The Finance Function's Readiness for Change

Prepared by CFO Research in collaboration with WNS

CFO research

WNS Extending Your Enterprise

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Introduction

It has always been true that a company can't manage what it can't measure. But it is now harder than ever to keep track of the stream of measures that can bombard managers at large companies. The amount of performance data available, the level of detail, and the speed with which it is generated are all increasing.

At the same time, CFOs and their finance functions find that they are expected to take a more direct role in helping corporate management collect and understand the growing volumes of financial and performance data. For that reason, CFOs need to be concerned with the *future readiness* of their organizations to help their companies realize full value from that data. Are the finance functions of today preparing themselves for the corporate and market demands of the future?

CFOs need to be concerned with the future readiness of their organizations to help their companies realize full value from the data.

To explore this question, CFO Research, in collaboration with the business process management firm WNS, surveyed senior finance executives at large U.S. companies (with more than $1 billion in annual revenue). Based on the 156 responses received to our online survey, we have developed ratings for the current and future states of finance functions in four important areas:

- **Finance operating model:** How are finance functions in large enterprises organized to provide the most effective support to the largest number of people?
- **Automation of finance processes and activities:** How can technology capabilities help finance functions fulfill their new mandate?
- **Governance, risk, and control (GRC) structures and processes:** What benefits can an advanced ability to monitor performance and manage risk provide for meeting the growing demands placed on finance?
- **Adoption of sophisticated analytics and digitization:** How should finance functions change to provide the most value to their companies in an increasingly digital and information-driven world?

For each area, we provided respondents with definitions of basic, intermediate, and advanced capabilities. We then asked the finance executives to rate the current state of their organizations, as well as the level they thought they needed to achieve in two years' time. We also asked about the benefits executives saw in having advanced capabilities, and the obstacles their companies faced in progressing toward an advanced state.

The following report compiles our high-level findings from this research in each of the four areas. It can serve as a platform for starting to make the move away from simply benchmarking past performance and toward being able to gauge how ready your finance function is to meet future demands.

The Finance Operating Model

Basic (1 – 3): Corporate structure comprises distinct, independent, and non-standardized business units or regions, each of which controls its own activities, headcount, and budgets (including finance); Transactional activities are split across multiple locations within the same country; All governance is local

Intermediate (4 – 7): Global Process Owners (GPOs) govern transactional activities, headcount, and budgets for finance processes, while accommodating regional operations and leveraging external services

Advanced (8 – 10): Most finance processes are centralized and standardized; Control over finance headcount and budget is centralized; Finance processes are standardized globally, with a high degree of automation; Governance is global

For a large, global enterprise, an advanced operating model for the finance function involves centralizing control and standardizing processes.

For a large, global enterprise, an advanced operating model for the finance function involves centralizing control and standardizing processes—in other words, making sure that, whatever task is performed, it is performed in the same way and to the same level of quality across the enterprise. The operating model provides the underlying structure for a well-run, efficient finance organization that provides high value to the global enterprise.

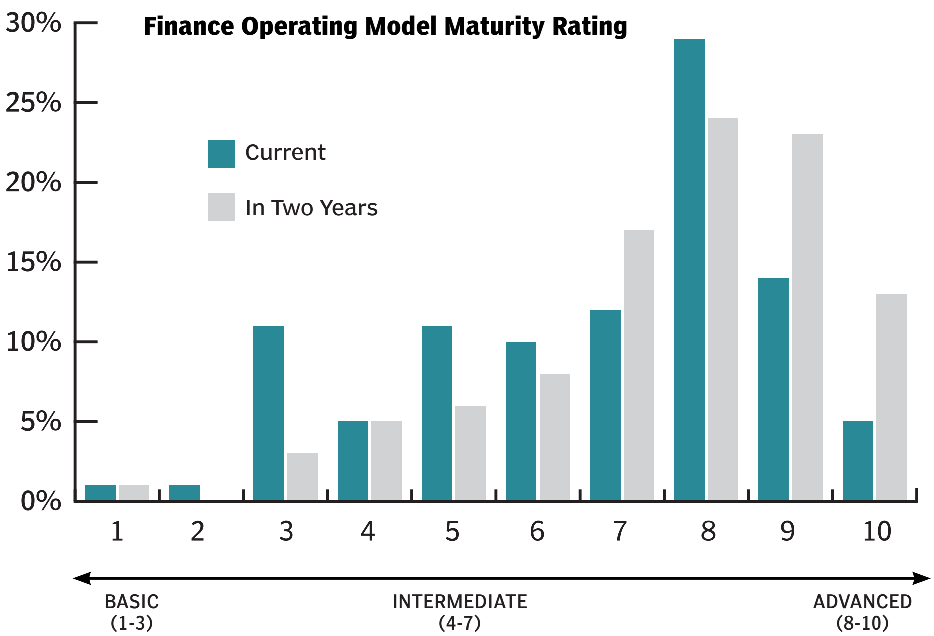
Respondents confirm that, moving forward, their organizations plan to shift to an advanced operating model. Six out of ten (60%) anticipate that, within two years' time, their organizations will be at an advanced level of maturity in their operating model. (See Figure 1.)

To reach this level, a large majority of respondents indicated that they expected their organizations to make significant improvements to their current finance operating model within the next two years. Although nearly half (48%) rank their current organizations as advanced, the remainder characterize their current finance operating models as either intermediate (40%) or basic (13%).

In addition, when considering what level of maturity they expected the finance operating model to achieve within two years, approximately two-thirds of the respondents—even those who rated their current models as advanced—indicated a higher level than they rated their organizations at today (on a scale of 1 to 10). For those already in the advanced category, improving may mean simply fine-tuning the operating model in order to move toward a higher level of maturity. Others currently in the intermediate or basic categories will have more ground to cover.

FIGURE 1

Within the next two years, companies plan to shift further towards a more centralized and standardized finance operating model



For many of the respondents, the path to an advanced finance operating model will require the company, as one respondent writes, to "reduce complexity" in its various forms: "Have all locations on one ERP platform. Reduce the number of facilities."

One way to cut down on complexity is to adopt a services center/business services center (SSC/BSC) model. A majority of respondents (63%) believe that, within two years' time, finance services will be delivered through some form of SSC/BSC.

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SSCs/BSCs may be organized by process or by location:

- Centralized SSC/BSC (33%)
- SSC/BSC organizationally aligned to lines of business (17%)
- Regional/geographic SSCs/BSCs (7%)
- Process-centric SSCs/BSCs (6%)

Only 14% of respondents expect their finance functions will continue to be decentralized and operate with multiple, in-location finance organizations. Another 22% will "mix and match," either by using hybrid models (16%) that employ both outsourced and in-house resources or by matching delivery models with individual F&A processes to optimize effectiveness (6%).

When asked about the benefits of shifting to a more advanced operating model, respondents expect to reap rewards far beyond finance itself. Although the largest number (44%) acknowledge that an advanced operating model will help reduce the cost of finance, many respondents also believe the overall enterprise will benefit from improved control and management of finance processes.

Approximately three in ten respondents (31%) say that one of the most important benefits of an advanced finance operating model is increased organizational and functional flexibility. Additional benefits that respondents expect to see from an advanced finance operating model address operational and top-line value:

- Improving company-wide production or operations—that is, revenue-generating activities (29%)
- Increasing revenue (28%)
- Improving governance and control (25%)
- Reducing risk from a more controlled and stable operating environment (23%)
- Improving working capital management (20%)

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The level of maturity respondents hope to attain within two years also appears to influence the benefits they sought from an improved finance operating model. In general, those who expected their operating model to be at the intermediate level focused primarily on controlling costs, followed by increasing their organizational and functional flexibility. However, those who aspired to an advanced model were more likely to target revenue-related benefits in addition to cost benefits. (Note that a statistically insignificant number of respondents elected a basic operating model for the future state.)

Targeted Future State for Finance Operating Model	Top Benefits Expected from an Improved Operation Model
Intermediate	• Reducing the cost of finance: 53% • Increasing organizational and functional flexibility: 42%
Advanced	• Reducing the cost of finance: 37% • Increasing revenue: 34% • Improving company-wide production or operations (i.e., revenue-generating activities): 31%

Clearly, finance leaders at large companies expect that the effort to reduce organizational and process complexity in finance activities will yield an overall improvement in business performance.

When asked to describe the key barriers or impediments to improving the finance operating model at their companies, respondents primarily focused on difficulties related to organizational complexity:

- Structural complexity
- Growth through acquisitions, resulting in a collection of non-standardized processes, controls, and systems
- Lack of change management capability

Clearly, finance leaders at large companies expect that the effort to reduce organizational and process complexity in finance activities will yield an overall improvement in business performance.

Automation of Finance Processes and Activities

Basic (1 – 3): Most data rekeyed and entered manually

Intermediate (4 – 7): Some types of data entered manually, and some generated by technology tools

Advanced (8 – 10): Most data generated by technology tools, with little need for manual intervention

Advanced automation would allow most data to be generated by digital tools, with little need for manual intervention.

Finance executives view automation—using technology tools rather than manual data entry— as an important enabler for finance processes and activities. Advanced automation would allow most data to be generated by digital tools, with little need for manual intervention. This could reduce costs by streamlining processes and improve performance through reducing the number of errors introduced manually and providing more sophisticated management decision-support tools.

Nearly six in ten respondents (57%) believe that, in order for their companies to succeed, they will have to achieve an advanced level of automation for managing financial, process, and performance data within the next two years.

Unfortunately, there is a lot of progress to be made—only a third of respondents (34%) say that their companies are already at an advanced level in terms of automation. (See Figure 2.)

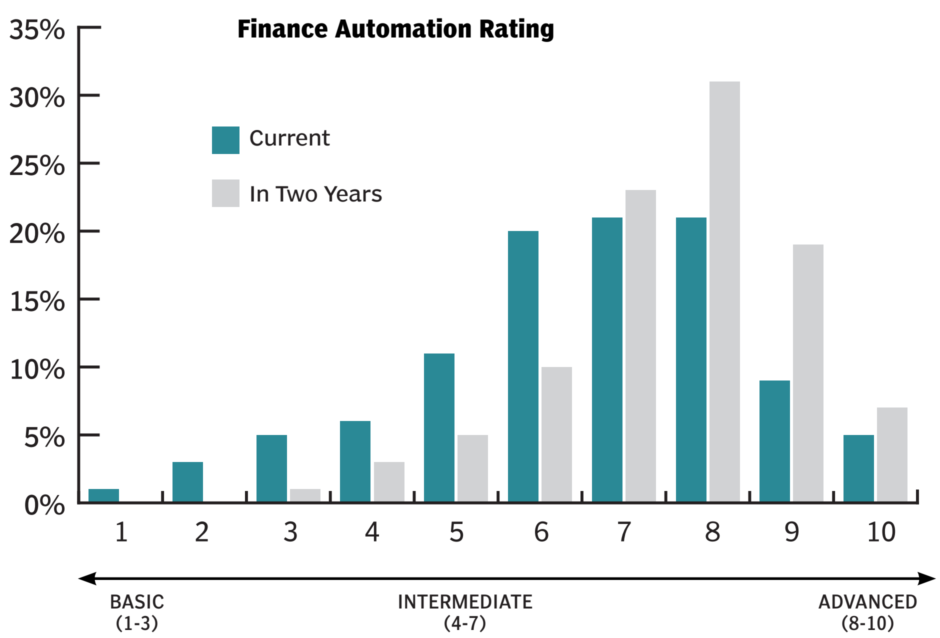
When asked to consider the potential benefits from achieving advanced automation capabilities, respondents identified two benefits as the most important:

- Realizing efficiency gains in transactional processes such as order-to-cash, purchase-to-pay, record-to-report, and cash management; and
- Adopting digital performance management tools (e.g., dashboards and visualization; customized management cockpits for planning, budgeting, and forecasting; profitability and cost management).

Each of these was placed in among the top three benefits by nearly half of the respondents (48% each).

FIGURE 2

To be successful in the future, finance executives agree they will need to boost their current levels of finance process automation



Finance executives recognize that the value from automating finance processes derives from an enhanced ability to manage performance.

In addition, nearly the same numbers (45%) prioritize improvements in their companies' ability to handle both structured and unstructured data ("big data"), in order to transform it quickly into essential business insights.

Finance executives recognize that the value from automating finance processes derives from an enhanced ability to manage performance, along with better control over transaction costs. *On the one hand, automation lowers the cost of finance by speeding up transaction processing and reducing the number of errors. On the other hand, automated processes also allow more data to be collected more efficiently and organized in ways that provide management with better decision-making tools.*

Structures and Processes for Governance, Risk, and Control (GRC)

Basic (1 – 3): Reliance on non-standard processes and individual judgment-based metrics for global/functional needs

Intermediate (4 – 7): Mix of standardized and non-standardized processes for global/functional needs

Advanced (8 – 10): Risk-based metrics and dashboards that clearly define global/functional standards, including identified exceptions management and escalation process

In an increasingly complex and fast-moving business environment, corporate management needs to ensure that the business is not exposed to unacceptable levels of financial and non-financial risk. GRC processes address the policies, processes, and practices that allow corporate management to monitor the conduct of their business to ensure compliance with regulatory and reporting requirements on the one hand, and with the company's own risk tolerances on the other.

GRC processes can certainly help organizations better handle risk, but survey respondents clearly indicate that their companies have room for improvement in this area. Two-thirds of respondents view their current GRC structures and processes either at an intermediate level (61%) or at a basic level (5%). However, they recognize that improvement is required, and a majority (58%) believes their organizations will need to move up to an advanced level within two years. (See Figure 3.)

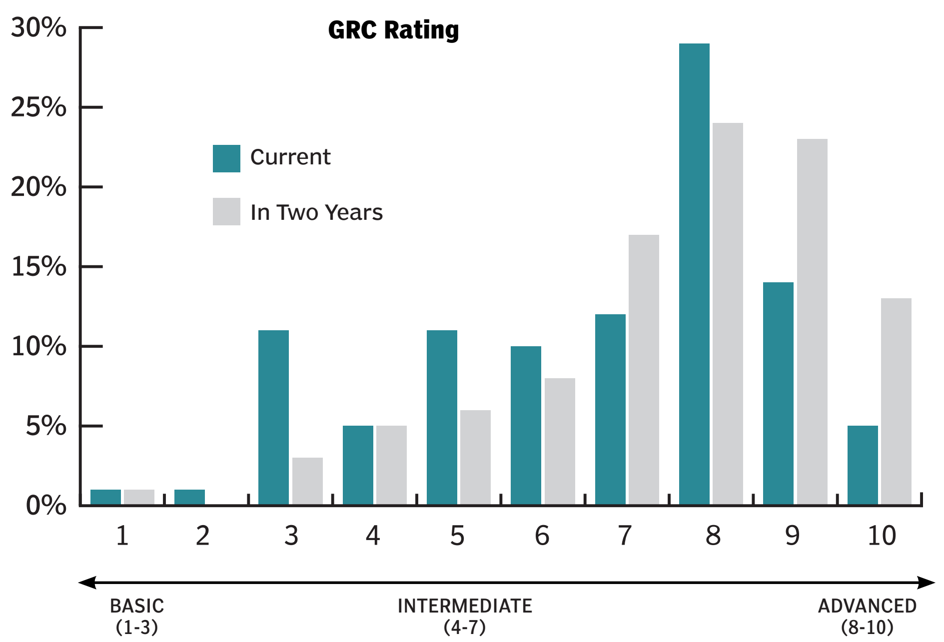
Advanced GRC processes depend on a high degree of standardization across processes, as well as sophisticated use of technology to provide risk-based metrics and visualizations that allow management to identify exceptions quickly and respond appropriately. *The primary benefit from improved GRC processes, selected by 48% of respondents, is seen as ensuring compliance and avoiding personal liability.* (Under the Sarbanes-Oxley legislation passed more than a decade ago, corporate officers are held personally liable for misstatements and errors in regulatory reporting.)

While important, improvement of GRC processes should extend beyond regulatory compliance and reporting. A number of respondents point out that GRC processes are most effective when they are aligned with the rest of the business. One respondent writes that the company must *"better align the GRC with the operating model and [develop] more automated controls that can highlight potential areas of risk more quickly."* Another says simply, *"We need to align our risk management processes with the actions we take with our finance, accounting, and audit teams."*

In an increasingly complex and fast-moving business environment, corporate management needs to ensure that the business is not exposed to unacceptable levels of risk.

FIGURE 3

Finance executives believe their companies will need to achieve an advanced level for GRC structures and processes



In fact, finance executives are looking beyond reporting and liability questions, and considering other benefits that advanced GRC structures and processes would provide for the business. They believe that an advanced capability can enhance process efficiency and effectiveness (42%), provide an agile and scalable control environment (36%), and ultimately, *increase operating margins (32%)*.

As with the finance operating model, many finance leaders do not believe their companies can afford to remain satisfied with the current state of GRC processes and structures—but improvement in GRC must come within the context of improving overall business performance.

As with the finance operating model, many finance leaders do not believe their companies can afford to remain satisfied with the current state of GRC processes and structures.

Adoption of Sophisticated Analytics and Digitization

Basic (1 – 3): Focuses primarily on historical analysis of financial information and compliance reporting

Intermediate (4 – 7): Split between historical analysis/compliance reporting and advanced data mining/predictive analytics

Advanced (8 – 10): Focuses primarily on advanced data mining and predictive analytics; Integrates financial and operational information

More and more the ability of organizations to thrive will depend on their ability to make sense out of much larger repositories of much more detailed digital information. Until recently, companies predominantly used information to provide a snapshot of what had already occurred. Now, maintaining a competitive advantage requires a forward-looking, virtually real-time understanding of changing conditions and markets.

While the implementation and use of sophisticated analytics is ideal, it isn't yet a reality for most respondents. Finance executives recognize the gap that exists between the current use of technology and the optimal use.

» Only about one-quarter of the respondents (26%) characterize their current use of technology as advanced.

Looking forward, they realize that success will require improving their current use of these technologies and tools. More than half (53%) believe they will need to progress to an advanced state within two years. (See Figure 4.)

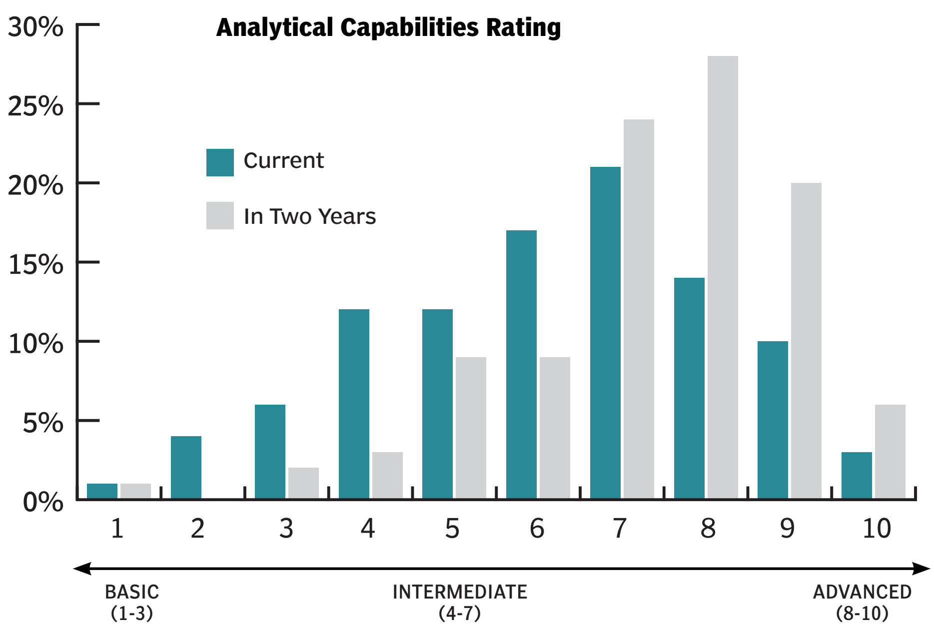
While respondents plan to implement technological capabilities for advanced data mining and predictive analytics, they current rely on spreadsheets rather than leading-edge technologies.

» Eight out of ten (80%) respondents say that the use of Excel-based tools is ubiquitous throughout their enterprises. Only about half (48%) report widespread use of ERP and enterprise-wide accounting systems, while business intelligence (BI) applications and data warehouses tend to be used largely by individual business units or functions, but not consistently throughout the enterprise.

More and more the ability of organizations to thrive will depend on their ability to make sense out of much larger repositories of much more detailed digital information.

FIGURE 4

To be successful in the future, finance executives agree they will need to adopt more advanced analytics and digitization



Digitization strategies are an important enabler of advanced analytics.

Even more alarmingly, large numbers of respondents report that their companies make only limited or even no use of some of the more advanced capabilities. Half or more of respondents report that their companies have little experience with statistical tools (50%), dynamic reporting with interactive visualizations (51%), advanced tools and analytics (56%), or XBRL (67%). (Multi-national companies that use International Financial Reporting Standards (IFRS) are expected to submit their financial returns to the SEC using XBRL once the IFRS taxonomy has been accepted by the SEC.)

As they look to make improvements, respondents see the greatest need for developing advanced tools and analytics (45%), BI applications and performance dashboards (42%), and ERP and enterprise-wide accounting systems (38%). They believe that advanced analytics can provide their companies with greater flexibility and speed of decision making (52%), as well as improve operating margins and reduce expenses (47%).

Digitization strategies are an important enabler of advanced analytics. In the survey, we described digitization as the ability to transform physical measures into digital formats that can be collected, stored, accessed, and analyzed using IT tools and systems.

By far, *the primary benefit of digital transformation is seen as decreased operational costs and/or increased operational efficiency (selected by 53% of respondents)*. But respondents also recognize that digitization can benefit their companies by improving connections with their markets and their customers.

Approximately a third of respondents say that digitization will allow their companies to build agile business processes in line with market changes, and to conduct business more readily through digital channels (33% each). In addition, 27% believe that one of the most important benefits will be helping their companies deliver a differentiated, seamless, and superior digital experience for the customer.

In addition, companies that expected to have analytical capabilities within two years' time also expected they would be able to make better use of external data. One-quarter of these companies (25%) believe that at least half of the data used in decision making would be generated from external sources in two years' time; only 15% of those at the intermediate level anticipated as high a level of use for external data.

Digitization will be a priority for finance moving forward, and that is reflected in their expected budgets. Half of the respondents (50%) expect to spend 1-5% of the total cost of finance on digitization initiatives over the next two years, and another 31% expect to spend more than 6%.

Advanced analytics, including big data analytics, are seen as a priority for improvement. More than half of the respondents (56%) currently make either limited or no use of advanced tools and analytics, such as dynamic moving trends, "big data," and web and social media analytics. However, four out of ten of these respondents (41%) hope to develop advanced analytical capabilities within two years' time.

Improvements in the digital space are not without obstacles. Respondents say that the two largest barriers to greater digitization are competing priorities (41%) and recognition of the value to the business (38%). It may be up to the finance leaders in a company to advocate for the value of digitization. Finance executives should be prepared to make the case for how digitization can support the advanced analytics that will be necessary to drive future competitive advantage.

When asked to describe the key barriers or impediments to fulfilling their digitization strategies, respondents primarily focused on their cost and other difficulties related to determining the return on these investments:

- Competing priorities in terms of resources and budgetary allocation
- Cost benefit analysis/value to the business
- Lack of familiarity with digitization
- Difficulty of integrating different processes and operations

Finance executives should be prepared to make the case for how digitization can support the advanced analytics that will be necessary to drive future competitive advantage.

Conclusion

Businesses will have to become increasingly agile to succeed in competitive and market environments characterized by a rapidly accelerating pace of change. Companies, including their finance functions, will seek to make important improvements in change-enabling capabilities—that is, they must become organizations that are able to embrace change quickly and continuously.

Finance executives agree that their functions—as one respondent writes in the survey—need to "get with the times." Or rather, they see the need to get ahead of the times, and start to transform their organizations *now*.

Fortunately, there are tools, technologies, and processes available to enable organizations to move ahead. To meet the challenge of organizational transformation, finance leaders recognize the need to streamline processes and organizations, and take full advantage of automation, analytics, and digitization. To provide the highest value for their businesses, finance functions will need to be able to quickly sort through increasing volumes of data and effectively identify the information that will make the most impact.

According to our survey results, finance leaders believe that, to fulfill new mandates for their functions, their companies will need to:

- **Align finance more closely with business needs and activities**
- **Move more into shared/centralized services models**
- **Upgrade information systems and integrate them on a common platform**
- **Apply advanced analytical capabilities, including digitization**

Finance will need to reduce complexity in processes, organizations, and information systems, at the same time that they need to become more sophisticated in their use of analytics and "big data." One of the first steps on this journey, according to a number of respondents, is to gain executive management's commitment to culture change throughout the enterprise. They will also require investment in organizational and process change—for example, investment in an expanded use of SSCs/BSCs, in technology upgrades, and importantly, in training and retraining of finance staff.

In the end, finance leaders find themselves considering the best ways to formulate and communicate a clear vision for the future state, in order to gain widespread commitment to beginning to change now.

Businesses will have to become increasingly agile to succeed in competitive and market environments characterized by a rapidly accelerating pace of change.

Sponsor's Perspective

Finance leaders who participated in the survey were forthcoming about their existing state of operations and what it would take for them to build a forward-looking, agile finance function. There was a wide consensus that changing external factors are shaping the new role of a CFO.

Future readiness ranks high on priority for CFOs of global organizations, however, they are well aware of the challenges. In WNS' experience of partnering with global CFO's offices, we found that the lack of an advanced operating model was at the root of their inability to run a standardized, effective, and efficient finance organization. When you consider that companies have to contend with challenges in the form of managing multiple entities in different geographies; mergers, divestitures, acquisitions; achieving a high level of maturity in the current operating model becomes increasingly difficult. This is validated by our respondents who cite the presence of complexities in various forms as an impeding factor. In fact, even those respondents who rate their existing models as advanced foresee the need to fine-tune in order to move to a higher level of maturity. Much of our collaboration with CFOs in recent times has been underlined by our efforts to transform their finance operating models by bringing in a greater degree of structure, standardization and visibility.

Operating model transformation warrants a holistic approach, one which leverages the interplay of several distinct and interlinked elements. In our wide experience and as evinced by a majority of our respondents, bringing critical finance processes in the Shared Services Center (SSC) / Business Services Center (BSC) fold is important and almost inevitable. More than half of the respondents believe that within two years' time, finance services will be delivered through some form of SSC / BSC. This of course has to be underpinned by technology and analytics in their advanced form. For instance, nearly six out of ten respondents believe that an advanced level of automation for managing financial processes is the way forward. Organizations also realize the need to analyze detailed digital information. Digitization strategies have in fact emerged as a key enabler of advanced analytics. But half or more of the respondents report that their companies have little or no experience with statistical tools, BI applications, ERP, visualization tools, advanced analytics. All these point towards the need for greater and optimal adoption of automation, digitization and advanced analytics as means to developing a robust and comprehensive finance operating model.

Needless to say, a high degree of standardization and the sophisticated use of technology will enable an organization to proactively manage financial and non-financial risks, and matters of regulatory compliance. As highlighted by a number of respondents, Governance, Risk and Compliance (GRC) processes are more effective when aligned with the rest of the business.

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Sponsor Profile

WNS provides a cutting-edge, comprehensive and methodical proprietary framework for managing finance business processes. We deliver substantially improved finance process performance by breaking down organizational silos and making business processes truly effective for the CFO.

WNS as a global provider of Business Process Management (BPM) services has been collaborating with 85+ global CFO's offices in their endeavor to achieve strategic objectives. A significant part of our efforts has been around delivering customized solutions keeping in mind the distinct Finance & Accounting requirements of each industry. We have partnered with CFOs to digitize their finance function, centralize and standardize processes, and establish benchmarks for better governance and compliance. Our extensible scale of operations in North America, Europe, South Africa and Asia, combined with rich domain expertise has allowed us to help these CFOs save millions in efficiency gains, improved working capital, faster financial closing, and improved Procure-to-Pay, Record-to-Report and Order-to-Cash process efficiencies. Our depth of experience encompasses technology-led process transformation and re-engineering, and analytics-powered business insights and outcomes.

For more information, please visit www.wns.com/solutions/functional-solutions/finance-accounting.

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