Driving Finance Transformation

A business case and technology roadmap to accelerate change

BLACKLINE

PLOTTING A PATH TO FINANCE TRANSFORMATION

SPOTLIGHT ON FINANCE TRANSFORMATION: FAST FACTS

FIVE FINANCE TRANSFORMATION BENCHMARKS

TEN ENABLERS FOR MOVING THE DIAL

Digital Finance Transformation

PLAYBOOK

“A convergence of technologies is now driving the next phase of finance transformation, accelerating the journey that CFOs began toward delivering greater insight in the 1990s with enterprise resource planning (ERP) implementations. This next wave of technologies will transform the way that Finance adds value.”

—THE DNA OF THE CFO, 2019, EY

Plotting a Path to Finance Transformation

If you're in the middle of a finance transformation initiative, then you're not alone. Leaders at enterprise and mid-size finance and accounting organizations alike are reviewing their current processes, technology, and talent, to build their blueprints for change. With the rise of broader digital transformation projects, finance organizations are first looking to upgrade their own operating models.

The truth is that finance transformation is a journey, not a destination. Many finance organizations have already embarked on it, driving down costs, whether through enhancing shared services centers, or applying more centralization, standardization, and automation.

Yet for many, the greater opportunities lie ahead: providing better insight to the broader organization, shedding low-value workloads that hold the team back, and revamping ingrained legacy accounting tasks that create risk. Wherever you are today, there are real opportunities to move the dial away from the status quo.

FAST FACTS

IN FOCUS →

SPOTLIGHT ON FINANCE TRANSFORMATION

MANUAL PROCESSES REMAIN SUBSTANTIAL

48% of US companies still don't use any automation for GL account reconciliation, which is a meaningful way to reduce the cost of Accounting.[1]

WORKLOADS REMAIN PROHIBITIVE

Uneven workloads and prevalent overtime were cited as a top challenge by 60%+ of accounting teams polled.[2]

"There is much room for improvement in the Office of Finance. In a typical organization, we still see deep penetration by Microsoft Excel for executing, monitoring, and tracking financial processes."

—MAGIC QUADRANT FOR CLOUD FINANCIAL CLOSE SOLUTIONS, GARTNER, OCTOBER 2019

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Tomorrow's CFOs will have higher expectations of what finance models can deliver. First, making the whole finance model work together effectively from shared services through to the finance function, aiming at better service and more insight. Second, articulating the role of the function to drive more effective analysis through partnering.

—THE CHANGING ROLE OF THE CFO, IMA AND ACCA

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→ WHAT TRANSFORMED FINANCE LOOKS LIKE

TRANSFORMATION THROUGH PEOPLE, PROCESS & TECHNOLOGY
30-40% of finance and accounting time can be reduced with automation and behavior change.[3]

FASTER CLOSE
Transformed Finance closes, consolidates, and reports nearly 2X faster than the average.[4]

MORE EFFICIENT COST STRUCTURE
Operate F&A at a 42% lower cost than the average.[5]

INCREASED TRUST
Achieve a 9% boost in reporting accuracy versus the average.[6]

	STATUS QUO	TRANSFORMATION OPPORTUNITY
Resource Allocation	• Transactionally geared • Repetitive and task-centric • Month-end focused	• Analytically savvy • Exception based • Business responsive
Close Process	• Manual checklists • Period-end close	• Orchestrated close • Point-in-time close
Intercompany Accounting	• Distributed • BU opacity	• Centralized • BU transparency
Shared Services	• Cost-focused • Mostly labor arbitrage • Still decentralized	• Process re-engineered • Service oriented • Standardized
Technology	• IT managed • Mostly on-premise • Spreadsheet dependent	• Finance controlled • Mostly cloud • Robotics supplemented
FP&A	• Centralized budgeting • Periodic forecasting	• Integrated planning • Rolling forecasts

What's the next step in your finance transformation journey?

Perhaps your vision of transformation is a more strategic and less transactional finance organization, embracing the expanded role of finance in supporting the business. Or, driving more efficient and consistent business processes, such as reconciliations or the financial close.

Wherever you're headed, we put together this playbook to help you get there, with industry benchmarks, current trends, and practical tactics to continue your finance transformation journey.

FAST FACTS

SPOTLIGHT
ON FINANCE
TRANSFORMATION

→ WHAT TRANSFORMED FINANCE LOOKS LIKE (CONTINUED)

INTERCOMPANY EXCELLENCE
Devote 50% fewer resources toward intercompany process.[7]

LESS TRANSACTIONAL
Teams allocate 25% less resources to transactional work.[8]

MORE ANALYTICAL
Dedicate 38% more resources to FP&A.[9]

Five Finance Transformation Benchmarks

"97% of CFOs say their biggest concern is that finance and accounting won't meet reporting deadlines.

—FSN MODERN FINANCE FORUM"

1. Speed

According to a survey by FSN Modern Finance Forum, 97% of CFOs say their biggest concern is that finance and accounting won't meet reporting deadlines.

If your financial close is averaging more than five to six days, then your organization likely has room to improve. Organizations that are taking longer than ten days to close have a 50% or more upside in speeding up closing the books, consolidation, and reporting. However, the key is not only about speeding things up. It's about doing so without increasing risk, jeopardizing controls, or simply burning out accounting teams.

2. Cost

On average, organizations spend 1.2% of revenue on their finance functions, which includes personnel, systems, overhead, and any other costs related to day-to-day operations.[10] Bottom performers spend an average of 2% of revenue or more. It's no surprise that general accounting, AR/AP, and financial reporting still dominate resource allocations, while most organizations allocate significantly less than 10% of their resources to budgeting and analysis.[11]

For organizations on the higher end of the cost spectrum, manual tasks are typically the top driver. These include repetitive high-volume transactional tasks in reconciliations, journal entry, double-checking and validating results, or inefficiencies within shared services. According to APQC and Hackett, potential improvements can result in a reduction of spend to 0.6% of revenue, around 50% less, when comparing best-in-class versus average.

3. Intercompany

While intercompany accounting remains a smaller part of most finance organizations, it's forecast to be one of the fastest growing areas. With the rise in globalization, M&A activity, and new tax regulations, it also presents an outsize risk to organizations. On average, according to Hackett, organizations allocate 1.6 FTEs to intercompany accounting for every $BN in revenue, with increased growth given regulatory scrutiny and the need for better intercompany reporting and transparency. Much of the workload is typically chasing down intercompany transactions, pricing, and agreements that are often buried

[1] *Benchmarking the Accounting & Finance Functions 2019, FERF/Robert Half*

[2] *Financial Close Poll,* The Hackett Group

[3] *The PwC Finance Benchmarking Report 2019-20, October 2019*

[4] *Closer to Excellence,* 2018, EY

[5] *Five Imperatives for Creating Greater Finance Agility in a Digital Age*, The Hackett Group

[6] *Excellence in Financial Management Survey,* Aberdeen Research

[7] *Intercompany: The Case for Transformation*, The Hackett Group

[8] *How World-Class Finance Organizations Outperform: Improved Effectiveness, Half the Cost & Staff,* The Hackett Group

[9] Ibid.

[10] *AQPC survey of 543 finance organizations*

[11] *2019 Benchmarking the Accounting and Finance Function*, FERF

in entity systems. World-class finance organizations allocate approximately half, around 0.8 FTEs per $BN.

4. Reporting

Spreadsheets typically abound for management and financial reporting processes, but the real risk is often borne much earlier. Many reporting errors can often be traced back to underlying transactional issues within AR or AP, intercompany accounting, transactional or balance sheet reconciliations, or other areas. In a recent BlackLine study of over 1,100 C-level executives and finance professionals, over half (55%) of respondents said they are not completely confident they can identify financial errors before reporting results. In fact, nearly 70% of global business leaders and finance professionals claim their organization has made a significant business decision based on inaccurate financial data.[12] A study by Hackett found that transaction error rates for different processes are anywhere between two to five times lower for world-class organizations when compared to their peers—resolving issues that would otherwise have to be caught later in the close, or flow through to financial reports.

5. Analysis

While there are constant conversations about finance becoming more strategic and acting as a better business partner and advisory, this requires a fundamental shift in resource allocation. Currently, only a fraction of finance FTEs are devoted to planning, analysis, and reporting. A FERF study found that just 7% of finance staff are devoted to budgeting and analysis, and about 6% are focused on financial reporting. Organizations that have successfully reallocated more resources toward planning, forecasting, and reporting grew those teams by an average of 38%, typically by reducing transactional accounting work by 25% (Source: Hackett). It's important to recognize that improving transactional accounting processes doesn't only free up resources, it also makes the job of reporting and analysis easier by improving the accuracy and availability of data.

[12]*Mistrust in the Numbers, a BlackLine Study into the Potential Global Scale of Financial Data Inaccuracies*

"Competing today requires accurate data to support increasingly complex growth strategies. The demand for financial information isn't just each month, but weekly and for some companies daily. This is not a problem that can be solved by adding more humans to process more data or reports. Greater transaction volumes, more complex operating models, and demands for greater business insights will need improved application of process automation and improved data models."

—RALPH CANTER, MANAGING DIRECTOR, FINANCIAL MANAGEMENT, KPMG

Ten Enablers for Moving the Dial

I. Improve shared services efficiency

Like most finance organizations, you're probably running a shared service center (SSC) and there's likely substantial room to improve. Process standardization and re-engineering rather than just shifting processes can create further savings of 15 to 20% that can be driven to the bottom line, or reallocated to strategy and analysis.[13]

II. Reduce manual accounting

One of the most labor intensive and manual accounting resources remains reconciliations. On average, 48% of North American companies do this work manually.[14] Automating the process using Robotic Process Automation can cut effort devoted to it by 50%, by automatically reconciling low-risk accounts and using exception-based analysis.

III. Streamline intercompany accounting

With growth in intercompany accounting likely in finance's future, it's important that it doesn't overwhelm accounting teams or block future strategy and analysis initiatives. Many organizations see intercompany issues around disparate processes across business units and divisions[15], and it is the fifth highest driver behind restatements.[16] Centralizing transactions, documentation, pricing, and approvals enables organizations to mitigate growing resource and regulatory risk.

[13] *An Operating Model to Reach Strategic Goals,* Accenture
[14] *2019 Benchmarking the Accounting and Finance Function,* FERF
[16] Audit Analytics

"By 2024, 60% of upper midsize organizations and large organizations will employ cloud-based applications to improve their financial close processes."

—CRITICAL CAPABILITIES FOR CLOUD FINANCIAL CLOSE SOLUTIONS, NOVEMBER 2019, GARTNER

IV. Controls and close orchestration

A faster close can come at the risk of compromising the granularity of closing tasks—key reconciliations, specific entity intercompany tasks, or approval and review cycles. But doubling down on the detail can mean getting bogged down with managing the process itself, juggling emails, manual spreadsheet-based activities, and task checklists. Close automation technology provides scheduling, centralized checklists, and approval management to accelerate the close without creating risk.

V. Continuous Accounting

Continuous Accounting, a natural evolution of traditional Record-to-Report procedures, is a process shift of conventional period-end activities to occur over the course of the month, as they happen. Ideal targets are transactional, intercompany reconciliations, and approvals. By shifting workloads from period end, accounting gains more efficient utilization of resources and lessens uneven workloads—which often rank high on accountants' frustrations with their role.

VI. Automation

Finance automation technology has grown in popularity over the past few years, with the potential of 30-40% efficiency gains by applying the technology.[17] Finance automation technology is the use of rules-based technology to simulate traditionally human-based tasks. It's ideal for introducing consistency and automation at scale, for matching transactions, identifying variances, scheduling tasks, and directing workflows. Automation provides a foundation to reduce transactional accounting effort and risk, and reallocate resources to budgeting and analysis.

VII. Retain, retrain, and reallocate talent

Talent is perhaps the most important enabler for finance transformation success. Communicate the benefits of automation—research shows that employees recognize the value. Use the fruits of automation to retrain talent. Proactively create and communicate an organizational roadmap around changing roles, business processes, and talent development initiatives.

VIII. Cloud Financial Close Solutions

Now mainstream, most finance professionals see the majority of their finance systems being in the cloud within the next five years.[18] However, ERP applications, where the bulk of transactional accounting takes place, remain firmly on-premise. Cloud Financial Close Solutions apps work with existing ERPs to enable Finance to improve and optimize tasks like journal entry management and detailed high-volume reconciliations. Gartner predicts that 60% of upper mid-size and large organizations companies will adopt these apps by 2024.

IX. Continuous planning & forecasting

Finance organizations are moving to rolling forecasts to improve accuracy by factoring in the latest drivers and actuals. The biggest challenge remains getting the latest financial data into the models for analysis, without adding spreadsheet complexity. Creating a point-in-time financial close can help, because it doesn't just mean a faster close—it helps ensure the latest financial data is readily available at any time in the month, not just at the end, to drive rolling forecast models.

X. Institute process benchmarking

Finance transformation is a function of many different improvements: the speed and responsiveness of different close processes, error rates, forecasting accuracy, required FTEs, and many more metrics. Measuring current processes and monitoring improvements provide a blueprint to measure the success of finance transformation initiatives. Modern Cloud Financial Close Solutions provide reporting on internal process performance, as well as benchmark against peer groups.

[17] *PwC 2019 Survey of 700 finance Functions*

[18] *The Future of Finance Systems Global Survey 2019, Modern Finance Forum*

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