White Paper

TATA CONSULTANCY SERVICES

How Finance Can Fuel the Agile Enterprise

Empowering teams to deploy and determine 'optimal minimum' spending levels creates a 'trust, then verify' culture and the groundwork for growth.

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In the traditional finance organization, budget time is a season for taking stock and setting financial targets. It's a familiar scene: Gather a centralized management group. Take last year's spending plan and performance data to compare budget numbers with actual expenses. Consider executives' priorities and the firm's economic outlook for the coming 12 months. Then select a number – for example, 3% in cost reductions – and review last year's budget, line by line, to identify ways to meet the goal for the upcoming year. Repeat the same process in the following budget season.

That's a proven process – but only when the CFO must serve the status quo. When economic and market conditions are no longer "business as usual," such practices meant to guard a company's financial resources can actually become hazardous to its economic health. And today's conditions are anything but business as usual, with recessionary fears growing and digitally savvy business practices shifting market share faster than ever.

CFOs who want to help their CEOs navigate through these tumultuous waters need to operate a much different type of finance function. We call it agile finance. Here, finance professionals are catalysts for an enterprise that can sense and respond to opportunities and threats without delay. Instead of a centralized budgeting group, cross-functional teams work closely with functional, business unit, customers, business partners, and other stakeholders to keep tabs on spending, the company's financial performance and its strategic needs.

They are empowered by a culture of trust – specifically, the trust of their superiors to make frequent changes as business conditions dictate rather than wait weeks or months for leaders to approve them. This trust comes because such leaders are able to verify the wisdom of these decisions with an abundant set of real – or near real-time -- performance data.

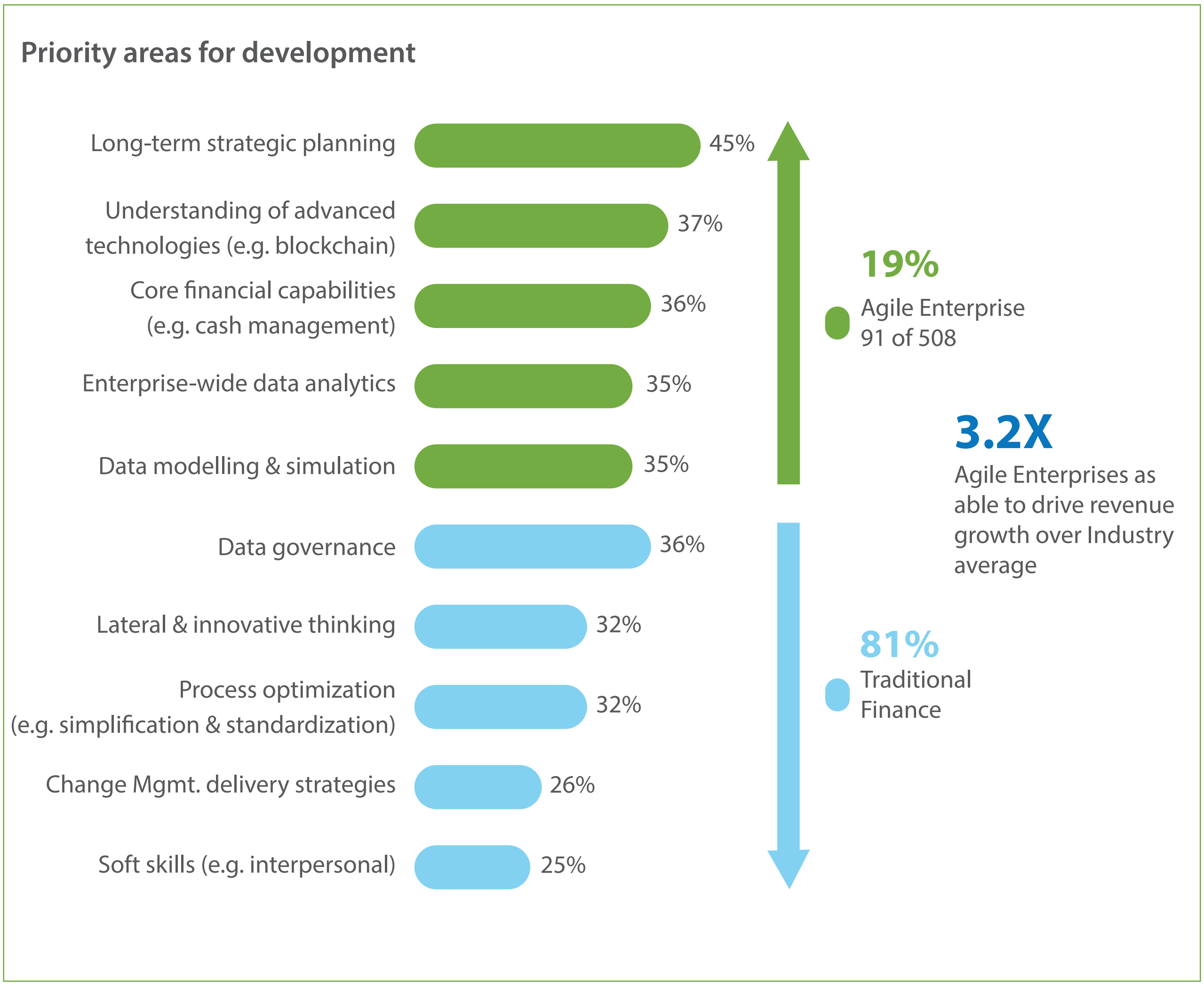
When these teams develop a new budget, they create an optimal minimum spending plan that starts from the premise that nothing from last year is a requirement. Instead of beginning with a set percentage or target, teams plan the coming year's investments in light of strategic priorities. These plans are subject to change as the needs of a customer, the relationship with a business partner, or a business unit's experience in the field requires new assessments. But these teams can act in days – even hours for some decisions -- rather than on quarterly or annual basis.

In short, an agile finance function is critical to creating an agile enterprise. It's a concept that will resonate differently based on a company's culture and its tolerance for delegating management decisions. Nonetheless, the benefits are clear: New TCS research shows that agile finance organizations improve overall company performance. Companies with agile finance organizations grow their revenues 3.2 times faster than those whose finance functions aren't agile, according to the TCS CFO 2020 Study.

Our research, which surveyed more than 500 CFOs and other senior finance leaders at companies with $1 billion or more in revenue in 11 industries in North America and Europe, identified top-performing firms. We call them Agile Leaders. In contrast, we refer to the firms whose performance was below average as Traditionalists.

TCS Global CFO Survey 2020

An increasing number of CFOs indicate movement towards being an Agile & Adaptative enterprises and are investing in analytics and automation. These firms deliver 3.2 times the revenue growth of the Industry Average.



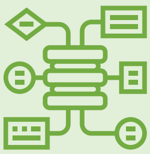
Agile Leaders manage their finance organizations far differently than the Traditionalists do. The leaders can access between 90% and 100% of their company's key operational and financial performance data and act upon the insights from them, often with immediate effect. Traditionalists can only access and act upon 1% to 29% of key operational and financial performance data, according to the CFO study.

In finance, Agile Leaders shape their organizations. Let's look at an agile finance organization more closely.

What Agile Finance Looks Like

Creating an agile finance organization opens up a far more effective and efficient world of planning and budgeting. At its core, it requires four practices that will be different for many finance professionals based on the "trust then verify" principle:

1



Using algorithms rather than people to drive the forecasting process.

The traditional approach to forecasting has an aspirational element. It typically includes the estimates of overly optimistic salespeople incentivized by revenue targets, for example. The agile finance organization is more likely to use algorithms informed by internal and external data to perform sales and other financial forecasts. This act lifts the accuracy of forecasts, from 75% to 85% in traditional means to the 90% to 95% of quality algorithms. This is a step change in accuracy and boosts the quality and confidence that teams have in the forecasting numbers.

2

Employing multi-disciplinary teams for budgeting.

Historically, finance executives work in concert with enterprise leaders to create and execute financial plans. Agile finance opens up the deliberations to people with different areas of expertise so they can bring their voices to the table. A finance team of eight or 10 people could include, for example, marketing experts, executives who manage customer relationships, experts involved in investment decisions, leaders from sales and other areas of the business – all in addition to finance professionals.

The process of bringing this expertise and these varying points of view under one team has a powerful effect: like the agile software and product development teams from which these teams derives their format, agile finance teams have the authority to act fast in response to opportunities and threats and the ability to consider multiple facets of the business in every investment and funding decision.

3

Funding value streams rather than projects.

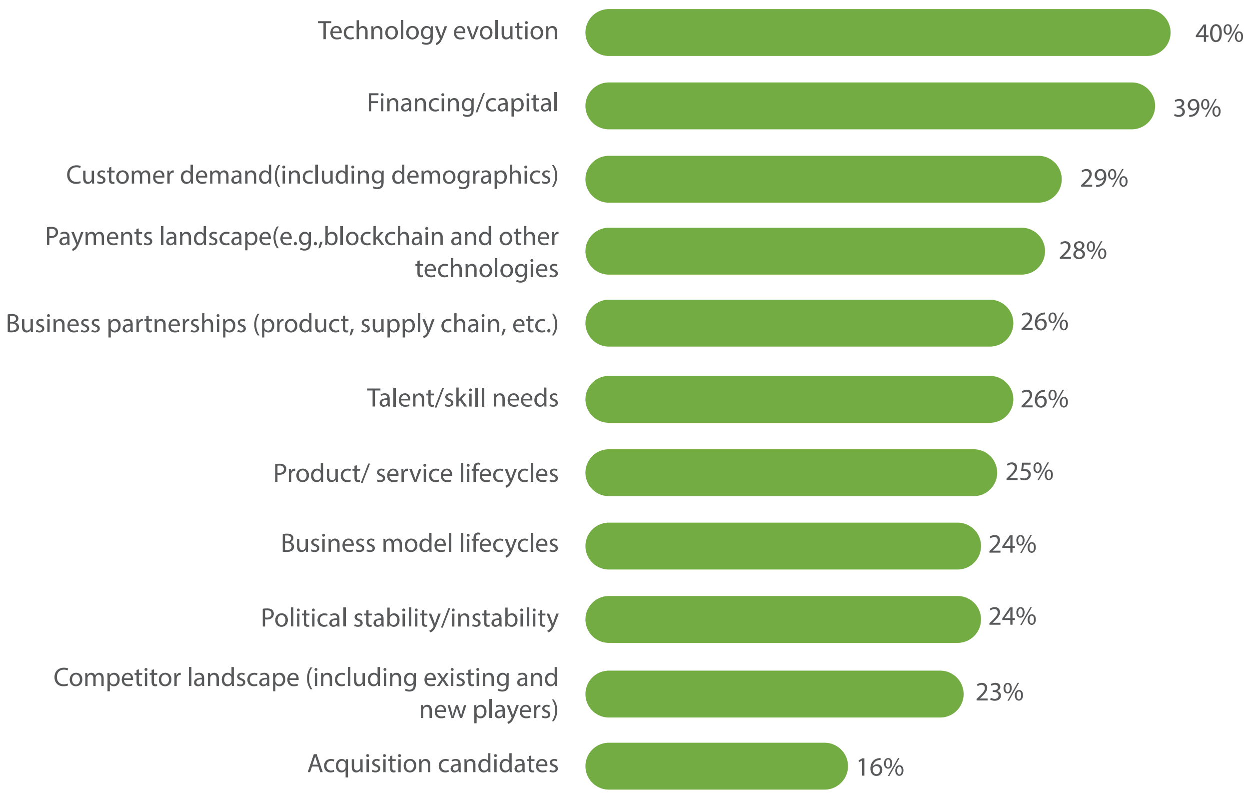
A reliance on data and analytics that evaluates every activity enables finance to identify which activities provide the best financial returns and deserve priority treatment in the next round of budgeting.

4

Employing financial and other performance indicators.

Operational KPIs are a "must-have" for any organization to understand the performance of the company. Through advanced data analytics, agile organizations can understand which KPI are leading indicators and which are lagging indicators of performance. Placing a greater emphasis on leading indicators for business decisions enables agile finance organizations to deliver greater results. Adopting a solid benefit-tracking habit enables the organization to take ownership of value and benefit drivers while never abandoning the original business case.

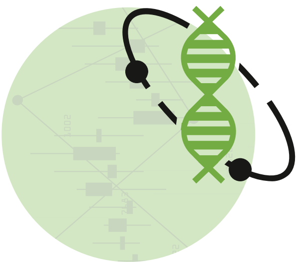
Key components of business forecasting



Source: TCS CFO 2020 Study

% top three

Ultimately, agile finance organizations enable top executives to not just say that they think long-term, but to have the data to make long-term decisions in their best interests while giving them insights to change course quickly and effectively. Said a finance executive at a major European manufacturer who participated in our CFO study: "Our role is to ensure that the limited funds we have available are assigned to the most attractive projects. But it's not just about putting money in the right buckets each year. We also have to have a longer-term vision about where we want the business to be in three to five years, and to be sure we're investing in a consistent way in the right projects."



Technology Empowers an Enterprise Finance Nerve Center

The implications of agile finance can be profound. When an agile finance organization can track everything that moves through an organization (from goods and supplies to cash) using blockchain, Internet of Things digital sensors, and other digital technologies, it elevates the company's ability to sense and respond to market conditions, capital needs, regulatory requirements and more. None of this is possible without these and other advanced technologies.

Take blockchain. Finance long ago evolved from single-entry to double-entry accounting practices. Blockchain is a new type of distributed ledger that enables data to be stored and viewed in near real-time in a secure way. It means that companies can share updated, verified account information with business partners, suppliers, customers and others. This makes it possible to assess the financial status of any operational activity, across an entire supply chain, much more accurately than before. It speeds up and elevates the quality of every related activity – accounting, decision-making, regulatory compliance, product recalls – while reducing the time and expense to do them.

In essence, blockchain enables a move from double-entry to triple-entry accounting, reducing the need for reconciliation and auditing work. When a company layers predictive analytics on top of this system, it can create competitive advantage by producing faster, more powerful insights based on data from the blockchain ledgers and other external data sources.

Now add in IoT digital sensors into the picture. These sensors allow firms to track the condition of products throughout the supply chain and have a real-time, accurate status checks of goods in transit, whether for mitigating the risks of theft or tracking spoilage (a big problem, for example, in the grocery industry, where 30% of fresh vegetables and fruit are lost to spoilage).

Combining these channels of insight sets up an agile finance organization to be an enterprise nerve center where real-time present operations status data informs more accurate and precise projections about the organization's current condition and decisions about future strategic moves.

Agile finance organizations use digital technology and new processes to become superior at three balanced capabilities:

1

Performing financial planning and budgeting far more accurately, faster and efficiently, using a zero-based approach.

This empowers decision-makers to regularly revisit and verify the impact of previous spending plans, and adjust based on strategic needs and performance.

2

Using blockchain and other technologies to track the movement of assets in the supply chain, other goods and services, capital, and cash in the organization.

In the CFO study, 44% of Agile Leaders were highly confident that blockchain technologies will have a positive impact on their financial planning and analysis capabilities. In comparison, only 12% of Traditionalists believe the same thing. Said the CFO of a large North American financial services firm: "Blockchain lets you complete something in one shot. If you can parcel together a transaction between two parties so that everything from initialization and agreement through cash settlement all happen together and instantly, that's powerful."

3

Optimizing working capital and transforming cash management.

Improving capital management enables business strategists to face uncertainties with the knowledge they have strong hedges against risks – whether they are shifting market trends, economic cycles, or other conditions.

What's clear to us, based on the research, our experience working with strong-performing enterprises and the economic uncertainties confronting business leaders going forward, is that finance chiefs must build their own agile finance organization now, if they don't have these capabilities already. It's never too late to do so.

A Laser Focus on Cash

Agile finance begins with a strong focus on the basics. As today's global economy has become more uncertain – the most recent Business Roundtable survey[1] of CEOs found geopolitical risks and trade policy uncertainty had tamped down plans for capital spending and hiring – it is critical for business leaders to more incisively understand the dynamics of cash in their organization.

Consider the supply chain. Some businesses depend on just-in-time supply chains and the services of third-party providers. Having daily, and even hourly, views over critical operational metrics can be vital when a market shifts or external shocks occur. In companies that lack agile finance, cash management can falter from a lack of visibility – when are receivables arriving? When are payables due exactly? – over multitudes of accounts. Even statistical analyses, based on company experience, are likely to produce forecasts that include assumptions that future behaviors will follow past patterns. And managers will made decisions based on that information.

Agile finance takes a different course. Using advanced analytics that incorporate real-time information, external data about economic and market events, finance managers can deepen the insights. They can understand the factors behind evident behaviors, such as which customers are hoarding cash, which suppliers are hindering the flow of customer orders. Layering artificial intelligence over transactional systems, agile finance organizations can take a further step: analyzing patterns in business processes to accurately forecast when certain payments are likely to arrive, for example.

One company we worked with was able to provide such forecasts with 83% accuracy. If, for instance, a $2 million customer payment is going to be five weeks late, or another $2 million payment will arrive on time, finance can use this information to make recommendations on which customers offer better returns on capital invested and how to manage cash. After all, time is money.

Time also can be a matter of regulatory compliance. In the UK, companies must pay independent workers' invoices within 30 days, a regulation that retailers around Europe have adopted. We see that rule as a precursor: finance organizations will need to be able to provide more transparency to regulators, and to comply with more regulations. It just so happens that the work needed to meet these regulations also benefit finance organizations that achieve agility. They manage budgets, cash and other resources with more intelligence and informed forward thinking.

It's the kind of thinking echoed in a recent Harvard Business Review article[2] on preparing for an economic downturn. Recessions not only demand skillful financial management. They require decisions to be delegated down the hierarchy. Companies that emerged stronger after a recession "were better able to adapt to changing conditions," including adjusting product offerings (which require shifts in resource allocations). And companies that invest in technology to make their operations "more transparent, more flexible and more efficient" are also readier to come out of a recession in a stronger position.

Two Paths to Agile Finance

We see two options for enterprises that want to build an agile finance organization: reinventing finance in the way that a "born-digital" organization would run it, and creating "the optimal minimum" resource allocation organization. Let's review each in turn.

1

Reinventing finance as a born-digital company would run it.

The first (and more challenging option) is to reinvent finance in your company as if you are a "digital native" organization that employs agile finance from the start.

Because finance is integral to every part of the business, it makes sense to pursue this option in increments. For example, it's possible to start small, say with one business unit, and then scale the approach vertically to other business units and departments. Another possibility would be to pursue a horizontal scale, starting with the finance function (such as in the planning, budgeting and forecasting area). Implement agile finance in every area the function touches in every part of the business, introducing digital enablers (including predictive analytics, AI, blockchain and IoT) and building predictive forecasting models using both internal and external datasets to provide teams with the ability to operate in a lean manner. The team becomes a gatekeeper for incremental funding of operations and value stream monitoring. Once one team is strong, the company can use its members to help establish other teams that expand to other parts of the company.

2

Creating the optimal minimum.

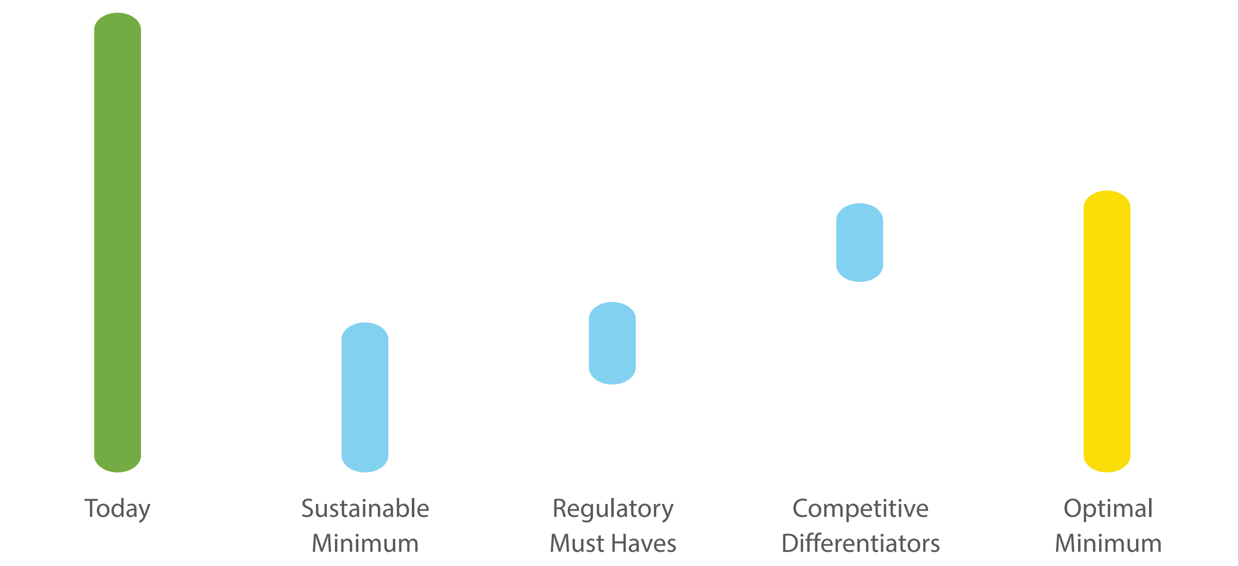
More plausible for most enterprises, this option entails moving finance to an agile model and using an incremental value stream-based funding process. It starts with a zero-based budgeting exercise that considers spending requirements for today as well as what the organization will look like in the future (five years, for example). The process enables finance to identify the "optimal minimum" required to maximize the value of investments of time, attention and money for the organization to move to a digital, real-time operating model.

This will lead to important questions. What should our organization look like in five years? If we were able to start as a greenfield business, what would we need to pay for? What activities are most important to fulfill our strategy? What capabilities to they require? How might conditions outside our company change those needs? What does the data say?

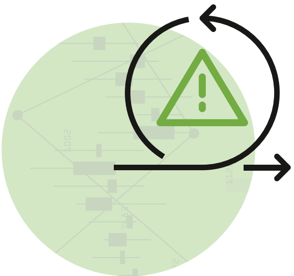
These are the kinds of questions finance can use to make its strongest contribution to the business, its current management and its future success. In the end, creating the optimal minimum is about driving a culture of "trust but verify," enabled by a solid financial backbone.

The experience of Tata Consultancy Services is a useful case study for the optimal minimum option. As a first step, the finance organization empowered customer-facing accounts teams with the autonomy to manage their accounts. Giving these teams decision-making authority is not simply an administrative move – it's a signature cultural change. The teams had members with a cross-section of skills that gave their group breadth of experience. Their position, closer to customers with authority to decide, elevated the quality of their choices.

Creating the Burning Platform – Journey to finding the Optimal Minimum



No matter which option finance executives choose, its people will be central to success. Finance leaders must invest in improving the skills of finance professionals so that they have a facility with technology and data as well as accounting and finance. The CFO 2020 study found that 36% of companies have skill shortages in forecasting.



Why Agile Finance is No Longer Optional

The only things we know for certain about the economy and business conditions around the world is that the cycle will run into a recession at some point, and other conditions are sure to change. The question is how those changes affect your business operations and finances.

Thus, creating an agile finance function is no longer an option; it's a requirement. To instill a culture of real-time management of assets, operations, and capital, supported by the latest technologies that deliver transparency and insights to decision makers – that's what an agile function is about.

With two paths to reach that goal – recreating finance to be like a "born digital" company and creating "an optimal minimum" resource allocation process – every finance organization has a chance to get there.

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