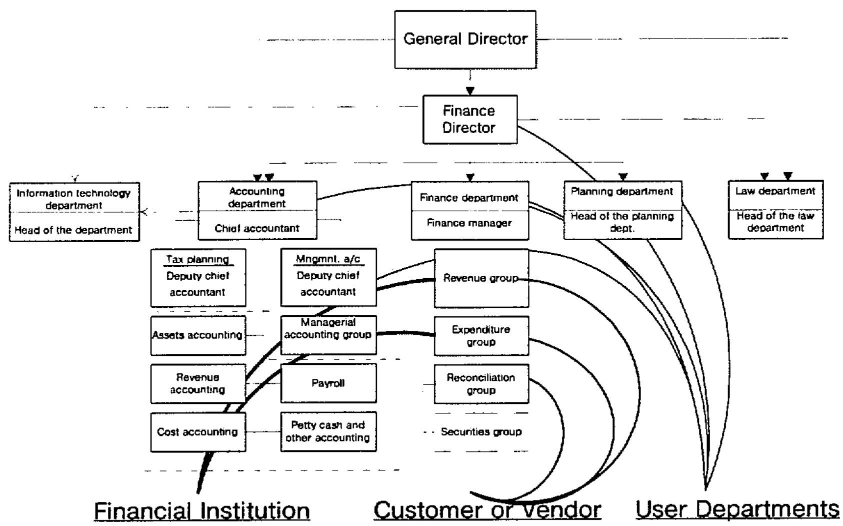
Reorganized Finance Function Centralizes All Financial Processes in Three Departments Under the Supervision of the Finance Director



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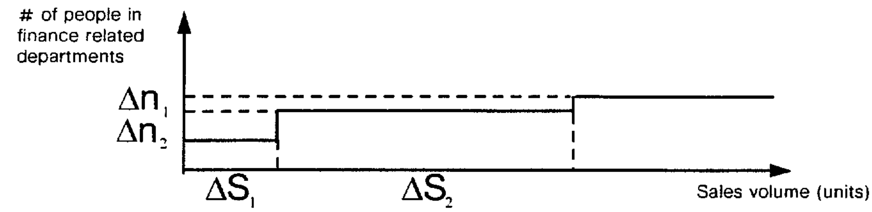
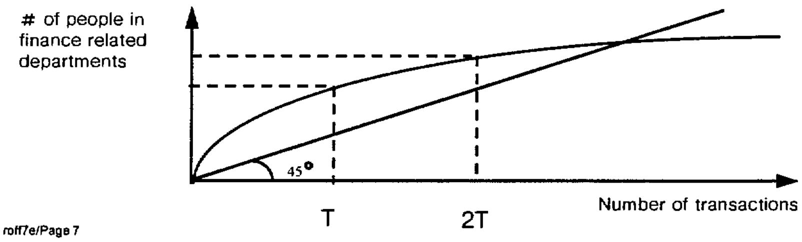
How Many People Should Be Employed In the Finance Function?

The sales volume has a limited influence over the number of people employed in finance departments



A better relationship is observed between the number of staff and number of transactions performed by finance departments



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INSTRUCTOR'S NOTES:

These two graphs are to illustrate that an increase in the number of staff in the finance group is not directly proportional to the increase in the sales volume or number of transactions. Initially, when sales increase, a corresponding increase in the number of people employed could be relatively large. During the further similar increase in sales, the proportion of staff needed for servicing a greater amount of sales is smaller than before.

The change in the number of staff is more dependent on the number of transactions performed which is demonstrated by a smoother line on the second graph.

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Staffing Differs At Various Enterprises

Experience indicates that the number of staff in the finance group varies among enterprises and industries

- The ratio of finance department personnel to accounting and planning personnel is very difference in different companies. Some companies employ 3 times as many people in accounting and 7 times as many in planning

Number of Finance Group Personnel in Three Sample Companies

	Finance Department	Accounting Department	Planning Department	Sales	Total # of staff
Metal Manufacturer	*8*	*17*	*4*	*32 b*	*850*
Plastic Manufacturer	*8*	*41*	*27*	*220 b*	*3900*
Shipbuilding Manufacturer	*9*	*12*	*7*	*230 b*	*1500*

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INSTRUCTOR'S NOTES:

The proportion between Finance, Accounting and Planning departments at the metal manufacturer is 2:4:1 whereas at the plastic manufacturer it is 2:10:7 and at the shipbuilding manufacturer is 2:3:2. These examples illustrate that each enterprise has its own specifics in employing people. However, these structures were inherited from recommendations of the head institutes of the respective industries and by and large it does not mean that after restructuring there will not be a more similar structure at these companies. A general rule of thumb is discussed on the next slide.

Various Factors Influence Both the Total and Departmental Number of Staff

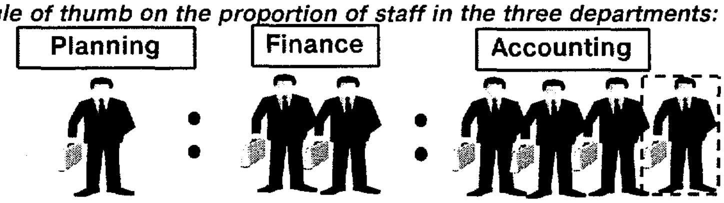
Examples of general factors:

- Barter/sales ratio
- Product line diversification

Examples of departmental factors:

- Historical strength of each department (strong planning and weak finance may require more people in finance)
- Product line diversification (the more diversified is the line the more people it may require in planning and accounting)

Although there may not be a definite answer as to how many people each department should employ, the standardized processes allow us to derive a general rule of thumb on the proportion of staff in the three departments:



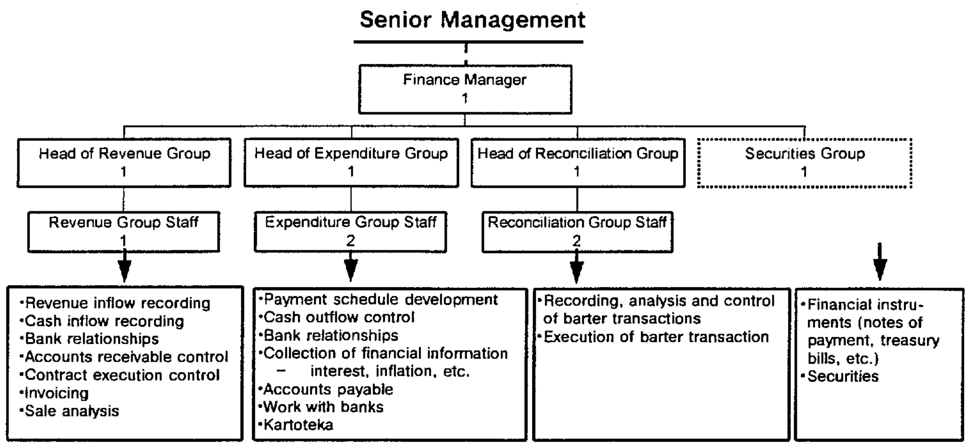
rotf7e/Page 9

INSTRUCTOR'S NOTES:

Due to standardization of processes applicable to an enterprise of any size and any industry and suggested in this seminar, one could establish a general rule of thumb which says that the proportion of personnel in the planning, finance, and accounting departments should be approximately 1:2:3 or 4. This ratio is determined by examining the standardized process flows. These process flows tend to be similar in all industries. Thus, the level of involvement of various departments and their proportion of effort should not differ significantly.

The Following Organizational and Staff Structure of the Finance Department is Applicable to an Enterprise Employing 800 People

For larger or smaller enterprises the number of line-staff could be different but the structure and positions in finance department should remain approximately the same



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INSTRUCTOR'S NOTES:

All areas of financial management are embraced by this sample structure. Responsibility is directly tied to the employees.

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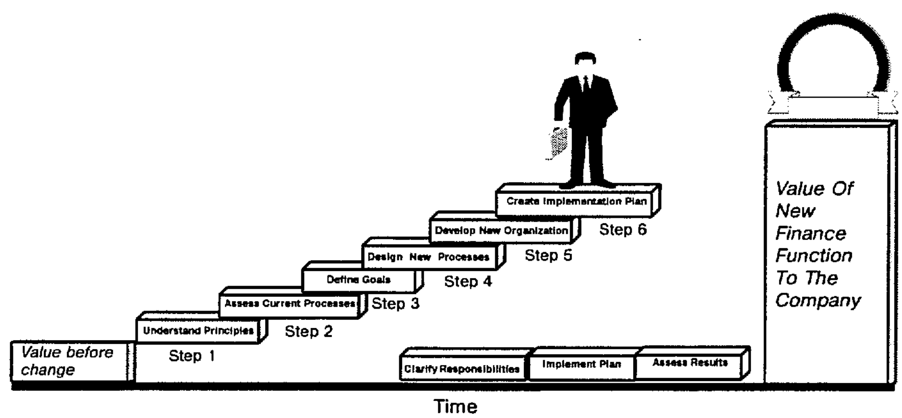
Step 6: Define Roles and Responsibilities of Departments in New Finance Structure

Phases of the Finance Function Restructuring Plan



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Use the Following Principles to Assign Roles and Responsibilities

- Assign financial functions only to departments involved in the finance function
- Prevent bottlenecks in senior managers' offices by delegating responsibility for routine decision-making downward
- Establish 'ownership' of specific roles and responsibilities explicitly
- Separate clearly accounting, financial management, and financial planning activities and responsibilities
- Establish tiered authorization to carry out specific procedures in each department
- Prevent duplication of roles and responsibilities
- Prepare job descriptions and qualifications for specific positions

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INSTRUCTOR'S NOTES:

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Exercise #5

List the roles and responsibilities of each of the following departments with division into following categories:

General & cycle-specific: revenue, expenditure and barter.

Departments:

- Finance
- Planning
- Accounting
- Purchasing
- Sales

roff7e/Page 13

INSTRUCTOR'S NOTES:

Write down all the comments of participants department by department on a flip-chart or on a blank slide under each of the categories for each department. Then summarize and show the respective slides, compare specific duties with those listed by participants and proceed with next department. Discuss roles and responsibilities of the Finance Department first, then start discussion on the Planning Department, etc.

Encourage active participation of the audience. Given that there is no 'right' answer, participants are supposed to benefit from discussion and exchange of ideas. Discuss with participants roles and responsibilities of each department related to the following processes:

- Cash and working capital management
- Cost management

Time: 10-15 min.

The Finance Department is Responsible for Managing the Financial Resources of the Company and Authorizing Transactions

Key functions of the Finance Department

Revenue Cycle	***Expenditure Cycle***
1. Approve sales contracts through review of terms, analysis of prices, review of customer file and consultation with other key management; approve credit (tiered approval)	1. Issue final authorization on purchase orders through review of available funds, analysis of purchase prices, and consultation with other key management (tiered authorization)
2. Prepare production orders for production department which triggers the commencement of production process	
3. Resolve differences between shipment of finished goods and original production orders and sales contracts through comparison of shipping documents to all sales information	2. Review daily the tickler file to determine payments to be processed today
4. Prepare sales invoice for goods shipped	3. Issue authorization of payment orders on outstanding purchase invoices through review of voucher package and analysis of available funds (tiered authorization).
5. Prepare accounts receivable aging schedule	
6. Review daily the sales invoice tickler files to track receipts on accounts receivable	
7. Conduct collections efforts with customers on outstanding receivables	4. Resolution for payment orders not approved
8. Compare sales invoice tickler file to receipts on bank statement and daily cash journal; specifically identify receipts to original sales invoice and track it to the contracts: export, Russia, lease, barter, etc.	5. Review and authorize internal petty cash request memos (tiered authorization)
9. Maintain and update customer permanent and tickler files	6. Delivery of payment orders to the bank
10. Prepare periodic customer statement	7. Maintain and update vendor permanent and tickler files
11. Update contract tracking log	

Note: Cash payment function is usually performed by Finance Department

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The Finance Department Maintains Relations With Financial Institutions

Key functions of the Finance Department (continued)

General	***Barter Transactions***
1. Control short-term cash management through weekly cash budgeting 2. Initiate and negotiate terms of bank credit as needed, service the credit	1. Inflows: Compare barter goods receiving report to all information in customer/vendor tickler files; for differences prepare error sheet, notify key management, and gain resolution from responsible department
3. Foster and maintain relations with banks and investment institutions 4. Assist planning department in preparing, analyzing and processing capital and financial investment proposals in coordination with appropriate managers	2. Inflows: prepare reconciliation report on all barter goods received
5. Conduct reconciliation process (on barter transaction primarily) between company and customers/vendors 6. Cash forecasting	3. Outflows: Approve and sign barter goods contracts through review of terms and consultation with other key management; apprise credit
7. Assist planning department in the development and periodic update of product price list	4. Outflows: Establish deadlines on barter conversion
8. Assist managerial accounting group in preparing monthly financial package for management review	5. Outflows: Prepare barter sales invoice based on comparison of barter sales contract to shipping documents
10. Collect and systematize financial markets information (going credit rate, inflation rate, exchange rate, etc.) 11. Conduct all necessary actions with third party securities 12. Maintain enterprises 'budget file'	6. Outflows: For potential outflows of barter goods on hand in exchange for raw materials to purchase, review barter purchase order, barter purchase contract and exchange valuation report to approve, sign barter purchase order and contract

The Accounting Department Verifies Documents, Records Transactions, Updates Ledgers, and Prepares Standard Reports and Statements

Key functions of the Accounting Department

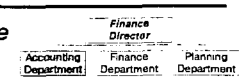
Revenue Cycle
1. Verify sales invoice against security pass and resolve any disagreement if necessary
2. Prepare and sign cash receipts from customer
3. Update account ledger on a timely basis to reflect sale and corresponding receivable
4. Upon receipt of bank statement and daily cash journal, update account ledger on a timely basis to reflect elimination of receivable

Barter Transactions
1. Inflows: Compare barter goods receiving report to barter vendor invoice or barter purchase order and resolve any disagreements if necessary
2. Inflows: Update account ledger on a timely basis to reflect elimination of receivable on original sale of finished goods (or to reflect payable on barter purchase)
3. Outflows: Verify barter sales invoice (or barter purchase order) against security pass and resolve any disagreements if necessary
4. Outflows: Update account ledger on a timely basis to reflect sale of barter goods on hand and corresponding receivable (or to reflect 'prepayment' on exchange of barter goods on hand for raw materials)

Expenditure Cycle
1. Compare purchase contract, purchase order, receiving report, shipping documentation and vendor invoice for agreement and resolve any disagreements as necessary
2. Update account ledger on a timely basis to reflect purchase and corresponding payable
3. Compare all purchase documentation to copy of bank statement and payment order for agreement, identify payment to original purchase invoice and resolve any disagreements if necessary
4. Update account ledger on a timely basis to reflect elimination of liability after payments are made
5. Approve internal petty cash request memos (for expenditures) by assessing outstanding balances of requester
6. Prepare and sign petty cash disbursement form

General
1. Close general ledger at the end of each month
2. Assist with reconciliation process
3. Oversee the managerial accounting group
4. Prepare required state statistical reports
5. Perform all necessary tax reporting and stay abreast of tax revisions and implications on the company
6. Perform clerical checks on daily cash journals
7. Account for separate business units (optional)

As Integral Part of the Accounting Department, the Managerial Accounting Group Responds to All Information Requests by Management



In the long run, the managerial accounting group can assume the responsibility of an internal independent auditing group

Monthly financial package prepared by managerial accounting group includes:

- Balance Sheet
- Detailed Profit and Loss Statement
- Cash Flow Statement
- Uses of profit
- Break-even point analysis
- Contribution to fixed costs analysis
- Ratio analysis e.g. current ratio, quick ratio, inventory turnover ratio
- Analysis of cost drivers, changes in actual expenses over time, deviation analysis covering budgeted and standard production cost

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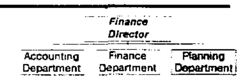
Not Participating Directly in the Process Flows, the Planning Department Supports the Efforts of the Finance and Accounting Departments, But Does Not Participate Directly in the Process Flows



- Develops forecast production plans with Sales, Production and Engineering Departments
- Develops quarterly budgets and maintains budgets for divisions, departments, business units
- Develops and monitors production cost and consumption standards
- Calculates budgeted cost of all products/services including transfers between business units
- Generates pricing data (in coordination with other departments)
- Assesses balances of work-in-progress by product as of first day of each month
- Together with the Finance Department develops investment memoranda, business plans, proposals and other external documents (takes final responsibility)
- Together with marketing prepares relevant industry and governmental statistical reports
- Estimates social assets costs

roff7e/Page 18

The Design of the Finance Function Also Impacts Significantly Other Departments

Key functions of the Sales Department

Revenue Cycle	***Barter Transactions - Inflows***
1. Commence initial negotiations with potential customers and determine whether or not to pursue sale after discussion with production and finance departments and review of price list	1. At commencement of sales negotiations in standard revenue cycle, determine whether potential sale is in exchange for barter goods; if so, determine future convertibility of barter goods in consultation with appropriate departments
2. Prepare sales contract draft based on negotiations with customer and discussions with other departments	2. Request valuation report from appropriate department for barter goods to be received. Compare valuation report to value of finished goods to be sold under negotiation
3. Finalize sales contract drafts and issue to the customer	
4. Gain approval for sale contract drafts from Finance Department.	3. Prepare draft sale contract and proceed as in the standard Revenue Cycle

Key functions of the Purchasing Department

Barter Transactions - Outflows	***Expenditure Cycle***
1. Assess potential for exchanging barter goods on hand for materials to be purchased through coordination	1. Verify necessity of fulfilling purchase requisitions by assessing appropriate information on materials levels
2. Request and assist in preparation of appropriate valuation report	2. Identify vendor, negotiate purchase terms and prepare purchase contract drafts and purchase orders
3. Compare Valuation report to the value of the materials to be purchased	3. Gain necessary approvals
4. Prepare barter purchase contract drafts and barter purchase orders for exchange of equal value and gain approval from Finance Department	4. Finalize purchase contract drafts and issue to vendor
5. Finalize barter purchase contract draft, prepare release forms	5. Maintain proper Filing system

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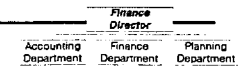
Summary of the Key Roles and Authority in the Proposed Finance Organization



- Finance Director
  - The Finance Director assumes overall responsibility for the finance function in the organization. In coordination with General Director, Finance Director sets financial objectives, policies and practices. He is responsible for maintaining relations with financial institutions and shareholders and for providing sufficient funding at the lowest cost. He monitors the performance of the company, leads the budgeting and timely reporting processes, and supports decision making at all stages with financial analysis. He should ensure that all Russian reporting and tax laws are met. Also, he is responsible for hiring and training skilled financial staff to support the company's financial management.
- Finance Manager
  - The Finance Manager supports Finance Director in day-to-day financial operations. He is responsible for organizing the smooth functioning in the Finance Department with respect to document process flows. He develops accurate authorization process and controls short-term cash management, budgeting and forecasting. He ensures that reconciliation process is conducted in a timely manner and that barter transactions add value to a company. He is responsible for sales invoice and payment orders processing at all stages as well as receivables collection. He also systematizes all available financial information.

9 Golden Rules for a Finance Director

1. The goal of financial management is to support business decisions with financial resources
2. The financial success of the company is determined by the ability to generate sustainable cash flows
3. Net profit does not mean that a company is healthy and that cash is available
4. Financial reports should inform you about about the 'true' performance of the company
5. Financial reports never provide all information for decision-making
6. Understand cost structure and cost-volume-profit relationship to assist in making sound business decisions
7. Net margin for each product is important, but the most important indicator for product-related managerial decisions is contribution to fixed costs
8. Assumptions to any analysis should reflect your most expected outcome in the future
9. Asset management is critical to success

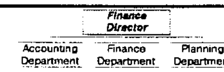
roff7e/Page 21

INSTRUCTOR'S NOTES:

Point 6: Understanding the cost-volume-profit relationship means understanding variable vs fixed costing: the larger is the volume of production, the lower are the overhead cost per unit and thus, the higher is the profit.

Point 7: This is similar to Point 6. Contribution to fixed costs is the excess of the selling price over variable costs.

Summary of the Key Roles and Authority in the Proposed Finance Organization



- Chief Accountant
  - Chief Accountant is responsible for designing and operating the accounting systems of the company in accordance with Russian statutory regulations. He ensures that all Russian reporting and tax laws are met. He is responsible for maintaining an accurate and timely internal reporting system which fairly and completely represents the company's activities and results. He oversees the managerial accounting group and presents the company's past performance to support decision-making at all stages. Also, he is responsible for computerization of the accounting system and for hiring and training skilled accountants.
- Head of the Planning Department
  - Head of the Planning Department is responsible for smooth functioning of the planning department. He supports the company by elaborating pricing strategy and developing investment proposals to external parties. He coordinates the finance function with production function by developing long-term budgets for the company as well as for business units. He leads the financial planning process and prepares industry and governmental statistical reports. Also, he supports the accounting department, providing independent assessment of period-end balances and cost allocation base. He measures the performance against plans and makes corrections.

Delegate Responsibility and Authority for Performing A Particular Activity To Line Staff With Appropriate Qualifications

Delegate responsibility by matching duties to the skills possessed by personnel

- Hold every employee accountable for his respective duties or analysis.
- Manager's function is to develop a broad picture from the duties carried out by line staff.
- To the largest extent possible, cross-train employees in order to prevent delays when an employee is ill or absent.
- Foster personnel growth by delegating duties slightly above staff capabilities and thus exposing staff to continuous challenge.

⇩

As a result, employees develop expertise and are responsible for bringing this expertise into the company

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Develop Performance Criteria to Make Newly Created Departments Accountable for Performance

Proposed performance criteria:

- Accounting department:
  - Minimizes company exposure level to penalties for noncompliance with tax regulations by conducting tax planning and allocating needed funds in advance
- Finance department:
  - Minimizes company's cost of debt and conducts optimal financial management policy
- Planning department:
  - Develops plans with less than 20% deviation from the actual execution
- Managerial accounting group:
  - Meets information needs and expectations of management

roff7e/Page 24

INSTRUCTOR'S NOTES:

The instructor should note that managerial accounting and management reporting is not the same thing. Many departments are participating in the management reporting system (production, sales, warehouses, etc.) in order to provide management with current operational information. On the other hand, the managerial accounting group acts on its own and uses different accounting techniques for presenting the same data as statutory accounting but in a different perspective.

Seminar Agenda

Session 1:	Introduction to the Finance Function and its Processes
Session 2:	Overview of Organizational Structures
Session 3:	Elements of the Finance Function
Session 4:	Revenue Cycle Process Flows
Session 5:	Expenditure Cycle Process Flows
Session 6:	Barter Cycle and Petty Cash Process Flows
Session 7:	Departmental Roles and Responsibilities in the Organization
Session 8:	Restructuring and Implementation Plans
Session 9:	Homework

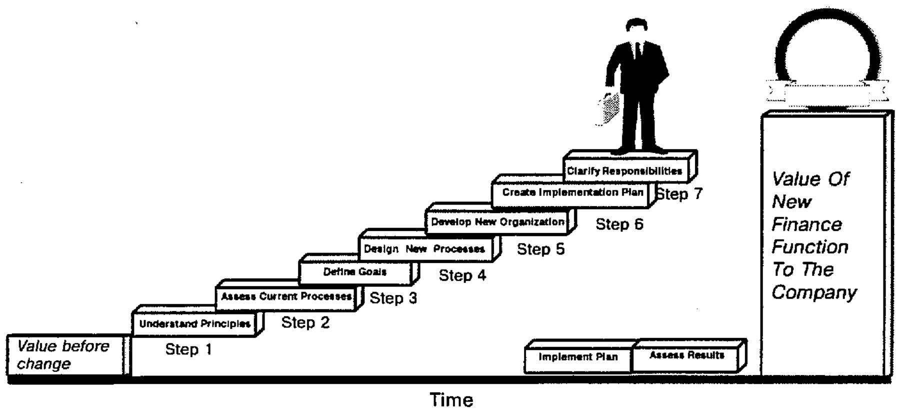
roff8e/Page 1

INSTRUCTOR'S NOTES:

The presenter should say this short introduction will summarize the major steps which were learned by the participants in the first part of the seminar.

Step 7: Create a Plan to Implement Restructuring

Phases of the Finance Function Restructuring Plan



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Clarifying Responsibilities Requires Generating Commitment, Creating Vision and Designing Implementation

A sequential planning process consists of the following:

- Agree on necessity to restructure Finance Function
- Create workgroup and delegate full authority and responsibility
- Gain approval of the above by the General Director and Board of Directors and communicate these decisions
- Gather all necessary information and prioritize critical issues
- Produce restructuring plan in a workgroup
- Discuss and approve by the Board of Directors
- Communicate the vision
- Produce implementation plan on the basis of created restructuring plan
- Discuss and approve by the Board of Directors
- Assign champions to lead the effort and delegate authority

roff8e/Page 3

INSTRUCTOR'S NOTES:

Do not rush through the slides. Comment on every major point in the slides and make sure that the participants understand the activities, methods, requirements for the implementation. Ensure that the participants understand HOW they can implement what they have learned in Part 1. If the participants suggest some useful implementation methods/tools, discuss them.

Generating Commitment

- Activity 1: Agree among top management to the need for finance function restructuring and on goals of finance restructuring
- Activity 2: Assign Finance Director to champion the restructuring effort and to report results to General Director on weekly basis
- Activity 3: Assemble ***Restructuring Team*** **that is supported by line accounting and financial staff. This team should** at minimum comprised of:
  - Finance Director
  - Head of Finance Department
  - Head of Planning Department
  - Chief Accountant;
  - Representatives from each key user department: i.e., sales, purchasing, etc.
- Activity 4: Delegate adequate authority and responsibility to the team to restructure
- Activity 5: General Director signs an Executive Order which mandates the completion of a restructuring plan within a determined period of time

The goal of the team is to produce a restructuring plan

roff8e/Page 4

INSTRUCTOR'S NOTES:

The presenter should stress the following points:

- The necessity to assign responsible people right from the very beginning
- The importance of the multidisciplinary composition of the restructuring team
- The restructuring team should produce a detailed plan of the new finance function before any resources are committed

The Restructuring Plan Produced By the Restructuring Team Must Cover a Broad Range of Issues

Proposed content of the restructuring plan:

- Purpose and goals of the new centralized financial structure
- Assessment of current processes, finance function and structure including identified weaknesses and strengths
- Proposed new process flows with comments covering:
  - Revenue cycle
  - Expenditure cycle
  - Barter inflow
  - Barter outflow: sales to third parties
  - Barter outflow: exchange for raw materials
  - Petty cash
  - System of control between the cycles (coding, etc.)
- Proposed organizational structure (including staffing estimates)
- Division of duties and responsibilities between departments:
  - Finance department
  - Accounting department
  - Planning department

roff8e/Page 5

INSTRUCTOR'S NOTES:

Explain that Part 1 of the seminar focused on how to conduct the analysis and design the plan for the points shown in this slide. Ask the participants if they understand how and what to write in each of the above sections.

Restructuring Plan Content - Continued

- Other Issues of the proposed financial structure:
  - Staffing requirements and proposed hiring
  - Proposed interdepartmental meetings, participants and agenda
  - Clarification of duties and responsibilities
- Recommendations to other departments:
  - Sales
  - Purchasing
  - Other
- Performance criteria
- Content of monthly financial package
- Computerization strategy
- Staff location
- Staff remuneration

roff8e/Page 6

INSTRUCTOR'S NOTES:

Other issues in the plan contain restructuring ideas which might be enterprise specific (e.g. Monday financial meeting in the General Director's office). Given that the restructured finance function will influence all departments in a company, these other departments must be reorganized as well. The recommendations for the other departments must be implemented because the finance function holds the priority over many other function in today's business environment.

Examples of recommendations to other departments:

- Create a centralized sales department with subdivisions of 3 groups: export, Russia, CIS
- Divide the shipping/receiving department into two: acceptance and shipment

Prioritizing and Analyzing Change Management Issues Is a Useful Exercise Before Writing an Implementation Plan

Types of issues to consider:

- Logistical
- Political
- Change readiness of the organization
- Training
- Resources
  - Staffing
  - Computers
  - Financing
  - Communications

An implementation plan is based on the restructuring plan and should embrace all change management issues mentioned above

roff8e/Page 7

Logistical Considerations

- Transfer purely financial activities from other departments to appropriate departments in financial structure:
  - Cash collection
  - Invoice issuance
- Delegate non-financial activities to appropriate departments
- Adjust existing document formats to proposed process flows and create new document formats if needed
- Define content and organization of work files, tickler files and permanent files
- Move into centralized location
- Reallocate staff
- Send information letter to customers and suppliers
- Coordinate with other departments

roff8e/Page 8

Ensure Political Readiness of the Organization and Utilize Training to Support Change If Necessary

- Consider consequences and reaction of shifting some responsibilities of Chief Accountant to other points in the organization (since Chief Accountant bears ultimate responsibility for tax reporting)
- Be aware that middle managers will not be willing to give up some activities (such as cash collection) because they may perceive it as a loss of authority
- Be aware that departments may anticipate increased exposure to pressure from regulating agencies
- Be aware that employees may perceive change as leading to increased work but no increase in salary
- Training and involvement of employees in the restructuring design may help to overcome employee reluctance
- Be aware that employees may feel that they are not part of the change process, if they are not informed in a timely manner
- Change will make departments much more interdependent, resulting in a perception of less flexibility. The benefits from synergy must then be explained

roff8e/Page 9

Scarcity of Resources Could Be a Constraint But It Can Be Overcome

- Computerization :
  - Despite widespread opinion, an integrated computer network is useful only after:
    - All process flow logistics are developed and run manually
    - A system for storing information and files is established
    - Clear relations between participants are established
  - Computerization should follow after finance function restructuring
  - Immediate computerization is not necessary for process flows presented
- Financing:
  - Change requires some minimum financial resources:
    - Files and other stationery
    - Moving
  - Remuneration
  - Training
- Staffing:
  - The company simply may not currently possess the talent needed for many positions but some of the staff can be trained
  - Hiring professionals can be expensive

roff8e/Page 10

INSTRUCTOR'S NOTES:

Pay special attention to computerization. The presenter may want to add that based on the experience of several companies, the computerization very rarely led to diminished workload. Point distinctly that "computerization should only be the next step after finance function restructuring".

Note that restructuring the finance function will not require significant financing, so that benefits will surely exceed costs.

Staffing could be a problem. Several enterprises have tried to hire young graduates from financial institutes of higher education which has proven successful.

On-Going Training is the Best Restructuring Tool

- It is often more effective to train current employees than to hire new employees, because:
  - It increases loyalty
  - It can be viewed by employees as a part of remuneration
  - On-the-job training is the best way to develop people
- Training programs should embrace concepts such as:
  - Organizing and maintaining a filing system and using information
  - Designing new format of documents, accessing data for documents
  - Learning basic financial analysis skills: cash flows, investment decisions, ratio analysis
- Teaching basic software programs is integral to training:
  - Spreadsheet software
  - Word-processing software

roff8e/Page 11

INSTRUCTOR'S NOTES:

Spend as much time as needed to make sure that the participants understand that the above points are crucial for the successful implementation.

Promote Acceptance Throughout the Organization

Useful acceptance tools and hints:

- Communicate, communicate, communicate the vision (create a newsletter, stage events, get the word out!)
- Include staff from all levels into the design of the restructuring plan and the implementation plan
- Produce weekly a newsletter on change achievements and small restructuring victories
- Place 'Suggestion Box' in accessible location and display best suggestions in newsletter
- Distribute periodic opinion polls in the form of questionnaires
- Train upper levels of management first and assist them in training other staff levels
- Schedule 'Social events' sessions to celebrate progress achieved

The success of restructuring depends on contributions and involvement of all employees in the finance function from bottom to top

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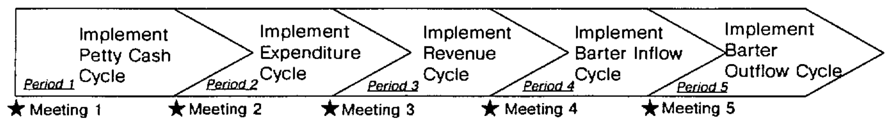
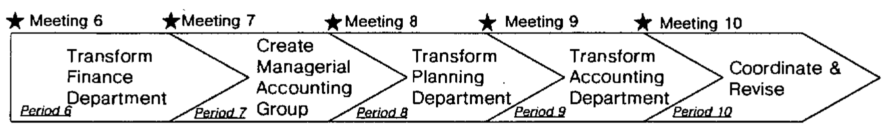
One of the Best Tools to Include in Implementation Plan is the "Periodical Theme Meeting"

Sample chronology of theme meetings:



Each meeting must have an agenda, purpose and a defined list of participants



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INSTRUCTOR'S NOTES:

The implementation plan should center around the series of theme meetings embracing the details of created vision and relevant logistical issues. The implementation effort should be preceded by a coordinating meeting of the managers or the people who will do the implementation. Value is added incrementally after every new cycle is implemented. It is important to note that it is necessary to implement processes first and reorganize the department afterwards.

For example, the revenue cycle should be entirely implemented between the meetings 3 and 4. Managers should design document turnover and agree on procedures.

Finally, the presenter should pay special attention to the final meeting (#10). The whole process of redesigning and restructuring should be basically completed. New departments, processes, procedures and other changes should be in place and operational. Some revisions will be done later but in general, the implementation is finished.

Proposed Agenda of the 'Theme' Meeting

- Review status of implementation activities in prior period:
  - Discuss deadlines, responsible staff, etc.
  - Discuss incomplete activities
- Establish goals for the next period
- Discuss proposals and suggest improvements based on plans of department managers for the coming period.
- Discuss resource allocation:
  - Financing
  - Staff (including proposed hires), reporting and authority
  - Computers
- Resolve general questions:
  - Signing authority (including tiered authorization)
  - Moving
  - Communication with external parties on change issues
- Wrap-up

Results of the meeting are communicated.

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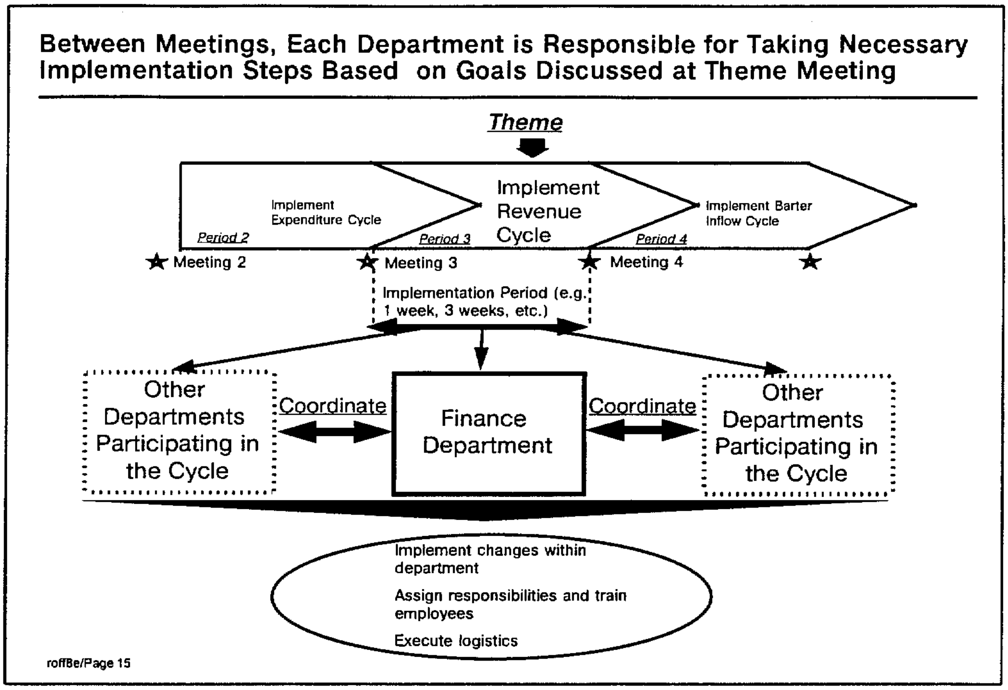

INSTRUCTOR'S NOTES:

• The presenter should note that it is important to establish in advance frequency of theme meetings (ex.: 1 week or 3 weeks?)

• Implementation itself is not difficult because the restructuring plan covers all the issues. In fact, every department needs to accomplish only two main activities:

- Coordinate with the predecessor and successor in each cycle
- Organize the intradepartmental activities which are discussed in the next slide

Each Departmental Manager Needs to Create an Implementation Plan for the Upcoming Period

Proposed manager's individual implementation plan:

Action step	Activities for the period: % completed	Deadline
1. Train members of department staff regarding new procedures and responsibilities	*Staff Trained Procedures Trained*	
2. Train members of department staff in computer techniques	*Staff Trained Techniques Trained*	
3. Generate draft copies of new internal documents/logs	*Documents/Logs created*	
4. Fully transfer new responsibilities into the department	*Staff Assigned Procedures transferred In*	
5. Transfer activities out of department as agreed	*Procedures transferred out*	
6. Coordinate with preceding and succeeding department on the process flow	*Data in - data out, staff assigned*	
7. Establish new files and reshape old ones	*Files created*	
8. Assign authorization levels on transactions as agreed	*Level assigned Transaction description*	
9. Complete draft of procedural manual section	*Section completed*	
10. Resolve issues outstanding after last implementation meeting	*Issue outstanding Resolution*	

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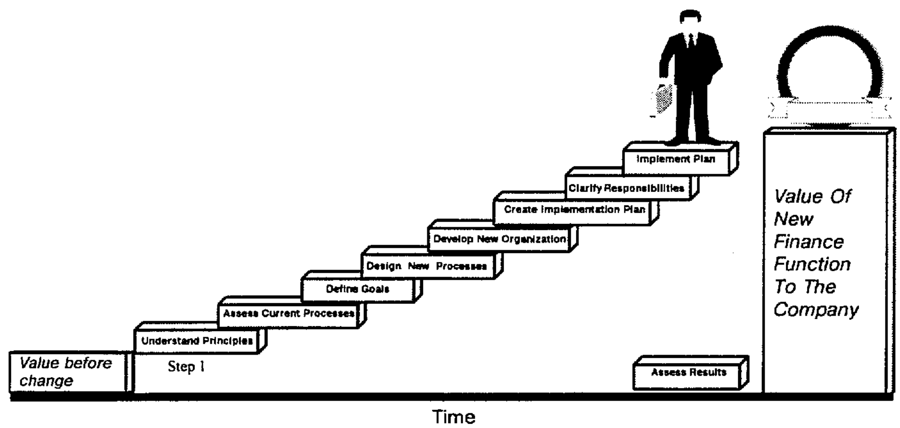
INSTRUCTOR'S NOTES:

Various computer applications exist to facilitate the process of composing implementation plans. Explain what the Gantt chart is.

Step 8: Implement Plan

Phases of the Finance Function Restructuring Plan



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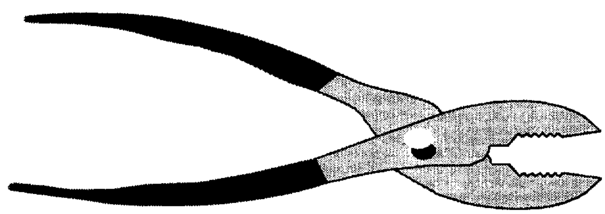
While Implementing the Plan Several Points Have to Be Remembered

- Implement changes according to implementation plan
- Empower Restructuring Team to act on vision
- Monitor and facilitate implementation process



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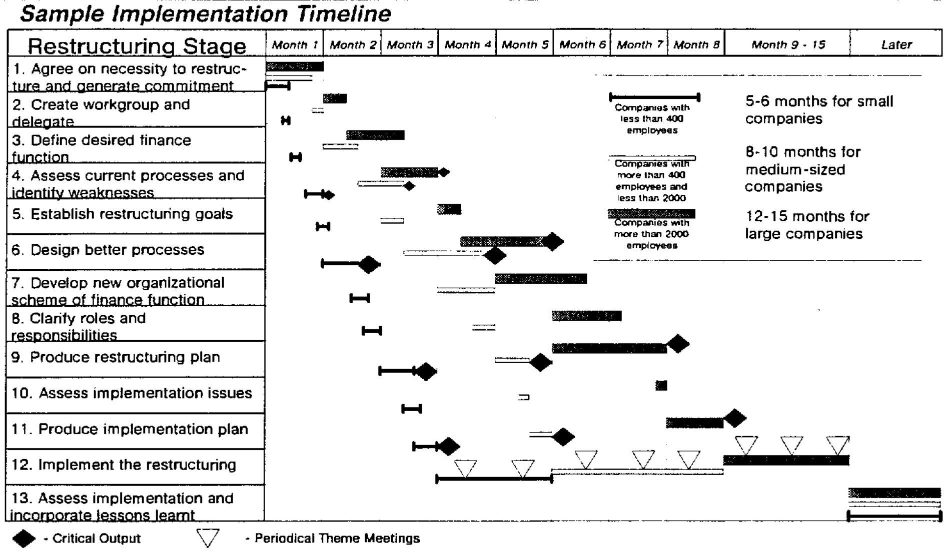
Restructuring the Finance Function Requires Several Months in Small Companies, up to One Year in Medium-Sized Companies, and Longer in Large Firms

Sample Implementation Timeline



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INSTRUCTOR'S NOTES:

It is important to provide the participants with the expected time framework of restructuring. Go step by step (from stage 1 to stage 13) and ask participants how long they think it will take their companies to complete the stage.

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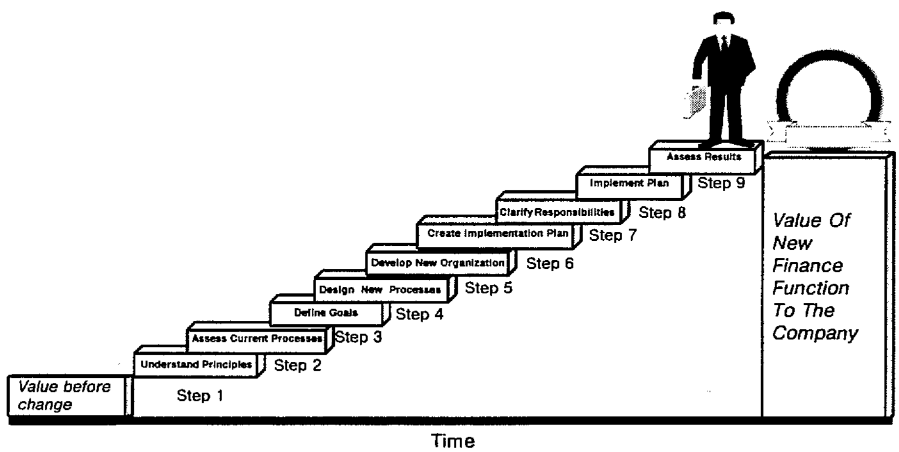
Step 9: Assess the Results of Restructuring and Refine Changes Where Appropriate

Phases of the Finance Function Restructuring Plan



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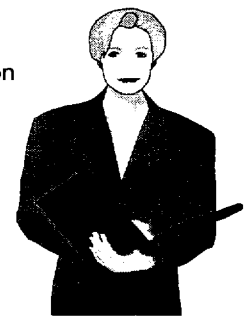
Assessing the Results of the Implementation is a Continuous Process

- Assess implementation achievements against the vision
- Refine approach on the basis of lessons learned
- Complete all planned steps



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Assessing the Results of the Restructuring Implementation

- Design an employee survey
- Test the success of time benchmarks
- Measure cost savings
- Check against pre-established measurable targets
- Establish a periodical implementation status meeting
- Assess satisfaction of external parties:
  - Customers
  - Vendors
  - Financial institutions
  - Potential investors

roff8e/Page 22

INSTRUCTOR'S NOTES:

Cover each point in detail: what questions would ask the employees? what time deviation is acceptable and which is not? how would you measure cost savings? etc.

What other ways to assess the restructuring achievements are there?

Restructured Finance Function Will Be One of the Competitive Advantages Which Will Bring the Company into Financial Health

Methodologies

- Approach and general vision of restructuring finance function
- Tools developed on the basis of restructuring experience

\+

Management and Employees

- Enthusiasm and commitment to restructure and to drive the company in search of excellence
- Dissemination of cumulated years of experience and specific knowledge throughout the company

Restructured finance function and a healthy company which can better attract capital

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Seminar Agenda

Session 1:	Introduction to the Finance Function and its Processes
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Session 7:	Departmental Roles and Responsibilities in the Organization
Session 8:	Restructuring and Implementation Plans
Session 9:	Homework

roff9e/Page 1

INSTRUCTOR'S NOTES:

The presenter should say this short introduction will summarize the major steps which were learned by the participants in the first part of the seminar.

Homework Assignment 1: Understanding Process Flows

Case 1

Using flowcharting principles, methodologies and examples provided in the seminar, create a flowchart which represents your company's process to move a customer order for goods (or services) forward from the customer's initial contact to the point at which production of the goods (or delivery of services) commences. Begin with the customer's order and include all departments involved (for example, commercial, purchasing, planning, finance, etc.) and other points of contact involved (for example, the Chief Engineer, General Director, etc.). Stop when the process reaches the production stage (do not flowchart the production process).

At any appropriate point on the process flow, identify weaknesses, duplication of effort, or inefficiencies which you believe exist. Also, identify any particular strengths of the process you would not like to see change. Compare your company's process to the one presented at the Seminar.

roff9e/Page 2

INSTRUCTOR'S NOTES:

Use this homework to discuss how real processes in organizations differ from the optimal processes that were discussed during the first day of the seminar. Use this case as a chance to provide a bridge between theory and practice. Make sure that the participants talk with each other and not only with the presenter.

Ask participants:

•How many people tried to do this homework?

•What main difficulties did they encounter?

•Do their enterprises have standardized process flows?

•How many people completed the homework?

Ask one of the participants to present his results on a flip chart or on a blank slide. After each step in the process flow, go back to the theory and discuss how the presented process differs from the theory, why, and what is the optimal process for that organization. Ask other participants to tell what and why it is done differently in their companies and what they would like to change. Summarize the discussion, answer questions of the participants.

Do not rush through the case. Make sure the audience follows the presentation. Encourage active participation of the audience by asking questions like:

Why do you need this many copies of this document?

Are you sure that everybody who needs this information will receive it in this process?

Do managers receive all the information they need to make informed decisions?

Time: 30-40 minutes

Homework Assignment 2: Understanding Process Flows

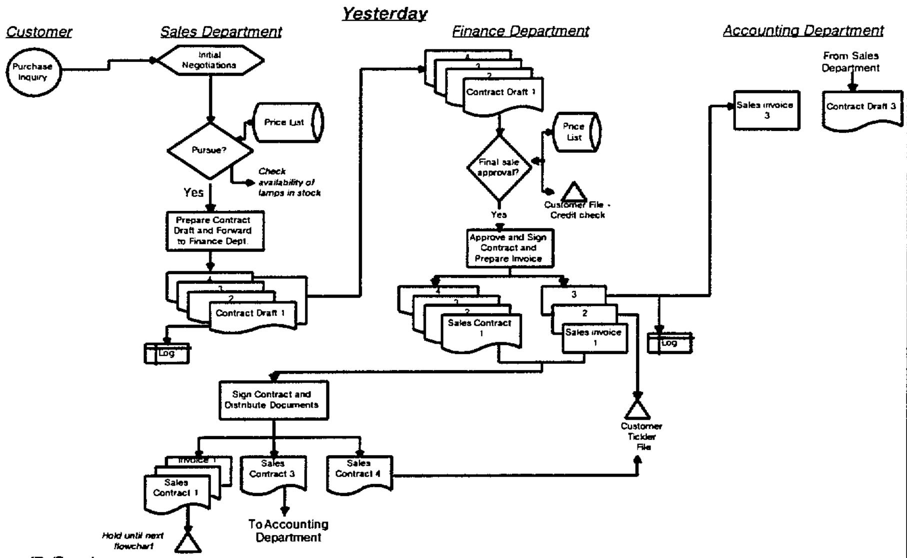
Case 2

Company ABC makes lamps and requires cash on delivery for 50% of a sale order. The Company provides one month credit for the remaining 50% of an order. Company ABC only has a sales department, a warehousing department, a finance department, a petty cash window, and an accounting department. Customer XYZ, a distributor of lamps to independent retailers, has negotiated yesterday to purchase an order of 5,000 lamps from company ABC. Today, company XYZ has arrived to pick up its order and has 50% of the sales price in cash.

Diagram the process which represents the portion of the revenue cycle fulfilled yesterday and today from this sale (you may want to create separate flowcharts for yesterday's activities and today's activities). Comment on what activities will need to be carried out by the Company ABC after today. Assume that customer XYZ will not require shipping services and that 5,000 lamps are packed and ready for pick up.

INSTRUCTOR'S NOTES:

Answer to Homework Assignment 2



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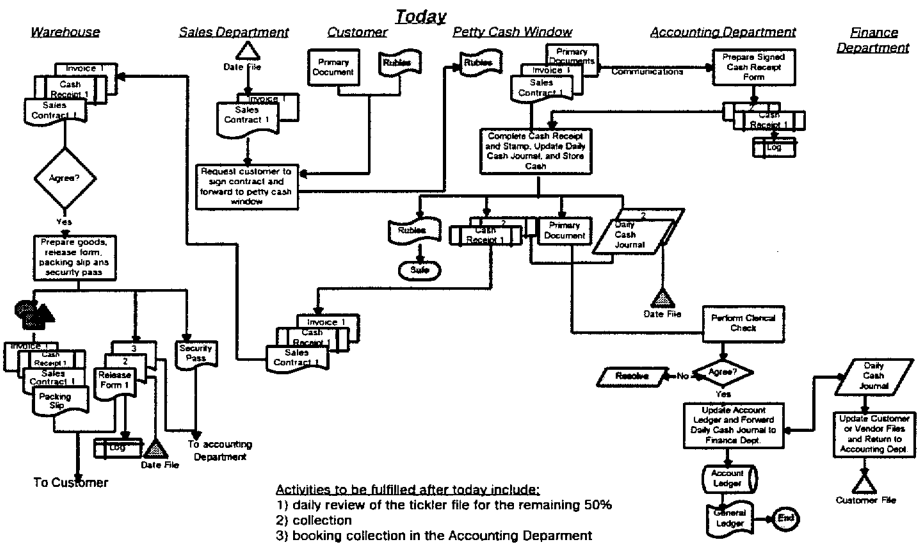
Answer to Homework Assignment 2 - Continued



Activities to be fulfilled after today include:
1) daily review of the tickler file for the remaining 50%
2) collection
3) booking collection in the Accounting Deparment

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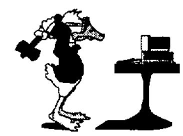
Discussion with Presenter

Possible Topics

Is it correct to assume that the number of employees working in finance-related departments should be proportionally the same in all enterprises?

Should the finance function be organized manually first before being computerized?



Can you name the major differences between the Chief Accountant and the Finance Manager?

What human resource factors need to be considered before reorganizing the finance function?

Does the accounting function need to be under the direction of the Finance Director?

roff9e/Page 6

INSTRUCTOR'S NOTES:

These are topics which may raise questions on the participants' side because they may contradict traditional ways business is done at Russian enterprises. There is no 'right' or 'wrong' answer but each answer has to be supported by good arguments.

Ask the participants if they have other questions they would like to discuss with the presenter.

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Homework Assignment #3

Assessing the Enterprise's Finance Function

1. Draw a basic organizational chart of your enterprise and identify which financial processes are performed by various departments/ structural units.
2. Assess effectiveness of your enterprise's finance function (use the enclosed chart).
3. Which financial activities, that your enterprise does not perform now, need to be developed or improved?

roff9e/Page 7

INSTRUCTOR'S NOTES:

The assessment form is structured in such a way that it covers all the main topics of the seminar. It is intended to provide a general overview and direction of the finance function. Use the assignment to reinforce the knowledge of the participants. If it is possible, remind the participants some of the most important conclusions from Part 1. Ask participants:

•How many people completed the assessment?

•What scores did they come up to?

Write down all scores on a blank slide, determine the number of companies with a total score of : 0-33 34-66 67-99 100-132

Comment on the level of development of finance function in each score group.

For each department:

- Identify functions that are well performed in majority of companies represented at the seminar

- Identify functions that exist but need significant improvement/ elimination of duplication of effort, discuss ways to improve these functions

- Identify functions that are not performed in majority of companies represented at the seminar, discuss ways to develop these functions

Discuss every question in this form. If an activity is not performed or does not exist, ask what consequences could be. Ask the participants if they will try to introduce an activity into their company's operations. Discussion of this homework should summarize all the material of the seminar. Answer any questions your participants may have.

Time: 1 hour

Grading Scale for Assessing Effectiveness of the Finance Function

Assess effectiveness of your enterprise's finance function using the following grading scale:

The process is not performed by the department at all.	0 points
The process is performed by the department, but it needs significant improvement/ elimination of duplication of efforts.	1 point
The process is performed by the department effectively, there is no duplication of effort.	2 points

roff9e/Page 8

Assessment of Enterprise's Finance Function: Finance Department

Processes	Score
1. Approve sales contracts	
2. Make decisions on customer credit	
3. Check shipment documents vs. sales contracts	
4. Prepare sales invoices for goods shipped	
5. Monitor accounts receivable, track payments received on a daily basis	
6. Check payments received vs. sales invoices	
7. Prepare accounts receivable aging schedule	
8. Take measures to collect outstanding receivables	
9. Maintain and update customer files	
10. Prepare customer statements	
11. Approve all barter transactions	
12. Approve purchase orders	
13. Check supplier invoices vs. purchase orders	
14. Maintain and update supplier files	

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Assessment of Company's Finance Function: Finance Department (Continued)

Processes	Score
15. Review daily tickler files to determine payments to be processed today	
16. Authorize payment orders on outstanding accounts payable	
17. Deliver payment orders to the bank	
18. Review and authorize petty cash requests	
19. Make cash payments	
20. Short-term cash management through weekly cash budgets	
21. Cash flow budgeting and forecasting (medium to long-term)	
22. Liquidity analysis	
23. Determine working capital requirements	
24. Develop and maintain relations with banks and investment institutions	
25. Arrange for short-term bank credit as needed	
26. Arrange for long-term financing if required	
27. Participate in preparation of business plans, investment memoranda	

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Assessment of Enterprise's Finance Function: Finance Department (Continued)

Processes	Score
28. Analyze investment opportunities or asset divestment proposals	
29. Collect and analyze financial markets information (inflation rate, interest rates, exchange rate, etc.)	
30. Conduct transactions with securities	
31. Conduct financial analysis to facilitate managerial decision making	
32. Provide agreed upon financial data to management of the company	

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Assessment of Enterprise's Finance Function: Planning Department

Processes	Score
33. Calculate planned production costs	
34. Develop production plans	
35. Develop budgets for business units and the company as a whole	
36. Track performance against plans, analyze deviations from plans	
37. Calculate actual fixed and variable costs	
38. Analyze cost structure and dynamics	
39. Analyze deviations from planned costs	
40. Propose methods of cost reduction	
41. Calculate break-even points	
42. Calculate contributions margins	
43. Analyze profit margins for individual products/ business lines	
44. Pricing (in coordination with marketing & sales)	
45. Participate in development of business plans	
46. Provide agreed upon information to company management	

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Assessment of Enterprise's Finance Function: Accounting Department

Processes	Score
47. Update account ledger on a timely basis to reflect a sale and corresponding receivable	
48. Conduct cash collections, prepare cash receipts	
49. Upon receipt of bank statement and daily cash journal, record receipt of funds and elimination of receivable	
50. Update accounts to record barter transactions	
51. Update account ledger on a timely basis to reflect a purchase and corresponding payable	
52. Update account ledger to record elimination of payable when payments are made	
53. Record petty cash disbursement	
54. Close the general ledger at the end of each month	
55. Report and pay taxes in accordance with tax laws and regulations	
56. Prepare statistical reports required by state	
57. Provide agreed upon information to company management	

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Assessment of Enterprise's Finance Function: Organization of Finance Function

Processes	Score
58. Are all departments performing Finance Function (including Finance, Planning, Securities and other) as supervised by the Financial Director/Deputy Director for Finance?	
59. Are financial operations and record keeping/ control separate in your organization?	
60. Are there sequential flows of information between Finance, Planning and Accounting Departments?	
Do the departments have an adequate internal structure to perform their required functions?	
61. Finance Department	
62. Planning Department	
63. Accounting Department	
Do the departments have professional staff to perform the functions?	
64. Finance Department	
65. Planning Department	
66. Accounting Department	
Add up your scores for all 66 questions	
YOUR TOTAL SCORE	

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200

Analysis of Results

Score	*Assessment of your company's finance function*
0-33	Many financial processes in your company are not performed or performed very poorly. Your company should reorganize radically its finance function.
34-66	You company needs to improve significantly its existing financial processes and develop functions that it does not perform currently.
67-99	Your finance function needs further improvement/ elimination of duplication of efforts.
100-132	Your company has a well developed finance function. However, additional benefits can be derived from further improvement.

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The Seminar Today Focused on the Implementation Issues of Restructuring

The major points of today's seminar were:

- The implementation stage is the second stage in the overall process of redesigning the finance function.
- The implementation phase consists of five steps, and each one of them is important for the overall success of restructuring:
  - Generating commitment: the restructuring team composed of top managers needs to take the process of redesigning in their hands
  - Creating vision: a detailed restructuring plan needs to be developed
  - Designing implementation: an implementation plan is prepared on the basis of the restructuring plan and addresses tactical issues
  - Implementing: the more detailed and thorough are the restructuring and implementation plans the easier it will be to actually implement
  - Providing feedback: develop a set of criteria upon which the success of failure of the redesigning process can be judged

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INSTRUCTOR'S NOTES:

The presenter should emphasize that the success of implementation to a large extent depends on the degree of refinement achieved during the first, more theoretical, part of designing the finance function which was covered in Part 1 of the seminar.

This slide covers only the major points of today's seminar. There are other important issues which were considered: political, communication, timeline for changes, etc..

Possible Follow-Up Steps to this Seminar

In order to draw value out of the knowledge that you obtained during the seminar, further steps are suggested

- Familiarize top management with the seminar's materials
- Communicate the idea of restructuring to colleagues at work and obtain their support.
- Suggest some changes which could benefit the company and change management's opinion of the finance function
- Contact qualified management consultants if your enterprise decides to contract external services to reorganize the finance function. Learn how they can assist your enterprise
- Attend other Toolkit seminars to better understand other major business principles which will be useful in redesigning the finance function

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INSTRUCTOR'S NOTES:

These are just examples of the steps which can be undertaken by the participants. The bottomline is that the sooner they start doing something the greater are the chances of success.

Ask the participants if they have any questions. If not, then on behalf of USAID, RPC, and Deloitte Touche Tohmatsu International, thank them for participation and keen interest and wish all the best in their restructuring endeavor.