VENTANA RESEARCH

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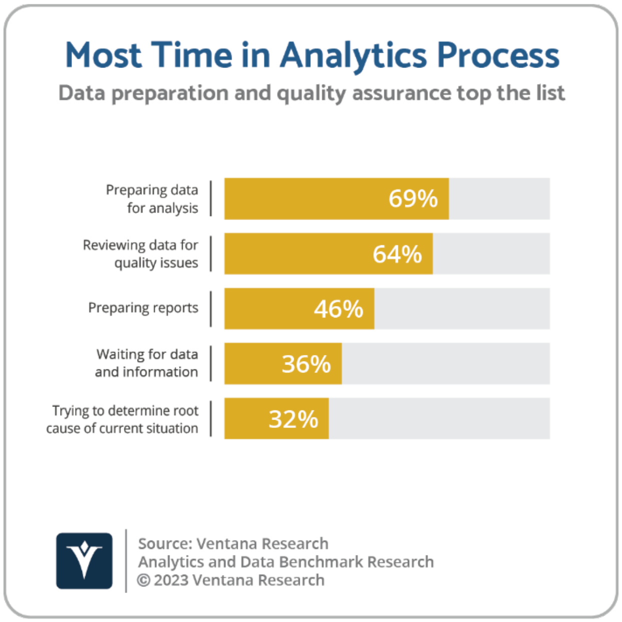
Financial Technology Innovation Enables Midsize CFO Effectiveness

The Chief Financial Officer of a midsize organization is challenged because their requirements are similar to large enterprises, yet they have fewer resources available. IT innovation enables midsize finance departments with the potential to be more productive. However, achieving the full benefit from these investments requires that CFOs assess the department's existing processes to identify opportunities where using technology can improve performance. A key objective is to scale the business without having to increase administrative headcount in the finance department so that resources can be instead focused on accelerating growth via investments in sales, logistics, R&D or customer support.

A core function of the department is providing timely and accurate reports and analyses so the leadership team and managers have the information and insights they need to make better informed decisions. The Office of Finance is like a numbers factory, one that transforms data into analyses and reports. The quality of the factory's output depends on the accuracy and timeliness of the data as well as the tools used to transform that data into actionable information. Today, midsize departments are more like an artisanal workshop than a factory, handcrafting the necessities. As a result, they lag in analytics: Our Office of Finance Benchmark Research found that 45% of larger organizations perform analyses very well, compared to just 28% of midsize ones. Similarly, 40% of the larger group do budgeting and fiscal control well compared to 27% of midsize ones. And 59% of larger entities are able to complete their quarterly close within six business days while only 41% of midsize ones can.



Technology provides the numbers factory with immediate, automated delivery of its raw material—data. Our research finds that analysts spend the bulk of their time sourcing and preparing data, pulling it from multiple systems and using spreadsheets to get it into a consistent form and format to perform analyses and create reports. Our Analytics and Data Benchmark Research found that 69% of organizations spend a significant amount of their time preparing data, while only 27% can spend their time focusing on business issues. Technology automates the extraction of data from multiple source systems to create a store of information that is accurate, timely and consistent, saving time and all-but-eliminating the need to review and correct the data. And by eliminating the data preparation bottleneck, reports can be available sooner.

With a steady, automated supply of data to a single data repository, dashboards and periodic reports such as monthly financial results or weekly sales summaries are available almost instantly and automatically. Using software instead of spreadsheets, individuals can drill down from high-level summaries to see the numbers behind the numbers. This self-service approach enables everyone to understand the source of performance gaps and address business issues sooner. Since the numbers are accessible online, executives and managers can explore the exact same data together from anywhere to arrive at decisions. This information is automatically updated as new data is available so that reports are timely and business trends can be easily monitored.

Planning is an important area where midsize organizations can use technology to improve performance. The purpose of planning is not just planning but decision-making. Technology can accelerate planning and budgeting cycles to improve agility and resiliency enabling good managers to make better decisions more consistently. Dedicated planning and budgeting software enables organizations to adopt more effective approaches such as rolling forecasts, using driver-based planning models and predictive analytics for more useful projections and better coordination between business units to ensure they are aligned with overall strategy.

The generally accepted benchmark for closing a company's books is one business week. However, our research found that 59% of midsize organizations said it takes longer to complete the quarterly close. Closing sooner provides executives and managers with information sooner so they can more quickly and effectively respond to opportunities and threats. Organizations that take more than one week can accelerate the close by making changes to the process, the training and the technology used. Using workflows, automating intercompany eliminations and using financial consolidation software typically accelerates the process, provides greater control of calculations and streamlines what were once manual processes. Even midsize organizations with a single ERP or financial management application may find that existing software requires too many manual operations to close the books quickly, especially with even moderately complex legal entity structures or international operations. If so, organizations should investigate the benefits of an application that can perform the period-end consolidation.

CFOs in midsize organizations must recognize the importance of using technology to enhance the performance of their finance and accounting organization. Readily available and affordable technology has the potential to close skills and cost-benefit gaps between midsize and larger organizations. Tools such as this financial performance assessment can help leaders gain a better understanding of their own technology and processes, and this understanding can in turn guide investments in software that enables them to scale their business without having to increase administrative head count.

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Robert Kugel is responsible for the Office of Finance and business research, focusing on the intersection of information technology with the finance organization and business. His research agenda includes the application of IT to finance and business process optimization, looking particularly at ERP and continuous accounting, financial performance management, predictive planning, price and revenue management, revenue and lease accounting and robotic finance.