IDC PERSPECTIVE

How to start the transformation and change adventure

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SITUATION OVERVIEW

Many of you have embarked on a transformation journey. According to the recent *CFO Leadership Council Finance Transformation Survey*, 16% of respondents indicated they had not initiated this journey due to resource constraints and awaiting other company changes. The truth is, there may never be a perfect time to embark on change, but sometimes are more favorable than others – for example, avoiding major initiatives during a merger and acquisition activity or year-end close.

Among the surveyed CFOs, a significant 84% reported having already commenced their finance transformation efforts but encountered challenges along the way. These challenges included resource limitations, resistance to change, integration difficulties, and handoff issues. Additionally, budget constraints emerged as a hurdle, particularly concerning system upgrades due to the increased costs associated with both systems and implementation labor. These constraints and concerns are commonplace in transformation initiatives.

To navigate this journey successfully and with minimal turbulence, it is crucial to be an organized, resilient, and communicative leader. There are three key areas that require attention: documentation, system and process requirements, and people/culture.

Get Organized: What's Important to have before starting?

Questions to start with:

A solid starting point is to allocate time for reflection on both past and current circumstances. This introspection will serve as the foundation for defining the parameters of scope and expectations, ultimately becoming a valuable tool for effective communication with your team, peers, and management. Below, you'll find a set of questions designed to aid in comprehending strategies, vision, scope, and communication in the context of finance transformation and technology changes:

- What problems are you seeking to address, and why? Consider factors such as compliance, overtime, burnout, retention, faster reporting, and quicker access to insights.
- How does this initiative benefit you personally and professionally? Think about how it simplifies specific tasks (e.g., X becomes easier), reduces the need for oversight in certain areas (e.g., less oversight of Y), and enhances your ability to gain valuable insights.
- What advantages does this transformation bring to your employees and team members? Explore the benefits they'll experience and the positive changes in their work environment. Explain what's in it for them and why their support is vital for the success of the change.

- What existing documentation is available? Consider policy documents, records information management, process documentation, and other relevant materials.
- What business architecture maps and system maps does IT possess? Determine the information already at IT's disposal regarding the finance function.
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It's essential for you and your key leadership team within the finance department to collaboratively address these questions. By harnessing diverse perspectives, you can establish a clear scope and prioritize objectives, which will serve as the foundation for transparent communication with your team. Engaging in this preparatory work will demonstrate your commitment to the transformation, reinforcing your team's confidence in your investment in change.

Documentation:

Having comprehensive documentation within any finance department serves multiple purposes. It not only aids in training and auditing but also plays a crucial role in facilitating process changes and gaining a holistic understanding of your finance department's operations. A productive starting point is to review existing written financial policies, desktop procedures, or training materials within the finance department. If such documentation is lacking, consider allocating a day or two for your employees to document their daily, weekly, monthly, and yearly tasks. This documentation serves as the foundation for comprehending the scope of operations and identifying Subject Matter Experts (SMEs) within specific process areas.

During the documentation process, encourage your team members to articulate their pain points and frustrations related to their respective processes. It's essential to ensure that they are not burdened with this task during their "free time" as most of them may not have any. Designate specific blackout days for these efforts, referring to them as "offsite" days for the business partners. Provide them with a template or a structured questionnaire to facilitate their documentation. Encourage them to be as detailed and open as possible when sharing their pain points.

If you suspect that the trust relationship within the team might hinder open and honest feedback, consider identifying a trusted individual within your organization who can manage and receive this information. The documentation gathered will prove invaluable in understanding the upcoming changes and will be instrumental in effective change management during the implementation phase. Subject Matter Experts can provide valuable insights into the root causes of issues and identify process bottlenecks. If you haven't been closely involved in the processes, you may be surprised by the daily efforts your team puts in to accomplish their tasks.

Drafting process pain points involves the identification and detailed description of challenges, problems, or inefficiencies within a specific process. Notably, about 93.5% of CFOs in the "*CFO Leadership Council finance transformation survey"* recognized the need for process improvement in the "Plan to Perform" area. This is not surprising since it's the domain from which they derive critical insights to guide the organization's financial goals and operations. However, it's crucial to recognize that there are other end-to-end processes like Source/Procure to Pay, Close to Report, and Offer/Order to Cash, which are interconnected with the Plan to Perform process. Plan to Perform often receives data and outputs from these processes, so it's possible that issues impacting Plan to Perform may originate elsewhere. Nevertheless, here's an example to illustrate the process of drafting pain points:

Pain Point: Inaccurate Forecasts

Category: Accuracy

Description: The forecasting models used in the Plan to Perform (PL2P) process are producing inaccurate predictions of future revenues and expenditures, leading to significant variances between forecasted and actuals.

Impact: The inaccuracies in forecasting are causing misallocation of resources, operational inefficiencies, and missed opportunities. It is also affecting strategic decision-making and causing uncertainty about future financial performance.

Frequency: The inaccuracies have been observed consistently over the last four quarters, indicating a systemic issue in the forecasting process.

Possible Cause: The potential causes for inaccurate forecasts may include outdated forecasting models, use of incorrect or outdated data, lack of consideration for external market factors, or insufficient involvement of relevant stakeholders in the forecasting process.

<u>Proposed Solution:</u>

Review and Update Models: Conduct a comprehensive review of the forecasting models used and update them to ensure they are reflective of current market conditions and business realities.

Improve Data Quality: Ensure that the data used for forecasting is accurate, up-to-date, and relevant. Implement data validation checks and address any data quality issues promptly. Look into data cleaning project.

Stakeholder Engagement: Involve relevant stakeholders from different departments in the forecasting process to gather diverse insights and improve the accuracy of forecasts. Look at the inputs from other financial processes which would be their outputs.

External Factor Analysis: Regularly analyze external market factors, industry trends, and economic indicators that could impact the business and incorporate them into the forecasting models. Define what resources should be considered trustworthy external data sources.

Continuous Monitoring and Adjustment: Regularly monitor the accuracy of forecasts, identify any variances promptly, and adjust the models as needed.

<u>Additional Considerations:</u>

Training and Skills Development: Provide training and development opportunities for staff involved in the forecasting process to enhance their skills and knowledge. This could include CPE training courses or technology courses to learn a new skill in the forecasting area.

Technology Investment: Consider investing in advanced forecasting technology, such as predictive analytics and machine learning, to improve forecasting accuracy for plan to perform.

Performance Metrics: Establish performance metrics to measure the accuracy of forecasts and hold responsible teams accountable for continuous improvement.

Addressing this pain point can significantly enhance the efficiency of your financial forecasting processes, resulting in improved resource allocation, more informed decision-making, and enhanced organizational performance.

If you find it challenging to allocate time for your team to engage in process documentation, consider at the very least having them identify and articulate their pain points. To facilitate this, provide them with process maps, which can be sourced from open online resources, your financial auditing organization, or by consulting with a professional analyst. Instruct your team to align their pain points with specific elements on these process maps. Encourage them to be detailed in their feedback, avoiding vague statements like "it does x." Instead, prompt them to explain where information gaps exist, pinpoint handoff issues, highlight challenges related to receiving and processing data, and identify deficiencies in status check-ins or meetings. Also, encourage them to specify any output-related struggles, such as reporting systems taking too long (e.g., 30 minutes) to generate reports or manual data extraction from multiple systems. These are typically the areas that impede the process and reduce output accuracy.

Technology: Capabilities and Process Requirements

Business Architecture:

In an ideal scenario, the finance team would be supported by a dedicated business architect to assist in gathering necessary documentation and requirements. However, feasibility constraints may sometimes limit this option. A business architect is a seasoned professional who plays a pivotal role in shaping an organization's business processes, systems, and strategies to align them with overarching goals and objectives. The primary objective of a business architect is to bridge the divide between business strategy and its practical implementation within the organization. Here are key facets of a business architect's role: Strategic Alignment, Business Process Design, Business Capabilities Mapping, Technology Integration, Change Management, Data and Information Management, Risk Management concerning process and systems changes, Documentation and Communication, Continuous Improvement, and Stakeholder Engagement. This role assumes particular significance in large and intricate organizations where aligning diverse functions and systems with overarching strategy can be a daunting challenge.

A dedicated business architect focused on the finance function can be instrumental in ensuring the smooth progression of initiatives. This investment is especially valuable for the finance team, given the substantial leadership, documentation, and validation required while devising plans for process, systems, and tool enhancements, as well as their integration across the enterprise.

Recall the documentation that your team has already produced or has been tasked with providing desktop procedures, policies, identified pain points, and so forth. This documentation forms the bedrock of your requirements. It's crucial to determine how to translate your pain points into actionable requirements.

Documenting process requirements is indispensable for guaranteeing that a system or solution effectively addresses user needs and accomplishes its intended objectives. Three key elements come into play here: pain points, regulatory requirements/ filings (output), and capabilities. These elements serve as the keys to unlock the system's ability to go beyond sales pitches and truly assist you and your team in resolving challenges. If your company interacts with specific regulatory or governmental agencies, which mandate financial reporting or adherence to specific standards, make a comprehensive list. This list will empower you to inquire upfront with software vendors about their capacity to assist you in compliance, even though most financial and accounting systems should meet these requirements. Always consider validating this through direct conversation. Furthermore, if your system needs to handle currency requirements and currency exchange functionalities, make this an integral part of your discussions or Request for Information (RFI).

It's worth noting that 42% of respondents in *the CFO Leadership Council's finance transformation survey* expressed a desire for technology vendors to refrain from exaggerating their capabilities. While sales teams may not change their approach, you can steer the conversation by clearly articulating your specific needs and requesting demos focused on those requirements. Engaging in more demos allows you to ascertain whether the capabilities align with the operational needs of those performing the work or the reporting needs of the finance team. Often, during demos, you will have technology vendors, product managers, and system developers present. When your team poses questions, you can expect candid responses and visually assess whether the system aligns with the claims made by the sales team. Don't hesitate to ask probing questions and allocate more time on the calendar than you initially anticipate needing.

The decision-making process can move forward after at least three vendor demos have been received for a given capability. This number is chosen because it typically reveals variations, whether minor or significant, among the offerings of three vendors. Restricting the selection to just one or two demos might result in a perception that they are similar, but the introduction of a third option often brings fresh perspectives. In selecting technology vendors, consider a mix that includes one with a well-established name and presence in the market, one that is newer but highly rated, and one that falls in the middle to upper tier in terms of ratings. Prioritize ensuring that all three align with your capability and functionality requirements through thorough internet research, discussions with peers, and engagement with IT or sales teams.

For context, think about the process of hiring contractors for home repairs or upgrades as a homeowner. In such cases, extensive research and consultations with multiple contractors are common practice. Similarly, this diligent approach should be applied when vetting software solutions.

Capabilities:

Capabilities encompass the fusion of people, processes, tools, and knowledge that empower an organization to act in a synchronized manner to achieve its objectives. Documenting the specifics of these capabilities serves as the foundation for creating a scoring template, ranging from 0 to 5 (where zero signifies non-compliance and five denotes exceptional performance). This template equips the team to evaluate the system demonstrated by the technology vendor comprehensively. Subsequently, subject matter experts (SMEs) and team members who recorded their scores can submit them to a designated central coordinator, who will compile a recommendation based on the evaluation team's input.

A capability, in essence, signifies an organization's proficiency and capacity to execute a specific type of task or activity effectively and efficiently, often culminating in a defined outcome.

Here's a structured way to define a capability:

1. Name or Title: Assign a clear and descriptive name that reflects the essence of the capability.

2. Purpose or Objective: Define the primary purpose or objective that the capability aims to achieve. Identify the specific outcomes or results expected from exercising the capability.

3. Components:

People: Identify the skills, roles, and competencies needed.

Processes: Outline the key processes, activities, or workflows involved.

Tools/Technology: Specify the tools, technology, or equipment required.

Knowledge/Information: Highlight the knowledge, information, or data needed.

4. Performance Indicators: Define Key Performance Indicators (KPIs) or metrics used to measure the effectiveness and efficiency of the capability.

5. Interdependencies: Identify any interdependencies or relationships with other capabilities or functions within the organization.

6. **Value Proposition:** Describe the value the capability brings to the organization. Highlight how it contributes to achieving organizational goals or competitive advantage.

7. Maturity Level: Assess the maturity level of the capability. Identify areas for improvement or development.

8. Resource Requirements: Outline the resources (human, financial, technological) required to develop, maintain, and enhance capability.

Example of a Plan to Perform Capability:

1. Capability Name: Financial Forecasting

2. Purpose or Objective: To predict the future financial outcomes of an organization based on historical data, current market trends, and various assumptions. This capability aims to aid strategic planning, risk management, and resource allocation, thereby facilitating informed decision-making and ensuring financial stability and sustainability.

3. Components:

People:

Financial Analysts: Conduct the financial forecasting process, analyze data, and prepare forecast reports.

Business Unit Heads: Provide insights on unit-specific data, assumptions, and expected future activities.

Data Scientists/Statisticians: Apply statistical methods and models to improve forecasting accuracy.

Senior Management: Utilize the forecasts to make strategic decisions and provide overall guidance.

Processes:

Data Collection: Gather historical financial data and relevant external market data.

Assumption Setting: Define key assumptions regarding market conditions, business activities, and economic factors.

Model Selection & Development: Choose and develop appropriate forecasting models based on the nature of the forecast and available data.

Scenario Analysis: Develop different forecasting scenarios based on varying assumptions and conditions.

Validation & Refinement: Validate the forecast against actual outcomes and refine models and assumptions accordingly.

Tools/Technology:

Forecasting Software: Employ specialized software tools for developing and running forecasting models.

Business Intelligence Tools: Utilize BI tools for data visualization, reporting, and analysis.

Spreadsheet Software: Use spreadsheet programs (e.g., Microsoft Excel) for data organization, analysis, and preliminary modeling.

Databases: Maintain databases for storing historical financial data and relevant external data.

Knowledge/Information:

Historical Financial Data: Leverage past financial performance data as a basis for forecasting.

Market Trends & Economic Indicators: Consider current market conditions, economic indicators, and industry trends.

Organizational Strategy & Plans: Incorporate the organization’s strategic plans and objectives into the forecast.

Risk Factors: Identify and assess various risk factors that could impact financial outcomes.

4. Performance Indicators:

Accuracy: Measure the accuracy of forecasts by comparing them with actual financial outcomes (actuals).

Timeliness: Assess the timeliness of forecast delivery to ensure its relevance for decision-making (start to finish).

Adaptability: Evaluate the ability to adapt forecasts to changing conditions and assumptions.

Usability: Gauge the ease of use and interpretability of the forecast by the end-users (management, stakeholders).

5. Interdependencies:

Strategic Planning: Financial forecasts inform and are informed by the organization’s strategic plans.

Budgeting: Forecasts are a crucial input for the development of organizational and departmental budgets.

Risk Management: Financial forecasting helps identify and assess financial risks and uncertainties.

Operations & Sales: Operational and sales activities and plans significantly impact financial forecasts.

6. Value Proposition:

Proactive Decision-Making: Enables management to make proactive decisions based on future financial expectations.

Risk Mitigation: Helps identify potential financial risks and uncertainties, allowing for early mitigation strategies.

Resource Optimization: Aids in optimal allocation and utilization of organizational resources.

Strategic Alignment: Ensures alignment of operational activities and initiatives with financial expectations and strategic objectives.

7. Maturity Level:

Advanced: Utilization of sophisticated forecasting models, continuous refinement based on feedback and accuracy assessment, and integration with strategic decision-making processes.

8. Resource Requirements:

Investment in financial forecasting tools and software.

Training and development for staff in forecasting techniques and model development.

Continuous monitoring and refinement of forecasting models, assumptions, and data sources.

This capability definition provides a comprehensive view of how Financial Forecasting is structured, the value it brings to an organization, and the resources and components required to execute it effectively. This can be used to understand the importance of the process but also what is important when dealing with and getting a demo from a technology vendor. It will enable you to focus on what is important in the process, including who you will need to bring along in the demo discussions. SMEs are good at asking questions to technology vendors to see what the art of the possible are with the system.

Once you and your team either have one area or all your finance department capabilities documented then you will need to prioritize what capabilities are more valuable to change and invest in as a starting point. Prioritization can focus on things like resource constraints like turnover, training, retirements or unavailability skills in the market, system obsolescence, Data insights, etc. Ensure to document the priorities and why they have been ranked in an order. This will help you down the road when you need to communicate in and outside of your team.

People:

In a survey we conducted, known as the *CFO Leadership Council Finance Transformation Survey*, it was revealed that 32 CFOs identified the top two barriers to finance transformation as being closely tied to people-related issues. An overwhelming 77.4% pointed to resource constraints, while 48.4% cited resistance to change as significant challenges. Navigating changes in the way people work can indeed be akin to handling curve balls. Many finance professionals are experiencing burnout and change fatigue, making them apprehensive about the demands of transformation. A study conducted by Prosci discovered that 73% of organizations encountered resistance to change among their employees, with 39% reporting employee burnout as a notable challenge during periods of significant change.

For leaders embarking on a transformation journey, effective organization and communication are paramount. Recall the questions mentioned above, which can assist CFOs and finance leadership in getting organized. These questions can be invaluable when combined with the strategies outlined below to address and mitigate resistance to change:

1. Communicate Clearly and Transparently:

- Early Communication: Communicate about the change as early as possible.
- Clarity: Be clear about the reasons for the change, the benefits, and how it will affect employees.
- Consistency: Maintain consistent messaging across the organization.
- Feedback Loop: Encourage questions and feedback, and address concerns promptly.

2. Involve Employees in the Change Process:

- Participation: Involve employees in the planning and implementation of change.
- Collaboration: Encourage collaboration and idea-sharing across different levels of the organization.
- Empowerment: Empower employees to take ownership of the change.
- Time: Allocate time for them to be involved in the process, don't expect them to do it from the side of their desks.

3. Provide Adequate Training and Support:

- Training Programs: Offer training and development programs to equip employees with the necessary skills. This might include being open with your employees about signing up for classes hosted by professional associations or ones at a university. This will need time and money to support, but this is an investment in your employees and your company. They will bring back something to your organization from these classes or ask them to give a short run down to the team on what they learned when they return during a staff meeting or all hands meeting or a PowerPoint that is shared across the team.
- Support Structures: Establish support structures, such as helpdesks, round tables or slack/teams' channel to ask questions or mentorship programs.
- Resources: Provide resources and tools to help employees adapt to the change. Hire outside help if you don't have the internal resources.

4. Address Concerns and Fears:

- Open Dialogue: Encourage open dialogue about concerns and fears.
- Reassurance: Provide reassurance regarding job security and role adjustments. Know what your plan is for the team and how it will be structured and share it. More and more finance employees see a technology change and then a layoff happening after, but after the layoffs the

finance leadership realizes that they need more resources to manage the new system in a different way and you can upscale your team to be those resources.

- Address Rumors: Address rumors and misinformation promptly and clearly. Too often we have seen this be the detriment to a change project because leadership didn't take them seriously and it destroyed projects from progressing.

5. Highlight Benefits and Opportunities:

- Benefits: Clearly communicate the benefits of the change for both the organization and the employees. Remember the questions…what's in it for my employees?
- Opportunities: Highlight new opportunities for learning, growth, and advancement.

6. Leadership Engagement and Role Modeling:

- Visible Commitment: Ensure leaders are visibly committed to the change. If you find a member on your leadership team is not committed, start a dialog with them in a closed door setting to understand why, and if you believe that you cannot change their opinion with some coaching or work it might be time to re-assign that leader.
- Role Modeling: Leaders should model the behavior and attitudes they want to see. This includes you, maybe learning something new and sharing it with others in your organization.
- Accessibility: Leadership should be accessible and approachable. Carve out designated times or "office hours" to either have people come to you or start chats (if virtual via teams or slack) with new people to check in to see how they are doing weekly.

7. Foster a Positive Organizational Culture:

- Trust Building: Foster trust between employees and leadership. Publicly support people when they are in the right or believe they are doing the right thing even if it's against the grain.
- Adaptability: Encourage a culture of adaptability and continuous learning. Model this as well as a leader
- Recognition and Rewards: Recognize and reward positive behaviors and contributions to change. The biggest impact to recognizing an employee is to find out how they want to be recognized, spend a small amount of time to understand how they want to be recognized wither through conversations or surveys or an HR system.

8. Implement Change in Phases:

- Pilot Programs: Consider pilot programs or phased implementations.
- Feedback and Adjustment: Collect feedback and adjust before a full-scale rollout. Employees will respect the leadership more if there is a recognition that there needs to be a slight change in something that has been implemented, it makes everyone human, and things can and do change from the time one starts vs when it ends on a change journey.
- Evaluation: Continuously evaluate the impact and effectiveness of the change.

9. Provide Incentives and Recognize Contributions:

- Incentives: Offer incentives for embracing change.
- Recognition: Publicly recognize and reward employees who contribute to the success of the change initiative.

10. Manage Expectations:

- Realistic Timelines: Set and communicate realistic timelines for the change.
- Patience and Persistence: Encourage patience and persistence throughout the change process.

By adopting these strategies, organizations can work to reduce resistance, foster a positive attitude toward change, and ultimately facilitate a smoother transition. Keep in mind that every organization is unique, so strategies should be tailored to fit the specific context and needs of the organization.

But I do not have the time...time to think outside the box:

Another crucial factor to consider is obtaining assistance for your finance team if you lack the internal bandwidth to manage the change effectively. I would recommend exploring options such as hiring contract employees or reaching out to individuals who have retired or left your organization. Often, these individuals are open to working part-time and/or remotely. Consider those who left due to personal or family obligations; they are familiar with your organization and might be willing to contribute on a part-time virtual basis, especially if their personal situations have stabilized, such as children returning to school. Many finance professionals have left full-time roles due to burnout and would be receptive to taking on part-time virtual contract positions, particularly if they have the full support of the finance leadership team.

Collaborate with your HR department to devise a plan for implementing such arrangements. The organizational groundwork you've established can facilitate the onboarding of these individuals, enabling them to grasp the challenges, contribute to strategic planning, and assist in execution.

Every organization has its unique challenges and complexities, often referred to as its "own mess." Those within your organization are well acquainted with the pain points and reasons for operational inefficiencies. Take their feedback into account and utilize it to structure your approach as you embark on this transformative journey.

Related Research

Financial Planning and Analysis: Machine Learning and Artificial Intelligence make a difference, April 2023 (IDC# US50574023)

The Five CFO Decision Drivers for software Investments, February 2023 (IDC #US50240423)

The Biggest Area to Fail in Finance Transformation Is the foundation: Data and Records and Information Management, May 2023 (IDC#US50673023)

Synopsis

In this IDC perspective, we are initiating a 'how-to playbook' series tailored for CFOs embarking on their finance transformation journey. These playbooks aim to guide CFOs in getting started, avoiding common pitfalls, and successfully addressing challenges as they lead their finance departments through the change management process encompassing process, technology, and people.

"While many CFOs and their departments have embarked on the finance transformation journey, a significant number encounter obstacles or fail to implement changes effectively in finance processes and technology. Often, they face resistance to change from their employees due to a lack of organization, planning, and documentation. The entire journey demands substantial time and resources. This series intends to provide CFOs with valuable guidance and practical examples to navigate and progress through their transformation journey." Heather Herbst, Research Director, Worldwide Office of the CFO

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