Deloitte | A Middle East Point of View - Summer 2024 | Procurement and finance

Synergizing procurement and finance: Unlocking Middle East opportunities

In Deloitte's recent report "Benefits of Integrating Procurement and Finance Operations," the alignment and coordination of activities between the procurement and finance departments within an organization are examined. Based on experience and global benchmarks, a more integrated, end-to-end, process-driven approach to procurement and finance operations can result in a 20-40% uplift in realized savings, a 10-30% improvement in operational efficiency/cost, and a better end-user experience. This could deliver improved cashflow, vendor management, and decision-making. However, despite the numerous benefits, experience indicates that tight integration between procurement and finance operations is the exception rather than the norm. What are the common integration challenges, and how are these relevant to the Middle East region?

Why integrate procurement and finance operations?
Integrating finance and procurement operations is essential for achieving operational excellence and maximizing value. By aligning these critical functions, organizations can streamline processes, reduce costs, enhance financial controls, and improve supplier relationships. This integration is particularly vital in the Middle East, where rapid growth and evolving market dynamics require agile and efficient business operations.

Challenges and approach to integration

Organization structure/functional ownership: The maturity of organization setups is advancing, particularly in more mature, larger-scale enterprises. However, many have experienced rapid growth in recent years, leading to a sense of change fatigue and the need to let things settle; this pause can be detrimental. Management must seize the opportunity now to solidify these changes in order to stay competitive and efficient.

Functional expertise: Procurement and finance operations require different skillsets, and competition for talent is particularly fierce in the region. Traditionally, these two functions focus on separate and targeted development paths. While home-grown expertise is emerging fast, it is imperative for pioneering management teams to devise a long-term plan with a dedicated talent strategy. Without immediate action, companies risk falling behind in the rapidly evolving business landscape.

In Deloitte's 2023 Global Chief Procurement Officer (CPO) survey, talent acquisition and retention were the most cited internal risks (four times higher than digital fragmentation). More than 70% of CPOs in the study had difficulty attracting talent over the past 12 months, with only 4% of firms saying it's less difficult to find talent.

Segregation of duties: The need to avoid conflicts of interest is key to maintaining good corporate governance. The Middle East region is maturing fast in terms of digitizing controls, but many processes and controls are still highly manual and not documented or followed as diligently as they should be. Immediate steps to digitize these controls are crucial to safeguard against governance risks and enhance operational efficiency.

To achieve this, Orchestrators of Value (OOV) work to shift from transactional processes (and operational ones) to strategic activities (Figure 1). Reducing focus on the transactional, which is arguably still too high, gives them more time to spend on strategic activities like business engagement or supplier collaboration, as well as on transforming and digitizing the function.

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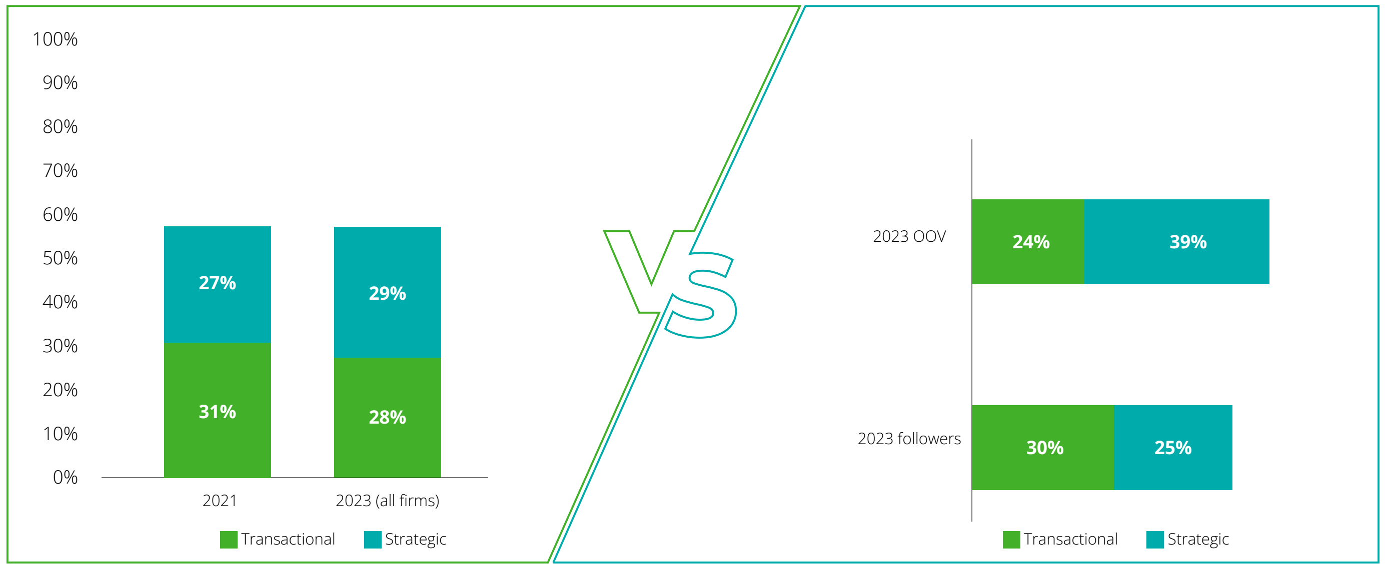

Source: CPO survey 2023

Figure 1: Allocation of time: Strategic vs. transactional ('operational' not shown)

They achieve this in the following ways:
- Standardizing processes/policies (and systems and data) and using flexible automation tools (e.g., low-code/no-code and self-service) and methods (e.g., agile approaches for iterative design/build/realize).
- Creating purposeful/thoughtful teams focused on efficiently and effectively executing common tasks in shared services or centers of excellence (CoEs) (e.g., business engagement, sourcing, contracting, risk management, and analytics) and composed of specialists (internal and external).
- Using outside intelligence to help inform the highest-priority opportunities to target (e.g., the No. 1 managed service CPOs plan for falls under the insights—data and analytics operating model).
- Formally planning/coordinating their efforts on prioritizing focused transformation that enables the greatest value, defending the high ground, and better navigating the challenges of having to chase the latest shiny object in the business.

How to do more, and better, with less
In the previous two installments of Deloitte's CPO Survey, "complexity mastery" and "agility" characteristics were measured to see if they influenced procurement performance in the face of increasing business volatility. They did, but there have been diminishing gains due to execution challenges regarding resource gaps, both capability and capacity (the No. 1 cited issue keeping CPOs awake at night, along with lack of visibility outside the function), and the difficulty of scaling the procurement operating model to stay in sync with both stakeholders and supply markets.

For a CPO to help transform value chains, enhance third-party management, and maximize enterprise value beyond basic supplier cost reduction and risk mitigation, the CPO must take a leadership role in collaboratively building an enterprise capability of "orchestration." Delaying these actions could result in missed opportunities, reduced efficiency, and lower competitive advantage.

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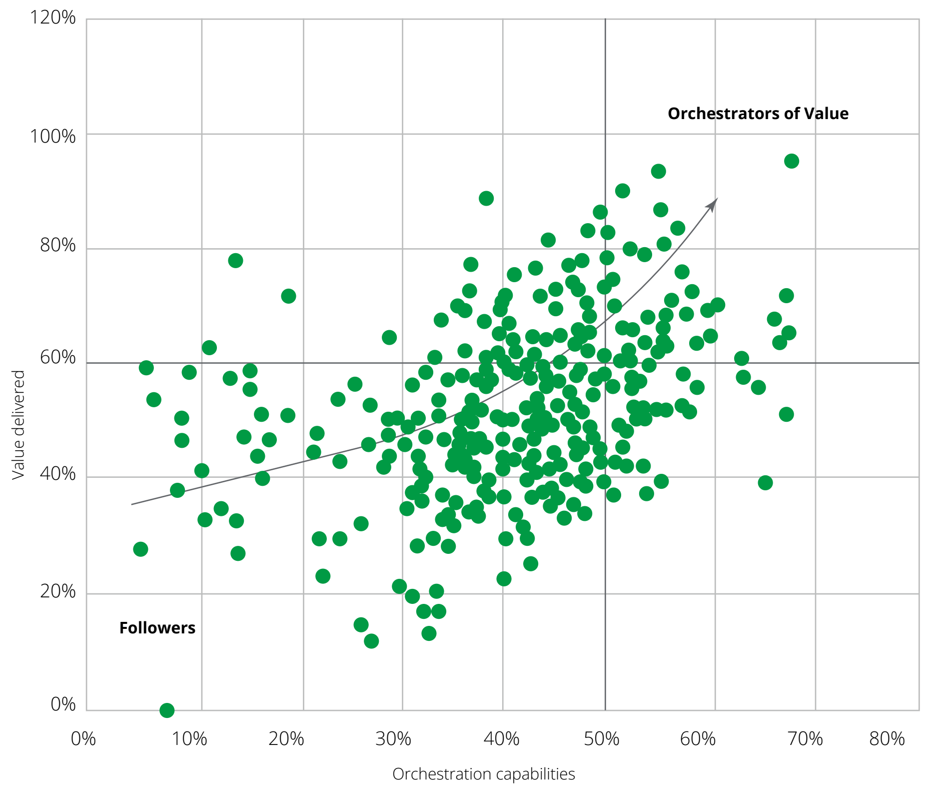
Orchestrators of Value

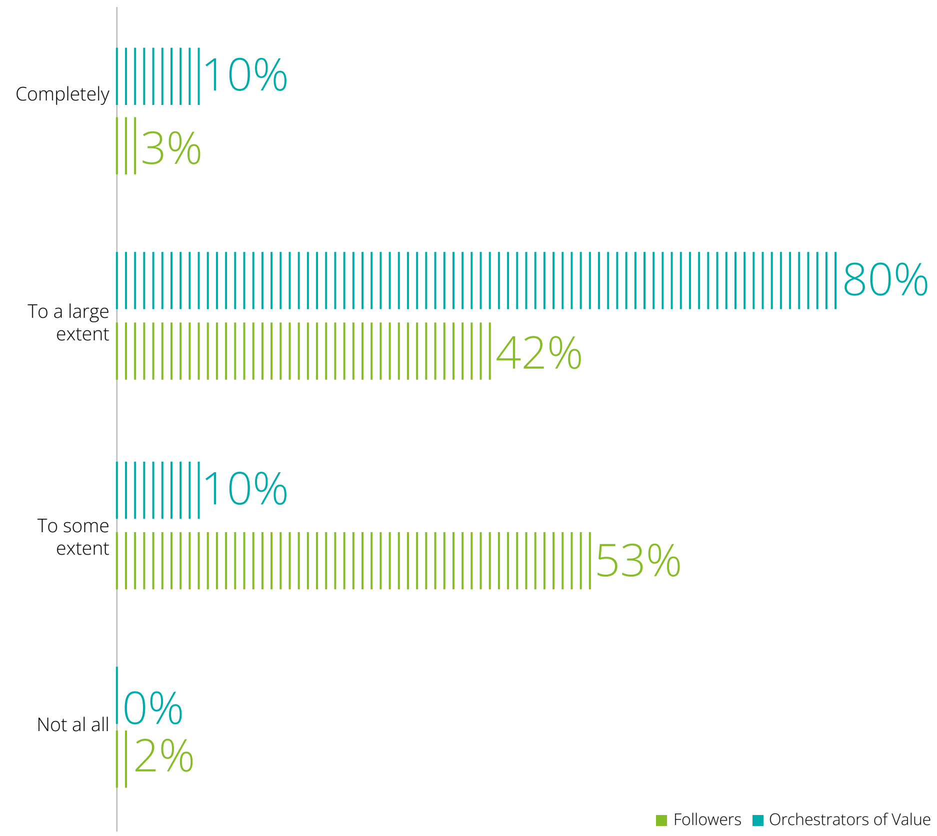
The survey illustrates how top-performing procurement teams increasingly work with business unit leaders, functional partners, and suppliers to empower their teams to become "Orchestrators of Value" and get everyone playing off the same "score." This orchestration is built upon numerous capabilities (identified in the study) that help drive improved performance and value, ranging from operating model reconfiguration (e.g., increased leveraging of hybrid delivery models or open talent networks) to far higher rates of digital enablement and more advanced and sophisticated talent development strategies.

Figure 2 shows how each CPO who responded to the survey ranked against orchestration capability measures and the associated value delivery performance attributes. It was evident how Orchestrators do indeed perform better, with a strong statistical correlation. Top-quartile Orchestrators have a 25% performance advantage over their peers. For convenience and illustration, the top-quartile Orchestrators who delivered top-quartile performance were designated as Orchestrators of Value and compared to 'Followers.'



Source: CPO survey 2023

Figure 2: Value delivered by Orchestrators of Value vs. Followers



Source: CPO survey 2023

Figure 3: Procurement leaders who believe their teams have the skills and capabilities to deliver their strategy

In conclusion, integrating procurement and finance operations is not just a strategic advantage but a necessity for companies in the Middle East to stay competitive and agile. The challenges are significant, but the potential rewards in terms of cost savings, efficiency gains, and enhanced decision-making are too substantial to ignore. By adopting a proactive approach and focusing on strategic activities, companies can transform their operations and become true Orchestrators of Value. Now is the time to act and embrace the integration of these critical functions to drive sustainable growth and success.

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Endnotes

1. us-benefits-of-integrating-procurement-and-finance-operations.pdf (deloitte.com).
2. https://kx.deloitte/documents/view/74668?u=1&lang=EN.