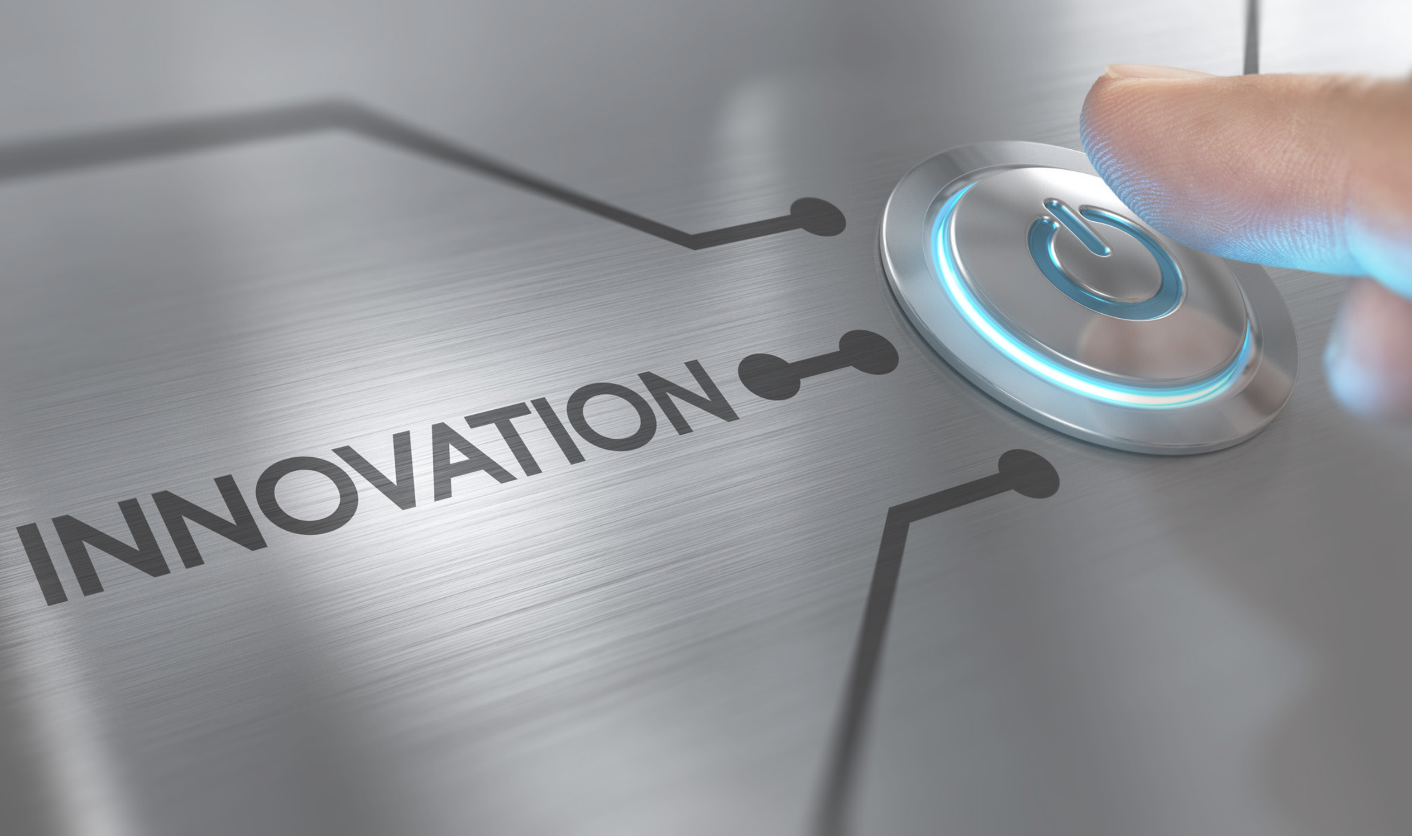

Innovation in the Finance Function

Global Survey 2018

Insights from the FSN
Modern Finance Forum
on LinkedIn

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The Modern Finance Forum

With thanks to our sponsors

Gary Simon
CEO FSN & Leader of the Modern Finance Forum
LinkedIn

Dear Colleagues,

FSN's Innovation in the Finance Function Survey 2018 is one of the largest surveys of its kind covering responses from than 1,000 senior finance professionals worldwide. It is the first time that there has been an in-depth study of attitudes to innovation in the finance function and it reveals startling insights about the appetite for finance innovation, including the impact of culture, attitudes to risk, organizational politics, style of project investment and levels of confidence in measuring return on investment.

The research shows unequivocally a strong link between innovation in the finance function and performance. Those organizations that are early adopters of technology or invest in innovation in a balanced way across the enterprise outperform organizations that are diffident, less structured in their investment approach and risk averse. Innovative finance functions close their books faster, produce more accurate financial forecasts and are less tied to legacy systems and traditional ways of working. Furthermore, innovative finance functions attract the best finance talent, leaving everybody else in their wake.

Encouragingly, 34% of finance functions are actively involved in innovation with around two thirds of these, pursuing opportunities for innovation more widely across the enterprise. But the study also finds that what constitutes innovation is very much in the 'eye of the beholder'. For around 20% of respondents it's a new ERP system and for another 20% it's about driving insight through enterprise performance management applications. However, 35%, remain shackled to legacy systems. These finance functions must console themselves with innovations at the margin i.e. relatively small changes in standardization, automation and integration. And for some, finance innovation is about how the finance function is organized rather than the latest digital technologies.

Regional differences, especially between economically advanced and developing nations colors attitudes to whether innovation is supported and, if it is does have management backing, where investment is most needed. Nevertheless, wherever finance professionals reside and no matter how sophisticated their investment plans, all agree that the number one priority for innovation is around the need for better business insight.

The report also identifies the principle obstacles to innovation. Chief among these is an inability to measure the return on investment in technology. There is clearly cause to be optimistic about innovation in the finance function but there are also some formidable challenges. For example, more than 65% have yet to get their 'hands dirty'.

We hope that you find the survey's findings set out in this document thought-provoking and interesting. But above all we hope that the contents of this report together with FSN's "Innovation Showcase" to be released later this year which describes the latest innovations in the vendor community, will inspire you to explore and discuss innovation in your own organization with your colleagues.

Gary Simon

Gary Simon
CEO FSN & Leader of the Modern Finance Forum

Executive Summary

Innovation Survey Executive Brief

Innovation is the process of introducing new ideas or inventions to bring about more effective processes, products or ideas. In business, this could mean creating better products, improving services, or improving the processes that support these products or services. Throughout history, organizations have had to innovate to remain competitive, by inventing new products that people want or need, or by offering a better service than anyone else in the same industry. In the decades before the advent of ubiquitous computer technology, innovation occurred gradually. Since then though, it seems the pace of change has become so rapid, it's sometimes hard to keep up.

Organizations face a daunting future where existing competitors are constantly innovating, while new start-ups reinvent entire business models. Inertia is not an option, they must innovate, within the finance function and across the wider organization, or run the risk of obsolescence. And they need to do it now. Because early adopters of innovation in the finance function perform better.

True Innovators are finance functions that adopt technology early, encourage an active culture of innovation in their organizations, make the time to innovate and reward it. These are CFOs and finance executives who have stepped out from behind the finance desk to take an active role in innovation across the enterprise, not just within their own sphere of influence. True innovators can reforecast more quickly, close the books faster and forecast more accurately than those organizations that ignore innovation or find it difficult to drum up support, financing or time for it. True innovators embrace a culture of innovation, and because of this they have access to talent that can sustain their innovation agenda.

Balancing act

Even if companies do innovate, their decision on where and how to invest also affects performance. Customer-facing technology investment has long been the vanguard of new technologies. But organizations that continue to focus on front-office functions to the detriment of back-office systems, or worse, those that have no strategy for innovation investment at all, are slower and less accurate at forecasting than organizations with a balanced approach. This means looking at the organization in the round, identifying the need in both the front and back office, and ensuring resources are distributed in a balanced manner.

Those companies that approach technology investment with a balanced hand are better at nurturing innovation, they share ideas and skills, there are not afraid to make mistakes and innovation is a priority of their leadership. Balanced tech investors face fewer cultural obstacles like in-house politics or risk aversion, and they find it easier to identify tech-savvy talent to bring about change.

High hurdles

Innovation requires real change, and there are many obstacles to effecting that change. The most prolific are culture, time and a lack of credible and accurate measures of innovation success.

Culture can quickly inhibit change if there isn't a concerted effort, driven from the top, to encourage and foster innovation. Where mistakes are relentlessly punished, no-one will be prepared to try new ideas. And if the finance function is not viewed as a source of innovation by the rest of the management team, it will be extremely difficult to articulate the value of innovation within it and make a case for investment.

To make the case for innovative investment, CFOs and their senior finance executives need to be able to measure the return on investment (ROI), but there is very little agreement on how to go about it. Only a quarter of CFOs believe traditional methods of ROI are suitable measures of innovation success, and they don't capture adequately the intangible benefits of digital innovation.

Sometimes the obstacles to innovation success come down to regional differences in culture. The survey shows that North American organizations are less risk averse, while European companies are held back by the perceived risk of failure. Europe was the most conservative in its approach to innovation, had more issues with finding top talent and was less able to make a business case for innovation than their North American peers. Obviously each business is different, and there are very successful and innovative organizations in all regions, but it is worth understanding these regional differences when CFOs look to tackle the obstacles in their path. That is when they have time…

A tangible benefit of digital innovation is time, but it is also a major reason why innovation is neglected. 67% of CFOs and their senior finance executives say that too many of their resources are tied up with legacy systems and traditional ways of working, leaving little time to innovate. Time is a well-documented benefit of technology investment. Automation frees up finance professionals for more value-added roles, and the new innovations in financial technology, like robotic process automation and machine learning are improving insights and clearing the way for the finance function to become a strategic contributor to the business.

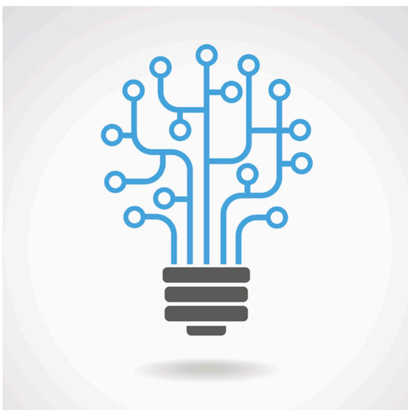
If these obstacles are not overcome, the finance function is in danger of falling behind the rest of the organization and the consequence of this is that organizations itself risks getting left behind by its competitors.

Real world innovation

Successful innovation requires three main ingredients – people, process and technology. Technology may get the most amount of airplay, but without the people and processes to make the best use of technology, innovation projects will fail to produce the desired results. To drive change, organizations need innovation champions and a dedicated budget to most prudently and effectively spend it.

Ultimately innovation depends on context. Where companies are still struggling with legacy systems and outdated methods, innovation looks like a little bit of process automation and a simple improvement in document handling. For around 40% innovation is a new ERP or performance management system. Where companies have already implemented cloud systems that smooth the processes of the finance function, then innovation looks like a new accounting robot or an analytical engine that can learn to uncover insights independently.

Wherever they are along the finance function continuum, senior finance executives recognize the need for innovation and must find the time, cultural imperative and success measures to embrace change and stay competitive.



Chapter 1

Big difference in attitudes to innovation across the world

Big difference in attitudes to innovation across the world

Globalization has leveled the playing field for most organizations, enabling them to sell their wares or services around the world, and offering them the same opportunities and technologies as their regional competitors. But they don't all approach these opportunities in the same way. This survey has very clearly identified major differences in attitudes to innovation around the world. These reflect the cultural undercurrents of national identity and attitudes towards business and change. They are most stark on either side of the Atlantic, where America is the least risk averse while Europe is held back by the perceived risk of failure.

Just 31% of North Americans take a conservative approach to innovation, preferring instead to experiment with and try out new technologies when they become available. This compares to half of Europeans, 49% of Middle Eastern companies and 48% of Africans and South Americans, who believe their approach to innovation is too conservative. Asia Pacific respondents fell squarely between these two camps, with 38% conservative and risk averse.

The cultural reasons behind this are manifold, but fear of making mistakes is a contributory factor. Only 8% of respondents from Europe rejected the notion that "staff are afraid to make mistakes, leading to innovative ideas being shelved". Almost double the number of North Americas disagreed with this statement, suggesting they are far less likely to fear failure, and may even use it to propel innovation success by using mistakes as a basis to learn and progress.

The adventurous spirit of the North Americans means they are most likely to be first to try new technology, with 33% identifying themselves as "early adopters of technology, with an active culture of innovation, across the entire enterprise", compared to just 19% of European finance executives.

The noticeable differences in attitude extend across the globe. South America has the biggest problem with cultural failings and in-house politics, with 67% citing these factors as stumbling blocks to innovation in the finance function. North America found these the least challenging (40%) while 48% of European executives also found these issues problematic.

EUROPE MOST CONSERVATIVE, WITH NORTH AMERICA MOST INNOVATIVE & EXPERIMENTAL

Just 31% of North American take a conservative approach to innovation. (Europe 50%, Africa 48%, Asia Pac 38%, South America 48% Middle East 49%).

FEAR OF MAKING MISTAKES HOLDS BACK TWICE AS MANY COMPANIES IN EUROPE THAN NORTH AMERICA

8% of European CFOs strongly disagreed "staff are afraid to make mistakes leading to innovative ideas being shelved", while almost double (15%) of North American CFOs strongly disagreed.

People power

Technology alone cannot engender innovation, it has to come from the right people and their attitudes to change. Half of Europeans cited lack of technology-savvy talent as an obstacle to innovation in the finance function, compared with just over a third in North America. Certainly, the universities and businesses in Silicon Valley are renowned for incubating this sort of expertise, but it isn't confined to California. Across the entire US, there is a much wider pool of talent from which to draw on, and arguably more of a culture of nurturing from within.

Ultimately though, finance executives have to convince the rest of the C-Suite that investing in finance innovation will deliver tangible returns, which means making the best business case for this use of resources. The survey points to North and South America as best placed to do this. Just 21% of North Americans and 19% of South Americans said the inability to make a compelling business case for change was holding them back on their finance innovation journey. By contrast 37% of Europeans faced this stumbling block.

It's not easy to face up to your own shortcomings, but there are clearly substantial cultural hindrances to innovation in the more conservative regions of the world. That's not to disparage those who choose to venture more cautiously into the unknown, but innovation, however it is implemented, is essential to remain relevant and competitive. More than that though, as the survey will show, there are major advantages to be gained from being early to the innovation table.

NORTH & SOUTH AMERICA SAY THEY ARE BETTER ABLE TO MAKE A BUSINESS CASE

Just 21% North America and 19% South America highlighted making a business case for innovation as a stumbling block to innovation vs Europe 37%

Chapter 2

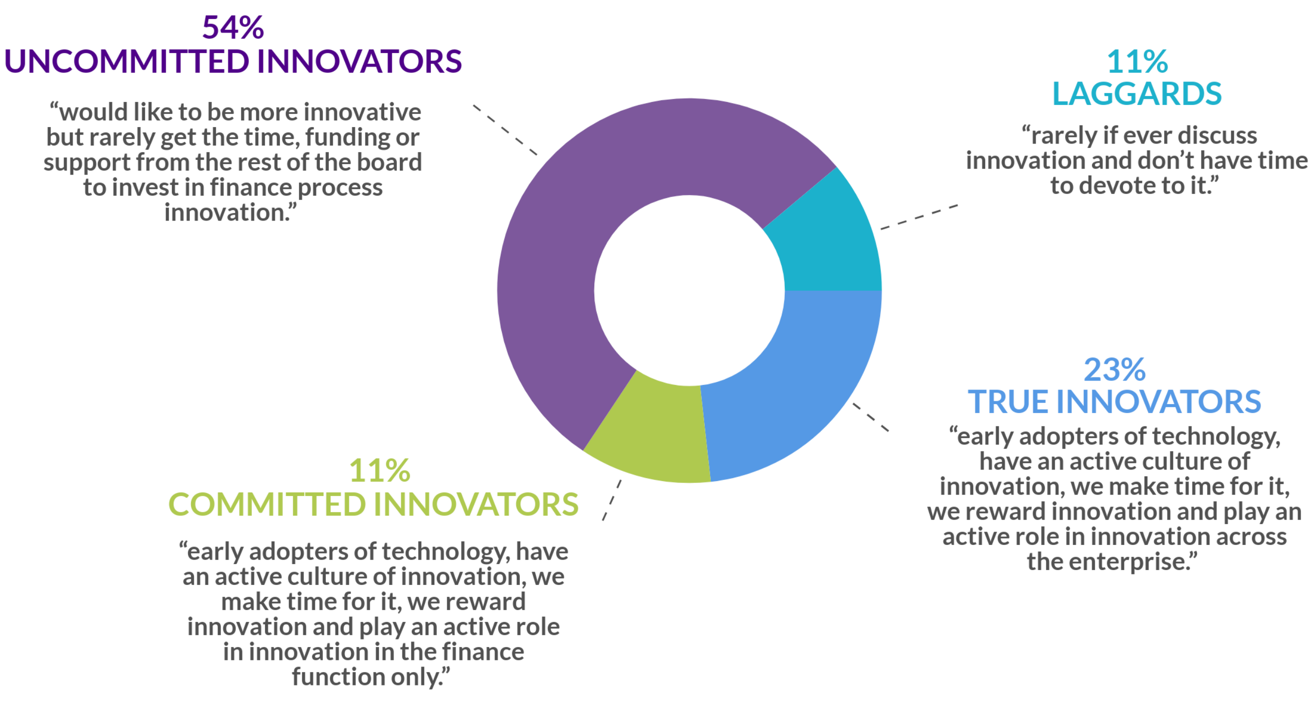
Early adopters of innovation perform better

Early adopters of innovation perform better

In the context of a fast-paced, competitive market environment, innovation seems such an obvious and necessary focus for any business, and yet 65% of organizations are not actively committed to it. The laggards, who make up 11% of survey respondents, “rarely if ever discuss innovation and don’t have time to devote to it”. Another 54% are uncommitted innovators who would like to be more innovative but rarely get the time, funding or support from the rest of the board to invest in finance process innovation.

At least there are the 11% who are early adopters of technology within the finance function. These committed innovators have recognized the importance of being innovative, but have limited it to their own sphere of influence. The remaining 23% are even more dedicated to innovation across the business. True Innovators are those finance functions that are “early adopters of technology, have an active culture of innovation, make time for it, reward innovation and play an active role in innovation across the entire enterprise.”

65% of organizations are not actively committed to innovation



True innovators outperform their competitors across all 3 dimensions; speed to reforecast, forecasting accuracy and time to close the books.

One would expect an innovative organization to have some edge on their competitors, and the survey bears this out, with significant advantages on three key performance metrics. True Innovators in the finance function are able to reforecast quicker, close the books faster and forecast more accurately than their less innovative competitors. 66% of true innovators were able to reforecast within one week, compared with 59% of committed innovators, 53% of those uncommitted to innovation and 57% of laggards.

True Innovators also do better at closing the books quickly. 30% can close the books within three days, compared with 28% of committed innovators, 21% uncommitted, and just 17% of laggards. The results are equally stark for accuracy of forecasting. 55% of true innovators could forecast revenue to within +/- 5%, compared with just 45% of committed innovators, 42% of the uncommitted innovators and 31% of laggards.

The significant difference in performance indicators is not the only concern laggards and innovation poor companies need to worry about. 63% of organizations that don’t discuss innovation believe they are in danger of their finance processes falling behind the rest of the business. This compares to just 16% of early technology adopters.

Laggards are let down by a culture of indifference, one in which they fear making mistakes, ideas are not shared across the business and their own leadership has failed to steer an innovation course.

Laggards are more than twice as likely as true innovators to say too many of their resources are tied up with legacy systems and traditional ways of working, and 61% of laggards are afraid to make mistakes, thus shelving innovation. This compares with just 14% of true innovators, who have long ago realized that mistakes are part of the process of innovation, not a sign of its failure.

Only 9% of early technology adopters fail to share innovation skills and ideas across the business, but 63% of laggards face this significant challenge in their organization.

Getting innovative projects off the mark invariably requires management buy in, but more than half of laggards say that innovation is not a priority for their leadership team compared with 17% of true innovators.

Clearly the leadership team is part of the driving force behind innovation, but they also need technology-savvy talent to navigate the often arduous process of change. Whether as a consequence of their tardiness towards innovation or the reason behind it, 58% of laggards cited lack of talent in the finance organization as a stumbling block to innovation. Uncommitted innovators similarly pleaded a dearth of talent in 55% of cases, while 40% of committed innovators found this an issue. A mere 18% of true innovators struggled to find well qualified people to lead their innovative projects.

The need to innovate in the finance function can no longer be ignored, 63% of organizations that don't discuss innovation believe they are in danger of their finance processes falling behind the rest of the business.

Innovative companies attract innovative people. Almost 90% of senior finance executives would relish the opportunity to lead a truly innovative project, and 73% would even change organizations to be more involved in innovation.

A tech-savvy workforce and a culture of learning, sharing and making mistakes are part of the footprint of an innovative organization. But true innovators also exhibit a balanced approach to technology, they strive for additional insight and they know how to measure their innovation success.

There's no question innovation takes effort, and in many companies the day to day running of the business takes precedent over what may be seen as a luxury they cannot afford. But the cost of ignoring innovation may turn out to be higher than the price of it.

Chapter 3

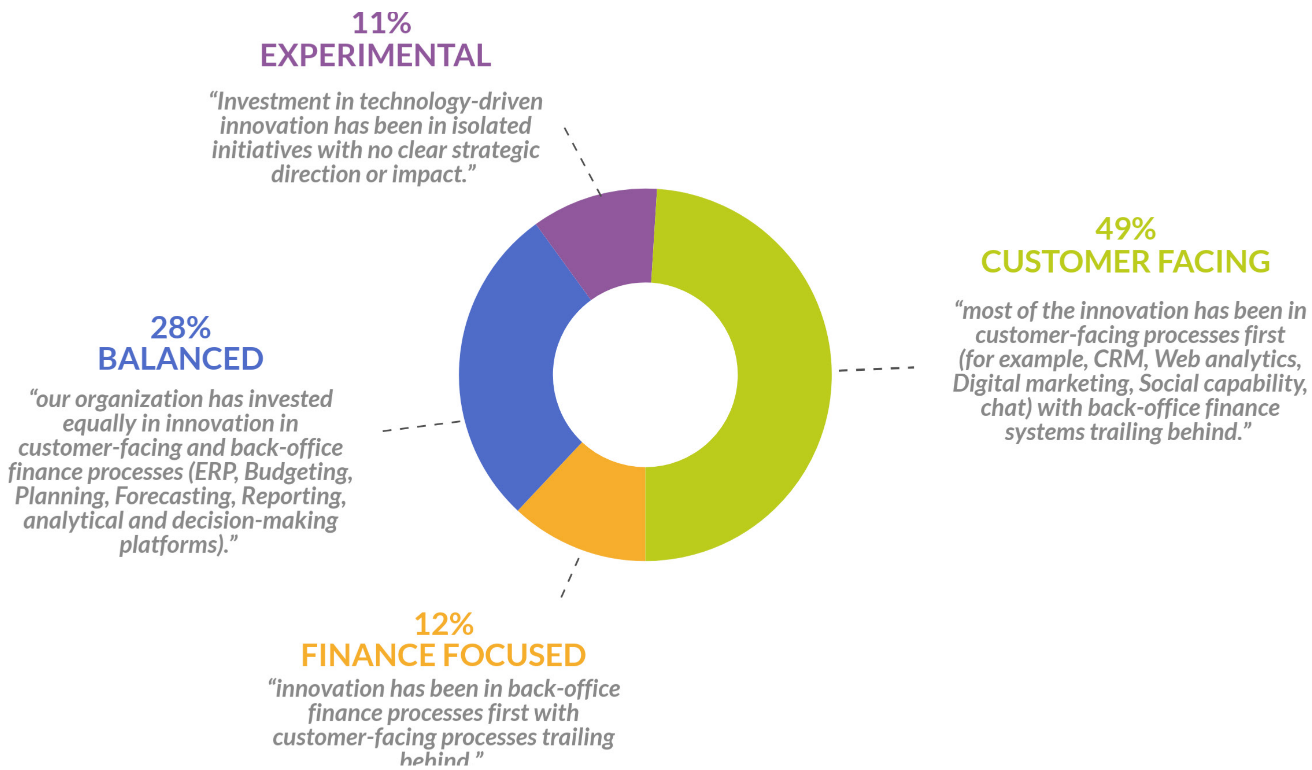
Front and back – A balanced approach to innovation drives best overall performance

Front and back – A balanced approach to innovation drives best overall performance

Being just one online shopping click away from a designer handbag or a pint of milk has immeasurably changed the face of retail. Businesses have to fight harder to attract and maintain customers either online or in store and this has forced them to focus on customer-facing systems. They have implemented customer relationship management (CRM) systems, web analytics and digital marketing in order to compete effectively against the digital behemoths like Amazon as well as the nimble start-ups disrupting the sector. Even in non-retail organizations, the focus has been squarely on attracting new customers, sometimes to the neglect of back office systems and often to the detriment of performance.

According to this survey, 49% of senior finance executives said "most of the innovation has been in customer-facing processes first (for example CRM, Web analytics, digital marketing social capability, chat)" with back-office systems trailing behind. 12% said the opposite, with innovation in the back-office finance function first, with customer-facing processes trailing behind. A further 11% of experimental organizations had very little strategy, with investment in isolated innovation initiatives with no clear strategic direction or impact.

Just 28% of organizations apply a balanced approach to innovation say CFOs



Only 28% applied a balanced approach to investment, strategically selecting both customer-facing systems and back-office finance processes for innovative investment. Previous research (Future of the Finance Function 2016) has pointed to a lack of commitment to linking front and back office functions, but also showed that companies that have prioritized this link alongside standardization and automation had more time to spend on value-added activities, made quicker, more informed decisions and had a better view of organizational performance. This innovation survey bears out these advantages, demonstrating that in at least two of three key performance metrics, a balanced approach is best, leading to better accuracy of forecasting and faster reforecasting.

Those organizations with a balanced approach to innovation outperform on both time to reforecast and accuracy of the forecast. Organizations with a finance focused approach a able to close their books fastest.

64% of organizations with a balanced approach to investment are able to reforecast within 1 week, compared with 55% of customer-facing and finance-led investors, and only 48% of experimental investors. In addition, 52% of balanced investors are able to forecast revenue to within +/- 5%, compared with 44% of customer-facing investors, 38% of finance-led investors and 34% of experimental investors.

Closing the books

The performance measure where finance-focused investment led the way was in the time it takes to close the books – but only just. 64% of organizations who had focused their investment on back office systems were able to close their books within 5 days, compared with 59% of balanced investors, 50% of customer-facing investors and 49% of experimental investors. This could suggest finance-led investment tends towards the traditional areas of accountancy, which help to automate reconciliation, rather than in the planning, budgeting and forecasting areas of finance, which would improve accuracy of insight.

Balanced organizations are more likely to view themselves as true innovators, or early adopters of technology, likely because they have already laid the foundations for innovation in the finance function.

A balance of cultures

In addition to driving better overall performance, balanced technology innovators are also better at nurturing a culture of innovation. Only 18% said innovation wasn't a priority of leadership, compared with 48% of the experimental group, while only 14% of the balanced investors said innovative ideas and skills weren't shared, compared with 35% of respondents who were more ad hoc and experimental in their approach to technology investment. A quarter were concerned that the rate of innovation was too slow and a similar percentage were afraid to make mistakes and so shelved innovative ideas. This compares to 61% and 43% of experimental investors respectively.

Perhaps most tellingly though, 44% of balanced investors worried that too many of their resources were tied up with legacy systems and traditional ways of working. This was considerably less than investors in customer-facing systems at 73%, finance-led investors at 79% and experimental investors at 81%. The implication is that balanced technology investors are already addressing legacy systems, recognizing the limitations of both front and back office processes, and implementing the right technology to improve the efficacy of their resources.

Building the foundations of innovation

Balanced organizations are more likely to view themselves as true innovators, or early adopters of technology, likely because they have already laid the foundations for innovation in the finance function. Just 38% of balanced tech investors said cultural failings and in-house politics were a concern, compared with 60% of customer-facing tech investors, 69% of experimental investors and 71% of finance-led investors.

They were less likely to be risk averse, less likely to suffer from a lack of talent, and less likely to have trouble making a compelling business case for change, than any of the other investment types. Just 30% said their finance function was not perceived to be innovative, whereas around half of all other investor types expressed this concern. And while at least half of all respondents were concerned about not having teams dedicated to innovation, balanced investors were significantly less worried about this than the other investor types.

Driving insight

Insight is fast becoming the key differentiator in a crowded and competitive market.

Organizations all have different priorities and are at different stages of their journey so it makes sense that a company's approach to technology investment will be driven by a variety of motivations. But it is telling that 41% of organizations with a balanced approach to investment felt innovation was most needed to drive better insights about the business. Given twelve relevant options, insight ranked highest for balanced investors. By contrast customer-facing investors felt innovation was most needed to better support the customer experience, finance-led technology ranked improvements in finance function productivity as their most needed innovation, and experimental investors were looking to improve the robustness and dependability of

Decision-making.

The results suggest that each type of investor is at a different stage of their journey, with finance and experimental investors focusing on process improvement, still some way from being able to take advantage of insight-driven change. Meanwhile customer-facing technology investors are in an echo-chamber of customer improvement, ignoring the performance enhancements of a more balanced approach. In fact, a balanced investment approach can lead to a better customer experience as well, by linking front and back office to expedite queries, improving demand forecasts to ensure uninterrupted supply and improving efficiencies so that resources can be invested in the customer.

Insight is fast becoming the key differentiator in a crowded and competitive market. Yes, organizations must provide a great customer experience, high productivity and solid decision-making, but these days that will only maintain the status quo. Insight, used insightfully, will push companies to the forefront of their industry, and to do that they must balance their technology investment at both ends.

Dominant investment priority by approach to innovation

BALANCED

Looking to drive better insights about the business

41%

CUSTOMER FACING

Looking to better support the customer experience

50%

FINANCE FOCUSED

Looking to drive improve finance function productivity

43%

EXPERIMENTAL

Looking to improve the robustness and dependability of decision making

36%

Chapter 4

Finance needs insightful innovation

Finance needs insightful innovation

85% of CFOs and their senior finance executives believe innovation is needed to drive better insights about the business.

The finance function is clearly in need of innovation, but if CFOs can make the case for channeling resources into this often under-invested department, there remains the question of where and what to invest in. For most respondents, the answer is insight. 85% of CFOs and their senior finance executives believe innovation is needed to drive better insights about the business. This reflects the changing nature of the finance function from accounting powerhouse to strategic leader. Finance sits at the confluence of all the business functions, and is best-placed to offer the sort of insight that can give organizations a competitive edge.

The survey found that the second reason the finance function needs innovation is to accelerate the provision of accurate management information. This begs the question “what sort of management information is currently being generated, and how accurate is it?” This information is a fundamental requirement of any business and it implies that in many organizations, the process of generating management information may be outdated and inefficient.

Improving the robustness and dependability of decision-making was third on senior finance executives’ list of most needed innovation for the finance function. This also raises questions about the current robustness of decision-making in some organizations, and suggests some fundamental shortfalls in organizational information exchange.

Knowledge and talent

There is ready technology available to meet all of these finance innovation needs, but in almost half of cases there is a problem with finding the right people. 45% of CFOs and senior finance executives cited a lack of technology-savvy talent in the finance function as an obstacle to innovation.

Thankfully, executives themselves seem comfortable with at least some of the insight-driving technologies, most notably data visualization where 59% are either knowledgeable or very knowledgeable, as well as predictive analytics, which was cumulatively understood by 45% of respondents.

45% of CFOs and senior finance executives cited a lack of technology-savvy talent in the finance function as an obstacle to innovation.

Where they struggle is with the newer technologies like machine learning, artificial intelligence and accounting robots, which are widely touted but not well-understood. These technologies may offer the greatest transformative potential but CFOs are yet to grasp how they could directly aid their finance function. Blockchain and Cryptocurrency languished below the knowledge line for most finance executives, and this will likely only change when the definitive application of this technology becomes more mainstream.

There is a clearly need for innovation in the finance function, most urgently to generate business insights, but also ensure management information is robust enough to make well-informed decisions. Finance executives appear most knowledgeable about technology that can help them gain this insight, now it is a matter of finding the resources to invest in them.

Chapter 5

Innovation interference - no culture, no time, no measurement

Innovation interference - no culture, no time, no measurement

Building a successful company and maintaining that success in the face of intense competition requires continuous innovation, but there are many obstacles on the path to success. The most common and widespread obstructions are an unresponsive and stifling culture that shies away from change, a lack of time to focus on change, and the difficulty of measuring the success of innovation.

Culture clash

34% of CFOs say they are too afraid of making mistakes so they shelve innovative ideas to avoid errors.

Innovation doesn't just happen, it needs to be cultivated, nurtured and encouraged, which means taking measured risks and not fearing failure.
But 45% of CFOs and senior finance executives believe their approach to innovation is too conservative, lamenting that "we do not experiment or pilot new technologies". And 34% are too afraid to make mistakes so they shelve innovative ideas to avoid errors.

A culture of innovation needs to permeate the organization, but in 27% of organizations surveyed, innovative ideas and skills are not shared with other functions or business units.
And in almost half of organizations, cultural failings and in-house politics block the path to change. Unfortunately, 29% of respondents say innovation is not a priority of leadership, which immediately stymies innovation from all angles, because often these ideas come from people at the coalface of the finance function who find their suggestions rejected further up the management line.

45% of the senior finance executives say they struggle to present finance process improvement as innovation.

The finance function itself is a significant source of obstacles to successful innovation. Almost half of CFOs say initiatives that originate from within the finance function are not seen as innovative by the rest of the management team. That may be because in 45% of cases the senior finance executives themselves do not present finance process improvement as innovation.
And the cause of that may be that 44% struggle to articulate the value of innovation in the finance function.

In some cases the executive team fail to nurture a culture of innovation across the board, and in other cases the finance function itself fails to convince the executive leadership of its innovative worth. Whatever the obstacle, cultural buy-in is the only way to ensure ideas are followed through to implementation.

Time after time

Time, or rather the lack of it, is a recurrent theme in the lament of the finance executive. The first Future of the Finance Function 2016 survey found that two-thirds of CFOs and senior finance executives were unable to focus on process improvements and innovation because they had no time, and subsequent surveys have echoed this sentiment with depressing regularity.

In this survey, 11% of organizations rarely if ever discuss innovation and don't have time to devote to it, while 54% would like to be more innovative but don't have the time, funding or support to do so. Unfortunately, the only way to free up time is to implement innovative improvements into their finance function, which they don't have time to focus on. 67% of respondents said too many of their resources are tied up with legacy systems and traditional ways of working.

CFOs are the final custodians of regulatory results. When processes are out-dated and results are untrustworthy, CFOs and their senior management team will use their time to review the figures to ensure accuracy, instead of on value-added strategic pursuits, like innovation.

Measuring success

58% don't have an agreed method of evaluating ROI on technology driven initiatives.

CFOs and senior finance executives already find it hard to present process improvement as innovation and articulate the value of it within the finance function, and their job is made all the harder because of the difficult of measuring their success. Just a quarter of CFOs believe traditional methods of Return on Investment (ROI) are a suitable measure of innovation success.

In fact, 70% say these methods do not capture adequately the intangible benefits of digital innovation. And 58% don't have an agreed method of evaluating ROI on technology driven initiatives. This is a substantial stumbling block for any innovative project, because resource allocation needs to be justified on the basis of its benefits, and no C-suite will agree to new projects when there is no measure of success.

The immediate returns on an automation project might be manpower cost savings, but the intangible benefits might include improved customer satisfaction. Being able to measure these benefits, however they manifest, will increase the likelihood of the finance function receiving its fair share of innovative investment.

41% of CFOs and senior finance executives say that the lack of agreement on how to measure technology innovation is delaying investment decisions, and they are at risk of falling behind the market.

Falling behind

With so many obstacles to innovation in the finance function, many organizations fail to achieve any sort of change. But the consequences of this failure can be far-reaching, because in those cases finance functions are in danger of falling behind the rest of the organization, or holding it back.

41% of CFOs and senior finance executives say that the lack of agreement on how to measure technology innovation is delaying investment decisions, and they are at risk of falling behind the market. 45% say their rate of innovation is too slow and they risk getting left behind their competitors. And 36% are concerned that their finance processes are in danger of not keeping up with the rest of the business.

Falling at any one of the hurdles could mean being overtaken by more innovative competitors. Organizations need strong leadership to drive a strategy and culture of innovation, and over half of respondents believe the CFO is best positioned to lead innovation in the finance function. If the CFO doesn’t step up, the entire organization may suffer as a consequence.

Chapter 6

The recipe for successful innovation

The recipe for successful innovation

87% of survey respondents said they needed people capable of implementing change in order to innovate successfully.

There is no silver bullet that will eradicate the obstacles to innovation in the finance function. Instead there are several ingredients that organizations need to add to the corporate mix in order to deliver real change. The key ingredients reflect the golden triangle of systems success, namely people, process and technology.

For CFOs and their senior finance executives, people top the list of ingredients for successful innovation in the finance function. 87% of survey respondents said they needed people capable of implementing change, someone to manage and drive the processes and technology that will effect the change.

Technology followed second, with 66% of CFOs believing that innovation success requires utilizing the full potential of technology. Process came in a close third, with 59% of senior finance executives needing to ensure a marked improvement in productivity and finance function effectiveness to push forward with innovation projects.
Too often these days technology is lauded as the saviour of businesses, and it's true to say the momentous developments in technology over the last decades have changed the corporate landscape beyond recognition. But it is heartening to see that CFOs and senior finance executives recognize the vital role played by experienced agents of change. Because without the right people, major projects are unlikely to come to fruition on spec, on time and on budget.

Driving change

CFOs top 3 priorities to drive change:

1. Dedicated innovation champion

2. Dedicated innovation budget

3. Incorporating innovation objectives into personal appraisals

When asked what is the best way to drive innovation forward in the finance function, survey respondents ranked a 'dedicated innovation champion' as their highest priority. This underpins the powerful acknowledgment of people at the apex of the change hierarchy.

Next on the priority list to drive innovation was a dedicated budget for innovative ideas. This obviously requires senior management to make the case for investment in finance innovation, and the recognition from the rest of the C-suite that the returns justify the resources.

Incorporating innovation objectives into personal appraisals ranked third for drivers of change, and this goes to the heart of cultural buy-in for innovation across the organization. But it must be driven from the very top of the organization, permeating the ranks from senior management downwards, instilling a culture of innovation and tying it to personal development goals.

The fourth priority for innovation – recruiting individuals with a track record of innovation- split the vote. 17% of CFOs ranked this their number one method of driving innovation, while 23% ranked it in sixth place. This is clearly a polarizing point, one which hinges on recruitment and experience. Some CFOs may feel the need to bring in new talent that has already managed major change projects, whereas others may feel they have the right people internally who know the business and can run the project. Unsurprisingly, laggards are the most keen to bring in somebody who has done it before, perhaps reflecting a desperate attempt to break out of their predicament of negligible innovation.

The final ingredient for success is how to measure it, because without an accurate measure, there is no way to know if the investment has been worth the substantial and disruptive effort. 58% of senior finance executives said they don't have an agreed method of evaluating return on investment on technology-driven initiatives, which may mean some projects never get started, and those that do go ahead aren't easily evaluated.

You need people to implement technology designed to improve processes. Without all three elements, there can be no change to measure.

Chapter 7

In their own words - what innovation means to finance professionals

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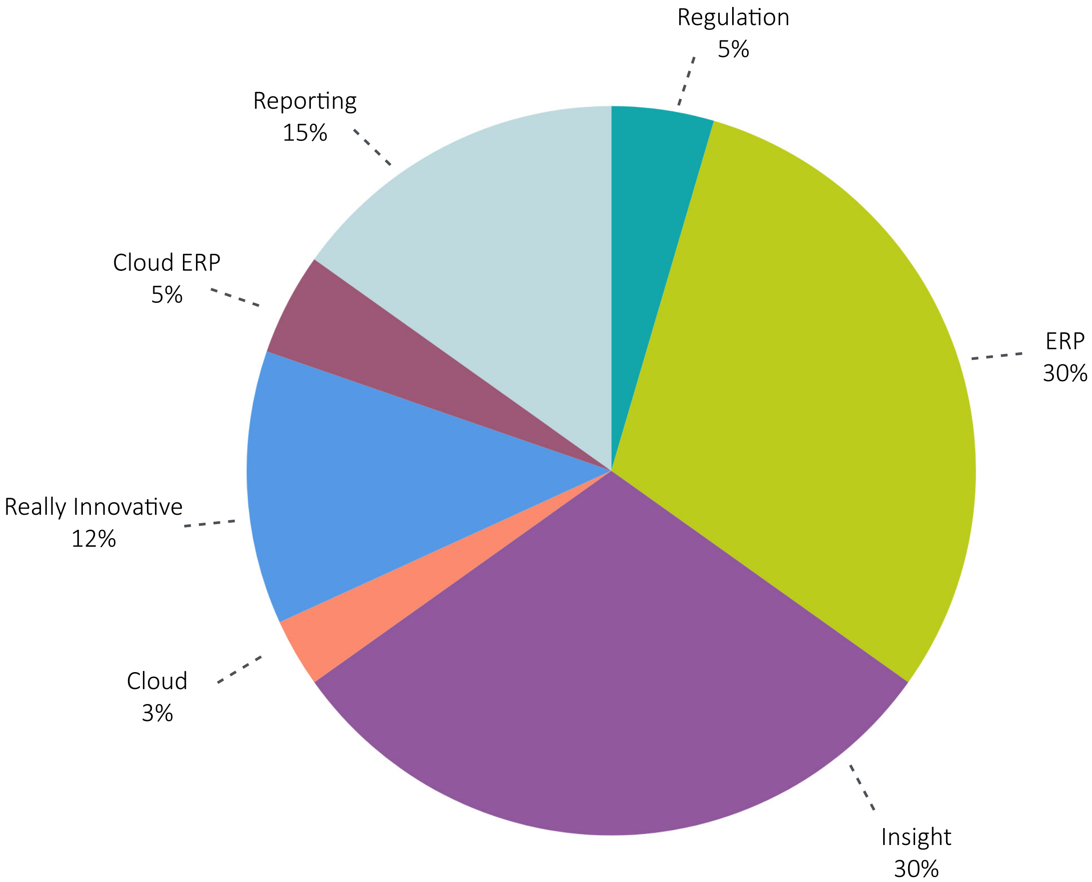
Innovation means different things to different people, depending on where they are on their journey to the finance function of the future. 250 survey participants took the time to describe actual examples of innovation in their businesses, and the comments reflect the wide-ranging views of CFOs and senior finance executives at different stages of their journey. Recognizing this diversity of views, the survey didn't seek to define innovation. Innovation is in the 'eye of beholder' and many describe quite modest developments as innovation.

The largest proportion (35%) described innovation that related to small steps in automation and integration rather than wholesale change to completely new systems. These incremental changes were extremely diverse, including the automation of tasks in the monthly close; a move to self-service accounting; remodeling the accounts payable process, and for a few, the implementation of time and expenses management.

Any innovation in clearly better than none at all, but it does mean a third of respondents who described their own innovation journey remain shackled to legacy systems and have to be content with small innovations that deal with particular pain points in their core financial process.

250 participants took the time to tell us about examples of innovation in their businesses



Encouragingly, 20% said they had undertaken a complete ERP replacement and classed this as a major innovative step. Cloud was only mentioned a handful of times, which may mean that respondents felt this was not particularly noteworthy, or that they had settled for an on-premise implementation.

A further 20% chose to describe innovation projects that delivered management insight. The implementation of budgeting and planning tools featured prominently, as did business intelligence tools and dashboards. But the motivation in the majority of cases was delivery of better key performance indicators and analytical capability. Cloud implementation featured more strongly in this category, perhaps because of a greater choice of cloud-based applications, or the relative ease of implementing management information projects in the cloud, compared with ERP in the cloud.

For 10% of respondents, innovation was about reporting, and the comments tended to focus on the speed of delivery, with an emphasis on real-time reporting. For example, “more digitization of finance information and less reliance on paper”, “fast close and reporting by work day two” and “integrated real-time management and financial reporting systems.”

Disappointingly, only 8% of comments stood out as unexpectedly innovative and at the leading edge of developments. These innovators were more inclined to point out that innovation isn’t only about the latest ‘whizzy’ technology. For some, innovation was about organizational change in the finance function, for example “a new finance team structure with better Financial Planning & Analysis and faster month-end closing”. For others, it meant “reorganization of the finance function resulting in the responsibilities of 80% of the finance function changing, creating roles that were more value-added and efficient, together with a 10% headcount reduction.”

One respondent created “an innovation office”, while another introduced “weekly improvement initiatives”. And one ambitious organization established a “business finance college”. This initiative lead to a “ground-breaking program for the Business Finance Function and Finance Business Partners, aimed at changing the culture in the finance organization and increasing direct and indirect value creation from the finance function.”

A few executives are clearly further along their finance function journey, describing innovation that reflects the cutting edge of technology, such as “the use of artificial intelligence (IBM’s Watson) in forecasting”, the “utilization of robotics to perform processes and create reports”, and the “creation of interactive presentations of financial information to make it easier for the management to interpret”.

This vast and varied range of personal experiences of innovation reflects a finance function continuum, with traditional legacy systems at one end and cutting edge technology at the other. And if a finance function has always used spreadsheet-bound systems for budgeting or reporting then implementing a specialized budgeting application or an ERP system is truly innovative – it is a major step-change. But for now, the scales are tipped towards organizations that can only manage incremental innovations, mired in time-consuming legacy systems, plastering over the most difficult processes with small fixes. But the tide is turning slowly. Major ERP upgrades are often the catalyst for more wider system changes, and the focus on insight-driving innovation bodes well for strategic management decision-making. There may only be a few unexpectedly innovative experiences, but as new technology becomes more mainstream, and CFOs begin to realize the necessity of constant innovation, the scales will swing the other way.

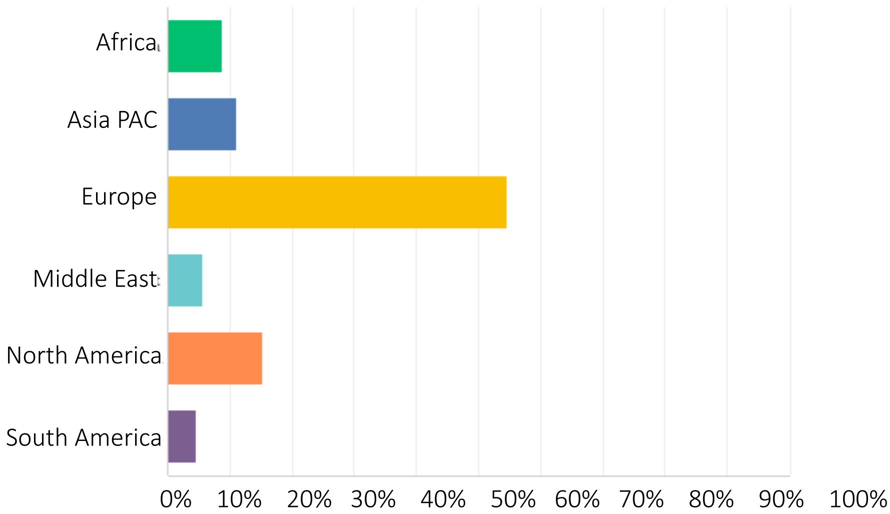
Methodology

METHODOLOGY

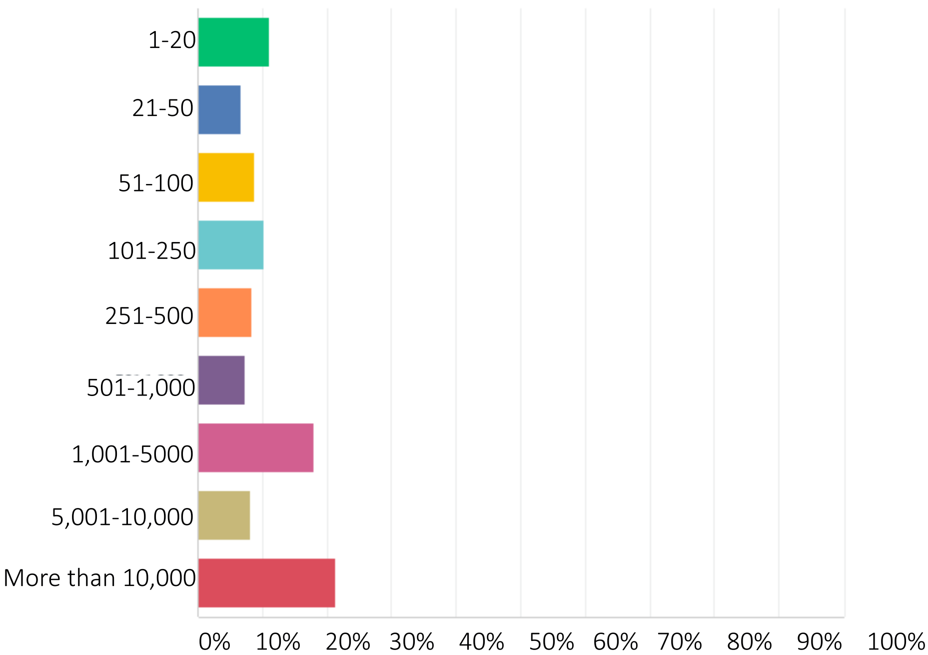
The survey drew responses from 1,037 international senior finance professionals from our 51,000 strong FSN Modern Finance Forum on LinkedIn.

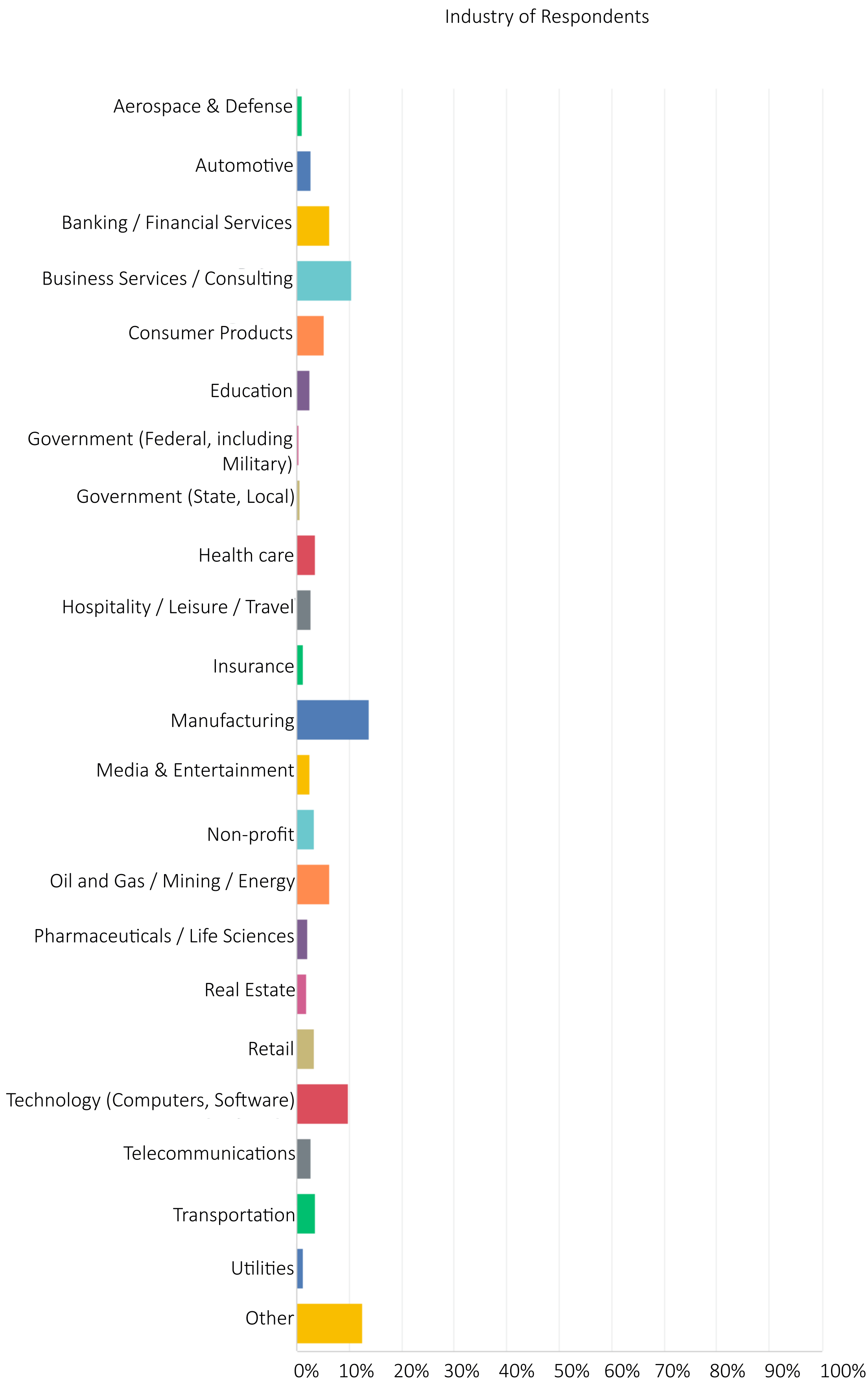
This survey covered finance professionals across 23 different industries. 81% of these professionals were considered to have senior job titles and above.

Geography of Respondents



Organizational Size- Number of employees




Industry of Respondents
Aerospace & Defense
Automotive
Banking / Financial Services
Business Services / Consulting
Consumer Products
Education
Government (Federal, including Military)
Government (State, Local)
Health care
Hospitality / Leisure / Travel
Insurance
Manufacturing
Media & Entertainment
Non-profit
Oil and Gas / Mining / Energy
Pharmaceuticals / Life Sciences
Real Estate
Retail
Technology (Computers, Software)
Telecommunications
Transportation
Utilities
Other
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

ABOUT FSN

FSN is a global publisher of thought leadership, research and "must-have" content for CFOs and senior finance professionals around the world. FSN's highly popular and active Modern Finance Forum on LinkedIn has a membership of more than 51,000 readers in more than 23 countries and across every major industry segment. It is also the publisher of the popular www.fsn.co.uk website and regularly holds networking dinners and events for its members.

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