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NEW TECHNOLOGIES TRANSFORMING THE FINANCE FUNCTION

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TOP FINANCE EXECUTIVES have never been content merely to be caretakers of company finances, when the opportunity to help steer corporate performance to higher ground beckons. They are clearly situated to be strategic partners to the CEO and operations-focused leaders alike, knowing their companies' value drivers as well as, if not better than, any other executive.

Today, the idea of CFOs as business strategists has never been more relevant. Challenged with finding new sources of growth in an increasingly competitive, uncertain environment, CFOs are being pushed to take a more strategic, future-oriented view of their role. A focus on mergers and acquisitions, capital investment, or both now shares attention with everyday responsibilities for costs and cash. When the CEO and the board are deciding, say, whether to buy another company or introduce a new product, CFOs have to muster the information and timely insights they need.

To do so, CFOs must reshape the finance function and their role. Advanced technologies such as big data, cloud computing, mobile devices, and enterprise access to in-memory platforms, predictive analytics, and planning software can help CFOs make better and more sophisticated use of data, influence decisions, and take practical, timely action. As Mike Pearl, global cloud computing leader at PricewaterhouseCoopers, sees it, the finance organization of the future will become a central hub that ties corporate data from disparate business functions to financial measures, helping companies make better decisions throughout their operations.

87%

of finance leaders must analyze performance data more quickly to meet growth targets.

UNTAPPED POTENTIAL

Of course, modern finance departments already rely on information technology to deliver the data they need to report on corporate financial performance. But they don't make nearly as effective use of that data as they could. According to a recent survey by CFO Research, 87 percent of finance executives say managers at their companies will need to analyze financial performance data much more quickly than they can now to meet growth targets.

Yet the survey also found that only 12 percent of finance teams can respond to a request for financial reports or analysis from a line-of-business manager in real time. Almost one in ten takes a week or longer.[1] Figure 1

What is more, Robert Kugel, senior vice president and research director at Ventana Research, suggests that although finance has long used analytics, it has never really used the information that analytics generates to drive better operating performance.

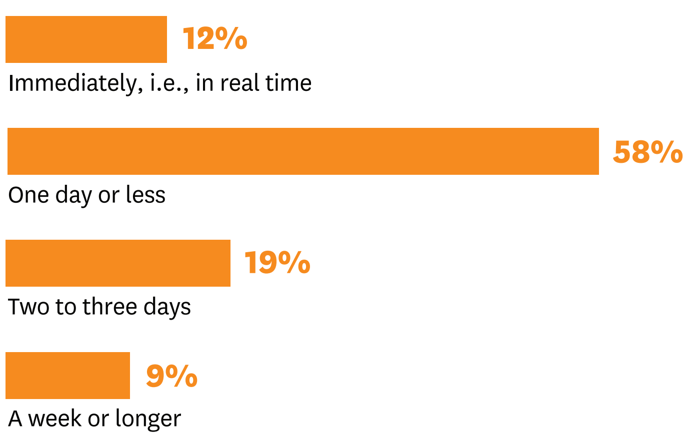
One reason for that, explains Thomas Davenport, a professor of information technology and management at Babson College, has been a gap between the kind of information that is available to analyze and what is useful for decision making. The problem, in part, reflects a need for industry-specific data that finance departments do not typically access. Retailers, for example, need insight into their inventory for both in-store and e-commerce channels; online companies into click-throughs and conversions; and engineering-oriented businesses into the new product development pipeline. And the information needed also varies with business conditions.

FIGURE 1

RAISING THE BAR ON FINANCIAL REPORTS

Most CFOs can respond in a day but not right away

How long does it typically take finance staff at your location to respond to a request for financial reports or analysis from a line-of-business manager?



SOURCE: "THE NEXT STAGE IN CREATING THE VALUE-ADDED FINANCE FUNCTION," CFO PUBLISHING, 2014.

73%

of CFOs are seeing their influence over strategic decisions increase.

The gap between information needs and availability is narrowing, Davenport says, thanks to new technologies that enable CFOs to connect information from financial systems with data from other business functions and from cloud-based external sources in new ways, and with unprecedented speed. “We are likely to see more change in the next few years than we have seen in the past few decades,” Davenport observes, adding, “The change promises a much closer and more effective link between information and decision making.”

For example, in-memory platforms, which enable very large volumes of data to be aggregated and analyzed quickly, allow CFOs to access data from enterprise resource planning, corporate performance management, and other applications much faster than they can get it from each system individually. As a result, information can be acted upon well before it is reported to investors.

“The fact that you close the books instantly basically means you can make adjustments to your budget or your margin immediately,” says Steve Banker, service director for supply chain management at ARC Advisory Group, a consulting and advisory service for manufacturers. “All that’s necessary in addition is sensitivity analysis,” Banker says.

STRATEGIC SOPHISTICATION

Advanced technologies not only enable finance to reduce operational complexity, but they also create the capability to contribute to strategic business decisions.

According to PricewaterhouseCoopers’ 2014 U.S. CEO Survey, 86 percent of chief executives expect technological advances to transform their business in the next five years. As a result, 44 percent are investing in analytics and one-fourth expect to spend more for on-demand business and technology services to help their companies grow. [2] Figure 2

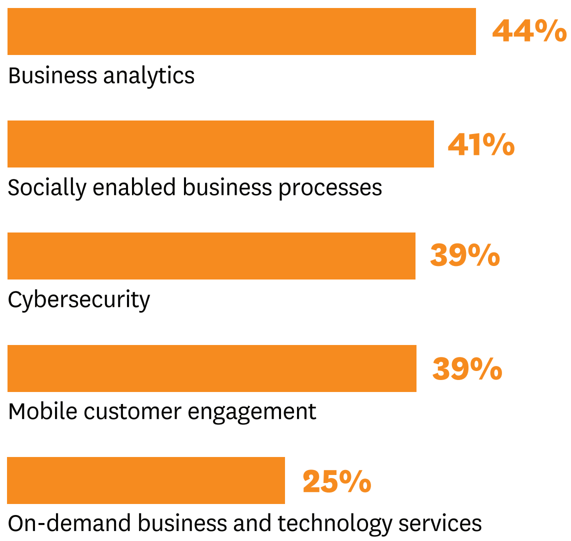
What makes using these new technologies especially attractive, says Frank Niedermeyer, managing director, Accenture Strategy, CFO and Enterprise Value, is the growing volatility of the global economy. Simply put, the ability to crunch data at vastly higher speeds and deliver it in real time or nearly so can help companies respond to market vicissitudes more rapidly. Niedermeyer reports that a growing number of clients have become “desperate” for that ability in the past few years. Predicting cash flow more accurately is imperative, he adds.

New technologies make it easier to incorporate nonfinancial data into the analysis. For example, analytics can help companies reduce fraud by detecting unusual patterns of customer behavior. John Lucker, principal with Deloitte, points out the considerable success the insurance industry has had using predictive analytics to reduce false disability or loss claims. He thinks retailers could find similar success reducing fraudulent product returns. In each case, CFOs could more accurately forecast cash flow, long a major challenge in every industry.

FIGURE 2

TECHNOLOGY FOR TRANSFORMATION

Analytics tops CEOs' list of IT investments aimed at growth



SOURCE: "GOOD TO GROW: 2014 CEO SURVEY," PWC, JANUARY 2014.

Similarly, Deloitte has identified tax and data security as promising targets for business analytics, again with the potential to help CFOs manage key risks and forecast cash flow more effectively.

Meanwhile, cloud-based data, whether from sensors in products or from social media, enable companies to gauge demand trends based on customer behavior and sentiment in real time and link these to potential financial outcomes. "Plenty of organizations want to use technology better to get that information before their competitors do," suggests Kugel.

Mobile devices not only free information from the desktop but also allow vastly more data to flow to decision makers on a real-time basis. The benefits of slicing and dicing information in real time cannot be overstated, says Niedermeyer.

EMBRACING CHANGE—AND NEW ROLES

CFOs recognize they are at a turning point. A 2014 Accenture study found that CFOs are increasingly being called upon to make strategic decisions.[3] But if new technologies offer CFOs the potential to turn their strategic aspirations into reality at last, there are significant challenges to realizing that potential. Figure 3

One challenge involves convincing the finance organization to embrace a different role. New technologies offer little to companies without buy-in from the top and elsewhere in the organization. "If it hasn't been there from the start," says Ventana's Kugel, "it will require a real change management effort."

FIGURE 3

AN INCREASING STRATEGIC ROLE

Percentage of CFOs who say their influence has increased in the past two years

SOURCE: "THE CFO AS ARCHITECT OF BUSINESS VALUE," ACCENTURE, 2014.

For finance organizations, one key to change is developing an appreciation of the difference between historical and predictive analyses. As Deloitte's Lucker notes, using statistical modeling to assess probabilities is a far cry, in terms of accuracy, from the double-entry bookkeeping that CFOs are used to employing to record past performance.

Embracing predictive analytics may require a major shift in mind-set for the finance team as a result. However, observes Niedermeyer, "Producing a correct set of accounting numbers is no longer only what the business needs."

Yet CFOs may not be comfortable adapting to that reality. Lucker says predictive analytics requires CFOs "to believe in the art of the possible, because you're never going to predict something with 100 percent accuracy." Yet he insists it's CFOs who must embrace such imprecision. Addressing such risks as supply chain volatility requires it.

Davenport's findings offer reason for hope here, as they show business executives to be comfortable with at least some types of imprecise data. They are, for example, more willing to live with unconfirmed information about inventory than about cash flow or costs, according to research published by the *MIT Sloan Management Review*.[4]

Another critical step to embracing new technologies is coming to terms with cyber-risk. "Security is CEOs' number one concern," says PwC's Pearl. For example, many CFOs are acutely uncomfortable having their data in the cloud and thus out of their own control. But as Pearl and other experts note, recent corporate hackings at retailers such as Target and Staples, financial institutions such as JP Morgan Chase, and entertainment giant Sony show that data may be as vulnerable in-house as in the cloud or on an employee's mobile device.

"Security is a concern regardless of whether you use the cloud," says Niedermeyer. And Pearl detects a more nuanced view among executives of late. "We are seeing a better understanding of the real risks," he says, noting that the executives are increasingly "disassociating" the risk of hacking from the use of any particular technologies.

44%

of CEOs are investing in analytics to accelerate growth.

Finally, effective use of new technologies may also require greater collaboration between the finance and IT departments than in the past. CFOs need IT to behave more like a facilitator, and less like the owner of technology, than it does now.

One area where finance and IT must work more closely is in integrating disparate systems, says Jason Balogh, a principal in The Hackett Group, a research and advisory firm. While new cloud-based data sources allow CFOs to forecast financial activity with a greater degree of accuracy than ever before, Balogh notes that it's difficult for them to "get their arms around it." One reason, he says, is that such data isn't easily integrated with corporate data. The task is complicated by inconsistencies in the data within companies' own systems.

"Many big corporations have at least 20 and sometimes hundreds of financial systems," notes Niedermeyer, so getting consistently reported data is impossible. CFO Research has also found that finance departments often require manual intervention to generate needed information.[5]

SEIZING THE DAY

Advanced technologies that make business data more useful to finance organizations are ready and available. But to take full advantage of the opportunities such technologies create, CFOs and their colleagues must not only recognize and appreciate them but also come to grips with the challenges they present. Too much is at stake not to do so.

ENDNOTES

1 "The Next Stage in Creating the Value-Added Finance Function," CFO Research, Oct. 31, 2014. https://secure.cfo.com/research/index.cfm/download/14716829

2 "Good to Grow: 2014 CEO Survey," PwC, January 2014. http://www.pwc.com/us/en/ceo-survey-us/downloads.jhtml

3 Source: "The CFO as Architect of Business Value," Accenture, 2014. http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-2014-High-Performance-Finance-Study-CFO-Architect-Business-Value.PDF

4 Tom Davenport and Jim Hagemann Schnabe, "How Fast and Flexible Do You Want Your Information, *Really*?" MIT Sloan Review, March 23, 2011. http://sloanreview.mit.edu/article how-fast-and-flexible-do-you-want-your-information-really/

5 "Building High-Performance Finance Functions," CFO Research, Dec. 9, 2014. http://www.cfo.com/research/index.cfm/download/14716925

TRANSFORMING FINANCE FOR STRATEGIC ADVANTAGE

As the pace of business increases, finance executives must keep up in the face of an increasingly complex environment, with increasing regulations and the need to manage risk. Finance must still walk the fine line of reducing the cost of finance and finance operations while being asked to make strategic recommendations, such as investment decisions, to fuel the growth of a company as a whole.

Add to that, the sheer volume of data is going up, coming from both inside an organization and from external sources. The challenge becomes determining the most relevant information and dimensions that finance needs, in order to determine the best course of action for the company.

As we see in this research, finance sees the need to transform its own organization, so it can better walk the fine line of meeting compliance requirements and daily transactions and providing strategic advice to the business to evaluate the potential financial impact of different courses of action. With a new millennial work style, finance is becoming more comfortable with adopting newer technologies, and it is now tying technology innovations to better performance, seeing the benefit for transforming their own processes, and recognizing the bottom-line impact for the entire organization.

SAP Simple Finance combines the power of the leading financial management software from SAP with the power of SAP HANA. As the first step of S/4HANA, SAP's next-generation business suite, SAP Simple Finance benefits both finance and IT organizations.

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With SAP Simple Finance, the technology is now available to help finance become a more strategic business partner, by simplifying processes, the user experience, and the data model.

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