

Balancing the Sides

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By Harin Fernando

Shiron Gooneratne, is the Director/Principal Consultant of Synergy Financial Consulting (SFC). He is a Chartered Accountant by profession with experience of heading the finance function of a Fortune 500 company operating in Sri Lanka. SFC is a multi disciplinary consulting firm and provides hands on consultancy services in finance and accounting, business planning, investor support, and performance management systems: In an interview with Business Today he explains his role as a Financial Consultant, important aspects of business organizations from a financial perspective and the emerging role of the finance function and its future.



Could you tell us about your career so far?

I started my career in accounting and finance at Ernst and Young, where I had my training while doing my professional accounting examinations. After completing my training at Ernst & Young, I joined SmithKline Beecham, Consumer Healthcare now known as GlaxoSmithKline. I was there for eleven years, seven of those were as the Director - Finance. In 2002 I decided to go to England to do my MBA, at the University of Leicester. Upon completion of a full time MBA, towards the latter part of 2003 I returned to Sri Lanka. After having looked around and considered many options I decided to form a consultancy firm, Synergy Financial Consulting. We are mainly into providing advisory services on business and financial planning, financial monitoring systems and investor support services which mainly covers feasibility studies, project planning etc. Our target group is mainly medium sized companies in Sri Lanka. We also act as financial mentors and advisors to CEO's of these companies. In addition, we provide selective legal services with relation to the commercial and financial side of business organizations.

What was the motivation behind you setting up SFC ?

Sri Lanka is a developing country and there are many opportunities especially if one has the courage and patience. It is an aspiration of many professionals to be on their own one day, but very few make that move to quit jobs and be on their own. So having a look at the current trends in the accounting profession and also analyzing the prospects of attracting foreign clients, due to developments in technology, I thought in the long run there would be more potential in the financial accounting area as a consultant. Looking at the finance and accounting sector, what trends have you observed? Looking at the global perspective, there are three main areas or activity groups in the finance function of a business organization. Firstly the transaction processing function, which involves tasks, such as general ledger accounting, accounts payable, accounts receivable and pay roll etc. Secondly, the stewardship function, where the accountants are given the responsibility to look after the interest of key stakeholders of the business that includes stakeholder relations, risk management and corporate reporting etc. Thirdly the decision support and strategic partnering function where finance function is to play a value adding role in the business. So if you take the traditional finance function of an organization, I believe that 70 - 80% of the time has been spent on the transaction processing function, which does not add as much value as when compared to other areas and only 20- 30 % have been allocated for strategic partnering and stewardship functions. Due to radical changes in the technology, part of the

transaction processing has been taken over by technology. So as a result accountants will have more time to focus on the value adding role and I believe that the emerging role of the finance function is to spend at least 60- 70% minimum, of their time on strategic partnering and decision support services and focus about 30 - 40 % of their time on transaction processing and the stewardship functions. If you take the finance function of commercial organizations in Sri Lanka, we have to catch up with the trends happening around the world. For my MBA I undertook a critical analysis of working capital management practices in the UK/SL. I did a comparative analysis, where I had the opportunity of interacting with various finance people from various companies in Sri Lanka and UK. One important area I observed was that companies in UK were using technology as an effective tool, to increase the finance and accounting practices, mainly in the cash flow and working capital areas. If you take larger companies in Sri Lanka, most of the finance people are conversant with the emerging role of the finance function of the business. They are pro-active in introducing best practices and have taken many initiatives to transform the finance role into a value adding function.

If you take the medium sized companies in Sri Lanka, the finance and accounting function of many companies, still perform the same role as of the transaction processor, in other words a score keeper's function. So these medium size companies can take examples from larger size companies and analyze how they have changed and how they have added value to their organization and to follow suit.

What are the common key financial issues in business organizations you have observed as a financial consultant?

Thinking of medium size companies, one of the financial issues I have observed is the liquidity constraint. Large companies generally do not have major issues as they have access to different sources of funds. But many of the medium sized companies are badly affected due to liquidity constraints. It may be due to internal or external reasons. Internal reasons could be due to ineffective cash flow management practices, lack of financial discipline, over trading or lack of competent people to manage finances. External reasons could be due to restrictions in accessing funds to finance the working capital. Another key financial issue faced by many companies is lack of robust financial performance monitoring system. I am not generalizing. But many medium sized companies have faced this problem mainly due to issues in the management information system. I believe that many of these issues are people-related. If people responsible are pro-active and focused, many of these issues can be avoided.

What funding sources exist for small and medium size companies ?

Borrowings are a main source of financing in businesses. Larger companies have access to borrowing from many sources. If you take blue chips or Multinational Companies (MNC)s, I am sure there will be a long queue of banks that would want to offer facilities to them. On the other hand small and medium size companies (SMEs) face many restrictions when borrowings from banks. From banks' point of view, obviously the risk factor is low when lending to blue chips and MNCs. However, from a national point of view, I believe that banks can play a greater role in financing small and medium businesses. Private sector is the engine of growth of the country. This engine is mainly powered by the SME sector, which contributes more than 80% to GDP. Therefore, improving the sources of finance to fund the SME sector is essential. It is encouraging to hear about the initiatives taken by the government to set up financial institutions like SMI bank. Further, incentives offered to SME sector in the recent budget is also another major step forward in developing the SME sector which would have a major impact on the economy.

In your view, what should be the effort priorities of organizations from a finance & accounting perspective considering the current changing business environment?

Finance is the language of business. Therefore, managing finance is not restricted only to the finance function. It is the responsibility of the entire organization to contribute to manage the finances of the company efficiently. I feel that at least basic financial literacy should be there across the organization especially among managers responsible for various functions. It would be important for any manager to have the knowledge to manage their departmental budgets, ability to read a simple P& L Account and a balance sheet. Programs such as finance for non-finance managers would definitely offer up an advantage in spreading financial literacy in the organization. Further, organizations can consider linking the reward schemes of managers to the financial performance of the division or the company, which would encourage collaborative efforts in achieving financial objectives of the business. Some companies do that, but many companies do not. Companies should also focus on inculcating financial discipline across the organizations. Proper channels, proper systems and processors are imperative to have financial discipline in organizations. Some may argue that process driven organizations may limit potential of employees. However, I feel that when it comes to finance, managers should be empowered within a framework where processors are there to safeguard the financial discipline of the organization.

Your thoughts on the current practices of financial planning and monitoring systems of organizations?

Financial planning mainly involves budgeting and forecasting. Financial Planning and effective monitoring systems are an important aspect of any business organization. This

cycle can be identified as PlanDo-Check-Act (PDCA). In my opinion, many medium sized companies do not have focussed financial plans or do not have financial plans at all. So it is 'business as usual'. However, considering the current business dynamics, business is not as usual. On the other hand, many companies monitor performance, but no structured processors in place to monitor achievements with targets and make people accountable for performance. In this area, accountants have to take the lead role in introducing best practices in performance management. Dash board systems, financial vital signs and early warning systems are just some of the important areas companies could use to monitor finance performance. For an organization to succeed, the effective planning and monitoring systems are essential. Even if you take a car, before you start a journey you have to plan where you want to go, the route you want to take, petrol level and other areas and in between you should have a good dash board to monitor the performance, whether you are in a position to reach the destination. So likewise I believe that medium sized companies can be more focused on planning their business and also to have effective monitoring practices. On the other hand, from the finance function's point of view as I mentioned earlier, they can be more proactive in planning the business, rather than focusing on the current or historical situation. The finance function is not only a back office function any more. It has to be an integral part of the business, to make a collaborative effort to achieve the object of the business, rather than working in isolation. The finance community should build bridges with other departments rather than building boundaries.

What is the impact on recent trends in technology on finance and accounting function?

Over the last decade, technology has improved in an unprecedented manner. So, as far as Sri Lanka is concerned the accounting and financial services sector is not a local, but global business. We are in a position to attract clients of other markets such as the UK, USA and Australia. Some companies have already taken the strategic initiatives to capture some of these opportunities. Very recently, a blue chip company announced that they are going to commence a BPO operation to capture some of these markets, which is very encouraging. So in times to come, technology will play a key role in the finance and accounting area, and the finance function should be ready to meet the changes arising out of these challenges. If you take India and the Philippines they are very strong in the Business Process Outsourcing (BPO) sector. Many European company back office functions are located in the Asian region. In Sri Lanka also we have good quality accountants and accountancy students as well, who have the potential of interacting with international clients as well as providing a high level of services. So, the improvement in technology will be a plus point, not only to the accounting function but also to Sri Lanka which can be developed as an attractive BPO des-

tination.

What potential exists for providing experience-based financial consulting services in Sri Lanka?

I guess it depends on the type of services you provide. In addition to providing advisory services, I think financial consultants have to be a part of the team of implementing best practices. Further, services should result in win-win situations where the recipients get value for money. So, if clients can be convinced that financial consultants add value to business, there is immense potential for financial consultants especially in medium size companies. Further, I have experienced that many CEOs are very good in sales and marketing or other core areas. But they lack financial expertise. I have also observed that there is a gap between the CEO and the finance function where the finance function deals with the CEO more formally. Therefore employees of the finance function may be reluctant to advise CEOs on a one to one basis. Hence, I believe the financial consultants can play the role of being a financial mentor to CEOs and to create the financial literacy within the organization and also to inculcate financial best practices and financial discipline within the organization.

Can you tell us about the financial reporting standards in use in Sri Lanka?

We have our own Sri Lankan reporting standards published by the Institute of Chartered Accountants of Sri Lanka (ICASL). The global trend is to have standardized accounting practices all over the world, so it would facilitate the comparison of financial statements in a consistent manner. In my view, ICASL has taken many initiatives to ensure that Sri Lanka falls in line with global trends. As far as the compliance is concerned, there is a regulatory body called Sri Lanka Accounting and Auditing Standards Monitory Board (SLAASM), which oversees the adherence to accounting standards by specified companies.

With regard to due diligence and process what steps should Sri Lanka take to address the issue of accounting malpractice?

If you take countries like the US, after the Enron and WorldCom scandals, they have introduced many new acts such as Sarbanes Oxley Act of 2002 to avoid these kinds of scandals in the future. These acts cover legalities such as disclosure requirements and stringent governance. Good corporate governance covers the system by which business corporations are directed and controlled. This area has emerged as an important aspect of corporates more than ever, considering the recent financial scandals taken place over the last few years. From a Sri Lankan perspective, many large companies have taken initiatives

to strengthen this area, which is very encouraging and it could be a good example for other companies. ICASL and the Securities and Exchange Commission have issued guidelines on best practices on governance. D Your view on 'accounting as a professional pathway' and the value of continuous professional development? The accounting function is becoming a multi-disciplinary qualification. Both local and international accounting bodies such as ICASL, CIMA have taken many initiatives to change the syllabus on a continuous basis to accommodate subjects to suit the current and future business environment. In my view accounting is a good qualification for an individual who wants to pursue a career in commercial or financial sectors. In addition to that, once that person has his/her accounting qualification, postgraduate studies will strengthen the opportunities to climb the ladder in the commercial world. And now there are shorter methods to complete some accounting qualifications by the age of 21, therefore accountancy would be a good career path where you are in a position to climb the corporate ladder within a very short period of time. ®