

How to plan a successful Finance Transformation*

The Finance function has been slowly evolving from “scorekeeper” to strategic business partner—but Finance Transformation efforts have met with only limited success. To redefine itself as a cost-effective, service-oriented partner to the business, Finance should design its transformation strategy to meet key stakeholder requirements and consider the better practices and lessons of others.

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Despite a multitude of complexities and challenges, transforming Finance to support current and future business requirements is an *organizational imperative*. To succeed, companies must radically rethink their Finance organization strategy to address changing priorities and escalating stakeholder requirements.

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Finance must act as a proactive strategic business partner and redefine itself as a service-oriented business focused on providing customers with value-adding, cost-effective services. To implement an effective service-delivery strategy that supports the needs of the business in a cost-effective manner, Finance must first understand the requirements of their stakeholder groups and align their operating model (process, organization, people and technology) accordingly. Much can be gained from emulating the better practices and considering the lessons learned from others who have traveled a similar journey.

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The transformation journey and the improvements that are achieved along the way can provide fuel to ignite a renewed culture within the Finance organization—a culture where continuous improvement and excellence is embraced.

Situation: Despite a multitude of complexities and challenges, transforming Finance to support current and future business requirements is an *organizational imperative*. To succeed, companies must radically rethink their Finance organization strategy to address changing priorities and escalating stakeholder requirements.

The Finance function has been undergoing a slow but steady evolution for more than two decades. Now we are witnessing a shift from the traditional back-office “scorekeeper” role to a more prominent front-office strategic role, helping to set direction and contributing to the business as a partner. Hardly a new phenomenon, this evolution has long been the focus of many organizations and the external service providers who are assisting them on their journey to Finance Transformation.

Surprisingly, after all these years and despite all the available knowledge and experience in the marketplace, Finance Transformation efforts have achieved only limited success. Causes for this vary, but often stem from the lack of an organization-wide shared vision for the future of Finance. Other contributing causes include under-investing in planning and resources, taking short-term rather than long-term approaches, and failing to understand and manage key drivers of change within Finance. Given these complexities and challenges, it’s no wonder that Finance Transformation initiatives can take companies years to accomplish. It’s an ongoing journey, not a sprint. But, despite all the complexities and challenges, Finance Transformation remains an *organizational imperative*. Consider it a call to action for CFOs and other executives, together with their boards, to radically rethink their Finance organization strategy to address changing priorities and stakeholder requirements.

Our Perspective: Finance must act as a proactive strategic business partner and redefine itself as a service-oriented business focused on providing customers with value-adding, cost-effective services. To implement an effective service-delivery strategy that supports the needs of the business in a cost effective manner, Finance must first understand the requirements of their stakeholder groups and align their operating model accordingly. Much can be gained from emulating the better practices and considering the lessons learned from others who have traveled a similar journey.

Finance is on overload. Stakeholders' expectations of Finance are growing exponentially. Many Finance functions find themselves pulled in a variety of directions as they struggle to meet escalating demands coming at them from all directions. External stakeholders such as the SEC, rating agencies and the investment community are placing greater scrutiny on Finance while increasing compliance and reporting requirements. If that were not enough, Finance must find ways to meet the ever-greater demands of the business itself in the form of better and more timely information, strategic decision-making support and more efficient transaction processes.

Complexity is taking a toll. In attempting to meet the diverse requirements placed upon it by an increasingly complex business environment, many Finance functions have in turn become increasingly complex in their organizational structure, information-system architecture and processes. For many companies, these factors have led to higher costs, slower cycle times, inconsistent reporting and an overall perception that Finance is not sufficiently agile in responding to the needs of the business.

The future-state vision

To meet the escalating requirements of both internal and external customers, many Finance functions have embarked on a journey to transform their role from that of a scorekeeper focused on transaction processing and reporting to a value-adding strategic partner to the business.

Redefining Finance. In this new era, a Finance function must act as a *proactive* partner in the strategic planning and management of the enterprise and redefine itself as a *service-oriented business focused on providing customers with value-adding, cost-effective services*. Accordingly, the future-state vision of many Finance organizations begins with the design of a service-delivery strategy that is both aligned to support the needs of the business and cost effective in the routine services it provides. To achieve this goal, Finance must understand the requirements of their stakeholder groups and align their operating model (process, organization, people and technology) to meet those requirements.

Adopting the better practices of others. Building the capabilities necessary to achieve this vision and managing the change can be a daunting task spanning several years. Looking for simpler methods and quicker results, many organizations are able to achieve success by adopting the better practices of others. A collection of better practices in Finance has shaped what is commonly referred to as “world-class” performance, thus profoundly influencing the future vision of the Finance function. C-Level executives have been increasingly keen on examining the business practices of other companies for comparison. This has given rise to research, analysis and discussion aimed at developing profiles of those companies considered to be demonstrating world-class characteristics. Much of this is facilitated through popular exercises in cross-industry benchmarking of key performance metrics and what are considered process, organizational and technology leading practices.

While the practices of leading companies are varied and are constantly evolving, the following examples illustrate some key characteristics that “world-class” Finance organizations tend to share:

Finance goal	Key objectives/trends
Process and performance management	<ul style="list-style-type: none">• Process integration and quality mentality pervasive (upstream accuracy enforced with no exceptions)• Focus of time on planning and decision making, <i>not</i> transactional processing and data manipulation• Leading practices fully exploited• End-to-end management of core processes (Procure to Pay, Order to Cash, etc.)• Policies-driven standardization• Continuous improvement• Scorecards and balanced metrics linked with enterprise-level strategic goals and objectives
Organization	<ul style="list-style-type: none">• Adoption of shared services and centers of excellence• Redundant structures eliminated• Appropriate use of outsourcing• Organizational structure aligned with enterprise strategy• Finance staff organized to provide most effective service delivery to the business
People	<ul style="list-style-type: none">• Clear, well-defined roles and responsibilities• Proper alignment of skill sets to roles• Performance measures directly tied to company strategies• Knowledge-sharing and continuous-learning environment• Incentive compensation structures to align pay to performance
Technology	<ul style="list-style-type: none">• Fully integrated systems—single ERP system globally• Electronic workflow enabling process integration• Web-enabled processes linking company with customers and suppliers (e.g., vendor self-serve)• Embedded application controls• Best of breed used in reporting, planning, data management and analytics (CPM)

While the concept of “world-class” may suggest the highest level of achievement in any particular area, companies that are generally accepted as demonstrating “world-class” performance are actually those that have been successful in achieving high levels of performance balanced across effectiveness and efficiency measures. As companies undertake Finance Transformation efforts, they must adopt strategies and solutions that result in measurable improvements across both—effectiveness (doing the right things) and efficiency (doing things the right way).

One size does not fit all. For a successful Finance Transformation effort to occur, every company must carefully determine its own future-state vision and goals to determine the right level and mix of better practices—one that complements the strategy of the overall company and meets the requirements of Finance stakeholders. While not every company desires or needs to be “world class”, the “world-class” concept has proven its value in providing an overall benchmark or profile of what some companies have achieved.

Trends and objectives

A holistic strategy is needed. Although each company should develop a transformation plan and set priorities that are tailored to their specific circumstances and objectives, experience has shown that successful transformation efforts begin with a *holistic* plan that embodies change across all elements of the Finance infrastructure—*process, organization, people and technology*. Companies that adopt a transformation strategy that is too narrow are challenged in reaching their goals.

Holistic strategies are based on a number of goals, objectives and trends shared by many companies. While those listed in the table on the next page do not comprise an exhaustive list, they are some of the more common ones behind many transformation efforts.

Achieving Finance Transformation goals

Finance goal	Key objectives/trends
Efficient transaction processing	<ul style="list-style-type: none">• Cost efficiency and productivity through increased automation and integrated transaction systems• Self-service enablement for customers, vendors, employees, etc., via the internet• Customer service and efficiency through shared service organizations• Outsourcing of non-critical, back-office processes
Improved reporting and decision support	<ul style="list-style-type: none">• Reduced cycle times for key reporting requirements• Consistent and streamlined underlying data sources (global chart of accounts, thin general ledger, data warehouses, etc.)—“one source of the truth”• Standardized reporting formats, definitions, etc. (common Finance language)• Planning and forecasting processes linked to enterprise-level strategies and targets
Simplified business model	<ul style="list-style-type: none">• Rationalized legal entity and reporting structures• Streamlined reporting environment and requirements• Standardized policies, procedures and processes• Centralized business models (reduced redundancy and leveraging economies of scale)• Integrated acquisitions
Enabling technology	<ul style="list-style-type: none">• Standardized and simplified system platforms/architecture• Integration between subsystems and corporate F&A systems• Improved governance and data management

Embarking on the journey: lessons from the road

Finding the right direction. The approaches that companies take in their Finance Transformation efforts vary considerably. Many factors drive an organization's strategy and the mix of effectiveness and efficiency goals often points the transformation compass more in one direction or the other.

How developed or mature an organization's Finance function is will also influence the approach. Many companies initiate Finance Transformation projects in direct response to a critical event such as a merger or acquisition, public offering, financial restatement, control failure, or simply a change in leadership. Most Finance Transformations are driven by a set of circumstances unique to a company, and that uniqueness will, in turn, often translate into unique elements in approach.

Improving the odds for success. Regardless of the reason for setting out on a Finance Transformation journey, many companies fail to achieve their goals and receive disappointing results due to poorly designed implementation strategies. The reasons that companies fail to meet their goals have long been debated, but we have observed some particular practices that, when incorporated into the transformation plan and approach, have significantly improved the odds of success:

- **Develop a sound strategy.** The CFO's strategy must be developed in the context of his or her organization's strategy and its requirements of Finance, and world-class practices that serve as enablers to transformation. Key considerations should include:
 - How should Finance be organized, given the roles it is required to play and the requirements of the business?
 - How does the Finance strategy support and become an extension of the corporate strategy?
 - What levels of service are required and how does this translate into the skills and competencies required to deliver them?
 - How does Finance achieve an appropriate balance between service levels and cost?
 - What process and technology requirements are necessary to support the future Finance organization and the stakeholders it supports?

These questions demonstrate the various dimensions that must be addressed and managed during a transformation of Finance. Finance leadership should repeatedly ask themselves these

questions as they progress through their transformation plans to maintain focus on the goals and objectives of the transformation initiative and to ensure they are appropriately addressing change across the key levers of process, organization, people and technology.

Assess current performance. To establish how well the organization is performing from both a qualitative and quantitative perspective, you must first understand baseline performance levels. Key baseline information includes metrics on *cost*, *headcount*, *cycle time*, *productivity* and *quality*. Not only will a comprehensive assessment prove helpful in understanding current levels of performance and identifying improvements, but also it will serve as a useful instrument for developing future-state targets, and will also enable you to track and measure success.

Develop a blueprint for future state. A fairly detailed end-state vision in the form of a blueprint will help keep the organization focused on the goal. Effective blueprints detail all planned elements of the service delivery model including the organizational alignment, and the process, talent and technology requirements across each major category of service (transactional, specialty and decision support). The blueprint should define the characteristics and features of the future-state Finance function and help the company to maintain focus on the vision, as well as to know when it has reached its goals—a surprisingly challenging effort for many companies.

Develop a detailed but realistic plan. With the blueprint as the end-state vision, the plan will serve as the map to navigate the journey. The plan should be detailed enough to identify all steps, dependencies and resource requirements. While a detailed plan is important, many companies fail to achieve their transformation goals because they take on more change than they can manage. In addition to establishing a baseline and identifying performance gaps, the outputs of the assessment phase of the project should equip the team to evaluate opportunities by level of impact and effort, and thus help to identify priorities.

Create a business case to gain buy-in. A transformation business case should leverage outputs from the assessment and present the value and expected return on investment from the transformation. Many companies leverage a business case to obtain project approval but then ignore it as the transformation progresses. Successful companies continue to use their

business cases as a communication instrument. The business case should be *a live document that is updated in response to changing circumstances* throughout the transformation journey. If used properly, the business case will keep the goals and objectives of the project in plain sight of the transformation team and key stakeholders.

Obtain executive-level support. Executive sponsorship is critical to gaining the support and involvement of the organization in the transformation effort, as well as to navigating through the various organizational barriers that are sure to arise. Many transformation attempts fail due to a lack of appropriate levels of support. Think “top down.”

Staff the project team with high performing resources. If the project is to succeed, it is vital that the core team be competent, enthusiastic, and well respected by their peers. Many companies are reluctant to move their high performers to a “special projects” role. Instead, they make the serious mistake of staffing the team with sub-par performers, people in the sunset of their careers or those that do not possess the qualities of a change agent.

Consider a pilot project to establish momentum. Beginning a Finance Transformation effort with a pilot project is often a successful way to provide a proof-of-concept to the proposed changes. It provides a low-risk, limited-scope opportunity to establish quick wins and gain credibility with the organization. It can also help to build momentum for larger, more challenging initiatives to follow. While pilot efforts can be a successful approach, they should not be misunderstood in the context of a transformation. A pilot effort must be managed and implemented as an *integrated piece of the overall future state*. If not managed correctly, a series of incremental and siloed improvement initiatives can disrupt transformation progress.

Actively manage the change. Often, too little focus is placed on a robust change-management process to address the impact that the transformation has on the organization and its people. It's important to remember that the success of any Finance Transformation hinges on people—on the effectiveness of the team driving the change, the capabilities of leadership and staff operating the processes and providing the services, and the satisfaction of the customers. *Accordingly, the importance of stakeholder management, transition planning, training and communication cannot be underestimated.*

Impact: The transformation journey and the improvements that are achieved along the way can provide fuel to ignite a renewed culture within the Finance organization—a culture where continuous improvement and excellence is embraced.

The Finance Transformation journey can often take many turns and be quite challenging but for those companies with a sound strategy and who are persistent, the payoff is usually worth the effort. When the Finance function has succeeded in redefining itself, internal and external stakeholders alike will benefit. Successful transformations position Finance to:

- Support sound decision making based on better and more timely information
- Respond more quickly and effectively to the needs and expectations of regulators, clients and the organization
- Reduce costs through efficient transaction processes and faster cycle times
- Provide timely, accurate and consistent reporting
- Create career paths that will attract and retain Finance talent
- Meet changes in the business environment with agility

The benefits of a successful transformation can extend beyond these attributes. For some companies, the transformation journey and the improvements that are achieved along the way provide fuel to ignite a renewed culture within the Finance organization—a culture where continuous improvement and excellence are embraced.

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