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WHITE PAPER

From governance to guidance

The finance department's digital journey

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In futuristic movies, humans and technology work together seamlessly to guide a ship, overcome evil, or even just make the characters' lives a bit easier and more enjoyable. Lights blink softly, machines hum in the background, and status updates are available immediately upon request.

Unfortunately, this seamless technology experience is not the reality for today's organizations.

From governance to guidance

Despite the discussion and reality of technologies like artificial intelligence, blockchain, and Internet of Things, many companies are still struggling to achieve a business environment that is automated, integrated and innovative.

However, more and more organizations are beginning to outline digital transformation initiatives and explore what this journey might look like. In fact, according to a KPMG survey of more than 1,000 executives, enabling digital transformation was ranked as the second biggest business challenge for 2019 and ranked number one by finance and accounting professionals who participated in the survey. But it was also ranked as the biggest potential solution to other challenges. Digital transformation is a significant undertaking – but also one that can solve many other challenges faced by finance and the organization at large.

> “In reality, true digital transformation should involve a substantial commitment to placing digital at the core of the enterprise and a significant change of processes, products, and the overall business.”[1]
> -Publicis.Sapient Survey

So how do you define and kick off a process that by definition has to reimagine and align all aspects of your business? As finance experts, Aptitude Software has long recognized the value of an efficient and effective finance department to the business.

We believe in the value a digital finance transformation can deliver to an organization. With CEOs increasingly looking to CFOs for guidance, every CFO needs to visualize what a digital finance department could achieve – one that can use data, technology, and human talent and go beyond governance to provide commercial leadership to the business.

Below, we look at how a digital finance transformation enables:

- Efficient operations
- Smart data exploitation
- Strategic cloud usage
- Seamless user experience
- The expanded role of finance

[1] http://library.meetliquid.com/wp-content/uploads/2018/04/FKG_PS_BusinessTransformation.pdf

Digital finance transformation enables efficient operations

Running efficient finance operations sounds like table stakes for any business today. However, many organizations still have not mastered the basics of efficiency. While the C-level agenda may include machine learning and blockchain, if the finance department is limited to quarterly reporting cycles rather than real-time information, any potential business insights and efficiencies that advanced analytics could offer will come too late to benefit the business.

A fully digitized finance function has complete control over day to day and regulatory operations and fosters the confidence that comes from having systems that provide transparent, auditable, accurate, and granular accounting and reporting. The ability to meet current and future compliance demands and respond to business changes— such as new merger and acquisition activity or new business models—will be a natural benefit of this controlled environment.

In addition to achieving controlled finance operations, the processes behind it have to be fully automated - essentially “touchless.” Advances in Robotic Process Automation (RPA), for example, have already helped finance divisions automate. Taking humans out of this element and removing manual and spreadsheet uploads not only speeds things up but also reduces errors and other risks like financial crime. According to Gartner, most businesses are just beginning this journey. Midway through 2018, less than 10% of large and very large organizations had deployed some form of RPA.[2] This is expected to grow to 85% by the end of 2022.[3]

Research by Accenture, in Digital Finance: Beyond the Hype, estimates 80 per cent of finance functions can be automated, releasing significant time to spend on proactive, higher-value business tasks.

Historically, ‘efficiency’ has meant removing costs. While that’s still important, true efficiency in the age of digital finance means streamlining operations and selecting the correct tools and technologies so organizations can use resources to their maximum. Smart automation will allow the finance department to evolve from data manipulators and cost cutters to profit drivers within the business.

[2] https://www.cio.com/article/3236451/what-is-rpa-robotic-process-automation-explained.html

[3] https://www.gartner.com/en/newsroom/press-releases/2018-11-13-gartner-says-worldwide-spending-on-robotic-process-automation-software-to-reach-680-million-in-2018

PICTURE THIS:

The finance team within a large global organization was tired of constantly answering what they considered to be basic questions from their business partners.

Deloitte is currently working with them to put a bot in place to answer these types of queries from internal stakeholders, saving money and allowing employees to do more value-adding work for the organization.

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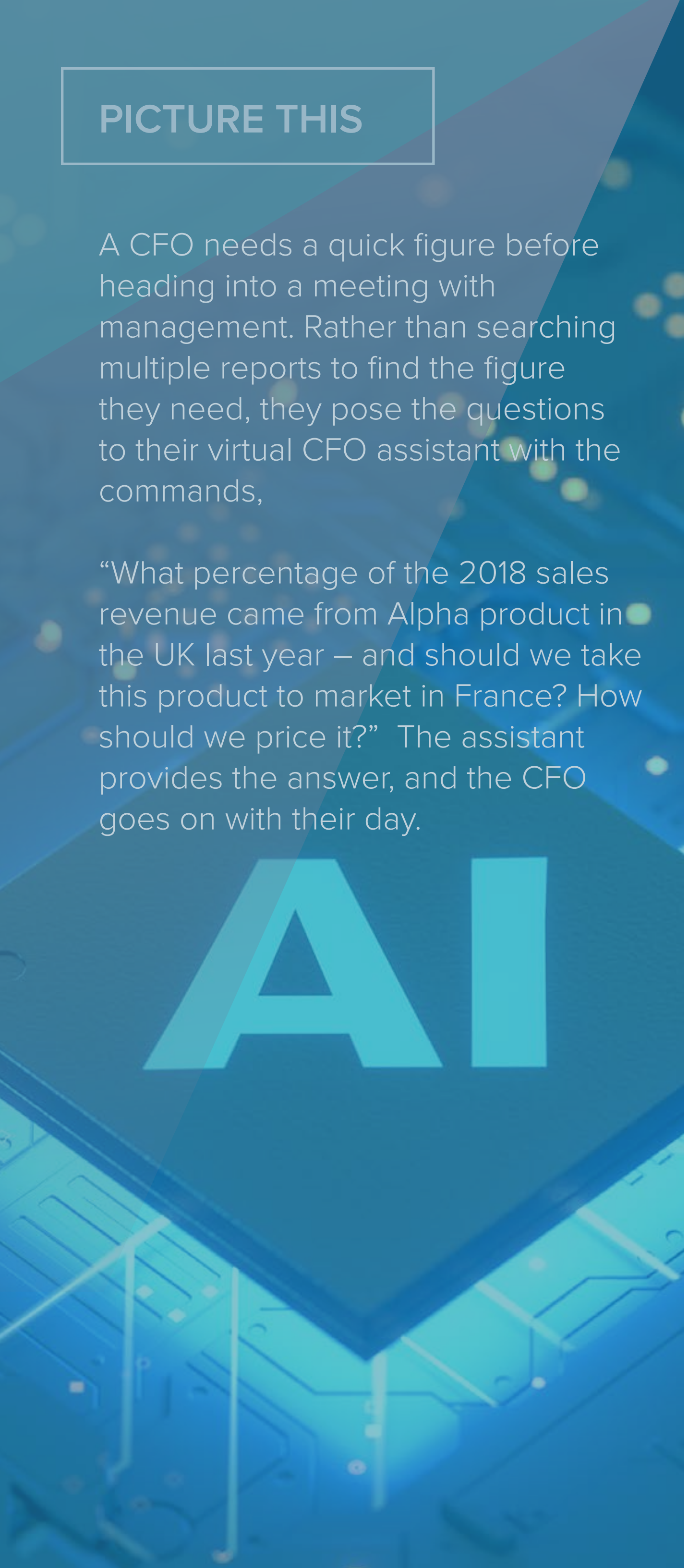
A CFO needs a quick figure before heading into a meeting with management. Rather than searching multiple reports to find the figure they need, they pose the questions to their virtual CFO assistant with the commands,

“What percentage of the 2018 sales revenue came from Alpha product in the UK last year – and should we take this product to market in France? How should we price it?” The assistant provides the answer, and the CFO goes on with their day.



Digital finance transformation moves organizations from data chaos to data enabled

Data has become the ultimate buzzword. There is so much talk, it’s hard to know where to start. Data volumes are soaring, and its growth will only accelerate via the IoT, which is expected to produce 4.4 zettabytes in 2020.[4] The value of data is also expanding as companies learn how it can be monetized and used for a competitive edge.

However, a recent survey from NewVenture Partners shows the increase in available data isn’t necessarily translating into business growth.[5] At the start of 2019, only 31% of companies could be considered “data driven,” down from 37% in 2017 and 32% in 2018. Simply collecting more data isn’t helping anyone.

There are two challenges that need to be overcome.

The first is getting access to the right data. This includes making sure data from across an organization is integrated from various source systems and co-located in a way that allows you to maintain the detail at the transaction level, rather than having to aggregate it. Data must also be transformed into a common format to compare different data types and adjusted to meet a consistent and appropriate level of granularity specified by the business. This also requires automating as much of the data processing as possible to improve data quality, accelerate period close, and increase data confidence.

The second challenge is being able to analyze the data to unlock insights. Traditional BI tools are still relevant for a digital finance organization but there are new user interfaces techniques which offer more a more focused view of key metrics that immediately allow them to understand what is going on in their area of the organization. Data savvy companies are also using cognitive tools to drill into data at a more detailed level to spot trends and suggest ways to modify your business to take advantages of opportunities.

The possibilities are endless for those who execute properly. For example, Affectiva uses massive amounts of real-world data collected from people driving or riding in cars and then applies algorithms built using deep learning, computer vision, and speech science to analyze driver emotions and reactions like fatigue, distraction, and anger. This can then be used to inform the development of advanced driver monitoring systems and other automated vehicle technologies. This improves road safety and the driver experience.

The benefits of quality data and analysis are wide and can have a massive effect on the balance sheet.

[4] https://www.zerohedge.com/news/2019-01-11/internet-things-data-explosion

[5] http://newvantage.com/wp-content/uploads/2018/12/Big-Data-Executive-Survey-2019-Findings.pdf

So, what does data exploitation look like for a company that has undergone a true digital finance transformation?

These organizations:

Collect the right data in the right way

In the digital future of finance, the CFO has access to a single version of the truth in real-time, and the integration of this data and the reporting that stem from it are touchless.

The mindset is no longer to collect as much as possible and figure out how to use it later, which drowns organizations in endless streams of information. Instead, it's understanding how cognitive tools can do the work of sifting through applicable data.

Connect stakeholders through data

The digital finance function of the future enables other departments within the organization to self-serve from a knowledge hub.

By making data relevant and consumable, the value of data – and the finance function itself – grow exponentially. External parties including suppliers, partners, and customers can also share information directly to create a richer, more robust data set for analytics.

Apply cognitive tools to the finance department

Many cognitive tools are already a part of our daily lives: Amazon makes suggestions based on search history, Google uses autocomplete in search, and Alexa browses millions of music files based on your voice request to find your favorite song. The finance department of the future will find ways to apply these technologies for the good of the business. Tools like natural language processing and machine learning can be applied within the finance sector to save time and better leverage the massive quantities of data at its disposal.

"I actually call data lakes 'data swamps' because you're dumping so much in there, and, somehow, it's your responsibility to make sense of it. By 2020 we're going to have nine times the amount of unstructured data as we do structured data, and, somehow, we're going to have to figure out how to weed through even more. A lot of these cognitive tools are helping us do that."

-Deirdre Ryan, Principal, Deloitte (Aptitude 2018 Event)

Digital finance transformation prioritizes a strategic approach to the cloud

Organizations that undergo a successful digital finance transformation have taken a strategic approach to cloud adoption. They recognize that reaping the cost savings, efficiencies, and agility offered by a true cloud approach requires evaluating the entire architecture and organization to see how the cloud can transform the business.

The benefits of moving to the cloud are widely acknowledged, and cloud native companies are leading the way in increased revenue and financial performance, improved business agility, and enhanced customer experiences. Now that security and performance concerns around cloud have been overwhelmingly addressed, more CFOs are evaluating their cloud options.

The adoption of cloud solutions within finance, allows businesses to have a much more modern system at the core of their organization which can then connect into a whole range of new technologies including AI and blockchain for transactions. Cloud solutions are more easily integrated and aware of those connections which can help increase business agility.

Gartner predicts that ''by 2025, demand for financial management application deployments delivered as cloud services will equate to more than 65% of total market spend.”[6]

A successful, transformational cloud strategy varies depending on the organization. For many enterprise clients making the move into this platform, utilizing a private cloud environment has allayed concerns. As the confidence in cloud security continues to increase, more and more organizations are expected to move to public clouds, which offer additional cost and resource benefits. When undergoing a digital finance transformation and considering how your organization will use cloud offerings, it’s important to review the various options and the benefits of each. In the end, it’s less about whether you’re leveraging a public or private cloud deployment model and more about having the flexibility to scale and adjust your cloud solutions as business needs and maturity evolve.

[6] https://www.financialexecutives.org/FEI-Daily/July-2018/Gartner%E2%80%99s-Magic-Quadrant-for-Cloud- Core-Financial.aspx

PICTURE THIS

In 2015, well before many enterprise CFOs, the Head of Finance Transformation at one of the UK’s largest banks committed to putting the company general ledger in the cloud, supported by an on premise subledger to hold data at the deepest level of granularity and handle the complex accounting. This strategic leap, which created a simplified and consolidated finance architecture for the company, took pressure off the organization’s general ledger while still maintaining the detailed data required for analytics and reporting.

Digital finance transformation can drive a better user experience

When you think of a digital transformation, changes made to the customer experience typically come to mind. These adjustments address the systems and processes that touch the customer.

While these are necessary and beneficial, there tends to be a lag in applying digital transformation activities to the back office, particularly the finance department. Not thinking about digital transformation as a holistic effort that must cover the front and back offices can have two dangerous consequences.

First, it limits the benefits. A recent survey conducted by Publicis.Sapient scored organizations across six key areas of transformation.[7] The variation in the business benefits experienced by digitally mature companies — those that measured in the top quintile — and digitally immature organizations — those that fell in the bottom quintile — were significant. One of the biggest differences between mature and immature companies was the extent to which they focused on transforming back office systems. As a result, only 19% of digitally immature organizations had seen significant gains in operational efficiency as compared to 49% of digitally mature organizations. The difference was even more pronounced in the quality of business decision-making, with 64% of digitally mature organizations seeing significant positive gains versus 9% of digitally immature companies seeing gains.

Second, the value you gain from the customer-facing front end improvements may fall short of their true potential. While only certain systems and points in customer experience may directly engage the customer, back-end systems play an essential role in the successful delivery of the product or service. If these systems and processes are not as evolved as the front end, the overall customer experience will fall short.

The digital finance department of the future also thinks deeply about a second "user:" the finance employee. In a recent survey from EY, 47% of CFOs reported their function currently doesn't have the right mix of capabilities to meet its future priorities.[8] This, coupled with a recognized global skills shortage, will require organizations to have the foresight to hire people with the right skill set to make use of new technologies while also making sure employees spend their time adding maximum value.

Finance team members must be empowered with systems and solutions that:

- Automate mindless accounting processes and regulatory reporting
- Give them easy access to real-time, accurate, and granular financial data
- Free them up to add value to the organization

It's also important to prioritize change management programs that help employees understand the role of new technologies and alleviate the fear that these new tools will replace human staff. Digital transformation isn't about replacing employees with machines; it's about optimizing the way people work.

[7] http://library.meetliquid.com/wp-content/uploads/2018/04/FKG_PS_BusinessTransformation.pdf
[8] https://www.ey.com/en_gl/advisory/is-the-future-of-finance-new-technology-or-new-people

Digital finance transformation helps CFOs meet expanded role expectations

A 2019 McKinsey survey reported that 41% of a CFO's time was spent on activities that fall outside traditional or specialty finance activities – things like accounting, budgeting, tax and audit. This percentage will likely increase as finance becomes increasingly automated. Organizations that undergo a digital finance transformation will be ready to step into these expanded roles and meet the demands of new stakeholders in the following ways.

Establishing more effective internal partnerships

In the previously cited EY study, 67% of respondents indicated that improving partnering between finance and the business is a major priority. While the CFO has always had access to data and a unique perspective, the governance-focused demands on their time and the siloed approach to data management have hamstrung their capabilities. Following a successful digital transformation, they can present a single version of financial truth and make that data consumable and relevant, adding significant value.

Identifying and supporting new business models

To compete in today's crowded market, innovative new offerings are released frequently, and new revenue streams need to be identified and pursued quickly. Finance is in a unique position to not only support new business models but also to use data to help uncover new opportunities. Mitch Paull, a partner at EY, characterized the CFO as the executive "often in one of the best positions to help [their] company see and do things in new ways."

Exploiting new platforms

Digital finance organizations are using new revolutionary technologies and approaches to redesign how they do business and add value to their organizations. For example, blockchain is completely removing intermediaries from transaction settlements. This is not only reducing the time it takes to complete the transaction but also eliminating the need for data reconciliation and verification activities and creating an ironclad audit trail. Companies are implementing blockchain with real-life use cases and seeing the benefits already.

Platformication, which in banking has been fueled by the Revised Payment Service Directive (PSD2), is allowing organizations to use trusted intermediaries and partners to provide access to a range of financial services without necessarily providing those services themselves. By creating a platform for information sharing and linking consumers and providers, the bank increases the value it brings to the client relationship and avoids becoming a commodity.

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The distributed ledger technology underpinning blockchain can ensure that digital data is safe and reduce the occurrence of identity theft or fraud.

In an industry like insurance where annual global fraud is conservatively estimated at $80 billion, this could mean real revenue gains for insurers[9]

[9] https://www.insurancefraud.org/statistics.htm

Conclusion:
Preparing for the future

The dual forces of increasing competitive pressure and advances in technology can make it seem like the pace of business change keeps increasing.

However, organizations are recognizing the power of a digital finance transformation to capitalize on the opportunities that come with change.

A successful digital finance transformation creates an environment that allows businesses to absorb change with less disruption and lower cost. By moving to a robust, future-proof platform where data is clean, ordered, and accessible, it also allows the business to move to a more flexible and agile way of operating.

A digital finance organization will allow for:

- Efficient operations
- Smart data exploitation
- Strategic cloud usage
- Seamless user experience
- The expanded role of finance

This allows your business to respond to change and capitalize on new opportunities for revenue growth.

Aptitude Software provides software solutions that enable finance professionals to run their global businesses, forecast decision outcomes, and comply with complex regulations. Uniquely combining deep finance expertise and IP rich technology, Aptitude gives finance leaders the tools they need to transform their business and achieve their ambitions.

Aptitude is proud to have served the offices of finance for over 20 years, delivering financial control and insight to create a world of financial confidence for our global clients.

Aptitude Software supports businesses with combined revenues approaching $1 trillion and over 500 million end customers. Headquartered in London, Aptitude Software is an operating company of Aptitude Software Group plc.

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