FAST FORWARD TRANSFORMATION

OR

BACK TO BASICS?

A Report From
The CFO Thought Leadership Conference

Amsterdam, March 2016

by Thierry Bruyneel
Having been a trusted advisor to finance offices for over 20 years now, and having brought new techniques like strategy-focused organization and time-driven ABC to the European finance scene, I hope that you will find some inspiration in this report.

There’s a lot happening in our domain. Consider, for instance, how software vendors are developing new technological capabilities with the speed of light. But how well do we plan and adopt some of these new evolutions within our organizations?

DEAR FINANCE PROFESSIONAL,

It was an honor and a privilege to meet so many of you at the CFO Thought Leadership Conference in Amsterdam, March 10-11th, 2016.

As chairman of the conference, I have since been pondering about what I learned from the different sessions and the interactions with many of my peers. And I felt compelled to share some of these insights with you, the finance professional, hoping that it can continue to spur the discussion and debate about our role as finance people within an increasingly digital and ever more fluid world.

If we want to stay the relevant partner to the business that we believe we are, we will have to adapt. This report is a combination of my own key takeaways and observations of the conference, spiced up with many of my own experiences.

THIERRY BRUYNEEL

I BELIEVE THERE’S MORE WE CAN DO AND THIS REPORT INTENDS TO BE A GUIDE ON THE ROAD TOWARDS MORE FINANCIAL ACUMEN.
THE THREE WAVE MODEL looks at the combination of value creation and efficiency improvements within finance. Most finance departments follow a path that moves from increased efficiency (wave 1) over increased value (wave 2) towards combined high efficiency and high value (wave 3).

So, where would you plot your finance department?

When we asked participants to the conference about their financial transformation activities, we learned that almost every participant is comfortable with adopting first wave transformation initiatives (see figure 1). When it comes to second wave activities, or activities to increase value by focusing on financial controlling, the same poll showed that most participants (80%) are exploring this option.

Unfortunately, only a minority of CFOs are really comfortable about wave three activities, despite the fact that the greatest value is created here through the establishment of business partnerships and dramatically improved decision-making across the entire organization.

Although this third wave ambition was already announced about 10 years ago, and despite the fact that a majority of participants are actively involved in wave two activities, in practice, I find that most companies still largely operate within first wave activities. A notion that is strengthened by the acceleration of demand for accounting, consolidation and traditional budgeting and planning solutions, within my own consulting practice.

AS FINANCE PROFESSIONALS, WE STILL HAVE A LONG WAY TO GO!
WHAT IS HOLDING US BACK?

I WONDER SOMETIMES: WHY IS IT THAT COMPANIES ARE UNABLE TO ADDRESS THESE TOPICS THE RIGHT WAY

We often see companies switch technologies and re-do implementations, while most of the time, failure is not related to technology but to...

- A lack of application of best practices
- A lack of proper concepts and processes
- Not having been attentive enough about the change management aspects of such projects.

It happens several times a year that a company contacts us to replace an existing solution, by simply swapping the current technology for another, without re-engineering the concepts or processes that the technology should enable. All in the hope that these “like-for-like” replacements will do the job.

It seems crystal clear to me that a lot of IT investments in finance and management solutions could yield a far better return, if they were implemented according to the right methodologies, concepts and processes. And if they were fully aligned to the current overall business strategy. I must admit, I’m often disappointed with the level of business acumen adopted by finance departments and their respective solutions.

While I was excited to see that most CFOs are launching programs to evolve into more business partnering and decision-making (waves 2 and 3), I was also wondering: why don’t we really notice this in practice?

While I am overwhelmed by the magnitude of existing and disruptive vendors in the space of analytics, decision-making and mobile reporting, I do not see these very much across our customer base. Especially not in finance.

If companies are taking advantage of this advanced analytics tooling, it is more likely to happen within the business, as a result of ‘business only’-driven projects. Sometimes, this even happens without IT. Increasingly, it happens without finance too!

THE MAIN REASONS FOR THESE PHENOMENA ARE WHAT I CALL ‘THE TALENT GAP’ AND ‘THE PARTY CRASHER’. 

COMMUNICATING AND EXPLAINING FINANCIAL FIGURES TO THE BUSINESS, VISUALIZED IN A COMPREHENSIVE AND NICELY PACKAGED STORY, HAS NEVER BEEN A STRONGHOLD OF FINANCIAL PEOPLE.

This problem goes back to the day financial controllers started to name “business controlling” and “performance management” as the next steps on their career path. Even today, I meet very few business men who express happiness in collaborating with their controlling department. While controllers are expected to bring actionable insights to decision-makers, I still mostly see a lot of BI reports. Figures and graphs are represented but without storyline or explanatory power behind it. Decision-makers, however, act on trends and outliers. They want to understand root-causes quickly and simulate on the fly the impact of possible actions. Most of the BI and reporting environments are either too rigid (there are no drill-down or analysis possibilities) or too self-service oriented (all data is made available making it unmanageable) to deliver quick insights. And both extremes are failing. I believe a good balance can be reached by providing a set of dynamic dashboards that enable decision-makers to formulate a more precise and specific question to the controlling or analytics departments, that can investigate this further and come with a clear and profound answer. In order to put this in place successfully, it is crucial that these finance and analytical people understand what decisions are to be made and how they are made.

Reports and dashboards will have to be co-created and iterated more than ever before. Empathy dialogue and communication skills are crucial for finance departments; if they want to be respected as a true “business partner”.

One of the sessions at the conference was titled “Controlling as the Catalyst for Sales and Marketing performance”. I can imagine that finance, sales and marketing people do not always blend well, especially when they discuss budgets. Marketing budgets can only grow when marketing performance (e.g. ‘lead-to-conversion’ metrics) is brutally clear. Once Finance understands this and starts to see marketing expenses as managerial investments and not as short-term costs, a true partnership can be established.

As soon as finance departments help their marketing colleagues to report on ‘Customer Life time value’ (CLTV) and ‘Customer Equity’ (CE), metrics will be most welcome at the table whenever marketing tactics are being discussed. In FMCG for instance, sales and marketing budgets easily take up +40% of the total available budget. And while sales and marketing do understand their business and field of expertise very well, they are annoyed by the fact that they have to explain, time and again, why they need this budget, what it will be spent on and what their return will be.

As finance professionals, we should stop scrutinizing sales and marketing budgets, and instead, try to help our colleagues in optimizing leverage on the marketing spend. By providing better segmentation, for instance by adding a ‘cost to serve’ element, marketing actions can be streamlined towards the right segments. This can add tremendous value to the company. Research has shown that up to 50% of marketing expenditure is spent on the wrong customer segments.
CREATIVITY (OR A LACK THEREOF)

MIND THE TALENT GAP

A NEW TREND THAT’S POPPING UP
In a growing number of organizations, the data and analytics centers are reporting directly to the CEO.

Is this a new tactic by CEOs to finally get the data and insights they need, delivered to them by people who understand the business? Is it because they are tired of…waiting and hearing how difficult it is to get decent data out of the many different systems that are used and how much effort it takes to get to accurate insights?

Dear CFO, it is high time to ‘make controlling work’. If not, the function will continue to be hollowed out.

My worries about this have been strengthened by a recent presentation I saw about a new management structure from one of the Fortune 500 companies. In it, the CEO’s direct reports were… supply chain, marketing and analytics. IT and Finance had become supportive departments that were, above all, expected to act lean and mean.

DIGITAL TRANSFORMATION
In a world where digital transformation is accelerating, companies are exploring new business models and sources of revenue in fields as diverse as disruptive innovation, the Internet-of-Things (IoT) and the extensive use of data.

While many of these new business models seem commercially very promising, I see above all a crucial role for Finance in making sure that these new business models work out in the end.

Predictive analytics, data management, investment analysis, profit modeling and risk management are all genuine skills of finance people. Successful CFOs will need to use these techniques a lot more if they want to be respected as the CEO’s buddy, who builds sustainable competitive advantage and creates additional shareholder value.

EMPATHY
(understanding the what and how) is basically our entry ticket to the CEO. But it’s not a guarantee for success.

CREATIVITY
will be our main asset in effectively making this relationship work. Revealing undiscovered profit potential for existing businesses and evaluating new business potential during the ideation phase is the new challenge for Finance.

It’s highly unlikely that these 2 human skills, ‘empathy’ and ‘creativity’, are taken over by machines.

THESE ARE THE SKILLS THAT NEED TO BE PUT IN PLACE IN ORDER TO MAKE ANY INVESTMENT IN DECISION-MAKING OR AN ANALYTICS TOOLSET TRULY SUCCESSFUL.
WHEN I EXPLAIN TO MY FAMILY THAT I AM A ‘CONTROLLER’, THEY THINK I'M IN SOME KIND OF ‘AUDIT’ OR ‘TAX FUNCTION’.

They usually ask me next if ‘checking people for compliance with’ the right standards and procedures is not making me feel miserable. In return, I try to explain them that controlling in management terminology is really about helping people steer in the right direction by providing insights in a structured, timely and comprehensive manner… Pfff, that happens to me about 5 times a year. And when I try to explain them the definition of ‘Performance Management’, the surprise on their faces is even bigger.

Performance management is about creating an environment where managers are permanently motivated for defining and implementing action plans which conduce to strategy execution. It is less about reports and measurements, and more about creating a platform for dialogue on the performance, alignment and putting the right actions in place. Most companies lack this platform of collaboration. Companies often hire people with the skills as mentioned above with the expectation that things will move automatically. This never happens. When I recently visited two BIO dollar companies that had just hired some ‘Data Scientists’, I was wondering why those people had an empty analysis pipeline! The main reason, I believe, is because there wasn’t a platform for co-creation and collaboration.

Integrating analytics people in decision-making cycles is a critical success factor. Analytics will become so much more effective when these people understand what goes around in the business. In return, business people will learn to trust the data scientists when they start to iterate the data.

ONE SESSION AT THE CONFERENCE WAS TITLED ‘TOP AND BOTTOM LINE IMPACT OF DATA’.

The speaker addressed the governance model that needed to ensure data quality during the decision-making process. Now, can you imagine making decisions on KPIs, knowing that the definitions are probably not the same across the business and that certain KPIs are affected by uncontrolled, bottom-up manipulations of data sources? Would this undermine your trust in the decision-making process? Or, would you just carry on with no worries?

Taking this further: not only human beings make decisions these days. In the digital marketing world, marketing automation engines send out personalized campaigns based on customer buying behavior all of the time. Can you imagine having 7 versions of the same customer in your database? How effective would the use of the marketing budget be then? How would this impact customer satisfaction?
BEYOND BUDGETING is a key building block of integrated performance management. It’s the motivational process for managers to define and implement action plans in periods and domains of under-performance. It is about funding the strategic initiatives when they create value to the company no matter whether they were included in the budgeting round during the traditional budget cycle. Even better, ‘beyond budgeting’ stipulates to not even have a traditional budgeting process in place anymore, as this drives short-term management and possibly destroys value by not enabling ad hoc opportunities.

Imagine having installed a process of performance management where people are motivated to contribute by defining action plans. Let’s imagine you have this in place and during your first performance review in the actual year of realization, there is a need to fund an initiative that had not been budgeted. Let’s imagine that, because of that, the funding doesn’t get approval. Now imagine how this will impact the manager’s motivation level!

WHO IS LEADING THE DANCE, THE BUDGET OR THE BUSINESS REALITY?

We need to become more agile and make sure that we enable strategy and performance management from a process and funding point of view. In most organizations I still encounter a lot of scrutiny on budgets and a lack of linkage between the strategy and the budget. But too much short-term financial management will kill shareholder value over the long term.

During the conference, some speakers broached the topics of budgeting, planning and forecasting. I would describe most of their realizations as ‘wave two’ type transformations. But, when I asked for some plenary feedback after the ‘Beyond Budgeting’ track (which is clearly part of wave three), I found it surprising that 80% of the participants see real value in the installation of this type of approach, although only few of them had similar processes in place. My guess is that this could be the next wave of innovation in the budgeting process.

IS YOUR COMPANY UP FOR THE CHALLENGE?

It was very sobering, though, to learn that our speaker had been preaching this innovative concept for over 20 years now, while, honestly, we do not know of many companies that are putting ‘Beyond Budgeting’ into practice. I believe the change management aspect of this approach should not be underestimated, both externally and internally. External parties, like market analysts, expect budgets to be beaten. Shareholders expect it. But, in the meantime, some CEOs find themselves steering in the dark without a budget.

It goes without saying that this ‘beyond budgeting’ approach needs strong executive sponsorship and good governance on action planning. I find most companies quite well equipped on the strategy formulation side but what is missing mostly is a structural strategy management platform and process. ‘Beyond budgeting’ requires... courage from the leadership to get things started, a totally different set of control structures and coordination mechanisms.
OUR KEY TAKE AWAYS

HERE ARE THE 5 BIGGEST TRANSFORMATION CHALLENGES I BELIEVE CFOS HAVE TO ADDRESS IN THE COMING 3-5 YEARS.

KPIs: provide new sets of metrics that represent the value of the company (Customer Profitability and Customer Equity, Intangible Valuation, Brand Equity, ...)

Data: make data trusted and accessible to internal consumers.

Insights: breed analytical skills and creativity in order to enable foresight.

Operations: install a rules-based exception handling center using cloud solutions.

Business partnering: recruit more empathic people and organize business collaboration.

CRITICAL SUCCESS FACTORS FOR EACH OF THE THREE WAVES

Realizing these gives you an execution premium within finance. You can also use it to assess the maturity level of your own organization or it might be a guide to accelerate your own transformation plans.

1. EFFICIENCY
   - Wave 1
   - ERP
   - Analytical Accounting
   - Product Costing
   - Financial Budgeting & Reporting
   - Metrics & Scorecards

2. EFFECTIVENESS
   - Wave 2
   - Fast Close (group-local)
   - Responsibility Accounting Framework
   - Net Margin Analysis (Cost-to-Serve)
   - Rolling Forecast & Driver-based Modeling
   - Balanced Scorecard

3. VALUE CREATION
   - Wave 3
   - Rules-based Exception Handling
   - Integrated Reporting
   - Data Broker and Visual Analytics
   - Integrated Business Planning
   - Office of Strategy & Risk Management

OUR KEY TAKE AWAYS

HERE ARE THE 5 BIGGEST TRANSFORMATION CHALLENGES I BELIEVE CFOS HAVE TO ADDRESS IN THE COMING 3-5 YEARS.

KPIs: provide new sets of metrics that represent the value of the company (Customer Profitability and Customer Equity, Intangible Valuation, Brand Equity, ...)

Data: make data trusted and accessible to internal consumers.

Insights: breed analytical skills and creativity in order to enable foresight.

Operations: install a rules-based exception handling center using cloud solutions.

Business partnering: recruit more empathic people and organize business collaboration.

CRITICAL SUCCESS FACTORS FOR EACH OF THE THREE WAVES

Realizing these gives you an execution premium within finance. You can also use it to assess the maturity level of your own organization or it might be a guide to accelerate your own transformation plans.

1. EFFICIENCY
   - Wave 1
   - ERP
   - Analytical Accounting
   - Product Costing
   - Financial Budgeting & Reporting
   - Metrics & Scorecards

2. EFFECTIVENESS
   - Wave 2
   - Fast Close (group-local)
   - Responsibility Accounting Framework
   - Net Margin Analysis (Cost-to-Serve)
   - Rolling Forecast & Driver-based Modeling
   - Balanced Scorecard

3. VALUE CREATION
   - Wave 3
   - Rules-based Exception Handling
   - Integrated Reporting
   - Data Broker and Visual Analytics
   - Integrated Business Planning
   - Office of Strategy & Risk Management

OUR KEY TAKE AWAYS

HERE ARE THE 5 BIGGEST TRANSFORMATION CHALLENGES I BELIEVE CFOS HAVE TO ADDRESS IN THE COMING 3-5 YEARS.

KPIs: provide new sets of metrics that represent the value of the company (Customer Profitability and Customer Equity, Intangible Valuation, Brand Equity, ...)

Data: make data trusted and accessible to internal consumers.

Insights: breed analytical skills and creativity in order to enable foresight.

Operations: install a rules-based exception handling center using cloud solutions.

Business partnering: recruit more empathic people and organize business collaboration.

CRITICAL SUCCESS FACTORS FOR EACH OF THE THREE WAVES

Realizing these gives you an execution premium within finance. You can also use it to assess the maturity level of your own organization or it might be a guide to accelerate your own transformation plans.

1. EFFICIENCY
   - Wave 1
   - ERP
   - Analytical Accounting
   - Product Costing
   - Financial Budgeting & Reporting
   - Metrics & Scorecards

2. EFFECTIVENESS
   - Wave 2
   - Fast Close (group-local)
   - Responsibility Accounting Framework
   - Net Margin Analysis (Cost-to-Serve)
   - Rolling Forecast & Driver-based Modeling
   - Balanced Scorecard

3. VALUE CREATION
   - Wave 3
   - Rules-based Exception Handling
   - Integrated Reporting
   - Data Broker and Visual Analytics
   - Integrated Business Planning
   - Office of Strategy & Risk Management

OUR KEY TAKE AWAYS

HERE ARE THE 5 BIGGEST TRANSFORMATION CHALLENGES I BELIEVE CFOS HAVE TO ADDRESS IN THE COMING 3-5 YEARS.

KPIs: provide new sets of metrics that represent the value of the company (Customer Profitability and Customer Equity, Intangible Valuation, Brand Equity, ...)

Data: make data trusted and accessible to internal consumers.

Insights: breed analytical skills and creativity in order to enable foresight.

Operations: install a rules-based exception handling center using cloud solutions.

Business partnering: recruit more empathic people and organize business collaboration.

CRITICAL SUCCESS FACTORS FOR EACH OF THE THREE WAVES

Realizing these gives you an execution premium within finance. You can also use it to assess the maturity level of your own organization or it might be a guide to accelerate your own transformation plans.

1. EFFICIENCY
   - Wave 1
   - ERP
   - Analytical Accounting
   - Product Costing
   - Financial Budgeting & Reporting
   - Metrics & Scorecards

2. EFFECTIVENESS
   - Wave 2
   - Fast Close (group-local)
   - Responsibility Accounting Framework
   - Net Margin Analysis (Cost-to-Serve)
   - Rolling Forecast & Driver-based Modeling
   - Balanced Scorecard

3. VALUE CREATION
   - Wave 3
   - Rules-based Exception Handling
   - Integrated Reporting
   - Data Broker and Visual Analytics
   - Integrated Business Planning
   - Office of Strategy & Risk Management
ABOUT
THE AUTHOR

THIERRY BRUYNEEL
is partner at Delaware Consulting and responsible for the controlling and performance management practice. He is currently also driving the company’s Big data & Analytics growth initiative.

During the first decade of his career, Thierry was trained in the broad domain of finance expertise. He executed projects around budgeting & planning, M&A, balanced scorecard, analytical accounting, management accounting, costing, management reporting, financial performance management, activity-based costing, etc. solutions and exceed boundaries...

During the second decade of his professional career, he decided to specialize in Advanced Management Accounting & Control. Working closely together with Prof. Bruggeman (B&M Consulting) and Dr. Kaplan, he pioneered the Strategy-focused Organization, Time-driven ABC and Cost-To-Serve in Europe.

In the third decade of his professional career, Thierry got passionate about data & analytics. Given his background and broad experience within both local and international companies, he became convinced that business agility and effectiveness of decision-making in fast-changing environments is key to creating sustainable, competitive advantage. Data is the new oil and Thierry combines creative, collaborative and analytical skills to transform CFOs in becoming value-adding business partners. He is currently inspiring a team of 120 professionals within Delaware Consulting with the sole aim of making customers excel!

HAPPY TRANSFORMING!

THIERRY BRUYNEEL