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Finance discipline 5x5: Insights and actions

From uncertainty to opportunity with a finance discipline refresh

When financial performance and future planning rests on the shoulders of the finance function, creating a culture and operating discipline now that elevates performance in the long term is vital. Our series on creating a transformative finance discipline took a deep dive into each step on the journey to these new integrated models. In **part I**, we offered insights into the **need for these new finance disciplines to optimize performance.** Part II highlighted the **methodologies for developing resilient scenarios**—the first step to optimizing finance performance. In part III, the next step to **creating more finance discipline, we discussed creating capital agility now and more capital resilience for the future**, and in part IV, we introduced **analytics capabilities for each scenario to inform new data- and scenario-driven statistical forecast models.**

This quick summary provides some business insights and actions you can take to create new finance and operating disciplines guided by scenario planning, working capital liquidity, and predictive forecasting to manage risk, inform strategy, and find opportunities to get a better handle on the unpredictable future of finance.

5 things you should know

1. Finance discipline enables organizations to see and plan for multiple possibilities in the future, which allows for more agile management against possible risks while improving long-term success across diverse opportunities.
2. Refocusing working capital to focus on more liquidity starts with understanding capital needs in three primary tranches: capital needed to maintain ongoing operations, reserve capital needed for potential impacts of possible scenarios, and "excess" capital after fulfilling the first tranches in which the organization can invest.
3. Capital optimization moves beyond basic finance measures to a more comprehensive valuearchitecture approach to capital allocation that evaluates investments in terms of strategy and risk appetite, wherein the "value" is based on the evaluating principles for a company and "architecture" describes how corporate objectives translate into operating models and structures.
4. Forecasting capabilities can work for multiple purposes and organization levels, including a top-ofthe- house, corporate-level strategic model for high-level forecasts, business-unit or granular-level models for baseline planning, and specialized models for targeted and specific planning.
5. Predictive forecast models that incorporate real-time data, automation, and predictive analytics hotwire traditional planning and drive a more rapid and nimble process of accessing potential scenarios, empowering better analysis and insights for more informed decision-making.

5 actions you can take

1. Develop scenarios using critical uncertainties at the foundation to determine hypotheses about what could happen in the future in order to shed light on new opportunities or hidden risks today.
2. When imagining different scenarios around the possibilities from each uncertainty in a given period of time, create and include an underlying narrative for each scenario, including their economic and societal impact, to refine and drive the planning process.
3. Evaluate any potential biases in the capital planning process—optimism bias, expert bias, and narrow framing may include being overly optimistic about certain actions, relying too much on specific pieces of information, or interpreting objectives through too narrow of a lens—and prioritize tools to address any bias to better support the allocating of working capital.
4. Create more agile, scalable, and expedient predictive forecasting capabilities by implementing new technology, including robotic process automation and visualization dashboards, that can reduce manual effort and increase accuracy while narrowing the strategic focus.
5. When developing a new forecast model, identify significant data sources and key potential drivers, including external drivers and their impacts, and evaluate these drivers for quality and relevance to create actionable and future-proof strategies for each alternate scenario.

See our entire series on finance discipline for optimized performance for **insights into the need for these new finance disciplines** and the elements of finance disciplines we explore that start from a foundation of **methodologies for developing resilient scenario**s and the process for **instituting more agile capital allocation**— and to the final step in the journey to new integrated finance disciplines, which introduces analytics capabilities to **inform data- and scenario -driven predictive forecast model**s.

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