Future of Finance:
Today’s Reality (2017)
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Introduction: The Office of Finance – An Ongoing Evolution

What does the future finance function look like? To answer that, we’ve gathered evidence from major analyst firms, key influencers in the finance domain and professionals from across the industry. We combined this with our experience from over 3,000 global customer implementations to develop a picture of a finance function that is deeply integrated with every strand of the organisation, informing decisions with solid operational intelligence. This future finance function is called upon for strategic insight and is as capable of modelling future events as reconciling those in the past. These capabilities are built on a robust platform of automation, minimising risk and maximising the focus on adding value.

Having built and validated this ideal with Prophix, we began to ask finance professionals from across the industry how close their organisations were to achieving this goal.

The resulting report is based on the detailed responses of 40 finance professionals who share their journey. It is a comprehensive analysis of their cumulative progress and represents a number of organisations across public and private sectors in the UK and internationally.

Our report reveals that some organisations are making great progress towards achieving a more enlightened, forward-looking finance function. In these places, finance is truly a partner to the rest of the business. Elsewhere, finance remains isolated and is suffering from an under-investment in skills and technology.

It is clear that everyone is at a different stage in their journey to achieving a more modern finance function. A future finance function can ensure your business adapts quickly in a world of accelerated change, which will reduce risk in an environment of costly compliance and oversight. By implementing this approach, organisations can ensure decisions are made based on solid evidence, not just instinct.
Section 1: Smart Compliance

Smart compliance is when an organisation meets its statutory compliance requirements in the lowest-friction, most robust manner possible. Compliance becomes a state, not a process, freeing finance professionals to support their business and partner with their peers in product, marketing and operations.

Smart compliance starts with good data and so, the first question we asked is: where does financial data reside in your organisation?¹

Data: systems or spreadsheets?

Most of the organisations surveyed (75%) responded that financial data exists either in an ERP system or in a dedicated accounts system or general ledger. Digging into these replies with clients, we found that a majority of finance data still exists in spreadsheets, even in those organisations that have notionally moved over to an ERP system or similar. A quarter (25%) of organisations keep their data in spreadsheets and/or an assortment of specialist applications. From this first question, it is clear that a significant proportion of respondents are still at the earliest stages of their journey to a modern finance function.

25% of organisations surveyed still keep finance data purely in spreadsheets.

Spreadsheets and specialist applications isolate data and create risk, with little ability to validate data or models. They require large amounts of manual effort in data input and manipulation. They also risk concentrating knowledge in a small number of people.

Spreadsheets can also create uncertainty in the quality of data. Just 20% of respondents report complete confidence in their data.² 60% say they mostly trust data from their source systems – their ERP, accounts systems and general ledgers listed in question one - but some verification is needed for manual data.

This result is worrying as it only takes one wrong data point, say an inaccurate sales forecast or a wrongly allocated cost to wipe millions, if not billions, off the share value of a listed company. In a worst-case scenario, a severe error could cause a CFO to go to jail.

Part of the result of this lack of trust is an increased requirement for manual checking. 15% percent of finance professionals say they have to manually verify data in reports by referring back to the source. A further five percent have to manually verify data with colleagues. This represents a huge overhead for the finance function, trapping staff in data drudgery when they could be adding value to the business.
Creating, maintaining and sharing reports

The widespread use of spreadsheets also extends to the publishing of reports. Over half of the organisations surveyed still publish reports on-demand using spreadsheets, presentations and Word documents. Rekeying data from a source system to a report effectively doubles the risk of an error entering the process. Even if the calculation and aggregation is correct in the source system, there is a real risk that this won’t make it through to the report in the same manner, due to the inherent risk of manual manipulation.

One fifth of respondents distribute reports to a schedule using shared systems – a more robust and low-friction method of sharing information. Another fifth operate a live management dashboard, ensuring instant access to key metrics.

For those reliant on spreadsheets, the skills of new report creation are often exclusive to just a few professionals, which creates risk. Three quarters of the companies surveyed said that all new reports are produced on spreadsheets by one or two key finance staff. More than 10% are reliant on analysts to prepare reports, with a complex design and approval cycle. Less than 10% of organisations have a common business model where business users can maintain their own reports.

Updating reports - changing the source data, time-period, content or format of what is produced - can be even more painful than creating them. Just 5% of those surveyed said that updates to their reports are instant, which allows them to meet changing requirements. For 25% of companies, updating reports takes multiple days of work and IT has to get involved. A further 40% say that it takes more than a day.

This level of manual input for a simple operation is hugely problematic for a department that is crucial to supporting good decision-making, which slows management response to changing situations, creating a drag on the productivity of staff.
In our experience, when reports are slow and complex to produce, the content of the report is often questioned less. The rigour of producing the report creates a sense of value that often isn’t there for the business. Likewise, when changing the report is complex and time-intensive, people are reluctant to ask for the data they really need, especially if that need changes frequently. The result is that finance teams are often devoting huge amounts of time to reports that add little real value, while the business is lacking the information it needs.

Automating reporting isn’t just about saving finance’s time, it’s about accelerating the flow of information to those who need it in the business. Whether it’s production ordering inventory against forecast need, or sales identifying opportunities, or changes in customer behaviour.

Section 2: Operational Intelligence

Operational intelligence is about the role of the finance function in informing the rest of the business, leveraging financial data to drive better decision-making about customers, markets and products. Operational intelligence requires a solid foundation, established for smart compliance. This intelligence then adds additional value by developing the role of the finance department as the home of insight inside an organisation.

Timely analysis

Timely analysis is key for operational intelligence, so we asked our panel of finance professionals: what frequency of analysis would enable them to make meaningful adjustments in their organisation? 

![Figure 2. How often are you able to deliver analysis at the frequency that would allow you to make meaningful adjustments to the business?](image)

Over a third of respondents are happy with monthly intervals – or longer – and feel that these intervals are sufficient to make meaningful adjustments to their business. In a world of same-day deliveries and high-frequency trading, this seems like a relatively long time-span but it can be sufficient in many industries.
20% of respondents seek daily analysis or better, with one in eight saying that intra-day or live analysis is critical to their business. It is possible that some sectors require more frequent data because they are responding to fluctuations in demand, currency prices or commodities. Other industries may be less volatile.

As new technology and globalisation reaches more and more sectors, remaining competitive may come to mean responding at a higher speed. The inability to keep pace with an accelerating market has cost many companies already. Given this risk, and the potential benefits of higher-frequency analysis, it seems like an obvious route to explore early, even in those sectors that are less volatile.

Whatever your current goal for frequency of analysis, it’s clear that achieving that goal is a challenge. More than 40% of respondents only occasionally, or never, hit their own target for reporting frequency.

Perhaps the reason for this is the way that data is collated for analysis. Half of respondents say that data collection is fully automated, pulled directly from source systems into analysis tools, the other half are reliant on manual data collection.

Of those, the majority are pulling information from a variety of sources in a time-consuming fashion.

If it’s true that all sectors are moving towards a requirement for faster analysis and response, then this may be a potential breaking point for many companies. Manual collection and collation can only be accelerated so far, even with greater investment in labour to do that processing. As a result, all industry verticals should be looking at automating collation into reporting and analysis tools today.

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**Figure 3.** The key to timely analysis is the ability to access and organise data for analysis. How is this managed in your organisation?

- **35%** of respondents are manually pulling information for analysis from multiple sources.
- **12.5%** of respondents are pulling information for analysis from multiple sources.
- **12.5%** of respondents are pulling information for analysis from multiple sources.
- **40%** of respondents are pulling information for analysis from multiple sources.

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**35% of respondents are manually pulling information for analysis from multiple sources.**
Who has access to operational intelligence?

The majority of respondents report that the analysis and intelligence they produce is widely shared in their organisation, though anecdotal evidence suggests a big disconnect between what is shared and what is read.9

Still, in 17.5% of companies, intelligence produced by finance is restricted to finance users.

Where intelligence is more widely shared, it is mostly in static formats.10 57.5% share operational intelligence on-demand via spreadsheets, presentations and documents, suggesting there is extensive manual effort in their production.

20% share information on a schedule via shared systems and a further 22.5% use a live management dashboard.

None of the respondents share intelligence in a format that allows users to interact with the data. This worrying fact speaks to the level of engagement between finance-generated data and the other functions of an organisation. Rather than a partnership or conversation, this type of sharing implies a one-way relationship.

Our research suggests that finance will increasingly need to interact outside of its own function, working closely with other business units to inform decision-making closer to operations. Sharing data in static formats suggests many organisations are still a long way from true business partnering.

![Figure 4. Who has access to operational intelligence?](image)

Sharing data in static formats suggests many organisations are still a long way from the goal of true business partnering.
Profitability: analysis and modelling

Almost all respondents can track, analyse and forecast profitability but at differing levels of granularity.\textsuperscript{11} 15\% have the capability for detailed profitability forecasts and over a quarter can break data down across products, services and customers.

Pushing this analysis out to the future, to look at new product or service costs, 40\% of respondents said they would have to create new models from scratch to make such predictions. 25\% said they could ‘easily’ provide accurate cost calculations. Only 10\% said that the relevant business functions have the tools in their own hands to model costs.

Collaboration on analysis

The consultation of finance when other departments are planning new initiatives is also extremely varied.\textsuperscript{13} In the best cases (25\% of respondents), new initiatives are always collaborative, multi-disciplinary efforts. A further 32.5\% say finance’s input is sought at the outset. But for 35\% of respondents, finance is only consulted after key decisions have been made. 7.5\% say finance isn’t involved at all.

This would be less of an issue if the skills to extract data from reporting systems were more widely held in the business.\textsuperscript{14} However, just 5\% of respondents say this is the case. Over a quarter of companies rely on just one person who understands their reporting systems, and 10\% of respondents say no one person in their organisation has a full understanding of all reporting systems.

A faster world needs sharper insight

Seeking better information is a smart response to an accelerated world. Finance could, and should, be the home of such insight in the business. Yet, the finance function does not have a role at the heart of many organisations, certainly not when it comes to planning for the future. In only 25\% of organisations does finance play a role throughout the new product development process. More say that finance is only consulted at the end of the planning process – or not at all.
Finance can only operate as a true partner to the rest of the business, engaged in key strategic decision-making, when it can provide the information the business needs. Our data indicates that only a minority of finance functions can do this today with confidence.

Systems are clearly part of the answer to this problem. No reasonable goal for frequency of analysis can be met when the collation and analysis of data is largely manual. Reaching this goal also becomes a question of skills and of leadership. Effective partnering is about earning and owning a place in the strategic decision-making process, something that requires the skill to deliver on objectives and communicate effectively. Only with the right investment of money and political capital from finance leadership will these things come.

**Section 3: Foresight**

Finance teams tell us they spend a lot of time looking forward. Yet, this future planning often doesn’t do enough to inform business strategy. The shift from budgeting and planning to true foresight is about the ability to leverage data to build a collaborative vision for the future of the business, based on solid evidence and credible models.

**Budgeting: time-consuming and difficult**

For the majority of respondents, the budgeting cycle is difficult and time-consuming. 10% say that their budgeting cycle consumes three months or more each year. However, we had some respondents tell a more positive story, showing us that there is a better way. 35% say that budgets are more easily achieved, using small amounts of time from many contributors to create a single plan.

![Figure 6. Our budgeting cycle takes...](image-url)
When it comes to the tone of the budgeting conversation, the numbers are similarly split. 5% of respondents say that planning and budgeting are a battle in their organisation. A further 40% say that these critical functions are run purely as a ‘top-down’ process. This is never going to secure honest and open input from across the business and is likely to miss key insight from those closest to customers, markets, suppliers and partners.

7.5% say budgeting is a dialogue but an uncomfortable one. The remaining respondents though - nearly half - say that planning is what it should be: a collaborative process.

### Planning horizons

There is a limit to how far an organisation can look to the future with any reliability to its models. The most common planning horizon reported by our respondents is the end of the following year, with detailed forecasts for the current year. 32.5% plan 12-18 months ahead on a rolling basis, with 12.5% of those looking a further three to five months beyond – at a high level.

55% of respondents cannot consistently roll forward projections across the business beyond their current planning horizon into more long-term views – three to five years ahead. Of those, the majority can look further out in some areas but it is an incomplete picture with missing data and models for some key areas of the business.

45% say they can use today’s assumptions to model tomorrow, and 12.5% always do, giving them a head start on key strategic decisions for the business.
Budget and strategy alignment

When asked if budgets are aligned to their strategic plan, 12.5% say that there is no explicit reference to strategy in their budget - it is referenced only to the previous budget.19 This fits with the anecdotal evidence gathered; planning is not about what tomorrow might be but rather a version of yesterday, plus or minus whatever variation business management can agree on. This is the source of much of the rancour in those organisations where planning and budgeting is a battle.

45% say that strategy is only referenced at a high level in the budget. 30% say the two are closely aligned. 12.5% say that the strategy is the starting point for each budget, as it should be.

The reason this is critical was best summed up by John Chambers, former CEO of Cisco. “Companies fail,” he said, “because they make the classic mistake of doing the same thing for too long.” Strategies are about change but if the budget is routed in the status quo, then change will always be hard to bring about.

Budgets and the business

The good news though is that although budgets may not be aligned to strategy, they are generally aligned with the key operational drivers of the business.20 Almost half of respondents say their budget is closely aligned with all operational drivers and a further 20% say that it is closely aligned to sales planning, if not operations. 7.5% still have work to do, reporting that the budget format and time-frame exclude any influence from operations.

45% of companies say that strategy is only referenced at a high level in the budget.
A more mixed picture returns when asking how non-finance staff view the planning and budgeting process. 40% of respondents say non-finance personnel see the planning cycle as helpful, and 22.5% treat it as a key part of their own planning cycle. But 32.5% of respondents say their colleagues outside of finance see planning as a requirement that has little value to them.

Worse, 5% see it as a total waste of time. This, of course, is how finance professionals interpret their colleagues’ opinions. If we asked these colleagues directly, we may find the number is much higher.

This may be why 7.5% say finance runs the planning with little external engagement. Or perhaps it is this lack of engagement that leads some to believe planning is a waste of their time. 17.5% say they gather ‘some’ external input.

For the clear majority (67.5%), planning is conducted by finance but involves collaboration with the rest of the business. 7.5% say planning is an ‘organisation-wide collaborative effort.’
When it comes to tracking performance against plan, the most common approach is tracking lines of business against budgets. 23.75% of respondents are more sophisticated, adapting KPIs over time with the budget acting only as a starting point. 15% admit there is more retrospective conciliation than ongoing measurement.

Better analysis tools make it easier to track forecast accuracy, as well as performance against budget. This avoids any gaming of the budget that sees consistent over-achievement – something that can be as destructive to the business as under-achievement, incurring additional costs or stressing production or service delivery into failure.

**Finance and insight**

Finance’s role in providing insight to the business varies widely across organisations.24 Given that the realities of the business’s successes – and failures – are captured in numbers flowing through finance, the scope for providing insight is clearly great. But for 22.5% of respondents, finance is purely about balance sheets and cash flows.
35% look to future revenues, costs and funding needs – perhaps the larger extent of a traditional finance role. 32.5% say finance offers insight into future operational challenges, which demonstrates that finance data is starting to be applied to modelling the rest of the business. 10% are using finance to analyse market opportunities and customer behaviours.

A similar split appears in responses to a question about finance’s role in strategic discussions. 47.5% say finance’s role in strategic discussions is to validate plans based on current performance. 12.5% limit this role even further, to providing historical evidence – actuals – of performance.

20% of respondents say finance is responsible for testing and validating other people’s hypotheses. 22.5% say finance takes a leadership role, responsible for defining and modelling the scenarios.

For a concerned – and concerning – 7.5%, business decision-making is based on management intuition. 15% use historical trends and run-rates. 35% combine intuition, historical trends, run rates and predictive analytics.

22.5% say finance takes a leadership role in strategy, responsible for defining and modelling future scenarios.
Strategy is not retrospective

60% of respondents say that in their organisation, finance’s role in strategy is limited to validating plans based on past or present performance. Finance, in this case, is not a data skill but a data repository, a library to be referenced. This is not business partnering and this is not a true strategic role.

We know that finance can lead, and does for 22.5% of respondents, proposing hypotheses and modelling future scenarios based on solid data. 67.5% of respondents tell us they can use today’s assumptions to quickly model tomorrow, offering real value to the business.

Perhaps the problem is time, still so much of which is consumed by the budgeting process. This is a clear quick win. Technology is widely available and there are processes that are well proven to shift budgeting from the politically difficult and patience-trying exercise it has been to a fast and collaborative operation.

With these types of processes in place, finance can free up time for more valuable analysis, expanding the reach of its data gathering and reporting into a whole range of business-critical operational areas: personnel planning, marketing planning, sales planning and inventory planning. These are all fields where the planning and analysis skills of finance can support other functions to improve future strategy and operational decision-making.
Conclusion: Realising the Potential of Finance

What this report demonstrates is that there is a clear split in the sophistication and development of finance functions. While some are bound by limited roles, ageing technology and manual processes, others are starting to forge ahead. Building collaboration and starting conversations across the business, they are working to provide real insight day-to-day and for strategic planning – even leading those planning conversations with their own hypotheses and models.

For those that are yet to make this leap, the advent of automation poses serious questions about their future role and scale. The headcount of the finance function has been largely driven by the manual processing of data through a series of time-consuming requirements, such as budgeting. Automation eliminates much of this manual processing. Unless they start to take on a wider, more forward-looking, insight-led role based on cross-business collaborations, some finance teams may start to shrink and perhaps even disappear.

This is not necessarily a bad thing - there’s no objective reason to defend the finance function against such diminution. What is problematic is the effect on the organisation. Those without a dynamic finance function will be at a marked disadvantage in an accelerating world. If finance remains a limited, backward-looking resource, they will not be able to meet the expectations of customers, partners, shareholders and the market.
Building the modern finance function

Building a modern finance function of the type exemplified by some of our respondents takes many types of investment. The first is an investment of political capital by management - they need to recognise the potential of the finance department as a source of strategic value and differentiation – something that has often been lacking as the function has been relegated in importance behind more front-line operations such as sales and marketing.

With this political capital, the finance function can begin to invest in skills, shifting the base away from repetitive manual processing and into planning and analysis. Business partnering and collaboration is also critical to the success of finance’s future role.

Underpinning this shift is solid technology, enabling the automation of the repetitive tasks, adding robustness and reducing risk, and critically, opening up the manipulation of finance-owned data to the rest of the business.

The political capital required to begin this transformation is rarely just handed over. It needs to be won, and spent, by a bold finance leader, confident in the role that their team can play. Leadership is hugely important in creating a growth mindset to challenge the team and the business. It takes some bravery to argue for investment in ‘back-office’ technology, to free up the time and provide the analytical capacity to deliver on the promise of the modern finance function, and to secure finance’s role in driving business strategy.

Your Next Steps

Where are you on the journey to a truly modern finance function? Leading the field? Or lagging behind? What is certain is that no one has completed this transformation - there’s always more to be done.

To find out how you measure up to our respondents, you can complete our 15-minute audit to get a tailored report, covering each aspect of the transformation and packed with bespoke, practical guidance.


Read the Future of Finance report that breaks down the transformation in more detail, drawing on evidence from a range of expert sources to give you a clear guide to building a modern finance function. Pay particular attention to the section on Gartner’s CPM (Corporate Performance Management) maturity model. Again, it will provide you with an interesting benchmark for where you are now.
Quick Wins:

To continue on your journey to a modern finance function, consider these steps:

**STEP 1**
Focus on improving the budget cycle to save time. Change processes and introduce technology to increase collaboration and improve accuracy.

**STEP 2**
Start modelling the future based on current actuals - this alone could radically change the corporate decision-making process and help to secure finance’s role in strategic conversations.

**STEP 3**
Conduct a skills audit of your team. Do you have the right attributes? How could it shape future recruitment? Consider communications skills, planning and analysis.

If you’re already well on your way, consider these measures:

1. Think about how to improve the softer skills of your team to enable them to play a deeper role in analysis. Are they equipped to partner with the business?

2. Look at finance’s role in strategy and decision-making. What is required to enhance that role: greater insight, foresight, or improved collaboration?

3. Consider owning data beyond just the Office of Finance. Book meetings with department heads and actively seek out how your team can help them with wider analysis to support their decision-making.
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.