



# Technology and Innovation

## Future of Finance: How to Build a Truly Modern Finance Function

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### Biography

*Daniel Mason is Managing Director at Prophix ([www.prophix.com](http://www.prophix.com)) and is responsible for the UK operations, including sales, marketing and professional services. As the UK business continues to experience high growth so does its importance as a region to the overall growth plans of Prophix Software.*

*Working directly with finance and operational teams in medium to large enterprises, Daniel is laser-focused on helping businesses with their Corporate Performance Management challenges. A virtual veteran in the CPM industry, Daniel started in CPM over 14 years ago, combined with his over 20 years of Sales & Marketing experience.*

*Daniel plays the long game, as an avid marathon runner.*

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**Paper type** Research

### Abstract

*Sit 20 finance professionals around a table, challenge them to discuss the future of the finance function, and what surprises is the coherency of the response. Whether they work in healthcare or housebuilding, start-ups or regulators, they all recognize a consistent set of pressures, both internal and external. They also know that the sector, taken as a whole, is not moving fast enough to adapt. This whitepaper discusses the crucial steps which every organization must take along the road to developing a truly modern finance function.*

### Introduction

Finance has always been the home of the truth inside an organization. The numbers don't lie. But the numbers to which finance has access are often retrospective. Increasingly, sales, marketing and operations have been investing in developing numbers that are real-time – perhaps even predictive. CRM, marketing automation and analytics are offering leaders greater insight into the pipeline than ever before, diminishing the role of finance.

This is particularly galling for finance, as the former home of computing in business. Computing was employed to crunch the numbers, delivering payrolls in a fraction of the time and cost of the human labour equivalent. Now though, other functions have been faster to adopt new technologies and are taking primacy as owners of 'the truth'.



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Worse, the role of finance is being actively undermined by technology. The mechanical skills of manipulating numbers will be required less and less, as machines increasingly talk directly to machines. Tomorrow's finance team may be highly skilled, but it is almost certainly smaller.

### **Defining the modern finance function**

Most departments within a large organization are only charged with looking in one direction. Sales and marketing look forward: 'where's the next success coming from?' Production and distribution look forward: 'how do we make the right number of the right things and get them to the right places?' Support and customer service look backwards: 'how can we support the sales we've already made?'

There might be brief periods where their attention switches ('why didn't we close that sale?', 'how can we avoid that mistake next time?') but for the vast majority of the time, their attention is wholly focused in one direction.

Finance is the exception to this rule. Finance is charged with looking backwards and forwards, always expected to take account of prior performance when forecasting the future. Of all departments, finance has the best perspective on the company's progress as measured through time. It also has the broadest reach across the company in terms of connections. Ultimately almost everything a company does is routed through finance at some point.

Perhaps it is this breadth of reach and perspective that has started to change the perception of the finance function within the business. Just a few years ago finance remained the dull, functional but vital department that did the necessary number-crunching. Today, the finance department is increasingly a driver of strategy and leadership, not just a support function.

Evidence for this shift comes from many sources. For example, the increasing propensity for CFOs to go on and take the CEO role. A 2014 BearingPoint study of Global Fortune 500 CFOs found that over the preceding ten year period, 26% had transitioned to CEO, either in their own or another business. Perhaps the finance function has ridden the digitalization wave? Finance was where the IT department started in many companies and it remains under the reporting line of the finance director/CFO in a significant proportion. As IT has become an increasingly core part of every business, so finance's role has been more visible.

Finance always becomes more important in times of uncertainty – something borne out by the BearingPoint study, which showed that financial uncertainty always boosted the CFO's case for the top job. Though the post-crash years have been difficult, you can argue that we are now entering a period of unparalleled uncertainty – not just financial but existential. The accelerating pace of change in world business means that companies will be more reliant than ever on the ability of the finance function to look forwards and back, and to link the disparate functions of the company in to a coherent and comprehensible whole.

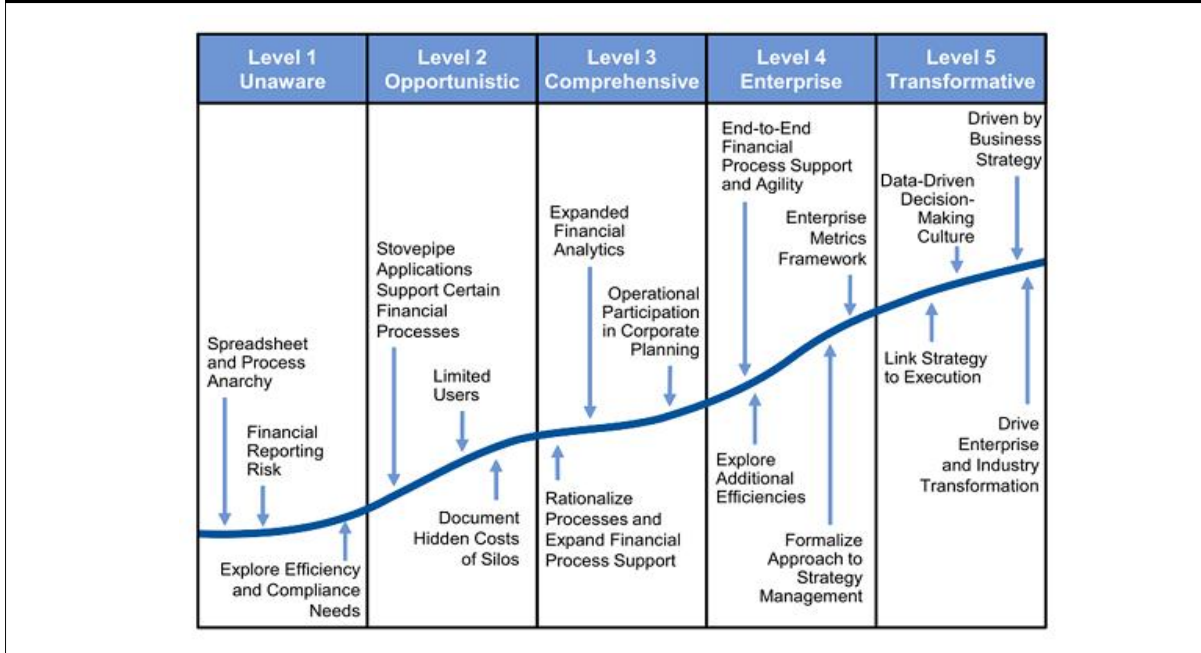
This is what we mean by the modern finance function and this is why its development in all organizations that want to survive and thrive is vital.



### Key features

Lots of organizations have tried to define the modern finance function, using a variety of different terminologies and approaches.

Figure 1: Reaching Level 5 means the organization uses key information to link strategy through to operational decisions



### Gartner maturity model

Perhaps most famous is Gartner’s Maturity Model for Corporate Performance Management. This breaks the transformation from a ‘traditional’ finance function through to modernity across five steps.

- **Level 1** – describes an organization performing CPM processes in a highly inefficient manner. This level typically involves the use of only spreadsheets or a combination of spreadsheets and homegrown or outdated products to consolidate financial results, manage the budgeting process and provide rudimentary financial analytics. Finance personnel are accustomed to producing analytics themselves using spreadsheets.
- **Level 2** – describes an organization that has implemented one or more CPM applications to address the following tasks:
  - Consolidation and close
  - Financial reporting
  - Budgeting
  - Planning and forecasting

Efficiency and accuracy have increased as a result of implementing these applications; however they largely support siloed processes.



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- **Level 3** – describes an organization that has implemented several CPM modules that continue to capture additional efficiencies within finance and create business value through greater operational insight, collaboration and organizational agility. CPM is no longer seen as a set of applications exclusively used within corporate finance.
- **Level 4** – describes an organization with a comprehensive CPM approach that is moving toward a performance management and data-driven analytic culture. Financial planning processes are dynamic; they can be conducted as frequently as changing business conditions require, having been compressed by improved application ease of use and performance.
- **Level 5** – describes an organization operating at the pinnacle of CPM maturity. It portrays a comprehensive CPM approach that supports a culture driven by performance management. Although achieving this is rare, and the climb to this level is fraught with cultural and technical barriers, it serves as a model that espouses superior practices, some of which are not yet fully supported by available CPM solutions.

Figure 2: Forrester's Five Keys to next generation planning





### Forrester's Five Keys

In the April 2015 report, *The EPM Market Landscape Responds To The Growth Agenda And Digital Disruption*, analyst firm Forrester Research expresses many of the same ideas in a slightly different fashion, it refers to 'Five Keys To Next-Generation Planning And Enterprise Performance'.

1. Dynamic planning: iterate models continuously.
2. Integrate planning and performance across lines of business.
3. Predictive planning and analytics: build predictive models.
4. Collaboration: interact with colleagues to improve performance.
5. Align with growth (focus on customer business value).

Modern finance expert and CEO of FSN Gary Simon offers his own recipe for success, incorporating some key human aspects of development, notably 'better business partnering', and a 'commitment to talent management'. He too stresses the importance of data-driven decision-making, and a 'commitment to process standardization and automation' as key components.

As we can see, there are some clear, common themes here. The modern finance function can perhaps be defined by key characteristics. It is the custodian of data within an organization but the reach of this data, in terms of both collection and communication is broad. Finance is partnered with every aspect of the business to help measure performance and support strategic decision making. Supporting this capability is a high degree of automation, reducing manual effort and minimizing risk.

Figure 3: Three Core Functions





### **Three core functions**

Perhaps most simply the modern finance function can be defined by comparing it to the past in three core areas of capability: compliance, reporting and planning (budgeting and forecasting). In the modern finance function, compliance, an often manual and burdensome task becomes 'smart' through advanced automation. This increases clarity, cutting risk of failure and releasing resource for high value activities focused on developing the business, not just protecting it.

Reporting stops being about yesterday and becomes increasingly focused on today. By delivering valuable 'operational intelligence' across the business in a timely fashion, the modern finance function becomes a key ally of all operations departments.

### **A framework for success**

Breaking the development challenge down into these core finance functions makes it easier to tackle and gives a framework for recognizing returns on your investment – both quick wins and long-term strategic value. Over the course of the two parts of this paper, we will refer back to these three core functions and make recommendations about how to assess your progress and make the next steps in developing them.

### **Key roles and skills**

The modern finance function stretches the skill set of the finance team and its leadership. New technical skills are required alongside a 'softer' set of skills for communication and collaboration, since the modern finance function must reach beyond its own walls and achieve partnership with many aspects of the business in order to maximize value.

Perhaps the greatest personal challenge in the modern finance function is to the leadership. This transformation presents great hurdles in the development of skills and technology across the department, but it also presents a personal opportunity. A successfully completed transformation arguably opens up the path from the CFO's office to the CEO's office.

Three key skill areas have increasing value across the finance team. To some extent all members of the team are likely to need these skills, though some may be more focused in particular roles.

### **Communication**

Partnering across the business to collect, share and analyze data means building relationships and communicating effectively. This is not always a skill that has been held in depth in the finance department, where an affinity for numbers was perhaps prized ahead of an affinity for people. Formalizing the training and evaluation of networking, information gathering and presentation should become a core part of talent development.

### **Systems thinking**

Automating functions requires a very different skill set to manually processing them each time. The ability to understand basic tenets of programming, such as loops





and functions, variables, inputs and outputs, will be enormously prized in future finance teams, especially where combined with strong financial literacy. Training in hybrid finance/IT skill sets is likely to be a growing demand, and one that universities are yet to meet.

### **Planning and analysis**

The finance function will spend an increasing proportion of its time on forward-looking activities as retrospective functions can increasingly be automated. This ability to offer foresight and intelligence to drive better decision-making isn't yet widely held. Understanding both the principles and the broad business context, and having the skills to manipulate data using the relevant tools will be a valued combination.

### **Measuring Return on Investment**

Transforming the finance function to achieve smart compliance, and deliver operational intelligence and foresight, requires investment of both financial and political capital. Change is never easy so there has to be really strong evidence that this effort is going to deliver a return. Fortunately there is strong anecdotal evidence from companies who are on the road to total transformation, and the analyst firms are clear about the opportunities.

If that is true, and we strongly believe that it is, then transformation is not optional. The returns are more than potential gains, they might be about survival if competitors gain greater agility through this change.

To explore some of the specific returns more directly, download the full whitepaper at <https://www.prophix.com/resource/future-finance-todays-reality-2017/>