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The changing shape of the finance function

Creating a vision for the future
Research emerging themes

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Creating a vision for the future

You can't see the future, but with the right insight you can prepare for it. We've created this briefing paper as part of a year-long, worldwide project to understand the future form and direction of the finance function.

Change is the new norm in many organisations – particularly within the finance function. Yet, because of this rapid evolution, there isn't a composite picture of the finance function of the future. It is this vision that we, at the Association of International Certified Professional Accountants, aim to create.

With 650,000 members and students in 179 countries, we are uniquely well-positioned to work with global stakeholders to investigate, analyse and document how the finance function is changing.

Using interviews, roundtables and surveys, this comprehensive global research project brings together different organisational views – to deliver insight into the process of change and to synthesise a picture of the finance function of the future.

Our research aims to answer the following questions for you:

- ▶ How will the future be different for your organisation?
- ▶ What are the drivers of change for your organisation?
- ▶ What are the implications for finance?
- ▶ How should finance prepare for the changes?

To do this, we conducted more than 300 interviews and 50 roundtable discussions on the future of finance and identified several common trends emerging across a range of topics. These trends provided our research team with a series of insights into the finance function of the future and this paper is the third of four that explore the key themes from our research. These themes are:

1. The changing role and mandate of finance
2. Changing technology and finance
3. **The changing shape of the finance function**
4. Changing competencies and mindsets

Theme 3:

The changing shape of the finance function

This briefing paper will:

- ▶ explore how and why the shape is changing
- ▶ explore how service areas within the finance function are evolving
- ▶ explore the changing skills sets of finance professionals.

Reading time: 30 minutes.

“The expectations of the finance role have changed. Finance is now embedding itself across the business.”

When an interviewee from the Indian banking sector shared this insight, it reflected the prevailing sentiment of respondents and demonstrated the radically changing nature of the finance function. Our research reveals that an expanding mandate for finance, digital technologies and new sources of data are combining to change the shape of the finance function.¹

As expectations and skills evolve, that shape is migrating from a traditional hierarchical triangle (where broader populations of workers report directly upwards to a series of ever-narrower management bands) to a hexagonal structure (where expert teams collaborate as equals to achieve shared corporate objectives).

The evolving shape has implications for finance professionals. It will impact:

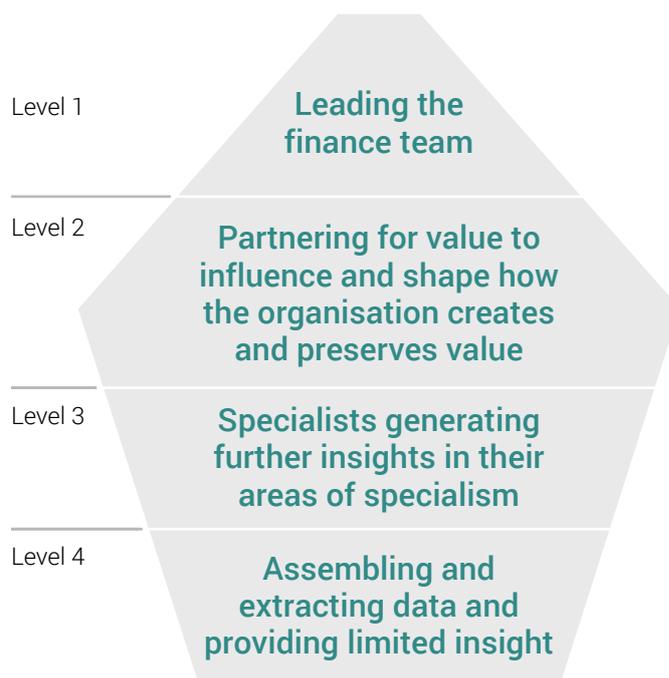
- ▶ career paths and succession planning upwards through the structure, as the lower tier career ladders erode
- ▶ the skills needed to remain relevant. These will change and go far beyond the traditional accountant's skills set
- ▶ the conventional mindset where finance works in isolation. This will shift instead to a strategically- and commercially-aware mindset.

We will continue to monitor the evolving shape of the finance function as it informs the practical experience requirements for CGMA designation holders, lifelong learning and continuous professional development needs.

How the shape of the finance function is changing

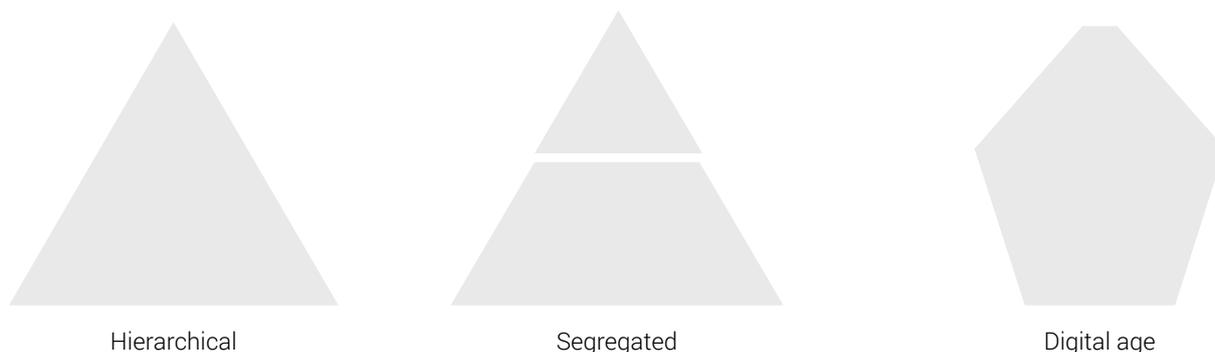
In the digital age, our research shows that the finance function's shape has evolved into a hexagonal structure.

Figure 1: The shape of the finance function in the digital age



Traditionally, the shape was a hierarchical triangle with a broad base and fewer roles at senior levels. Over the past two decades, the shape then evolved to a segregated triangle, which was driven by globalisation and advances in information and communications technology. This change allowed routine processes to be migrated to shared service centres – the bottom section of the segregated triangle represents the finance function activity carried out within shared service centres.

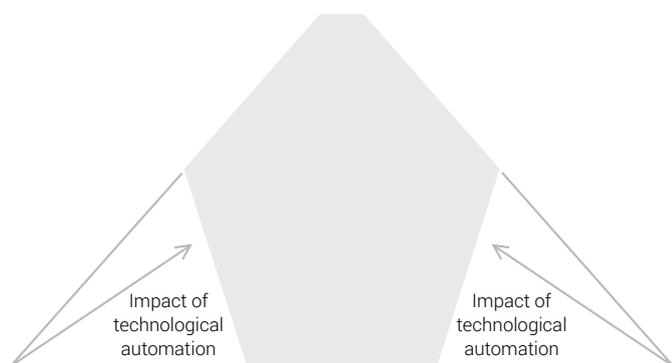
Figure 2: The evolution of the finance function shape



The hexagonal shape of the digital age shows the impact of technological automation as it continues to erode the traditional triangular base (Figure 2). This erosion has implications for succession planning; those basic finance activities, which are now automated, had provided the traditional training ground for finance professionals.

Many of the lower-level tasks involved in ‘assembling and extracting data and providing limited insight’ and ‘specialists generating further insights in their areas of specialism’ have been, and will continue to be, automated (Figure 3).

Figure 3: The impact of technological change on the shape of the finance function



Most of these tasks are likely to be clerical in nature, rather than tasks performed by professional accountants. Professional-level tasks will still exist in the management and continuous improvement of processes. Indeed, this understanding and the use of new technologies will be increasingly important in process improvement.

Higher-value services, present within ‘specialists generating further insights in their areas of specialism’ (including financial planning and analysis) are now offered from shared service centres or centres of excellence, causing the central bulge in the hexagonal shape. Here, finance professionals will increasingly work in multidisciplinary teams, assembled in skills combinations that support the business. The flat top to the structure shows a move to a collaborative finance leadership approach.

In our interviews, we asked individuals to describe the number of hierarchical reporting levels within their finance functions. This research allowed us to create a composite picture of the reporting levels that sculpt the shape of the finance function within the digital age. We found it consists of four levels. From the top downwards these are:

- ▶ Level 1: Leading the finance team
- ▶ Level 2: Partnering for value to influence and shape how the organisation creates and preserves value
- ▶ Level 3: Specialists generating further insights in their areas of specialism
- ▶ Level 4: Assembling and extracting data and providing limited insight.

When overlaid with the Global Management Accounting Principles’ definition of management accounting, we can start to understand the different responsibilities of these levels.ⁱⁱ The principles define management accounting as ‘the sourcing, analysis, communication and use of decision-relevant financial and non-financial information to generate and preserve value for organisations’. In this context, the responsibilities of each level are as follows:

- ▶ Level 1: To enable and shape the generation and preservation of value for organisations
- ▶ Level 2: To communicate the insight and moral of the story
- ▶ Level 3: To shape the story through the analysis and use of decision-relevant financial and non-financial information
- ▶ Level 4: To source the information for the story.

Why the shape of the finance function is changing

Our interviews indicate there are three main reasons why the shape of the finance function is changing. These reasons are: the changing mandate for finance, technology, and finance function capability.

1. The changing mandate for finance

The role of the finance function continues to shift in emphasis towards management rather than accounting. This emerging mandate is based on twin beliefs: firstly, that the finance function has a unique end-to-end view of an organisation; and secondly, that the Chief Financial Officer (CFO) has the business understanding to work alongside the Chief Executive Officer (CEO) as a co-pilot – explaining the increasing focus on business partnering. This recognises the important role of management accountants who, as guardians of the business model, apply the discipline of commercial finance to decision-making and value creation.

The shape of the finance function, and those within it, are evolving to better enable 'partnering for value to influence and shape how the organisation creates and preserves value'. This role is increasingly central to the finance function – and explains why the hexagon bulges outwards at the Level 2 tier.

2. Technology

Organisations are using technologies to improve the efficiency of the finance function and build new capabilities for it. An example of this is how organisations are embracing technology to support the automation of management information processes, and provide reporting to the rest of the business on a self-service basis. In turn, this is contributing to the narrowing of 'assembling and extracting data and providing limited insight' (Level 4). However, it's also heightening the need for skills and talent in two other levels: 'specialists generating further insights in their areas of specialism' (Level 3) and 'partnering for value to influence and shape how the organisation creates and preserves value' (Level 2).

a. New data sources and analysis methods

The availability of a wide range of new data sources and the means to conduct advanced analytics are providing opportunities to better inform decision-making. By contrast, in the past, these decisions had to be based on personal judgement. Now, for example, predictive analytics improves forecasting and it is likely that analytics will extend the financial planning and analysis (FP&A) area of the finance function. This is pulling demand for talent into the higher echelons of Level 3 – 'specialists generating further insights in their areas of specialism'.

Our interviews revealed examples where digital centres of excellence are providing new insights into customers' behaviour and experiences, derived from data. These insights are enabling management teams to deal with important intangibles in a better, more informed way.

b. Automation and cognitive computing

A 2016 McKinsey report studied which functions could be automated by advancing technology.ⁱⁱⁱ

Figure 4: McKinsey's report into the technical potential for automation in the US

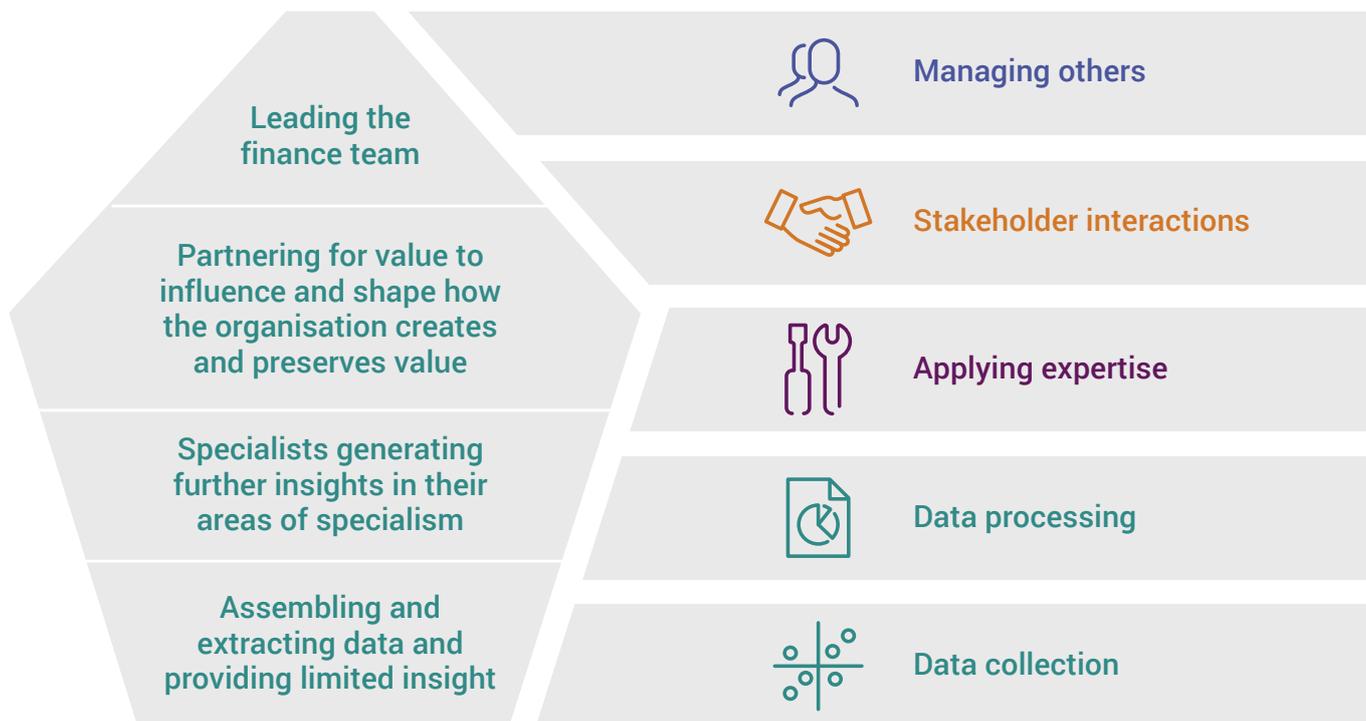


Estimates of extent to which different types of roles could be automated; Source: McKinsey

McKinsey's research examined groups of occupational activities and ranked them according to their susceptibility to automation (Figure 4). Work activities at risk of automation include: data collection, data processing and predictable physical work. Less automatable activities include: managing others, applying expertise, stakeholder interactions and unpredictable physical work.

What's interesting about the McKinsey infographic is how it sits when overlaid across the digital age's hexagonal-shaped finance function (Figure 5), below.

Figure 5: The potential for automation of the finance function in the digital age



It confirms what our interviews are exploring – that advances in technology, and particularly in robotic process automation, are providing opportunities to automate many routine, clerical activities. Cognitive computing, such as artificial intelligence, machine learning and natural language programming, are also providing opportunities to automate advanced data analytics, report writing and even conversations. Higher up the hexagon, new technologies will augment what humans can do and support roles that require personal interaction and the ability to manage others – which are areas less likely to be automated.

3. Finance function capability

Historically, the finance function has had a mandate to focus on organisational efficiencies and reduce operational costs. In many organisations, this focus has heralded lean operational processes, and now there is no more fat to trim. Technology is also at a point where machines can be left to monitor process costing and highlight patterns of efficiency. This shift has refocused the finance function towards revenue and value creation which, in turn, has impacted the function's shape. Level 2 – 'partnering for value to influence and shape how the organisation creates and preserves value' – becomes the focal point for these activities, and is another reason for the bulge in the finance function shape at this point. There are also implications for the competencies required by finance professionals in Level 2 and these are explored in our briefing paper, 'Emerging theme 4: Changing competencies and mindsets'.

Together, these developments are radically altering the delivery model for the finance function. As the delivery model evolves, its shape adapts into the emerging hexagonal structure present in our research.

How service areas within the finance function are fusing and evolving

“The future of finance is fusion rather than erosion.”

This is the prediction of a banking sector interviewee. The changing mandate for the finance function and the impact of new technology puts more emphasis on finance as a discipline across the business, rather than as an

Figure 6: Migration of hierarchical / segregated service areas in a digital age



Hierarchical / segregated

Digital age

overhead function. This fusion process, evident from our research, is bringing together different internal areas of the finance function, as well as fusing finance with the rest of the business.

The following section reflects on the interview research, to explore the changing role of finance as a discipline in the business, based on the interviews we conducted. Here, we consider how the digital age is impacting on the different service areas within finance, and compare this with the traditional hierarchical or segregated structures (Figure 6). The left side of the table presents an overview of services provided within the finance function, and the right side indicates where they are migrating.

Management and transformation

Many finance transformation projects have stalled. Most accountants are so busy working with legacy systems they don't have the capacity to take on a broader role. Some also lack the analytical and commercial skills needed. In addition, management accountants' potential to contribute isn't always recognised.

Leading the finance team

A new shared vision for finance's role provides a mandate for further change. Change will be constant, so an ability to adapt and manage change will foster the agility needed to survive and prosper.

Change management and project management are already important disciplines in finance.

Changes to structure, systems and skills must be aligned, and progress in transformation must be measured and managed. Change is the new normal for businesses.

Supporting decision making and performance management

The CFO usually works closely with the CEO to support him or her in running the organisation. Many businesses develop and deploy finance professionals as business partners to cascade the CFO's influence through the business.

Partnering for value, to influence how the organisation creates and preserves value

Business partnering services may be provided by: individuals deployed to work alongside business unit managers; a multi-disciplinary team in a centre of expertise; or a hybrid model, where some support is provided locally, but an expert team is deployed to tackle a problem or guide a major initiative.

Management information, including FP&A and data analytics

Accountants tend to focus on financial analysis. Data usually 'belongs' to whoever owns the process that generates that data. This means their analysis is not subject to the same rigour that the finance professional applies. There is a need for finance to act as a broker of information, that can assemble and validate the analysis presented to decision-makers.

Specialists generating further insights in their areas of specialism

The production of routine management information is already being automated.

Managers have dashboards on their desks so they can monitor current performance.

Self-service tools allow interrogation, so managers can identify the root causes of performance. Problems or opportunities can be addressed promptly as they emerge.

Advanced data visualisation and analytics can provide insights to enable more accurate driver-based forecasting and predictive modelling.

Finance professionals can increase their focus on providing ad hoc expert support for bigger decisions or strategic projects.

They can question and investigate, to constantly improve the shared understanding of how the business generates value.

They can also scan the horizon, and develop and help to formulate strategies, so the business can be agile in how it continually adapts its business model.

Subject matter expertise

Expertise in accounting and financial matters has, for a long time, provided accountants with security of employment and good career prospects.

This expertise can be leveraged and developed where teams work together. Teams allow specialisation and collegiate working shares expertise. Lower value work can be delegated and supervised, providing learning opportunities for tomorrow's experts.

Specialists generating further insights in their areas of specialism

Concentrating subject matter expertise within teams can improve efficiency. Teams may work in shared service centres (SSCs) or in centres of excellence closer to the business. Experts from different disciplines (for example, logistics, data analytics or computing), can work together on the same team to better support the business.

New technologies, especially the use of cognitive computing, already offer the potential to enable greater efficiency.

In the near future, blockchain will bring greater transparency and enable sharing of trusted information.

Accounting operations

SSCs, whether in-house (captive) or operated by a service provider (outsourced), have industrialised the management of accounting processes.

Rules-based processes are delegated to improve efficiency. The expertise needed most in SSCs is process management and change management, especially managing teams and migrating processes to SSCs.

Assembling and extracting data and providing limited insight

SSCs are expanding laterally to handle processes end to end, across professional disciplines.

They are also expanding vertically to offer higher value services, for example to FP&A, management reporting or business partnering.

Robotic process automation is already here; embedded controls and cognitive computing are coming soon. Blockchain is not far off.

Labour arbitrage has supported the business case for offshoring. Automation limits that benefit. The quality of service or level of expertise, and the value they can contribute has become more important than being low cost.

Accounting and management information systems

Information systems are shown as a box to the side that isn't sufficiently integrated within the finance function. Although finance professionals still use terms such as ledger, journal or chart of accounts, accounting is already dependent on technology. However, assembling information from legacy systems and the widespread use of Excel keeps many expensive professionals busy. There are also risks of error due to human intervention.

Integral rather than auxiliary

IT will be fully integrated.

Cloud computing provides scalability.

Blockchain could provide transparency.

Accountants are still responsible for the integrity of the information produced.

Greater expertise in data governance, data planning and data architecture is needed.

New risks must be managed. These include back-up policies and contingency plans to mitigate the risk of downtime. Addressing cybersecurity risks is a growing concern.

Understanding and managing what happens within information systems requires combined accounting and systems expertise, whether individually or, more likely, in multi-disciplinary teams.

The skills needed to use new technologies, such as when automating a process, will become as important as people management skills are today.

In this evolved finance function of the future, we will see accounting operations, subject matter expertise, management information production and FP&A (now with data analytics) becoming more closely combined with decision support and performance management. This is a fusion of accounting expertise within the finance function, which will enable greater integration with the business and reflect the clear focus on decision support and performance management.

The shape of the finance function will continue to evolve, with increasing emphasis on professional-level roles that offer these support and management skills. However, the level of specialist expertise that's required will lead to the formation of multi-disciplinary teams, so that experts in data analytics, logistics and other increasingly important areas will become members of the finance team. Finance will no longer be just for pure accountants.

The future of finance: join us on our journey

Our briefings on these emerging themes will enable us to discuss a new delivery model for modern finance, with certain key features. Ultimately, all organisations face the same obstacles of building capacity, competence and credibility within their future finance functions.

The difference is that some organisations are innovators on the journey to the future, while others are lagging behind.

With this research, we want to help more organisations to lead from the front.

The keys to transformation

Based on our interviews, it appears that an organisation's top priorities to transform its finance function should be to:

- ▶ make use of the latest technologies to release the full capacity of the finance function
- ▶ widen the remit of finance to cover a broader range of management information, generating new insights and business solutions
- ▶ provide and empower finance professionals with new competencies and growth mindsets to help your organisation create and preserve value.

That's what this project is all about.

So, armed with this briefing, why not start a conversation on the future of finance in your organisation? Read one or all of our briefing papers on emerging themes and share them within your network.

You can then ask yourself:

- ▶ How do the emerging themes resonate in your organisation?
- ▶ Where are you and your organisation on the journey to realising the finance function of the future?
- ▶ How, in the light of these themes, will you reconsider your strategies to meet the future finance function's innovative mandate?

Five things you can do in light of this briefing

1. **Begin by identifying priorities for your finance function through using the table in the section titled 'how service areas within the finance function are evolving'.**
2. **Next, we recommend investing time to identify skills gaps in light of the evolving finance function shape, and developing plans to close them.**
3. **From a personal standpoint, consider the direction in which you would like to develop your own career.** You can then take action by reading up on disruptive technologies to understand how that may help or hinder your future direction.
4. **To achieve your goals, start developing your own continuing professional education plan to take your career in your chosen direction.** It's important to make sure this plan complements learning with experience and exposure in order to develop your skills and contacts.
5. **To help us develop a knowledge-sharing community, please do get in touch to share your experiences, observations and opinions with me.**

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