Creating a Finance 2020 Roadmap

By smartly applying social, mobile, analytics and cloud technologies, finance organizations can begin building a future-facing function that goes beyond historical reporting and provides direction, counsel and strategic real-time thinking to sustain business success.

Executive Summary
Business is profoundly changing before our very eyes. And to keep pace, the finance organization is challenged to transform – often at Mach speed. In fact, with accelerating globalization, and the consequences of last decade’s great economic crisis, the finance function is more critical to business sustainability than ever before. As a result, finance today is no longer merely about delivering historical reports but also about ensuring that performance results meet or exceed expectations.

CFOs must now act as key strategists, providing business leaders across the enterprise with insights that can help them steer the organization through the hyper-competitive global marketplace, continual business disruptions and technological challenges and changes.

This whitepaper will provide organizations with foresight on how the finance organization will evolve over the coming years to challenge the status quo after a decade of disruptive change.

SMAC’s Business Implications
Topping the list of disruptive IT changes is the emergence of the SMAC Stack™ – or social, mobile, analytics and cloud technology. While each of these technology pillars has impacted business in its own way, it is the combined strength of SMAC (when the piece parts are harnessed holistically) that enables organizations to unleash unprecedented business value.

According to multiple estimates, by 2020:

- The SMAC Stack will represent $5 trillion in combined spending.¹
- As many as 100 billion computing devices will be connected to the Web.²
- Corporations will be managing 50 times the data currently managed.³

The SMAC stack is not only changing business models; it is also enabling internal organizational change.

- **Social**: Revenues for global enterprise social software applications will grow from $0.8 billion in 2011 to $4.5 billion in 2016, representing a compound annual growth rate of 42.4%.⁴ The millennial workforce (workers born after 1980) is driving this change, as it brings a propensity for collaborative behavior to the workplace. Information dissemination and consumption models need to change dramatically to accommodate this generation, which has grown up with newer social technologies that produce a continuous stream of instant communication.
As stand-alone tools morph into enterprise social networks, they inevitably will increase collaboration, which should lead to greater organizational productivity. This trend will also influence hierarchies to give way to hetararchies (also called wirearchies), changing the way organizations operate.

- **Mobile**: Tablets and smartphones are increasingly proliferating across today’s workplace. By 2015, the world’s mobile worker population will reach 1.3 billion, according to IDC, representing 37.2% of the total workforce. Enterprise mobility promises instant access to information and services. As companies realize that the drivers of performance are agility and quality, they will prepare to do business from anywhere, at any time. With the future promising much more evolved devices and unprecedented connectivity, the possibilities are endless.

- **Analytics**: According to IDC, the amount of digital information created each year will increase to 35 trillion gigabytes by 2020. From banking to retail to manufacturing, companies are gathering enormous amounts of information.
tion to understand customer behavior and business trends. Businesses that are able to make sense out of this information explosion are the ones emerging as winners. Business analytics will be the key differentiator as organizations compete for customers and market share. Global business analytics services spending will reach an estimated $70.8 billion by 2016, with a five-year CAGR of 14.3%, IDC projects. Businesses will experience breakthrough results when they develop the ability to integrate mobile and analytics, inputting data on-the-go, driving real-time analytics and informing more timely and accurate decision-making.

• **Cloud computing:** According to Forrester, the global cloud computing market will grow from $40.7 billion in 2011 to more than $241 billion by 2020:
  
  > The public cloud market will increase to $159.3 billion from $25.5 billion in 2011.
  > The virtual private cloud market will expand to $66.4 billion from $7.5 billion in 2011.
  > The private cloud market will leap to $15.9 billion from $7.8 billion in 2011.
  > Importantly, the cloud will enable businesses to move from a Cap-Ex to an Op-Ex cost model based on transactions/volumes consumed, as well as enable employees to work from anywhere, at anytime, further advancing virtual work regimens.

Rarely has the business world faced such creative disruption. Businesses unable to keep pace with SMAC’s inexorable changes have either perished or been significantly wounded (e.g., Borders, Blockbuster, AOL, Kodak, Rand McNally). Companies that have embraced the changes wrought by SMAC have emerged as market leaders (e.g., Amazon, Netflix, Facebook, Apple, Flickr, Garmin).

Companies will have to ask themselves how these changes will continue to impact their core business model, operating model and underlying technology architecture. They will then have to transform themselves to embrace the SMAC Stack’s boundaryless ways of working by reinventing their business models, rethinking their operating model and rewiring their IT and business architecture. As this transition unfolds, the finance organization must be at the center of these changes.

### Reinventing Business Models

With more than one-third of the workforce expected to be mobile in the next couple of years, and the enterprise social applications market growing at over 42%, market gurus believe companies will shape their business results through knowledge-driven collaboration and real-time data.

Effective collaboration does not end at the organization’s four walls; successful companies are using social networking to continuously interact with suppliers, customers, friends, followers and fans. Real-time inputs or feedback are often used to enhance product or service capabilities. Product updates, issues and fixes are being managed over Twitter and Facebook.

An example is Ford Motor Co., whose FordSocial Web site allows customers to share ideas with Ford engineers and designers across categories such as safety and personalization, as well as share experiences with other customers and participate in entertaining activities. Ford also has exclusive channels with YouTube and Facebook to stay in lockstep with customers and continuously test new ideas and concepts.

Collaborations such as these, both inside and outside the organization, empower employees, break down barriers and introduce new opportunities for companies to reshape their business models.

As companies reinvent their business models, finance organizations will begin to develop many of the following attributes:

• **Real-time sense-respond processes:**

  > CFOs will manage mobile digital cockpits that combine an internal view of operations via predictive analytics and external social media data feeds. These feeds collect all relevant online conversations and translate them into insights on consumer behavior, influence potential and sentiment. Such information provides organizations with a real-time, 360-degree perspective of issues, challenges and opportunities.
  
  > Supply chain adjustments – such as production schedules, replenishment of goods, redirection of shipments and adjustments to worker schedules – will happen automatically within predefined thresholds.
The old backward-looking financial reporting processes will continue to exist in the background but only for statutory and regulatory purposes. The time spent on these activities will be minimal; businesses will be managed based on easily accessible and consumable real-time information that reflects what is happening in the market today and what is expected tomorrow.

- **A decrease in “functions”:**
  - The old functional silos that formed the operating model for many organizations will be replaced by end-to-end services, such as order-to-cash, source-to-pay and manufacture-to-deliver, reducing the requirement for traditional functions such as finance.
  - Companies will move to service ownership models, where the head of, say, order-to-cash reports directly to the COO/CEO and has complete ownership and accountability for customer value creation and the efficiency and effectiveness of the service delivered to the marketplace.
  - The CFO will retain broad presence and influence, and a small core finance group will be responsible for tax, treasury, compliance, policy and strategy. This group will play a more strategic commercial role supporting the CEO.

- **Advisory decision support:**
  - Today’s functional business partners will become more strategic commercial advisors, working with the business and supporting a range of activities, including investment appraisal; planning and forecasting; business performance reviews for business units; scenario planning and analysis for HR; and market analytics and strategy for sales teams.

- **The “tagging” of things:**
  - Technologies such as near field communication (NFC), radio-frequency identification (RFID) and quick response (QR) codes will help manufacturers, suppliers and customers identify and interact with goods virtually. These identifiers/tags will contain the right level of information and the appropriate finance, tax and legislative information. These technologies will eventually eliminate the need for invoice data, as payments will happen automatically, and they will also provide tracking information for the entire end-to-end journey, facilitating the optimization of supply chains.
  - Contract payment forms and timesheets will also be tagged for instant payments, as companies are able to interact with objects remotely. Stock-outs will be minimized, as will waste generation from excess inventories.

**Rethinking New Process Models**

Within the organization, emerging enterprise social networks are forcing hierarchies to give way to hetarchies. The newer generation identifies readily with this new corporate order, having grown up using social media and collaborative platforms. However, younger employees within many large corporations are still stuck with hierarchies that are rank-based. The shift from rank-based hierarchies to knowledge- or competence-based hetarchies must happen sooner rather than later. The problem with hierarchies is that they are driven by authority; change happens slowly, as a policy mindset slows innovation. On the other hand, hetarchies promote collaboration; they sense and respond and are managed by agreements.

Hierarchies will not disappear overnight; companies will need to develop a hybrid model of the two that unlocks the potential of the most effective senior managers who can thrive in both power structures.

Technology trends such as SMAC have empowered companies to choose how and where they want to do business. Smart companies have taken a step further, choosing which portions of their business they want to perform and where their core competencies yield business advantage, outsourcing the rest to expert partners.

Similarly, for finance to be effective, it has to focus on its core role of delivering insights to the rest of the organization. To achieve this, finance must create very efficient and lean back-office and mid-office capabilities. The future enterprise will have a single global business support service covering HR, finance, procurement, facilities, etc. Through smart sourcing, the future enterprise must be able to leverage talent across geographies. Several leading global corporations have already embarked on creating global business support services, which have reduced overall operating costs, improved data quality and information flow, and delivered enhanced service quality.

Once the finance organization is able to reduce the time and effort spent on transactional and reporting processes, it can focus its full attention and resources on decision support, where it can realize its core strength of providing insights.
As new business models emerge and hetatarchies form, the finance organization will realign its resources based on competencies and skills. Roles will supersede ranks or positions, and rewards, remuneration and compensation will no longer be linked to grade but to influence, innovation, benefits delivered and value created.

Rewiring the IT and Business Architecture

A big question for companies that are changing with emerging business trends is whether IT is keeping up with the business. IT must move away from its traditional model and adapt to the business’s new areas of focus, such as developing collaborative business models and building consumer-facing mobile applications and interfaces.

As companies embrace the SMAC Stack, they will no longer depend on historic, stale data that only helps reflectively analyze their business performance. They will be able to predict future outcomes, analyze live customer data and requirements, and draw meaningful insights to steer business decisions and engage customers. IT must support this shift from systems of record to systems of engagement.9

A fully rewired finance organization, backed by strong IT systems, will have the following attributes:

- **Always-on information systems:**
  > Closing of the books will be instantaneous; systems will be highly integrated and automated, and traditional monthly manual reconciliation processes will disappear. The month-end management reporting process will be replaced with always-on mobile information systems, on which employees across the world can collaborate and interact in real-time with current information.

- **Processing on the cloud:**
  > B2B and B2C transactional processes will be enabled on the cloud. These processes will no longer need human intervention and will be 100% lights-out. Payments will be linked to online transactions and virtual accounts, releasing funds based on payment rules. These processes will be as simple and intuitive as attaching a document to an e-mail.

- **Exceptions, if any, will be processed through a virtual global service that will operate as a plug-and-play utility and provide enterprises with the flexibility to easily switch providers if desired.

- **ERP – and then some:**
  > ERP implementations represent a massive turning point in an organization’s ability to integrate and standardize functions and processes, providing increased visibility and transparency of operations, as well as ensuring compliance with fiscal and regulatory legislation. Along with this transformation has come a significant investment in infrastructure, upgrades, software and maintenance. Future systems will be process- or event-driven, delivered from the cloud and on-demand. Enabling technologies and platforms will be highly cohesive yet loosely coupled, leading to plug-and-play capabilities, based on specific needs, performance and cost.

  > The benefits of a single global chart of accounts will remain but will be decoupled from a central solution to realign with standardized, end-to-end, value-driven processes.

- **Real-time analysis:**
  > No longer will accountants and analysts spend time identifying and extracting relevant data sources that require manipulation and consolidation into spreadsheets before analysis can be performed. The new toolkit will feature in-memory BI visualization tools (such as SAP Hana) that allow real-time dragging of data into new views, as well as manipulation and analysis of live operational data, with the ability to comment on trends, share insights and make timely decisions.

- **Redefined audits:**
  > More companies will adopt a continuous approach to assurance, particularly with the move toward simplified, embedded, automated controls across end-to-end processes, coupled with the ongoing alignment and consolidation of fiscal regulations and statutory compliance (e.g., increasing adoption of IFRS). An enterprise audit platform will link the auditor into the company’s systems and infrastructure, just like an ECG heart.
monitor, providing real-time monitoring and alerting of leading indicators of a company’s overall health, potential issues and trends of noncompliance. Gone will be the peaks and troughs of resource demands on organizations every year.

The Journey to the Next Decade

To take on the challenges that lie ahead, finance organizations need to start doing the following:

1. **Build a collaborative community.** Finance organizations will have to build a collaborative community that taps the talents of individuals across the organization. Such a community will drive innovation and achieve the common goals of the organization in a much faster and more efficient way. While technologies will provide the platform to collaborate, organizations will have to engage their employees, partners and customers and truly “listen” to them. This is really the core of co-creation.

   The next step is to incentivize collaboration via gaming techniques. Companies that have built collaborative platforms have successfully engaged their employees by rewarding any activity performed through the platform, be it creating a profile or updating a skills matrix or writing blogs, case studies and whitepapers. CFOs and finance leaders should drive such initiatives to truly achieve the desired results.

2. **Build hybrid reporting structures.** Old hierarchical reporting structures must be broken down to give way to heterarchies. Knowledge- or competency-based networks will ease the struggle to share insights that abound but remain largely unharnessed in large corporations. Emerging heterarchies also overcome employee limitations of working within the confines of a team, and they expand each associate’s horizon by providing access to ideas, solutions, case studies and other resources across locations, in real time.

   Through these heterarchies, organizations will be able to identify their next-generation leaders, as they will be the ones who influence these knowledge-based networks.

3. **Drive business decision-making.** The finance organization, along with other business functions, must identify the drivers of business performance and earmark opportunities for value creation. Finance needs to understand the issues the business is facing and challenge the old methods of decision-making.

   Identifying and retaining the right talent is one of the key aspects to achieving the goal of value creation and business decision support. While automation, shared services and third parties take over transactional, noncore and low-value functions, finance should find a way to retain top talent and train these workers to provide forward-thinking insights using live data and predictive analytics.

4. **Create a robust finance technology platform.** Finance organizations should start investing in an architecture that promotes collaboration and is capable of supporting mobile technologies. Such an architecture should be open, integrated and secure. Organizations should acquire technologies that can support “as-a-service” and cloud-based architectures. This on-demand approach reduces fixed costs and helps address efficiency and agility challenges at the same time.

   Finance organizations that successfully embark on this journey will find themselves in control of the changes happening all around them. The reinvented, rethought and rewired finance organization of the next decade will find itself in a new role, providing direction to the business, pointing to opportunities and holding the company together during times of crisis. By hiring finance talent with business skills, the future SMAC-powered finance organization will seamlessly communicate with internal and external stakeholders—a 180-degree shift from today’s record-keeping focus—informing and sharing real-time business performance and results and maintaining shareholder value.

   The finance organization of the future will no longer be an isolated function of the past but will wrap itself around the business, insulating it from risk.

Footnotes

2. IEEE Computer Society Journals
A heterarchy is defined as an organizational system that combines the traits of a hierarchy and a matrix network, providing horizontal links that permit different elements of an organization to cooperate, while also individually optimizing different success criteria. Source: Dr. Karen Stephenson, corporate anthropologist and founder of NetForm International.


P&G, Nestle and Pepsico are three examples.


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