IT'S NOT ROBOTS THAT GO TO JAIL

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FOR FINANCE, THE FEAR IS REAL

Introduction

Australian multinationals are subject to a wide raft of new compliance requirements initiated by the OECD transparency initiatives. As the Federal Government signed on to reduce revenue erosions caused by profit shifting practices, the lives of Australian CFOs and their teams became more complex.

The considerable resources and remit of the Australian Taxation Office to mitigate these practices and take non-compliant companies to task have received extensive reportage.

And the fear is real. A recent survey of 977 Finance professionals around the world found only 3% of respondents sleep soundly. The majority are mired in worry around how systems and processes can to keep pace with the rate of change in the business[1]. Yet despite this, there is a great deal of cynicism and mistrust of technologies that could untether Finance from IT and free Finance leadership to pay closer attention to the increasingly strategic demands being placed on their roles.

Many in the function do not mind that Finance is not rushing to adopt the latest technological innovations - if a Robotic Process Automation (RPA) fails, it is the CFO who ultimately bears responsibility for the impact. It is not the robot that could face jail.

But there is significant risk in not taking any risk. CFOs could lose strategic footing if Finance fails to align with the business on digital transformation.

BEPS cooperation between the G20, OECD and participating nations extends to December 2019. Participating governments will be under pressure to drive compliance measures through to meet the review deadline in 2020. This means affected organisations face increased scrutiny over the next three years. It is time for leaders in Finance to carefully consider the stepping stones to transformation, starting with automation and standardisation.

Where can quality-based processes be applied? How can they support continuous improvement initiatives? What are the challenges and barriers? Is Finance simply too much of a quantitative art to benefit from automation?

Seeking answers to these questions, Thomson Reuters and Deloitte partnered to host a round table event for 16 CFOs from a range of large multinational enterprises at the recent 2017 SSON Conference.

This paper summarises some of the views shared. To encourage a frank and fearless exchange of opinion, the Chatham House Rule was applied, so participants are not identified.

LEADERS OR LAGGARDS?

Weighing the pain and the gain

Digital transformation may be a key strategy for improving customer facing areas of the business but the Finance function is not queuing up to unquestioningly join the shift. Finance operates in an environment that is more highly regulated than most of its peer divisions. Innovation and change must be assessed extremely closely and tested for reliability before the risks associated with implementation can be deemed acceptable.

This may explain why most of the Finance leaders attending the roundtable were sceptical about statutory reporting in enterprise organisations becoming fully automated by 2020. The only concession to this was one attendee who noted "in as much as it can be, it will be".

Given the well documented pressures around reporting, the over reliance on spreadsheets and the lack of controls over critical data, what is at the root of resistance?

Discussions indicated that while some low-level processes and very specific use cases are starting to be automated by Finance, there was a divide in support for the notion that this will extend to more sophisticated processes within the function.

Some delegates expressed deep cynicism about past and current technology offerings, while others acknowledged they are already enjoying gains. Accepting that new technology spin is a constant, convincing showcases and strong case studies are necessary if technology vendors expect to overcome the hype.

PAINS

"A couple of years ago it was all about data analytics and being promised it would change the way you do business, that you'd gain insights you've never had before. Now, the same companies are trying to sell us robotics and we're being promised the same things."

GAINS

"We're using RPAs for payroll, PAYG and now doing in 5 seconds once a week what used to take us 30 minutes. It's working fantastically."

Finance can look to peers in other parts of the enterprise for discussion on where automation and standardisation have been implemented, and for empirical evidence of the outcomes. Other parts of the enterprise – IT, contact centres, sales and marketing have all experienced disruption and are going through transformative efforts to harmonise people, process, technology and data in new ways. All have experienced the notable change management issues that bubble up around the human responses to automation.

Finance is being challenged to evolve and questions arise as to whether the business can afford the function to lag further.

Several comments shared by the Finance leaders at the table reflected this concern, with one participant saying: "if we're choosing to ignore the developments in technology, we risk being left behind and creating a gap that's too big to bridge" and another confirming that "we can no longer be seen as a cost centre, we need to be able to show and explain the value we bring."

The role technology can play in delivering on that value was not overlooked in discussion but it was also acknowledged that understanding what emerging technologies can achieve is itself a skillset.

> "If we're choosing to ignore the developments in technology, we risk being left behind and creating a gap that's too big to bridge."

Finance leaders are increasingly required to be conversant in what technology can do for their organisations, but creating the right environment in which to 'fail' is not native to the function. This was highlighted in the observation of one delegate who noted: "If we're not setting a safe space within our teams to experiment with technology and perhaps fail the first time, it creates a reticence to explore emerging technologies. For us as leaders, we should be helping to set that tone across the organisation."

As Finance leaders look to partner more closely with the business on the journey to digital transformation, what are the first steps? Aside from caution in relation to the technology itself, two themes emerged from discussions: the challenge of competing for investment and overcoming cultural barriers.

While building Finance's business case for technology investment, operational readiness for technology adoption relies on Finance working with peers in HR to head off any cultural barriers. To do so, we need to understand the aversion to relinquishing control to automated processes.

INVESTMENT BARRIERS

"How do investments in Finance stack up against investments in other parts of the business? Unless I can show a direct return for frontline customers, it's very difficult for me to get any dollars to do this stuff."

"Budget approvals for Finance to investigate digital transformation are problematic."

CULTURAL BARRIERS

"My Finance team are quite conservative. It took them 5 years to accept Excel because they really liked Lotus 123. Moving them to some bot that helps them as their digital assistant and is always up to date with rules and regulations would probably be appreciated but, fundamentally, they wouldn't trust it."

FINANCE IS HUMAN

The importance of humanware

> "Automating single tasks has little impact. But if you start to do things 24/7, you have issues. If you automate and suddenly that robot stops working, you've got no one to do the process because the team has gone."

Despite the adherence to spreadsheets and other manual processes causing considerable pain to CFOs and their teams, it is possibly a case of better the devil you know. The processes themselves are designed and driven by experts within Finance and ultimately, accountability for errors large and small can typically be traced back to a human source. Equally, remedying such situations also relies on tried and trusted human interactions, with peers in management, HR, legal and operations.

However, when the process becomes fully automated, where lies the responsibility, accountability and, above all, the liability? The complexities arising as human, automated and robotic processes merge have significant implications. The importance of retaining 'humanware' - the knowledge tissue that binds Finance process and quality together - was prevalent in discussions.

> "Will we ever see a completely automated set of accounts? To a certain degree, yes. I know we can trust robots to do the banking but I'll still want somebody to have a visual over a set of accounts before I'll sign off as a responsible Director."

Partnering on the path

HR needs to be brought to the table to help align the Finance function with the business in terms of broader IT strategies, and planning for the skills mix needed into the future.

Finance can no longer sit as an island of expertise. It is not feasible to have qualified accountants bogged in transactional detail, they need to be freed to add value. Processes that can be offered, managed and monitored in a uniform way are ripe for standardisation and automation.

This is where error risks can be reduce and productivity improved.

The reduction of complexity is also important when competing for future talent. One participant observed: "I have 700 staff, most of whom are Millennials. They don't use PCs, everything is on their phone."

Partnering with HR may also help Finance leaders coordinate the planning and collaboration needed to migrate processes to a Shared Service environment. One executive noted: "Some people have put the same old processes into the SCC. All they've achieved is their inefficiencies are now centralised. You need to stop coding random crap, cleanse the ledger, fix the problems, get rid of broken systems. Then automate and standardise."

By 2020 Millennials will comprise 75% of the workforce, a staggering statistic that cannot be ignored by Finance leaders. This talent pool was born digital. They expect enterprise grade, consumer experience apps available to them from anywhere at any time, in a flexible, supportive work environment. Finance teams that can offer this or, at a minimum, can demonstrate a clear strategy to move with these times, will win out over employers that are rusted on to slow, manual, frustrating processes that prevent this generation from feeling they are making a positive difference at work. This means technology, combined with trusted information sources and real time data, needs to be at the core of the Finance function.

THE SOLUTION: MODELLING QUALITY DIGITAL TRANSFORMATION

Harmonisation of people, process, technology and data

The enablers of process and policy organisation, as well as the people elements, are to be brought together before any assessment of the efficacy of new information systems, or talk of digital transformation, can be considered. And it is critical that Finance is aligned with the broader organisational and IT strategies of the business.

To this end, Finance needs to articulate the clear benefits of efficiency, control and visibility from any transformation initiatives.

Three evolving models are accommodating the planning of digital advances:

1. The operational model clusters skills and talents around specific activities. You can see in Strategy & Operations (S&O) the potential for automation initiatives such as RPA.

2. Business partnering is where the analysis and interpretation of information takes place. It is a catalyst role in terms of how Finance output is made real for the business.

3. Specialist centres of excellence, in Tax, Treasury and some very heavy technical areas within Finance.

Interestingly, there is a new adjacency for operations and specialist Finance. External statutory reporting has traditionally sat within the specialist area. But codification of that process is seeing operational areas picking up the production of financial statements, albeit with the SMEs undertaking the technical review and sign off for external regulators.

WITH THE LATEST TOOLS, THE QUESTIONS NOW LINE UP AROUND:

1 Facilitating the knowledge sharing for the compilation of financial information for external reporting

2 The accountabilities and responsibilities relating to the production of statements

3 Meeting regulators' increasingly exacting requirements while keeping pace with growth

4 Leveraging data collected across the Finance function for contribution to business strategies.

What about Shared Services?

For Finance Shared Services, the lens is twofold. It is not just about a focus on efficiency and the role that technology plays in this. It is also assessing the quality of the process that has been created and the accuracy of the outcome.

Directors need assurance there is appropriate governance in the process, and this requires a focus on producing accurate accounts, rather than just outsourcing current workflows. Whether it is people or robots doing the work, Finance needs the credibility of consistent, quality output and contribution to the business.

Drive to centralised servicing and extracting greater value

With the shift towards automation there is also a determination to extract more capacity from Finance and bring not only transactional processes but value-added tasks into a centralised environment.

The Thomson Reuters 2016 survey of 50+ multi-nationals showed a 50/50 split between those respondents that are using a Shared Services Centre now or planning to in the near future. Where standardisation can be pushed, they're moving towards a centralised SSC environment, including to expanding its remit to the preparation of statutory reporting.

Finance leaders at the table were conscious that some sort of hybrid model of internal and external resourcing is needed. This is particularly so for multi-nationals with more complex regulatory regimes or countries with specific language requirements.

In a partnership between traditional SSC and a centre of excellence, the preparation is being outsourced but Finance is keeping hold of technical review and sign off.

This sentiment was reflected by several comments made around the table. One observation addressed the need to balance volume and quality, with the speaker noting: "The SCC has very much been a transactional centre. Much of the challenge is in achieving consistent, trusted quality. That's the essential value add."

RESPECT FOR FINANCE AS ART: CREATING THE CULTURE FOR DIGITAL TRANSFORMATION

The culture of alignment

Increasing demand is being placed on Finance leaders to take a strategic role and add value to the business, above the operational line.

Discussion around the table turned to alignment with the business and how to build and maintain credibility. Despite inherent conservatism, there was consensus that given the right opportunity, Finance SMEs that re-skill to reach out to the organisation can be positive disrupters.

As one executive put it: "The language of the business is not just about savings, it's also about revenue opportunities. Some of our teams are essentially profit centres in terms of how much we've saved the company. And if you can get that credibility, you can keep hunting. Chasing FTEs is not the future."

Yet this relies on strong two-way communications and mutual respect for what the organisation needs. Results of a recent Deloitte survey indicate a substantial proportion of Finance leaders feel they are not aligned with the business, nor equipped to address rapidly changing enterprise goals.

31% OF RESPONDENTS SAID THEY ARE NOT EFFECTIVELY PARTNERING WITH THE BUSINESS

83% SAID THEY WANTED TO INCREASE TIME WITH THE BUSINESS

ONLY 10% SAID THEY HAD THE RIGHT PREDICTIVE TOOLS

57% SAW THEIR CURRENT SYSTEMS AS A BLOCKER TO THIS

52% SAID THEY NEED A DIFFERENT SKILLSET

WHEN WE LOOK AT THE FINANCE FUNCTION TODAY:

25-35% OF TIME IS SPENT ON OPERATIONAL, BELOW THE LINE DELIVERY OF FINANCIAL INFORMATION

ONLY 10-15% IS SPENT ABOVE THE LINE ON CATALYSTS THAT ENABLE BEHAVIOUR CHANGE AND ON DEVELOPING AND FULFILLING STRATEGIC GOALS

AND EVEN LESS TIME IS INVESTED IN ASSESSING CURRENT TALENT AGAINST WHAT SKILLSETS WILL BE REQUIRED FOR THE FUTURE

The culture of compliance

Standardisation can overcome challenges of disparate sources of data, processes and reporting for multi-national or multi-jurisdictional organisations. But this can be a daunting exercise particularly when compliance is the primary consideration.

The more borders the business processes cross, the more complex the culture of compliance. "In the UK and Europe, compliance is a relatively simple reporting exercise. As a CFO you care about 'How quickly can I get this done and out the door?'" explained one delegate. "But in Australia and NZ, it's about a very different flavour of financial statement. We need a lot more of the story, to be able to move around notes, disclosures and numbers: 'What are my financial statements telling me?'"

There are already enormous implications for Finance and Taxation functions with the increasing volumes of data streaming from the organisation's enterprise technologies – without even considering the adoption of new, finance-specific advances from robotic process automation (RPA), AI, chatbots and Blockchain. Knowing how much of the data Finance needs to consider and how it needs to be presented is half the job. "There's only ever going to be more compliance. The issues are: what is the government going to want, what data, in what form and what is it going to do with it?"

> There's more and more data coming in, from our ERP systems, everywhere. What do we need to consider as part of Finance's responsibilities?"

THE FUTURE OF FINANCE: CAN YOU AUTOMATE AN ART?

With thanks to the round table participants, the questions surrounding the evolution of the Finance function have been very honestly assessed.

Speaking to the notion of automation in Finance, one delegate stated: "I basically have a PhD in Fine Art. You can't automate that." No doubt, but few artists produce their own brushes and paints. That process has long been automated, leaving artists free to concentrate on their masterpieces.

More broadly, there was positive feeling about the potential for refreshed processes and digital transformation. The tools and bolt-ons now available to Finance are becoming more and more affordable and are helping make the use of technology simpler - within the Thomson Reuters client base, roughly 40 percent have RPA implementation projects in place.

The general optimism was expressed as a Finance leader concluded: "Robotics has a place in Finance. It will open up our ability to do more value add. You won't see a massive reduction in headcount because our people will still be needed to do the analytics. And when the ledgers are posted through, you can be confident they'll be clean."

Round Table Take Outs

- Poor processes result in poor accounts, regardless of automation
- Humanware will remain, in tandem with robots, as ultimate responsibility lies with the CFO
- Finance R&D to be nurtured for investigation of known unknowns, process streamlining and identification of improvement gaps
- Non-value add functions to be pushed to robots
- Business partnerships and Finance centres of excellence achieve best outcomes
- Impact of Millennial workforce potential competitive edge
- Finance to leverage its data for contribution to business strategy and act as enabler of execution

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