4 Steps to Making Your Finance Function an Analytics Powerhouse

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Introduction

The positioning of the finance function inside today's organizations is changing. Long regarded as the back office, now leading finance functions have expanded their sphere of influence beyond traditional financial reporting roles. Leading finance executives have successfully found ways to partner with business and functional leaders and become the trusted advisor for the CEO and the board of directors.

This evolution has not come naturally or by accident to those bravely seeking to add more value to their organization. These finance leaders have embarked on a deliberate course of action to change their approach to key financial processes that focus on areas such as financial consolidation, dashboards, reporting, budgeting, forecasting, and analytics. The result: a function that is more responsive, agile, more strategically savvy, and efficient.

In a world where news and analysis happens almost instantaneously, expectations for the modern finance function have been raised. Consider a finding from an Armanino[1] benchmarking study which found that 87% of the CFOs surveyed said they were facing an increase in demand for information on predictive data – specifically, more accurate key performance indicators – and this demand is driving the future of data analysis.

The emerging expectation is to deliver decision-relevant information with the same punctuality as the dissemination of all other forms of information in our daily lives. Meeting this objective requires developing new processes and deploying new technologies to enable finance leaders and their teams to deliver relevant insights. These processes and technologies need to accelerate generation of insightful analysis without compromising reporting integrity.

This report explores the expanding responsibilities of finance leaders and outlines an approach for how they can elevate their role to a more strategic position within their organization. This role is best positioned for uncovering, sharing, and extrapolating analytically generated insights to facilitate better decision-making. This is also a position where the finance leader enhances their level of executive presence and influence throughout the organization.

Tenets of finance

Finance has long been the custodian and curator of financial data. However, whether it's bringing the data together or distributing the information, many reporting processes have long been an onerous drudgery of information assembly, validation, and reporting. These processes are often measured in weeks, not days, making the information stale and diminishing its relevance for optimal decision-making.

The culprit behind this perceived lack of responsiveness stems from inefficient assembly and reporting process and the use of archaic tools. Finance executives expend considerable resources to maintain control and discipline over the information. Financial reporting integrity will always be a primary tenet of the finance function.

As new tools are adopted and processes get streamlined, finance leaders are discovering that they are well-positioned to add value using these same skills and applying them to other financial and non-financial sources of data. There is not another function inside any organization as well-positioned to add value as the finance function.

Finance has access to much of the data flooding in from a cross-functional network of systems and processes. This river of data contains ready insights into important issues of performance and trends; however, it must first be gathered and analyzed to make sense of it all. Insights become evident only when disparate sources of data are brought together and analyzed collectively. Ultimately, such insights can lead and facilitate executive-level discussions on operational and strategic matters of importance.

Finance leaders bring important perspectives and a view of the business through a unique and data-oriented lens. Consider the following important perspectives:

1. Finance brings an objective perspective.
Finance leaders can challenge different alternatives, engage in sensitivity analysis, trade-offs, and consider risk management. Finance brings a factual, evidence-based analysis that grounds the discussion in reality.

2. Finance brings a cross-functional, entity-wide perspective.
Finance leaders develop a broadly-based, deeply-rooted, holistic understanding of the business. At the same time, they can rise above detail to consider the bigger picture.

3. Finance brings a financial, bottom-line perspective, which includes a funding & feasibility perspective.
Few others can evaluate whether a decision can or should be pursued on the basis of shareholder value creation. Finance has the right models, financial infrastructure, and ability to conceptualize the impact that a decision has all the way to the bottom line.

To enable finance leaders to drive shareholder value creation with business insight, consider the following four steps:

Step 1:
Set a mandate that creates a culture of analytics

Playing a more strategic role requires the CFO to better understand and redefine his or her role, and that of the finance function, within the overall organization. This mandate recognizes the importance of functional excellence in the areas of the steward and operator roles, but seeks out other resources to streamline its delivery.

To move toward playing a larger catalyst and strategist role, the finance leader will need to think beyond reporting on historical numbers and performance and establish a role for him or herself — one that goes beyond the rear view and includes a forward-looking perspective. A perspective that includes monitoring key indicators on a daily or weekly basis through a variety of different dimensions or lenses.

One approach is to consider challenging business decisions using strong analytics that help to support or refute different alternatives using objective evidence. This helps to build a collaborative culture; a culture where different stakeholders place trust and reliance in numbers and analysis to support decision making.

The goal is to ask and answer important questions. Questions that are critical to the long-term success of the company — where the financial leader has or can develop the ability to provide the answers, or a framework to address these questions.

Roles of the modern finance leader

Deloitte[2] was one of the first to define the modern role of the finance executive by breaking the role into four facets:

The steward has a mandate to protect and preserve the critical assets and accurately report the financial status of the organization to stakeholders.

The operator has a mandate of managing staff effectively and efficiently.

The catalyst has a mandate of executing and delivering strategic and financial objectives.

The strategist has a mandate of providing financial leadership and developing strategic direction that drives future performance.

Finance leaders emphasize, immediately and continuously, the steward and operator roles as these are often associated with leading within the finance function and establishing financial reporting integrity.

The catalyst and strategist roles are value creation roles. These roles place the financial leader at the center of strategy and follow-through, with implementation and delivery of performance results. Playing up these roles require finance leaders to contribute valuable insight to progress strategic discussions and help evaluate the execution of strategy.

Consider such questions as:

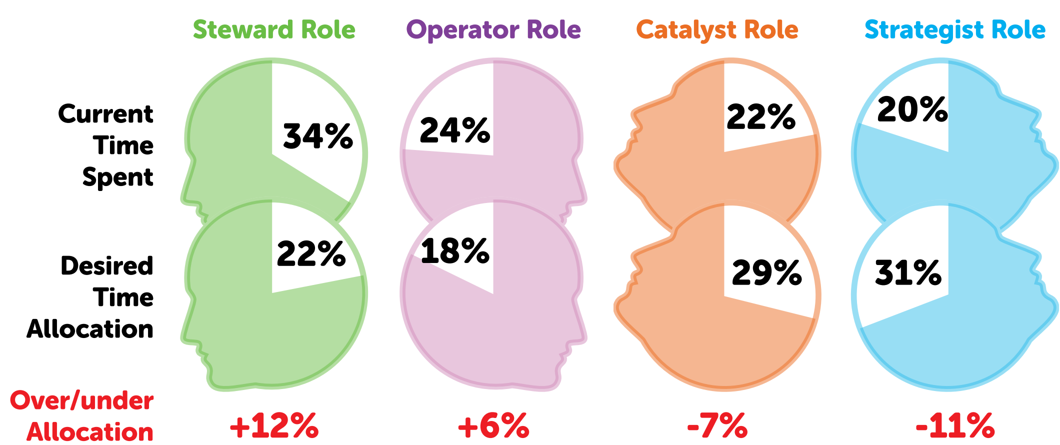
1. What challenges will your customers have a few years out?
2. What goods or services can your organization provide them?
3. How should you price your offerings and what impact will that have on your competitive positioning, revenue, customer growth, and market share?
4. Where will you need resources and what types of resources are required to meet the strategic objectives and the revenue plan?
5. How does the organization's performance change with different sets of modelling assumptions?

In setting your mandate, you will need to ensure that the right sorts of questions are being asked, but also keep in mind how such answers will be formulated with supporting information and data analysis. This forces the financial leader to consider sources of data — both financial and operational — the integration of that data, the reporting of data, the identification of the metrics to consider during analysis, and the ability of users to generate insights from data.

How finance leaders allocate their time

How every finance executive spends his or her time varies by circumstance and situation. However, in a Deloitte[3] study, participating CFOs noted the challenges they were having in finding the right balance between how they were allocating their time between the four roles.

Inevitably, CFOs and other finance leaders find it challenging to get out of their own department and spend more time working cross-functionally, and with the CEO and the board of directors. Some of the common reasons for this include:

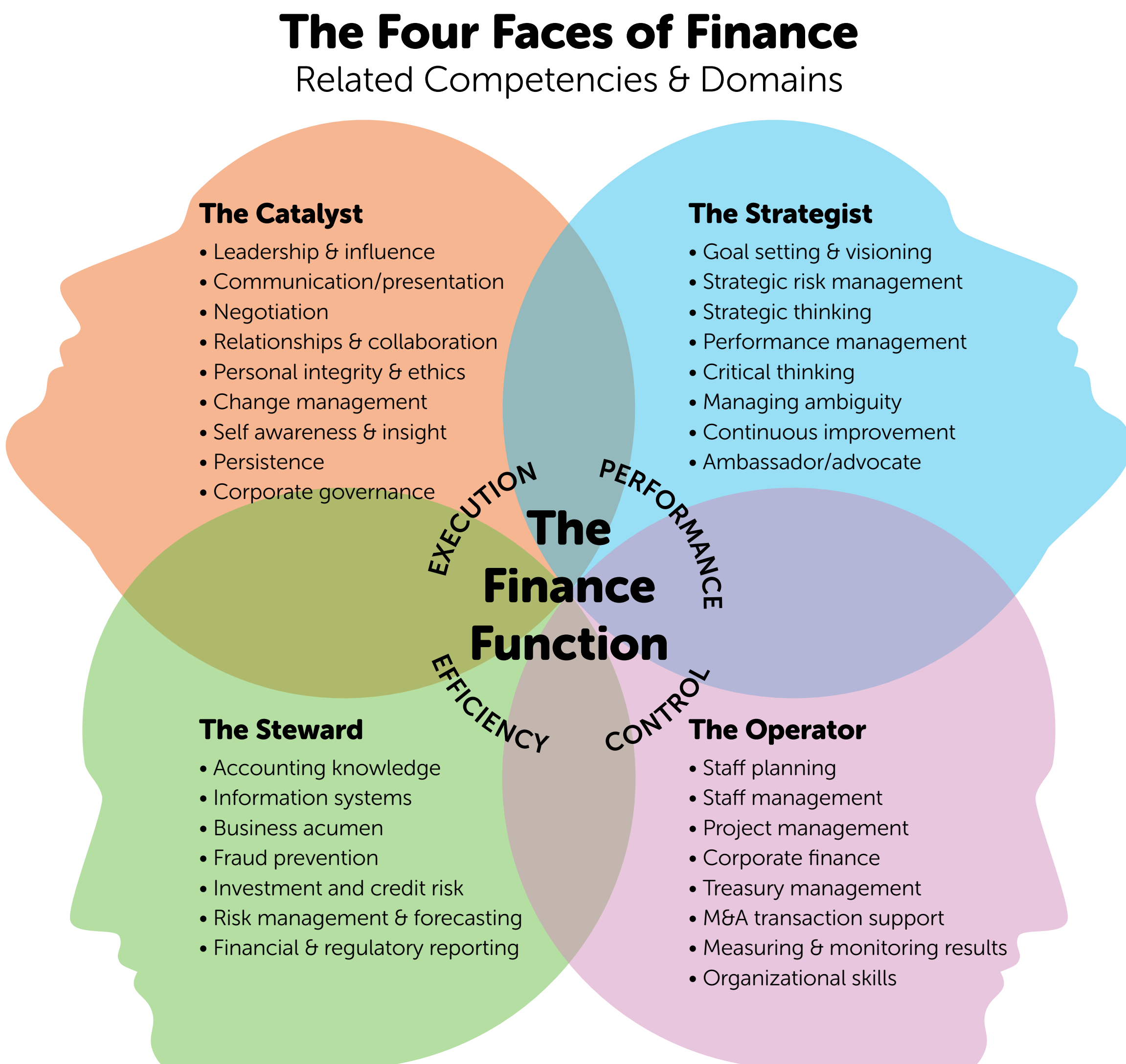


- Finance leaders are much more comfortable with the steward and operating roles as they typically have a lot of experience in these areas and less so in the catalyst and strategic roles.
- Finance leaders are buried in regulatory complexity and meeting the needs of financial stakeholders, including reviewing endless spreadsheets and files.
- Finance leaders may not have a sufficient level of competency or capacity within their finance teams to spend more time working as a catalyst or strategist.
- They may be challenged by their own systems and processes to find time for analysis and tracking underlying operational performance indicators. This limits ability to form insights timely and relevant in the context of the executive agenda or key business initiatives.

Step 2:
Assess weaknesses that impair data-driven decision-making

The modern financial leader requires a broader set of skills. The role is certainly not diminishing in technical complexity, but of growing importance will be the development of executive presence, influence, and strategic insight. The catalyst role is composed of many competencies that involve communication, influence, team building and leadership. The strategist role too has new competencies to develop around strategic thinking, goal setting and visioning, and elevating and embracing a culture of performance management.

Researchers at Queen's University and the Institute of Chartered Accountants of Ontario[4] advanced Deloitte's thinking about the four roles of the financial leader and created a competency map for each of the related roles.



A competency is a definition of not only what you know, but also an ability to demonstrate and apply. A competency map defines proficiency for each competency within the four roles, which gives someone an ability to assess his or her own strengths and weaknesses. When a financial leader is self-aware of areas for development, they can undertake their own professional development to fill in these competency gaps.

Finance leaders have generally emphasized steward and operator competencies as every finance function must first establish financial reporting integrity before being afforded the opportunity to pursue other value-added roles outside of their own department.

As a result, strategist and catalyst competencies can take time to emerge. Finance leaders should recognize that the strategist and catalyst competencies should form an ever increasing proportion of their contribution as they drive a more strategic, analytics-driven finance function forward.

Finance leaders must recognize when the organization lacks confidence in the data and analysis, which may arise when there are significant time lags, lots of manual consolidation, or weak analytical resources available to answer important strategic questions. When this situation exists, the CFO will need to develop their own level of proficiency in catalyst and strategist competencies and invest in supporting resources around them to support the expression of these competencies at the leadership level.

Step 3: Build an analytic powerhouse

The financial leader requires a committed and competent team. Part of the skillset must still emphasize supporting the fulfillment of the steward and operator responsibilities.

The other part of the skillset requires people who can look beyond operational metrics and drive intelligence. Intelligence that includes identifying and measuring strategic drivers, cause and effect relationships, and uncovering important trends that may impact future business and financial performance. These insights can challenge business line manager's assumptions about the business and the plans they are pursing.

How the CFO chooses to allocate his or her team's time is equally important to consider. A huge amount of time inside many finance functions is consumed with consolidating, manipulating and managing data using spreadsheets from multiple sources. With no single source of truth or central repository for all of the organization's data, ad hoc analysis is time consuming and fraught with risk when spreadsheet tools are relied upon.

Spreadsheets are ubiquitous with finance and the two have enjoyed a symbiotic relationship for decades. Spreadsheets are a powerful personal analytical tool with which virtually everyone has some level of proficiency. However, whether it's inertia or fear of change, few organizations have been able to let go of their spreadsheets and replace them with something they know will be more effective.

On the surface, many executives weigh the continued use of spreadsheets as a cheaper alternative when compared to moving onto a better-suited platform. However, when the significant risks and inefficiencies of staff time are considered, the economic justification diminishes.

In truth, spreadsheets are often the barrier holding many finance functions back and reinforcing the perception of finance and the CFO in the traditional steward and operator roles. The automated reports inside many traditional ERP systems are resource-intensive to customize and deliver in real-time. Canned reports often do not provide users with the ability to drill down or show alerts when performance goes off track.

The CFO Indicator Report Q2 2015 study by Adaptive Insights[5] showed that while finance may be data rich, they are time poor. The lack of time for analysis due to the lengthy data gathering and reconciliation was identified by 63% of CFOs as the top inhibitor holding them back from being more strategic.

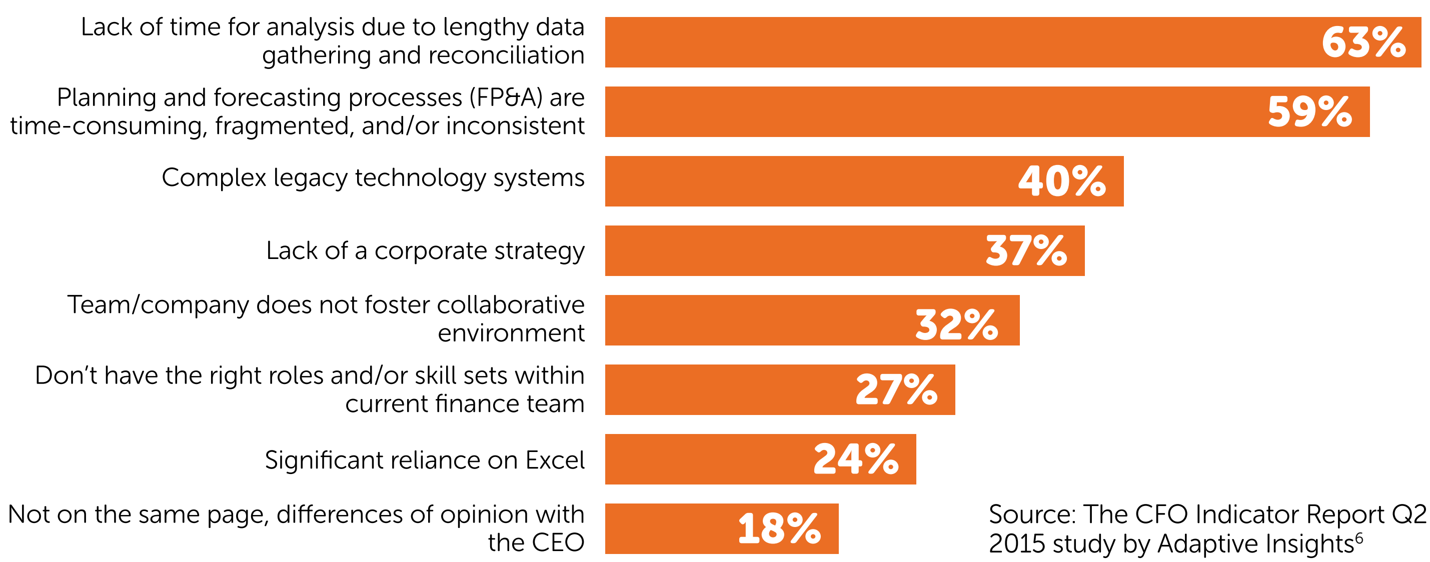
This means that there is a direct linkage between getting people with the right mix of skills as well as the right technology to change the mindset and resource allocation of the finance staff.

Step 4: Invest in the technologies that enable insight and value creation

Most business systems today are configured to gather data, which is not the same thing as providing insight. Finance leaders need to champion the investment and implementation of tools and solutions that allow finance to track leading indicators (KPIs), monitor ongoing results and performance, and inform the business or make recommendations to the business. This enablement will change the mandate of finance from one of a score-keeper to one of a valued business partner.

Analytical insight gives a richer and deeper understanding of what is going on with the business. The development and measurement of different indicators serve to provide early warning indications and help monitor the overall health of the business. Traditional financial reports are neither timely, nor dynamic enough to serve these purposes.

Top inhibitors to being a more strategic CFO



Source: The CFO Indicator Report Q2 2015 study by Adaptive Insights[6]

Leading finance functions are moving away from static, two-dimensional reporting that only gives a partial snapshot at regular intervals. The move is afoot toward having multi-dimensional analysis which enriches the presentation and insights that are embedded within the organization's data.

Finance needs technology at its finger tips to allow it to extrapolate trends, and slice and dice rich financial and operational data to get at root causes, understand complex issues, and pinpoint areas for management action and discussion — in real time. These tools will also allow the finance function to bring a broader analytical capability. This enables finance to play a business partnership role to ensure that strategic execution remains intact and on track with weekly, monthly, or quarterly plans and targets. Reporting needs to transition from periodic to real-time by using such technologies that enable development of customized daily dashboards.

These dashboards will visually show a mix of financial and nonfinancial indicators — exposing areas of underperformance. This gives managers both a lagging and leading indication of current and future performance using production, customer, and human resource data to supplement the financial metrics. Behind the scenes, this means that data must be converted to analysis seamlessly and without a lot of manual data gathering and manipulation.

Finance leaders need technology to take this analysis one step further and translate what all this means in terms of bottom line profitability. The finance leader needs a simple mechanism to take this data and prepare budgets and update forecasts to generate an updated future outlook, or perhaps more importantly, a variety of scenarios of what the future may look like. A scenario approach gives the financial leader a much more complete set of analytics to facilitate a discussion about driving growth.

Conclusions

The value proposition of finance is expanding beyond an ability to cut and control costs to create bottom line improvements. Of growing importance is the ability of finance to identify and then lead a response to changes in the market, the competition, the customer base, the industry, new opportunities for growth, etc. Finance leaders enhance an organization's agility and help the business itself pivot and address business challenges more quickly.

Value is created from insight. Insight enables faster reactions. Faster reactions enhance operational decision-making and business agility. Better decisions result in better financial outcomes.

CFOs and finance leaders who actively complete each of the four steps in this whitepaper will be better positioned to transition themselves into a strategic leadership role. Successfully evolving the role of the financial leader and the finance function from back-office to valued business partner will require a forward-looking leader; a highly competent, committed, and analytical supporting team; and enabling technology that changes how data is gathered, analyzed, reported and disseminated.

Moving finance forward is ultimately about driving better financial outcomes and improving performance across the organization. High performing organizations need the right staff and systems to take sophisticated and complex issues and make them easily managed through an automated, easy to use tool.

The future of finance is here. It's a future where the CFO and the finance function transcend all offices, departments, and business units to add value through analytical insight. These insights help managers improve business performance and ultimately influence business direction.

Sources

[1] Armanino, Turning Trends to Tactics, Armanino's Annual Benchmark Report

[2] CFO insights: Crossing the chasm: From operator to strategist, 2011

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[5] Adaptive Insights, "CFO Ready to Lead Strategic Charge with a Boost from Technology", Q2 2015 CFO Indicator – Summary Report

[6] ibid

About Proformative

The leading online professional development platform for the office of the CFO, Proformative enables finance professionals to make smarter business decisions, connect with their peers, build their skills and advance their careers. In addition to an unparalleled peer-to-peer knowledge-sharing community, members also have access to Proformative Academy™, which provides excellence in online learning through highly focused courses taught by experienced finance practitioners. Based in Silicon Valley, CA, Proformative reaches 2 million users annually, ranging from CPAs and financial analysts to Controllers and CFOs, from startups to Fortune 500 companies.

About Adaptive Insights

Adaptive Insights is the leader in cloud corporate performance management (CPM). Via its software as a service (SaaS) platform, the company offers capabilities for budgeting, forecasting, reporting, consolidation, dashboards, and analytics that empower finance, sales, and other business leaders with insight to drive true competitive advantage.