

Rethinking your business with the digital financial technology

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Although finance transformation initiatives can take vastly different paths based on the European Union industry characteristics, many challenges are common across virtually all transformation initiatives. These challenges can be summarized as such: intensive manual transactional processing, multiple sources of financial data, conflicting regulated and management reporting, difficulties to reconcile regulation requirements and best practices, insufficient reporting, and aging systems—these issues come with the life and history of the institutions. One of the answers from CFOs is to generate early successes and build momentum by deploying the digital financial technology that takes aim at these challenges by getting their house in order before unexpected challenges come knocking.

Today, CFOs are struggling to exploit their own information

Digital financial systems (DFS) and new emerging technologies are two key facets of finance operating models. The ability to monitor, analyze, and interpret data has always been at the heart of the public finance profession. In recent years, innovation and advancements in technology for a new generation of DFS and data storage have enabled public organizations to start to draw insights through simplified transaction processing and data analytics, but they are still far from releasing the potential that lies in the financial information—with far-reaching consequences for the efficient use of member state taxpayers' money.

The way that the European institutions collect, manage, and use information is seen as key to the financial function's future; unfortunately, a range of barriers are hampering efforts to make full use of data in the government. Financial information is inconsistently collected across departments, and different points of contact record the same information several times in different ways. As a result, institutions' ability to analyze spending, budget consumption, revenues, and other financial data across all departments is limited—and so is their ability to create valuable management information that is consistent and comparable across European institutions.

The age of the current financial systems is also a major factor. The rate of change in technology—specifically the ability to collect, store, and utilize dynamically vast amounts of data—has outpaced the ability to exploit it. Since the financial application landscape differs between European institutions as a result of stand-alone buying choices, the decisions taken in isolation over many years are now perpetuating an isolated approach to data, leading them to provide weak information with an inappropriate financial impact of policy decisions—and certainly the long-term impact—not clearly understood by EU decision makers.



An efficient financial digital ecosystem to empower decision makers

Finance is part of the nerve center of most EU organizations, necessary for communicating and collaborating with a wide range of internal or external business partners, each of which brings its own issues, systems, and ways of doing operations. Those needs, which help fuel the complexity, are unlikely to drastically change in the near future. In fact, given the operating conditions most businesses face, the finance department is encountering increasing demands for support, assistance for investigation and auditing, and day-to-day interaction. Nevertheless, that doesn't mean it cannot simplify the operating environment, particularly with the help of a new generation of digital financial and reporting systems.

While significant complexity is typically encountered across the finance units, there are some areas in which it can be crippling due to technology constraints: multiple financial ERP and legacy systems,

homemade obsolete application, and inadequate system configuration are the most frequent culprits. Managing sufficient funding, including cash flow and cash position, and providing accurate reporting on time are perennial challenges. Complexity also plays a major role in long-closing cycles and can thwart ambitions to tap reliable data at any time, on demand.

The technology evolution of the recent years provides a fresh opportunity to address these challenges. These new technologies, known as in-memory computing, are usable both on-site and in cloud platforms. For organizations looking to improve financial processing across the new generation of DFS, in-memory computing becomes a foundation warranting serious consideration for efficiency and transparency in figures (e.g., aggregates elimination, multi-entities integration). When implemented properly, they can also deliver centralized transactional processing (e.g., central journal, accounting ledger integration),

data transparency, and access in real time (e.g., integrated business planning, big data, reporting "on-the-fly" with share tables for transaction and reporting), with the ability to drill down to line-item-level detail—all behind a new intuitive digital user experience. ➔

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1	Budget Preparation	Centralized Budget Preparation	Decentralized Budget Preparation	Budget Maintenance		
2	Budget Execution	Procure-to-pay	Accounts Payable	Accounts Receivable	Project Accounting	Travel Management
3	Public Sector Accounting	Cash Management	General Ledger	Cost Accounting	Asset Management	
4	Budget Closing & Financial Reporting	Period-end Closing	Year-end Closing	Budget & Financial Reports		
5	Grant Management for Grantee	Grant Management for Grantee				

Reinforce financial and reporting transparency for business performance

For CFOs, the fundamental step for the new generation of DFS is to ensure that appropriate booking systems are in place in order to track basic results of operational performance, track the application of the financial regulation, and highlight major operational inefficiencies. Those new technologies are able to provide reliable institution-wide information aiming at i) performing an in-depth analysis at each level of the organization, for all types of internal and external operations affecting

financial transactions, and ii) providing a better understanding of their businesses to uncover unknown relationships between the different layers affecting the overall efficiency of the financial management. In subsequent stages of maturity reporting, European institutions will acquire a stronger vision of the nature of their costs, and possibly revenues, while increasing their ability to allocate costs by permanent/non-permanent organization units (departments, projects, or initiatives) through the spectrum of political and administrative structures. They need to capture the fundamental nature of their costs in relation to dedicated funding envelopes by breaking them down into several categories, such as variable versus fixed costs, and direct versus indirect costs. Consequently, for the sustainable application of the European financial regulation with extended functional coverage (e.g., budgetary accounting, accrual-based general accounting, cost accounting, fixed assets management, revenues increasing the budget), more

integrated DFS combined with detailed data storage could significantly help CFOs provide real insight toward policy and spending decisions, and better financial management. It should be integrated across different activities and planning horizons. Long-term strategy provides a clear framework for medium-term operations and planning and resource allocation (i.e., forecast and fund reservation). In turn, these assumptions should also be reflected in shorter-term operational activity budgeting (i.e., budget, fund commitment). As an illustration, new technologies provide an integrated processing of financial operations within public institutions. An institution that fails to link activities end-to-end with transparency and details runs the risk of confusion and misalignment. A failure to ensure that operational and financial management are aligned and plans are shared and properly funded can lead to a “stop/go” approach to decision making.

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Investing in the digital financial technology with a CFO perspective

Ask CFOs in European institutions about the evolution of their financial systems, and they will expect a reduction of investments and efforts made, regularly meeting deadlines, and increasing the value and benefits of new digital technology in operations, reporting, and the decision-making process. Consequently there is a growing need to effectively manage the CFO-CIO relationship. Implementing a new DFS is not simple matter. It requires focus on three specific areas—communication, governance, and value creation—to create an overall framework for preparing the future with appropriate system capabilities.

- **Communication and miscommunication:**

CFOs often focus on business financials, while CIOs often focus on business capabilities and enabling technology. They often fault their counterparts for not fully aligning DFS projects with company strategy and value creation—a dynamic that makes getting a handle on IT priorities and technology costs particularly important for CFOs. CIOs can likewise be challenged by cost-cutting CFOs who may not realize how deferring costs today delays time-to-value and may limit future options. Simply put, this lack of a common point of view and means of communication between both parties can lead to a fundamental disconnect that hinders effectively investing in, and realizing value from, technology. To address this disconnect, both should establish a common language for assessing and communicating how new technologies create business value for finance. Specifically, the conversation should focus on how technology improves business processes rather than just talking about a specific technology or system.

- **Effective governance:**

CFOs and CIOs can help to improve day-to-day operations by establishing organization-wide governance models for major new DFS cost decisions. This model, with the appropriate stakeholders, can lead to joint ownership and better resource allocation, as well as commitment to, and execution of, DFS



projects. Effective governance models are likely to have two levels in complex EU organizations: one for strategic governance around long-term strategic initiatives and the other for individual projects. The first level should address how IT will support finance in the future and enforce discipline around large-scale investments. Responsibility for this level of DFS portfolio governance should be shared between the CFO and the CIO, that serve their mutual interests for effective and efficient delivery. A second level of governance needed is for individual projects. Such tactical governance allows CIO to get the relevant users onboard for projects and keep them on track. Additionally, this overview allows problems to be identified—and fixed—in a timely fashion.

- **Focus on value creation:**

the creation and stabilization of value comes with i) the reliability and the quality of information (timely, accurate, available, history) supporting each financial process, ii) the revisited DFS application landscape and technical infrastructure that run the financial processes (execution, standardization, consolidation, integration), iii) the technology risk exposure (obsolescence, legacy system integration, outage or

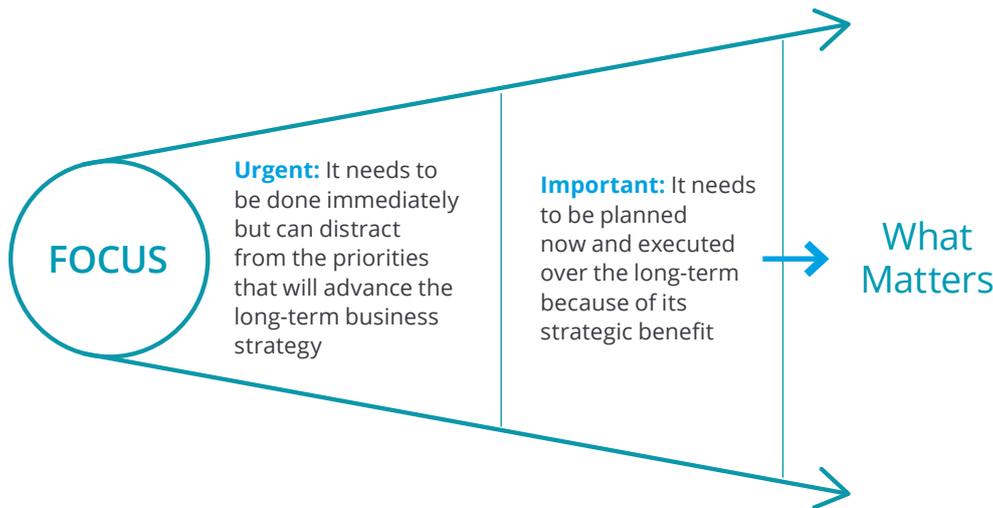
disaster, vendor dependency). Equipped with a heat map of finance and DFS capabilities and vulnerabilities, the CFOs and the CIOs can develop a shared view of critical gaps they need to consider fixing as well as how new technology can drive the business impact through improving processes. Before spending money to address those gaps, they should sit down with the process owners in Finance, IT, and also representatives from other Directorate Generals to determine the business value and the cost-benefit of improving specific gaps in financial processes (e.g., opportunity cost is a critical piece of spend investment). The CFOs may need to determine if funding the unknown or a big-bang DFS is actually prudent. If they accept the reality that there will probably be cuts involved in IT, then an iterative improvement solution is maybe the best the institution can hope for. The choices can frame what they are optimizing—a completely rational architecture or one that can drive increasing stability in the organization. It may not be radical nor world-class, but in some cases really good may be good enough. The funding challenge is to determine when “good enough” works, versus the need for a radical overhaul or replacement of existing financial systems.



Let's start thinking about the future with the digital financial technology

Based on our extensive research with more than 400 experienced or recently appointed Finance leaders, the "CFO transition Lab" is a concrete answer to support the preparation and the transition toward a new generation of DFS, in particular with a focus on the three most important resources that must be managed: time, talent, and stakeholder relationships. The answer is built around Deloitte research into executive transitions and culminates in a plan with five work streams:

- **Vision and strategic priorities:** carrying the finance torch requires a long-term vision of the finance function, aligned with the clear strategy and priorities of the European institution in sight.



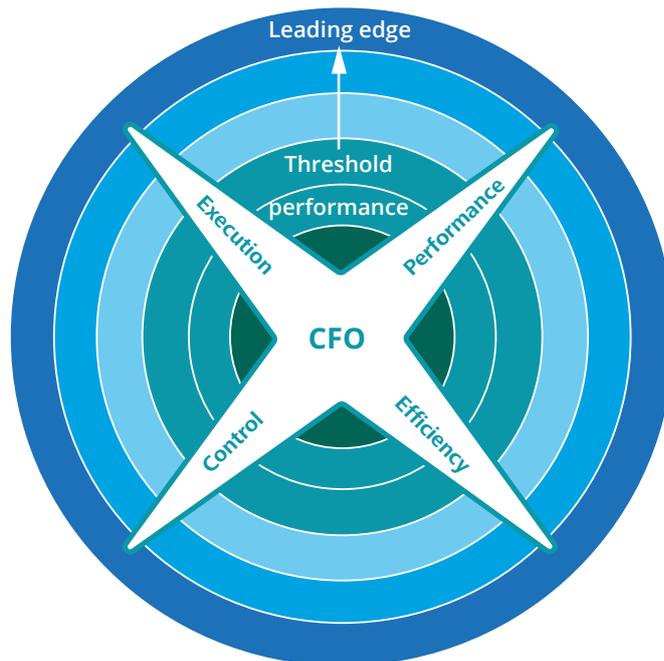
- **Performance and efficiency:** consider where the finance department spends its time and assess scenario feasibility to overcome the most critical challenges, aiming to sustainably increase performance and efficiency at work.

Catalyst

Induce behaviours to execute strategic and financial objectives while creating a risk-intelligent culture.

Stewards

Protect and preserve the critical assets of the organisation and accurately report on financial position and operations to stakeholders



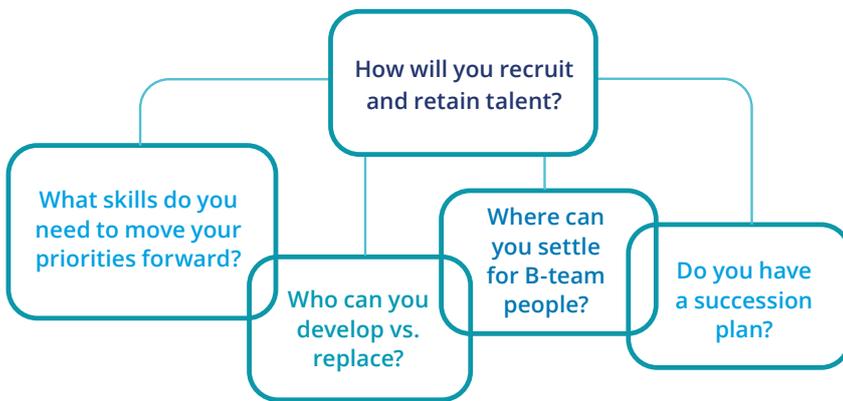
Strategist

Provide financial leadership for vital strategic business direction, M&A, and longer term strategies that impact performance

Operator

Balance capabilities, talent, costs and service levels to efficiently fulfil the finance organisation's core responsibilities

- Assess and develop talent strategy:** get to the heart of the talent issues quickly is at the center of every successful transition story. Figuring out the team members who will advance the priorities is critical and needs to occur in an unbiased environment.



- Understand and influence specific stakeholders:** from building to sustainably managing relationships with key stakeholders, success will come from having a plan for getting permanent interactions and influencing decision makers.



- **Develop business case and roadmap for implementation:** Maintaining financial control, the timely provision of accurate management and financial information to support business decisions and meet external requirements, implementing an institution-wide technology model, and reducing high attrition rates are the most frequent “must-do” priorities.

From		To
 Process		
<ul style="list-style-type: none"> • Ad hoc • Central decisions 	Governance	<ul style="list-style-type: none"> • Formal • Delegated decisions
<ul style="list-style-type: none"> • Manual • Loose policy • Non standard 	Process	<ul style="list-style-type: none"> • Automated • Globally consistent, tight policy • Standard
 Technology		
<ul style="list-style-type: none"> • Duplication allowed • Excessive manual adjustments • No standard reporting architecture • Fragmented divisional system management 	Architecture	<ul style="list-style-type: none"> • Duplication discouraged • Controlled automated interfacing • Agree enterprise reporting architecture • Institution-wide system management
<ul style="list-style-type: none"> • Multiple sources of information • Varied data definitions • High data movement • Divisional prioritization 	Applications	<ul style="list-style-type: none"> • Single source of truth • Common data definitions • Minimize data movement • Enterprise change management
 Organization		
<ul style="list-style-type: none"> • Decentralized • Skilled staff not aligned to process • High attrition rate 	Organization	<ul style="list-style-type: none"> • Centralized • Skills aligned to process • Low attrition rate
<ul style="list-style-type: none"> • Internally focused • Demotivated-reactive 	Culture	<ul style="list-style-type: none"> • Citizens focused • Motivated-proactive
<ul style="list-style-type: none"> • Task focus • Restricted job rotation • Progression restricted by specialty • Local performance management 	Competency	<ul style="list-style-type: none"> • Member States centric • Multi-skilled • Continuous progression • Global performance management



In conclusion

Building a sustainable, evolvable, and efficient DFS for European institutions involves asking a series of questions for technology and business-process owners. Answering these questions creates opportunities to use a new generation of technology to create value in critical processes for citizens, political representatives, and civil servants.

1

The **first group** of questions should address the quality of information supporting each business process:

- Is the information timely? relevant? accurate? insightful?
- Are we leveraging external data to our advantage?
- Do we have a common data model with consistent definitions so that one version of the truth exists throughout the organization?

2

The **second group** of questions targets the applications and technical infrastructure that run the organization's business processes:

- How well do current systems support financial processes? What is the range of coverage? What level of process automation have we achieved?
- How standardized is the application portfolio and associated processes? What opportunities exist to drive operational efficiencies toward greater standardization?
- How does the technology enable automation and reduction in manual effort to save costs?
- Will the technology choices enable scalability of process outputs dialing up or down to meet businesses demand efficiently?
- Is the technology reliable, leading to high availability of the process with low maintenance?

3

The **third group** of questions targets technology risks to the organization:

- What risks do we have from potential technology obsolescence?
- In the event of a merger, are there any significant barriers to integrating other legacy systems?
- How prepared are we to recover from outages and disasters? Do we have defined recovery plans? Are they tested regularly?
- What are the biggest business exposures if DFS experiences unplanned outages?
- What risks exist with major DFS suppliers?

