Revitalizing Finance

To drive improved business outcomes, the role of the CFO must evolve beyond traditional control and accounting to propel change that focuses on creating organizational value.
Executive Summary

New technologies and business models provide an immediate opportunity for CFOs to increase their influence and enhance business outcomes.

Finance has long been at the vanguard of new technologies and services. However, finance’s primary role of “bean counter” has hindered its ability to embrace next-generation strategies that have transformed customer-facing functions through industry. That’s changing – fast.

New opportunities and business models are evolving as many companies grapple with the torrents of data around people, processes, businesses and products that are now available – data that we call Code Halos.¹

These forces are reverberating through all levels of the enterprise, changing job roles and functions. They are driving the need for leaders who have a vision and ability to execute new operating models and create competitive advantage.

With a fundamental shift in the CFO mission, the finance function has become a critical change agent across organizations. It is no longer enough to have a grip on financial reporting, compliance and capital management; the CFO is expected to have a vision for driving performance improvements across the organization and enable better business partnership to support innovation in products, services and markets.

The primary changes in CFO priorities include:

- **Drive organizational efficiency.** There remains, of course, a strong element of financial control in any CFO’s assessment of his role – according to Ovum,² 60% of CFOs say that driving efficiencies is the main strategic aim of their department. But the CFO’s influence spreads far beyond the finance function.
• **Participate in decisions related to technology and talent adoption.** According to a survey by Consero, more than 90% of finance leaders take an active decision-making role in buying IT. A similar proportion are involved in senior level and strategic hiring within their organizations.

• **Set corporate goals and strategy.** The same Consero study also indicates that a large majority (81%) of organizations view the finance function as a strategic business partner, rather than purely a cost, budget and forecasting function. The CFO Alliance, a global community of finance leaders, reports that 56% of CFOs believe they have more involvement in setting corporate strategy and direction and creating long-term shareholder value than ever before.

A clear picture is emerging. The role of CFO is evolving, from traditional financial controller, to one that drives performance improvements across the organization. And CFOs across industries are about to see a sweeping change in the tools, techniques and operating models that enable that evolution.
Demographics and Demand Drive Change

Role changes are merely the tip of the disruptions ahead to which CFOs must adjust. Businesses are being reshaped by a quickly shifting technology landscape. The emergence of social, mobile, analytic and cloud – the SMAC Stack™ – is creating new and valuable sources of business information, ways to interpret data and the means to do so cost-effectively. Every action in the digital world – every click, swipe, “like,” buy, post and tweet – leaves a digital footprint. We call the aggregate of such data a Code Halo.™ Winning businesses, as recent digital history has shown, are those that can extract meaning from Code Halo intersections. The insight they provide into the behavior of people, processes and objects informs new business models. Your organization can use this knowledge to outperform competitors by anticipating customer wants and need, before they are even articulated.

There are huge shifts too in the way organizations work that are brought about by digital-savvy employees and customers. Organizations are embracing more collaborative, flexible and global approaches.

Consumer-led technology and demands around social technology and interactions are changing every assumption ever held about business. The millennial (and burgeoning “Gen Z”) generation represents a profoundly digitally-fueled consumer demographic, with “digital native” characteristics that also extend to their behaviors and beliefs as employees. They fully expect anytime, anywhere interaction, and easy access to information.

This creates both opportunity and challenge for CFOs, impacting their budgets and their traditional outlooks on R&D and innovation. CFOs need to respond quickly and confidently to these changes, before consumers and prospective employees look to other companies that can meet – and exceed – their expectations.

In today’s data-rich and fast-changing environment, CFOs who fail to take the opportunity to make meaning from Code Halos risk sliding into the corporate periphery, becoming a mere financial check and balance for more dynamic leaders.

Our newly published survey of more than 500 senior executives (see Figure 1 for a small sample of its results) illustrates how organizations that have implemented digital strategy are ahead of others on cost management and revenue generation parameters. Organizations need to do

How Digital Impacts Business Process Change

[Diagram showing percentage of respondents believing in automation and cost savings in F&A processes]

Source: Cognizant “Robot and I” study.
Figure 1
much more than articulate an intention to modernize their operations. The results are there to see; leaders that have implemented some form of process automation see a reduction on FTEs needed to run their shared services and process operations. One in five companies in our survey had already seen a reduction of 25% of their FTEs across their supply chain, HR and F&A functions.

**Beyond Data, Leaders Need Insight**

The finance department is the custodian of data needed for investment decisions and cost management. Data is the foundation of effective business transformation, innovation and growth. The powerful insights it provides are tightly coupled with the financial health of the business.

It's clear that finance, more than any other function, has the ability to measure and manage corporate performance, promote metrics and data awareness across the organization and use early indicators to spot and avoid the huge damage that “black swan” events can cause.

Our own research, “The Value of Signal (and the Cost of Noise),” showed that, on average, companies that use business analytics report an 8.4% increase in revenues. In the 21st century, where big data analytics is the new oil that drives business performance, the finance function is in the right place at the right time to fuel this growth.

**Today’s Finance Operating Model: Competing on Code**

With finance focused on a new role – one centered on strategic business partnership, organizational efficiency, business agility and insight – organizations need a robust operating model.

For example, how quickly can the finance function adapt to new demands across the business, such as requests to increase budgets for growth in newer markets or investments in creating new products or reacting to a competitor? Are your people, processes and technology helping, hindering or, worse, injecting risk into the process and by extension the business at large?

Unless the finance department gets its core functions to run smoothly, there's little scope for taking on more strategic responsibilities. How much of your time, head count and budget is spent on manual, routine, transactional tasks, like general ledger accounting/processing and accounts payable, instead of planning and analysis? A survey from KPMG found that more than 40% of businesses have payroll, accounts payable and receivable and transactional purchasing in-house – rather than via shared-services, offshore or sourced models.

This clearly leaves many companies with opportunities to leverage sourcing strategies and digitally-fueled process automation to reduce costs and free up time for other initiatives. And even if your organization has already sourced certain functions, it needs to know if it can possibly do it better, augment the scope or look further down range at how changes in approach can yield a more meaningful result.

The finance function has always relied on data, but there's an opportunity to do much more. Finance can harness the explosion in the volume and variety of data sources and the power of analytic engines to turn raw operational data into actionable intelligence, driving key knowledge-based initiatives.

We recommend your organization consider the following finance-related questions to identify top priorities:

- Is the function measured and rewarded for the shareholder value you deliver, or for the cost of what you do?
- Are processes currently scoped or paid for based on the number of people delivering the process, or by outcomes?
• Is your organization maximizing the potential of technologies in its processes?
• How can changes in operating models capitalize innovations and investments in new technologies?
• Does your organization have access to best-of-breed financial support and specialist advice?
• Does your organization have access to data analytics to inform and drive business decisions?

Strategizing ... Not Firefighting

For all their business confidence, few CFOs are sanguine about their answers to the questions above – and whether they’re equipped with the right insights and foresight to make the most of market opportunities.

Dealing with legacy problems consumes a disproportionate amount of time, and prevents CFOs and CIOs from focusing their attention on exploiting innovative technologies that can help improve competitiveness and drive growth. In short, they’re spending too much time fighting fires.

These problems are not new. Many organizations turned to shared services to tackle these very issues – by simultaneously introducing standardization and improving cross-functional data sharing. But shared services haven’t solved the problem. They too have been disrupted by shifts in technology, new market dynamics and the pressure to innovate. Too often, performance is deemed inadequate (see Figure 2).7

But inertia is not an option. Our “New Process Genome” study showed that enterprises recognize the danger of maintaining the status quo: they reported that 73% of their core business processes will need modernizing in the next three years.8 This in turn creates challenges, with the ongoing tension between the economies of standardized processes and the demand for process innovation.

In short, companies need to run better and run differently – concurrently. Given this dual mandate, the ramifications for the finance function are profound. How to reduce turnaround

Shared Services Execution is Formidable, Though Process Degradation Persists

Q: Which of the following could contribute to process degradation?

**Business leaders know the problems …**

<table>
<thead>
<tr>
<th>Contributors to process degradation</th>
<th>Percent of process degradation</th>
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<tbody>
<tr>
<td>Inadequate Tools</td>
<td>60%</td>
</tr>
<tr>
<td>Outdated Approach</td>
<td>50%</td>
</tr>
<tr>
<td>Non-standardized</td>
<td>40%</td>
</tr>
<tr>
<td>Too Costly</td>
<td>30%</td>
</tr>
<tr>
<td>Poor Quality</td>
<td>20%</td>
</tr>
</tbody>
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**… and so do their shared services counterparts.**

![Graph showing areas of satisfaction](image)

Source: Cognizant’s Center for the Future of Work; Cognizant and Nelson Hall

Figure 2
times and thus slash day’s sales outstanding? How to capitalize supplier discounts? How could innovation in accounts receivable leverage developments as simple as bill presentation and payment? Where are the innovative new channels for customers that create up-selling/cross-selling opportunities and yield powerful customer insights?

Facing the strains of the dual mandate – to do more with less; to cut costs and to produce growth; to optimize operations within finance and to help the whole business – CFOs need a new approach. We propose that a new vision for the CFO’s functions demands a new operating model: changing the way finance sources capabilities, partners with providers and delivers technology to its teams.

**Finance’s New Operating Model**

Figure 3 depicts a new operating model for finance that transforms the way the function works within the business — where tasks are assigned, how performance is measured and who is responsible for each set of tasks.

### Transforming Finance

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<tr>
<th>Elements</th>
<th>Traditional</th>
<th>Today</th>
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<tbody>
<tr>
<td><strong>Approach to Transformation</strong></td>
<td>• Finance transformation as a project.</td>
<td>Steady pace of continuous renewal – modernization of the finance function through: • Meaning-making through integrated analytics: risk management and predictive and operational metrics. • Enabling technologies: integrated platforms to provide a common view of the organization. • Intelligent automation: straight-through processing for greater agility, accuracy and speed-to-market. • Agile processes: providing businesses the needed agility to expand. • Modernizing the enterprise information platform: driving data accuracy and global reporting and compliance harmonization.</td>
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| **Sourcing Strategy** | • Shared services versus business process services (BPS) decision approach. • Transactional finance and accounting. • Split of finance functions across shared services or BPS and internal employees. | • Asset-light hybrid models optimized for capability and cost. • Consolidate or source end-to-end functions, allowing for process automation, technology upgrade, business process as a service (BPaaS) platforms and a utility-based pricing model. |

| **Sourcing Locations** | • Focus on offshore. | • Increased onshore BPS presence via rebadging (asset monetization); location decisions balance capability with costs. |

| **Sourcing Commercial Models** | • Regional shared services model (captive or sourced). | • Global models with captive centers of excellence and sourced transactional processes. |

| **Approach to IT Investments** | • FTE-based or output-based. | • Outcome-based or utility-based models. |

| | | • Maximize return on investment in enterprise resource planning (ERP) systems. |

| | | • Asset-light IT approaches with emphasis on platform solutions. |
This represents a huge change that will impact both the finance function and the wider organization. It will affect in-house staff, your processes, your service providers, your systems, your technology suppliers — and ultimately the CFO role, and its relationship with the business.

Whereas in the past CFOs may have focused on cost reduction, the head of finance now needs to concentrate on delivering simplicity and agility. Instead of seeking access to talent, the CFO should demand access to innovation. The finance function won’t be defined by costs; it will be defined by delivering value.

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This is too big a change to be accomplished in a single leap. The scale and complexity of the change should not be underestimated. But the transformation can be managed.

It requires four major shifts:

- **Intelligent sourcing**: Taking a hybrid sourcing strategy that touches more processes, with more different ways of sourcing, in different locations and using the broader partner ecosystem.

- **Agile processes**: Reimagining the way finance measures process effectiveness, looking at capability, innovation and soft factors such as customer touchpoints as well as cost; measuring and paying for end-to-end process outcomes instead of people’s time.

- **Smarter strategies**: Making change and innovation a core activity — this is not about business as usual, either for the F&A function or for the business as a whole. Establishing centers of excellence for the business in areas such as reporting and analytics can help provide ongoing leadership.

- **Empowering technology**: The SMAC Stack provides the catalyst for change, giving finance the tools to drive meaningful collaboration across the business, gain powerful operational insight, improve outcomes and drive down cost.

### A Window of Opportunity: Start Today, by Imagining Smart Changes Needed Tomorrow

As the holder of the corporate purse, the CFO is uniquely positioned to strengthen the business foundation and drive growth by investing in new markets and products.

The CFO can manage risks, reduce costs and waste in the system, streamline cash flows and help the business emerge ready for Code Halo transformations. Given the daunting scale of change, CFOs may wonder where to start. Here’s our view of the CFO’s Monday morning priorities:

### Audit the Data You Already Collect

The finance function has always used data to understand business performance. But when was the last time your finance team evaluated the data your organization collects? If the function is shifting from being cost-focused to value-driven, will that change either the data gathered or how that data is interpreted?

Finance also needs to determine any and all information gaps — for existing operations or planned changes. For starters, finance needs to understand how data is collected and analyzed.

Creating a common taxonomy and better data consistency and governance and developing standard performance metrics (across the organization, not just the finance functions) all
contribute to more effective decision-making. Integrating ERP systems with CRM feeds, for example, or applying risk metrics to market data, or mapping pipeline insights with expansion plans can create that single view of the company to help inform better and quicker decision-making.

**Benchmark Your Business Partnership Maturity**

Using industry or peer group data to benchmark existing process performance is an ideal way to evaluate current performance and identify areas where your organization can drive process improvements. Has your team identified which finance functions are core to the business, and which can be handled better by a third party? If you have, have you evaluated how well they are performing?

**Identify Where Change Is Needed**

The CFO is ideally placed to become a champion of organization-wide business change. But to earn the respect and confidence of the C-suite, CFOs need to demonstrate they have a vision for strategic improvements.

CFOs must define how their own function needs to change, and map the actions required. This will demonstrate strong leadership and establish a reputation for delivering business improvements.

**Footnotes**


6. The State of Services & Outsourcing in 2014, KPMG and HfS Research (study conducted in May and June of 2014.)


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About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services, dedicated to helping the world’s leading companies build stronger businesses. Headquartered in Teaneck, New Jersey (U.S.), Cognizant combines a passion for client satisfaction, technology innovation, deep industry and business process expertise, and a global, collaborative workforce that embodies the future of work. With over 75 development and delivery centers worldwide and approximately 199,700 employees as of September 30, 2014, Cognizant is a member of the NASDAQ-100, the S&P 500, the Forbes Global 2000, and the Fortune 500 and is ranked among the top performing and fastest growing companies in the world. Visit us online at www.cognizant.com or follow us on Twitter: Cognizant.

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