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HOW CFOS CAN DRIVE FINANCE TRANSFORMATION PROJECTS

15% of the CFOs had access to AI / ML tools in 2019

Over the years, CFOs and their teams have moved way beyond being the financial number crunchers of an organization. Today, they are expected to counsel business units on innovative approaches to creating value, a task which they do with aplomb using sophisticated analytics to measure, manage and review organizational performance almost on a real time basis. Till a few years back, finance divisions did not have access to automation technologies (a McKinsey survey from 2019 said barely 15% of the CFOs had access to AI / ML tools) and most of the digitization efforts were around the mundane tasks. However, today the situation has changed and so has the outlook of the modern day CFO.

Finance Function Strategy and Organization Design

In order to stay competitive, the business needs to continuously build better customer experiences and invest in technology that helps them do so. Given the power of digital transformation, it falls on the financial planning and analysis (FP&A) teams to play an active role in providing smart solutions that go well beyond their knowledge of accounting, budget management and audit and compliance. A Gartner report says CFOs need to redefine their functional strategy and FP&A professionals must start identifying value generation activities, develop future strategies, suggest ideas to execute and measure ROI.

It is not a one-size-fits-all task

Finance transformation is not a one-size-fits-all task and often it does not even involve a huge overhaul. While one enterprise may need to redefine its finance operating model when it is “transforming”, at another it can be a timely closing of books. There could be yet another case where it may involve integration of multiple functions on a single platform and deployment of new planning tools.

Having worked with organizations across industry verticals and of varying sizes, what we can say with some degree of finality is that there are six key challenges to finance transformation that FP&A teams of the day face. What is presented here is a cross section of the issues that companies face and should not be perceived as challenges that all of them have.

Business expansion - Handling finance operating model

As an organization begins its growth journey, it is quite common to find financial operating models being different across locations and even in the lines of business. These challenges are even more common when growth happens through mergers and acquisitions. The consequent inconsistencies tend to increase costs as a result of task duplication and inefficiencies therein.

CFOs of companies recording growth must have a consistent global finance operating model that can standardize transactional and business support solutions across business units and geographies. Such organizations need to manage their operations and deliver the right mix of services in line with costs, location, in-house staff abilities and outsourcing resources.

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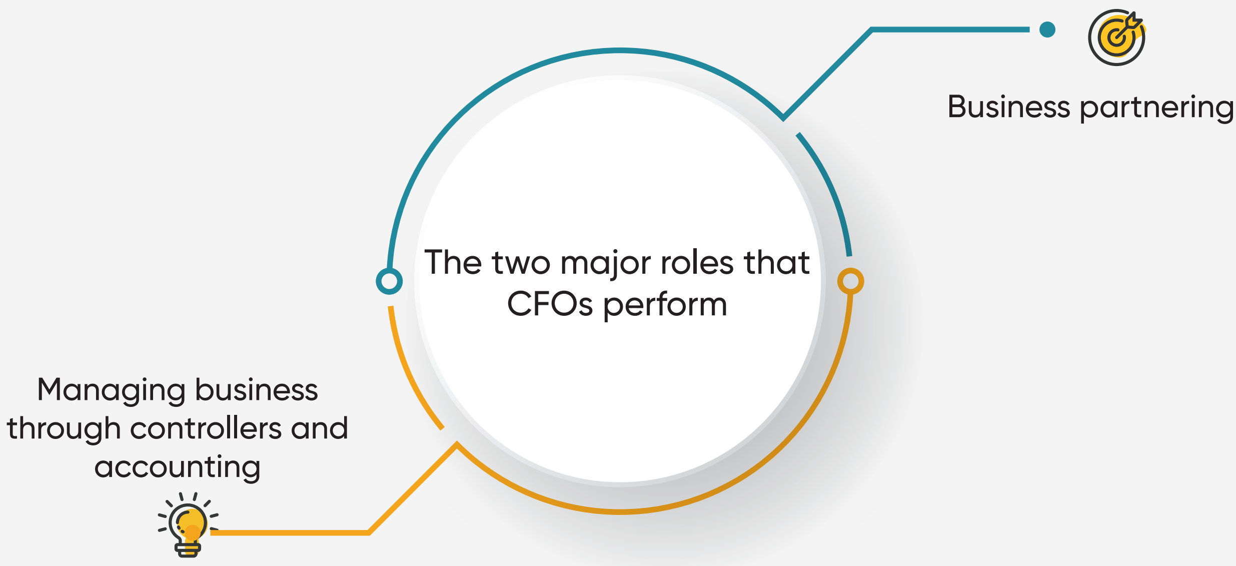
A global approach can involve extending the use of shared services and centers of excellence (CoE) to create new efficiencies without compromising on quality and control. CFOs can collaborate with their common FP&A resources to refine business decisions while also ensuring consistent deployment of SOPs from region to region. They should review and capitalize upon the strengths of their global talent pool for commodity services and to fill management roles.

It is also essential to know that overtly centralized finance in a decentralized business can create complications. In any enterprise business operating model should outline the degree to which financial processes can be centralized. It is then easier to define responsibilities and service levels for more consistency.

Improving business decision support

The two major roles that CFOs and their teams have to play are: administering the business via controller and accounting functions, and business partnering, which supports decision making. The latter becomes more important when economies strengthen and companies try to increase their revenue and market share.



To handle their business partnering role more efficiently, finance leaders must be engaged as catalysts and strategists, particularly while launching new growth initiatives. They must make meaningful and actionable insights available to the organization through management reporting, data analysis, planning and forecasting.

It is not always easy to understand the business drivers, what must be measured, and whether outcomes are accurate. Information needs have to be defined according to the nature of business decisions to be made. To make this simpler, leading organizations routinely incorporate budgeting, variance analysis and management reports into an integrated cycle instead of using data only from independent financial cycles.

When CFOs have to play a role in business decision support, they also need the IT department as a partnering channel – this enables FP&A teams to access and govern all financial data securely, standardize the systems fueled by such information and collect the insights that will be useful in designing new strategies.

Choosing capital investments

Deciding where to invest often sounds easy, but most enterprises struggle to find, fund, deploy and assess the outcomes of new investments that can improve value for shareholders. FP&A personnel have to play critical roles in streamlining this process by helping various business units cut through information clutter for investment opportunities. They can rank capital investment options by their after-tax benefit to cost ratio to prioritize capital allocation. They can also quantify the relative urgency of investments to help management consider alternative decisions for any new project – fund now, defer for later, or simply reject.

It may be mentioned here that capital investment is not just about asset purchase, technology investments, and facility development – it also concerns investing in new channels for sales and entry into new markets. CFOs have to take a bespoke approach to their CapEx planning to identify and quantify project interdependencies. The focus should be on identifying synergies and helping other C-suite officers know how investment avenues were chosen.

Impact of taxes on the Bottom Line

While skills of the sales team matter for revenue generation, taxes also influence the bottom line. Tax related saving opportunities can be found throughout the organization – including procurement, logistics, capital projects and business development. However, many CFOs generally overlook the importance of taxes in their efforts for finance transformation. They need to always maintain pace with changing tax structures and laws that can significantly improve their profit margins.

By analyzing the value that can be extracted from tax-aligned supply chains, legal entity simplifications, and environmental - social - governance (ESG) initiatives, FP& A teams can integrate the role of taxes into finance transformation effectively. It not only helps to manage business tax liabilities in more compliant ways, but also catalyzes positive changes on savings and bottom line.

Financial risk management – leveraging insights for action

The ups and downs of economic events in the post-pandemic world have made it necessary for boards and business decision makers to have a deeper knowledge of the efficacy and completeness of their risk management strategy. Many enterprises still struggle to identify evolving risks. They cannot address the issues inherent in complex organizational models and global cultures replete with disparate risk possibilities.

One way to resolve this problem is by always adding a risk perspective when finance function's strategies, governance structures, operational framework and talent models are being formulated. It entails designing sustainable and integrated finance risk management programs with necessary controls and practices. The program elements should include identification and assessment of risks, defining risk ownership, deploying formal procedures, and establishing a communication system to generate consistent finance value.

The use of automation technologies and developing technical skills of staff handling the program will improve the quality of control for risk management. Also, the risk assessments by trusted 3rd party vendors can help to validate the ongoing efficacy of systems, processes, compliance, and service delivery controls.

In addition, organizations can get a risk-adjusted perspective on the estimated returns from their planned projects by applying risk analysis to the prioritization of finance initiatives.

Prioritizing investment in finance transformation

From improving the close of a new deal and cash flow management to redefining finance operating models, processes and talent management, finance transformation can be led by many priorities. All of them call for different commitment levels and resources.

To complete their finance transformation project effectively, an organization has to evaluate the gaps between the current performance and the outlined objectives for the prioritized areas. It must then develop a finance strategy that is also aligned to the overall business strategy and operating model. The next step is to draw a holistic long-term finance roadmap to address the defined strategy and the requirements of systems to optimize.

Besides syncing the roadmap to other strategic efforts and near-term foundational quick initiatives for business, it is also important to keep the leadership team engaged all through the finance transformation process. The organization should also be able to dedicate full time resources for finance transformation efforts in any chosen area.

In Conclusion...

In the new data-driven finance model, FP&A personnel have been freed from taking up process-heavy tasks. Therefore, they have the time to pursue initiatives, support strategic activities and advise the business on real-time financial decisions. A study by Accenture says enterprise data platforms make this possible.

Right from the beginning of any project, the idea should be to assess all the requirements for transformation – the objectives should be to materialize an optimal level of sophistication, structure and alignment with different units in the company. On a note of caution, even while taking up the projects with most "urgent" priorities, finance should never be pressurized with more than it can handle.

Therefore, using an à la carte approach could help make finance transformation projects more enriching, sustainable, and value-added ventures.

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