



Transformation in Finance Department – A Practitioner's Perspective & Roadmap

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Abstract

'Transformation' as a buzz word in the Finance Department is stretching beyond imagination and it is, at times, tending towards misleading. This is especially in the context of complex situations of having operations at businesses in-house, Shared Services Centers, outsourcing to third party service providers and so on. The objective of this white paper is to provide a practitioner's perspective on what is Transformation in a Finance Department and how an organization could take measures to realize the full potential through a Transformation Roadmap.

Background

Core functions of the Finance Department in an organization are:

- Secure the financials of the organization by exercising necessary financial controls
- Creating systems and processes
- Adhering to statutory requirements
- Providing necessary insights into the business for decision-making with financial prudence

Key outcomes that a Finance Department is expected to deliver are:

- Keeping the Finance Department costs to optimal levels
- Providing business value to the organization

Finance Departments led by Chief Financial Officers (CFOs) of many organizations are increasingly looking at opportunities of creating Shared Service Centers or Outsourcing to service providers in an optimal manner so that they can focus on ensuring the core functions of the Finance Department. There are several methods / models in which the CFOs are creating these Shared Service Centers. In this endeavour, the CFOs are also expecting a value derived from the pieces that are embedded as part of the Shared Services / Outsourced service providers.

The purpose of this white paper is to focus on the value that could be derived by the CFOs, by clearly articulating the Transformation that they are trying to achieve for their Finance Department.

What is Transformation?

Maturity Model

CFOs are constantly looking at opportunities to transform their Finance Department and therefore the organization. Transformation in the Finance Department needs to be driven by the key outcomes they contribute to the business. Therefore, the Transformation approach would differ based on the Maturity of the Finance Department. Maturity of the Finance Department is classified into five Maturity Levels. These Levels are determined by the following Maturity Model across five dimensions which acts as a diagnostic tool to determine the current Maturity Level of the Finance Department.

Dimension	Level 1	Level 2	Level 3	Level 4	Level 5
1. Finance Dept. Cost as % of Revenues	>2.0%	>1.5% & <=2%	>1.0% & <=1.5%	>0.8% & <=1.0%	<0.8%
2. Speed of reporting to market	>40 days	>25 days & <=40 days	>15 days & <=25 days	>10 days & <=15 days	<10 days
3. Degree of Centralization	Disparate operations	Centralized at country level	Centralized at region level	Centralized at Share Service Center	Significantly centralized with minimal in-country operations
4. Technology	>20 ERPs with non-standard processes	<20 ERPs with non-standard processes	<10 ERPs with non-standard processes	<5 ERPs with significantly standardized processes	Single ERP with significantly standardized processes
5. Business value to the Organization	Several instances of control failures / financial losses of >0.5% of Revenue	Several instances of control failures / financial losses of <0.5% of Revenue	Occasional instances of control failures / financial losses of <0.25% of Revenue	Few instances of control failures / financial losses of <0.1% of Revenue	Zero failures

Maturity Model for a Finance Department

Determining the Maturity Level

An assessment would need to be done for an organization across all the above five dimensions to determine the current state of individual Maturity Level as per the Maturity Model. In order to get a holistic view, such assessment would need to be done from the practitioner's perspective, although there are certain indicative metrics defined as in the Maturity Model. The Overall Maturity Level of the Finance Department is derived based on the lowest score across the five dimensions of the Maturity Model. Once the Overall Maturity Level is determined for the organization, the striving for the Finance Department would be to move up on the Overall Maturity Level.

How to Transform?

Change Enablers

In order to move up on the Maturity Levels, the Finance Department would need to take several initiatives in a structured manner. Based on the current state of Maturity Levels, the Transformation approach would need to be drawn to move the performance from one level to the next by using the following broad five Change Enablers:

- Process Harmonization and Standardization
- Service Models
- Technology Multipliers
- Operational Optimization
- Decision Accelerators

Key Levers of Change Enablers:



Transformation Roadmap

There needs to be several initiatives to be taken by the Finance Department under each of the Change Enablers to move up on the Maturity Level. This would be the Transformation Roadmap for the Finance Department across various functions in it. Such a Transformation Roadmap would be determined in a structured manner across a short / mid / long-term basis. There are several other factors such as resources availability, change management and overall vision of the organization that would play a key role. As part of such a Transformation Roadmap on implementing the identified initiatives, the outcomes across various Change Enablers would be moving up in different stages. Primary indicators of the outcome of such a Transformation Roadmap across various functions of the Finance Department would be as follows:

Change Enablers	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
“Procure to Pay” Function					
Process Harmonization and Standardization	<25%	<50%	<75%	<90%	>90%
Service Models	Fully decentralized invoice processing	Centralized at country level	Centralized at region level	Centralized at Share Service Center	Significantly centralized with minimal in-country operations
Technology Multipliers	Predominantly manual process	Islands of automation but no convergence	Predominantly automated back-end processes	Vendor interface automated but the back-end processes are not integrated	Significantly automated End-to-End process
Operational Optimization	<40% Straight through pass	>40% Straight through pass	>60% Straight through pass	>75% Straight through pass	>98% Straight through pass
Decision Accelerators	>20% Parked Invoices	>10% Parked Invoices	>5% Parked Invoices	>1% Parked Invoices	<1% Parked Invoices
“Order to Cash” Function					
Process Harmonization and Standardization	<25%	<50%	<75%	<90%	>90%
Service Models	Fully decentralized processes	Centralized at country level	Centralized at region level	Centralized at Share Service Center	Significantly centralized with minimal in-country operations
Technology Multipliers	Predominantly manual process	Islands of automation but no convergence	Predominantly automated back-end processes	Customer interface automated but the back-end processes are not integrated	Significantly automated End-to-End process
Operational Optimization	<40% First time cash applied	>40% First time cash applied	>60% First time cash applied	>75% First time cash applied	>98% First time cash applied
Decision Accelerators	DSO > 120% of Average credit period	DSO < 120% of Average credit period	DSO < 110% of Average credit period	DSO < 105% of Average credit period	DSO <= Average Credit period
“Record to Report” Function					
Process Harmonization and Standardization	<25%	<50%	<75%	<90%	>90%
Service Models	Fully decentralized processes	Centralized at country level	Centralized at region level	Centralized at Share Service Center	Significantly centralized with minimal in-country operations
Technology Multipliers	Predominantly manual process	Islands of automation but no convergence	Predominantly automated back-end processes	Customer interface automated but the back-end processes are not integrated	Significantly automated End-to-End process
Operational Optimization	>40 days of Reporting to Market	>25 days & <=40 days of Reporting to Market	>15 days & <=25 days of Reporting to Market	>10 days & <=15 days of Reporting to Market	<10 days of Reporting to Market
Decision Accelerators	Significantly Manual reporting	Partially automated Reporting	Non-standardized Automated reporting	Standardized Automated reporting	‘On-Demand’ Reporting

Execution Approach

When the respective Finance Function moves up on the above stages, it is imperative that it results in moving up on the Maturity Level of the Finance Department as per the Maturity Model. However, it is to be noted that it requires structured and concerted effort across various Finance Functions to see a visible progress in the overall Finance Department Maturity Level. That would be the true test of real Transformation in the Finance Department. Hence, the Transformation Roadmap would need to be drawn up across various Change Enablers by articulating the priorities to realize the maximum value to the organization. As the realization of such a Transformation Roadmap would require contribution from various teams across the organization, it would be prudent to set up a strong governance with involvement of various stakeholders within the organization and including the external service providers. Of course, such a Transformation Roadmap would require the highest level of sponsorship from the key stakeholders of the organization to realize the full benefits. Typically, such a Transformation Roadmap would be drawn for a two-year to three-year timeframe in order to see a visible Transformation in the Finance Department.

Conclusion

Transformation in the Finance Department is not a short-term journey. It is significantly determined by the Maturity Level of the Finance Department and the organization's ability to set a vision and execute it. Therefore, it is important to determine the current Maturity Level of the Finance Department in order to lay down a Transformation Roadmap that would enable the organization to move up on the Maturity Level. As the stakeholders in the Finance Department are wide and many, it is also critical to have a strong governance and multi-faceted approach across various functions within the department. Through a structured and methodical approach as discussed above, it would be certainly possible to transform the Finance Department to realize its full potential and contribute significant business value to the organization.

Author's Profile



Anup Kapoor is the **Head of Finance and Accounting Services** at Infosys BPO. He comes with more than 22 years of experience in the Finance and Accounts background. Prior to his current role, he was the SBU Head at Infosys BPO. He is a Chartered Accountant and a Certified Management Accountant (US) and is Certified in Financial Management (US). He has worked

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Arun Kumar Natha is the **Global Delivery Lead** in the Finance & Accounting Practice at Infosys BPO. He comes with more than 18 years of experience in the Finance and Accounting domain. He is a Commerce Graduate, a Chartered Accountant, a Cost Accountant and an MBA in Marketing. Arun is responsible for ensuring smooth delivery of services with differentiated experience to

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