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4 Facts Savvy CFOs Must Know about Business Process Transformation

by John Mancini, Chief Evangelist, AIIM

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What Savvy CFOs Know ...

BUSINESS PROCESS TRANSFORMATION

... 4 Facts about Business Process Transformation

The writing is on the wall for Chief Financial Officers. Like it or not, most organizations are demanding business process transformation in accounting and finance, and a new role for finance leaders. According to the American Productivity and Quality Center (APQC), nearly 3 in 4 organizations have an active financial process transformation project underway.

For many CFOs, this demand for financial process transformation represents an enormous opportunity. This is an opportunity to not only dramatically improve operations and reduce costs (a traditional role for the CFO), but to also leverage this experience to become the hub for digital business process transformation initiatives throughout the organization. In other words, embracing change and automating financial processes can create long-term benefits for both the CFO and the organization. It can position the CFO as a powerful force in the broader corporate objective of digital transformation and business process transformation.



Per APQC, “The role of the CFO is changing. The shift is bringing data analytics to the forefront. But many CFOs regard transitioning from reporting data to generating insights as an enormous challenge. By fully leveraging data mining, analysis, and visualization, CFOs can see patterns, trends, and outliers – and dive straight to the bottom-line results.”

While there is a recognition that change is needed, many are resistant. According to Ernst & Young,

“Digital is disrupting financial models, operations and valuations, and the overall capital agenda at an accelerating pace. Yet surprisingly... only 50% of the 652 CFO participants [in our recent survey] consider the shift to digital to be of high or very high priority for their organizations in the next three years. The same study showed that only 49% believe that they have a major contribution to make as organizations make the shift to digital. If CFOs want to fulfill their agenda of growing, protecting and transforming their organizations, they need to address their organization’s digital readiness and the gaps that exist. And they need to do it with a sense of urgency.”

Why are so many ...

... CFOs under the gun?
... organizations looking hard at financial process transformation?

Here are 4 reasons:

1 **The wide variation in the effectiveness in financial processes provides a rich opportunity for cost savings.**

Despite the fact that the document management technologies that are at the core of financial process automation have been around for a decade, there remains a great deal of variation in the application and utilization of these technologies. Until recently, the cost of software to manage accounting documents and automate how they are processed was beyond the reach of all but the largest organizations. They no longer are, but there remain large variations in adoption, which translate into significant differences in the underlying cost structure of managing accounting documents. Consider the following data from APQC in Blueprint for Success and Sustainable Process Transformation in Finance and Accounting:

	Bottom performers	Top performers
Cost per invoice processed	\$12.50	\$5.00
Cycle time to correct an invoice error	7.0 days	3.0 days
Number of invoice line items processed per FTE	21,232	46,667
Complexity – Number of accounts in chart of accounts	<727	<181
Cost of financial reporting per \$1,000 in revenues	\$.64	\$.11

Ultimately, these process variations – caused by non-standard, ad hoc, manual accounting document

processes driven by paper – translate into a measurable cost disadvantage for companies that fail to adopt document management-driven financial process automation.

- Bottom performers spend 2.13% of revenues on financial processes; top organizations only spend .57%.
- There is even a larger differential in specific industries. For example...
 - Distribution and transformation: 4.63% for bottom performers vs. 1.16% for top performers.
 - Services: 3.96% for bottom performers vs. .57% for top performers.

The C-Suite has begun to recognize and understand the impact that these fundamentally different cost profiles have on the ability of their companies to survive and compete, and CEOs are pushing CFOs to streamline accounting processes.

2 **Most organizations are reaching the conclusion that offshoring helps – but does not resolve – the fundamental cost disadvantage created by manual processes.**

In Blueprint for Success, APQC estimates that in the average organization, 58% of invoices are manually keyed in the financial system and 61% of the cost to process accounts payable is in people. During the 2000s, the democratization of technologies and the global spread of internet connectivity opened up opportunities to offshore these repetitive and people-intensive processes (like manually keying invoices into a financial system). This certainly yielded advantages – ScottMadden Management Consultants estimates traditional on-shore labor costs at \$100K/year per FTE vs. offshore costs at \$38K/year per FTE).

Digital processes can reduce this to \$13K/year (Scott Madden), indicating that offshoring alone is not enough to preserve competitiveness with digital disrupters. Simply processing transactions (vs. control or management activities or decision support) typically consumes 50% of the “people” resources in finance for most organizations. The best way to drive down the costs of repetitive, manual tasks – and free resource for higher value activities – is to automate accounting processes and eliminate paper.

Financial Processes Are at the Core

"In the modern world, technology has taken the center stage in virtually all areas of our lives. Many organizations are adopting technologies which not only increase the productivity of the employees but also makes their work easier. The key area where such technologies have been adopted is the finance department of many organizations. Finance department is the core department in any organization since all other departments are dependent on the proper and cautious management of the organization's financial resources."

Stéphan Bonneil, Digital Transformation Impacts on CFO and Finance Department's Organization

3 Manual financial processes and information ultimately have a negative impact of other core processes.

APQC notes that "36% of organizations say their financial processes are misaligned with the "pace and needs of their unfolding business strategy." This means that poor financial processes not only impact financial operations, but have a "ripple" impact throughout the organization.

Financial processes are unique in that the information and documents that are created by and surround financial processes are used in countless other processes and departments, including sales and customer service.

APQC notes, "Most companies are losing as much as 1% of sales due to poor planning and decision making. Why? Business decision makers misinterpret or discard financial analysis." Organizations with poor financial processes typically have an error rate of 3.3% in their sales forecasts, compared to 1.5% at leading-edge organizations.

The role of financial innovation as a driver for broader innovation translates in a greater role for the CFO in IT decision-making – and a need for broader technology competency among CFOs. Consider the following from Gina McNamara in 4 Ways Digital Transformation Will Change The Role Of The CFO:

"CFOs, and the C-suite in general, are increasingly becoming responsible for the IT function within their organizations. Those who are able to embrace technology and spend more time understanding and collaborating with the business will be true transformation agents who are sought after for key roles. The types of roles that exist today will not be around in the future, and finance teams need to grasp this speed of change and demonstrate the value they can give using their finance skills and training around interpretation."

The implications of this are twofold: 1) It helps explain why financial process transformation has such an important and growing multiplier impact throughout the organization; and 2) Once their own house is in order, it establishes Finance and CFOs as potential leaders in the effort to automate and transform other departments. Finance is the glue – in both a good and bad sense! – that either connects or confounds the rest of the organization.



4

Guaranteeing the security and privacy of information and the auditability of financial processes is an increasingly important role for the CFO.

Organizations are increasingly focused not only on the potential value of getting all those previously unmanaged documents and processes under control, but also on the growing risks associated with managing increasing volumes of information.

Just about every week, there is a significant information breach that makes the news. In addition to the immediate crisis management and public relations embarrassment created by the breach, security and privacy lapses also translate into serious risk management issues that are – or should be – a concern of every CFO.

On top of this, the everyday compliance and regulatory concerns associated with managing information assets – especially for companies that do business internationally – bring the CFO squarely in IT conversations and strategy. This growing awareness of the tie between effective information and document management and security, customer privacy, and compliance creates a new set of leadership opportunities for CFOs.

Per Stéphan Bonneil in *Digital Transformation Impacts on CFO and Finance Department's Organization*,

“Digital transformation in the finance department is also likely to achieve an upper hand in data governance and data control. Finance employees will be able to monitor cyber security issues by following efficient data flow protocols in the department. They will have an active role as company stewards in investing the appropriate expertise in protecting the company's data and reputation.”

Just Do It. Get Started Somewhere.

“I will give two pieces of advice. First, get yourself and your team educated on process improvement, teamwork, and communication. Then, just start. Don't wait for the proverbial 'right time.' Now is the right time! Start small with low risk, low disruption improvements. As you have success, the momentum will grow, and new groups will join.”

Gabriel Zubizarreta, Silicon Valley Accountants

Conclusion: CEOs are demanding that their CFOs take a leadership role in Technology Strategy and Digital Transformation.

While financial process initiatives may originate due to an immediate concern about cost reduction, the longer-term organizational impact that these cost-reduction initiatives is often a significant surprise and provides an opportunity to redefine the role of the CFO.

Looking forward, the CFO will continue to be the primary steward of the financial processes of an organization. But the CFO also has a much larger role to play, leading the charge for much broader process transformation, and ultimately transformation of the business itself.

IT organizations have traditionally spent most of their time worrying about the “T” part of the IT equation. CFOs have an emerging role to play in helping organizations manage, control, and understand all of the information – the “I” part – that flows through an organization's business systems. Managing this information – largely in the form of unmanaged documents – still represents a significant challenge for most organizations.

The document management technologies clearly can help organizations automate accounting processes. But document management does far more than simply provide a predictable place and structure to store documents.

1. Document management creates a framework to capture not only documents, but information, as close as possible to its point of creation.
2. Document management lays the groundwork for intelligent indexing of documents, making it possible to find the right document at exactly the right time in a business process or customer interaction.
3. The digitization of information makes it possible to automate key information workflows and increase business agility.

All of which puts CFOs who embrace financial process transformation in a key strategic position for the broader corporate goal of business process transformation and the transformation of the business itself. It is this expanded role and vision that is at the heart of the opportunity – and the challenge – facing CFOs.



Written by John Mancini,
Chief Evangelist, AIIM



John Mancini is an author, speaker and respected leader of the AIIM global community of information professionals. He believes that in the next 5 years, a wave of Digital Transformation will sweep through businesses and organizations, and that organizations now face a fundamental choice between Information Opportunity and Information Chaos.

As a frequent keynote speaker, John offers his expertise on Digital Transformation and the struggle to overcome Information Chaos. He blogs under the title “Digital Landfill” and has almost 10,000 Twitter followers and a Klout score in the 60s.

John can be found on Twitter, LinkedIn and Facebook as **jmancini77**
Check out John’s blog – and subscribe – <http://info.aiim.org/digital-landfill>

AIIM has been an advocate and supporter of information professionals for nearly 70 years. The association mission is to ensure that information professionals understand the current and future challenges of managing information assets in an era of social, mobile, cloud and big data. AIIM builds on a strong heritage of research and member service.

Today, AIIM is a global, non-profit organization that provides independent research, education and certification programs to information professionals. AIIM represents the entire information management community: practitioners, technology suppliers, integrators and consultants. AIIM runs training programs, which can be found at <http://www.aiim.org/Training>.

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The company, founded in 1988, operates worldwide from Germering near Munich, Germany, New Windsor, New York, and Wallingford, Connecticut, with subsidiaries in the U.K., Spain and France.

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