

# Digital Transformation and the Finance Function: Time for Change



# Executive Summary

## **Digital media is taking the world by storm**

The evolution of Finance is pivotal for any organisation to translate its digital vision into economic value. Our latest research with the MIT Center for Digital Business, a research centre established by the MIT Sloan School of Management to focus on the digital economy, indicates the presence of a 'Digital Advantage' for those companies that successfully transform their business through technological innovation. They demonstrate significantly better financial performance than their peers, experiencing up to 26% higher profitability<sup>1</sup>. Many explorations of digital transformation tend to focus on the front end, leveraging digital technologies to develop and improve the customer experience and customer service operations. However, to achieve true digital maturity, digital transformation has to be extended beyond customer facing operations and into the core supporting functions and underlying operating model. Further, failure to drive parallel transformation of the back office can risk undermining the improvements to customer experience delivered through digital transformation of the front end.

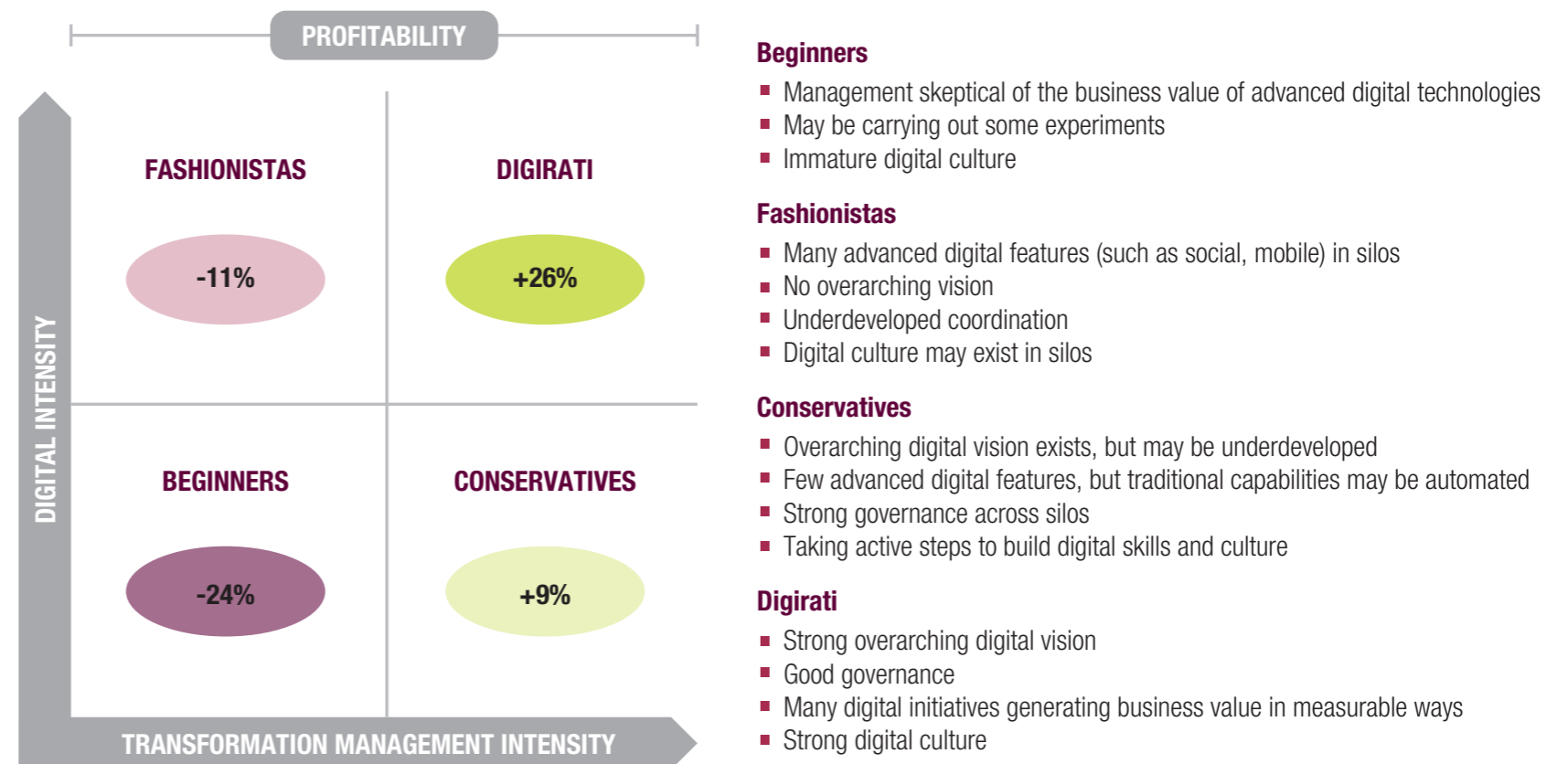
Leading businesses are meeting an ever increasing appetite from consumers to access more and transact digitally by expanding their channel portfolio through development of digital channels. In this more complicated environment the finance function needs to support the customer experience with robust back office processes and must be able to deliver the insight required by decision makers to optimise profitability across diverse channels. In parallel with recent finance drivers, all of this must be achieved without increasing the cost of the finance function to the business.

Digital technologies, in tandem with associated process and people change, can provide the solution to these challenges. Digital transformation in the finance function will simultaneously deliver greater efficiency in transaction processing (see Figure 3) by accelerating the move towards optimised, paperless core finance processes, and also facilitate decreasing data latency, making real time data available to decision makers in the business to manage performance.

To meet this challenge the transformation of Finance will need to continue as it embraces the opportunity to move into a wider, “Business catalyst” role.

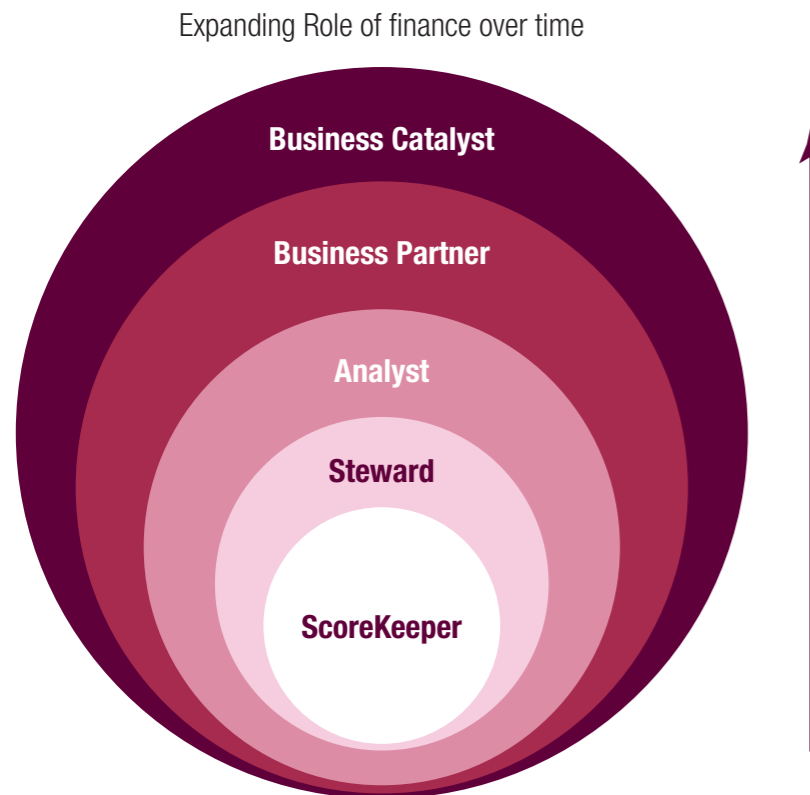
However, does Finance have the appetite to take up this more challenging role, and do finance professionals have the skills required to thrive in the digital world?

Figure 1: Driving digital transformation through the business can enhance profitability



# Adding value to the business

Figure 2: The evolving role of the finance function



## Evolution of the finance function

The finance function has seen large scale changes over the past century. Its role has evolved from being a scorekeeper with primary responsibility for balancing the books to, more recently, a business partner contributing to value creation in the business through supporting key decision making through the provision of genuine insight (see Figure 2). With each shift Finance has added greater value by assuming additional responsibilities and enhancing the decision making abilities of the organisation. Finance has moved from being a necessary overhead to a function that is integral to operational and strategic corporate decision making.

The finance function cannot pick and choose which of the above roles to play, it has to excel at them all. The business catalyst is explained in detail later in this paper.

Technological advances in finance e.g. OCR, Trintech etc. make mention that finance is no stranger to the digital world in how it operates itself, but needs to arrange itself differently to meet the requirements of new customer centric propositions as well as internally transform itself.

## **Delivering insight**

Finance adds value to the business by bringing insight to the decision making process. With the well documented explosion in the volume and nature of data available to companies in the digital age the finance function has an opportunity to bring deeper, more valuable insights to decision makers. The implications of Big Data for Finance cover a number of areas including:

- Forward looking business support;
- Skills gap; and
- Making the case for technology

### **Forward looking business support**

Big Data is about looking ahead<sup>2</sup>; using sophisticated analytical techniques to derive deeper insights from the wealth of both structured and unstructured data available to companies. This insight can revolutionise the role of the finance business partner. For the first time they will have access to the sophisticated forward looking analysis that they require to drive commercial decision making in the business. This could lead to the development and use of, for example, leading performance indicators with which to create or challenge forecasts. Those finance functions that assist the business to utilise Big Data in this way will provide a source of competitive advantage by significantly enhancing decision making capability<sup>3</sup>.

### **Skills gap**

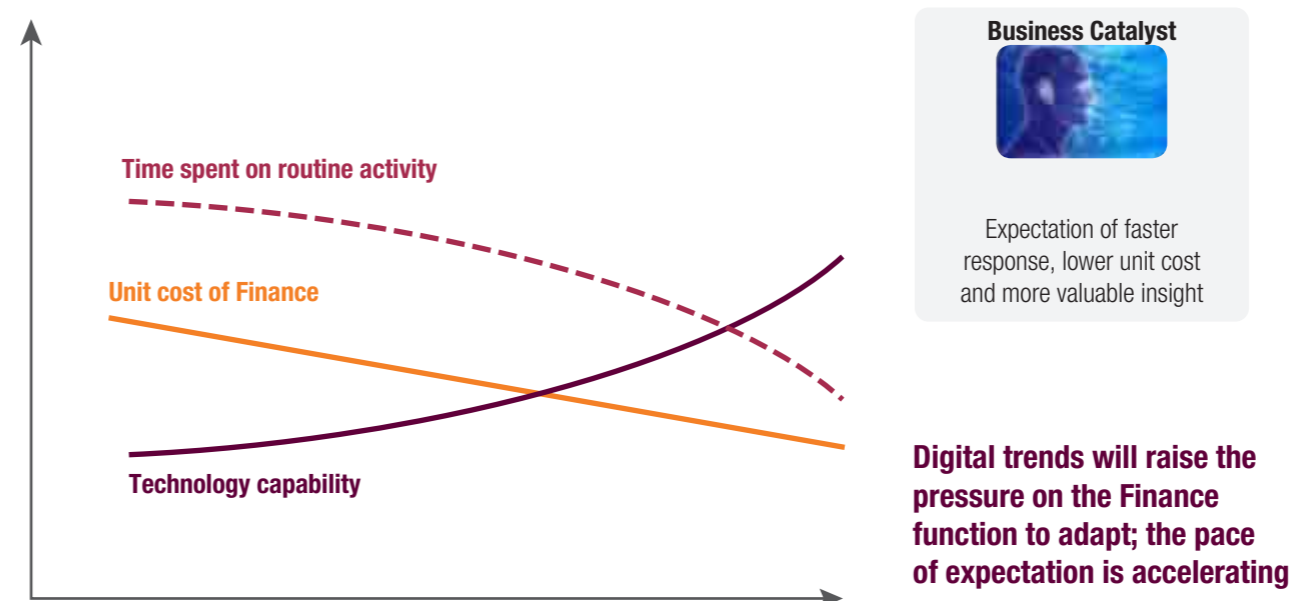
Although governance of analytics will not sit under the CFO in all organisations, it is frequently within the CFO's remit. One of their immediate priorities is addressing a skills gap; they do not have the data scientists required to thrive in the new information economy. These individuals combine skills from engineering and data management with mathematics and writing<sup>4</sup> and are in short supply. Defining what skills are required by the business and growing this capability are among the key challenges that must be addressed to avoid getting left behind by competitors.

### Making the case for technology

Disruptive developments in business intelligence technology are resulting in a step change in the speed at which data can be accessed. The emergence of in-memory processing, whereby information is accessed directly from RAM rather than disk storage, allows for the provision of real time modelling and data analysis even as datasets become more complicated and data volumes ever greater. For optimum performance, the business needs to create a “single view of the enterprise” in tandem with a “single view of the customer”. However achieving this requires investment in people and digital technology and these investments, particularly in technology, can be expensive.

The finance function has an important role to play in evaluating the tradeoffs between capital investment and slower query response times, making the business case for prioritising investment for those areas of the business where in-memory processing will be of particular value. In addition, Finance will be expected to establish an appropriate data governance framework; in-memory processing has the potential to expose large numbers of end users to data so ensuring data security by controlling access will be critical. Another challenge will be in removing the tendency for managers to bring their own data to key “drumbeat” meetings which could derail progress.

Figure 3: Location targeting helps reduce cost of customer acquisition



### Supporting the customer proposition

Often organisations prioritise investments in customer-facing technologies as these are thought to be central to the generation of new business or maintenance of market share. However, businesses need to be aware that the processes which interface with the customer are only the tip of the iceberg and that investment in the processes and systems within the business will be required to underpin developments in the customer proposition. It is essential that these processes evolve in line with modern technological development.

There are two complementary forces at play; a pull from the customer demanding technological advancement, and a push from within the business to change its foundations in order to gain a competitive advantage by providing a platform for new methods of interaction with the customer. The two forces have to converge to deliver the customer proposition. Imagine, for example, a business implementing a new mobile payments technology. To fully develop the potential of this customer proposition the business will have to pay equal attention to the processes and systems that lie behind it, as if these are manual and labour intensive, the customer experience improvements intended by enabling mobile payments will not be delivered, and there is a risk that profit is eroded by increased cost of channel delivery.

In the age of social media and viral campaigns against businesses, a bad customer experience can be communicated globally at the click of a button, heightening the potential damage that could be inflicted on a company. Consequently, where a customer is dissatisfied, Finance can contribute to the successful resolution of the issue by, for example, returning the payment quickly in the case of a return. Process digitization, in tandem with workforce development, are necessary enablers to support such speed of resolution.

Another issue of recent years is the impact of combining a traditional “bricks and mortar” business with an online presence. Understanding the profitability of each channel can prove very difficult to achieve. Multichannel businesses will need to resolve a number of issues that were absent when operating in a single channel including:

- Where revenue and inventory is recognised, where for example a customer purchases online but returns in store;
- How that inventory should be recorded;
- Whether the online channel should receive recharge from the store for costs incurred in processing the return;
- Whether there should be a separate returns process for returns made cross-channel; and
- Tracking costs of backward logistics for returns made

Customers expect a seamless experience regardless of the channel in which they choose to interact and transact with a business. They increasingly use multiple channels to complete their purchases and expect to be able to do the same when engaging in the returns process. The challenge for Finance is to set up the P&L structures and performance measures required to prevent siloed channel views from inhibiting delivery of the best customer experience across all channels.





# What opportunities does digital transformation create for Finance?

## **Improving traditional business processes**

The digital revolution is not just affecting Finance at a macro level. Improvements to traditional Finance business processes – Procure to Pay, Order to Cash and Record to Report – are also being delivered. In the production of management information, companies are increasingly turning to business intelligence solutions for delivery of capabilities that their ERP systems do not provide. Vendors of proprietary interactive reporting tools are driving significant improvements to the reporting, data visualisation, analysis and collaboration capabilities available to businesses.

## **Assessing the business case for Cloud based IT**

Moving IT to the Cloud can have wide ranging benefits for businesses from facilitating collaboration in virtual teams to improving productivity by providing access to materials to employees on the go. Adoption of Cloud based services has, however, been slow; technology research firm Gartner predicts that while cloud computing will grow at an annual rate of 19% through 2015, it will account for less than 5% of total worldwide IT spending that year.<sup>5</sup> In many cases this is due to the business case for Cloud adoption not being adequately made although it's important to realise that Cloud based services may not be suitable for all companies. The finance function must have a view on whether placing IT in the Cloud makes sense commercially and, if it does, should push for adoption of a new IT operating model.

Any assessment of the commercial viability of adoption of Cloud services will also require consideration of risk management, an area which is increasingly sitting within finance from a governance perspective. In collaboration with colleagues within IT, Finance must partner the business in determining the right operating model. What are the appropriate trade-offs between retaining services and infrastructure on site and benefiting from the Cloud? What is the optimum mix between enhancing capability and managing exposure to risk?

## **Business Partner to Business Catalyst**

The traditional finance business partner role will change too. A shift towards a pull model for insight delivery whereby employees have permanent access to information via a self service portal and a growing analytical capability will provide finance business partners with the time and insight required to fully partner the business in strategic decision making.

These changes will facilitate the evolution of the finance business partner role into what we term the “business catalyst”. Based on their knowledge of the business at both an operational and strategic level and an understanding of value drivers in the company, the business catalyst will act as a champion for change, and will work cross functionally to not only identify deviations from plan, but to close them and improve performance. In this role a greater focus will be placed on continuously striving to unlock productivity gains, increased profitability and competitive advantage through adoption of new technologies and operating models, and leading and coordinating cross-functional initiatives.

Although the finance business partner role will evolve, Finance will continue to perform an important role in managing the performance of the business. As a trusted adviser it will be responsible for interpreting financial information and for filtering the vast amount of available data to deliver solely business relevant insight to decision makers. Further, the finance function will continue to maintain the KPI framework used by the business to ensure that it remains relevant and tied to corporate objectives at all times. As the business starts to change the way that it operates through digital transformation the KPIs in use may need to be constantly reviewed and, where necessary, renewed to reflect the changed nature and objectives of the enterprise.

## **Creation and protection of data integrity**

Finance has traditionally been the guardian of internal governance and controls and will continue to be so and more organisations continue to manage master data from within shared services frameworks. In the information economy this element of Finance's remit will become more prominent as the importance of the quality of information and speed with which it can be delivered to the business and, crucially, acted upon, has become heightened. Robust data management and data governance is critical in ensuring that there is "one version of the truth" within the business and that insights delivered to the business remain timely, responsive and accurate.

Big data will create more opportunities for finance with sophisticated modelling tools available for more robust forecasts. This will require professionals with the capability to mix more technical modelling ability with sound financial knowledge.

## **Utilising the new Finance skillset in business leadership**

The trend towards automation and outsourcing of traditional processes over recent years has created a segregation within finance between accounting operations professionals and the more analytical and commercial finance business partnering community<sup>6</sup>. This has changed the Finance career path as experience in traditional junior roles within core finance (e.g. transaction processing) has become much less relevant to accountants aspiring to senior roles within the finance function. Further, Finance has to become a "broad church", housing data scientists with their own unique skillsets alongside management accountants and business partners.

As Finance moves towards fulfilling its digitally enabled role as business catalyst, the importance of technical skills will decrease and increasing emphasis will be placed on interpersonal, leadership and commercial skills. The finance function will become an incubator for management talent in the business and will export that expertise to other functions as successful business leaders require this mix of soft skills and commercial orientation. The flow of talent will be two way; in order to become an incubator for management talent, Finance will need to enhance its talent base with non-accountants with the right analytical skills to thrive as business catalysts.

Whether the finance function fully realises its potential or not, one thing is certain; the traditional route to CFO for young professionals will never be the same and the career path for talented finance professionals need not be constrained to the finance function due to digitalisation.



## Conclusion

The finance function is no stranger to change, but CFOs and finance professionals need to prepare for an acceleration in the scale and pace of change in the digital age. Where digital transformation is embraced by Finance changes will be sweeping, bringing greater efficiency to the way in which processes operate and enhancing the value that the function brings to the business. And its purpose within the organisation will change too. Although responsibility for core finance processes will remain with the function, its focus will shift to more active involvement in managing performance and identifying and pursuing all opportunities to improve financial results. Driving change through the business will make Finance an incubator for business leaders and, as technical accounting skills become less relevant to a career in Finance, open the function to non-accountants. In fact, some businesses have already embraced this trend at a senior level within their finance function. Like other parts of the business, the finance function will be truly transformed by digital innovation.



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