FSN Executive Briefing

"Bringing the Office of Finance Back Together"

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"Bringing the Office of Finance Back Together"

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Introduction

The popular image of the CFO as custodian of corporate assets, financial steward, and manager of financial transaction and reporting processes has given way in recent years to a much broader advisory role. But a glaring mismatch is emerging between the CFOs' rapidly evolving role and what he can realistically expect to deliver at the sharp end – a position exacerbated by bloated and poorly integrated performance management suites that are costly to deploy and which reinforce the functional divide between operations, finance, treasury and tax.

According to one recent report[1], 47 percent of companies have made substantial investments in their financial close, filing, and reporting. Yet, despite the considerable sums of money invested in the process, management teams across the globe remain dissatisfied with the quality and timeliness of management information. For example, 68 percent of respondents to the same survey admitted that they have inadequate visibility into reporting processes, 84 percent of finance managers say they find it difficult to control the quality of financial data and 15 percent of global businesses have missed statutory deadlines.

So what is going wrong and could a more unified approach help to pull the office of finance back together?

The historic position

ERP systems have been a unifying force for the efficient processing of transactions for more than two decades, but the inability of ERP systems to the deliver on the promise of unified management information spawned the creation of the Business Intelligence (BI) industry broadly focussed on "query, analysis and reporting" and a plethora of 'best of breed' applications for budgeting, planning, forecasting, financial consolidation and reporting.

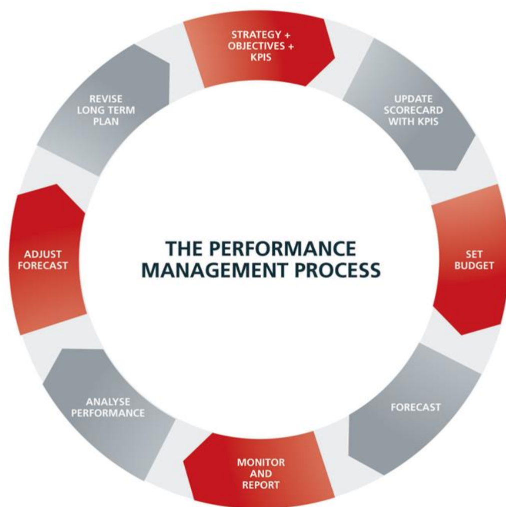
For many years these two approaches followed different paths, with different foundations and technology giving rise to duplication of data, conflicting metadata (structural information such as organisational hierarchy, accounts, time periods, products etc.) and ultimately irreconcilable differences in critical information reported from different applications. However, the emerging science of 'enterprise performance management' (EPM) quickly exposed the frailties of a computing environment in which the applications were not integrated and sourced from different software vendors. But what exactly is EPM?

EPM drives business decisions

A commonly held definition of EPM is that it is an amalgam of management methodologies, business processes, software tools, technologies and applications that provide for the development and communication of business strategy, the alignment of corporate resources in accordance with it and the monitoring of outcomes so that management can take action to ensure its success. It is sometimes described as a closed loop process because the business insights gained from constant monitoring and analysis of performance are subsequently used to refine the long term strategy – closing the loop (see diagram below).

The process starts with the development of strategy and long term plans from which performance measures are derived and embedded in operational budgets and scorecards which are monitored, analysed and reported on against actual results. The results of these analyses are used to inform and refine the business plans which are adjusted before the whole EPM cycle starts again.

The closed-loop performance management cycle



In an unseemly rush to satisfy the new demands of the EPM cycle some software developers (most notably the mega-vendors) sought to retrospectively bring best of breed and BI capability together by acquiring companies and attempting to merge the products. But the different origins of these products often proved insurmountable.

Loosely coupled EPM suites created practical problems

Conceptually, the drive to unify these applications was entirely appropriate – it simply could not be delivered using loosely coupled application suites. Users could see the joins, data conflicts remained, applications were overly complex and spreadsheets were widely employed to pave over the cracks.

The scale of the problem is highlighted by a 2011 study[2], which found that 87% of businesses managers criticise data sharing and communication between departments, with 71% describing the links between strategic goals, operational plans and budgets as "fragmented".

But these unwieldy EPM suites rapidly assembled by acquisition also created significant problems by compartmentalizing domain expertise, application knowledge and upgrade paths leading to costly implementations which were expensive to maintain in the medium to long run. For example, the expertise tended to remain aligned to the acquired best of breed companies giving rise to 'experts' in one application, say, financial consolidation, but not another, say, budgeting. Configuring implementation teams with the right skills became inefficient as project managers sought to draw these disparate strands together and rationalise design approaches. This was also reflected on the inside of the organization as internal finance teams retreated into silos as the expertise in one product or process did not translate to another product. Specialized teams for financial consolidation and reporting and others for budgeting and forecasting were created due to the inability of the systems to integrate them. The irony being both teams required data sitting in the other's systems to simply compare actual vs. budget. The complexity was also reflected in lengthy software installations as each product was loaded separately, followed by the set-up of over-arching meta-data management capabilities simply to overcome inconsistency in data definitions between applications of different origins and design principles.

Unified performance management – a better way

Implicit in the performance management paradigm is that all of the core management processes and the applications that support them are developed in the same environment, I.e. integration is a 'given'. More particularly, all of the applications share the same metadata (for example, accounts and business entities) so that information used by any EPM application can

be shared with another and has the same meaning. For example, a “sales revenue” account should have the same meaning whether it is surfaced in a finance portal, a dashboard, a scorecard, a budget or on a report of year-to-date actuals. This gives rise to the much Hackneyed phrase, “One version of the truth” - but the self-evident truth is that it is not possible to establish a dependable performance management system without a unified environment in the first instance.

In fact the case for a more unified approach could not be stronger. 37% of managers think the Board of Directors in their company does not capitalise as much as it could on the insight and knowledge of its managers. 37% of non-finance managers would like to be better informed about the strategic and financial targets of the company, while 20% feel their personal knowledge and experience is rarely reflected in the decisions made by the Board[2].

Only modern EPM suites such as OneStream, built from the ground-up as a single environment, with a single user interface, are able to genuinely support a closed-loop performance management environment. On a practical level, one unified product and application simplifies installation, implementation, learning, maintenance and support. For example, there is only one IT infrastructure for one product, fewer internal finance and IT staff are needed to manage solutions and less external consulting time and cost is needed to support complexity. Unifying systems has another major benefit of bringing the office of Finance back together as all data and structures live together eliminating integrations and validations between systems and Finance teams. All of this leads to lower total cost of ownership.

For example, BPM Partners, an advisory services firm with an exclusive focus on EPM solutions, validates this by stating, "Users report five- and six-digit savings on unified applications in: licensing fees, support contracts, integration work, infrastructure and hardware, and salaries. Their time savings, with a unified application versus module-by-module solution, are realized in less work of tracking licenses, getting modules to work together, making a change across multiple applications, upgrades, and chasing after support on multiple process-focused solutions[3]."

The rewards of unified performance management

The unified environment also has profound implications for the way that people work across the organisation – not just finance, but also potentially the tax and treasury functions. Work flow, which is essential for productivity, can transcend functional boundaries so that, for example, tax and financial accounting can ensure that statutory results reflect the correct tax provisions, or perhaps that the treasury function has visibility of funding across a group of companies.

In turn this can drive significant savings by increasing process efficiency, productivity and ease of maintenance. But it can also help realise savings in other areas through integrated business planning. For example, businesses are better able to match supply and demand, reducing inventory-days and working capital requirements. Or new hires can be more closely tied to sales forecasts, optimising head count and reducing recruitment costs.

Summary

Low-growth economies are forcing organisations to focus more keenly on margins, identify opportunities for expansion whilst at the same time managing regulatory and compliance risk. Know-how and deep analytical insight enabled by unified performance management will become the prime determinant of organisational success.

For organisations that 'grasp the nettle' the returns will be significant. A 2012 study by PwC[4] says that leading finance teams spend 17% less time on data gathering data and 25% more time on analysis than typical functions. Additionally, leading finance teams deliver forecasts in less than half the time and prepare budgets 25% quicker than typical functions. Smart CFOs know that unified EPM is not only central to delivering these capabilities but is also less costly.

Bibliography

Note[1] *"The Challenges of Corporate Financial Reporting"*, May 2012, Accenture and Oracle

Note[2] "*Management Performance: An Incomplete Picture*," Dynamic Markets, April 2011

Note[3] "*BPM Partners, Lower TCO with Unified BPM Applications (July 2013), pp 1."*

Note[4] *"Putting your business on the front foot. Finance effectiveness benchmark study 2012"*

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