Change in the Office of Finance

Evaluating Barriers to Digital Transformation

VENTANA RESEARCH

A Note About This Research

September 2019

Ventana Research performed this research to determine attitudes toward and utilization of the Office of Finance. This document is based on our research and analysis of information provided by organizations that we deemed qualified to participate in this benchmark research.

This research was designed to investigate finance systems, practices, needs and potential benefits. It is not intended for use outside of this context and does not imply that organizations are guaranteed success by relying on these results to improve finance operations. Moreover, gaining the most benefit from a finance system requires an assessment of your organization's unique needs to identify gaps and priorities for improvement.

The full report with detailed analysis is available for purchase. We can provide detailed insights on this benchmark research and advice on its relevance through the Ventana On-Demand research and advisory service. Assessment Services based on this benchmark research also are available.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of the Office of Finance, and that the analysis and conclusions are entirely our own.

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Executive Summary

Ventana Research has conducted quantitative research on the performance of the finance organization for 15 years. The research has been conducted against the backdrop of the idea that finance organizations must play a more strategic role in the management of the modern organization. This transformation envisions a finance department that's more of a partner to the rest of the company — one that is less focused on "bean counting," directing its resources and energy instead to providing more insightful analytics, facilitating transactions of value and communicating actionable data analyses that enable good managers to make better decisions more consistently.

Finance Transformation — A Long Time Coming

This idea of transforming the finance department has been around for decades. It dates back to the first application of computers to bookkeeping and billing in the 1950s. Although primitive by today's standards, those computers substantially enhanced the productivity of these basic functions. But far more change still is required. "Finance transformation" and more recently "digital transformation" have received a great deal of attention in recent years, yet our research routinely finds this transformation has not yet happened in most companies.

> Automation will transform jobs, shifting time and attention away from repetitive tasks to work that requires insight, judgement and experience.

Why? One reason is that finance and accounting departments have been laggards in adopting successive generations of modern technology. Moreover, while a steady stream of advances in technology for the finance organization have been available, these have yielded only incremental improvements in productivity. There has been little progress in using technology to change the nature of the work performed by the department.

Today we are on the cusp of another major technology-led change. Technology that's already available has the potential to have a greater impact on how the finance department operates over the next 10 years than it has over the past 50. Advances in columnar databases, in-memory processing and machine learning with artificial intelligence as well as a relentless reduction in the cost of computing resources will make it possible to substantially redefine how work gets done in the department. Technology will automate an increasing amount of rote, repetitive work, enabling a new generation of finance and accounting executives to provide their workforce with tools that help them to avoid tedious, soul-deadening toil. Robots aren't about to take over finance and accounting, but automation will transform jobs, shifting time and attention away from repetitive tasks to work that requires insight, judgement and experience.

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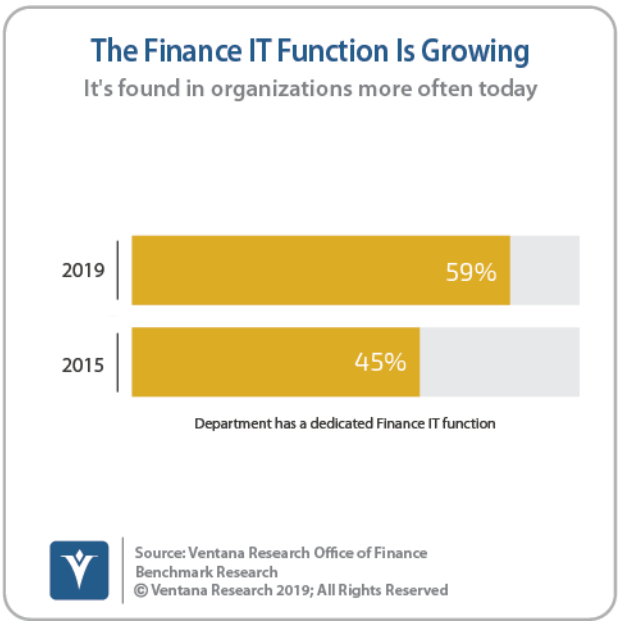
This latest Office of Finance research benchmark offers some evidence to support the assertion that we are on the cusp of such a transformation. We see a notable — and long-overdue — improvement in how basic departmental functions are executed. For the first time, research indicates a significant shortening of the monthly and quarterly financial close process. We also see progress in automation and communication across the organization.

For corporate executives, especially CFOs, such improvements also signify that the bar has been raised. What once constituted average performance is now substandard. Moreover, efficiency gains by themselves don't constitute digital transformation. Digital transformation is a qualitative change that occurs when the department ceases to simply keep the books and summarize past performance and begins to serve as a strategic partner to the rest of the company. This means, for example, applying predictive and prescriptive analytics to enable managers to quickly assess their options and understand the consequences of an action, or having staff members work with business units to uncover opportunities to enhance profitability. With modern technology increasingly available, organizations are coming to recognize the need for analytics capabilities: More than three-quarters of the participants in the research (76%) cite analytics as critical for improving their performance.

While technology is increasingly available to support this transformation, this research shows that a majority of departments are poorly prepared to transform. Our analysis places 40 percent of organizations' finance units at the lowest Tactical level of performance in our four-level Performance Index. While there has been an increase in the percentage at the highest Innovative level of performance — the level at which it is possible to transform the finance organization, enabling it to play a more strategic role in its organization, nonetheless only 19 percent placed at that level, up from 10 percent in 2014.



The Importance of Finance IT

The traditional Office of Finance has five main groups: Accounting, which keeps the books; Financial Planning and Analysis (FP&A), which analyzes performance and manages the forward-looking activities of the company (planning, budgeting and forecasting); Corporate Finance, which handles external finance and capital markets activities; Treasury, which takes care of the cash and bank accounts; and Tax. One of the most important insights we draw from this research is the confirmation that the department must have a sixth component: Finance IT.

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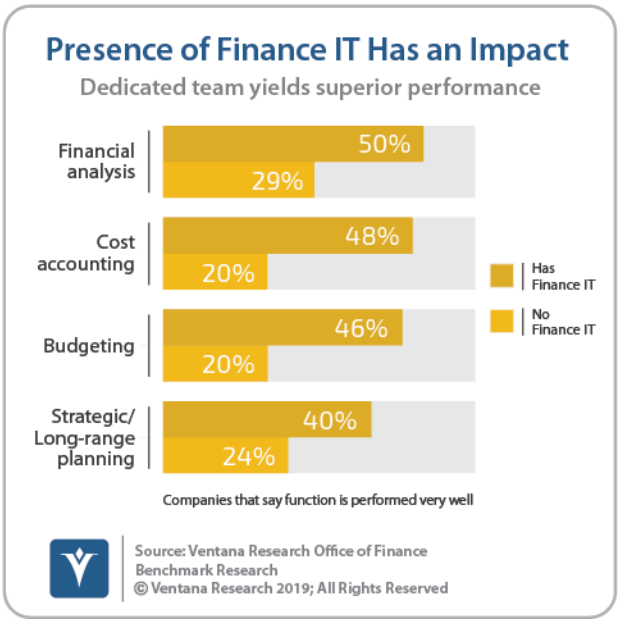
Technology is central to the smooth functioning of finance and accounting. It's therefore essential that the Office of Finance have a high degree of competence in dealing with technology. Unfortunately, those skilled in accounting and financial analysis aren't necessarily sufficiently expert in technology. Without a fundamental understanding of how the underlying technology works, it can be difficult for a department to make good technology purchasing decisions or design technology-driven processes that enhance the effectiveness of the finance department. In other words, Finance may not be able to effectively use the technology assets it owns. Therefore corporations must have a Finance IT (FIT) group made up of individuals who are well grounded in core finance and accounting disciplines but also knowledgeable about software and information technology.

Such groups are increasingly common. The research finds that the share of companies that have this group has increased to 59 percent from 45 percent in 2014. And, we note, improvement in performance mirrors the increased percentage of companies with finance IT organizations.



The research underscores the value of having a FIT group, finding a significant correlation between having a dedicated unit and higher performance. Analysis of the data indicates that 50 percent of the companies with a FIT unit perform financial analysis very well, while only 29 percent that lack one said the same. There's a similarly significant difference in a range of functional areas. For example, 48 percent of companies with FIT perform cost accounting very well versus 20 percent of organizations without. In budgeting and fiscal control, the comparison is 46 percent versus 20 percent. And companies with FIT groups are better informed: 60 percent of corporations with FIT report that the information the finance department provides the rest of the company is timely, compared to only one-third (32%) of those without one.

Tangible Performance Improvements

This latest research shows for the first time a significant improvement in execution of the end-of-period close: Almost two-thirds (63%) of participants indicated their organization completes its monthly close within six business days, up from 53 percent in 2014, with nearly half (46%) now closing within four business days (the previous rate was 29%). Closing faster has value: 62 percent of those that close within six days say that the information they provide is timely, while only 39 percent of those that take longer say that. As noted, our performance analysis confirms a general improvement, with the Innovative performance category now

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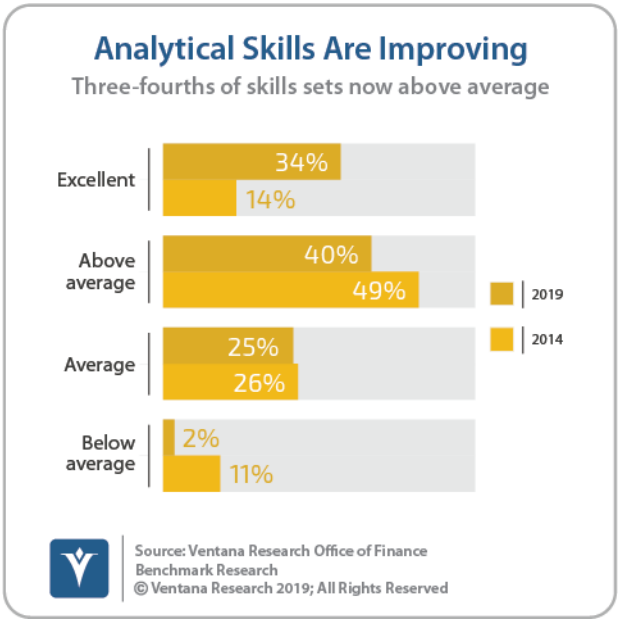
containing 19 percent of organizations (versus 10% in 2014) while organizations at the lowest Tactical performance category declined to 40 percent from 50 percent.

Budgeting and financial planning also has improved. The share of companies reporting that their budgets remain relevant throughout the period rose to 66 percent from 49 percent. Companies today are reviewing their actual-to-budget results somewhat earlier than our research found four years ago. In addition, the research finds a correlation between the type of tool a company uses for budgeting and financial planning and how well these processes work. Two-thirds (66%) of companies that use a dedicated third-party application said they have a budgeting and planning process that works very well, compared to just 36 percent of those that use spreadsheets.

We also find general improvement in the state of companies' finance analytics: More than one in five (22%) said their process for creating finance analytics works very well compared to just three percent that said the same four years ago. Advances in analytics appear to have inclined companies to use analytics more to improve performance: In this research 32 percent said they use them significantly compared to 14 percent four years ago. One in three participants (34%) now rate the skills of the people creating finance analytics in their company as excellent compared to just 14 percent four years ago. And analytics are generally more available: 46 percent of senior executives report full availability of finance analytics compared to 26 percent four years ago.



About half (47%) of companies said they regard their controls for separation of duties and internal fraud as very effective, perhaps because there is software readily available to manage these functions. Only one-third (33%) said their controls for tax management are very effective. The research indicates technology is a significant factor: Companies that use a third-party application for their income tax provision are almost twice as likely to say that their controls for tax management are very effective as those that use spreadsheets (62% versus 33%). Not everyone is happy with the change mandated by Sarbanes-Oxley or finds business value in the formal controls and increased staff that regulation requires. However, today a majority (57%) of companies are satisfied with the effectiveness of their internal audit function, a considerable improvement over five years ago when only 20 percent said they were.

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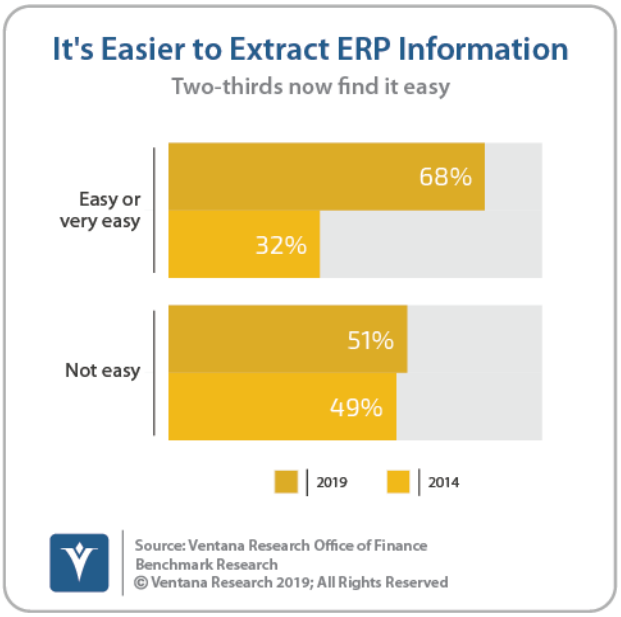
Management Effectiveness Has Room for Improvement

Despite these improvements, the research finds that the office of finance has significant room for growth. Analysis of the research data shows that management effectiveness is the most significant challenge across an array of finance functions. It's difficult to address change management issues associated with adopting new methods to improve performance when there's a lack of leadership. However, in one key component of management effectiveness, communication, there has been a considerable improvement: The percentage of participants who said that their senior executives communicate very effectively with the department rose to 34 percent, compared to 17 percent in 2014.

Other top challenges the finance function faces are data availability and quality and training. Addressing data issues can require a concerted cross-functional effort and investment, which often is difficult to achieve if its importance is not recognized at a senior leadership level.

Nearly half of organizations (49%) now regularly review technology issues and opportunities, up from 26 percent five years ago. Reviews in general have become more regular: Nearly three-fourths (72%) of participants report reviewing their close process either monthly or quarterly compared to 57 percent in 2014 and 62 percent review planning and budgeting compared to 40 percent in the earlier research. Continuous improvement is a key component of the approach to managing the office of finance we call "continuous accounting." In our view, regularly reviewing performance to identify improvement opportunities and implement necessary changes is essential to good performance. Technology should be included in these discussions.

Furthermore, the research finds no meaningful change in the rate at which finance organizations are undertaking an initiative to enhance their strategic value to the company. But those that did undertake initiatives within the last 18 months did so with a broader set of departments (on average 3.0 versus 2.4 in 2014). The most common was one that focused internally within the finance organization, with 80 percent citing it as an area where it has had an initiative. Next on the list is operations (44% versus 37% previously).



Key Technology Findings

The impact of the Y2K bulge is diminishing as companies increasingly are replacing these two-decades old systems. In 2005, our ERP benchmark research estimated that the average age of a company's main ERP system was 5.1 years. By 2014, it had increased to 6.4 years.

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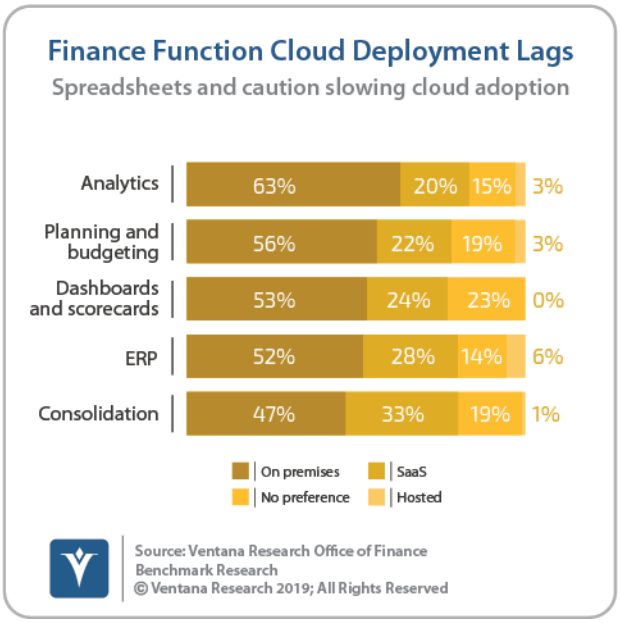
One likely contributing factor was that companies were making major updates to their system more frequently rather than replacing it, a sign of the maturing of the product and its richness in features and functionality.

In this Office of Finance benchmark research, the average age of an ERP system fell to 6.0 years. Over the past five years, screen designs and workflows have been altered to declutter interfaces and simplify the number of screens a user must traverse to complete a task, so companies are finding it easier to get useful information from their ERP system: 68 percent said it was easy or very easy compared to 32 percent four years ago. Replacement of older systems and the growth in the market for data visualization tools are likely reasons for the improvement in ease of use.

For all analysts' and vendors' talk about the importance of the cloud, the participants in this research showed a distinct preference for on-premises deployments. They preferred it by double-digit margins in all finance-related categories, from ERP to income tax and analytics to planning and budgeting. Organizations' preference for on-premises deployment is likely a lagging indicator as there is a correlation between the age of the company's current ERP system and deployment preference. For companies that deployed their ERP system within the last two years, 50 percent prefer to deploy the system on-premises while 42 percent prefer SaaS. Those working in companies that deployed the software three to six years ago prefer on-premises to SaaS 54 percent to 29 percent, and for those that deployed their system seven or more years ago, the difference was 58 percent versus 15 percent.



Our research has consistently illustrated the connection between not using the right software — or using appropriate technology improperly — and not performing well. This most recent research once again finds an overreliance on spreadsheets and a hesitance to embrace new technology. Despite the backdrop of change in many aspects of business, we consistently see evidence that the Office of Finance is a laggard. Today, for example, a growing array of tools and techniques are available to enhance the effectiveness of the analytics used by finance organizations, but we find that most corporations stick to the systems and approaches they have always used. Finance professionals continue to rely on desktop spreadsheets and they continue to use them inappropriately, even when there are practical, affordable alternatives. Additionally, those in the finance organization have been consistently the least likely of all major functional groups to want to deploy software in the cloud. Organizations that are evaluating

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technology investments for Finance most often cite usability as a top priority, followed by manageability, reliability and product functionality.

Overall, this recent Office of Finance benchmark research finds an encouraging positive trend in corporate performance while confirming that significant challenges to achieving finance transformation remain, especially excessive caution in adopting information technology. Having a finance IT organization within the department could go a long way in addressing this challenge. In addition to improving the utilization of existing applications, a FIT group will be equipped to understand and assess the maturity of today's emerging technologies and their ability to address the needs of their organization. A FIT group is also better equipped to evaluate vendors' offerings and their fit with the needs of the company.

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About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

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Appendix: About This Benchmark Research

Ventana Research designed this benchmark research to assess processes and technology in the Office of Finance. We conducted this benchmark research on the web from April 2018 through April 2019. Applying our standard methodology and quality assurance criteria, we identified 162 qualified participants. A closer look reveals that 22 percent work in very large companies (having 10,000 or more employees), 33 percent work in large companies (with 1,000 to 9,999 employees), 41 percent work in midsize companies (with 100 to 999 employees), and 4 percent work in small companies (with fewer than 100 employees). A very large majority (94%) of the participants were from companies located or headquartered in North America. Those based in Europe accounted for 5 percent and Central America 1 percent, but many of these are global organizations operating worldwide. Among industry categories, companies in manufacturing accounted for 18 percent and those that provide services accounted for 41 percent. Those in finance, insurance and real estate accounted for 27 percent. Government, education and nonprofits accounted for 14 percent. Categorized by job title, nearly nine in 10 identified themselves as having titles that we categorize as users. Fewer than one in five are management and 2 percent are executives. By function, Predictably, a large majority (72%) of the participants identified themselves as being in the accounting/finance function; 6 percent are in business development, 5 percent are in administration, 4 percent are in IT and 3 percent are in marketing. (More demographic details about the participants are available in the full research report.)

This Executive Summary is drawn from the full Ventana Research Benchmark Research report. The full report is available for purchase, payable by check or credit card. Advice and focused guidance based on this benchmark research can be purchased through our Ventana On-Demand service. For more information about the full Benchmark Research report or assessment of your organization using our Performance Index methodology, please contact us at sales@ventanaresearch.com.

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