

WHAT IS DIGITAL F&A AND WHY  
SHOULD CFOS CARE?

# Enhancing the Customer Experience and Delivering Critical Insights

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## INTRODUCTION

Traditional Finance and Accounting (F&A) operations are characterized by a myriad of incompatible software tools, limited and inaccurate performance data and cumbersome, labor-intensive business processes. As a result, F&A performance often remains sub-optimal. Over the past five years, finance has benefited significantly from technology advances such as new age, end-to-end transaction processing platforms and improved reporting tools. Progress, however, has tended to be piecemeal and for the most part has lacked an overall “end state” vision in the context of business requirements.

Today, the explosion of “Digital” technologies – including SMAC, Robotics and Big Data – is further raising expectations for CFOs to place the end customer at the center of a reimagined world of finance. But despite the alluring possibilities, a vision of what constitutes Digital F&A remains elusive, as does a clear understanding of the best path to achieve the desired end state.

This ISG white paper – co-authored with EXL Service – examines how digital transformation can enable CFOs to deliver a positive experience to internal customers as well as provide the business with actionable data that enhances operational efficiency, addresses critical requirements and delivers a competitive advantage. Specific topics addressed include:

- What is Digital F&A
- Customer centricity and insight generation
- State of the market
- The transformation journey
- Keys to success

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## DIGITAL ENABLEMENT

True digital enablement isn't about adding layers of technology or automation, or about putting some lipstick on the proverbial pig. Instead, it's a radical rethinking of how business gets done.

Digital transformation focuses on three core elements: processes, technology architecture (including process automation) and people. In this context, Digital F&A focuses on two elements: ultra-customer centricity and insight generation. Process automation is characterized by the leveraging of emerging technologies – front-to-back automation, straight-through processing using end-to-end platforms and robotics, domain-specific customization and embedded analytics, mobility and a move to cloud-based service delivery. This technology transformation is coupled with a fundamental redesign of finance operations and processes that places the business customer at its center, enabling the delivery of real-time, contextual and relevant insight into business requirements.

## ULTRA-CUSTOMER CENTRICITY

Traditionally, F&A organizations have been hampered by outdated technology, inefficient processes and lack of resources to drive innovation. As a result of these structural constraints, internal business users often have a negative view of the F&A function, and from a customer experience standpoint, the department is often perceived as difficult to work with. As a practical example, consider the salesperson who spends hours each week submitting expense reports – painstakingly gathering, PDF'ing and uploading receipts one by one, accessing an intranet portal and categorizing expenses line-by-line.

The stereotypical view of the F&A organization as a clunky anachronism is changing. According to a recent ISG Insights™ Research Alert, cloud-based, modular finance management solutions are not only the norm for new software, they are becoming the de facto standard. Digital technology is seen as enabling flexibility and transparency, and promises a “do more with less” capability by supporting business growth without additional operational expenditure. To execute on this strategy, finance must become integrated into the enterprise rather than function as a separate entity.

External reality and daily life are also redefining expectations and driving the customer centricity imperative. Salespeople who become accustomed to checking their bank balance from their smartphone, or depositing and withdrawing funds without handling paper or entering a branch, will have little patience with an accounting department that requires endless paper-shuffling and hoop-jumping.

To accommodate this new reality, F&A organizations must look beyond back-office process enhancements and internal F&A functional improvements and view technology capabilities in the context of making life easier for the customer. More specifically, it's no longer sufficient to

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apply automation tools to existing F&A processes to reduce costs and make the department run faster and smoother. Rather, CFOs must redesign those processes from scratch, and place the customer at the center of that redesign effort. The approach is quite simple – talk to business customers and end users of F&A services. Ask them what they would like their experience with F&A to look like. Such an exercise results in a completely different view of how finance should be organized.

More importantly, a customer-centric approach creates a completely different experience for the business user, one that leverages SMAC capabilities and is characterized by multi-channel access, responsiveness, simplicity, intuitiveness and personalization. In a digitally enabled environment, the salesperson filing an expense report accesses a dashboard on a mobile phone, clicks on a camera phone to capture a receipt and then clicks again to rout the expense to a manager for approval.

To take another example, consider the traditionally bureaucracy-laden realm of procurement services. For users accustomed to the seamless experience of Amazon, filling out multiple forms and obtaining multiple approvals to purchase a simple item can be frustrating. Today, new procurement platforms such as Coupa and Tradeshift offer feedback and chat features, as well as the ability to view other purchases and check pricing and alternative products.

From the CFO's perspective, a more positive customer experience delivers the business benefit of increased compliance and less likelihood of users circumventing the procurement function.

## **INSIGHT GENERATION**

To be effective, F&A organizations require data that is accurate, timely, consistent and relevant to intended audiences. In most F&A organizations today, however, data resides in disparate locations, in myriad formats and in multiple time zones, making it difficult for other parts of the business to access and work with that data. And because cleansing, reconciling and consolidating data are time- and resource-intensive activities, F&A organizations have less time to do the analytical work that can improve internal processes and add value to the business.

Today, the F&A function is increasingly moving towards a model of “real-time” financials – of instantaneously tracking revenue and expenses and integrating financial operations directly into the business. In addition, the scope of data analyzed by F&A is expanding beyond internal operations and transactions to encompass data on competitor activity and market trends. Increasingly, the expectation of the business is for finance to provide “Strategy-as-a-Service,” in the form of prescriptive recommendations based on deep insights.

In parallel to these trends, CFOs are redefining their role in the modern enterprise. According to ISG Insights™ research examining the shifting role of the CFO, the footprint of finance leadership has expanded substantially to include such new areas as business risk management and revenue growth responsibility. The evolution of F&A analytics from a purely

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operational view to a global perspective can support this contribution to business value. With the ability to analyze data on competitor activity and global markets and model alternative scenarios, for example, CFOs can contribute to initiatives aimed at speeding time to market, identifying potential acquisition targets and highlighting emerging market opportunities.

In the transformed state of a digitally enabled enterprise, seamless, relevant, transparent and instantaneous data from internal and external sources is presented in a clear and compelling manner through intuitive dashboards and visualization tools. This capability represents a critical business opportunity.

If every transaction becomes a potential data point on buying patterns or customer behaviors, marketing departments can use that data to more precisely segment target audiences and craft strategies accordingly.

As additional examples, sales teams are better equipped to assess the success of a campaign, logistics departments gain additional insight into inventory management and manufacturing can more effectively plan production. Or, to return to the example of a digitally enabled procurement function, analyzing and contextualizing data are essential to enabling users to compare prices of products and determine if their purchases fall within budget parameters.

For CFOs in heavily regulated industries such as financial services, pharmaceuticals and healthcare, meanwhile, compliance requirements are becoming increasingly stringent. Auditors demand accurate, auditable and timely data, and CFOs who view the auditor as a valued customer and who can design data tools to make the auditor's job easier add significant value. Both buyers and sellers of F&A services are recognizing the importance of this opportunity.

## **THE TRANSFORMATION JOURNEY: THREE ELEMENTS**

The journey to true Digital F&A requires a comprehensive business strategy and involves a multi-faceted and holistic approach comprising three key elements: process, technology and people.

### **PROCESS**

Efficient business processes are essential to ensuring that business insights are accessible to and acted upon by the business in a timely manner.

On one level, the foundational capability to manage traditional F&A processes around financial transactions is imperative to achieving the “real-time” financial reporting capability businesses increasingly demand. If month-end book closings are delayed, the resulting financial dashboards will offer scant insights and will be of little value to the business. Today, many enterprises have a significant gap with regard to timeliness of data and the need to streamline processes around their core functions.

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At the same time, F&A organizations are being called upon to go beyond analysis of internal financial transactions to assess external conditions. While finance has traditionally been called upon to provide an internal, historical perspective, today the expectation is for much more forward-looking and predictive insight that takes into account the competitive and market landscape. Forecasts, margin improvement and trend analyses, decision support, new product financial evaluations and strategic planning are all now important aspects of the F&A function. The question from the business used to be, “How’d we do this month compared to last month?” Increasingly, that question is becoming, “How’d we do this month compared to our competitors?” Capability for modeling potential scenarios and conducting “what if” analyses are now expected from F&A, and these expectations will only increase with time.

Achieving insight into such questions requires effective processes around accessing external data, processes around collecting, standardizing and analyzing that data, and processes around how the data are communicated across the organization.

A fundamental rethink and redesign of existing processes are essential – using design-thinking principles, customer journey maps and other techniques to extend beyond transaction processing to encompass the redesign of underlying support processes related to data management and control. In other words, if support processes remain analog and slow, the benefits of customer centricity and agility will remain elusive.

The challenge lies in the fact that most finance processes traditionally are designed around compliance, control and efficiency, usually in that order. The digital paradigm, meanwhile, requires the customer perspective of convenience, simplicity and insight. This additional and often competing expectation requires a much more creative way of looking at restructuring existing processes.

Effective use of data analytics to generate insights is not about getting access to “more” information. In fact, business users – whether internal to finance or in other departments – typically seek answers and solutions to specific problems. A truly digital process therefore understands and anticipates what questions will be relevant in the context of the business and the user, and leverages data and analytics to quickly home in on the right information and provide meaningful insight.

## **TECHNOLOGY ARCHITECTURE**

Technology architecture constitutes the heart of digital enablement and is essential to achieving integrated front-to-back automation that eliminates the bottlenecks that can undermine the overall customer experience. Every element in the technology architecture, including data organization and availability, must scale up to support the front-end capabilities that are being brought to the end user.

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Robotic Process Automation (RPA) tools that rapidly process data in a cost-effective and minimally disruptive manner are emerging as a key enabler of this integration. RPA applications use if/then business logic rules to execute repeatable tasks in the same way that people do. They are inexpensive and easy to implement, typically run on local servers and require a minimal level of IT resources and support. By leveraging their “swivel chair” capabilities, enterprises can use robots to quickly and accurately access, scrub and consolidate data from multiple disparate systems.

RPA tools also provide an efficient and cost-effective means to bridge the gap between legacy systems and the requirements of the new digital enterprise. Specifically, the flexibility and ease of deployment of RPA means that the tools can operate quite successfully on top of suboptimal IT architectures and convoluted business processes. Frequently, these tools are used for closing gaps in ERP systems and enable straight-through, touchless processes. In other words, RPA tools allow you to get the job done without rebuilding the house – which is critical to an effective digital transformation strategy.

While the operational benefits of RPA are significant, the tools are limited in the sense that they lack any true Artificial Intelligence (AI) or “learning” capability; they perform the functions they’re taught to do, but are unable to adapt based on experience or to gain new knowledge. More advanced cognitive tools, meanwhile, have the potential to apply pattern recognition and reasoning capabilities to review huge volumes of unstructured data and sift it into various buckets for more targeted analysis.

Enterprises seeking to enhance their digital F&A capabilities are taking note of RPA and cognitive tools. Indeed, RPA is today part of every F&A sourcing discussion, and applications in collections, order processing, invoicing and reporting are becoming increasingly common. That said, if buyers had a better sense of RPA capabilities, the technology could be delivering even greater positive impact as part of a broader outcome-based business strategy.

Keep in mind, however, that RPA should not be seen as a replacement or alternative for traditional SMAC capabilities. Before companies can automate the processes that put customers at the center of their businesses, the processes themselves must be in place. These include capabilities for omnichannel engagement across the user’s platform of choice, analytics that generate insights for cost and efficiency gains and the ease of access allowed by cloud-based platforms. A solid foundation of these technologies enables an easier and less costly RPA implementation that further optimizes these key areas.

## **PEOPLE**

Digital F&A capabilities require people who can analyze massive volumes of data in the context of business needs and identify meaningful nuggets of insight that enable effective action. Industry expertise and strategic thinking, as well as the ability to run what/if scenarios and predictive models, are essential skills. In most F&A environments, however, traditional

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CPA skill sets related to audit, compliance and accounting tend to dominate. The business culture of F&A, moreover, has tended to be siloed and control-oriented, with clearly defined interfaces with other departments. To succeed in a digital environment, a fundamental change in mindset is essential – one that emphasizes collaboration and agility, as well as a combination of hard analytical, strategic and business skills along with soft skills like customer orientation.

In terms of a people strategy, skills and culture are the two fundamental and often-overlooked elements of success. In terms of skill, the pervasiveness of digital technologies – particularly analytics – is creating the need for a new breed of “data savvy” finance executive who can leverage insights from data to help drive business strategy and prescriptive, targeted recommendations in rapid response to ever-changing business situations.

While hard analytical, programming and statistical modeling skills are arguably specialist roles, all finance executives will need to develop a much deeper and more contextual understanding of enterprise data, one that goes beyond finance to include operational, industry, customer and strategic dimensions. As this paradigm shift moves the traditional (and increasingly automated) accounting- and control-centric finance role to a more strategy-centric dimension, CFOs must rethink the fundamental competency set for the finance function.

The incumbent culture of an organization, meanwhile, is one of the most critical factors in the pace of digital transformation. Most functions – and finance is no exception – are not wired to operate in a “digital” world that requires functions to be nimble, aligned and highly responsive to customer needs. This capability requires the breaking down of traditional siloes and a shift away from the traditional SLA mentality. Finance in particular needs to take a lead role in creating a culture of collaboration across functions, by de-layering decision-making and simplifying control structures.

To acquire the necessary capabilities, CFOs will need to follow a combination of strategies, including up-skilling their F&A staff through structured training programs, stepping up external recruitment and facilitating internal transitions from the front-end business and strategy functions.

## **STATE OF THE MARKET**

While most large enterprises have a long way to go before achieving true digital F&A capabilities, many are pursuing elements of a transformational approach. ISG Insights™ characterizes today's buyers of F&A services as follows:

- Hangers On - A shrinking percentage seeking to preserve legacy systems and operations as they are, with marginal investments in solution enhancement and process improvement;
- Service Sourcers - A current majority outsourcing to optimize Finance process and system operation and management through the use of industry/market-oriented provider services;

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- Cloud Adopters - An emergent percentage hoping to extend Finance's operational and technological integration throughout the enterprise via adoption and adaptation of cloud-based platforms that enable and enforce business data unification and, in turn, a comprehensive, strategic digital transformation.

In assessing the sourcing landscape, ISG Research finds deals worth at least \$5 million in which F&A processes were in scope are shortening from an average of 6 years a decade ago to an average of 3.5 years in 2016. This means buyers must take on more responsibility in working with their service providers to address process inefficiencies. Moreover, ISG finds that buyers are becoming less interested in sourcing low-cost labor, and are focusing instead on best practices, business outcomes and the ability to leverage new technology. In this environment, buyers must commit to identifying opportunities for RPA and smart machines to handle structured and unstructured data, and to seek service providers with proven maturity models and tools to reduce the time and cost of process optimization.

### **KEYS TO SUCCESS**

The concept of "transformation" by definition implies a fundamental and dramatic change that can't be accomplished in a piecemeal fashion. In reality, however, effective transformation initiatives are often characterized by a start-small, focused approach designed to move the needle by addressing a clearly defined and specific business problem.

In our experience, it may be easier to take on more traditional transaction processes such as AARP, Procurement or Travel and Expenses (T&E) that are relatively standardized, simple and less domain-centric. These processes tend to lend themselves much more to end-to-end automation, making digital enablement relatively simpler. These processes, moreover, can serve as a useful test bed to determine the effectiveness of finance's Digital strategy.

A top-down approach (where the "top" is the problem to be solved) enables a CFO to scope a change initiative in a way that fulfills a requirement. For example, a business user might say, "It currently takes 10 days to receive these 20 pieces of information. I need them in 24 hours." Based on this requirement, the CFO can define the skills, technology and processes needed to address that need. Subsequently, by focusing on additional business problems, the process of transformational change becomes scalable and manageable from a budget and human resources perspective. And by virtue of solving problems and eliminating pain points, the change process gains support and builds momentum.

Lessons here are to avoid a "boil the ocean" strategy that sets unrealistically high expectations, and to recognize that business users typically have a relatively short list of problems to be solved. Relatedly, addressing a discrete set of issues doesn't require a wholesale replacement of existing systems, but rather the integration of specific tools and a streamlining of processes within a particular part of the organization. Timing is key – projects should be scoped to deliver results within 90 days. Again, proof of concept and scalability are essential ingredients

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of success. And while the goal is transformational, the end state is reached through a step-by-step process down a path rather than a leap across a chasm.

Managing the pace of change and the transition to a new digital operating model is also critical. Businesses must consider how to “keep the lights on” while exploring disruptive new ways of working. And while traditional enterprises can certainly learn from the innovative practices of their disruptive peers, they must work within the context and constraints of their existing organization and craft their strategies accordingly.

Another key element of a successful digital transformation strategy is effective collaboration with the IT function. IT involvement is essential to ensure integration of front-end interfaces and back-office systems. Absent that integration, capabilities will be compromised, so that, for example, financial dashboards will lack real-time access to critical data.

From the CFO's perspective, working with the business to build a partnership with the CIO is imperative. The challenge here is that CIOs typically face a long list of pressing priorities, so gaining support requires a business case that positions the CIO as a strategic contributor to the business. Here again, a customer-centric approach can facilitate buy-in and engagement.

## **CONCLUSION**

Global businesses today are challenging the whole notion of the traditional F&A function. Seeking to leverage technology, people skills and process optimization to transform their operations, CFOs aim to provide a new level of value to the business in terms of enhancing the customer experience and providing critical insight through data analysis and presentation.

While progress is being made, the digital journey is by no means an easy one, and formidable challenges related to upskilling, technology adoption and organizational change must be overcome. Ultimately, success requires a fundamental change in mindset and a fundamentally new approach to doing business.

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