Future Finance: The Heart of Tomorrow’s Business

How to build a truly modern finance function, and why it’s critical that you do so.

Part 1

A Prophix UK whitepaper
# Contents

**Introduction**  3  
**Part 1: Defining the Modern Finance Function**  4  
  - Key Features  5  
  - Key Roles and Skills  9  
  - Measuring Return on Investment  10  
  - Best Practice Case Study: Solarcentury  13  
  - Conclusion  15

---

**Published by:**  
Prophix Software Inc.

**Copyright Notice:**  
Copyright Prophix Software Inc. © 2015. All rights reserved. No part of this document may be copied without the express written permission of Prophix Software Inc.
Introduction

The business world is accelerating. The proliferation of high-powered, low-cost technologies and global communications platforms is driving increased competition and more rapid change than ever before. The turnover of companies on the stock market has never been more rapid*. Patent applications are at an all-time high, and the rate of increase continues to rise**. International barriers have fallen, opening every geographic market to cheaper international competition. Just to survive companies are having to compete harder and optimise further. To truly succeed they are having to constantly re-invent with never-before-seen levels of agility.

The tools of performance in this digital age are data-based. IDG reports that a third of IT budgets are now allocated to ‘edge’ technologies associated with customer data: Social, Mobile, Analytics and Cloud***. Though this emphasis has placed greater control of corporate data in the hands of IT and marketing, its natural home is the office of numbers. The office of finance.

To secure its role at the heart of tomorrow’s agile organisation the modern finance function has to evolve. It has to be hyper-efficient at collecting and reporting the information that matters across the organisation. It has to provide foresight for the leadership, enabling smart, informed decision-making about future strategy. And it has to be robust, protecting the organisation from regulatory challenges with a smart approach to compliance.

Achieving a truly modern finance function isn’t a purely technological challenge. There’s no system that can be bought off the shelf to deliver advancement. It’s about the understanding of the leadership, the training of the staff, and the design and implementation of strong processes.

This two-part paper outlines some of the key factors in delivering the modern finance function, from software to soft skills, key challenges to major opportunities.

** http://www.shandp.com/increase-number-patent-applications/
Part 1: Defining the Modern Finance Function

Most departments within a large organisation are only charged with looking in one direction. Sales and marketing look forward: ‘where’s the next success coming from?’ Production and distribution look forward: ‘how do we make the right number of the right things and get them to the right places?’ Support and customer service look backwards: ‘how can we support the sales we’ve already made?’

There might be brief periods where their attention switches (‘why didn’t we close that sale?’, ‘how can we avoid that mistake next time?’) but for the vast majority of the time, their attention is wholly focused in one direction.

Finance is the exception to this rule. Finance is charged with looking backwards and forwards, always expected to take account of prior performance when forecasting the future.

Of all departments, finance has the best perspective on the company’s progress as measured through time. It also has the broadest reach across the company in terms of connections. Ultimately almost everything a company does is routed through finance at some point.

Perhaps it is this breadth of reach and perspective that has started to change the perception of the finance function within the business. Just a few years ago finance remained the dull, functional but vital department that did the necessary number-crunching. Today, the finance department is increasingly a driver of strategy and leadership, not just a support function.

Evidence for this shift comes from many sources. For example, the increasing propensity for CFOs to go on and take the CEO role. A 2014 BearingPoint study of Global Fortune 500 CFOs found that over the preceding 10 year period, 26% had transitioned to CEO, either in their own or another business.

Perhaps the finance function has ridden the digitalisation wave? Finance was where the IT department started in many companies and it remains under the reporting line of the finance director/CFO in a significant proportion. As IT has become an increasingly core part of every business, so finance’s role has been more visible.

Finance always becomes more important in times of uncertainty - something borne out by the BearingPoint study, which showed that financial uncertainty always boosted the CFO’s case for the top job. Though the post-crash years have been difficult, you can argue that we are now entering a period of unparalleled uncertainty - not just financial but existential. The accelerating pace of change in world business means that companies will be more reliant than ever on the ability of the finance function to look forwards and back, and to link the disparate functions of the company in to a coherent and comprehensible whole.

This is what we mean by the modern finance function and this is why its development in all organisations that want to survive and thrive is vital.
Key Features

Lots of organisations have tried to define the modern finance function, using a variety of different terminologies and approaches.

Gartner Maturity Model

Perhaps most famous is Gartner’s Maturity Model for Corporate Performance Management. This breaks the transformation from a ‘traditional’ finance function through to modernity across five steps.

• **Level 1** describes an organisation performing CPM processes in a highly inefficient manner. This level typically involves the use of only spreadsheets or a combination of spreadsheets and homegrown or outdated products to consolidate financial results, manage the budgeting process and provide rudimentary financial analytics. Finance personnel are accustomed to producing analytics themselves using spreadsheets.

• **Level 2** describes an organisation that has implemented one or more CPM applications to address the following tasks:
  » Consolidation and close
  » Financial reporting
  » Budgeting
  » Planning and forecasting

Efficiency and accuracy have increased as a result of implementing these applications; however they largely support siloed processes.

• **Level 3** describes an organisation that has implemented several CPM modules that continue to capture additional efficiencies within finance and create business value through greater operational insight, collaboration and organisational agility. CPM is no longer seen as a set of applications exclusively used within corporate finance.

• **Level 4** describes an organisation with a comprehensive CPM approach that is moving toward a performance management and data-driven analytic culture. Financial planning processes are dynamic; they can be conducted as frequently as changing business conditions require, having been compressed by improved application ease of use and performance.

• **Level 5** describes an organisation operating at the pinnacle of CPM maturity. It portrays a comprehensive CPM approach that supports a culture driven by performance management. Although achieving this is rare, and the climb to this level is fraught with cultural and technical barriers, it serves as a model that espouses superior practices, some of which are not yet fully supported by available CPM solutions.
"Reaching Level 5 means the organisation uses key information to link strategy through to operational decisions. It requires multiple sources of information inside and outside the business. I’ve come across very few organisations working at this level. The finance department is a key part of achieving this, but only if they change their culture. Historic internal information is easier to find and thus suits accountants who like certainty, but doesn’t directly focus on decisions. Accountants need to ensure they’re looking forward for decisions not back."

Dara Ingoldsby
Head of Professional Services – Prophix Software
Forrester's Five Keys

In the April 2015 report, ‘The EPM Market Landscape Responds To The Growth Agenda And Digital Disruption,’ analyst firm Forrester Research expresses many of the same ideas in a slightly different fashion, it refers to ‘Five Keys To Next-Generation Planning And Enterprise Performance’.

1. Dynamic planning: iterate models continuously.
2. Integrate planning and performance across lines of business.
3. Predictive planning and analytics: build predictive models.
5. Align with growth (focus on customer business value).

Modern finance expert and CEO of FSN Gary Simon offers his own recipe for success, incorporating some key human aspects of development, notably ‘better business partnering’, and a ‘commitment to talent management’. He too stresses the importance of data-driven decision-making, and a ‘commitment to process standardisation and automation’ as key components.
As we can see, there are some clear, common themes here. The modern finance function can perhaps be defined by key characteristics. It is the custodian of data within an organisation but the reach of this data, in terms of both collection and communication is broad. Finance is partnered with every aspect of the business to help measure performance and support strategic decision making. Supporting this capability is a high degree of automation, reducing manual effort and minimising risk.

Three Core Functions

Perhaps most simply the modern finance function can be defined by comparing it to the past in three core areas of capability: compliance, reporting and planning (budgeting and forecasting).

In the modern finance function, compliance, an often manual and burdensome task becomes ‘smart’ through advanced automation. This increases clarity, cutting risk of failure and releasing resource for high value activities focused on developing the business, not just protecting it.

Reporting stops being about yesterday and becomes increasingly focused on today. By delivering valuable ‘operational intelligence’ across the business in a timely fashion, the modern finance function becomes a key ally of all operations departments.

Instead of an annual trudge through probable expenditure, planning becomes a process of acquiring and qualifying strategically valuable foresight. An exercise that delivers educated insight into likely performance and alternative possibilities, respected and valued by the executive leadership.

A Framework for Success

Breaking the development challenge down into these core finance functions makes it easier to tackle and gives a framework for recognising returns on your investment - both quick wins and long term strategic value. Over the course of the two parts of this paper, we will refer back to these three core functions and make recommendations about how to assess your progress and make the next steps in developing them.
Key Roles and Skills

The modern finance function stretches the skill set of the finance team and its leadership. New technical skills are required alongside a ‘softer’ set of skills for communication and collaboration, since the modern finance function must reach beyond its own walls and achieve partnership with many aspects of the business in order to maximise value.

Perhaps the greatest personal challenge in the modern finance function is to the leadership. This transformation presents great hurdles in the development of skills and technology across the department, but it also presents a personal opportunity. A successfully completed transformation arguably opens up the path from the CFO’s office to the CEO’s office.

Three key skill areas have increasing value across the finance team. To some extent all members of the team are likely to need these skills, though some may be more focused in particular roles.

Communication

Partnering across the business to collect, share and analyse data means building relationships and communicating effectively. This is not always a skill that has been held in depth in the finance department, where an affinity for numbers was perhaps prized ahead of an affinity for people. Formalising the training and evaluation of networking, information gathering and presentation should become a core part of talent development.

Systems Thinking

Automating functions requires a very different skill set to manually processing them each time. The ability to understand basic tenets of programming, such as loops and functions, variables, inputs and outputs, will be enormously prized in future finance teams, especially where combined with strong financial literacy. Training in hybrid finance/IT skill sets is likely to be a growing demand, and one that universities are yet to meet.
Planning and Analysis

The finance function will spend an increasing proportion of its time on forward-looking activities as retrospective functions can increasingly be automated. This ability to offer foresight and intelligence to drive better decision-making isn’t yet widely held. Understanding both the principles and the broad business context, and having the skills to manipulate data using the relevant tools will be a valued combination.

Measuring Return on Investment

Transforming the finance function to achieve smart compliance, and deliver operational intelligence and foresight, requires investment of both financial and political capital. Change is never easy so there has to be really strong evidence that this effort is going to deliver a return. Fortunately there is strong anecdotal evidence from companies who are on the road to total transformation, and the analyst firms are clear about the opportunities.

If that is true, and we strongly believe that it is, then transformation is not optional. The returns are more than potential gains, they might be about survival if competitors gain greater agility through this change.

Let’s explore some of the specific returns more directly. Speaking to some of Prophix’s customers, these are some of the benefits they have seen as they move along the road to a truly modern finance function. You can read their stories later in this document.

“For the overall economy is now in a growth mode and many businesses see growth opportunities as a result of changing business paradigms in the digital age. These growth opportunities highlight the need for speed, flexibility, and insight from planning and performance processes.”*

Forrester’s report

* The EPM Market Landscape Responds To The Growth Agenda And Digital Disruption, April 2015, Forrester Research
From ‘Compliance’ to ‘Smart Compliance’

In an ideal world compliance is a state not a process: at any time regulators could take a snapshot of the organisation and see all of the evidence they need without additional work. This ‘state’ approach has additional benefits: the organisation is always in a state of readiness for corporate activity: M&A, due diligence etc are all much smaller jobs of work, speeding execution.

**Key returns:**

- **Released human capital:** the investment in automation software is offset by the release in human capital. This may be an opportunity for cuts but in reality the growing demands on finance as outlined above mean this is most likely a chance to reallocate resource to high-value tasks like operational intelligence and foresight.

- **Reduced risk:** Better to know you are always compliant than to know there is a large job of work to be completed in order to check.

- **Greater transparency:** Companies confident in their compliance can afford to be more open, increasing trust with partners, customers and shareholders.

- **Operational readiness:** A constant state of preparedness enables greater agility in the executive team, speeding mergers and acquisitions, and other corporate activity.

From ‘Reporting’ to ‘Operational Intelligence’

The key transition here is from backward-looking to present-day. The systems and tools exist to enable near-real-time feedback from finance to the rest of the organisation. And the benefits are numerous in terms of operational agility, insight and cohesion.

“It’s a huge quantum leap for the business. It allows quicker decision making and it allows the executive to feel that they are making more informed decisions.”

Tony Crawte,
Group Financial Controller at Solarcentury
• **Informed decision-making:** Current data in a compelling form should drive better decision-making around products and markets, purchasing and supplies, and enable sales and operations to recognise opportunities and efficiencies. For example, live profitability analyses of different products and markets can shape investment during the financial year.

• **Streamline international operations:** As organisations grow, both organically and through acquisition, reporting becomes increasingly problematic. A truly modern finance function extracts meaning from international data and reports it with clarity, enabling greater insight into operations.

• **Real-time customer insight:** The numbers can sometimes tell what the customer won’t. Companies on their way to developing a modern finance function report data from finance driving customer interactions.

### Planning to Foresight

Planning is such a limited exercise, one that most in an organisation see as a chore not an opportunity. Instead it should be a collaborative business planning exercise that exposes hidden truths and creates an opportunity to look beyond the next 12 months.

• **Increased accuracy:** Forecasts should indicate contribution margins by customer, by product category, by region and more

• **Multidimensional modelling:** Not just one budget but a detailed array of scenarios, easily tweaked to answer multiple “What if” questions

• **Resource capacity aligned to sales expectations:** Match supply and demand, whether it be manufacturing or services

• **Reconciliation of cross-functional planning:** Logistics, Sales, Product Development and Finance all may have a view of the world that require alignment to release the synergy of the whole team pulling in the same direction.

Much of this value is about the power of data outside the finance function. That’s why there is a good chance that it won’t be the finance function that initially pushes for some of the investment required to deliver this transformation.

The growth in business intelligence and marketing analytics has fuelled a hunger for data across the enterprise. Developments in technology mean that the solutions that deliver the answers the organisation seeks are no longer deeply technical. Unless the finance function and its leadership take ownership of the development and distribution of this data, it may be overtaken and excluded, rather than being a leader.
Best Practice Case Study: Solarcentury

Solarcentury faced the same problems that all companies do when they rely on spreadsheets for their financial processes: broken links and formulas, inaccuracy, version control and wasted time. Having learned about the benefits of using Corporate Performance Management (CPM) software, however, the company sought to do more than automate reporting and budgeting; the finance team recognised that by building out the detailed analysis of their company’s information, they could make better business decisions and effectively revamp their long term strategic planning. They set out to build a modern finance function.

Solarcentury now uses multidimensional business modelling to track and analyse the company’s performance. These models allow Prophix users to evaluate financial and non-financial information together, and the cubes interface with each other.

Rather than simply determine what has happened in the past, Solarcentury can use the number-crunching power of its cubes to predict future performance, providing foresight and operational intelligence to C-level stakeholders in order to support important decisions.

The Value of Sales Analysis

Solarcentury uses its revenue planning cube to outline the profitability of its primary channels, including solar farms and rooftop solar installations, across geographical locations. As such, the leadership can precisely analyse sales and potential sales in the UK, the Netherlands, Kenya, Ghana, South Africa, Mexico, Panama and Chile. This operational intelligence is central to deciding where and how to focus their business.

When Solarcentury’s employees login to the software, they can see their margins in the cube and conduct margin analysis by project type, country, salesperson, customer, month, or order, slicing and dicing their information using simple drop-down menus to weigh an infinite number of scenarios.

At the leadership level, Solarcentury conducts internal management reviews to see which customers are spending what—deciding why that is and what it means. Their sales reports also show where the sales reps stand in relation to their targets and in relation to each other. In effect, this ensures that the sales reports—and the decisions that management makes based on this ongoing reporting—drive the behaviours of the sales team.
Financial Consolidation and Reporting

Today, Solarcentury has fully consolidated global financial reporting with a clear audit trail. Members of the finance team can easily build their own reports (or even additional cubes) to meet new reporting requirements.

Solarcentury’s users can see the company’s updated debtor, creditor and stock information changing in hours not days. The company automatically generates a daily cash report with balances and currencies across countries, outlining free cash and available cash, cash by bank (with percentages), which countries they have cash in, and which currency types they own. The CFO reviews this information every day. Other team members view the data to ensure that they keep their payments up to date.

Future Plans

Solarcentury recently began using Prophix for the entirety of the planning process, with almost all of the senior management team either inputting into Prophix templates/schedules directly or via offline templates.

The finance team also plan to further develop an overhead allocation process that will enable them to forecast the net profit of a country or division. Currently, this data outputs from historical actuals and the budget, but not from a rolling forecast. Leveraging a rolling forecast will offer them clearer, more accurate updates of their performance and with this foresight they can make better business decisions.

Over the coming year, Solarcentury will have more of their business departments use the software, which will help the monthly forecasting to become a collaborative process.
Part 1: Conclusion

The modern finance function is a response to a number of challenges facing today’s enterprises of all sizes. The pace of market change is accelerating, and organisations need an accurate and rapid feed of information from the front line to management across all functions in order to respond. The only department with a single view of the ‘truth’ as it will ultimately be represented to a company’s stakeholders is finance. But too often the finance department has been focused on the past not the future, dealing with data about the past quarter, when what the organisation needs is intelligence about today and tomorrow, or even the quarter and year to come.

In order to deliver this, finance departments need to evolve, automating crucial but base functions in order to reallocate resource to more current and forward looking.

Achieving this transformation requires investment in technology. But it is arguably as important, if not more, to invest in skills both soft and hard. Either existing teams need to be trained or new members recruited, with planning and analysis, and hybrid IT/finance capabilities. Across the function, communications skills need to be enhanced to facilitate a richer, two-way relationship with the rest of the organisation.

Most important of all is that the function is led with vision. A clear vision that recognises what the organisation needs, and how to deliver it.

In Part two we will elaborate further on practical steps you can take today to get on the journey to building a modern finance function and how to overcome the barriers that may well appear along the way.
About Prophix

Prophix develops innovative software that automates critical financial processes such as budgeting, planning, consolidation and reporting—improving a company’s profitability and minimising its risks. Thousands of forward-looking organisations in more than 90 countries use software from Prophix to gain increased visibility and insight into their business performance.