

Finance Transformation Challenges

by Patrick Leonard and Fred Hargrove

As a company embarks on a finance transformation, there are a number of challenges that it will encounter across all levels of the finance function. A well-defined, integrated approach will help companies overcome these challenges. It is important to remember that finance transformation is a constant journey of improvement.

Introduction

Business literature on finance transformation is abundant, and most of what is available focuses on the drivers of finance transformation, the “Why,” or the results of finance transformation, the “Wow.” However, there is very little available that addresses the challenges of executing finance transformation, the “How.”

Our objective is to provide organizations with insight that can be translated into action. For those organizations planning a major finance transformation, our experience shared here will help to avoid the various pitfalls that are typically encountered during transformation efforts. For organizations that have already begun the journey of finance transformation, we hope our insights will provide a reference point to help keep the organizations’ efforts on track or to improve the results of troubled programs. The context of our insight is based on the knowledge and experience of the authors, who have been providing consulting services to the finance function for a combined 30 years. In addition, the insights in this white paper were validated by MorganFranklin’s executive team, which includes seasoned finance transformation experts who have a breadth of experience across multiple industries and organizations in all aspects of finance transformation—including process redesign, program management, system integration, data management, and change management.

Companies undertake finance transformation for numerous reasons, including:

- Cost takeout
- Improved performance
- Enhanced controls
- Integration of M&A activity

IN THIS WHITE PAPER

Challenges of Finance Transformation	2
PEOPLE/ORGANIZATION CHALLENGES	2
Competing priorities/limited resources	
Lack of integrated approach and centralized oversight	
Understanding the shift in the inherent risks and complexities	
Poorly executed or lack of a robust change management plan	
PROCESS CHALLENGES	4
Undefined operating model and vision	
Limited understanding of business requirements	
Key performance measures are not fully defined	
TECHNOLOGY CHALLENGES	5
Technology is only as good as the data it manipulates	
Technology is viewed as the transformation	
Finance Transformation Framework	6
Conclusion	7
About the Authors	7

While the word “transformation” is generally applied to all operational improvement initiatives, we tend to view finance transformation as the implementation of organization, process, and technology changes with the goal of dramatically increasing the efficiency and effectiveness of the finance function. By improving the efficiency of financial processes, organizations can see both a reduction in the cost to perform transaction processing and financial reporting, and an improvement in data quality. In turn, efficient transaction processing allows finance organizations to refocus resources on value-added activities like decision making and improving the control environment. By improving both efficiency and effectiveness, finance transformation results in a finance organization that is more aligned with and valuable to the business.

As a company embarks on a finance transformation, there are a number of challenges that it will encounter across all levels of the finance function. A well-defined, integrated approach will help companies overcome these challenges. It is important to remember that finance transformation is a constant journey of improvement.

Joe Armistead, head of finance systems for BT Group plc, said it best: “Driving for best-in-class is a journey. We have made good progress over time, but continuous improvements are required all the time if we are to not fall back.”

Challenges of Finance Transformation

Companies undergoing finance transformation experience challenges across people/organization, processes, and systems. It is often a combination of challenges across these three pillars and in the “gray areas” between them that poses the most risk. The following are a few of the common challenges that we have witnessed on transformation projects.


When companies try to use internal staff to resource both the transformation efforts and day-to-day operations, the duration of transformation efforts of this nature typically results in “transformation fatigue.”

PEOPLE/ORGANIZATION CHALLENGES

Competing priorities/limited resources

Challenge: Companies often try to conduct a transformation with only internal resources. This puts incredible pressure on day-to-day delivery of finance operations. When companies try to use internal staff to resource both the transformation efforts and day-to-day operations, the duration of transformation efforts of this nature typically results in “transformation fatigue.” This is because the companies are asking the finance staff to effectively deliver over 100 percent productivity—working their “day jobs” while also moving forward on the transformation path. While this can be accomplished for a short period, it is typically not sustainable and often results in a negative impact to the quality of the output for finance operations and delayed (or sub-optimized) results for the transformation effort. It may also result in untimely turnover of key resources needed for the end-state organization.

Recommendation: Management must realize it is likely that the overall cost of finance will increase during the implementation of finance transformation efforts. As transformation activities are delivered over the course of the project, the company will begin to realize benefits, but there will likely be a period of time when the cost for finance increases rather than decreases. This is because as transformation changes are adopted, companies encounter a certain degree of inefficiencies and may need more resources than are required for current-state operations. One important and often overlooked area of resourcing is backfill resources. It is important to fulfill the



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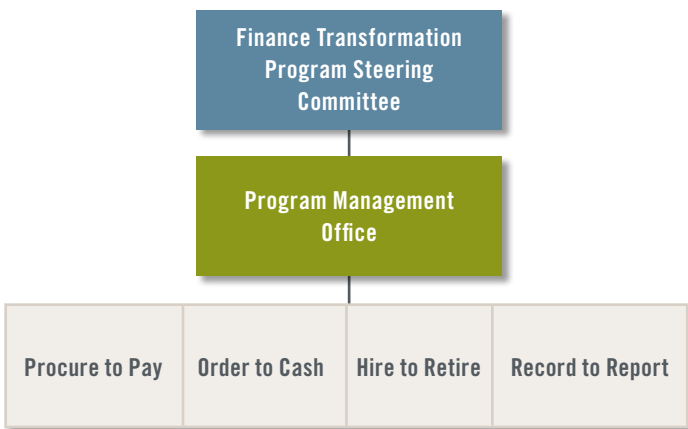
FTE requirements for day-to-day operations that result from the finance organization dedicating its best and brightest to the transformation efforts. Setting realistic milestones and allowing the management team to stabilize operations with backfill resources will help to keep the momentum and motivation up to continue transformation efforts. Other approaches include structuring incentive or retention awards tied to achievement of transformation milestones for critical resources.

Lack of integrated approach and centralized oversight

Challenge: Companies that attempt to execute finance transformation through a series of non-integrated, individually managed projects will experience significant delays and cost overruns. In our view, this results from a combination of a silo or departmental approach to the finance function and a general lack of deep program management expertise. Due to the eventuality of competing priorities and political barriers, companies cannot transform by making incremental changes within silos. In addition, the degree of program management skills required to adequately manage and provide oversight over transformation initiatives could be greater than most companies anticipate.

Recommendation: Since most transformation efforts span longer periods of time, we recommend that clients empower a strong program management team to support the efforts. Depending upon the forecasted timeline for transformation, organizations may want to hire resources with deep program management expertise and/or consider augmenting internal resources with temporary outside support. For many reasons, companies often look for consultants to fill this role. First and foremost, because of their diverse range of experience, external resources provide objectivity and offer a voice to the organization that is not entrenched in previous ways of doing

Integrated Life Cycle Program Management Model



business. This external voice is not as influenced by company politics and may be better suited to recommend the tough or unpopular viewpoints that true transformation may require. As transformation resources are often not sustained in the long term, companies may also choose to use external resources to control headcount and ongoing salary spend.

Whether the program management function is sourced internally or externally, organizations should have the central

oversight structure in place to establish an integrated plan, clear measures of success, and the mechanisms to monitor and execute initiatives in an integrated fashion. It is imperative for the program management team to have a broad organizational perspective in order to establish and manage an integrated plan. The program management team should monitor the interdependencies among the progress of different groups within finance and highlight risks associated with deviations from the established plan. If the program management function is not elevated to the highest levels of the finance organization, it will not be successful in driving efficiencies across the traditional silos that exist in most finance organizations.

Understanding the shift in the inherent risks and complexities

Challenge: During the transformation process, the finance organization will go through a series of changes. Often these changes will improve efficiency, but they may also introduce a different level of complexity and risk. As an organization transforms, the typical pattern is to become less decentralized and then subsequently increase the degree of outsourcing, resulting in a hybrid organization made up of internal and external resources performing finance tasks. The increase in complexity in managing hybrid organizations is not always anticipated.

Recommendation: As an organization moves through the stages of transformation, finance executives need to recognize the importance of organizational design and restructuring activities that are required to anticipate the sizing and needed capabilities. These activities tend to be required over the life of the transformation—not just at a single point in time. If managed appropriately, the organization will be more likely to efficiently manage the changes to operational complexity and the risks related to ongoing organizational structure changes.

Poorly executed or lack of a robust change management plan

Challenge: We have observed companies struggling to keep management and staff engaged in supporting finance transformation efforts due to disjointed and limited change management activities. Often companies are undergoing a system change in conjunction with the transformation efforts. When this is the case, it is common for a company to seek to cut overall program costs due to budget constraints. This is a very risky approach because it typically results in the company squeezing budget out of change management activities, which has a direct impact on the staff's level of engagement. By definition, a transformation effort is designed to dramatically change the way the organization performs. As such, it would seem obvious that change management is the last place organizations should look to close budgetary gaps.

Recommendation: We recommend that management insist on a robust change management program throughout the life of the transformation effort. What is needed at the outset of a transformation effort is a tailored change management plan that takes into account the nuances of the organization's culture. The culture of an organization can either hinder or help transformation. For example, we have observed that decentralized cultures foster resistance to change because it is difficult to build consensus. The level of effort around

change management will be variable over the course of the transformation, but it is important to plan the change management activities from the outset. At all key change points in the effort, targeted change activities should be designed and deployed.

Finance transformation without a target operating model can cause delays in transformation efforts and cost overruns due to rework.

PROCESS CHALLENGES

Undefined operating model and vision

Challenge: In our experience, companies sometimes embark on finance transformation activities without having created a well-defined end-state global operating model. This operating model is the blueprint for how the organization will operate going forward. Finance transformation without a target operating model can cause delays in transformation efforts and cost overruns due to rework. The overruns and rework can occur due to a lack of clarity of the desired end state across the various workstreams that make up the transformation effort. This lack of clarity can cause key stakeholders to resist the transformation efforts because they do not understand where they fit in the end-state operating model.

Recommendation: To develop a clear vision for transformation, we suggest assembling a small team to establish the high-level strategy and business case. In order to develop a coherent and transformational operating model, this team should have cross-functional and organizational representation, and should be viewed as independent from all legacy operations. The team's approach should be focused on looking at the core life cycles (e.g., procure to pay) to identify transformational opportunities that may not be detected when only performing functional-level analysis. The end-state global operating model should include all planned components of the finance function's infrastructure, including the organizational alignment, functional processes, and technology across each major service category (transactional, specialty, and decision support). The key output of visioning sessions is to define the target state.

Once the high-level strategy and end-state operating model are developed, validation sessions should be held across the appropriate levels within the organization. These collaborative validation sessions provide valuable insights that can be used to enhance the high-level strategy and confirm or improve the business case assumptions. They also function as a change management tool to get the entire organization behind the transformation effort. The transformation team should then take the final strategy and develop a high-level roadmap that tells the finance stakeholders what changes are required to achieve the end state, and when the benefits from those changes will result. The combination of this roadmap and

the strategy and business case can then be used to clearly communicate the vision for the finance transformation.

Limited understanding of business requirements

Challenge: Typically the feedback received from process owners going through finance transformation is that not enough time was dedicated to understanding their business requirements prior to embarking on driving dramatic changes to business processes and the underlying technology infrastructure. This empowers users to resist change by identifying deficiencies in the end-state vision based upon unmet requirements. Another common complaint is that requirements are difficult to define in a "greenfield" environment, so it may be useful to provide a broad outline of the target environment to give stakeholders a context in which to describe their business needs.

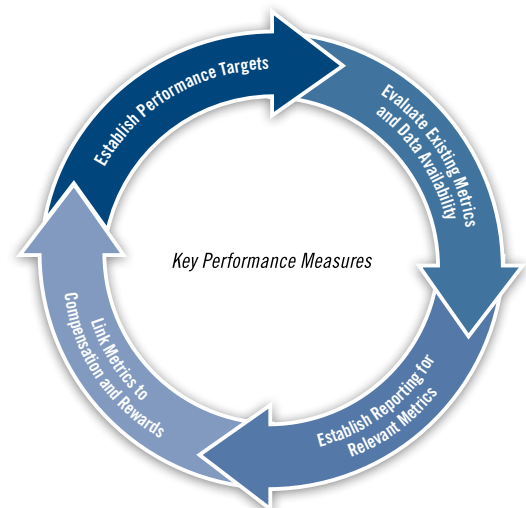
Recommendation: To develop detailed business requirements, we suggest capturing requirements using an iterative process that begins very early in the life cycle of the transformation. Requirements should be constantly captured, enhanced, and verified across the major components of the program.

1. Strategy Development—Conduct work sessions with key business owners to gain an understanding of their informational, workflow, system functionality, and control requirements and priorities.
2. Validation Sessions—Refine and enhance requirements during validation discussions with business owners.
3. Detailed Design—After completing the strategic design, capture detailed requirements to drive the changes that must take place to support the transformation efforts.

Without a constant focus on requirements, we have seen companies develop unnecessary and inefficient workaround solutions in order to meet the needs of the business. We recommend establishing an approach for managing requirements from the outset of the transformation efforts.

Key performance measures are not fully defined

Challenge: Finance transformation is often undertaken without first fully defining key performance measures. Performance measures should evolve and change over time, but if the key measures that aid in evaluating performance are not identified, it will be difficult to identify performance gaps and prioritize the



actions that need to be taken to close those gaps. Additionally, this makes it difficult to establish baseline performance to measure success against, and also to build the business case required to capture support for the transformation effort.

Recommendation: If key performance measures are not fully defined, organizations will be unable to establish how well they are performing from both a qualitative and quantitative perspective. It is recommended that current operations be assessed and performance measures be captured across each functional area. These measures should be based on either external benchmarks (e.g., published sources) or internal benchmarks (e.g., metrics from internal business units). The measures will provide a baseline for current performance which can then be used to identify the gap between current and target performance.

It is not enough to just have performance measures in place. Understanding the 10 to 20 criteria (maximum) that are required to measure success is imperative. However, there are risks associated with having too many measures:

1. Amount of time needed to measure performance
2. Diluted focus causes organizations to miss key indicators that truly highlight performance direction

The target performance measures will be used to gauge the success of finance transformation efforts and also to provide a mechanism for monitoring benefits realization and rewarding improvements against baseline.

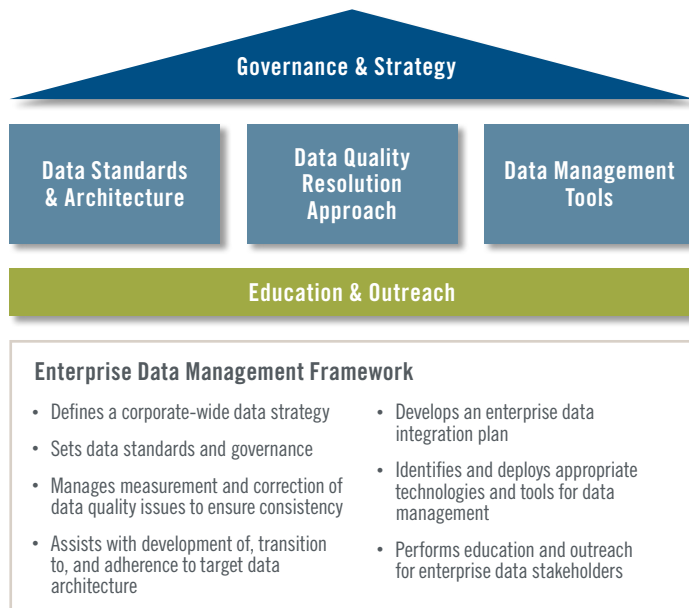
Implementing new technology alone without giving consideration to the needed process or organizational structure changes will not achieve the desired transformation objectives.

TECHNOLOGY CHALLENGES

Technology is only as good as the data it manipulates

Challenge: Many organizations do not focus enough effort on addressing data management issues. As an organization moves through transformation, data management tends to be an afterthought of the system implementation. As a result, the end-state systems infrastructure often does not capture data as required by finance operations. This results in manual workarounds to provide required reporting and analytics, which in turn create inefficiencies and raise the risk of inaccurate reporting. The need for manual workarounds also significantly impacts the opportunity for the finance department to reduce resource levels.

Recommendation: Companies should focus on information, data management, and governance requirements from the outset of the program. To accomplish this, we recommend establishing a data architecture role in the transformation program. Early in the transformation process, organizations need to identify the



data-related pain points and the appropriate course of action to resolve them. Typical data management challenges include:

- Ensuring data quality and integrity
- Understanding informational requirements
- Identifying the appropriate data sources
- Accessing timely data

Without a fundamental change in the way organizations manage data assets overall, technology solutions are ineffective. Three key concepts are necessary to begin to address data-related pain points:

- Appropriate data strategies
- Usable and sustainable technology solutions
- Rigorous standards and accountability

The successful enabling of these concepts requires ownership, discipline, policies, governance, and a data management plan that is integrated with the transformation program. This will enable finance to provide business owners with better information in a more efficient manner.

Technology is viewed as the transformation

Challenge: Organizations sometimes begin finance transformation with a narrow focus on technology. It is important to recognize that technology is a supporter of transformation—it is not the transformation in its entirety. Implementing new technology alone without giving consideration to the needed process or organizational structure changes will not achieve the desired transformation objectives.

Recommendation: Before contemplating technology solutions, we recommend that a strategic viewpoint first be developed. How will processes run? How will resources be organized? Should the company seek to outsource a significant portion of the finance organization's responsibilities? Once these macro-level decisions are made, a detailed operating model can be developed that specifies the process and organizational changes that will occur. This operating model will then become the basis around which an IT platform is selected that is most effective at supporting the organization's requirements.

Finance Transformation Framework

Our experience has shown that the challenges of finance transformation described earlier are not unique to only a few organizations. In the last decade, the complexity of the overall business environment has increased substantially, rendering the previously achieved advances as competitive necessities. In addition, the pace of change and the degree of complexity seems to be increasing without limits (e.g., constant regulatory changes, demand for shorter internal and external reporting deadlines, increasing focus on acquisitions, and increasing globalization and operating in the network business model). The complexity of today's business environment multiplies the strain of the challenges finance executive face when navigating finance transformation.

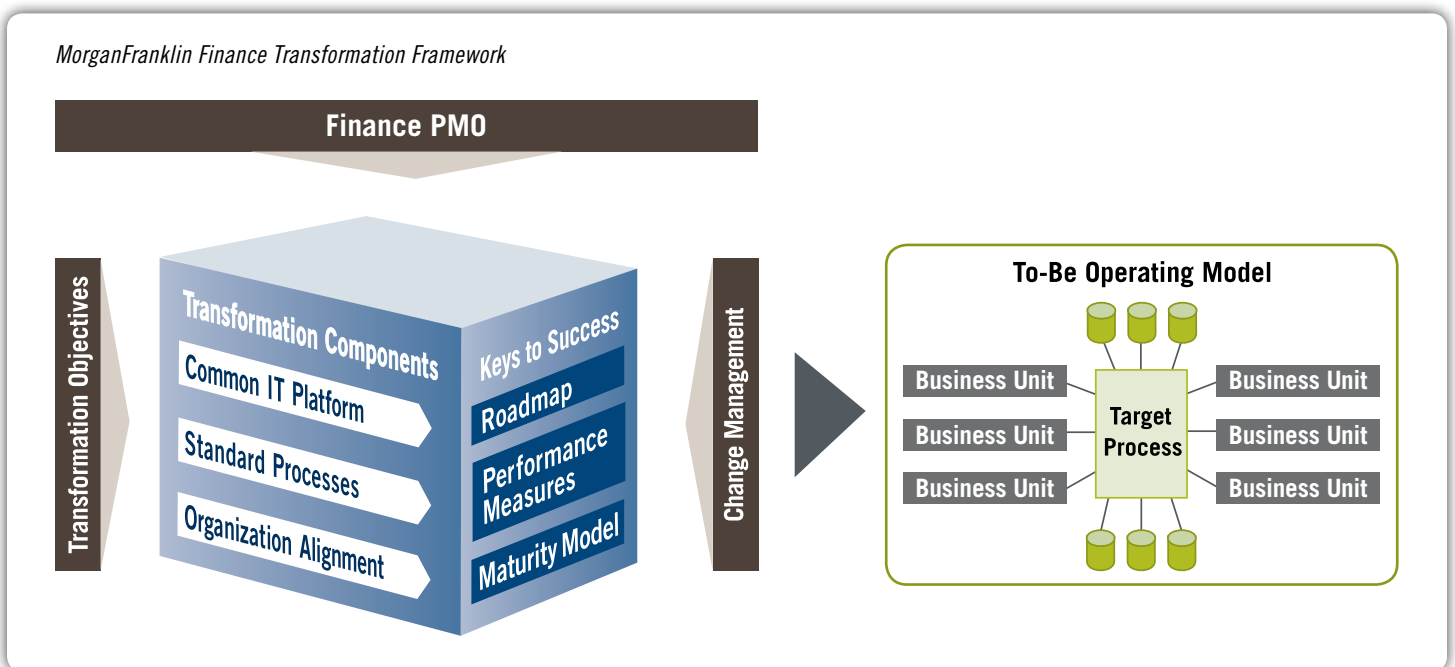
The root causes of many of the challenges detailed earlier stem from poor planning, limited communication, and a lack of understanding of current capabilities and requirements. To address these challenges, a flexible and integrated approach to finance transformation is required. Organizations that have undergone successful finance transformations have done so by using an integrated approach that is based upon a solid transformation framework.

Most finance transformations are driven by a set of unique circumstances which in turn require a tailored approach when managing those circumstances. In order for organizations to have a successful finance transformation, there are certain elements that must be considered to frame the approach. MorganFranklin's Finance Transformation Framework displays key elements that are required for finance transformation to reach the expected cost savings and efficiency targets. These elements provide a framework to guide and monitor global transformation activities and promote benefits realization. The challenges detailed in this white paper can be traced back to the lack of one or more of the required elements. MorganFranklin collaborates with clients to define a unique

and tailored approach based upon consideration of the Finance Transformation Framework's set of key elements.

MorganFranklin has expertise and capabilities across the entire framework, and the following is a summary of activities we can engage in to help organizations achieve finance transformation:

- Conduct envisioning sessions—Assist leadership with designing a target or future state for the finance function.
- Develop a blueprint—Create a comprehensive roadmap that depicts how the future state will be achieved.
- Conduct risk assessment—Develop a risk-based approach to identify areas where more process standardization is needed.
- Change management—Design a targeted change management campaign that will prepare the organization to adopt these significant changes.
- Performance management—Define measures of success in order to measure and report against progress. Implement required monitoring and reporting processes for tracking achievement of objectives.
- Organization design and transition—Define transition and target state organizational structures. Outline key roles and capabilities needed to support transition and target organizations.
- Establish finance PMO—Appoint a finance PMO who will provide oversight and guidance on initiatives and help to integrate all finance-related initiatives.
- Evaluate BI environment—Architect the data management and BI infrastructure, giving consideration to desired data governance and reporting/analytical capabilities.
- Develop and implement financial processes—Define and implement core financial processes to support the defined end-state objectives, giving consideration to the company's environment and industry best practices.
- Design and implement integrated information systems—Design and implement financial information systems that are flexible and resilient to changing operational strategy.



Conclusion

The finance transformation journey can be quite rewarding for those organizations that have a sound strategy and are persistent. Successful transformations position finance to be a valued, capable, and trusted “partner” to the operating units, with deep knowledge of their business. To achieve this, the finance organization must align to business strategy and then identify the most cost-effective way to accomplish transaction processing activities in order to focus on those that support mission achievement (e.g., decision support, risk analysis, etc.).

As discussed previously, obstacles to transformation exist and tend to be similar across industries. An organization’s finance transformation will include a number of concurrent initiatives, and each of these initiatives will have a significant impact on the finance function. The elements of the Finance Transformation Framework, if used properly, will guide and structure an integrated approach. Experience has shown that change of this magnitude will only achieve maximum benefits if the underlying initiatives are executed in an integrated fashion. By not adhering to a similar framework, organizations undergoing finance transformation will be exposed to the following types of risk:

- Incurring additional costs due to duplication of efforts from uncoordinated activities.
- Delays and cost overruns due to limited view into dependencies between initiatives.
- Resistance against change due to lack of a comprehensive change management plan that prepares the finance organization for pending changes.
- Not achieving desired cost reduction entirely or delaying the achievement of potential savings.
- Not correlating key finance capabilities with the needs of the business due to an inability to prioritize and align initiatives.

Our expertise and experience can help organizations successfully execute their finance transformation goals and objectives. We understand key elements that will drive these finance transformation activities and can help develop a properly integrated approach to mitigate the risks we have described. We have a demonstrated track record with large-scale transformation efforts and can be utilized to augment an organization’s current knowledge base and capabilities to help deliver a successful finance transformation program.

Successful transformations position finance to be a valued, capable, and trusted “partner” to the operating units, with deep knowledge of their business.

About the Authors

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Patrick Leonard is a Managing Director in the Commercial Services practice at MorganFranklin. He possesses more than 15 years of business transformation, systems integration, and accounting operations experience for large global enterprises. Patrick’s consulting experience includes full life cycle business and technical management responsibilities including strategy development, operations review, process design, organizational design, enterprise architecture, application configuration, and change management. He also has primary expertise in shared services operations and financial process re-engineering. Patrick is responsible for the development of the MorganFranklin process re-engineering methodology. He has serviced both public and private companies in a variety of industries, including telecommunications, media and entertainment, energy, technology, consumer products, and government contracting. Patrick holds a Bachelor of Science degree from the University of Oregon and a Master of Science in Industrial Administration (MBA) from Carnegie Mellon University. Additionally, he is a licensed CPA in Virginia.

Fred Hargrove

Fred Hargrove is a Director at MorganFranklin and has more than 13 years of experience in professional services. His client service experience spans across a variety of industries, including telecommunications, media, consumer products, and financial services. Fred possesses a strong knowledge base of business and operational processes as well as packaged and custom systems as a result of serving a variety of full life cycle projects. His project experience ranges across multiple business processes, from customer relationship management to financial reporting/budgeting and planning. Fred also has significant experience in the area of business process design, specifically in the finance function from a governance/control and process efficiency perspective. He has led a number of projects to define and implement processes in the following functions: corporate accounting, accounts payable, billing, procurement, and payroll. Fred holds a Bachelor in Business Administration in Accountancy from Bernard M. Baruch College of the City University of New York, and is also a licensed CPA in New York.



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