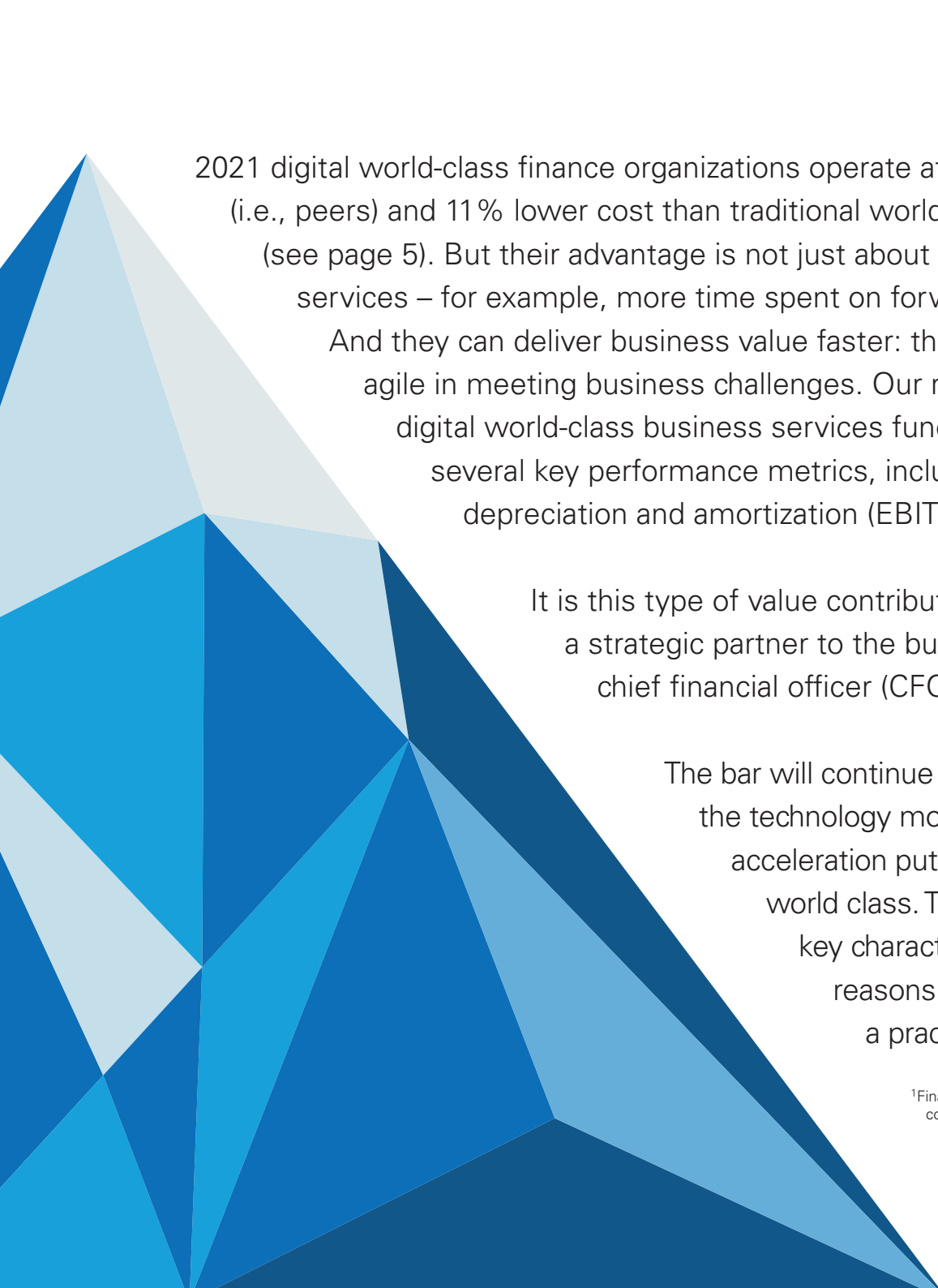


Reaching New Heights in Peak Performance

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Technology innovation and digital transformation accelerated during 2020, hastening the shift toward a digital business operating model that has been building for years. As companies make this transition, traditional measures of top performance no longer reflect what is truly possible. The performance bar has gone up. We refer to today's top level of finance performance as "digital world class" (see page 4), reflecting the performance potential in a highly technology-enabled operation.



2021 digital world-class finance organizations operate at 43% lower cost¹ than typical finance organizations (i.e., peers) and 11% lower cost than traditional world-class finance organizations (see page 5). But their advantage is not just about cost. They are also able to deliver higher-quality services – for example, more time spent on forward-looking analysis to inform future decisions.

And they can deliver business value faster: they are 39% more likely than peers to be perceived as agile in meeting business challenges. Our research also reveals that companies with at least one digital world-class business services function realized a financial performance premium across several key performance metrics, including net margin; earnings before interest, taxes, depreciation and amortization (EBITDA) margin; return on equity; and shareholder return.

It is this type of value contribution that drives the finance organization's ability to be a strategic partner to the business, which happens to be the top priority on the chief financial officer (CFO) agenda for 2021.²

The bar will continue to go up from here. Finance leaders need to build on the technology momentum created over the last few years with the digital acceleration put in motion over the past year to close the gap to digital world class. This paper offers insight for doing so. It explores the six key characteristics of digital world-class finance organizations – the reasons they can achieve this level of performance – and offers a practical approach for moving forward.

¹Finance operating cost as a percentage of revenue; for a \$10 billion company, this represents finance cost savings of \$41.4 million and \$6.7 million respectively. ²Key Issues Study, The Hackett Group, 2021

Digital world class

For decades, The Hackett Group® has measured the performance of finance functions and identified those that are world class based on empirical data and a proprietary methodology that measures efficiency and effectiveness and ties performance to the adoption of proven best practices.

World-class finance functions are those that simultaneously achieve superior performance in efficiency and effectiveness. They typically constitute about 10% to 15% of the total population.

Typical practices associated with world-class performance are well established: process and data standardization, process automation, technology platform consolidation, adoption of a global business services (GBS) model, end-to-end process design, and global process ownership.

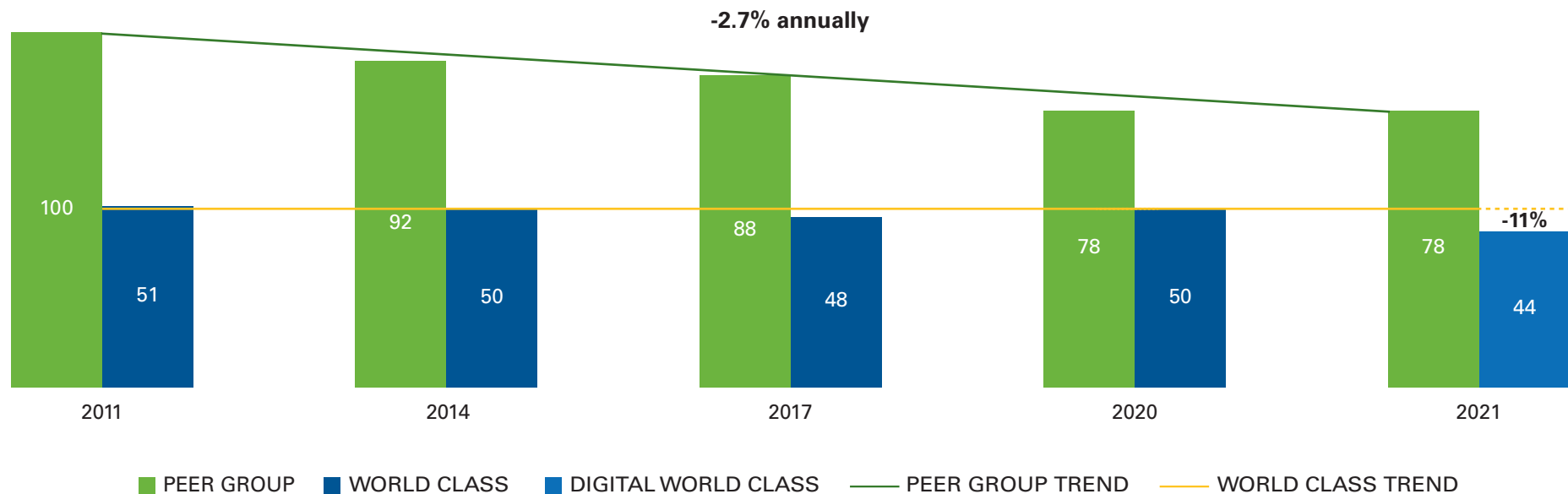
The world-class performance gap is largely explained by differences in adoption levels, transformation execution capability, organizational and process maturity, and process automation levels. To reflect structural changes associated with technology innovation and digital transformation of the finance functions, we have updated our world-class benchmarking methodology and redefined the bar for top performance as digital world class. The updated methodology explicitly measures stakeholder experience and digital enablement, and factors this into the algorithm that determines digital world-class performance.



Digital world class widens the cost gap

Over the past decade, the peer to world-class cost gap has narrowed because world-class finance organizations had optimized their cost structure while peers caught up and reduced costs by 2.7% per year, on average (Fig. 1). Because digital world-class finance organizations operate at an 11% lower cost than 2020 world-class finance organizations, the gap again widened in 2021.

FIG. 1 Finance operating cost as a percentage of revenue



Note: the cost index is 100 for the 2008 peer group finance cost. For example, the 2020 world-class cost index value of 50 represents a 50% lower cost than the 2008 peer group.

Source: Benchmark, The Hackett Group, 2021

Digital world-class finance organizations deliver superior performance on three dimensions

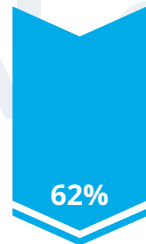
EFFICIENCY



lower cost as a percentage of revenue



lower labor cost



lower transaction-processing cost as a percentage of revenue

EFFECTIVENESS



as much time spent preparing predictive analysis that addresses future value



34%

more business analysts with direct work experience in the operations they support



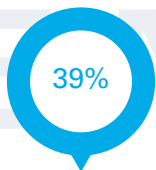
43%

higher technology spend as a percentage of the operating budget

EXPERIENCE



more likely to be viewed by stakeholders as a valued business partner



more likely to be perceived as agile in meeting business challenges

As finance automates more work, opportunities to improve efficiency will decline and the focus then becomes how to reallocate activities across the operating model to improve performance. Our analysis shows that most finance organizations are still far removed from digital world-class performance.

While they employ 47% fewer full-time equivalent (FTEs) than peers per billion dollars of revenue, the gap is greater for transaction-processing FTEs (61%), enabling them to deliver transaction processing at a 62% lower cost.

Effectiveness metrics reflect the impact of reinvesting some of those efficiency gains in knowledge-centric work. Digital world-class finance organizations have a far higher percentage of total staff in financial planning and analysis (FP&A) roles, and their analysts spend 47% more time analyzing data and information to provide insight rather than collecting and compiling data. They also have 34% more business analysts with operational experience. Additionally, digital world-class finance organizations spend a substantially larger component of their operating budget on technology and have 51% higher technology spend per finance FTE than peers. This higher spend per finance FTE in part reflects investment in providing finance knowledge workers with advanced analytics, reporting, and other tools.

Our research shows that digital world-class organizations have a performance edge over peers when it comes to customer perceptions around value and agility. However, a very significant expectations gap still exists, even for digital world-class finance organizations: 45% of companies do not currently view finance as a valued business partner, yet they expect the function to fill that role.



Understanding the sources of digital world-class performance

Digital world-class finance organizations enjoy a 43% cost advantage and a 47% productivity advantage over their peers.

Rationalizing the legacy technology environment has traditionally enabled top-performing finance organizations to operate with a lower technology cost than peers. Digital world-class finance organizations continue to modernize the technology landscape, which explains why their technology cost is 19% less than that of peers (**Fig. 2** on page 9). But they also invest in technology architecture modernization and emerging technologies such as smart automation, advanced analytics, and collaboration tools that enable greater automation, further reducing labor cost.

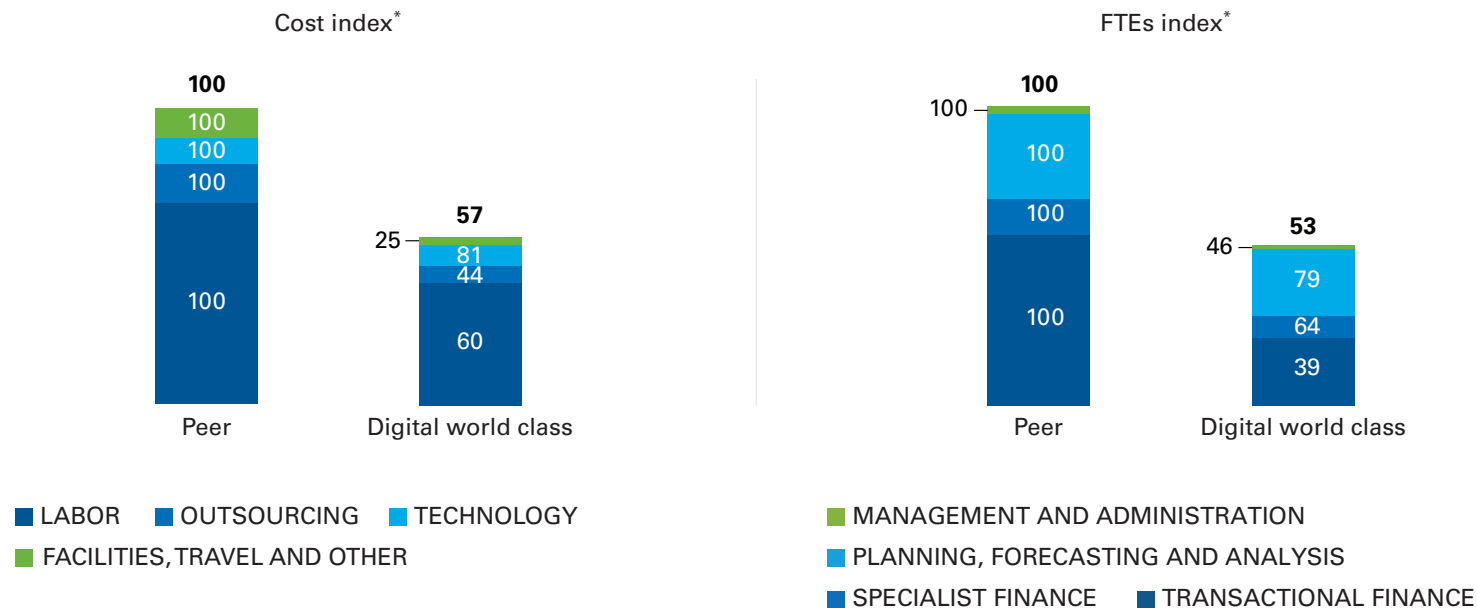
This cost, productivity and technology advantage indicates that digital world-class finance organizations substitute labor with technology. It is important to note, though, that not all technology cost is associated with labor-eliminating automation. As the finance service portfolio shifts toward higher value-added services, leaders also invest to equip their expanding pool of knowledge workers with modern digital tools.



Although digital world-class finance organizations spend less on technology as a percentage of revenue than peers because of their higher technology deployment efficiency, they have a far more technology-intensive operating model and spend a larger component (13%) of operating cost on technology than peers (9%).

Furthermore, digital world-class finance organizations operate with 61% fewer FTEs in transactional processing roles than peers, but just 21% fewer FTEs in FP&A roles and 36% fewer in specialist finance roles. This indicates a shift of resources into higher-value roles, explaining their superior value contribution, customer experience, and effectiveness.

FIG. 2 Digital world-class cost advantage and allocation shift



*The baseline cost of FTE level of peers corresponds to an index value of 100 for each cost or FTE category. So, for example, an index value of 60 for digital world-class labor cost represents 40% lower labor cost than peers.

Digital world-class finance organizations excel in six areas

Technology enablement is at the heart of the digital world-class performance advantage. However, to fully unlock the potential of technology, leading finance organizations also transform five other key areas: data and analytics, cloud-based modern architecture, operating model evolution, end-to-end process design and ownership, and talent.

1. Technology enablement



more supplier/vendor invoices submitted electronically

Source: Benchmarking data, The Hackett Group, 2021

2. Data and analytics



more analytical time focused on proactive decision-making

Source: Benchmarking data, The Hackett Group, 2021

3. Cloud-based modern architecture



of finance organizations with large-scale cloud deployments that are more likely to meet enterprise objectives

Source: Key Issues Study, The Hackett Group, 2021

4. Operating model evolution



more enterprise-aligned resources in the next-generation operating model, with a clear focus of digital operations as a backbone for finance

Source: Projection from analysis, The Hackett Group, 2021

5. End-to-end process design and ownership



more likely to have an end-to-end general ledger accounting/consolidation process with a dedicated owner

Source: Benchmarking data, The Hackett Group, 2021

6. Talent



more finance manager and professional staff rotated through business operations positions annually as part of a formal career development program

Source: Benchmarking data, The Hackett Group, 2021

Technology enablement

Finance automation efforts have traditionally focused on transactional processes such as accounts payable and accounting. By upping the automation quotient, the function has been able to reduce or even eliminate manual intervention, thus significantly lowering process cost. Digital world-class finance organizations have a clear lead in transaction automation over peers and in some cases have reached maximum levels. For example, they have automated 96% of journal entries, versus 77% for peers. They also receive 70% of supplier/vendor invoices electronically, versus 50% for peers.

These organizations have also made substantial inroads in automating knowledge processes, freeing up staff capacity to perform value-adding work and building a strong data architecture to enable insight generation and self-service reporting and analysis. For example, 73% of digital world-class finance organizations provide online access to management reports and the ability to run ad hoc reporting and analysis, compared to just 40% of peers. They also have a more robust data foundation as part of their modernized digital architecture: 95% of digital world-class finance functions have a central data repository to generate business performance reports, versus only 67% of peers.

Data and analytics

The coronavirus outbreak and its business and economic repercussions lent new urgency to improving forecasting and analysis. In our 2021 Key Issues Study, improving analytics, modeling and reporting was the No. 3 transformation initiative on the CFO agenda. The heightened demand for faster and more accurate forecasts is forcing organizations to rethink their existing data analytics approach and required tools. Sophisticated FP&A teams are beginning to create an end-to-end view of the data analytics process, automating data collection and embracing new analytics techniques such as predictive modeling. Digital world-class finance organizations have a significant head start. They spend 2.4 times more time employing sensitivity, investment and value analysis techniques. They also spend 38% more analytical time focused on proactive decision-making, rather than historical reporting.

THREE

Cloud-based modern architecture

The digital world-class finance transformation involves integrating or retiring legacy systems, adopting emerging technologies, migrating applications into the cloud and integrating data from disparate sources. Modernizing architecture design and managing it effectively are absolutely critical for simplifying the complexity. Probably the most impactful aspect of finance architecture modernization is the transition to the cloud. Our 2021 Key Issues Study projects 25% year-on-year growth in adoption of cloud-based core finance application suites, and most finance best-of-breed applications are now deployed in the cloud.

Digital world-class finance organizations are at the forefront of architecture modernization and cloud migration. They have developed clear capability ownership models within finance via process ownership roles and forged effective partnerships with their internal technology groups, leveraging the deep technical skills required in both finance and the technology organization. Finance organizations with large-scale cloud deployments are 32% more likely than peers to meet enterprise business objectives and 44% more likely to meet finance functional objectives.

FOUR

Operating model evolution

Digital world-class organizations are evolving their operating models from primarily labor-centric to technology-centric. This transition has far-reaching implications for the finance operating model. The model will shift from predominantly functionally aligned resources (i.e., under the control of the CFO) to a hybrid model of functionally and enterprise-aligned resources (Fig. 3). One key change will be the digital enablement of GBS capabilities, creating digital operations that fast-track companies' digital and technology-enablement aspirations. In this future state, the relationship among the finance organization, internal technology group, and the evolving digital operations organization, as well as external service providers, evolves from a rigid hierarchy to a fluid network of resources that can be deployed or redeployed to support the highest-value activities across the enterprise. Our analysis projects that finance resource allocation will shift from 36% enterprise aligned today to 65% enterprise aligned in the future model.³

³Become the Catalyst for Enterprise Agility, The Hackett Group, 2020

FIG. 3 Finance operating model of the future



End-to-end process design and ownership

The expected pacing of transformation and deployment of new capabilities underscores the importance of end-to-end process design and ownership within finance. Therefore, it is critical for the function to ensure it has capabilities designed to deliver the expected outcomes. Customer-centricity must be at the forefront of these designs. In our 2021 Key Issues Study, the leading impediment to finance transformation was process and technology complexity. When a process is executed in a piecemeal fashion, it is not only more expensive; it also undermines the ability to respond quickly to changes in business conditions or stakeholder demands. Dedicated global process owners oversee and govern the process, data, and technology capabilities from start to finish and, therefore, can spot bottlenecks and make changes more easily. Digital world-class finance organizations are significantly ahead of peers in this regard. For example, 100% have an end-to-end process owner for the general ledger accounting/consolidation process, compared to only 57% of peers.

Talent

With many processes becoming more technology-enabled or migrating to digital operations centers, leading finance organizations are rebalancing their workforce and increasing FP&A head count as a percentage of total FTEs to improve their ability to foresee change and affect strategic business decisions. Digital world-class finance functions have 41% of total staff in FP&A roles, compared to 28% for peers. Highly skilled business enablement leaders are at the core of FP&A. This role requires advanced analytical acumen to drive insight and technical IQ to deliver operational efficiencies through automation and digitization of work, as well as skills essential to business partnering such as emotional intelligence, relationship management, innovation, and change orientation. This role also requires enhanced understanding of business operations. Digital world-class finance organizations are 34% more likely than peers to have staff with direct operations experience. Those in digital operations roles will also require new skills. For example, they must understand process mining, intelligent automation techniques and customer-oriented service design.

Digital world class correlates with better enterprise financial performance

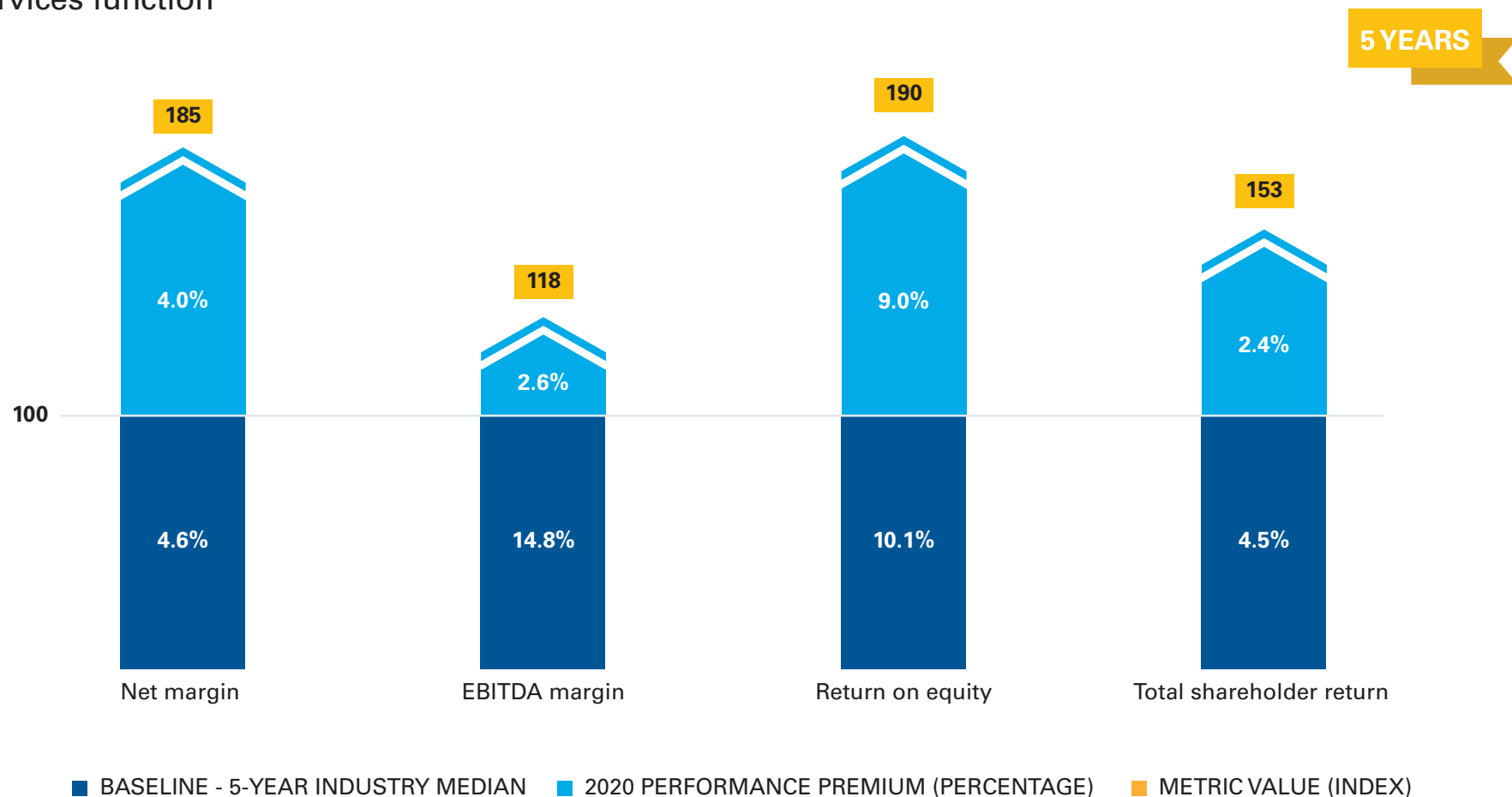
Ultimately, the litmus test for business functions is their impact on enterprise financial performance.

While most factors that drive financial performance are beyond the control of business services functions, any weakness in the finely tuned and interdependent business machinery can and will have an impact. The more digitally integrated and data-centric the operating model, the more this is the case.

Our analysis confirms a correlation between function and financial performance. When we compared companies with at least one business services function operating at a digital world-class level with their industry median, we found a five-year average performance premium across several key financial metrics (**Fig. 4** on page 18). While this advantage is not solely due to having digital world-class business services, these companies do tend to display greater innovation, operational and commercial capabilities, in part, because of their higher-caliber talent, analytical capabilities, and technology architecture.



FIG. 4 Enterprise financial performance of companies with at least one digital world-class business services function



Source: Analysis, The Hackett Group, 2021

In the figure, the index of 100 represents the median performance level for each metric across all industries. The higher index number is the average performance premium achieved by companies with world-class business services function over their industry median. The lighter blue bar represents the actual percentage performance premium for each metric.

An action plan for digital world class

Start with value

- Create a baseline of key performance indicators (KPIs) for your current levels of efficiency, effectiveness and experience.
- Assess the capabilities and maturity of your current finance operating model, resource allocation, and technology effectiveness based on leading and emerging best practices.
- Identify and prioritize performance gaps that outline critical focus areas for accelerating digital progress and future business needs.

Design future capabilities to advance your digital agenda

- Develop the future KPIs required to meet business and finance strategic objectives.
- Define the capabilities needed within the finance organization to support the business strategy.
- Collaborate with other functions to design enterprise-owned capabilities.
- Create best-fit target finance operating model scenarios to accelerate digital strategies.
- Define the digital tools and analytics needed to enable capabilities.
- Determine the digital talent and culture needed.

Create the journey map to achieve your digital world-class aspirations

- Prioritize desired capabilities based on performance gaps.
- Chart the transformation journey, prioritizing technology-led initiatives.
- Develop the conceptual design for the transformative execution and digital operations elements of your future finance operating model.
- Collaborate with the internal technology function to map high-level technology enablement adoption.
- Develop a journey map that outlines investments, benefits and resources.



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Are you ready to close the gap to digital world-class finance performance?

Backed by our unparalleled benchmarking data and best practices repository, as well as experience across the full transformation life cycle, The Hackett Group is ready to support:

- Performance benchmarking and best practices
- Digital transformation strategy, smart automation and analytics
- Finance and GBS delivery model design, implementation, and optimization
- Talent management, skills and competencies, role definition, and career pathing
- Enterprise performance management and analytics
- Technology road map, cloud migration and modern architecture
- Master data management and architecture
- Transformation management office, change management and communications implementation
- Sales, general and administrative cost optimization
- Working capital and cash acceleration

**Can your organization achieve digital world class?
Contact us to learn how.**

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