

4 Facts

Any CFO Needs to Know About Business Process Transformation

How embracing change and
automating financial processes can
position the CFO as a powerful force.

The writing is on the wall for Chief Financial Officers. Like it or not, organisations are demanding business process transformation in accounting and finance, and, by extension, new responsibilities for finance leaders.

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Research shows that nearly 3 out of 4 organisations have an active financial process transformation project underway. For many CFOs, this demand for financial process transformation represents an enormous opportunity. Not just an opportunity to dramatically improve operations and reduce costs (a traditional role for the CFO), but to also leverage this experience and become the catalyst for digital business process transformation initiatives throughout the organisation.

In other words, embracing change and automating financial processes can position the CFO as a powerful force in the broader corporate objective of digital transformation.

The role of the CFO is changing. The shift is bringing data analytics to the forefront. But many CFOs regard transitioning from reporting data to generating insights as an enormous challenge. By fully leveraging data mining, analysis, and visualisation, CFOs can see patterns, trends, and outliers - and dive straight to the bottom-line results.

While there is a recognition that change is needed, many are resistant.

According to Ernst & Young:

Digital is disrupting financial models, operations and valuations, and the overall capital agenda at an accelerating pace. Yet surprisingly ... only 50% of the 652 CFO participants [in a recent survey] consider the shift to digital to be of high or very high priority for their organisations in the next three years. The same study showed that only 49% believe that they have a major contribution to make as organisations make the shift to digital. If CFOs want to fulfill their agenda of growing, protecting and transforming their organisations, they need to address their organisation's digital readiness and the gaps that exist. And they need to do it with a sense of urgency.

There are four strategic drivers the savvy CFO must know as the shift to digital accelerates. Let's explore.

1

The wide variation in the effectiveness in financial processes provides a rich opportunity for cost savings.

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Despite years of document management technologies serving as the core of financial process automation, there remains a great deal of variation in the application and utilisation of these technologies. Between different companies, there are significant differences in the cost of managing accounting documents. Consider the following data:

	Bottom performers	Top performers
Cost per invoice processed	£12.50	£5.00
Cycle time to correct an invoice error	7 days	3 days
Number of invoice line items processed per FTE	21,232	46,667
Number of accounts in chart of accounts	<727	<181
Cost of reporting per £1,000 in revenues	£0.64	£0.11

Ultimately, these process variations - driven by non-standard, ad hoc, manual accounting document processes reliant on paper - create a debilitating cost disadvantage when companies fail to adopt document management-driven financial process automation.

1. Bottom performers spend 2.13% of revenues on financial processes; top organisations only spend 0.57%
2. There is large differential between industries:
 - **Distribution and transportation:** 4.63% for bottom performers, 1.16% for top performers
 - **Services:** 3.96% for bottom performers, 0.57% for top performers

The C-suite must recognise and understand the impact of these fundamentally different cost profiles; as leadership seeks competitive innovation, this drain on time and financial resources becomes very real.

2

Most organisations are reaching the conclusion that offshoring helps - but does not resolve - the cost disadvantage created by manual processes.

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In Blueprint for Success, APQC estimates that in the average organisation, 58% of invoices are manually keyed into the financial system and 61% of the cost to process accounts payable is in people. During the 2000s, the accessibility of technology and the global spread of internet connectivity opened opportunities to offshore repetitive, people-intensive processes like manually inputting invoice data into a

financial system. This cost savings were substantial. ScottMadden Management Consultants estimates traditional on-shore labor costs at £100K/year per FTE vs. offshore costs at £38K/year per FTE.

Digital processes can reduce this to £13K/year (ScottMadden), indicating that offshoring alone is not enough to preserve competitiveness with digital disrupters.

"Many organisations are adopting technologies which not only increase the productivity of the employees but also makes their work easier. The key area where such technologies have been adopted is the finance department of many organisations. Finance departments are the core department in any organisation since all other departments are dependent on the proper and cautious management of the organisation's financial resources."

Simply processing transactions (versus control or management activities or decision support) typically consumes 50% of the "people" resources in finance for most organisations. The best way to drive down the costs of repetitive, manual tasks - and free resource for higher value activities - is to automate accounting processes and eliminate paper.

Stéphan Bonneil, "Digital Transformation Impacts on CFO and Finance Department's Organisation

3

Manual financial processes and information ultimately have a negative impact of other core processes.

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Poor financial processes not only impact financial operations, but have a “ripple” impact throughout the organisation. Information and documents created by and surrounding financial processes are used in countless other processes and departments, including sales and customer service.

APQC notes, “Most companies are losing as much as 1% of sales due to poor planning and decision making. Why? Business decision makers misinterpret or discard financial analysis.”

Organisations with poor financial processes typically suffer an error rate of 3.3% in their sales forecasts, compared to 1.5% at leading organisations.

The role of financial innovation as a driver for broader innovation translates in a greater role for the CFO in IT decision-making - and a need for broader technology competency among CFOs. Consider the following from Gina McNamara in “4 Ways Digital Transformation Will Change the Role of the CFO”:

CFOs, and the C-suite in general, are increasingly becoming responsible for the IT function within their organisations. Those who are able to embrace technology and spend more time understanding and collaborating with the business will be true transformation agents who are sought after for key roles. The types of roles that exist today will not be around in the future, and finance teams need to grasp this speed of change and demonstrate the value they can give using their finance skills and training around interpretation.

The implications of this are two-fold:

1. It helps explain why financial process transformation has such an important and growing multiplier impact throughout the organisation
2. Once their own house is in order, it establishes finance and CFOs as leaders in the effort to automate and transform other departments.

Finance is the glue - in both a good and bad sense! - that either connects or confounds the rest of the organisation.

4

Guaranteeing the security and privacy of information and the auditability of financial processes is an increasingly vital role for the CFO.

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Organisations must focus on both getting previously unmanaged documents and processes under control and on the risks associated with managing expanding volumes of information.

Just about every week, there is a significant information breach in the headlines. In addition to the immediate crisis management and public relations embarrassment created by the breach, security and privacy lapses also translate into serious risk management issues that are (or should be) a concern of every CFO.

"I will give two pieces of advice. First, get yourself and your team educated on process improvement, teamwork and communication. Then, just start. Don't wait for the proverbial 'right time.' Now is the right time! Start small with low risk, low disruption improvements. As you have success, the momentum will grow, and new groups will join."

Gabriel Zubizarreta, Silicon Valley Accountants

On top of this, the everyday compliance and regulatory concerns associated with managing information assets - especially for companies that do business internationally - bring the CFO squarely in IT conversations and strategy. This growing awareness of the tie between effective information and document management and security, customer privacy, and compliance creates a new set of leadership opportunities for CFOs.

Per Stéphan Bonneil in "Digital Transformation Impacts on CFO and Finance Department's Organisation":

Digital transformation in the finance department is also likely to achieve an upper hand in data governance and data control. Finance employees will be able to monitor cyber security issues by following efficient data flow protocols in the department. They will have an active role as company stewards in investing the appropriate expertise in protecting the company's data and reputation.



Conclusion: CEOs are demanding that their CFOs take a leadership role in technology strategy and digital transformation.

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While financial process initiatives may start with the intent of reducing costs, the longer-term organizational impact provides an opportunity to redefine the role of the CFO.

Looking forward, the CFO will continue to be the primary financial steward of the organisation. But the CFO also has a larger role to play, leading the charge for broader process transformation, and ultimately transformation of the business itself.

IT organisations have traditionally spent most of their time worrying about the “T” part of the IT equation. CFOs have a role to play in managing, controlling, and understanding the complete picture of information (the “I” part) that flows through an organisation. Much of that information is within unmanaged documents, often originating in paper.

Beyond basic document archiving

Document management technology clearly can help. And if strategically implemented, it goes far beyond simply providing a place to archive documents.

1. Document management creates a framework to capture not only documents, but information, as close as possible to its point of creation
2. Document management lays the groundwork for intelligent indexing of documents, ensuring the right document are available at the right time in a business process or customer interaction
3. The digitisation of information is the first step to automating key workflows and increasing business agility

All of which puts CFOs in an advantageous position for business process transformation and the transformation of the business itself. This expanded role, vision and imperative is at the heart of the opportunity - and the challenge - facing today's CFOs.

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We hope you found this ebook helpful. As a CFO, your time is premium. But these trends, and the challenges and opportunities that accompany them, require your team's time and attention to strategically solve.

As you look to the future, reach out to us. DocuWare specialises in cloud office automation technology for finance organisations, with a portfolio of key solutions for AP, AR, audit, legal and beyond.

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