VITAL ANALYSIS

Making Finance Reinvention Happen

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Executive Summary

The current wave of Finance Reinvention is marked less by updated ERP software and instead with new technologies that enable Finance processes to be radically reimagined. The best Finance organizations are not being driven by incrementalism or nostalgia. They are looking for different, if not daring, ways to improve the function of Finance and the services it can deliver.

Why aren't we reading about more of these efforts? First of all, many of these reinvention efforts are not getting launched. They can be tough to '*start*'. Worse, too many teams are not fully aware of what is possible. That lack of knowledge or imagination dooms some efforts or makes their impact unremarkable. But these (and other) excuses must be overcome as businesses must frequently reinvent themselves if they are to remain competitive and market relevant.

This paper examines the five phases that successful Finance Reinvention efforts pass through: Start, See, Think, Reconcile and Transform. Each phase is briefly discussed in this paper.

What Finance teams will see now are new solutions that are transforming many aspects of Finance. These new tools can:
- Reduce fraud/corruption
- Reduce friction, errors and redundant entry in the payment and billing processes
- Automate integrations with accounting, collaboration, workflow and other systems
- And much more

These new solutions can also:
- Automate more Finance activities (e.g., automated closings)
- Improve Finance service levels to its growing list of constituents
- Drive new efficiencies
- Make Finance a more attractive career choice for Finance team members

If your organization is serious about a reinvented Finance organization, then:
- Do the requisite work and move the needle smartly and significantly
- Avoid the temptation to take shortcuts
- Get a great team to make it happen
- Get out of the office! See the innovation opportunities that are out there.

It's a Different Time for Finance

Just how long has it been since you last selected new Finance software? If typical, it has been at least 10 or more years since your core functionality was changed. Many organizations are using (a modestly upgraded) version of the same software their firm implemented 20 years ago.

Businesses do not change their core back-office solutions frequently as:
- These projects can be costly and risky
- The cost/benefit tradeoff of these efforts can be lacking
- Finance teams lack extra people to work on these efforts
- The time commitment to change these systems may exceed the Finance team's availability

These old Finance solutions and their corresponding processes feel like they are caught in a time warp. These systems are experiencing rapid obsolescence and they must evolve. Why?
- Older solutions are increasingly uncompetitive, inefficient and/or irrelevant
- Rapid innovation is triggering changes in business processes, Finance service levels and capabilities
- Innovations in Finance technology are coming in an ever-increasing pace (e.g., new and smarter analytics)

Some of the most interesting innovation is occurring within specific processes (e.g., payables management) as these solutions are addressing new business opportunities. New solutions are changing how and when corporations work with their commercial banks and newer non-bank solutions. Some solutions address fraud detection, continuous auditing, revenue predictions via social sentiment data, sales forecasts via machine learning, etc. What constitutes a *'Finance'* application today is much broader than the journal entry processing software of the last 4-5 decades.

Not every organization will be able to upgrade their Finance technology quickly, if at all. There will be challenges many businesses must overcome including:
- **Technical debt** – Technical debt describes the amount of work required to get existing Finance software current. The software could be several releases behind and/or run on underpowered or obsolete hardware. Many companies cannot easily or inexpensively implement new capabilities and innovations into their old systems unless they spend a lot of capital to get these older systems current. A mountain of technical debt around old Finance systems can derail new innovation projects.
- **Clutter** – Some Finance groups accumulate a lot of spreadsheets, manual workarounds, paper-based schedules, etc. These inefficient artifacts of bygone Finance methods and tools are incongruent with many new Finance innovations. Reinvention can't occur unless there is a plan to shed much of this.
- **Nostalgia/Inertia** – Some Finance team members like things just they way they are. Some are quick to point out that "*that's the way we've always done things here*". Whether it is nostalgia or inertia, resistance to change will stop reinvention efforts cold.

- **Other aspects of the business are changing** – If the business is pursuing capital intensive efforts (e.g., greenfield production sites, Factories of the Future, new business models), then capital, IT talent and other constrained resources may be insufficient for the projects Finance needs to modernize its operations.
- **Sparse Finance resources** – Some Finance departments have not seen their budgets or headcount increase for a decade or more even though the business has grown markedly. A barebones Finance group has no talent to spare on new technology projects.

Finance reinvention will occur in organizations where the leadership and staff want this change. For example, many younger generation workers may demand Finance technology with a consumer-grade user experience. Some will not work for an entity that persists in using old green screen software, an excess of spreadsheets, etc. Senior Finance leaders may want new technology as they will not want to retire knowing that they did not improve the Finance function during their tenure. It is not how they want to be remembered. In some cases, it is what the Operations leaders are doing that triggers changes in the Finance technology. If Operations is implementing new sensor-based technologies on the production floor, new, massive data stores will be created and these will likely impact cost accounting, analytics, preventative maintenance cost tradeoffs, etc. Finance will need more modern solutions that can parse, analyze and report on this new kind of information and its needed actions.

Finance will need to reinvent itself if it is to continue to be a great partner and an asset of the firm. Competition dictates it must and rapidly evolving innovations only fuel the frequency and magnitude of further reinvention cycles. The status quo is not an option.

START the Reinvention Effort

In researching the book, **Digital With Impact**, we came across many *'digital misfires'* and far fewer successful *'digital transformations'*. Many well-intentioned efforts often ended poorly as reinvention teams tried to skip key tasks or do them out of order.

After publishing the book, we heard from many business leaders about the very first activity: starting the reinvention effort itself. It seems corporate leaders, management consultants and even some academics were unsuccessful in getting these projects launched. Why?

Management consultants told us that many organizations were interested in reinvention or transformation efforts. To wit, these firms requested all manner of briefings and education sessions with consultants but were often loath to actually kick off the project. Consultants reported that:
- Reinvention efforts would have to occur after more pressing (and/or capital intensive) efforts were finished first. Sadly, many of these higher priority projects were designed to get the organization back to a more competitive or operational level not to radically advance the firm.

- Companies, incorrectly, believe that they still have plenty of time before they need to reinvent aspects of their organization.
- The firms in question were often more '*broken*' that previously known. Before a reinvention effort could start, there was substantial repair or cleanup work required.

We also saw organizations getting reinvention advice from the wrong players. While a company may have had a 20-year relationship with their ERP provider and an implementer of that product line, that did not necessarily mean that those firms could help the customer move to another, more advanced operational state. In the words of an advice columnist, many of these customers needed "*to seek true love elsewhere*" as their old partners were still wedded to old technology, old business processes and old business process designs.

Denial was also abundant. Amazingly, many executives believe that they have all the time in the world to make a reinvention effort occur. Sadly, they are almost always wrong about the timing of this. Worse, they decide this based on almost no data or research. If they have not polled the technology marketplace in years, their perception of new innovations is often years out-of-date. Likewise, their knowledge of competitors and their competitors' use of new innovations can be seriously out-of-date, too.

Another kind of denial showed up as an overinflated sense of security. One firm absolutely felt they were impregnable from new competitors with using business models. In an instant, I described how one such entity could disaggregate their market and carve off their biggest urban customers in a rapid, low-capital manner. New business models are emerging all the time and they require new kinds of competitive responses.

We also ran into executives that lacked the stomach to take on an initiative that could be challenging. Reinvention requires a person to imagine new possibilities and the methods needed to bring them to life. If your career has been defined in doing the same thing, repetitively for years or decades, change can be a challenging and scary thing.

Whatever the reason, reinvention projects can be hard to start. Successful organizations do start these efforts and they did the following:
- Found the right leaders
- Made the status quo an unacceptable option
- Committed to eliminate the artifacts of a bygone Finance era (e.g., spreadsheets, paper, etc.)
- Made the time to investigate the innovations and opportunities now available

The Reinvention Phases

We believe there are five phases to a successful reinvention effort: Start (which we've already discussed), See, Think, Reconcile and Transform. Here is a short review of the last four.
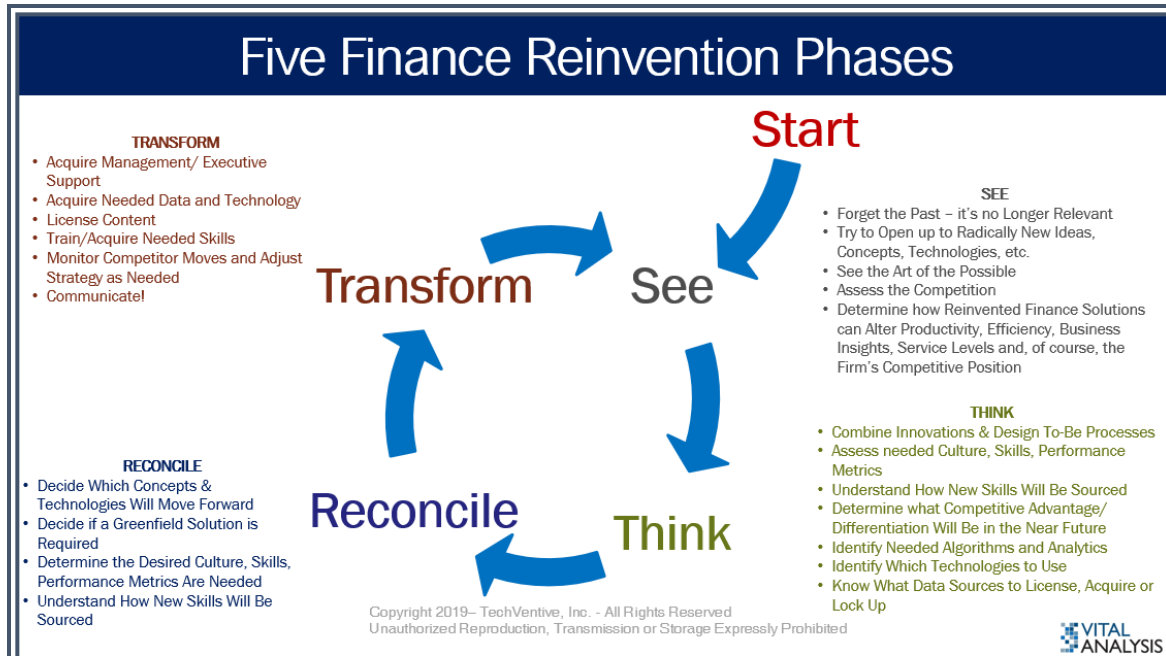
See – Finance teams may need to get out and '*play in traffic*' if they are to understand and appreciate all of the new innovations in technology and processes that are (or will soon be) available. This investigative effort brings new ideas to the fore. It's a period where possibilities are identified whether they are immediately practical or implementable.

These discoveries start the team imagining a different way work will be accomplished. They can show how Finance can massively automate routine tasks, better serve a broader group of constituents, provide a much wider array of insights, harness new sources of data (beyond accounting transactions), save the firm significant money, fight fraud/corruption and more. The discovery effort isn't about adding some small (or old) incremental improvement to one's current ERP solution. The See phase provides insights into the next ten years of your Finance operations – not the last ten years.

Reinvented solutions often:
- Have a new, different and/or bigger data model
- Utilize a different process design(s)
- Solve problems for traditional _and_ additional (i.e., non-Finance) users
- Utilize new form factors (e.g., consumer grade user experience on smart phones)
- Have multiple new technologies within in them (e.g., machine learning, analytics, data visualization, exception handling and workflow management)
- Make process simplification a key feature
- Deliver a different kind of value other than just transaction efficiency

Another key activity in the See phase involves an assessment of competitors, current and emerging, and determining how each might disrupt the status quo. What tools, tactics (e.g., disaggregating a market) and business models will each use to grab market share? This assessment is key to understanding how fast and how far your organization must go to remain market relevant.

The best teams get out of the office. They attend venture capital events, visit with leading academics, invite software firms in for brown-bag lunches, and most importantly, visit the leadership of up and coming technology firms. It is in these encounters that the team can acquire first-person insights that can change how their organization will win in the marketplace.

Your firm must make the time to see what's possible.

Think – Now that the team has surveyed the landscape, assessed the competition and developed a laundry list of potential solutions, it needs to put these into a framework or plan. The team must develop new to-be processes and understand the personnel that will be needed to implement and operate these new solutions. This planning work might require development of new solutions that use combinations of new technologies to deliver new kinds of value.

The team must consider how the current organization, the skills within it and its culture can be transitioned to a new operating model. Some Finance personnel might not want to make this journey and some may lack the advanced technical skills that the new solutions will require.
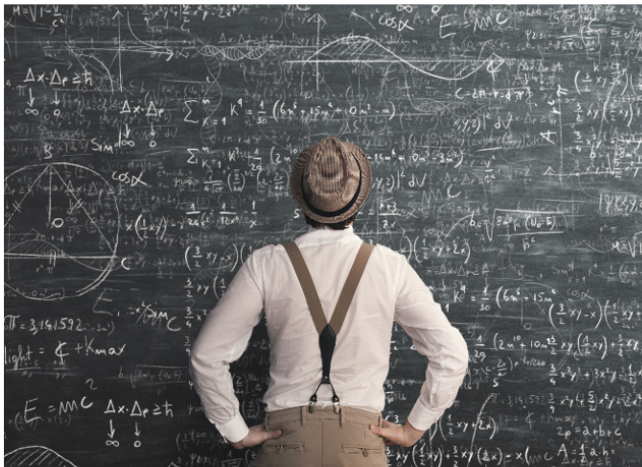

Think Exercise

1. Pick an existing Finance process
2. Imagine how it would work with:
   a. Automated form filling
   b. Workflow management
   c. Exception handling
   d. Machine learning
   e. On a smartphone
   f. Etc.
3. Imagine how non-Finance personnel would want to use this
4. Compare this with how competitor's processes work (now and in the future)

Image source: Shutterstock

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A key aspect of this phase is the development of high-level plans to implement new solutions, culture, processes and organization structure. Cost estimates should accompany these plans as well as documentation as to potential benefits that could be achieved.

The end result of this effort is a collection of potential solutions that Finance (and the business) might derive benefit. An assessment of these comes in the next phase.

Reconcile – Reconcile covers a number of activities where the ideal solutions (identified in a prior phase) are compared to the economic, timing and skillset assets a company actually possesses. It would not be unusual to find a Finance organization with grand plans but its actual staff complement may be stretched too thin to take on any kind of transformative project.

Capital, headcount, skills, program/project leadership, IT support and other factors may need to be balanced and reconciled against this laundry list of desirable initiatives. Not everything will make the cut and many candid, tough conversations may have to occur at the Board and Executive Committee level before anything gets green-lit.

At the end of the reconcile phase, the team should be absolutely clear on what efforts are required to move forward and the schedule for same. Additional answers are needed that establish the budget, third-party assistance needed and team composition to complete these efforts. Finally, the reconciled plans must address how the current work of Finance does not suffer while this change occurs.

Reconcile brings a measure of practicality and responsibility to these efforts. It is what helps ensure that the right efforts will get completed, by whom and where the resources will come from.

Transform – Transform is the phase everyone cannot wait to get to and are tempted to shortcut prior phases to do so. That is just a bad idea as the vision will likely be too small, the design work incomplete and the goals potentially unrealistic.

The transform phase requires the acquisition of a team that will drive the effort to completion. This won't be possible with a team of part-timers who have to be absent at least two weeks of every month to do their normal Finance activities (e.g., complete the monthly close).

These efforts may also require change management expertise as the number of affected personnel impacted by the new processes and/or technology may include more than the Finance team. New training may be required as well.

Some new solutions may require that Finance develop new skills in areas like algorithm design, statistics, process design, data science and more.

Finally, transformation teams must continue to monitor the competition. They should adjust their plans based upon new insights re: competitors and what those companies have recently struggled with or accomplished.

Summary

The pace of innovation is not constant. It accelerates. Innovation in Finance is no different. The implication of all this change is that reinvention in Finance is a necessary activity. While Finance professionals deal with constrained budgets, an acute shortage of available time and already full plates, they still must find a way to reinvent Finance if they want to remain a relevant and value-added part of the firm.

Not all reinvention efforts work out. Some teams skip key steps or cut corners. They may not get the right team. They devise a champagne vision but only get a beer budget to implement it. They don't do the homework and they create projects with undifferentiated, incremental improvements. Their businesses deserve better.

The best Finance reinvention projects:
- Have a focused, serious and innovation-focused team
- Push the envelope in how Finance processes can be structured and the value they can deliver
- Provide competitive differentiation for the firm and career enhancing opportunities for those on the team
- Utilize change and project management capabilities to maximize the probability of success
- and much, much more

Done right, these initiatives will delight more than Finance personnel but to do this Finance needs to follow the five phases identified in this white paper. Are you ready to reinvent your Finance environment?

About Vital Analysis

Vital Analysis is a very different kind of technology research organization. We are the intersection set where exceptional technology market knowledge meets the executive suite. Where other 'analysts' replay vendor press releases, we give you the:

- Impact new technologies will have on your business.
- Reasons why you should care about specific emerging solutions.
- Business justifications why you may want specific solutions.

Vital Analysis was carved out of TechVentive, Inc. in 2007 as a new, but related, business. As designed, Vital Analysis is the publishing, research and analytical arm of that company.
Our reach, like our blog readership, is truly global. We've consulted with top technology executives across the globe and have been briefed by technology providers from virtually every corner of the planet.

About the Author

Brian Sommer is the CEO of TechVentive, Inc. - a market-strategy and content firm. Brian closely follows what C-level executives think, feel and need. Brian has won several ERP Writers Awards and many of his pieces can be found at www.diginomica.com). He welcomes your thoughts and invites you to contact him at brian@vitalanalysis.com .

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