CFOs IN THE DIGITAL AGE

MODERN FINANCE BEST PRACTICES

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02 EXECUTIVE SUMMARY

04 REPORT AND COMPLY BEST PRACTICES

06 MEASURE AND RESPOND BEST PRACTICES

08 PLAN AND PREDICT BEST PRACTICES

09 PROCURE TO PAY BEST PRACTICES

10 PROJECT FINANCIAL MANAGEMENT BEST PRACTICES

12 CHANGE MANAGEMENT BEST PRACTICES

14 RETURN ON INVESTMENT (ROI) BEST PRACTICES

15 CONCLUSION: MASTERING DIGITAL TRANSFORMATION

16 CONTACTS

18 ACKNOWLEDGEMENTS

Executive Summary : The Modern Finance Organization

Modern CFOs are embracing their role as business catalysts and technology evangelists skilled in identifying organizational needs and partnering with other lines of business to support process excellence, better operational performance, and innovation. Indeed, Gartner's 2014 CFO Technology Imperatives survey results reflect the stronger role CFOs have over technology decision-making, with roughly 50 percent of CIOs and CTOs now reporting directly to the CFO, while another 25 percent have a dotted-line relationship.[1]

Yet finance organizations are often the last to digitize operations, taking a back seat to customer engagement, sales, and marketing. In McKinsey's 2014 Global Survey on digitization, executives reported that the largest share of their digital growth in the coming years will come from digital customer engagement, and their digital spending patterns reflect that focus. Automation of the back office ranked lowest, even though automation may significantly help businesses in sectors that are undergoing digital disruption by lowering customer transaction costs and boosting the bottom line.[2]

Oracle Vice Chairman Jeff Henley notes that organizations must recognize the value of a holistic approach to digital transformation that can drive both operational savings and the flexibility needed to change business models or shift in and out of markets quickly.

To begin that journey, CFOs must first estimate the value that is at stake. McKinsey recently calculated the impact of digitization on competitiveness, and found that industry leaders who have embraced digitization across the entire enterprise have revenues, profit margins, and stock prices 20 to 30 percent higher than digital laggards—not to mention a potential 50 percent increase in bottom-line benefits over a five-year period.[3] Throughout the digital transformation, CFOs must also drive cultural change by understanding what digital skills are needed for Finance to thrive in the Digital Age, then use KPIs or digital scorecards to benchmark progress and measure value creation.

> "Our strategic objective was to revamp our systems to be able to have real-time data, which we will get with our ERP and planning and budgeting cloud solutions. I'm going to be able to change my people from score keepers to valued business partners who will look at that data and be able to do the financial analysis that we weren't able to do before because we didn't have the data."
>
> —Keith Kravcik, EVP and CFO, Ovation Brands

[1] "The CFO's Technology Imperatives," FERF Issue Alert, 2014.
[2] McKinsey & Company, "The Digital Tipping Point," McKinsey Global Survey, April 2014.
[3] Willmott, Paul, "Finding Your Digital Sweet Spot," McKinsey Quarterly, Fall 2013.

Modern Finance in the Digital Age is a research report by Oracle in collaboration with Financial Executives Research Foundation (FERF). The report explores the new finance best practices CFOs are adopting in the Digital Age to create modern finance organizations which are better equipped to support more agile, technology-enabled business models and stronger C-suite collaboration. (The full report is available from the Oracle Website)

The research was shaped by in-depth interviews with leading CFOs, finance executives, and third-party experts from across all major global geographies. Result of these interviews describe the "best practices" provided by these "modern CFOs," who were interviewed on five key processes critical to any finance function:

- Report and Comply
- Measure and Respond
- Plan and Predict
- Procure to Pay
- Project Financial Management

Report and Comply Best Practices

The following best practices were provided to help modernize the Report and Comply process:

1. Adopt a modern, technology-enabled close process
2. Speed "right-time" decision-making using standardized processes and a strong data governance model
3. Leverage the cloud strategically to modernize finance

#1 BEST PRACTICE

Adopt a modern, technology-enabled close process

Although the close process may not rank at the top of C-suite priorities, smart finance executives know that a well-designed, technology-enabled close has become a critical best practice by which modern CFOs and their teams are measured. To become world-class, finance organizations need to evolve from a traditional close process in which the steps are sequential, to a modern, more strategic close that allows CFOs and their finance teams to perform key functions in parallel during the close process.

#2 BEST PRACTICE

Speed "right-time" decision-making using standardized processes and a strong data governance model

What sets apart today's market leaders is "right-time decision-making"—providing the right information to the right decision-makers at the right time. It isn't just about having any data at your fingertips, but having real-time data at the right time, whether you are a retailer evaluating credit risk at the point of sale, a bank evaluating credit risk during the loan origination process, or a B2B exchange trying to determine the profitability of a relationship with a specific customer during an online transaction.

"Data governance should definitely be on every CFOs agenda. In my experience, poor data governance is one of the key reasons why ERP implementations fail. I made strong data governance one of the foundations of SITA's Strategic Finance Systems (SFS) initiative, simplifying our chart of accounts down from 8,500 to 500, streamlining processes, and cleaning up the master data to ensure that our transformation project would be successful."

—Colm O'Higgins, CFO, SITA

#3 BEST PRACTICE

Leverage the cloud strategically to modernize finance

According to Gartner's 2014 CFO Technology Imperatives survey, 81 percent of respondents forecast a move to the cloud for more than 50 percent of their future transactions, including a number of financial applications.[4] Modern CFOs are increasingly turning to cloud-based financial management systems to replace legacy ERP systems, consolidate far-flung subsidiaries or business units, and deploy new functionality to complement on-premises systems. Using the cloud enables CFOs to redeploy the capital they save on IT maintenance and hardware to fund new business opportunities, and reassign IT staff to work on technology-led innovations.

[4] Van Decker, John, "Survey Analysis: Critical CFO Technology Needs: 2014 Gartner FEI Study," June 23, 2014.

Measure and Respond Best Practices

The following best practices were provided to help modernize the Measure and Respond process:

1. Leverage big data and predictive analytics to continuously refine and test your business model and value proposition with customers
2. Ensure that everyone is making decisions based on the same source of high-quality data
3. Invest in the right design to deliver information to decision-makers

#1 BEST PRACTICE

Leverage big data and predictive analytics to continuously refine and test your business model and value proposition

Organizations that are most effective in delivering company performance and enterprise value are allocating their capital to growing business models that serve today's empowered and digitally-connected consumers. Digitally-savvy CFOs not only own the business model, but continuously test and refine it using all sources of data at their disposal.

#2 BEST PRACTICE

Ensure that everyone is making decisions based on the same source of high-quality data

Establishing a common finance language across the enterprise based on common systems, common data, and common processes allows management and line-of-business executives to reference the same data for analysis and decision-making.

"Being able to combine twenty different data sources into one dashboard has given us the means to identify and push higher margin products, leverage detailed regional feed and crop protection data to further drive sales, and also correlate marketing initiatives along with that sales performance."

— Dan Knutson, EVP and CFO, Land O' Lakes

By using a common language and data source, only then can CFOs get a jump on understanding the changes that will occur in profitability and the opportunities and threats that they have to either help enhance profitability or mitigate risk going forward.

#3 BEST PRACTICE

Invest in the right design and platform for delivering information to decision-makers

When it comes to best practice, Gartner recommends that it would be a "good move" to include the CFO in any mobile device deployment strategy, to help determine which applications should be supported and which employees should be allowed access to confidential finance information and analytics.[5] The mobile versions of reports for example, are often mash-ups of a printed report that don't translate well to the screen and don't offer the kind of detail that the decision-makers consuming the data need. CFOs and their teams need to rethink mobile data delivery—drawing the decision-maker's attention to the relevant information, not simply slapping a facsimile of a printed report onscreen. Filtering and synthesizing the data appropriately is the goal.

[5] Van Decker, John, "Survey Analysis: Critical CFO Technology Needs: 2014 Gartner FEI Study," June 23, 2014.

Plan and Predict Best Practices

The following best practices were provided to help modernize your Plan and Predict process:

1. Replace complex spreadsheets with modern planning applications
2. Drive planning across the enterprise, and exploit the "wisdom of crowds"
3. Adopt driver-based rolling forecasts

"We've experienced double-digit growth over the past seven years, but were limited to what we could do with Excel. We want to speed up the planning and budgeting process, and adopt a rolling forecast model to run scenarios more quickly and ensure that we continue to provide a cost-effective service to our consortium members that operate across Brazil."

—Marcelo Gomes de Oliveira, CFO, Tecban

#1 BEST PRACTICE

Replace complex spreadsheets with modern planning applications

Finance needs modern, packaged planning applications that get away from disconnected spreadsheets and support users in the ways they work. Look for modern functionality, such as mobile and social collaboration that makes it easy for business users to interact and provide input. If the planning application is fully integrated with office tools such as Microsoft Office or Google Office, it will allow users to work with the tools they need to get their jobs done more effectively and focus on the most strategic activities.

#2 BEST PRACTICE

Drive planning across the enterprise and exploit the "wisdom of crowds"

Driving planning across the enterprise can be enabled by modern, cloud-based applications with the latest embedded mobile and social technologies. Obtaining the input from line-of-business managers becomes much more feasible with a cloud-based model that can be easily and flexibly rolled out across the organization.

#3 BEST PRACTICE

Adopt driver-based rolling forecasts

To be truly agile, organizations need to be able to "plan at the speed of business," which means they always need to be ready to re-forecast and develop the new forecasts very quickly. Many organizations are reducing reliance on the annual budget and are leveraging best-practice methodologies such as driver-based rolling forecasts to keep pace with their business. Key operational metrics relevant for the operational plans are used as drivers to quickly calculate and allocate financial values, thereby reducing the need for time-consuming, detailed, input-based plans.

Procure to Pay Best Practices

The following best practices were provided to help modernize the P2P process:

1. Implement self-service procurement (eProcurement) to control off-contract spend
2. Streamline purchasing with digital technologies to gain visibility and control over spend
3. Automate payables with digital technologies to deliver touchless transactions

#1 BEST PRACTICE

Implement self-service procurement to control off-contract spend

Modern procurement systems provide a consumer-like user experience that enables employees to find what they need quickly and make their selections easily. Workflows built into the system route employee requisitions to their managers for approval, which can be enabled on a mobile device to save time, and send them on to the procurement department for the formal PO creation and issuance.

#2 BEST PRACTICE

Streamline purchasing with digital technologies to gain visibility and control over spend

Forward-looking CFOs are not only implementing digital technologies to gain visibility and control over their indirect spend, but are also using predictive spend analytics to make the procure-to-pay process even more strategic to the business. Using predictive analytics enables purchasing departments to get more involved with strategic spend; when they sit and talk with suppliers, they won't just use historical spend analysis but can bring future spend expectations to the table.

#3 BEST PRACTICE

Automate payables with digital technologies to deliver touchless transactions

For CFOs who need to modernize the P2P process, the cloud can often help address a specific pain point, whether that is around purchase invoice automation or providing a centralized point of control on indirect spend.

"With our procurement cloud solution and its integration with our financials cloud solution, it's going to be end-to-end. Nobody is going to touch the process; it is going to match and it is going to get paid because we already have the contract in place for our food. And we're going to scan the inventory coming in and verify it at the store, so it's even going to simplify what's done at the store level." —Keith Kravcik, EVP & CFO, Ovation Brands

Project Financial Management Best Practices

The following best practices were provided to help modernize the Project Financial Management process:

1. Use analytics to proactively monitor health of projects
2. Standardize processes and data to ensure single source of project truth across the enterprise
3. Deliver real-time information via mobile and social tools to facilitate decision-making and project success

#1 BEST PRACTICE

Use analytics to proactively monitor health of projects

Today's project-driven organization must embrace technology advances to successfully execute a project. Gone are the days of siloed projects, static reporting and a lack of visibility. In its place are collaborative and social project-management advances, real-time contextual reporting with role-tailored dashboards, and an enterprise perspective on executing and financially managing a project. The tools at the project financial management team and the project manager's disposal must incorporate these elements to allow organizations to take advantage of new project-management technologies and facilitate their incorporation for effective project delivery and reporting.

"With our new cloud-based project module, project owners will be able to use the dashboard to dial right in to the project and see what they have spent on labor or supplies. This will really give us better insight into our projects."

—Kristin Klingvall, Controller, California Academy of Sciences

#2 BEST PRACTICE

Standardize processes and data to ensure a single source of project truth across the enterprise

Today's project managers need real-time access to project performance based on live project transaction data, based on a single source of project truth and full project transparency for informed business decisions. The ability to share common definitions and project information across project owners saves time and enables better analysis, leading to better project performance.

#3 BEST PRACTICE

Deliver real-time information via mobile and social tools to facilitate decision-making and project success

Today's project manager must be a supreme communicator, with a broad working knowledge across multiple domains, including project financial management and execution management. The way that a project team functions has significantly changed as well. Newer mobile and social technologies make the process of information dissemination and team communications much more fluid, and mobile support is key, providing access for the hyper-connected "on-the-go" workforce of today.

Change Management Best Practices

"One of the things I always advise CFOs taking on large change management initiatives is that complexity is the killer of innovation and the more complexity you have in process, in systems, in organizations, in workflow, in how you make decisions, the more time and effort and money you'll spend on maintaining that complexity. That is why simplification is such a critical first step."

—Loren Mahon, vice president, global finance systems, Oracle; member, FEI Committee on Finance and Technology

The following best practices were provided to help drive change across your enterprise:

1. Secure an executive mandate for change, starting with the CEO
2. Simplify and standardize your environment as much as possible before embarking on a major transformation
3. Build expertise in creating a culture of change management

#1 BEST PRACTICE

Secure an executive mandate for change, starting with the CEO

Today, the CFO authorizes 29 percent of technology decisions, next to the CEO at 23 percent; while the CIO authorizes only five percent.[6] Even still, CFOs must secure the backing of the CEO and his or her executive management before embarking on any technology-led implementation, or the project could be at risk for failure.

[6] Van Decker, John, "Survey Analysis: Critical CFO Technology Needs: 2014 Gartner FEI Study," June 23, 2014.

#2 BEST PRACTICE

Simplify and standardize your environment as much as possible before embarking on digital transformation

The key to success is to adopt a systematic approach to business process transformation based on four key principles: simplify, standardize, centralize, and automate. Notes Oracle Finance Vice President Loren Mahon, "Automation for automation's sake isn't useful if the business process you are automating is broken. A better approach is to simplify the business process first, using the best process available; then standardize it globally using a global process owner; centralize it in a shared-services or center of excellence (CoE) environment; then automate it to drive adoption of self-service."

#3 BEST PRACTICE

Build expertise in creating a culture of change management

Analysts see a real need for CFOs to invest in creating a culture of change management that isn't just accepting of change, but leading it. That means thinking about how all employees use technology today to stay plugged into work from anywhere the job takes them. It also means identifying change agents both within finance and across the enterprise, and engaging them to drive business-led transformation.

Return on Investment (ROI) Best Practices

CFOs should consider the following best practices when seeking to calculate the ROI on their digital investments, while evaluating strategic outcomes qualitatively rather than quantitatively:

1. Use predictive analytics instead of lagging indicators to rethink ROI on digital technologies
2. Consider a more focused ROI analysis
3. Look at strategic outcomes rather than just operational improvements to assess how digital technologies impact the business

#1 BEST PRACTICE

Use predictive analytics instead of lagging indicators to rethink ROI

Business is changing so quickly that backward-looking assessments of ROI can't adequately capture the entire value of an investment in digital technologies. Instead, CFOs should consider taking a forward-looking view, using predictive analytics to better understand what your enterprise or organization will look like in the future as a consequence of your investment in a cloud application or big data tool.

#2 BEST PRACTICE

Consider a more focused ROI analysis

With cloud deployments increasingly focused on addressing strategic pain points, CFOs should consider a more focused ROI analysis as well. Look at a specific application area or functional area or process area and measure the return in that very specific area with a very specific strategic outcome. With the cloud, projects are becoming smaller and more targeted, and thus become easier to measure for ROI purposes.

#3 BEST PRACTICE

Look at strategic outcomes

Based on this research's CFO interviews, strategic outcomes should be considered when evaluating the return on investment in digital technologies. Our research points to the more flexible allocation of resources as processes are automated and streamlined, as well as the ability to attract and retain talent using the latest social, mobile, and analytical capabilities.

> "Purchasing will be involved a lot more in terms of strategic spend. That is critical in terms of where we are seeing the business 18 months out, when my teams are sitting and talking with suppliers. It's not just a historical spend analysis but its bringing future spend expectations to the negotiating table."
>
> —Colm O'Higgins, CFO, SITA

Conclusion: Mastering Digital Transformation

To succeed in the Digital Age, CFOs and the organizations they lead must recognize the value of a holistic approach to digital transformation that can drive both operational savings and the flexibility needed to change business models or shift in and out of markets quickly.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations which are better equipped to support more agile, digitally-enabled business models and stronger C-suite collaboration.

Today's modern CFOs also recognize the need for new rules to measure, manage, invest and report on changing sources of corporate wealth, and thus are embracing new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation not just in finance but across the enterprise are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to ultimately assume a greater leadership role in their organizations.

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Click Here to download the full research report and get exclusive access to the best practices and insights you need to modernize finance and master digital transformation at your organization.

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 ISBN: 978-1-61509-179-9.

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Acknowlegements

Thanks to all participants and to the following individuals in particular for their time and insight (listed alphabetically, by organization):

+ David A. Axson, managing director, Accenture Strategy, Finance & Enterprise Performance (US)
+ Les Stone, managing director, Accenture Strategy, Finance & Enterprise Performance (US)
+ Peter Hovenier, CFO, Boingo Wireless (US)
+ Kristin Klingvall, controller, California Academy of Sciences (US)
+ David Pleasance, senior partner, Deloitte Consulting LLP (US)
+ Drew Scaggs, principal, Deloitte Consulting LLP (US)
+ Clare Swindell, group finance director, dunnhumby (UK)
+ Gary Simon, group publisher, managing editor, FSN Newswire (UK)
+ Gebhard Rainer, former EVP and CFO, Hyatt Hotels Corporation (US)
+ Ken Judd, CFO, Keste, Inc. (US)
+ Dan Knutson, EVP and CFO, Land O' Lakes (US)
+ Fabio De Felippis, financial controller, Nufarm S.A. (Argentina)
+ Keith Kravcik, EVP and CFO, Ovation Brands (US)
+ Loren Mahon, vice president, global finance systems, Oracle Corporation (US)
+ Corey West, SVP, corporate controller, and chief accounting officer, Oracle Corporation (US)
+ Colm O'Higgins, CFO, SITA (Switzerland)
+ Anders Lilja, CFO, Skanska Sweden (Sweden)
+ Marcelo Gomes de Oliveira, CFO, Tecban (Brazil)
+ Allan Tait, vice principal and CFO, University of Melbourne (Australia)

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