White Paper

Finance 2025+

Insights into the finance organization of the future

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The digital transformation is in full swing within finance organizations. For this process of renewal to succeed, a clear goal and the commitment of all stakeholders are essential. This, in turn, requires strong management that can motivate, convince, and break up existing functional silos. In this white paper, we explain why the CFO is ideally situated to accomplish these tasks and why he or she must now take on his crucial role.

The transformation of the finance function is not the result of mere happenstance, but rather profound social and economic challenges such as sustainability, new technologies, changes in access to global markets, disrupted supply chains, rapidly changing customer needs, and increased regulation. These factors are forcing companies to reposition themselves to ensure future success. In this context, CFOs should not see themselves primarily as a process optimizer, but rather as a driving force and co-designer of the company's success.

Goals of finance transformation

Increasing pressure on businesses is accelerating the finance function's evolution into a process- and technology-driven innovator. A recent Horváth study[1] examined these developments and identified four main objectives (see Fig. 1), which are bringing about a massive increase in process automation. This was confirmed by 87 percent of the CFOs surveyed. Half of all participants stated that the finance function will become much more integrated with other end-to-end business processes. The perennial topic of costs retains its fundamental importance: Sixty-three percent of CFOs believe costs need to come down further. They claim that work must be performed with much greater efficiency and employees must be freed from routine tasks, which must instead be assigned to the relevant systems. And 45 percent of the study participants believe the finance function needs to improve its range of services. For example, by enabling the FP&A function to quickly provide accurate data that allows decision-makers to make faster and better decisions than the competition. One approach to this, they claim, is to increase the predictive power of forecasting processes.

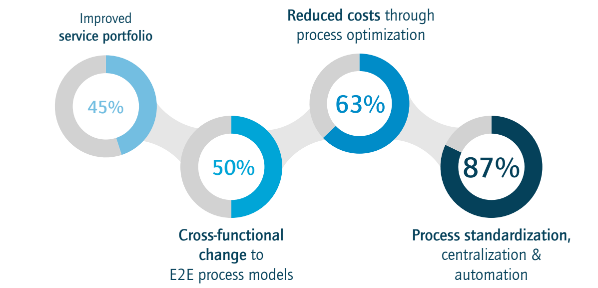

Fig. 1: Current targets for the finance function: Thought leaders and visionaries are in demand

In our view, the transformation of the finance function means embarking on an ongoing journey during which the transformation is viewed holistically. Important aspects of this include automated end-to-end processes, the orchestration of different technologies, machine-assisted intelligent services (e.g., for forecasting and simulations to support decision-making), the role of data, artificial intelligence (AI), and the cloud as an enabler for standardization and continuous innovation.

> The vision is to create a fully automated financial organization. The technology for this exists and has enormous potential, yet it remains severely underutilized in finance organizations. This requires a clear road map with guideposts along the way. Put another way, we must create lighthouses and think and act in terms of ambitious milestones.

Finance Transformation 2025+ at-a-glance:

- **The optimized management approach**
  Successful implementation of the corporate strategy.
- **Greater efficiency thanks to process transformation**
  The vision of full automation – opportunities and limits.
- **The sustainability megatrend**
  Innovation driver and cost factor – crucial for the company's success.
- **The cloud as an enabler for standardization**
  Standardization as a vehicle for increased efficiency and continuous innovation.
- **A methodical approach to change**
  Three guiding principles for a successful finance transformation.

[1] CFO Study "Finance at the Crossroads of the Coronavirus, Digitalization and Sustainability", 2022

The optimized management approach

Operational corporate performance management – as a key management tool – serves to implement the corporate strategy. It is fundamental to the company's success, enabling it to stay ahead of the competition through faster and better decision-making.

Five elements characterize modern corporate performance management: business partnering, speed, transparency, expressiveness, and flexibility. Business partnering provides management with guidance and support when weighing and making decisions. Decisions need to be made quickly and correctly, preferably before the competition. This requires transparency in terms of the management direction and alternative decisions. Simulation- and scenario-based management are the operative words here. This approach allows information and values to be integrated along the value chain. In addition, it makes the impact of any changes in raw material prices on cash flow transparent. In addition, management direction should not only be identified at an early stage – the origin must also be clear. Meaningful cockpits, dashboards, and driver trees are thus required to identify operational drivers of financial performance metrics, and to respond quickly. Ultimately, flexibility plays a key role in the management model. This is the only way to ensure that new business models and changing management requirements (such as: "sustainability") can be easily integrated.

> The management approach is not constant, but rather evolving. Departments and divisions need to be more closely integrated, more interactive, and more intelligent.

The business transformation must always be based on a coherent corporate performance management concept. Each process or transaction generates important information in terms of operational management. This information must be made available to allow the driving forces to be identified and their impact predicted. This conceptual management model includes core elements as depicted in figure 2. In the context of the finance transformation, the management model is of fundamental importance since all the other areas involved in the transformation must be aligned with it. The transactional processes must also be based on it, as they generate the data and information required by management.

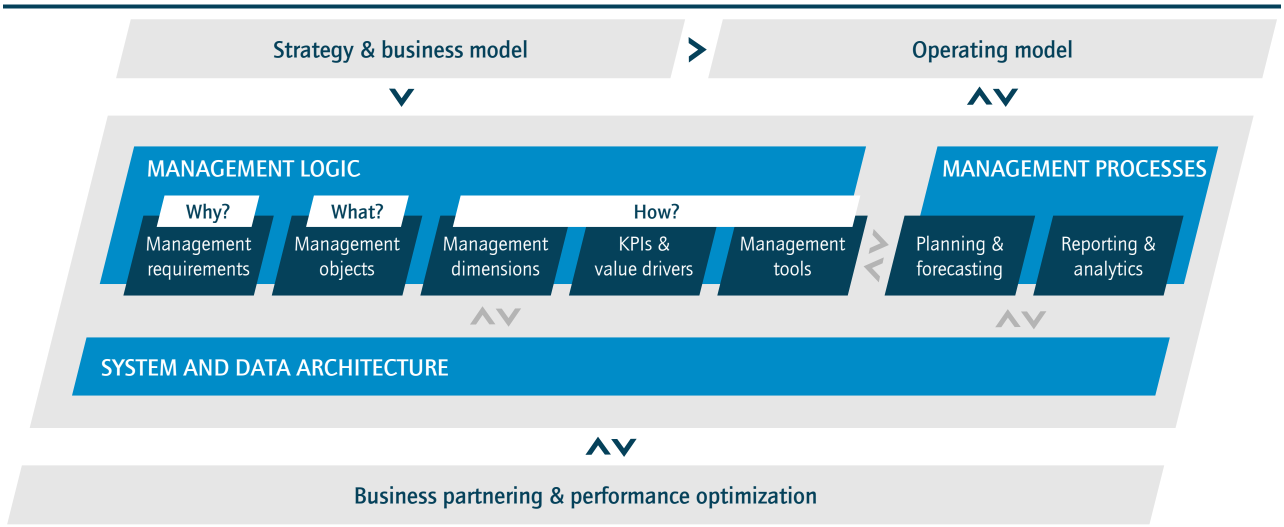

Fig. 2: Horváth's management model – from the strategy itself to anchoring it in processes

Increased efficiency thanks to process transformation

Automation is a critical aspect with regard to the finance transformation. A fully automated finance function remains a vision for the future. However, to get started on the right track, the following points should be considered:

1. Mindset: A high degree of automation requires the right mindset. Employees and managers must be convinced of the rationale and the benefits. Automation should not be viewed as a threat, but rather as an opportunity.

2. Process orientation: Automation runs along the respective process chains. Tasks at the end of the process can only be automated if the prerequisites for this are created at the beginning of the process. For example, an invoice without a purchase order reference and/or goods receipt cannot be released automatically.

Automation is therefore cross-functional. Functions and departments that automate processes within their own boundaries do not necessarily contribute to automating the overall process. In some cases, a functional focus may even result in departments optimizing themselves at the expense of others. Departments and divisions must therefore be more closely interlinked and work together.

3. Technology: To create a stable technological basis for automation, attention should be paid to the following points:

- Platform approach: End-to-end automation along process chains requires the interaction of different systems and modules. The more these systems and modules are based on a uniform platform, the deeper the technological integration at the handover points in the process flow will be. Automation is thus simplified.
- Release capability: An effective release capability should be ensured with regard to the IT architecture and the approach to automation. New releases should not jeopardize the functionality of automated processes. In-house developments or vendors that cannot integrate new releases into their own solutions in a timely manner should be avoided.
- Maintainability: Technological know-how will continue to gain in importance in companies in general and finance organizations in particular. Companies should build up sufficient internal expertise to enable their own personnel to operate the system environment. Through cloud and SaaS offerings, the focus will increasingly be on mapping specialized processes and requirements in the technical systems, and less on the mere administration of hardware and software.

> Transformation requires methodology, structure, and governance – and above all, a conscious focus on value realization.

The impact of the process transformation will not only affect the financial function, but also the company as a whole. In this context, the governance role will need to be significantly strengthened – this applies above all to the finance organization. Through appropriate governance it must ensure that the standards and rules underlying automated processes are defined, implemented, and ultimately adhered to. Effective governance will therefore also be important to safeguard the progress resulting from the completed transformation of the finance function.

Currently, however, there are still limits to the use of automation outside of transactional processes. Assessing new accounting standards, working with auditors and tax auditors, monitoring and controlling systems and tools, meeting internal compliance requirements, as well as investor relations and business partnering – while these are all areas of finance that cannot and should not yet be automated to the maximum possible extent, they would nevertheless all benefit from greater technological support.

Overall, it can be said that the trend toward automation will affect the entire company and change organizational structures and role profiles. The importance of group-wide governance will increase considerably, global process-owner structures will become the norm, and center-of-excellence structures that are designed to bundle specialist expertise will increase. Overall, the centralization of tasks within the organization will increase, for example in the form of virtual shared service centers.

> New role profiles are emerging in finance organizations. Generalists with a broad understanding of processes, a good organizational overview and IT knowledge will be just as important as specialists with in-depth expertise in accounting, tax, and technological topics.

In addition, the increasingly process-oriented line organization is being supplemented by agile organizational components. Within the latter, teams are set up across functions and departments to continuously improve and automate existing processes. This may involve realizing new functional requirements as well as the consistent implementation of technological innovations to further increase the degree of automation.

These agile teams must be equipped with the necessary expertise and decision-making authority. The development of these organizational structures should be pushed forward as an ongoing, albeit periodically re-formed, component. Companies can thus respond faster and more flexibly to disruption and are geared towards continuously strengthening their competitiveness. The resources required for these teams should be created via the higher degree of automation and the capacities that this frees up. These agile teams will continue to drive automation – this is also necessary because new technologies are coming online ever faster, not least due to the understandable trend toward the cloud.

The sustainability megatrend

It is increasingly common that sustainability is now included in corporate performance management. According to Horváth's CFO study, the majority (60 percent) of financial executives already view sustainability as one of the key challenges for corporate success. In the coming years, this dominant issue will become an innovation and investment factor.

CFOs are ideally situated to drive the issue of sustainability within the company and navigate the emerging complexity of ESG reporting requirements. After all, they already have the necessary expertise to compile and orchestrate relevant information and present the data to senior management in a manner conducive to effective decision-making.

> Sustainability has the potential to transform the company. The CFO is a key stakeholder in this context.

Often, the issue of sustainability only comes to light in the context of external reporting obligations (example "EU taxonomy"). Many companies must comply with this and are therefore aligning their processes accordingly. In addition to external reporting requirements, however, it is becoming increasingly important for companies to establish internal sustainability guidelines as well. In this way, sustainability is becoming intrinsically linked to the company's success. Companies should address this as early as possible to ensure they are prepared for the future importance of this issue.

As an example, any additional costs incurred as a result of carbon credit programs must be included in the profit and loss statement – as well as in product development and costing. Sustainability will therefore be reflected even more strongly in the company's internal processes for obvious reasons.

For example, switching suppliers with the aim of sourcing input products and materials locally may result in higher purchase prices but lower transportation costs. CO_2 emissions in the value chain will decrease and create advantages in terms of emissions trading. In addition, these effects will be positively reflected in terms of marketing and sales promotion.

In addition to the costs in terms of hard currency, the non-financial effects with an indirect impact on the company's success must also be a component of the corporate performance management. In this way, the topic of sustainability is comprehensively mapped within the company. This includes socially relevant measures such as climate action (zero emissions), circular economy (zero waste) and social responsibility (zero inequality).

All key figures must therefore be consolidated in an overall management system and in the internal and external reporting process.

Fig. 3: Sustainability must be viewed holistically and integrated into corporate processes.

Incorporating sustainability aspects into the internal corporate performance management is key to the company's success. Sustainability refers to stable value chains and social responsibility. Sustainable operations also influence the company's reputation and have a positive impact on its value. The prerequisite is that sustainability management permeates the entire company. It is not limited to environmental aspects but also encompasses the other ESG parameters (ESG: Environmental, Social, Governance).

The cloud as an enabler for standardization

In terms of the finance transformation, the cloud plays a key role. It serves as a catalyst for the standardization of processes and is thus an essential vehicle for increased efficiency and ongoing innovation. The CFO is once again in a position to set the pace. After all, standardization, automation, release capability, scalability, and security in critical business processes are topics that are already anchored in the finance function in any case.

Continuous change and rapidly occurring, disruptive events must find echoes in the company's orientation and structures. All of this requires a platform that is designed to scale flexibly and connect systems flexibly via standardized interfaces and processes. This, in turn, enables greater agility and thus the ability to quickly adapt to changing requirements in terms of process or management models.

By using the cloud services of major providers such as SAP or Google, companies can also ensure significantly higher IT security standards. Ultimately, sensitive data originating from finance organizations must be protected in the best possible way. Cyber threats and hacker attacks have increased significantly and are among the major threats of our time. Securing one's own servers is therefore increasingly becoming a challenge, as shown by countless security breaches across a wide range of industries. The resources needed for effective data protection are enormous, and the cloud offers solutions for this. But the path to the cloud is not a foregone conclusion, but rather a means to an end in terms of achieving the transformation goals and tackling this issue with a clear methodology. It is also worth noting that with the increase in cloud usage, a new set of cost accounting and budgeting challenges are emerging as companies attempt to deal with increasingly complex usage based cloud pricing models.

A methodical approach to change

A successful and systematic transformation of the finance function depends above all on the right method. Horváth has summarized the experience gained from successful transformation projects in our Finance Integration Template®. This is underpinned by a methodology that aligns all areas within the transformative spectrum. This starts with the management model, is integrated into the data model, and drills right down to the posting logic for individual business transactions as part of an end-to-end process model. For example, predefined document templates are used to ensure that the transactional processes provide crucial accounting data in terms of managing the company. Besides ensuring an effective approach to the project, there are also other guiding principles that CFOs should follow:

- **Keep your eye on the prize:** Create transparency and clarity in the organization regarding the goals to be achieved through the transformation. In the course of the ongoing transformation, there should no longer be a discussion about "why", but only about "how".
- **The right mindset:** The finance transformation is a marathon, not a sprint. A lot will change and there are many opportunities in this process if everyone pulls together. Executive management should act as an anchor for the defined transformation goals within the company.
- **The transformation never stops:** Technologies, methods, and requirements are constantly evolving. The finance transformation acts as a catalyst for continuous process improvement, even after the transformation project has been completed.

Conclusion

The financial transformation must be understood as an ongoing journey. It is no longer a question of if, but also when and how. The goal is continuous improvement towards greater intelligence, standardization, end-to-end process orientation, automation, and agility. In addition, the issue of sustainability will become increasingly prominent and have an impact on corporate success. CFOs should recognize and embrace their role as a driving force behind the business transformation. They are an important innovator and an interface for all stakeholders.

There is a predefined path to the cloud. This paves the way for continuous improvement once the feat of the initial transformation has been accomplished. CFOs who start the transformation process now should have no need to repeat the same journey ten or fifteen tears down the line. The aim is to safeguard what has been achieved and continuously build upon it. Both the standardization of processes and the cloud provide the necessary basis for this. The management model serves as the guiding star with which the respective processes, organizational models, and technology are aligned.

The Finance Function 2025+ comprises the following six points:

- An integrated and flexibly expandable management and information model.
- The realization of predictive and scenario-based management with the ability to simulate change on a granular and end-to-end basis.
- A high level of automation, especially in end-to-end transactional processes.
- A differentiated overall strategy for the use of artificial intelligence in management, risk management, and process automation.
- Scalability, release capability and maintainability through a high degree of standardization and a focus on the cloud.
- Modernized organizational and role models with a focus on governance, virtuality and agility, as well as continuous improvement.

Do you want to successfully transform your finance organization? We would be delighted to support you in this endeavor.

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About Horváth

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Our specialists support companies and top executives with extensive competence in business models, organizational structures, processes and systems to successfully align their organizations for the future. We combine passion and effective implementation to turn change into success across whole companies, in individual business areas or in functions such as sales, operations, procurement, controlling & finance, HR and IT. Horváth stands for project results which create sustainable benefits and value. That is why our consultants accompany their customers from the business management concept and anchoring in processes and systems through to change management and training of managers and employees.

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