Gartner

Hallmarks of Winning Finance Transformations

Contents

3 **Finance Transformation Projects: Why It Doesn’t Pay to Rent Expertise**

9 **Four Things Common to Unsuccessful Finance Transformations**

11 **Three Things That Distinguish Successful Finance Transformation Teams**

13 **Finance Transformation Organizer**

Finance Transformation Projects: Why It Doesn't Pay to Rent Expertise

Finance's new mandate: Do better with less

Governance- and guidance-based tasks are gaining prominence on finance's radar. The former has increased largely because of regulatory shifts, and the latter is growing due to ballooning amounts of data.

Despite these developments, finance budgets remain flat, so the function is expected to do not just more with less, but better with less. This mandate, combined with more (and more complex) merger and acquisition (M&A) and geographic expansion activity, has forced CFOs into a seemingly unwinnable situation: They must achieve a specified level of finance cost as a percentage of revenue, while simultaneously "delighting" internal customers.

Conventional approach: Do more with less

- Focus finance transformation on achieving (usually flawed) cost benchmarks
- Tie finance value to internal customer satisfaction
- Limit investment in finance staff development

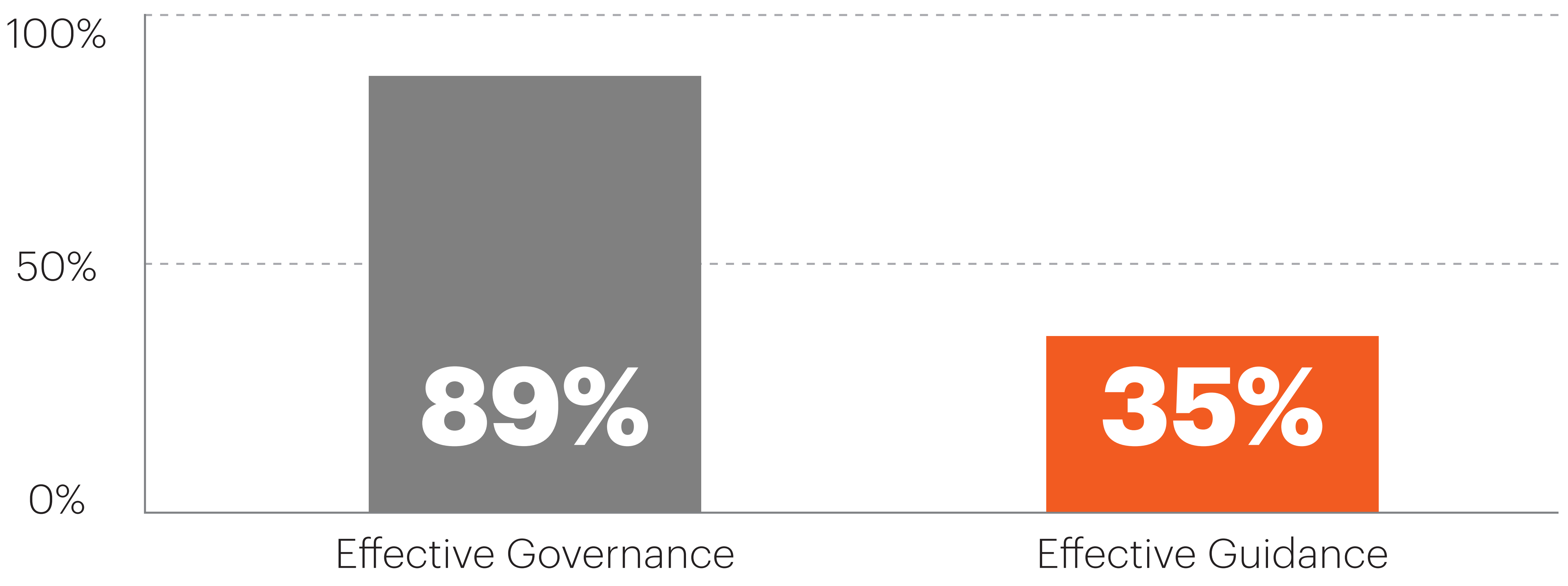
What today's business demands: Do better with less

- Identify the finance activities that produce business value
- Decide what finance will and will not do
- Make meaningful investments in finance talent development

Finance guidance is falling behind

Finance functions particularly struggle with guidance-based work, which generally consists of operations and enterprise decision support. According to a Gartner survey, just 35% of business partners are satisfied with finance guidance.

Percentage of Business Partners Rating Finance as Effective or Very Effective



n = 891 individual business partners

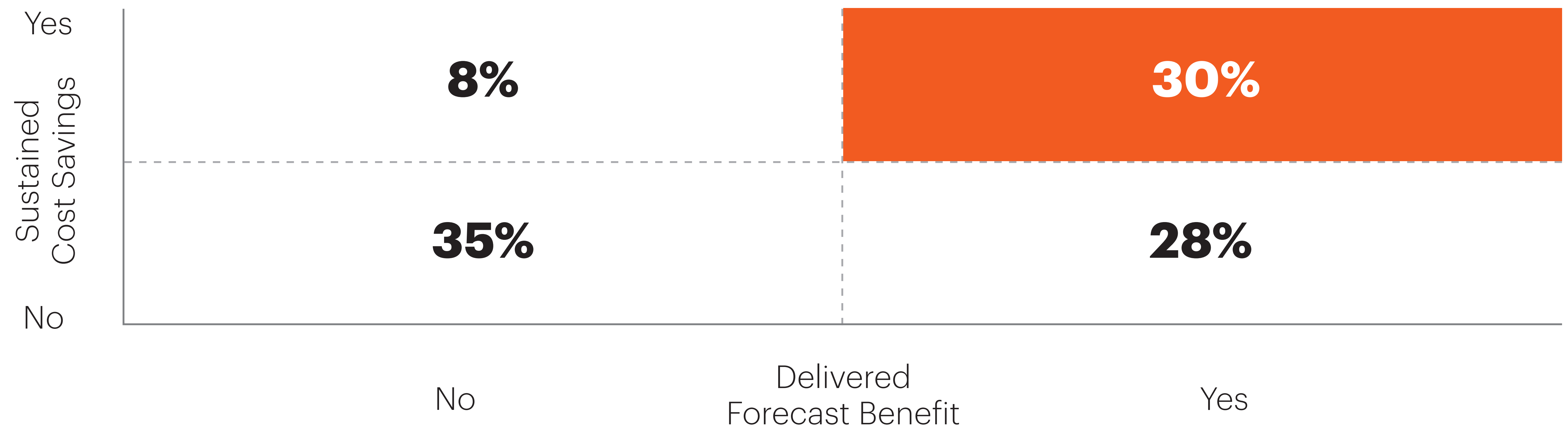
- Enforcing policy like accounting, auditing, statutory reporting and cash management
- Providing services like management reporting, budgeting, forecasting and enterprise planning

- Supporting the business with analysis for operational decision making
- Translating corporate strategy into business-level financial plans (e.g., pricing, capital allocation)

Finance transformation success depends on effective guidance

It is little surprise then that Gartner research on finance transformations reveals seven out of 10 projects fail. Transformation covers many change-related projects for a finance team. It is most commonly used by finance leaders to describe initiatives including reorganizing finance, shared services, outsourcing/offshoring or finance IT. The usual approaches of centralization, automation and process improvement do not, however, make for successful transformation: Transformation success depends on finance becoming a more valuable business partner, and to do this, finance must close the gap between effective governance and effective guidance.

Percentage of Projects That Delivered Forecast Business Case and Sustained Savings



n = 45 finance transformation projects; 101% total due to rounding

What successful finance transformation projects do

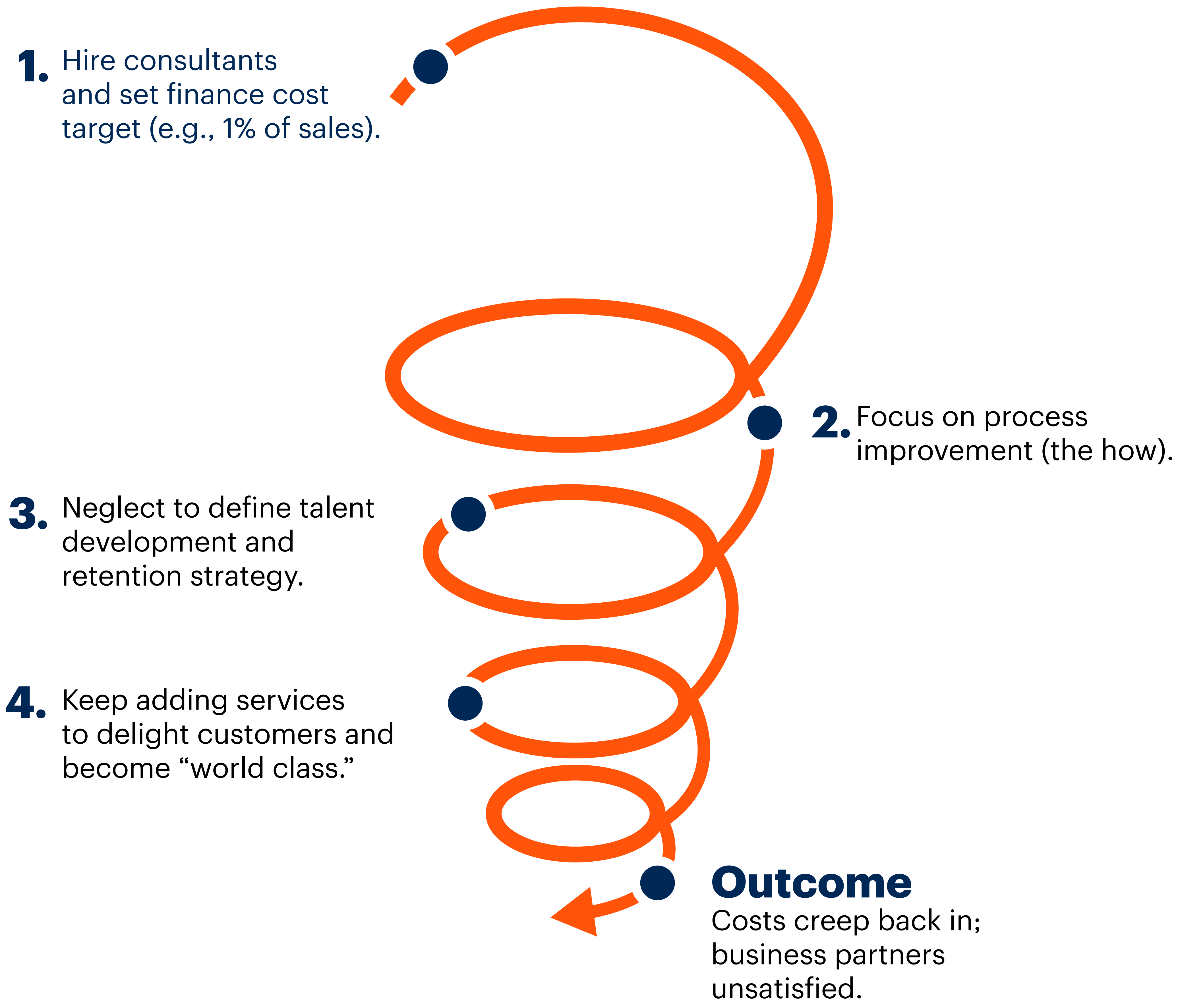
- Tie finance strategy to business outcomes
- Edit finance's menu of services before redesigning processes and organizational structure
- Focus on data governance and end user adoption as much as new finance systems
- Go beyond training to develop finance talent

You can’t buy better finance guidance

Finance has traditionally relied on third-party expertise (e.g., external consultants and sometimes even functional parties like HR) for help in managing its dizzying amount of responsibilities and demands. This approach has worked well for most finance governance requirements, such as budgeting and forecasting.

But reliance on third parties does not help with delivering critical finance guidance work, such as building analysis delivery templates and training the business to use financial analysis. In fact, in the worst cases, it can lead to short termism, employee disengagement, inefficiency, business partner dissatisfaction and wasted resources.

Typical Transformation Downward Spiral

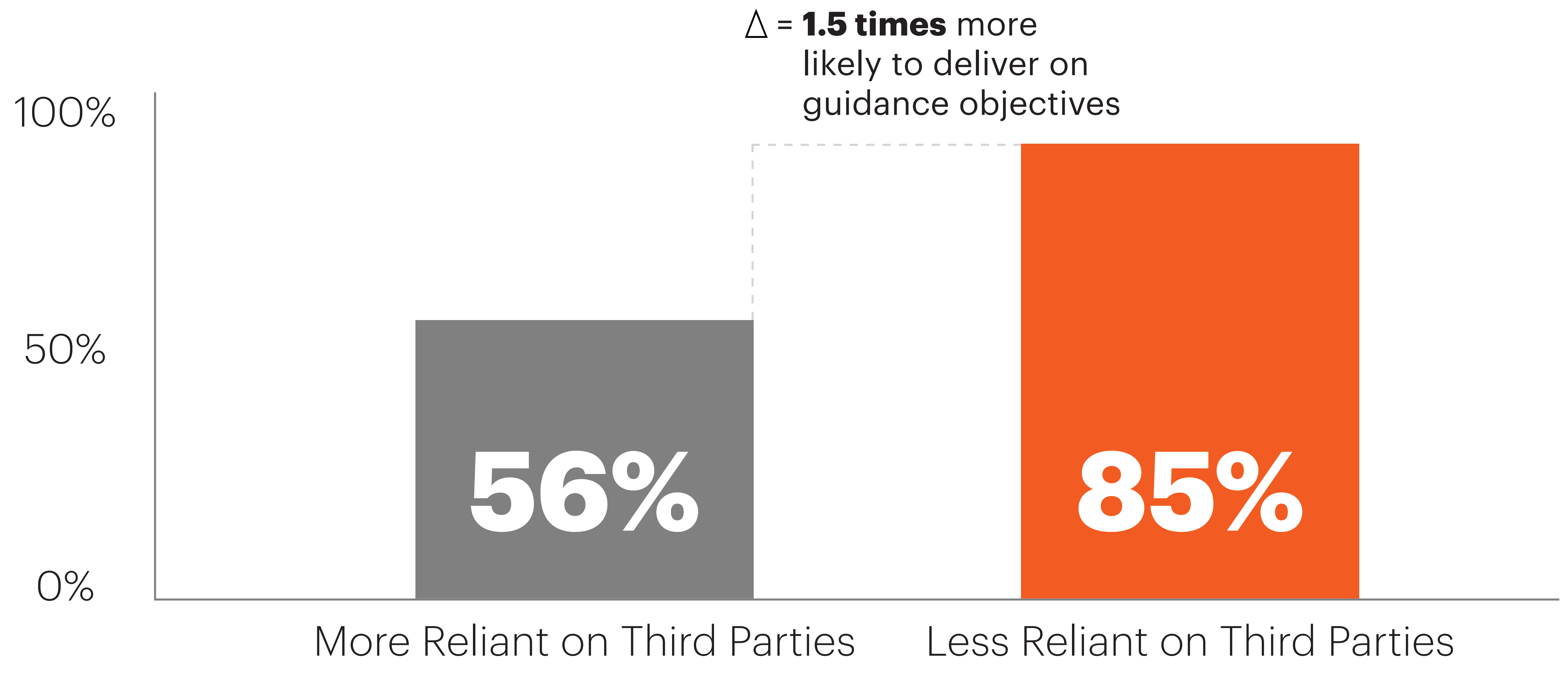


Finance must build guidance expertise

According to Gartner research, finance guidance work is best accomplished by the function itself: Finance functions that are less reliant on third parties to improve guidance are more likely to have successful transformations.

It is imperative that finance become more aware of when to outsource its solutions and when to create them in-house. Solutions that are more conducive to building a capability — versus renting expertise — often address a unique set of business concerns (instead of a predefined set of requirements), need consistent updating as the business and economy changes, and succeed or fail based on unique features of the company.

Percentage of Projects Delivering Most of the Forecast Quantitative and Qualitative Benefits



n = 50 finance transformation projects

Four Things Common to Unsuccessful Finance Transformations

Gartner surveyed more than 80 finance teams and conducted interviews with more than 70 finance leaders to identify what does and doesn't work; four common mistakes characterize unsuccessful finance transformations:

1. Focus on hitting a cost target

Finance leaders may tell their teams that the transformation project is about improving quality, focusing on high-value activities or being better business partners, but 73% of them told us that their primary goal is to cut costs — whether in absolute terms, relative to peer benchmarks or, most often, relative to total revenue.

But an over-focus on reaching "world-class" cost benchmark, particularly as a percentage of revenue, can lead to poor choices about the finance budget. Cost-based benchmarks tend to use "cheap" as a proxy for "good" and don't respond to changing corporate strategies.

2. Underestimate the influence of business complexity on cost

Finance tends to base its cost targets on a narrow set of input that overweighs revenue size and industry peer groups and underweighs the importance of business complexity.

But Gartner research finds that complexity — in terms of geographic and product scope — is twice as important as revenue size in explaining total finance department costs.

3. Expect to cut costs and improve service simultaneously

Many finance leaders struggle to prune services from finance function offerings so they continue adding services while cutting costs.

This approach often leads to cost cuts that are applied across the board rather than in targeted areas that create less value for the business. Spread too thin, these finance functions get mixed reviews for overall effectiveness.

4. Equate customer satisfaction with value delivered

Many finance teams (80%) still use feedback from the business as the core measure of their effectiveness, and 90% of teams strive for universal internal customer satisfaction.

In this quest to satisfy everyone, the finance team can neglect high-profile strategic areas that could actually do more to improve their firm's performance.

Three Things That Distinguish Successful Finance Transformation Teams

Gartner researchers find that the best companies approach finance transformation in a fundamentally different way: They treat finance as if it were a profit center.

These finance teams measure performance and allocate resources based on the return on investment from and risk mitigated by their finance services, not simply the cost to serve.

Specifically, successful finance transformation teams do three things differently:

1. Align finance strategy to the future state of business

Finance leaders that are most successful at transformation pay less attention to historical spend, industry benchmarks and traditional frameworks, and more attention to their unique corporate strategy and the right level of finance resources to help the business succeed.

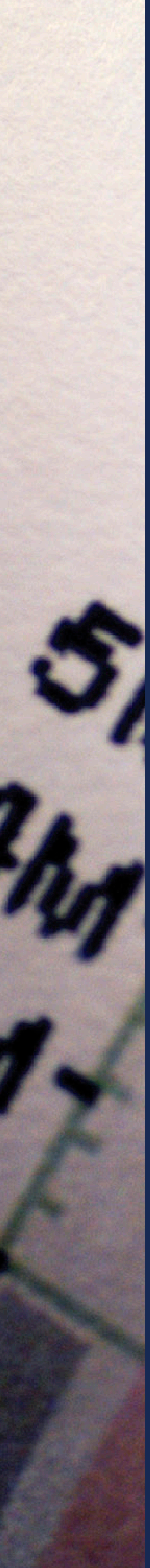
For instance, if finance ran a transformation project for a profit center — such as streamlining the business by reducing SKUs — the finance team would not solely consider the cost of delivering each product when deciding what to cut. Instead, the finance team would compare delivery cost to the value that the product creates for the present and future states of the business.

2. Decide what to stop doing in finance

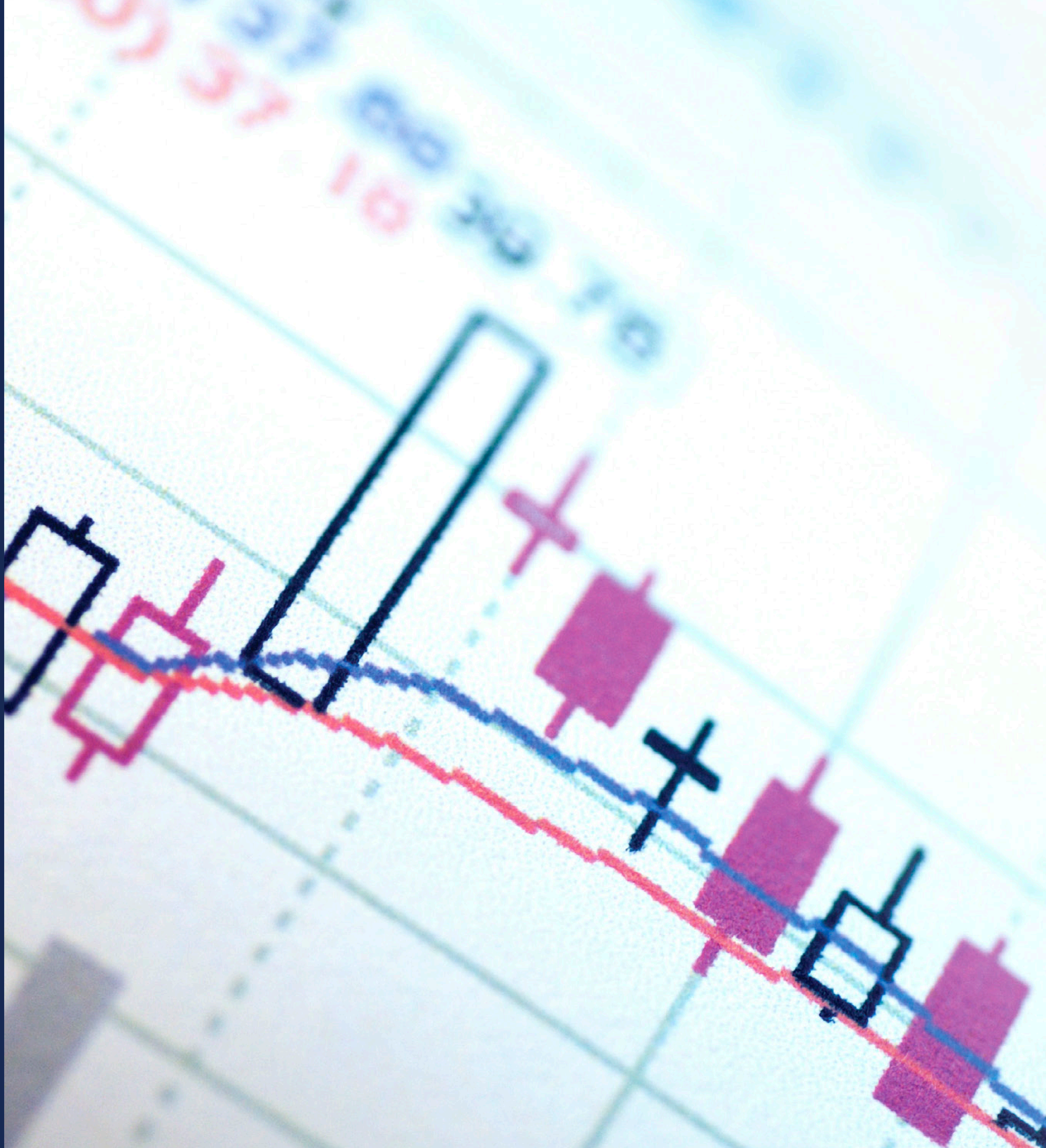
Allocate resources to the finance services, markets and products that deliver the most business value, while scaling back or eliminating low-value finance services.

3. Manage finance business partner expectations

Don’t mistake business partner satisfaction for an effective finance service. Attempting to delight all internal customers runs counter to a profit center mentality. Rather than aiming for universal business partner satisfaction, successful finance transformation projects shape customer expectations and force customers to choose between what they want and what they need.



Finance Transformation Organizer



Compare and contrast successful versus unsuccessful finance transformation projects

	Set strategy and draft end state	Set targets	Edit menu of services	Allocate resources	Redesign roles	Centralize	Re-engineer processes	Automate	Create data standards	Improve staff skills	Manage customers
Successful finance transformations	Identify future business needs and the corresponding services finance will need to deliver.	Base KPIs on how finance will help deliver on profit expectations.	Eliminate low-value services while enhancing or adding high-value ones.	Spend money in areas of highest return.	Differentiate guidance-based finance work from governance-based finance work.	Centralize services while maintaining alignment with current and future business needs.	Focus on making judgment and rules-based processes more effective by using a continuous, collaborative productivity improvement approach.	Focus on technology governance and end-user adoption.	Make the correct tradeoffs between data accuracy and the speed of decision support.	Capitalize on builder, persuader and strategist skills.	Manage business partner expectations and demand based on budget realities.
Unsuccessful finance transformations	Base transformation on hitting a cost target.	Base targets on finance cost as percentage of revenue and business partner satisfaction.	Keep adding services while taking out costs.	Spread resources (and cuts) evenly.	Change reporting structure but do not redesign roles or performance measures.	Focus on finding synergies and gaining economies of scale across all nonbusiness-facing finance functions.	Focus on making rules-based processes more standardized and scalable top-down projects.	Focus on IT functionality and capabilities.	Aim for “perfect data” in every process.	Develop technical and analytical skills in all staff.	Delight business partners.
	Benchmark function and set goals				Improve process efficiency					Develop talent	Manage change

Successfully execute your finance transformation projects on time and on budget by following our proven blueprints.

Contact us

Phone: 1 866 913 8102
Email: financeleaders@gartner.com
Web: gartner.com/go/finance

About Gartner

Gartner, Inc. (NYSE: IT) is the world's leading research and advisory company and a member of the S&P 500. We equip business leaders with indispensable insights, advice and tools to achieve their mission-critical priorities today and build the successful organizations of tomorrow.

Our unmatched combination of expert-led, practitioner-sourced and data-driven research steers clients toward the right decisions on the issues that matter most. We are a trusted advisor and objective resource for more than 15,600 organizations in more than 100 countries — across all major functions, in every industry and enterprise size.

Gartner®