**BEST PRACTICES IN FINANCE: HOW INTEL FINANCE USES BUSINESS PARTNERSHIPS TO SUPERC
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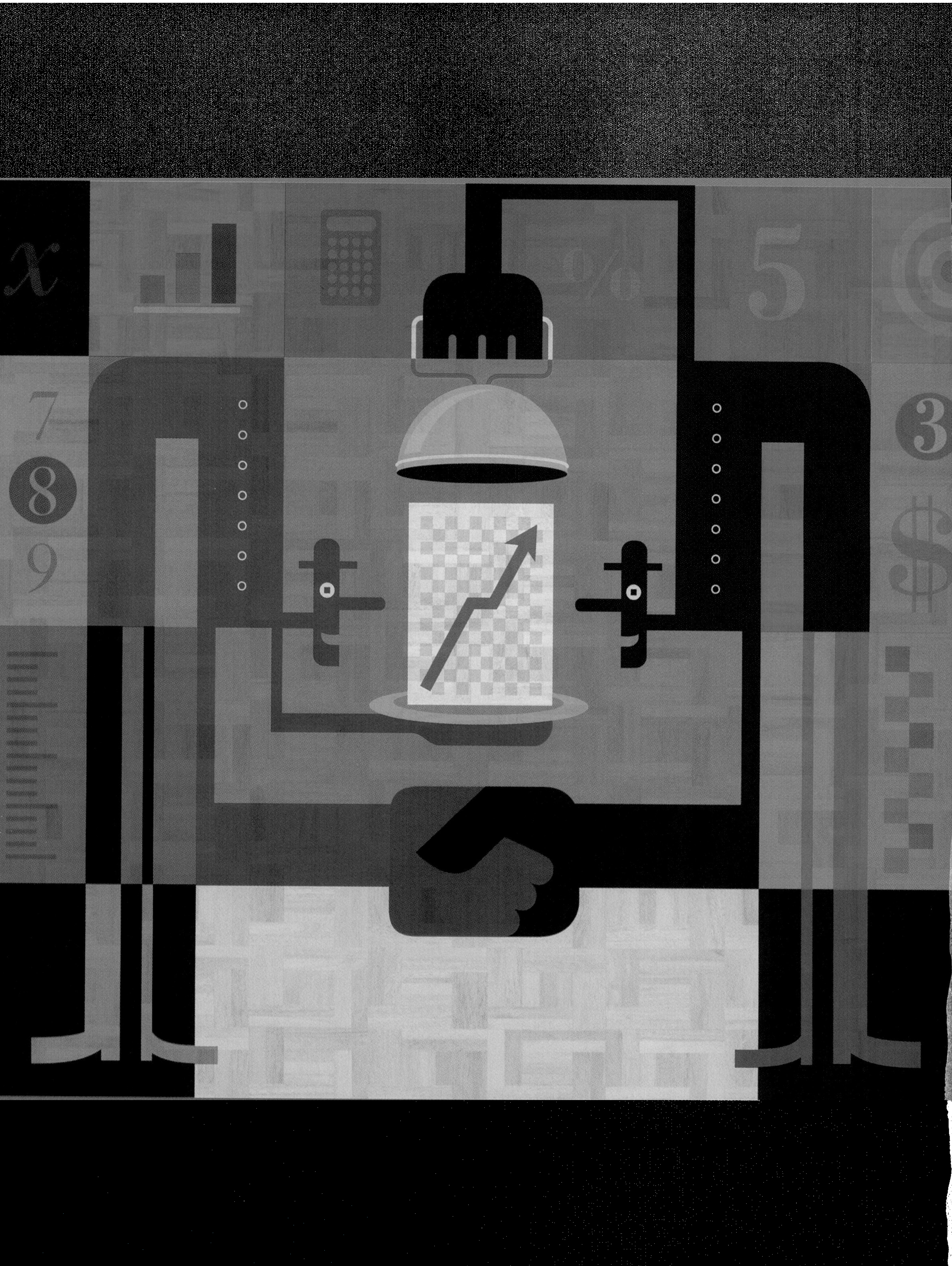

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BEST PRACTICES IN FINANCE

HOW INTEL FINANCE USES BUSINESS PARTNERSHIPS TO SUPERCHARGE RESULTS

The roles of the finance and accounting functions have changed over the past few years. In place of the traditional scorekeepers and tabulators, both accounting and finance personnel now find themselves operating in cross-functional teams working to identify new business opportunities, streamline operations, and improve profitability. Intel describes the active involvement of finance and accounting personnel in making decisions that affect the various operating units as a business partnership between finance and operations.

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The business partnership concept began at Intel during the 1980s and accelerated to its current state during the leadership of CFO Andy Bryant. In a successful partnership, finance personnel use their business influence to help operating areas deliver above-average financial and business results, thereby increasing shareholder value. Since the finance function isn't involved in the daily activities of the operations area, it stays focused on the financial impact of various decisions. Operations gains a finance partner who is well versed in the business, is skilled at data analysis, and has the ability to clearly communicate the financial returns of various decisions.

To better understand how Intel developed its finance partnerships into a best-practice approach to achieve operating and financial excellence, we interviewed senior controllers and operations managers within Intel. Their overwhelming conclusion is that when a highly competent general manager and a strong finance professional form an effective partnership, they can accomplish great things within the business unit.

THE FINANCE BUSINESS PARTNER

The Finance Vision and Charter (Table 1) emphasizes the importance of finance as a partner and identifies the potential for finance personnel to enhance profitability. Rather than working for a specific operating unit, finance personnel are employed within the finance function (see Figure 1) and partner with at least one operating area. This structure differs from that of organizations in which finance personnel work within specific operating areas and locations.

An Intel finance professional may support operating areas as small as a single department or as large as an entire factory, depending on the experience level of the finance employee. The finance charter says finance employees are to "provide effective analysis, influence, leadership, and control as business partners" to their operating areas. Using its network across the company, Intel finance is able to tap expertise from finance employees who support other operational areas. For example, other finance employees may have developed expertise at solving particular pricing or valuation issues that are currently being analyzed within other parts of the organization. By staying in a separate reporting structure, Intel finance maintains an objective view across the company and works in the overall best interests of the stockholders.

Maintaining finance as a separate function—one that's responsive to and anticipates the needs of the operations area—results in an environment in which finance guides operations to make better decisions for the company than the group would have made without finance's involvement. The final decisions, however, remain with the operations manager, either the general manager or vice president. This lack of decision-making authority for finance can lead to conflicts and requires finance personnel to use effective partnership techniques to achieve optimal decisions without needing to involve others.

In order to form and maintain effective business partnerships, the finance partner must:

- **Understand the key business drivers.** This knowledge allows finance personnel to identify potential solutions and provide recommendations that operations can support effectively.
- **Develop and possess influencing skills.** The finance partner must clearly communicate the value-added com-

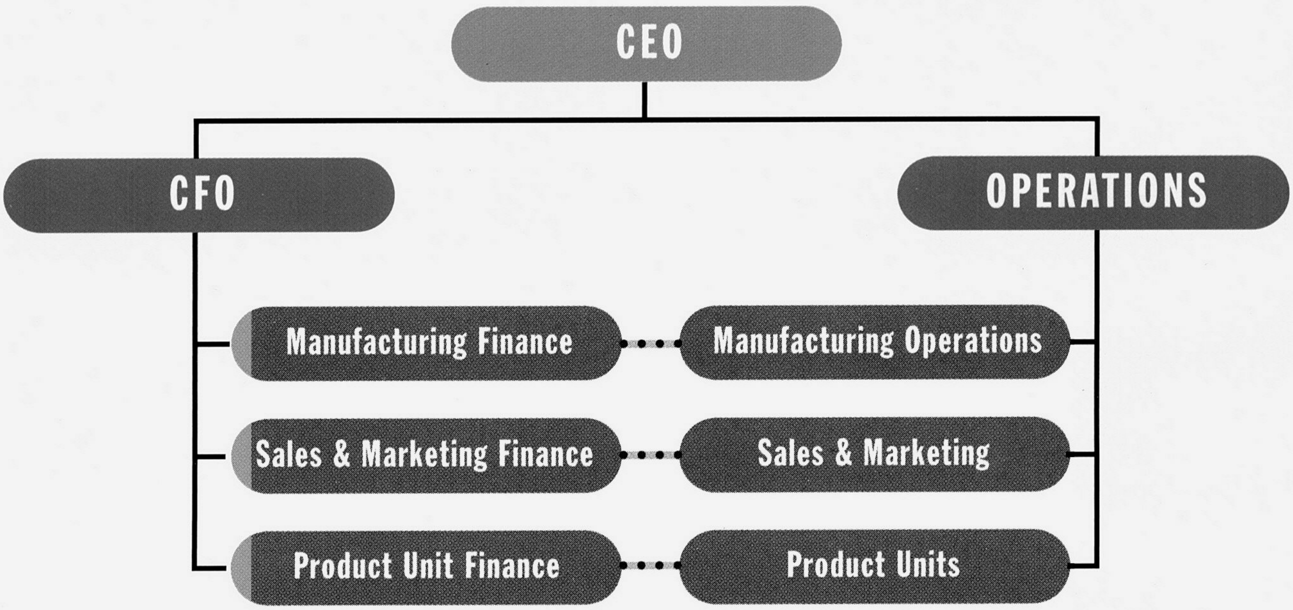
Table 1: INTEL'S FINANCE VISION AND CHARTER

VISION:
Intel finance is a full partner in business decisions to maximize shareholder value.

CHARTER:

- Maximize profits by providing effective analysis, influence, leadership, and control as business partners.
- Keep Intel legal worldwide while maintaining high standards of professionalism and integrity.
- Protect shareholder interests by safeguarding the assets of the Corporation.
- Deliver world-class services and productivity.
- Develop effective leaders and partners through career opportunities that foster improved performance and professional growth.

Figure 1: FINANCE AS A SEPARATE ORGANIZATION



◆ The finance chair at Intel is separate from that of operations.

◆ Finance reports on a dotted-line basis to the operational group that it supports.

ponents of the solution and provide compelling reasons to adopt them.

◆ **Be proactive.** The effective business partner actively scans the business horizon and works with the operations partner to identify potential opportunities and address items before they become problems.

DEVELOPING THE PARTNERSHIP

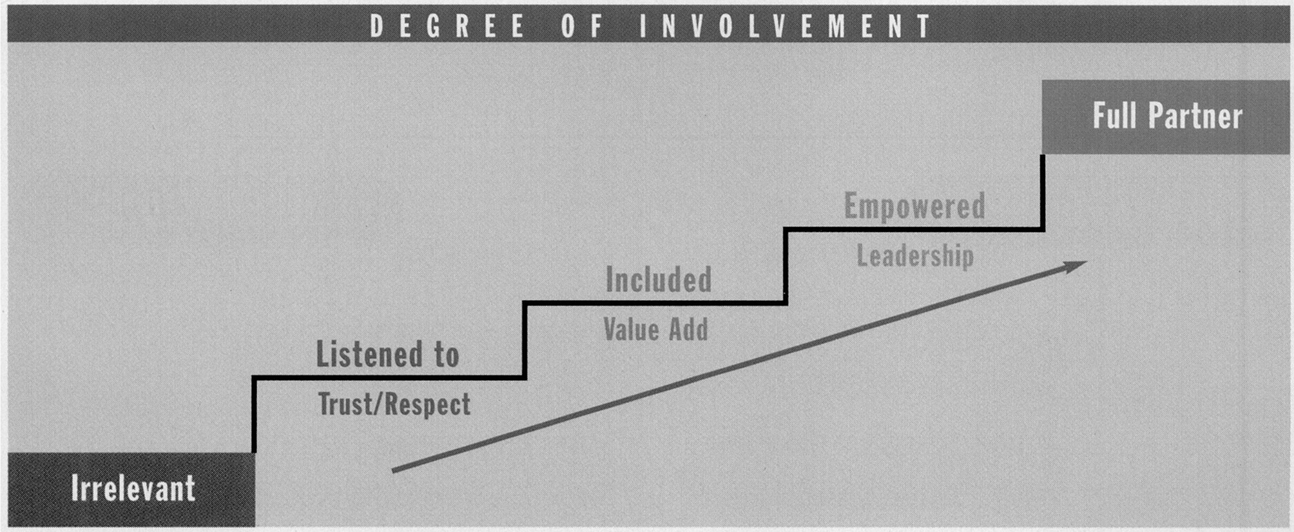
Partnerships don't happen overnight. The first step to developing effective partnerships is to target key operations partners, whether it's one person or several people who make the major decisions for the operating area. One way to identify the correct partners is by meeting with your finance manager to agree on a list of individuals to partner with and then review the list quarterly. Too little time spent on developing relationships with key personnel reduces the effectiveness of finance suggestions, but too much time developing relationships may slow down financial results.

Second, it's important to understand how the business works. The finance partner should walk the factory floor with the production partners and ask them to explain the manufacturing process. When working with engineering operations, the finance partner must learn from the engineers how they design products. Meetings with the sales and marketing staff are critical if finance is to understand what drives the customer relationship. On all assignments it's important to meet with technical experts from operations and learn how they do their jobs and what limits their effectiveness. No matter the area, the finance partner must move beyond the mind-set of simply running reports and looking at numbers. A clear, broad-based understanding is required to determine the areas in which value-added analysis and recommendations can be developed.

Third, early in the relationship there's a need to build trust by delivering the basics of traditional financial analysis effectively. Again, meeting with the operations partners should provide insight into what data they need. Finance builds credibility by delivering the information on time and in a format that provides information, not simply data. This approach gives the operations partner the opportunity to suggest areas in which data collection, analysis, and reporting can be improved.

Once the finance partner has earned the reputation as a provider of valuable information, he or she should find more opportunities to influence decisions. When a business deal is being considered, the finance partner adds value by not only showing an analysis of the business deal in question but by also showing what might happen to the other portions of the business. For instance, the finance partner might prepare estimates of the impact of specific pricing changes on other customers and provide alternatives that meet customer requirements and Intel's

Figure 2: THE PROGRESSIVE STAGES OF PARTNERSHIP



financial objectives.

Eric Anderson, engineering manager, explains what basic financial data he considers valuable from his finance partner. "Provide me with financial metrics that help me run my business. How much time can we take on certain operations or spend on certain tasks and still make a positive ROI? Provide me rules of thumb on our operations that I can provide to a tech on the line so they know how they can do their job and help the company achieve our financial goals."

Fourth, the finance partner should ask the operations partner about problems they are experiencing or information they need to make better decisions. This allows the finance partner to identify one or two value-added solutions for problems the operations partner currently faces. It may work best to start with simple problems and then work toward tackling more complex ones. The partnership will prosper when the finance partner maintains a high level of personal integrity and remembers there's an appropriate balance between the need for financial results for not only the operating unit but also the entire company. After all, the finance charter requires that finance work in the best interests of the shareholders, not the unit they assist.

When finance partners work with their operations partners to build effective partnerships, they can establish high levels of mutual credibility, and the finance personnel will find operations asking them for help in making key decisions. When operations asks finance's opinion on key issues before making decisions and invites finance into strategic meetings, finance knows it's part of a well-functioning partnership. "The best indicators of partnership are the ones you can't easily measure," says Mark Henninger, an Intel controller, "things like a partner saying publicly how great finance is or receiving an award from your partner group. Much of this is intangible, such as no longer having to push open a door to participate but instead being invited into the discussions by your operations [partner]."

Intel finance views partnership as a continuum that runs from the irrelevant to full partner, and, in any given partnership, the finance professional may be at any point on the Degree of Involvement scale (see Figure 2). Finance personnel move up the scale as they find ways to work effectively with their partners. The five levels of the continuum can be described as:

Irrelevant: Operations perceives no value from their interactions with finance and works with finance only when required.

Listened to: Operations comes to finance for data and analysis, but finance is not invited into the decision-making process.

Included: Operations proactively invites finance into the decision-making process and asks for and values finance's input.

Empowered: Finance uses its knowledge of the business and ability to leverage the finance network to actively drive changes that result in enhanced business value.

Full Partner: Finance and operations work as an almost indistinguishable unit to shape the direction of the business.

To maintain the partnership at a high level requires constant maintenance. One-on-one meetings with partners outside the normal business calendar provide an opportunity to discuss the business and focus on developing issues. While the frequency of these meetings varies, experienced finance partners suggest meeting weekly early on and bi-weekly or even monthly once the relationship is firmly established.

HOW TO MEASURE RESULTS

Effective partnerships should lead to measurable results and improvements. Intel evaluates finance partnering effectiveness via the following measures:

Strategic Influence Events: Significant changes to the business strategy or business direction in which finance played a central role;

Cash Savings: Instances in which finance successfully changed a decision operations made that resulted in a 12-month cash savings of at least $1 million after tax; and

Cash Maximization: Partnership results in which finance contributed at least 25% of the effort in a business decision or process change that resulted in at least $5 million of after-tax cash savings in the first 12 months.

Intel sets annual number and dollar goals for each measure. Achieving these goals is a tangible measure of the bottom-line benefit business partnership provides to the company.

REGULATORY AND ENVIRONMENTAL CHANGES

Since accounting and finance professionals are familiar with the ever-changing requirements of the Sarbanes-Oxley Act (SOX) and the Public Company Accounting Oversight Board (PCAOB), they can help operations partners minimize regulatory risk and exposure. Finance partners, especially those with an accounting background, should translate the accounting and reporting regulations into terms that operations personnel can understand and implement. Finance personnel can also communicate how these regulations and the application of generally accepted accounting principles affect the business. In addition, finance partners should anticipate upcoming regulatory changes, assess their impact on the operating area, and communicate the implications of these potential changes to their operations partners.

The Intel finance charter specifically includes the importance of monitoring financial compliance and controls. In today's heightened regulatory climate, finance and accounting partners may struggle to maintain the appropriate balance between the demands of their fiduciary duties and their need to work with partners on business issues.

We asked finance partners if they believe that financial control and compliance have become so critical as to become the primary focus of finance activities, in turn reducing or eliminating the traditional activities of finance business partners. The answer was a resounding "no." Business partnership is too important to the company's success to reduce this level of activity. To adequately support both the demands of the regulatory environment and the supportive role of business partner, finance may need to move some routine data collection and analysis tasks to the operations side. This reallocation of duties requires a thorough examination of and agreement on roles and responsibilities between finance and operations.

ACCOUNTANTS WHO HAVE ACHIEVED FULL PARTNERSHIP CAN EXPLAIN HOW ACCOUNTING HELPS DRIVE THE STRATEGIC PORTION OF THE BUSINESS.

Accountants engaged in business partnerships are also in a unique position to investigate and correct erroneous accounting entries the business unit makes and to work with their partners to improve financial reporting. Accountants who have achieved full partnership can explain how accounting helps drive the strategic portion of the business and fix the accounting issues at the source rather than after the fact.

RESOLVING DISAGREEMENTS

What happens if the division manager wants to invest in a new plant that finance has determined will generate a substandard return on investment (ROI)? Under the Intel model, finance personnel don't have the final decision-making authority, so to avoid taking such a decision to the next organizational level, finance professionals need to use effective data presentation and analysis to sway operations partners away from suboptimal decisions. As Keith Lewis, Intel manufacturing manager, explains, "Don't get lost in the details and financial numbers. Show me a summary with a simple answer. Understand what we do as a business and our common goals, and show me how to get there."

When finance needs to elevate a decision because the operations area's decision isn't in the best interests of the unit or corporation, it's important that finance clearly explains why this is the appropriate decision and includes the operations partner in all upper-level meetings. How this is approached is critical. Prior to the meeting, finance should brief the operations partner on what it will present. Experienced finance partners recommend that the finance and operations partners go into the meeting together, and only under the most extreme circumstances, such as suspected fraud, should finance go without first informing its partner. Invoking a higher authority without first informing the partner destroys credibility, which is hard to regain.

One way to avoid taking a decision to a higher level is by predefining the types of disagreements that will be appealed, such as those that exceed a certain dollar amount or that relate to specific types of expenditures.

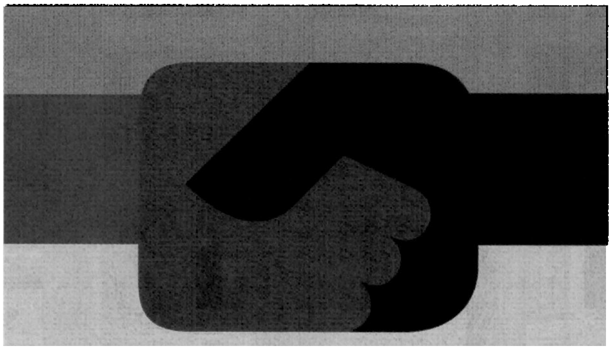
But too many or too few disagreements taken to upper levels may be signs of poor partnerships. Finance partners should anticipate that conflict may stem from pressure on the operating unit for near-term performance or reliance solely on P&L measurements that result in poor cash decisions. At Intel, part of finance's role is to establish some healthy tension between the short and long term and to focus the business on the right long-term cash decisions for the company.

Many finance and accounting professionals have a natural tendency to avoid conflicts with operations. But by practicing effective conflict-resolution techniques they can work through tough decisions with their partners. Also, the partnership benefits if the finance partner gives in on the small stuff and saves any battles for the issues and decisions that will have a material impact on the business.

THE OPERATIONS PARTNER'S VIEWPOINT

When we asked Intel operations managers and general managers for their viewpoints on what makes a successful partnership, they said finance must have a keen understanding of the big picture of the business and must understand the issues and objectives from the operations viewpoint, develop a common understanding of costs and risks, and work toward the best financial solution. Finance should also help operations prioritize projects and investments that maximize the return to the business. One way to do this is to help operations understand the maximum amount of money they can spend to achieve their goals while still providing the expected ROI.

What abilities does operations value in finance pro-

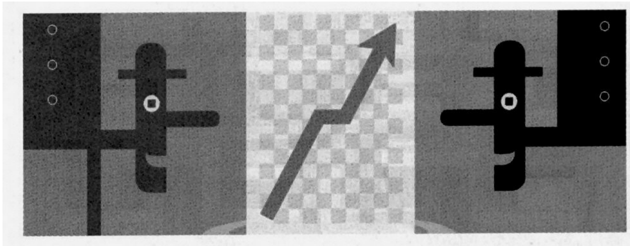


BUSINESS PARTNERSHIP IN ACTION

Over the years some operational groups had gotten into a habit of ordering certain nonmanufacturing items directly from the vendors of their choice and then submitting receipts for reimbursement after the fact. While this may have sped up the purchasing process, it prevented Intel from obtaining discounts from our contracted suppliers. Finance identified and analyzed the problem and estimated the lost savings to Intel. Finance then formed cross-functional teams with the various stakeholders throughout the company. Using its business knowledge of how the operations worked, finance devised alternative solutions for procurement and payment that met the business unit's requirements and obtained purchasing discounts that resulted in annual savings for the company.

In another area, operations developed a sales proposal to win business in a competitive emerging market area. Finance analyzed the proposal and, using its business knowledge of the markets and customers, determined that the pricing and structure of the deal would impact existing customers to the point of negative returns for the project. Finance escalated the decision to the unit general manager and not only showed the impact but offered alternative solutions and pricing structures that would prevent existing market erosion. The result? A winning proposal at acceptable financial returns.

"DON'T JUST TELL ME NO...TELL ME NO AND WHY—AND PROVIDE ME WITH ALTERNATIVES."



fessionals? First, operations wants partners who can provide basic financial support. Second, they expect finance people to be skilled in their field and to be able to obtain and analyze all the relevant data, but operations partners don't want to receive reams of data or mountains of numbers. The best finance partner distills data into a clear and simple presentation. Third, operations personnel stress that they want finance to push back on nonvalue-added analysis and financial reports requested by operations personnel. Reducing these activities gives finance the time to help operations make better decisions. Partners value anything finance can do to streamline day-to-day duties to free up time to work on the problems of and opportunities for the business partner. "Finance employees should negotiate with their managers to free up time to work on partnership issues. Have enough buffer time available to allow for partnership relations, trust building, problem solving, and strategizing," says Ann Flatz, Intel accounting controller.

Characteristics of a poor finance partner include not understanding the business, failing to stand up for the business in the face of a dominating operations partner, and not supporting his/her "no" response with clear reasoning and data. Operations doesn't want finance to just say "no" without presenting alternatives that show there's a better solution than the one being rejected. "Don't just tell me no," says Tom Swinford, co-GM of Intel's Lan Access Division. "Tell me no and why—and provide me with alternatives."

THE PITFALLS

As valuable and beneficial as it is to be a business partner, there are some potential downsides. Perhaps one of the most difficult aspects is an operations manager not wanting to partner. Performance evaluations don't always capture operations partnering activities, so finance, whose performance evaluation includes the outcomes of partnering, is left struggling to partner with an unwilling operations manager.

There's another pitfall. Some partnership activities result in very visible results. For example, finance may benefit from the cash savings generated by projects that were implemented only because finance took them to the next level of management. But it's harder to measure and to reward times when a good partnership results in good decisions without higher-level involvement. Guiding operations through the appropriate financial decisions is certainly less visible (but potentially more productive) than escalating decisions (see "Business Partnership in Action").

Fortunately, there are ways to mitigate these issues. To reward finance individuals for activities that are less visible, 360-degree feedback within performance reviews may be used. In the case of having to work with uncooperative operations managers, finance should employ effective partnership techniques, patience, and, under extreme circumstances, change finance personnel. At Intel, we find it may take a few finance rotations, each with a different finance partner, to fully engage some operations personnel in effective partnerships. Each person in the role helps develop the partnership from the irrelevant to the full-partner level.

IT'S A JOURNEY

Partnership is more of a journey than a destination. Each time a finance professional moves into a new job or an operations manager moves into a new role, the partnership progression starts again. Fortunately, Intel experience has shown that, once the operations managers are comfortable working in a finance business partnership relationship, the building of a new partnership relationship goes much faster. ■

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