Building Trust in an Uncertain World

BLACKLINE

Digital Finance Transformation
PLAYBOOK

"Today's CFO wields more influence than ever before with top management, and is expected and encouraged to take on ever-greater tasks of leadership."

—CFO EVOLUTION SURVEY, ARMANINO LLP

Building Trust in an Uncertain World

There's much about today's business to be admired: its ability to innovate, to stimulate economies, and to foster competition that leads to thought and leadership growth.

FAST FACTS

SPOTLIGHT ON BUILDING BUSINESS TRUST

CAN BUSINESS BE TRUSTED?

TRUST: A DIMINISHING ASSET

People's trust in US companies dropped from 61% to 50% between 2014 and 2017.[1]

BUSINESS REPORTING EFFECTIVENESS IS CHALLENGED

72% of CFO-level respondents say the need to align reporting with ever-changing accounting standards is affecting reporting effectiveness.[2]

[1] 2018 Edelman Trust Barometer
[2] Can innovative corporate reporting build trust in a volatile world? EY, 2017

Today's businesses suffer from a kind of credibility gap. That is, a lack of trust among the world's populations.

Mention Enron, WorldCom, or Lehman Brothers and thousands of people—including lawmakers and regulators—recall all too quickly how many lives can be damaged by the actions of a business run badly.

It's no surprise that business, and particularly big business, suffers in the eyes of the general population. Comprehensive new controls were put in place following the Enron disaster. Enron and other scandals led to the passage of the Sarbanes-Oxley Act in 2002 and the creation of the PCAOB, the Public Company Accounting Oversight Board.

Yet a 2017 Gallup report shows that, since 2002, big business has been scoring about a 20 percent confidence rating. And it's not unusual to see newspaper opinion pages bemoaning the lack of honesty among businesses.

As Karen Yeung, professor of law at the Dickson Poon School of Law, King's College London and the director of the Centre for Technology, Ethics, Law & Society noted in a 2015 New York Times op-ed, "Firms lack sufficient incentives to set, comply with, police, and punish violations of their own standards, and markets cannot ensure that firms will behave with integrity."[3]

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> —KAREN YEUNG, PROFESSOR OF LAW, KING'S COLLEGE LONDON

THE CFO'S CHALLENGE →

CFOS WANT TECHNOLOGY TRANSFORMATION

71% say that the future success of their company is dependent on their technology infrastructure.[4]

THE NEED FOR TRANSFORMATION IS CLEAR

World-class finance organisations operate at 45% lower cost than their peer group.[5]

MANY CFOS STILL TIED TO LEGACY SYSTEMS

Just 40% of CFOs believe the financial close will be replaced by real-time reporting by 2030.[6]

[3] "Very Few Businesses Can Be Trusted," Karen Yeung; New York Times, 11-10-15
[4] *CFO Evolution 2.0: The Path To The Transformational CFO*, Armanino
[5] *The Digital World-Class Finance Performance Advantage*, The Hackett Group, 2017
[6] *Future of the Finance Function Survey 2017*, FSN, 2017

Trustworthy Data: An ECO in the Numbers Factory

Trust in the numbers, the data produced by the invoices, payments, and expenses of any business, is not just an esoteric concept. It's as real as the extra costs—in dollars, time, and even reputation—that can be exacted when that data goes wrong.

Consider what can happen to an automobile maker when an error in design, say for a steering gearbox, travels undiscovered through assembly and into production. The error is finally discovered. The engineering group issues an engineering change order, or ECO. The production line, already underway, must be stopped. Costs mount as the plant stops production. Time is wasted, and the company's reputation may also suffer.

Accountants like to compare the accounting function to a numbers factory.

FAST FACTS

SPOTLIGHT ON BUILDING BUSINESS TRUST

SOLUTION: TECHNOLOGY TRANSFORMATION →

CLOUD ACCOUNTING PROCESSES KEY TO FINANCE TRANSFORMATION

82% of management accountants say cloud technology will make business processes more effective and efficient.[7]

CFOS MUST ENCOURAGE TECHNOLOGY INNOVATION

60% say CFOs should play an active part in encouraging technology deployment and innovation.[8]

[7] The Effects of Cloud Technology on Management Accounting and Decision Making, CIMA, 2015
[8] Future of the Finance Function Survey 2017, FSN

The numbers (data) make up the disparate parts, and the accounting processes connect and form the numbers into larger components that go into the final products. These are the quarter- and year-end financial statements, which are sent to "The Street."

If a material error in the numbers is propagated through to these reports, the resulting misstatement can do at least as much harm, in the cost of reputation, as the ECO did to the automaker.

For the Office of Finance, and for the enterprise, a material error in accounting can also incur some serious penalties. Accounting staff may have to redirect their efforts to find and correct the error or errors. Ongoing processes may have to stop and wait for the corrections. Labour costs jump up; other reporting might be delayed; and the damage to the reputation of the company's officers can be, as the credit-card saying used to go, "priceless."

One of the world's largest independent accounting and consulting firms, Armanino LLP, published a 2016 study—its CFO Evolution Benchmark Survey—to look at how the CFO can spend less time on accounting management and more time on strategic value. It shouldn't be surprising that five out of the six recommendations directly involve technology and processes:

1. Standardise and improve processes
2. Drive improvement with technology
3. Provide effective KPIs
4. Integrate technology
5. Provide accurate forecasting
6. Support growth and expansion

The survey also found that fully 94 percent of CFO respondents think they need better technology skills, and 64 percent are currently working on upgrading their skills. The challenge for the CFO is not just finding the time to learn, but how to best approach the quest for excellence in the numbers factory.

AUTOMATION WILL REDEFINE THE FINANCE ROLE

69% of CFOs say the finance leader role will change fundamentally as more finance tasks are automated.[9]

[9]The DNA of the CFO: Is the future of finance new technology or new people? EY

"The challenge for the CFO is not just finding the time to learn, but how to best approach the quest for excellence in the numbers factory."

—VENTANA RESEARCH: THE VALUE OF CONTINUOUS ACCOUNTING FOR BUSINESS

Automation Technology: The Good News

The CFO can play a major part in helping to avoid the mistakes that can lead to reporting errors. But a 2017 study of CFOs and senior finance managers by FSN: The Modern Finance Forum, found that only 6% of respondents felt confident that they understand the different technologies available today, while only 31% think they "broadly" know what technologies are available.

Results like these may seem dire, but hope for improvement can also come from the new technologies themselves. For instance, much accounting automation technology can be implemented incrementally since it's made up of integrated modules.

CFOs can make the best use of their time not by delving into the bits and bytes of every new product, but by understanding and evaluating new offerings according to their most important foundational technologies.

Also, because most new development is now coming from cloud-based solutions, organisations don't have to run the risk or spend the time and capital necessary to install, test, and maintain new or dead-ended computer systems. And the better automation solutions feature "sandbox" platforms that let the organisation fully test the new modules before they take on production work.

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Here's what CFOs should look for.

Unified Cloud Platform

The quest to create quality trustworthy data must begin at the source. That is, the core automation platform itself.

Once data enters the platform database, that core data—consisting of everything from the accounting numbers themselves to their process algorithms and reporting structures—should flow out to the various automation applications without alteration.

Changes that are made, and there are many during the day, will always be

SURVEY RESULTS

FSN: THE MODERN FINANCE FORUM

6%
Confident in different technologies available

31%
Broadly know what technologies are available

In accounting automation, the unified cloud platform serves two essential purposes:

1. It guarantees that all applications and processes are working with the same core data.
2. It simplifies the process of adding newer components to the basic system; adding, say, transaction matching capability to an in-place account reconciliation application.

reflected back in the core platform. The concept is similar to the design of data warehousing and business intelligence systems, where a "single version of the truth" serves as a dependable source of data at all times.

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   In non-unified systems, adding more capabilities may mean adding more complexity, therefore increasing chances of data or process errors.

Process Intelligence

A singular benefit of accounting automation over manual, spreadsheet-based accounting lies in the ability to collect and make use of information gathered during the day's accounting activities.

Once collected, that information can be used in a multitude of ways. For instance, a basic process understanding allows managers to set rules—or activate pre-set rules—to prevent fraud or missed items. Examples are limits on transaction amounts, or segregation-of-duties safeguards that prevent the same person from serving multiple functions in the preparer-reviewer-approver cycle.

A higher level of intelligence and automation brings higher-level benefits. For example, intelligent workflows automate the review/approval processes to make sure statements are reviewed on time and by the correct personnel.

Even greater benefits can come from built-in process intelligence that measures the performance of the processes themselves, and can thus be used to create benchmark KPIs that drive continuous process improvement.

This pays significant dividends both in shortening close cycles and reducing process costs, and can go a long way in elevating “trust in finance” among company business units and non-finance executives.

It’s also an essential element of Continuous Accounting. This is the process of evening out the traditional peaks and valleys that create extra stress and increase the chances for errors in conventional period-close activities.

Robust, Scalable Reporting Architecture

So-called “big data” may be a blessing to analytics professionals. But the mounds of new data coming in from all parts of the enterprise can create serious challenges for the accountants, controllers, and CFOs who constantly look for ways to shrink—not expand—their period closings.

Yet the rapid growth in data sources forces accountants, controllers, and CFOs to maintain professional excellence with nary a hiccup. This is thanks in no small part to the burgeoning Internet of Things, as one example, and the inevitable growth in industry regulations as another.

Key to handling the growing volumes of data, and to handling it without error, is the robustness of the finance group’s reporting methodology. It’s well known that spreadsheets can’t handle extra-

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large data sets; they tend to top out before 100,000 rows, for example.

This means that the user must dial up the data in sections, then add them together to get the full report. And a number of things can go wrong. The source data might change while the report is in progress, for instance. Or the user might introduce an error due to the constant swapping and handling of large data sets.

A similar danger applies to reporting products that require the user to exit the accounting application in order to start up a separate reporting tool. Moving data from one application to another carries inherent risks, all the more so when one is working with very large data sets. And again, the source may change.

Beyond these faults, the user is hardly encouraged to think creatively about what he or she might want to see in the report, or in a subsequent "what if" analysis.

Finally, the reporting architecture should deliver results in a clear, engaging way. Today's best reporting architectures use visualisation techniques to help users quickly absorb their meanings.

A visualisation capability helps the CFO share report results with others in the organisation, such as business unit managers and other executives. This can help propel the CFO toward taking more of a leadership stance in the company.

Bringing Clarity Into a World of Risk

Taking over data management leadership will be a natural path forward for future CFOs. They will have the ability, the means, the staff, and most importantly: the trust of others.

They will then also have the opportunity to extend that trust outward, to confront the uncertainties of the future.

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