# 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.

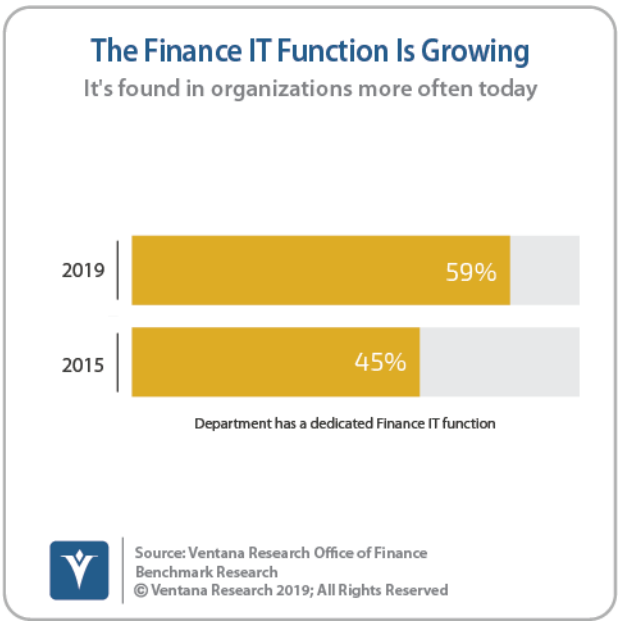
Today we are on the cusp of another major technology-led change. Technology that's already available has the potential to have a greater impact on how the finance department operates over the next 10 years than it has over the past 50. Advances in columnar databases, in-memory processing and machine 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.

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.



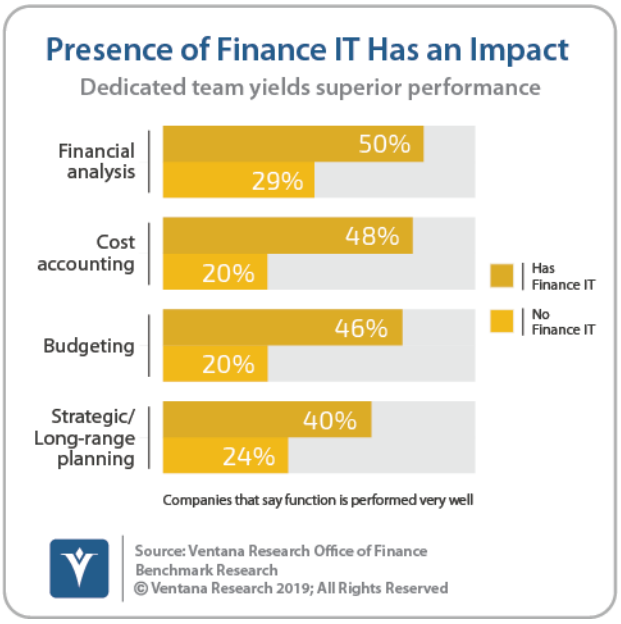

## The Importance of Finance IT

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.

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

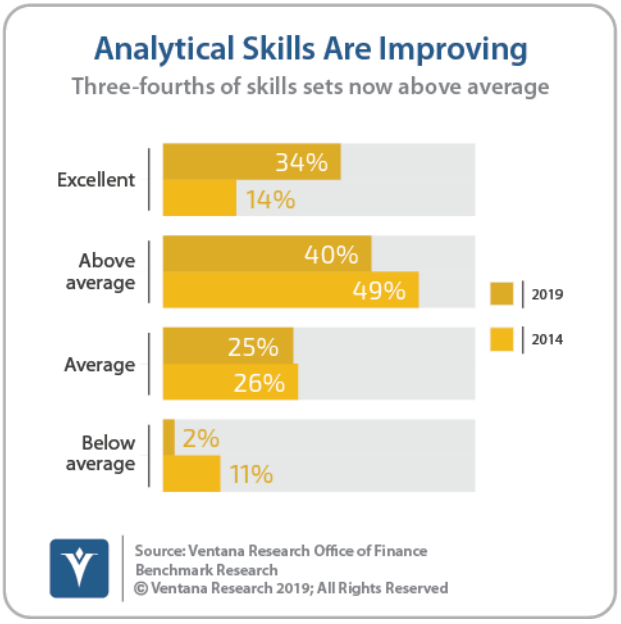
This latest research shows for the first time a significant improvement in execution of the end-of-period close: Almost two-thirds (63%) of participants indicated their organization completes its monthly close within six business days, up from 53 percent in 2014, with nearly half (46%) now closing within 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

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.

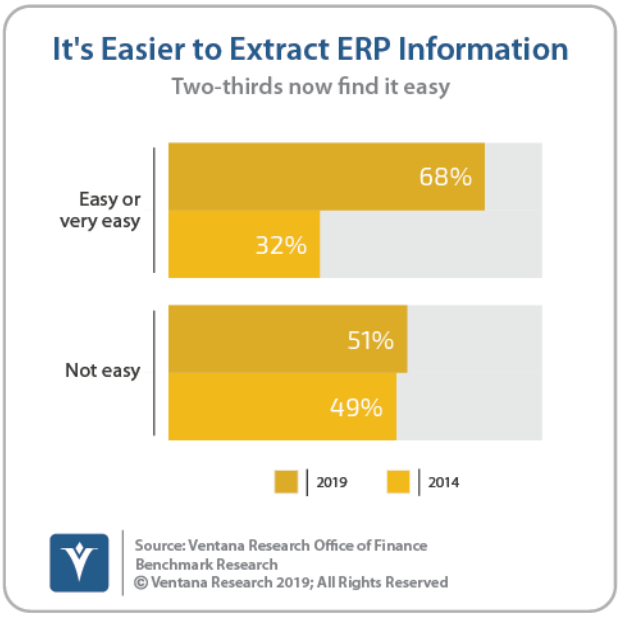
## Management Effectiveness Has Room for Improvement

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

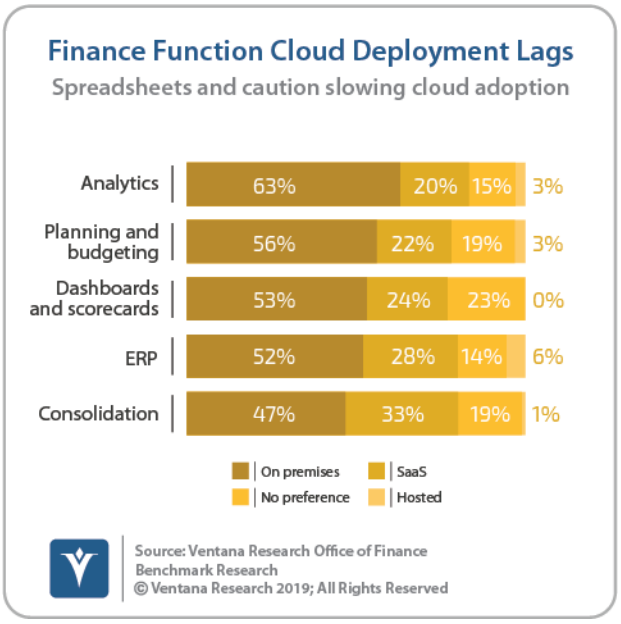
The impact of the Y2K bulge is diminishing as companies increasingly are replacing these two-decades old systems. In 2005, our ERP benchmark research estimated that the average age of a company's main ERP system was 5.1 years. By 2014, it had increased to 6.4 years.

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

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.

# Key Insights

This benchmark research yielded the following important general findings and key insights regarding the state of the Office of Finance. (We discuss performance levels in the Performance Index portion of the full research report; the actual questions asked in our survey are in an appendix to the research report. Specifics of organization sizes are in the appendix "About This Benchmark Research.")

### The accounting close is finally getting shorter.

A fast, clean close is an important measure of the effectiveness of the department. Companies that close their books within six days after the end of the quarter are more likely to provide executives with timely information. A faster close also promotes agility in responding to markets and competitors, frees up departmental resources to enable CFOs to fix process issues that hamper the effectiveness of the department and allows extra time to concentrate on more valuable analytical tasks. Moreover, by focusing on issues that are delaying the close, the department likely will uncover the root cause of other issues that diminish its performance.

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Ventana Research has been measuring how long it takes companies to complete their monthly and quarterly accounting close for 15 years. This latest research shows for the first time a significant improvement in this metric: 63 percent of participants indicated their company completes its monthly close within six business days compared to 53 percent in 2014, with nearly half (46%) finishing within four business days compared to the previous rate of 29 percent.

Closing faster has value: 62 percent of those that close within six days say they provide timely information to their organization, compared to 39 percent of those that take longer to close. For the quarterly close (which typically is a more involved process), 50 percent close within six business days compared to 40 percent in 2014, with 30 percent finishing within four business days compared to 19 percent.

Our performance analysis confirms this general improvement, as we found that 19 percent of companies placed in the highest Innovative performance category (versus 10% in 2014), while those in the lowest Tactical category declined to 40 percent from 50 percent of organizations.

## The quality of financial planning is improving.

The research finds progress in improving budgeting and financial planning. Significantly, 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. Half (52%) of them now do this within six business days compared to 44 percent in 2014; 19 percent complete the review within three business days compared to 14 percent earlier.

The research finds that there is a correlation between the type of software 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.

## In the Office of Finance, analytics use is improving.

This research shows a general improvement in the state of companies' finance analytics. For example, more than one in five participants (22%) said their process for creating finance analytics works very well compared to just three percent that said the same four years ago. This is significant because our research shows that the quality of finance analytics processes correlates with the breadth of financial analyses performed by the department. Companies that say the process works very well on average routinely perform 6.2 types of financial analysis, compared to 4.6 where they say the process works well and only 3.6 where the process is reported to be just adequate. The rapid expansion in analytic tools over the past few years has likely facilitated this improvement.

> The research finds a correlation between the type of software a company uses for budgeting and financial planning and how well these processes work.

Advances in analytics appear to have inclined companies to use them more to improve performance: In this research 32 percent said they use them significantly compared to 14 percent four years ago. Most organizations recognize the need for analytics capabilities: 76 percent cite analytics as critical for improving their performance. In addition, one in three participants (34%) rate the skills of the people creating finance analytics in their company as excellent compared to just 14 percent four years ago. Midsize companies, however, were much less likely than larger companies to rate the analytic skills as excellent (26% versus 38%), revealing a skills gap in this critical aspect of finance organizations.

Analytics are generally more available: 46 percent of senior executives report full availability of finance analytics compared to 26 percent four years ago. Similarly,

40 percent of vice presidents, directors and managers said they have analytics that are completely accessible versus just 20 percent in 2014. There was no significant difference in the accessibility of analytics between midsize and larger companies.

## Departments handle financial controls and internal audit well.

The Sarbanes-Oxley Act, passed in 2002, changed the application of financial controls, especially in public U.S. companies, from what usually had been a less-than-formal process to one that is far more structured and documented. Thus almost all companies (92%) said they had reviewed the completeness of their financial controls in the past two years.

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. But it's noteworthy that 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%).

> A lack of leadership makes it difficult to address change management issues associated with adopting new methods to improve performance.

When companies were first implementing more formal controls in response to Sarbanes-Oxley they generally increased the size of their internal audit staff and the scope of their duties. Not everyone was happy with this change or its value to the business. However, a majority (57%) of companies reported that today they are satisfied with the effectiveness of their internal audit function. This is a considerable improvement over five years ago when only 20 percent said they were. One reason is that a sizable majority of participants (71%) said that their process strikes a good balance between internal audit requirements and addressing business needs, an increase from 40 percent four years ago.

## Ineffective management and data issues challenge the finance department.

This research finds that management effectiveness is the most significant challenge across an array of finance functions. A lack of leadership makes it difficult to address the change management issues associated with adopting new methods to improve performance. One key component of management effectiveness is communication, and here there was a considerable improvement. Compared to our previous research, the percentage of participants who said that

their senior executives communicate very effectively with the department was higher: 34 percent compared to 17 percent in 2014. Similarly, 36 percent said that their senior finance executives communicate very effectively with the rest of the organization, compared to 12 percent in 2014.

Other top Office of Finance challenges identified in the research 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. Two ways for departments to diminish data errors are managing data continuously without manual interventions and reducing the use of spreadsheets. Having a data infrastructure that guarantees the availability of accurate, up-to-date and consistent information addresses the availability issue.

> Regularly reviewing performance to identify improvement opportunities and implement key changes is essential to good performance.

Public company CFOs and senior finance executives are more likely to need the ability to communicate frequently, clearly and consistently. Perhaps for that reason the research found a correlation between communication and whether a company is public or not. The research shows that 41 percent of companies that are public have senior finance executives that communicate very effectively compared to 25 percent of private ones; in addition, 42 percent of public companies' senior finance executives communicate very well with other parts of the organization compared with 28 percent of private ones.

Training is often overlooked either because management doesn't see the necessity of allocating resources to it or because people don't think they need it. Implementing training programs requires a level of management effectiveness, which may be at the heart of this issue.

## Continuous improvement efforts are expanding.

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. The research shows a marked increase in the percentage of companies that review processes and topics on a monthly or quarterly basis. In the past, our research has found a common-sense correlation between the frequency with which processes are reviewed and how well they're executed. That's particularly true for the accounting close and is a core recommendation we've made over the years for accelerating the close. Nearly three-fourths (72%) of participants report reviewing their close process either monthly or quarterly, compared to 57 percent in 2014. More than three in five

(62%) report they review the topic of planning and budgeting compared to 40 percent in the earlier research. The biggest jump was in the regular review of technology issues and opportunities, which went from 26 percent to 49 percent. This is in keeping with a general theme in the findings: a more technology-focused finance department.

### Strategic engagement by Finance remains limited.

A major objective of finance transformation is becoming more of a strategic partner to the rest of the company. It's an objective that remains largely unfulfilled. Compared to five years ago, there is 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 focusing on a slightly broader set of areas (on average 3.0 versus 2.4 in 2014). The most common area of focus was the finance organization itself, with 80 percent citing this as an area where it has undertaken an initiative. Next on the list is operations, but here only 44 percent had engaged in an initiative, followed by human resources (35%). Typically, a lack of time prevents departments from engaging with other parts of the company. Using technology to automate manual tasks can free up staff time and facilitate greater strategic engagement.

> Technology is increasingly central to the smooth functioning of finance and accounting, but those skilled in accounting and financial analysis aren't necessarily experts in this area.

### A Finance IT function is increasingly critical.

Ventana Research has long advocated having a finance IT function to improve the department's performance. Technology is increasingly central to the smooth functioning of finance and accounting. Unfortunately, those skilled in accounting and financial analysis aren't necessarily experts in this area. Some corporations have a finance IT group made up of individuals who are well grounded in core finance and accounting disciplines but also knowledgeable when it comes to software and information technology. This Office of Finance benchmark research finds an increase in the share of companies that have this group: 59 percent compared to 45 percent in 2015.

The research findings also support the need for a finance IT group. The data shows that there's a correlation between having a dedicated IT unit and the increased effectiveness of the finance organization. For example, 50 percent of the companies with such a group perform financial analysis very well compared to 29 percent that lack one. Moreover, while 60 percent of organizations with a finance IT group report that the information the finance department provides to the rest

of the company is timely, only one-third (32%) of those without one say that's the case.

### ERP systems have gotten slightly younger and easier to use.

The Y2K scare 20 years ago had a profound impact on the market for ERP software, accelerating the replacement cycle and creating a brief but steep downturn in demand in the few years that followed. This bulge influenced the average age of installed ERP systems. In 2005, our ERP benchmark research estimated that the average age of a company's main ERP system was 5.1 years. By 2015, it had increased to 6.4 years. One likely factor that contributed to this lengthening 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 latest Office of Finance benchmark research, that average age fell to 6.0 years. We conclude that the impact of the Y2K bulge is diminishing as companies increasingly are replacing these two-decades old systems.

> Companies are finding it easier to get useful information from their ERP system: 28 percent said it is very easy compared to 13 percent four years ago.

The research found a significant improvement in the ease of use of ERP systems. More than one-third (35%) said their system is as easy to work with as they could expect; only 21 percent said that in 2015. The percentage saying that it's not easy declined from 26 percent to 14 percent. It is likely that two factors are at work here. One is the tendency to overlook the learning curve effect on information technology systems. Buying software does not automatically produce positive results — a learning curve clarifies how quickly an organization achieves basic proficiency in utilizing the software. The second is the evolution in the design of ERP systems' user interface. 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.

As a result, companies are finding it easier to get useful information from their ERP system: 28 percent said it is very easy compared to 13 percent four years ago, while the share saying it is not easy fell from half (49%) to one-third (32%). Replacement of older systems and the growth in the market for data visualization tools are likely reasons for the improvement in ease of use. And participants' assessment of the performance of their companies' ERP system has improved. More than one-third (37%) say theirs works very well compared to just 10 percent four years ago. At the same time, the share of companies with systems that work poorly dropped from one-third (33%) to just 3 percent.

## Cloud acceptance remains sluggish.

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, analytics to planning and budgeting. The largest gaps are in analytics (44% between a preference for on-premises and a preference for the cloud), planning and budgeting (33%) and dashboards and scorecards (29%). These differences likely reflect the participants' preference for using spreadsheets to perform these functions.

In the case of ERP, participants preferred on-premises to a software-as-a-service cloud deployment by 52 percent to 28 percent. However, in 2014 just 15 percent of participants indicated a preference for SaaS. In our view, the on-premises preference 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.

# 10 Best Practice Recommendations

This benchmark research offers a timely assessment of how finance and accounting departments are performing. It reveals significant new insights into the connection between technology and improving the performance of the Office of Finance. Based on these findings, we offer the following recommendations.

## 1. Finance transformation is achieved step by step.

Finance departments must transform themselves to play a more forward-looking and engaged role to enhance the competitiveness of their organization. Transformation requires a change management effort that can only be accomplished by addressing the interrelated people, process, information (data) and technology (chiefly software) issues that prevent the finance and accounting organization from evolving. And as a change management effort, it's best managed as a series of continuous improvement goals, not a big bang. In our view the focus should be on the data and software aspects of change management. Addressing fundamental technology issues should be a priority. But technology by itself almost never fixes a problem. Do not neglect the people obstacles (including leadership, communication and training) and process design and execution issues that prevent the office of finance from becoming more of a partner to the rest of the business. Nonetheless, this research confirms that using the right technology is often a prerequisite for tackling the people, process and data issues that are preventing the office of finance from playing a more strategic role.

## 2. A Finance IT group is essential.

Technology is central to the effective functioning of finance and accounting. The department is a numbers factory: Data is collected, and the factory transforms that data into financial statements and compliance documents as well as insights and analysis. This research found multiple correlations between using the right technology in finance and accounting processes and achieving better outcomes. It also found multiple correlations between having a Finance IT (FIT) organization and achieving better results in areas such as in financial analysis, budgeting, cost accounting and strategic planning. It makes sense that having finance professionals who understand technology (that is, how the machinery works) as well as having business and finance expertise achieves better results. If your finance and accounting organization doesn't have a FIT group, it should establish one.

## 3. Focus on improving the close-to-report cycle.

Organizations want to shorten their close so they have more time for analysis and auditing before issuing financial statements and are able to provide financial and managerial reporting and analysis sooner. The research confirmed that companies that close their books within six business days are more

likely to provide timely information than those that take longer (62% versus 39%). Having and using the right technology is essential to speeding the close. The research confirmed that companies that significantly automate the close process and those that limit their use of spreadsheets are more likely to close their books within six business days. And while the research found some progress in shortening the close, more is needed. A higher percentage of companies are closing their quarterly books within six business days: 50 percent versus 40 percent five years ago. Yet that means that half still take seven or more days. Organizations should also focus on the post-close activities: creating board books and filing disclosure documents with regulators, lenders and lienholders.

## 4. Improve the quality and accessibility of analytics.

Using financial ratios to assess the health and performance of a business is centuries old and an established responsibility of the finance organization. The scope of what finance departments can analyze has significantly expanded over the past two decades, providing easier access to a wide range of operational and financial data. A growing list of tools to assess, visualize, and communicate data enables analysts to provide greater insight, visibility and guidance to executives and managers. Yet only one in five participants said that their finance analytics processes work very well. Departments must improve their handling of finance analytics because the quality of processes is correlated with the breadth of financial analyses performed by the department and therefore the scope of information and insight provided. Organizations where the process works very well on average routinely perform 6.2 types of financial analysis (such as income statement and balance sheet analysis, cash flow forecasting and customer profitability analysis) compared to 4.6 where the process works well and only 3.6 where the process is just adequate.

## 5. Make planning and budgeting a more useful business tool.

Ventana Research advocates integrated business planning (IBP), a high-participation continuous approach to corporate planning that enables individual business units to plan in the manner that works for them but also makes their planning data available to the rest of the business. This approach enhances accountability compared to top-down planning: It's no longer "the finance department's plan." IBP uses driver-based modeling to plan "things" — headcount, units produced and advertising campaigns — as well as their financial impact. IBP utilizes five- or six-quarter rolling plans and forecasts to continually adjust to business conditions and more closely align business units' plans. And because IBP is built on rapid planning cycles, the organization can focus on executing the plan and can more readily collaborate across business units. This research finds two-thirds of organizations that use a dedicated third-party application said they have a budgeting and planning process that works very well, compared to just more than one-third of those that use spreadsheets. However, spreadsheets are still the norm: 58 percent of midsize and larger

companies still use spreadsheets to manage their planning and budgeting processes. Companies that use spreadsheets for budgeting should investigate using a dedicated application to enhance the business value of this process and should also consider adopting an IBP approach to budgeting and planning.

## 6. Employ technology for effective risk management.

Risk is inherent in every facet of business. Risks that cannot be eliminated must be mitigated through the purchase of insurance or with active management. However, fewer than half of the participating companies described their ability to manage a variety of risks (such as separation of duties, credit management and material financial misstatements) as very effective. Here too, technology can support more effective risk management. For example, the research found that nearly two-thirds (62%) of companies that use dedicated software control their tax provisioning risk effectively compared to 33 percent that use spreadsheets.

## 7. Reduce the use of spreadsheets.

Spreadsheets are an essential tool for finance and accounting departments for a wide range of personal productivity and one-off tasks. They are almost always the wrong choice for any repetitive, collaborative enterprise task. Desktop spreadsheets were introduced 40 years ago. For decades they were the only practical choice. Today, however, companies have a range of options that can improve performance. The research confirmed, for example, that 64 percent of companies that use a dedicated application for planning have a process that works very well compared to 36 percent that use spreadsheets. While spreadsheets can be useful and are the easy, default choice for many tasks in finance and accounting, finance executives who want to transform how their department operates must reduce or eliminate their use in core processes where dedicated software options exist.

## 8. Consider the cloud as a first option.

Our research found more organizations prefer on-premises deployment of software over the cloud for a range of software categories including ERP (52% versus 28%), consolidation (47% versus 24%) and planning and budgeting (56% versus 22%). While there are some instances where the scope of functionality of a cloud-based system is inadequate for specific requirements, the capabilities of cloud-based offerings have grown steadily in recent years. Cloud-based systems can be less expensive and provide better performance than on-premises systems, especially over time since vendors upgrade their technology more frequently than on-premises providers. Cloud-based systems are also likely to be less risky than on-premises. Those vendors with the appropriate certifications almost always have a highly competent, dedicated security staff and defensive tools that are can be unaffordable for individual IT departments. Vulnerabilities are addressed almost

immediately because a security failure represents a serious threat to a cloud vendor's business. Finance departments should evaluate cloud as well as on-premises offerings.

## 9. Midsize company CFOs can address greater challenges with technology.

Ventana Research defines a midsize company as one with between 100 and 999 employees. These companies — and their CFOs — typically face the dual challenge of having to deal with a higher degree of organizational and operational complexity than small businesses yet lacking the resources that larger companies can bring to bear in dealing with that complexity. In short, midsize companies face a skills challenge. For example, while nearly half (45%) of larger companies perform financial analysis very well, only 29 percent of midsize companies achieve that level. The research found similar gaps in budgeting and fiscal control (40% versus 27%) and strategic and long-range planning (38% against 28%). It also uncovered a technology gap between midsize and larger organizations, specifically in the greater use of spreadsheets by midsize companies to manage core processes. Over the past decade, advances in technology, especially the increasing availability of software as a service, have made it possible to narrow the gap between midsize and larger companies' IT resources. Midsize CFOs should investigate how dedicated applications can replace spreadsheets, enabling their staff to be more productive and add value to core business processes such as accounting, planning and reporting. Finance organizations evaluating technology investments most often cite usability as a top priority, followed by manageability, reliability and product functionality.

## 10. Continuous improvement supports change management efforts.

This research found a marked increase in the percentage of organizations that review processes and topics on a monthly or quarterly basis. In the past, our research has found a common-sense correlation between the frequency with which processes are reviewed and how well they're executed. For instance, nearly three-fourths (72%) of participants report reviewing their close process either monthly or quarterly compared to 57 percent in 2014. A resistance to change is common in organizations and especially in accounting. There, a core requirement is the consistent treatment of transactions and analysis, so it attracts people who are uncomfortable with change. Finance executives who are serious about playing a more active and strategic role in the management of their company should embrace and communicate a continuous improvement ethos in their department. We are on the cusp of a major change in how finance and accounting departments operate. Finance organizations that learn how to adapt quickly to changing circumstances will be in better shape to deal with change. Although day-to-day accounting is built on consistency, the department must be able to adapt to changing business circumstances.

# 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.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including Twitter, Facebook and LinkedIn.

To learn how Ventana Research advances the maturity of organizations' use of information and technology through benchmark research, education and advisory services, visit www.ventanaresearch.com.

# Appendix: About This Benchmark Research

## Methodology

Ventana Research conducted this benchmark research on the web from April 2018 through April 2019. We solicited survey participation via email, our website and social media invitations. Email invitations were also sent by our media partners and by vendor sponsors.

We presented this explanation of the topic to participants prior to their entry into the survey:

Our research confirms that most executives want their finance department to play a more strategic role in the management of the company. This benchmark research will focus on the issues associated with shifting the focus of CFOs and finance departments from transaction processing to higher-value functions and the role of new software in helping achieve this transformation.

The following promotion incented participants to complete the survey:

What's In It For You? Upon completion of the research, all qualified participants will receive a report on the findings of this benchmark research to support their organization's efforts, along with a $5 Amazon.com gift certificate. In addition, all qualified participants will be entered into a drawing to win one of 25 benchmark research reports and a 30-minute consultation, a package valued at US$1,495 or €1,232. Thank you for your participation!

## Qualification

We designed the research to identify, explore, assess and quantify key aspects of the future of the Office of Finance. Qualification to participate was presented to participants as follows:

The survey for this benchmark research is designed for business and IT managers responsible for finance processes and applications or involved with the purchasing of technology for this area. Solution providers, software vendors, consultants, media and systems integrators may participate in the survey, but they are not eligible for incentives and their input will be used only if they meet the qualification criteria. Incentives are provided to qualified participants in the research and also are conditional on provision of accurate and verifiable contact information including company name and company email address that can be used for fulfillment of incentives.

Further qualification evaluation of respondents was conducted as part of the research methodology and quality assurance processes. It entailed screening out responses from companies that are too small, questionnaires that were not

materially complete, or those where the submission is from an inappropriate submitter or appears to be spurious.

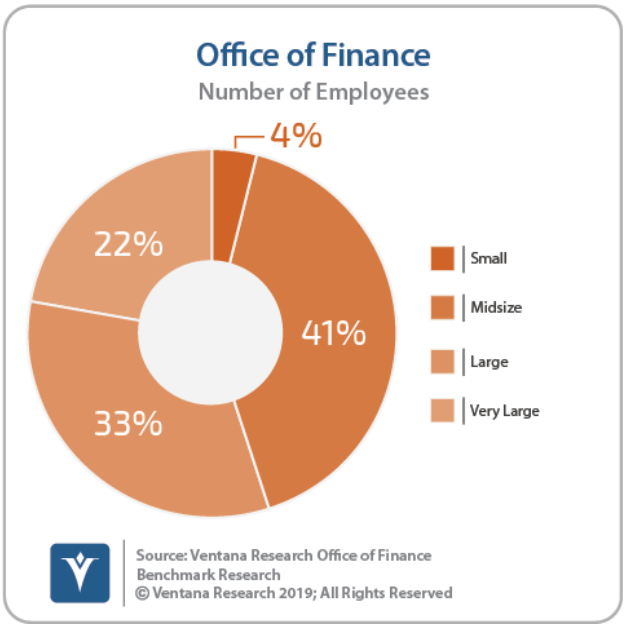
## Demographics

We designed the survey used for this research to be answered by executives and managers across a broad range of roles and titles working in organizations. We deemed 162 of those who clicked through to this survey to be qualified to have their answers analyzed in this research. In this report, the term "participants" refers to that group, and the charts in this section characterize various aspects of their demographics and qualifications.

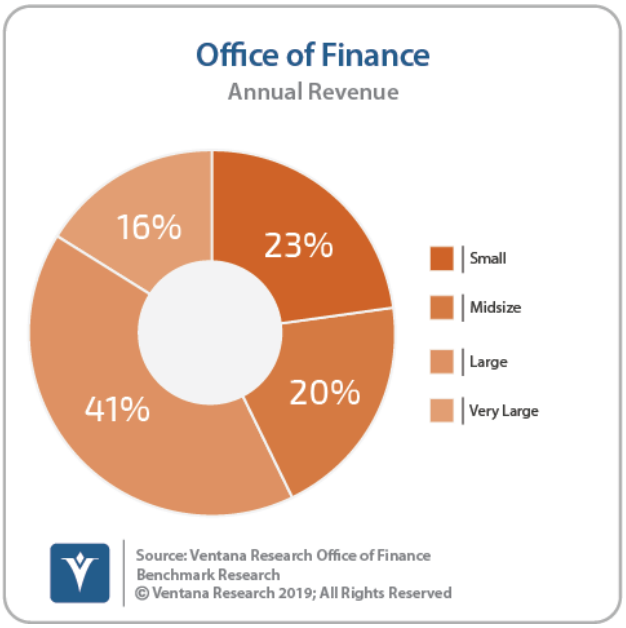
## Company Size by Workforce

We require participants to indicate the size of their entire company. Our research repeatedly shows that size of organization, measured in this instance by employees, is a useful means of segmenting companies because it correlates with the complexity of processes, communications and organizational structure as well as the complexity of the IT infrastructure. In this research, participants represented a broad range of organization sizes, with more participants at the larger end of the spectrum: 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). This distribution is mostly consistent with prior benchmark research and our research objectives and provides a suitably large sample from each size category.




## Company Size by Annual Revenue

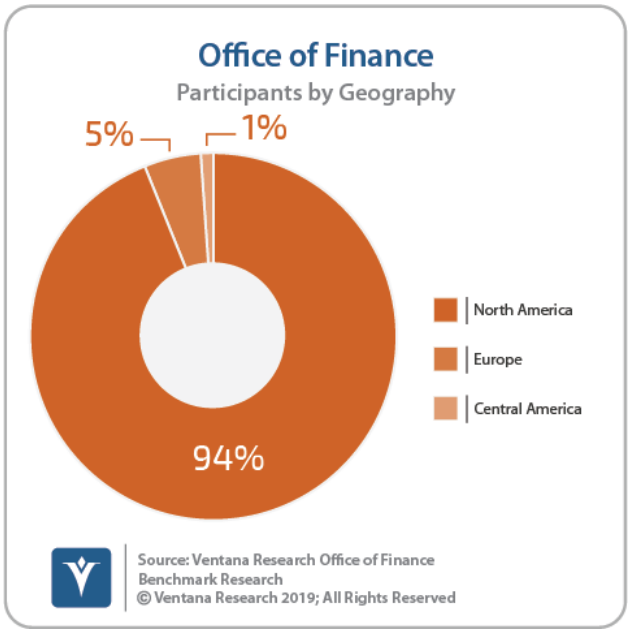
When we measured size by annual revenue, the distribution of categories shifted downward between the two largest and two smallest divisions; in particular, many more are small. By this measure, 6 percent fewer are very large companies (having revenue of more than US$10 billion), but 8 percent more are large companies (having revenue from US$500 million to US$10 billion). Similarly, 21 percent fewer are midsize companies (having revenue from US$100 to US$500 million), but 19 percent more are small companies (with revenue of less than US$100 million). This sort of redistribution is typical in our research when we measure by revenue instead of head count.



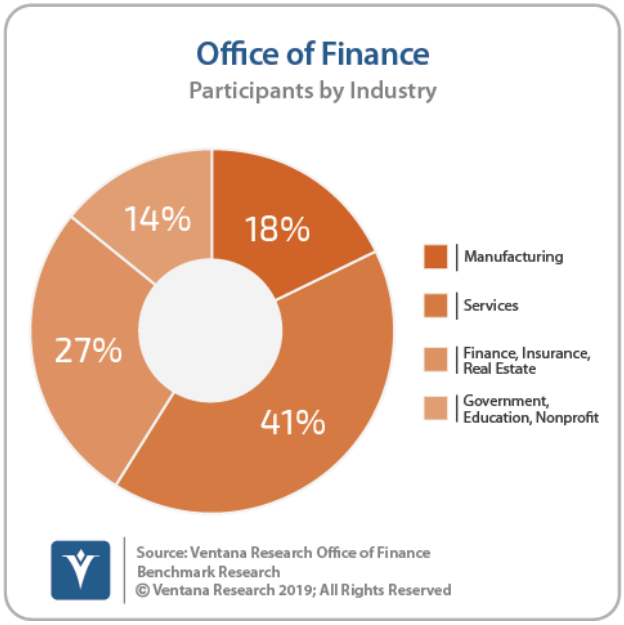
## Geographic Distribution

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 1 percent are based in Central America. This result was in keeping with our expectations at the start of this investigation, since organizations participating in our research most often are headquartered in North America. However, many of these are global organizations operating worldwide.




## Industry

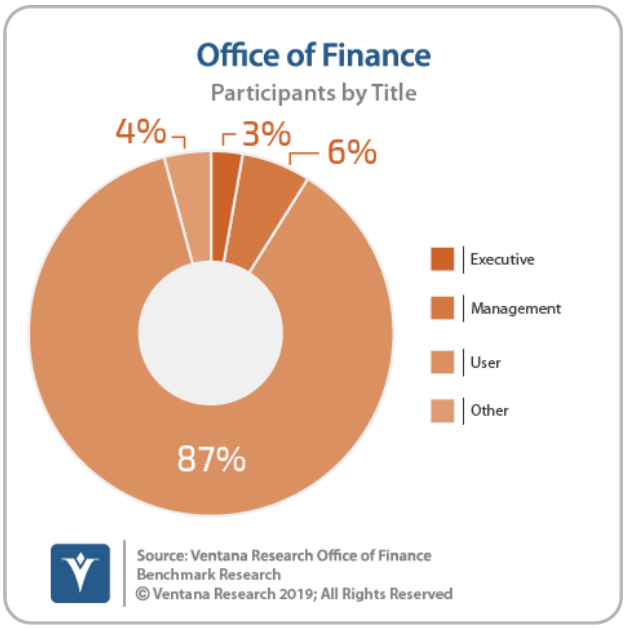
The companies of the participants in this benchmark research represented a broad range of industries, which we have categorized into four general categories. Companies in manufacturing accounted for 18 percent and those that provide services accounted for 41 percent. Those in finance, insurance and real estate accounted for 27 percent. Government, education and nonprofits accounted for 14 percent and a miscellaneous other category for the balance.



## Job Title

We asked participants to choose from among 12 titles the one that best describes theirs. We sorted these responses into four categories: executives, management, users and others. Nearly nine in 10 identified themselves as having titles that we categorize as users, a grouping that includes director (25%), senior manager or manager (39%), analyst (17%) and staff (6%). Fewer than one in five are management and 2 percent are executives, by which we mean vice presidents. Others, in this case consultants, accounted for the balance. We concluded after analysis that this response set provided a meaningfully broad distribution of job titles.




## Role by Functional Area

We asked participants to identify their functional area of responsibility as well. This enabled us to identify differences between participants who have differing roles in the organization. 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. Another eight titles, none with more than 2 percent of the total, comprised the Other category.