Finance Transformation

Accelerating Finance into the New Era

July 26, 2017

Tracey Coyne & Christian Heuer

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Learning objectives

- Understand what is driving the agenda for change
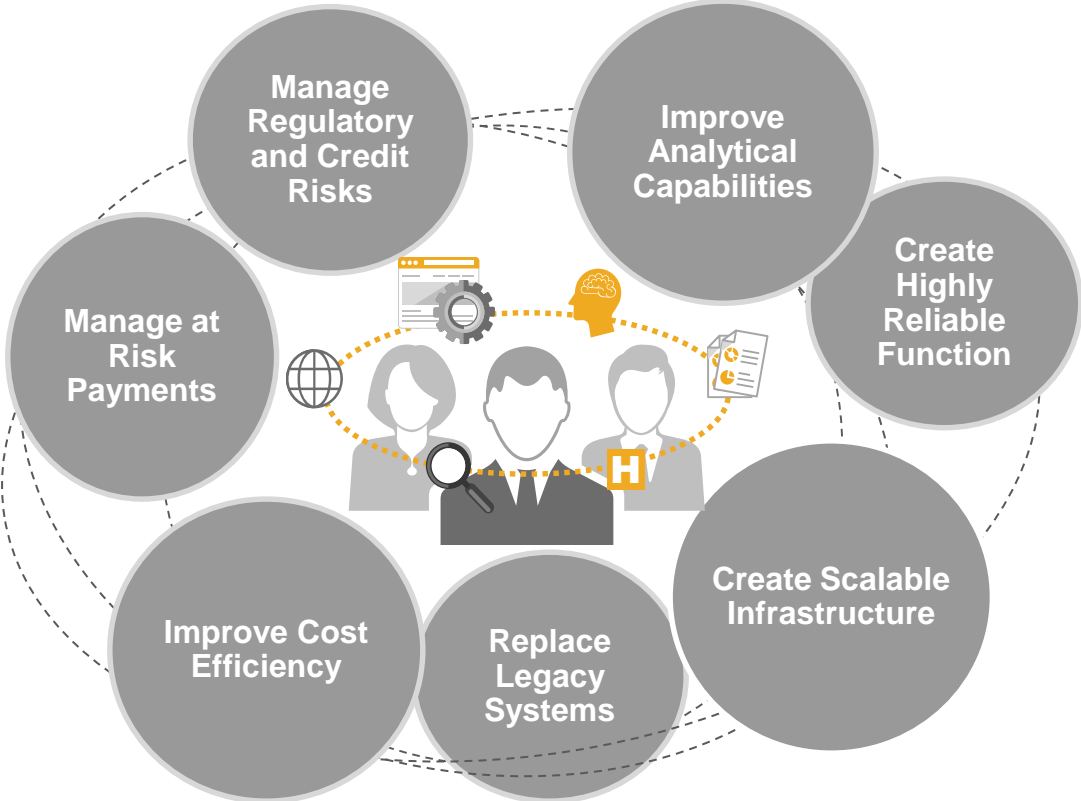
- Understand what is finance transformation

- Understand transformation methodologies, building blocks and best practices

- Understand pitfalls to avoid

The Agenda for Change: What Our Clients are Saying

The Agenda for Change:
What Leading Organizations are Saying

"75% of APQC survey respondents agreed the following
Finance Function process improvement benefits are most important to *Finance* leaders":
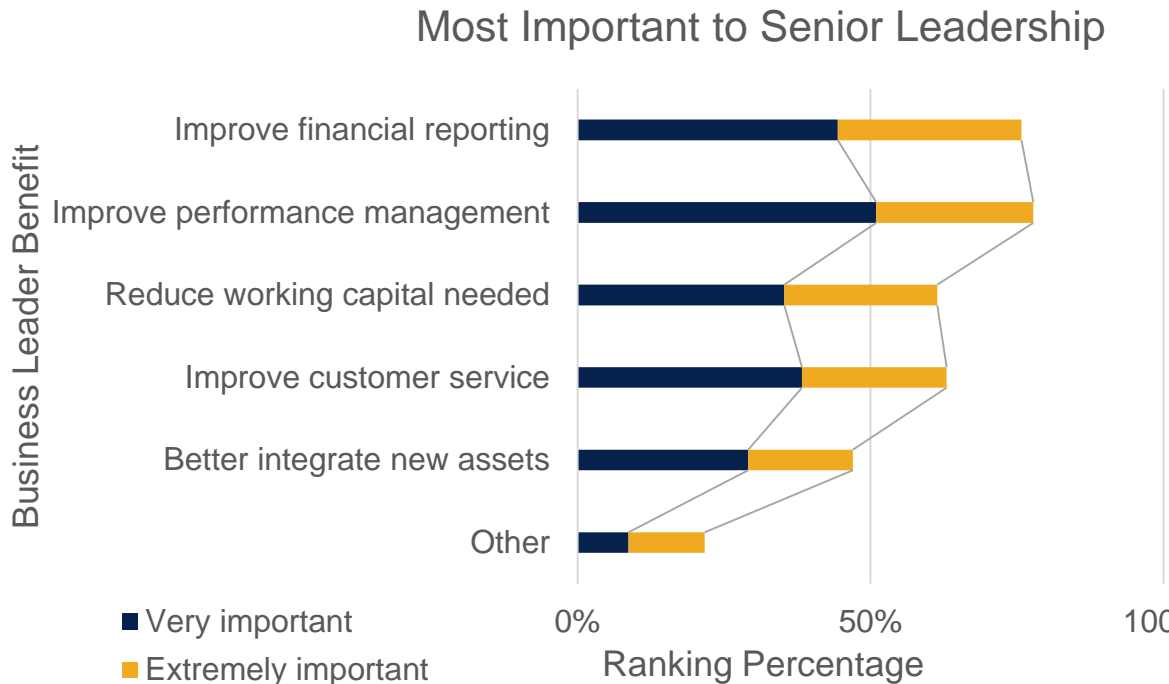
Most Important to Senior Leadership

Finance Function Benefit

- Improve planning and analysis
- Improve cost-efficiency
- Improve staff productivity
- Increase processing speed
- Reduce error rates
- Improve internal controls
- Develop finance talent
- Other

■ Very important
■ Extremely important

Ranking Percentage (0% 20% 40% 60% 80%)

Top 4 Benefits

① Improve planning and analysis

② Improve cost-efficiency

③ Improve staff productivity

④ Increase processing speed

*Source: APQC, Financial Management Process Improvement, Survey Summary Report, May 2016

The Agenda for Change:
What Leading Organizations are Saying

"The same APQC survey respondents agreed the following
Finance Function process improvement benefits are most important to *Business* leaders":

Most Important to Senior Leadership

Business Leader Benefit

- Improve financial reporting
- Improve performance management
- Reduce working capital needed
- Improve customer service
- Better integrate new assets
- Other

0%   50%   100%

Ranking Percentage
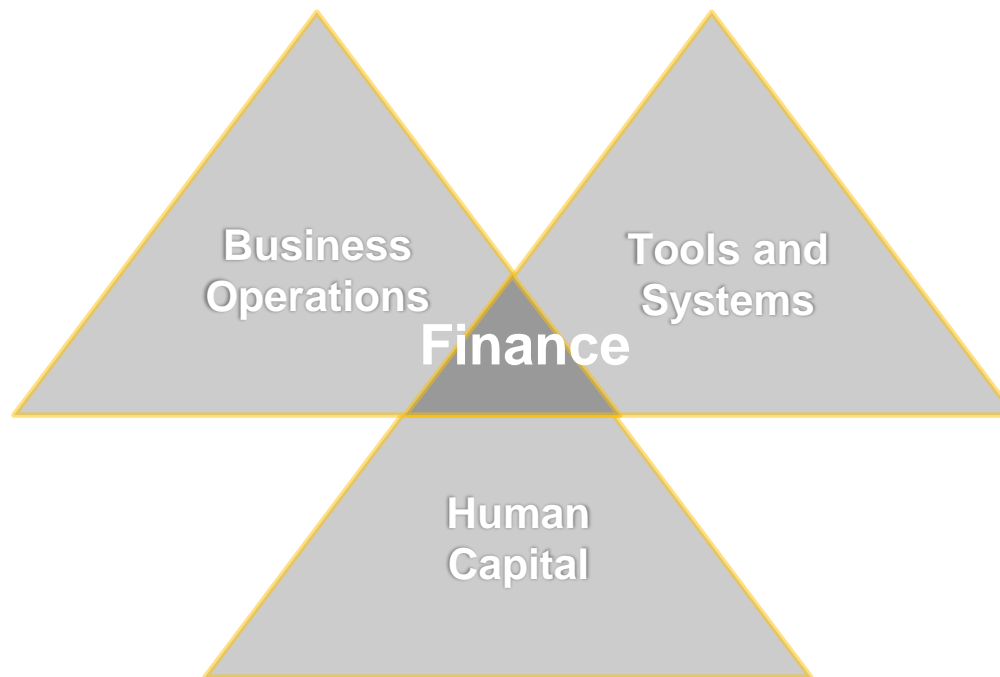
■ Very important
■ Extremely important

Top 4 Benefits

① Improve financial reporting on revenue and cost drivers

② Improve performance management model strengths and weaknesses

③ Reduce level of working capital to operate

④ Improve customer service experience

*Source: APQC, Financial Management Process Improvement, Survey Summary Report, May 2016

What is Finance Transformation?

Finance Transformation is taking existing finance function's business operations, tools, systems and human capital structure and improving them to best in class performance.

**Providing greater value at the right time…
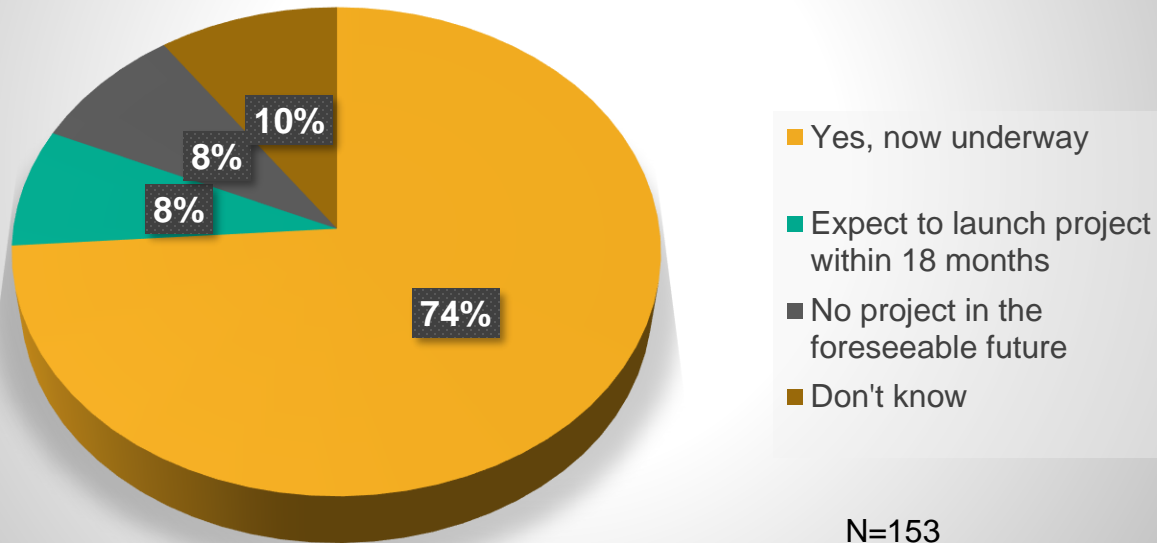and doing more with less!**

Why Invest in Finance Transformation?

Today the pressure on business leaders to perform is greater than before and CFO's and VP's of Finance are looking for assistance to **evolve their finance function to the new era** in the following areas:

Traditional Way

Business Operations
- Disparate processes
- Information focused on historical results
- Routine monthly NPSR reporting

Tools and Systems
- Hand tied to un-customizable systems and data sources
- Simple excel spreadsheets
- Time consuming paper signatures and routing

Human Capital
- Staff anchored in one department
- Lack of communication between departments (silos)
- Mindless activity around specialized transactional items

New Era

Business Operations
- **Standardized** processes
- Information is **available on demand**
- In-depth **actionable NPSR analysis**

Tools and Systems
- Leverage tools to **extract and analyze** data **quickly**
- **Machine learning and RPA** applications to focus on high value add activities
- Quick efficient electronic approvals and **work flow**

Human Capital
- Staff assigned from **project to project** – where needed most
- **Collaboration** amongst departments
- **Higher thinking** and analysis

Check Point

APQC Survey Participants Currently Engaged in a Finance Process Improvement Initiative*

- Yes, now underway
- Expect to launch project within 18 months
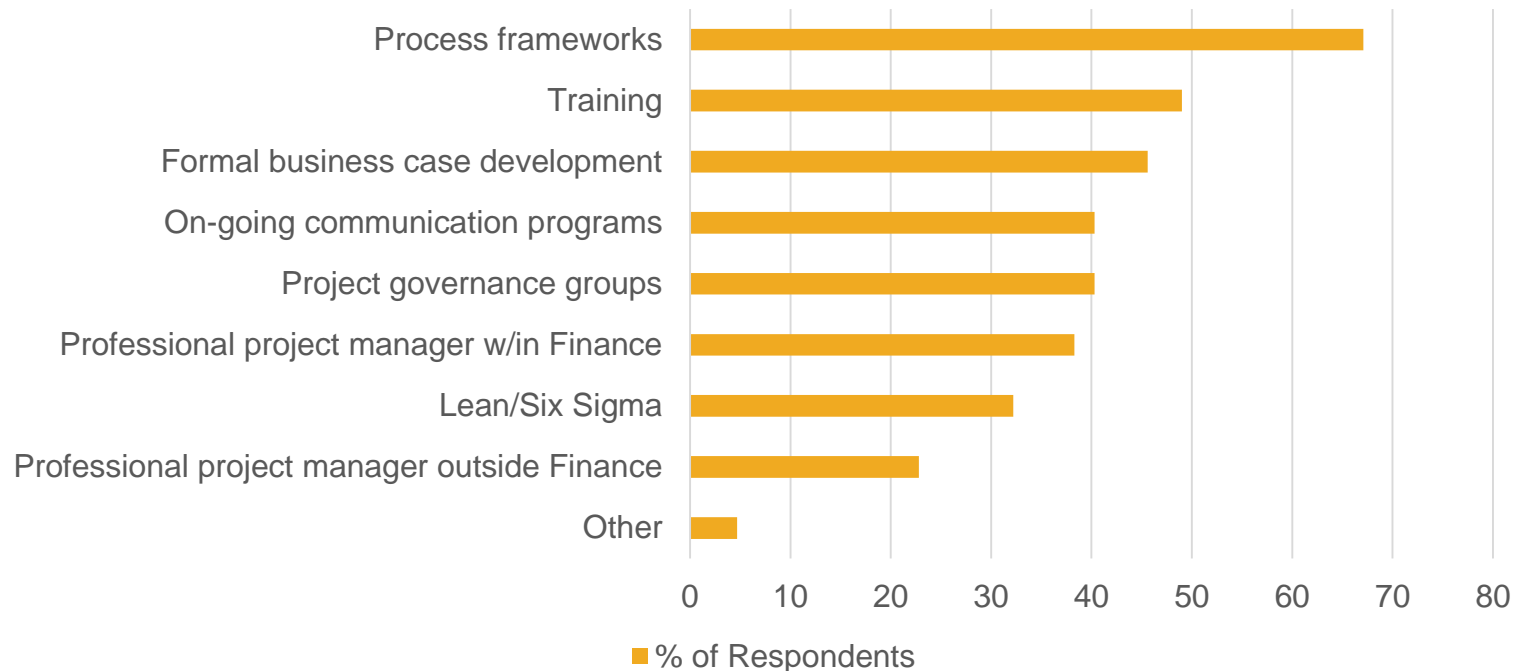- No project in the foreseeable future
- Don't know

74%
8%
8%
10%

N=153

How many of you are currently engaged in a finance process improvement project?

*Source: APQC, Financial Management Process Improvement, Survey Summary Report, May 2016

Transformation Methodologies Used

Organizations are using change management methods with process improvement methods to support their transformation plans.
"APQC survey respondents are fans of process frameworks".

Finance Process Improvement Methodologies Used*

Methodology	% of Respondents
Process frameworks	67
Training	49
Formal business case development	45
On-going communication programs	40
Project governance groups	40
Professional project manager w/in Finance	38
Lean/Six Sigma	32
Professional project manager outside Finance	23
Other	5

■ % of Respondents

*Source: APQC, Financial Management Process Improvement, Survey Summary Report, May 2016

Transformation Building Blocks

① Understand where you are on the spectrum of performance and where you want to be

② Understand how to appropriately benchmark your performance

③ Identify gaps and improvement opportunities to meeting your desired performance

④ Build a framework for sustained implementation

Building Block #1
Understand where you are on the Spectrum of Performance today

Under-Performing

- Function operational however decentralized
- Focused on hindsight, with general inability to explain net revenue or expense variances
- Close process is lengthy (> 10 days), with array of disparate reports
- Important departments (e.g. Rev Cycle) are not sufficiently engaged
- Staffing is not optimal (expertise, number, accountabilities), with insufficient controls
- Critical reconciliations are insufficient

Sufficient Performance

- Shared processes adopted across functions where relevant to increase performance
- Leveraging systems to drilldown and explain variances
- Accelerated close - GL balance sheet models and net revenue and expenses available early in month
- Basic level of collaboration exists between finance, reimbursement, revenue cycle, and hospital operators
- Regular reconciliations in place

Best Performance

- Optimized structure incorporating shared and agile resources
- Ability to accurately explain and project net revenue and expenses at any time during the month
- Development and use of executive dashboards and customized reports
- Use of continuous "rolling forecasts"
- Streamlined processes, collaboration, and "stories" between finance, reimbursement, revenue cycle, and hospital operators
- Automated reconciliations

Building Block #1
Understand where you want to be on the Spectrum of Performance

Under-Performing	Sufficient Performance	Best Performance
• Function operational however decentralized • Focused on hindsight, with general inability to explain net revenue or expense variances • Close process is lengthy (> 10 days), with array of disparate reports • Important departments (e.g. Rev Cycle) are not sufficiently engaged • Staffing is not optimal (expertise, number, accountabilities), with insufficient controls • Critical reconciliations are insufficient	• Shared processes adopted across functions where relevant to increase performance • Leveraging systems to drilldown and explain variances • Accelerated close - GL balance sheet models and net revenue and expenses available early in month • Basic level of collaboration exists between finance, reimbursement, revenue cycle, and hospital operators • Regular reconciliations in place	• Optimized structure incorporating shared and agile resources • Ability to accurately explain and project net revenue and expenses at any time during the month • Development and use of executive dashboards and customized reports • Use of continuous "rolling forecasts" • Streamlined processes, collaboration, and "stories" between finance, reimbursement, revenue cycle, and hospital operators • Automated reconciliations

Building Block #2
Understand how to appropriately benchmark your performance

Why Benchmark?

Proper benchmarking …

… facilitates transformation and reinforces change

… involves key stakeholders

… surfaces performance gaps

… uncovers leading practices

Building Block #2
Understand how to appropriately benchmark your performance

Types of Benchmarking

- Internal benchmarking – current performance of own organization

- Competitive benchmarking – compare to industry

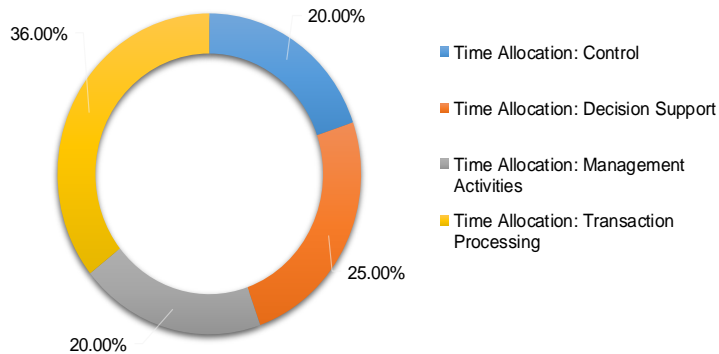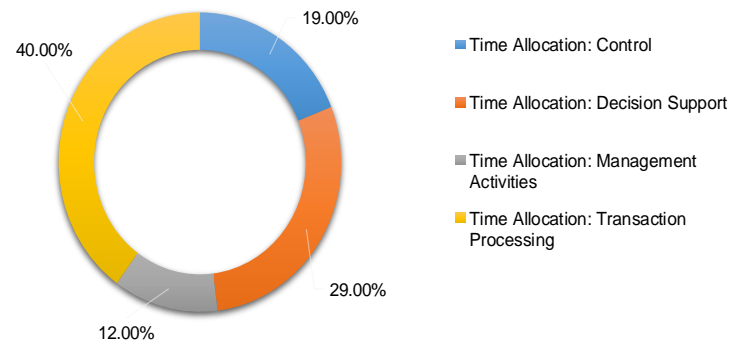- Strategic benchmarking – compare other organization's direction

Benchmarking Steps

Plan → Collect → Analyze → Implement

Assessment Sample Deliverable
Finance Organization: Competitive Benchmarking

Top Performer

36.00%
20.00%

- Time Allocation: Control
- Time Allocation: Decision Support
- Time Allocation: Management Activities
- Time Allocation: Transaction Processing

25.00%
20.00%

Metric Values

19.00%
40.00%

- Time Allocation: Control
- Time Allocation: Decision Support
- Time Allocation: Management Activities
- Time Allocation: Transaction Processing

29.00%
12.00%

Bottom Performer

10.00%
10.00%

- Time Allocation: Control
- Time Allocation: Decision Support
- Time Allocation: Management Activities
- Time Allocation: Transaction Processing

62.00%
10.00%

Analysis

The Finance Organization's time allocation is similar to top performers; however, time spent on management activities is near the bottom performers.

Based on our qualitative research on site visits, this time allocation may be reflective of the long-tenured and collegial workforce in the department.

Adoption of leading practices may allow for a reduction in decision support and transaction processing time to allow for more managerial time.

Assessment Sample Deliverable
Accounts Payable: Competitive Benchmarking

Metric	Client Health	Bottom performers	Median	High performers	%tile
Number of FTEs that perform the process "process accounts payable (AP)" per $1 billion revenue	9.42	12.24	9.0	5.9	43%
Cycle time: approve and schedule T&E reimbursements	3.4	14.0	9.0	5.0	82%
Percentage of discounts available that are taken	62%	69%	82%	98%	24%
Percentage of invoice line items paid on time	72%	78%	90%	95%	17%
Percentage of invoice line items received electronically	72%	21%	50%	71%	75%
Total cost to perform the AP process per $1,000 in revenue	$0.68	$0.77	$0.56	$0.41	40%

- Staffing is near median levels.

- Time and expense reimbursement is timely, mirroring the efficiency of the payroll department and reflecting ROI on investment in IT infrastructure.

- Although a high percentage of invoice line items are received electronically, the organization may benefit from taking advantage of pricing discounts and more timely payment.

- Personnel costs based on dollars of revenue are under performing in comparison to the peer group median reflecting Client Health's location in a major metropolitan area.
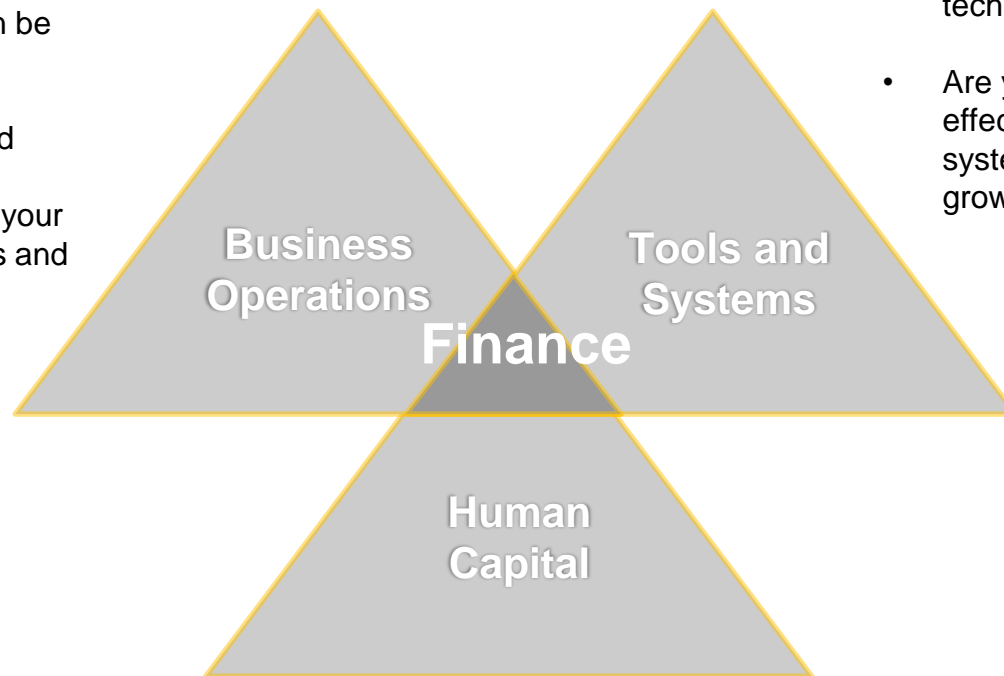
Source: APQC 2015 Rapid Performance Assessment Tool. Includes for profit corporations, not-for-profit, and governmental agencies classified as General Medical and Surgical Hospitals

$500,000 opportunity taking advantage of pricing discounts.

Building Block #3

Identify gaps and improvement opportunities to meeting your desired performance

- What non-value added activities and manual tasks should and can be eliminated?

- What bottlenecks and issues in existing processes decrease your internal effectiveness and ability to serve customers?

- Do you have work flow and automation technologies in place?

- Are you using technology effectively and are your systems scalable for growth?

Business Operations

Tools and Systems

Finance

Human Capital

- Do you have the right people in the right positions, and the optimal organizational design, to support your processes?

- Do you have the right individual and organizational performance metrics?

Building Block #4

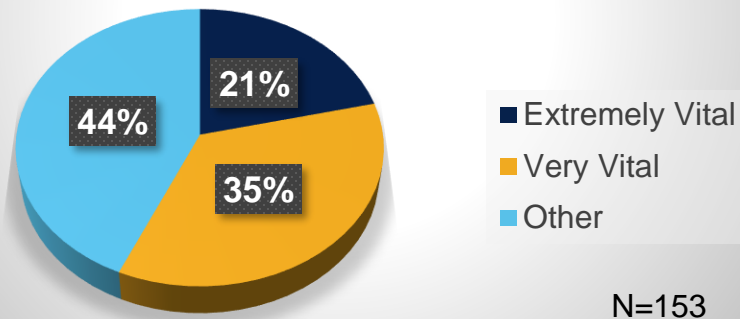*Build a holistic framework for sustained implementation**

① Senior management should drive the performance improvement change within the organization

② Combine centralized governance with decentralized implementation when implementing improvement opportunities

③ Engage employees throughout the journey

④ Build periodic reporting on tangible key performance metrics and intangible measures into the process

Importance of Technology to Finance Transformation

Importance of Technology to Finance Function Improvements*

- Extremely Vital — 21%
- Very Vital — 35%
- Other — 44%

N=153

56% of APQC survey respondents agreed technology is vital to Finance Function improvements*

In Finance 2020: Death by Digital**, industry analyst David Axson wrote:

"In just three short years, finance won't look anything like it does today. *Complex legacy systems will be gone*, *replaced by cloud-based platforms* for reporting, planning, forecasting, and *analytics that will deliver self-service data* to decision-makers across the enterprise. *Machine-learning and robotic systems will ruthlessly automate many routine businesses*, freeing up your finance team to spend 75% of its time on decision support and predictive analysis, guided by artificial intelligence and input from statisticians, data scientists, behavioral economists, and even anthropologists."

*Source: APQC, Financial Management Process Improvement, Survey Summary Report, May 2016

**Source: Axson, David A.J., "Finance 2020: Death by digital," Accenture Strategy, 2016

Check Point

How many of you are using innovative
information management strategies?

What types of technology?
Select from: Cloud based systems, Robotic Process Automation Tools,
Work Flow Tools, Machine Learning, Data Visualization, Statistics

Transformation Best Practices

Human Capital

Develop the structure to meet the **needs of the business** rather than redesigning around current people	Organize staff groups around **end-to-end processes**, customer outcomes and to capture economies of scale	Instill a service and **value driven culture** and establish clear **accountabilities for performance metrics**

Business Processes

Standardize processes and apply policies consistently across the organization	Design processes to support the **simplicity of operation** and the achievement of cost and performance targets	Define and negotiate **Service Level Agreements (SLAs) with performance metrics** that are aligned with business strategy

Technology

Understand **key workflows and how data is managed** in and out of the organization	Identify **transformative technology** that can change the way a process works	**Leverage existing IT** structure to the fullest extent

Example Pitfalls to Avoid

Pitfall #1: Building new structure around historical FTEs and operating silos

A successful environment organizes structures around an **end-to-end customer service**

Best practice example = Ensure all FTEs along the process (local and centralized) report up to the same Executive or Steering Committee (e.g., Procure to Pay)

Pitfall #2: Moving historical processes into new structure without process redesign

A successful environment focuses attention on **elimination of manual processes** and **inclusion of workflow automation**

Best practice example = Deploy processes with push technologies and notifications versus historical pull processes with manual interventions

Pitfall #3: Not defining or reporting on performance metrics

A successful environment builds a **culture of continuous process improvement and the routine dissemination of performance metrics** supports quantitative measurement of financial contributions by the function

Best practice example = Service Level Agreements are deployed and reported on a frequent basis to customers

Summary

- Organizational change is inevitable

- Finance Transformation allows for adaptation to internal and external demands placed on the finance function

- Change is facilitated by proper scoping, planning, resourcing, methodology and implementation

- Pitfalls can be avoided by using best practices in assessing and implementing change

![Crowe Horwath logo](Crowe Horwath.)

Questions

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