VENTANA RESEARCH

The Office of Finance on the Brink of Change

Applications and Technology for a New Generation

Research Report

Executive Summary

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September 2014

Ventana Research performed this research to determine attitudes toward change in the Office of Finance. This document is based on our research and analysis of information provided by organizations that we deemed qualified to participate in this benchmark research.

This research was designed to investigate finance department practices and needs and potential benefits. It is not intended for use outside of this context and does not imply that organizations are guaranteed success by relying on these results to improve performance in Finance. Moreover, gaining the most benefit from change in Finance requires an assessment of your organization's unique needs to identify gaps and priorities for improvement.

The full report with detailed analysis is available for purchase. We can provide detailed insights on this benchmark research and advice on its relevance through the Ventana On-Demand research and advisory service. Assessment Services based on this benchmark research also are available.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of finance departments, their processes and software they use and that the analysis and conclusions are entirely our own.

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Executive Summary

"Finance transformation" refers to a longstanding objective: shifting the focus of CFOs and finance departments from transaction processing to more strategic, higher-value functions. Our research confirms that most executives want their finance department to take a more strategic role in management of the company. A new generation of applications, driven by new approaches and new technology, can help forward-looking finance organizations make this shift. Benchmark research conducted over the past decade has given Ventana Research a broad range of insights into finance department operations as well as trends that affect them and its relationships with other parts of the organization. (Note that we use "finance" to cover all of the finance-related functions that report to the CFO, including accounting, treasury, corporate finance, tax and financial planning and analysis.) Among other findings, the research shows that most executives want the Office of Finance to play a more strategic role in management of the company. It also has consistently found that there is a connection between using inappropriate technology (or using appropriate technology improperly) and subpar performance.

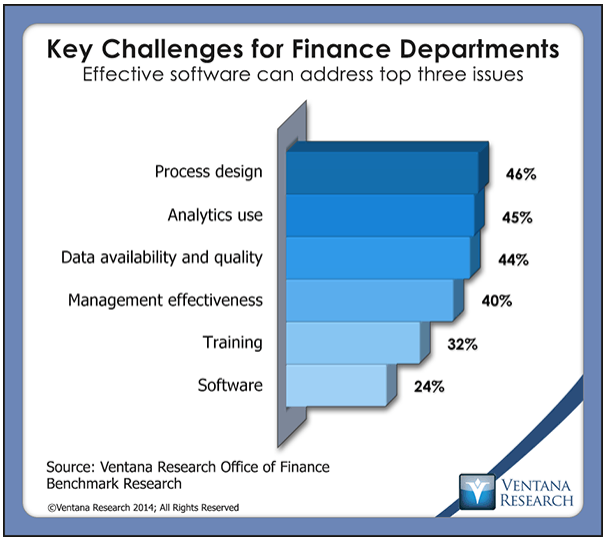
Business is changing in many aspects, not least in technology, and in that area we have plenty of evidence that Finance is a laggard. Although an array of new tools and techniques is available to enhance the effectiveness of finance organizations, we find that most stick to the traditional and the familiar. Recent research shows that finance professionals continue to rely on desktop spreadsheets, even when there are practical, affordable alternatives, and to use them inappropriately Finance organizations also have been the least likely of all major functional groups to want to deploy software in the cloud, despite the cost and operational advantages they could achieve.

Although an array of tools and techniques is available to enhance the effectiveness of finance organizations, we find that most stick to the basics.

Ventana Research undertook this benchmark research to assess the current state and future direction of the Office of Finance, including attitudes toward change among finance professionals and views of

their roles in the larger organization. We set out to examine both the commonalities and the specificities of finance organizations in major industry sectors and across sizes of companies. We explored how Finance performs its key functions and what issues its people encounter in the various processes and the information technology they use.

In general the research found that most finance departments handle the basics adequately, but half have failed to adopt methods and technology that can contribute significantly to the performance of their company. More than three-fourths of participants said Finance performs accounting, external financial reporting, financial analysis, budgeting and management accounting well or very well. Only half said that about its ability to do tasks such as product and customer profitability management, strategic and long-range planning and business development.

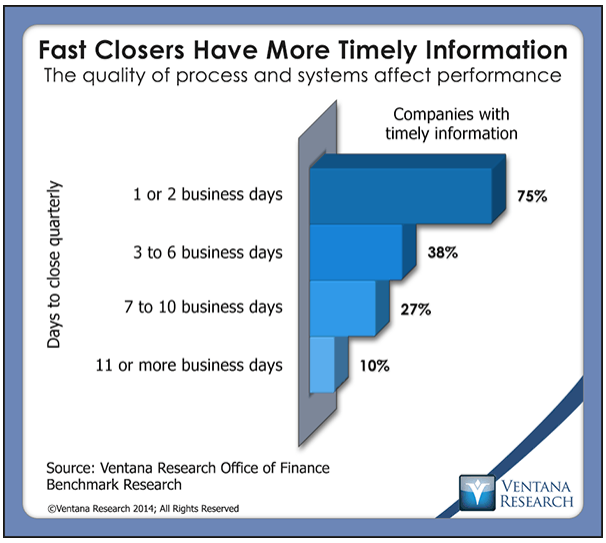


Research participants identified three issues most often as important for the finance department to address: process design, analytics use and data availability and quality. We note that each of these is affected by software and that often some or all of these issues are interrelated. For example, data availability issues may prevent a finance department from being able to utilize analytics to manage costs more effectively. Or overusing spreadsheets in the close process may delay its completion by several days, delaying financial reviews and consistently delaying necessary actions to address opportunities and issues.

The research also finds that a great many organizations continue to address common, essential processes mainly by using spreadsheets – a practice that we have consistently warned against in repetitive enterprise-wide processes. For example, spreadsheets consume time and are error-prone when used for analytics that require the ability to manipulate business data in multiple dimensions. And data created or manipulated in multiple desktop spreadsheets all too often can contain errors and inconsistencies.

We believe this should be a concern for finance departments, but the research finds that software is the challenge participants identified least often as facing; it was chosen by only one out of four. This and other response patterns indicate that the attitude of making do with familiar (even if inefficient) tools and ways of working is particularly prevalent in Finance. It also appears that the majority of organizations operate largely without IT help: Only 44 percent report having a dedicated Finance IT function. This makes a difference: Organizations that lack a Finance IT function twice as often reported issues with the software they use for managing a broad range of financial and analytical functions, and two-thirds (68%) reported issues with the analytics they use. This failure to maximize the value derived from the technological foundation of finance applications can undercut efforts by CFOs and senior finance executives to play a more strategic role in the organization. If, for example, finance personnel are enabled to use advanced analytics that combine financial and operating data, they can deliver more timely and accurate information to improve decision-making across the organization about operational efficiency and customer and product profitability.

However, the research shows that bringing positive change to the Office of Finance involves more than just adopting the right software. Process improvements are necessary for many organizations. Only one-third review any of a range of their operational processes for issues on a monthly basis; in a number of areas as many or more conduct reviews only as needed – a reactive approach to managing finance; frequent reviews contribute to instilling a continuous improvement management style that keeps an organization ahead of problems and prevents it from falling into an inefficient (and ineffective) "fighting fires" operating mode.

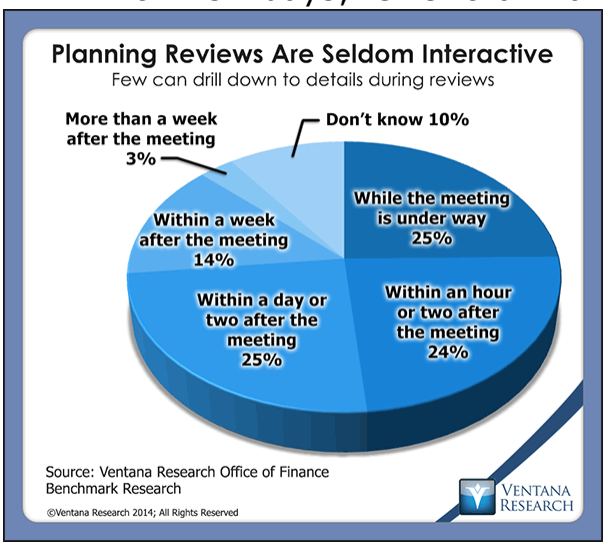


The research finds that only 40 percent of companies complete the quarterly close in six or fewer business days and 53 percent close monthly in the same interval. Taking longer to close slows Finance in

getting information to the rest of the organization; our analysis shows that those that close sooner more often provide timely information.

One factor that affects how long it takes to close is the degree of automation a company applies to the process, which our research correlates with the time it takes to complete the accounting cycle. That is, 43 percent of companies that have automated substantially all of the closing process can complete the quarterly process within four business days, compared to one-fourth of those that have automated only some of it and just 6 percent that have automated little or none of the process.

Financial planning and budgeting is another core process by which to judge the performance of a finance department. Timeliness is important here, too, because companies that understand their position sooner are in a better position to adjust quickly to risks and opportunities. The research shows that fewer than half (45%) of participants are able to compare their actual results to their budget within six business days; almost one-third (31%) take two or more business weeks to accomplish this task. We find a correlation between how quickly a company closes its books and how soon it reviews its actuals to budget. Nearly three-fourths (73%) of organizations that complete their monthly close within four days review their results within six days; fewer than half (48%) of those that close within five to eight days, and just 7 percent of those that take nine or more days, can conduct such prompt reviews.

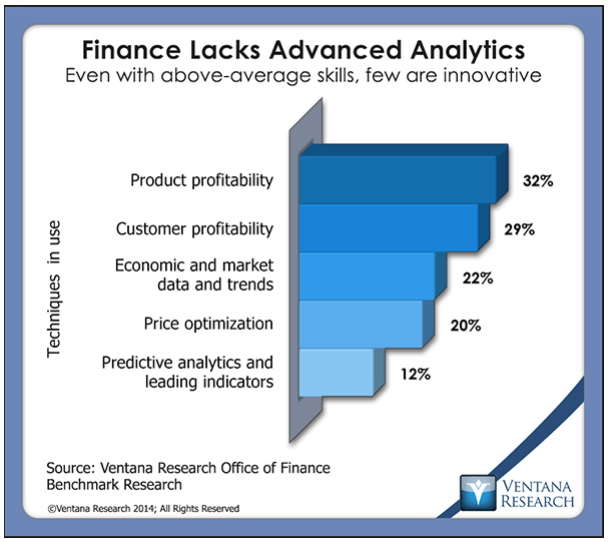


Identifying variances is an important first step in the budget review process, and understanding the meaning of those differences enables executives and managers to respond effectively to changes in the business. Information technology of course is useful for analyzing numbers; software is available that enables in-depth analysis in real or near-real time. Yet not quite half (49%) of research participants are able to drill down into the underlying details while their budget review meeting is under way or within an hour or two after it. The rest take a day or longer to

respond to questions about details. These delays can slow reactions to issues and impede planning ahead. The research also shows that using dedicated planning and budgeting software helps companies drill down to underlying details to quickly answer questions about results.

Along with processes, information and technology, people are the fourth essential element of any business or department. Nearly half (48%) of organizations in this research said that the skills of the people involved in creating their finance analytics are above average; at the extremes, 14 percent said their skills are excellent and 11 percent said they are below average or inadequate. Again our cross-reference analysis finds a correlation: Two-thirds (65%) of companies whose people have excellent or above-average finance analytic skills have a process for creating finance analytics that works well or very well, compared to one-third (35%) of those that have lesser skills. Strong analytic skills are essential for Finance to deliver insights that help executives and managers make well-informed decisions.

We also find that most organizations should expand their skills to include more advanced analytics. Even among those that rated analytic skills highly, fewer than one-third apply profitability analysis to products and customers on a regular basis and no more than one in four extensively use price optimization, predictive analytics or fraud detection. All of these can help a corporation anticipate trends and spot areas where they may be at risk.



The changes in the technology underpinnings of finance-focused applications can support finance department efforts to shift its positioning to doing more analytical and less transactional work. It thus potentially can reshape its mission and forge a more strategic partnership with the rest of the organization. These changes can put the CFO and the Office of Finance in a position to enhance both the performance and the potential of business. Finance departments thus can have the ability as well as the mandate to improve business efficiency and enable a corporation to execute strategy more effectively.

Reluctance to change often is driven by an aversion to risk. But we note that a failure to adopt new methods to address the escalating demands of today's markets poses greater risks. Corporations with finance organizations that can operate on faster cycles, deliver deeper and more comprehensive insights that enable executives to consistently make better decisions, manage cash more adeptly, control expenses more strategically and adapt to a more challenging tax environment will prevail over those that do not. A new generation of applications, driven by new approaches and new technology, can help forward-looking finance departments play a more strategic role in their organizations. The accelerating retirement of baby boomers and their replacement by a generation who grew up with computers and video games is changing expectations of what software and computing systems should do – even in such a traditional area as finance. We expect technology advances and their embrace by the new generation of finance department executives will transform every facet of the finance function.

About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including Twitter, Facebook, LinkedIn and Google+.

To learn how Ventana Research advances the maturity of organizations' use of information and technology through benchmark research, education and advisory services, visit www.ventanaresearch.com.

Appendix: About This Benchmark Research

Ventana Research designed this benchmark research for business and IT managers responsible for finance processes and applications or involved with the purchasing of technology for this area. The research was conducted from February through May 2014. Applying our standard methodology and quality assurance criteria, we identified qualified participants. They represent a range of organization sizes: 23 percent from very large companies (having 10,000 or more employees), 33 percent from large companies (with 1,000 to 9,999 employees), 30 percent from midsize companies (with 100 to 999 employees), and 15 percent from small companies (with fewer than 100 employees). A large majority (89%) of these companies are located or headquartered in North America, although many of these are global organizations operating worldwide. Among industry categories, companies that provide services accounted for 44 percent, those in manufacturing for 31 percent and those in finance, insurance and real estate for 14 percent. Government, education and nonprofits accounted for the remaining 11 percent. Categorized by their job title, 33 percent are executives, 15 percent are in management, and the majority (51%) are what we term users in the lines of business. By functional area, nearly two out of three (65%) work in finance or accounting. (More demographic detail about the participants is available in the full research report.)

This Executive Summary is drawn from the full Ventana Research Benchmark Research report. The full report is available for purchase, payable by check or credit card. Advice and focused guidance based on this benchmark research can be purchased through our Ventana On-Demand service. For more information about the full Benchmark Research report or assessment of your organization using our Performance Index methodology, please contact us at sales@ventanaresearch.com.