

Agile finance and performance management

A combination of external market factors and the ever increasing desire for improved efficiency is driving unprecedented interest from Chief Financial Officers (CFOs) to transform their financial processes.

Some of these factors include

- ▶ Increasing compliance requirements
- ▶ Frustration with existing data management practices
- ▶ Dissatisfaction with traditional financial processes and the extent they still rely on human interventions
- ▶ Rapid market changes driven by economic factors and the impact of digital disruption creating even greater acceleration in decision making timeframe's
- ▶ New technologies which are supporting a transformational agenda and lower cost deployment options

For many years large enterprise technology vendors have been seeking to integrate a variety of financial, operational, and

Agile finance and performance management

performance measurement applications under the broader theme of enterprise (or corporate) performance management (EPM). The combined acquisitions of "best of breed" applications with business intelligence (BI) technology and reporting frameworks all seamlessly integrate back to the system of record (ERP).

Financial Performance Management (FPM), the core of EPM, includes a collection of related applications that include financial planning, budgeting, forecasting, management reporting, financial consolidations (for statutory and external financial reporting), and activity-based management (costing). FPM expands into EPM with measurement, or BI style applications that encompass operational (non-financial) analytical applications and integration with other systems such as sales and operational planning (S&OP).

The best of these applications are related by function and by a common data platform and user interface layer. The functional relationships between them are based on the concept of delivering information for managing the business, consistency of planning, control, reporting and compliance, management and analysis and

business intelligence. This integrated set of tools, based upon the definition of common processes, master data and information, forms the basis of what is now commonly referred to as "agile finance".

Issues and opportunities

A common source of pain for many organisations is the cumbersome nature of the planning process. Many medium-sized and large companies still use spreadsheets to execute enterprise planning and budgeting processes as the basis for significant strategic decision making. Spreadsheets have proven to be ineffective for several reasons.

Spreadsheets are subject to significant error rates, similar to software programming, but spreadsheet-based application development is often done by end users without the discipline of professional programming methods. In addition, spreadsheets are ill-suited to handle large volumes of data and consolidation of such data. Companies using spreadsheets for enterprise financial planning processes are characterised by high levels of expensive human effort, long cycle times, data integrity and version control challenges, and relative inflexibility.

In addition to the enabling technology, frequently the budgeting process itself is inherently flawed. Common problems include misalignment with corporate strategies, rigid hierarchical structures that enforce a command-and-control orientation, imprecise or disparate assumptions, dysfunctional behaviors, and drawn-out “gaming” behavior that tends to diminish performance.

Organisations need more agile processes that enable forward-looking management of the business with up-to-date forecast information. This should supplement budgeting or indeed largely replace budgeting. Many companies have adopted rolling budgets and forecasts to better predict and react to evolving market conditions. Some faster-paced businesses (e.g. high-tech) are taking the concept even further, using virtually continuous forecasting and real-time reporting to dynamically run their businesses.

Key to this is developing a plan in a timeframe that doesn't cause the business to see the plan as obsolete. It also requires processes that frequently measure progress against the plan and enable action on performance management information. The plan must reflect business strategies and objectives with appropriate targets to measure progress against, in order to encourage appropriate behaviors.

Comparison with prior periods and actual results is common. However, the comparison with industry benchmarks and competitors is often neglected. Historically this information has been difficult to obtain or too voluminous, as is the case with consumer goods, to warrant inclusion in the planning process. Today, this is not the case. New technologies make gathering, storing and analysing mass information affordable and simple. New sources of information such as social media are increasingly finding their way into a company's

performance review processes. Agile forecasting and business performance measures can be deployed to run the business instead of traditional budgeting and latent accounting information.

Solutions functionality

The key components of a conceptual applications architecture for agile finance include:

Finance performance management

The “heavy lifting” component of agile finance includes native and real time integration with source data systems. Finance process enablement includes budgeting, planning and forecasting and less commonly deployed applications such as activity based costing and strategy management. These tools support driver based analysis and scenario modelling as well as ad hoc reporting.

Analytics

Analytics applications comprise a set of tools that combine financial information with operational information and provide a largely user driven graphical environment for analysis and reporting. Customer relationship management (CRM), supply chain, sales and operational analysis and workforce planning are common.

Enterprise management

The enterprise component consists of metrics-based tools for measuring business results against goals. Aligning a company's strategy to measurable key metrics on a regular basis using dashboard-style displays enabled by BI technology.

Information delivery

Information delivery is the means by which key stakeholders consume the information both physical and digital.

All the above applications are now considered mature and are available in a number of deployment options - on premise, cloud and hosted, although data integration is something to be carefully considered. While the financial

performance category and enterprise management are very mature, recent significant technology advancements in transactional processing and in memory computing (IMC) are set to change how the ERP and the enterprise performance management (EPM) application co-exist and how finance professionals interact with them. The operational and CRM analytic applications and the BI architectural components are mentioned here for completeness, but are not the focus of this paper.

As performance management applications evolve, it is important to distinguish between products offering pre-packaged functionality and those that are actually tools for building such applications. “Off the shelf” with regards to enterprise performance management is an often misunderstood term. Whilst adopting a simplified “best practice” approach to transactional processing can deliver significant benefits, how the organization deploys and uses performance management framework is where it will derive competitive advantage. A tools-based approach is often better suited to the analytical and performance management requirements.

In addition, the following functional capabilities are often relevant:

- ▶ Integration to financial and enterprise resource planning (ERP) transactions systems for importing data, organisational data, and exporting results, ideally with predefined data mappings.
- ▶ Workflow automation, incorporating routings and alert notifications (important for iterative, input-driven processes, such as budgeting and to alert managers of critical performance situations).
- ▶ The ability to drill into supporting levels of detail behind the KPIs and summarised results (and potentially into the underlying transactions).

- ▶ Extensive business modelling capabilities to support scenario planning activities, which may include pre-built calculation formulas to represent various types of business drivers and allocation capabilities for allocating and spreading amounts.
- ▶ The ability to document, in context, the underlying assumptions used to develop the business models.
- ▶ Multiple user interface formats (e.g., forms, spreadsheet-style, web and portals) designed to suit a wide variety of user requirements and abilities while supporting interaction and collaboration.

One of the traditional challenges in delivering these applications, which operate in a dimensional modelling environment, is the integration to the related transactional systems, which operate in a relational based environment.

Recent significant advances in technology have seen the introduction of “in memory” data bases such as SAP HANA. These allow the storing and retrieval of large volumes of data without the need for pre-determined data structures in timeframes that were previously unachievable. In addition, as mentioned earlier, good performance management is predicated on benchmarking against external market and competitive information. With the capability to easily integrate all forms of external data and the speed and ease of retrieval, “in memory” it is possible to perform analysis at a very granular level at an affordable price, eliminating the need for a separate data warehouse to support analysis requirements.

EPM software market analysis

The EPM market was traditionally fragmented and segmented, however in 2007 the market underwent unprecedented consolidation as the large enterprise vendors acquired many of the independent EPM solutions. Now SAP, Oracle and IBM all provide integrated EPM solutions for their customers in a wide variety of deployment options - from the traditional purchase and run on premise option to fully hosted cloud offerings.

The merits of a single vendor IT strategy are beyond this paper, suffice to say, data integration is a key source of risk and cost and any EPM strategy and architecture must address this issue.

We believe there are several key trends driving the growth of EPM and agile finance:

- ▶ The changing role of the CFO. As highlighted in the recent global EY study “DNA of the CFO”, digital disruption is significantly impacting the CFO role. The CFO needs faster and better information outside the traditional constraints of time and cost, underpinned by ever increasing demands for enhanced business partnering capabilities.
- ▶ Global markets. The increasing presence of Australian companies in global markets has raised the awareness of the need for sound and reliable financial reporting systems, as well as the need to increase the visibility and transparency of financial information.

- ▶ Accelerated planning cycles. Traditional annual budget and long-range planning cycles are increasingly proving to be inadequate for companies to plan and manage business performance. More companies are adopting rolling budget/forecast cycles, and some are moving to continuous forecasting and nearly real-time information delivery, driving customer demand for solutions with such capabilities.
- ▶ Technology. Cloud based multi tenanted planning and budgeting applications, in memory computing and new web based intuitive user interfaces are driving deployment and user acceptance to very high levels. In addition these new technologies are driving down the costs of implementation and deployment.

Whilst new technology and methodologies have reduced the time and cost of implementing truly agile finance processes, seasoned professionals with many years finance and systems experience are still the cornerstone of success. Rather than being “IT projects”, successful finance technology projects are still owned and managed by the finance function and the sponsor is inevitably always the CFO.

Beyond efficiency, significantly higher levels of benefits can be achieved. This value proposition includes the following:

- ▶ **Flexibility and agility.** Scenario-based business analysis to support management decisions on product lines, markets, acquisitions, and other key aspects of the business. Companies will be able to react more quickly to changing business conditions using collaborative planning processes and tools.

- ▶ **Financial reporting accountability and transparency.** In combination with sound internal controls and reliable transactional financial systems, the financial performance applications enhance an organisation's ability to accurately report financial results to internal and external parties. The current regulatory emphasis on corporate accountability makes this a business imperative.
- ▶ **Simplified data management.** Agile finance architecture supports much simpler data management by making financial process statuses fully traceable and visible, leading to fewer controls and more real-time information. This creates integration of data items for a wider, end-to-end view of financial transactions and reduced data redundancy and latency. Data is stored only once; no reconciliation is needed.
- ▶ **Expectation management.** In addition to reporting actual results, future-oriented planning and forecasting enables companies to potentially reduce the volatility of the company's stock price by accurately setting expectations of the market. Timely and actionable financial and performance information will allow managers to avoid problems and recognise opportunities.
- ▶ **Bottom-line results and shareholder value.** The FPM applications will support a well-conceived strategy to measure, manage, and reward business performance. When implemented effectively, the performance system will drive improved profitability, staff retention, and customer satisfaction.

Recommendations

Enterprises evaluating financial and business performance transformation should consider the following recommendations:

- ▶ Today, the technology to allow your organisation to implement a rigorous agile finance framework is readily available. Continuous improvement only requires a small investment in technology, the majority is achieved by a change in attitude, behaviours and skills- one without the other offers little value.
- ▶ Understand the future requirements of the business before selecting solutions. Automating current processes will produce only marginal returns. Choosing appropriate technology to optimise the processes **and aligning them with business strategies** will enable companies to achieve measurable improvements in efficiency and business effectiveness.
- ▶ Structure a team of internal finance subject matter experts "SME's" and an external team of experienced implementers with a finance background. Confirm that the project is finance owned and managed and supported by your internal IT function.
- ▶ Implement in a phased approach (rather than all at once) to address key business priorities, such as improving process efficiency (e.g. budgeting), compliance (e.g. financial reporting), or strategy (e.g. planning and performance). An incremental approach is more manageable and can more quickly address pain points.

- ▶ Recognise that enterprise performance management is much more than an elaborate reporting system – it encompasses a discipline to optimise business results. The technology itself is of limited value without the organisational commitment to drive change and innovate.

Author



Scott Taylor
Asia-Pacific Partner, EY Asia-Pacific Advisory Centre

E scott.taylor@au.ey.com

Contact



Donal Graham
Oceania Lead Partner – Finance Performance Improvement

E donal.graham@au.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 Ernst & Young, Australia.
All Rights Reserved.

AU00002787

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

ey.com/au