Across industries, market change is affecting how finance needs to operate. An optimal target operating model comes from aligning finance and corporate priorities and incorporating five critical—but often overlooked—levers of communication and governance.
Market forces and the impact on finance

Most industries today are in a state of flux driven by volatile market forces. Although every company devises a strategy for creating long-term differentiation for both goods and services, several broad response themes are emerging across industries. Finance must anticipate the implication of these themes and align itself with strategic corporate priorities (Table 1).

Why finance and corporate strategies must align

Finance's purely transactional activities are increasingly streamlined, leveraging providers' technology investments and global scale. Finance organizations can now rapidly realign talent to emerging corporate priorities that help improve business partnerships. True gains are realized only when finance can simultaneously develop and strengthen new skill sets (Table 1), and by systematic measuring, dissecting, and resolving operational issues.

The principal approaches to developing a functional strategy aligned with corporate priorities are the balanced scorecard and the economic valuation tree. While the balanced scorecard framework allows finance leaders to strike a balance between output measures such as process performance and time spent on analytics, and foundational ones such as technology maturity, people skills, and training, the economic valuation tree takes chosen valuation variables (EVA, economic profit) that integrate both P&L and balance sheet performance and breaks them down into drivers of

<table>
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<th>Market force</th>
<th>Company strategic response</th>
<th>Examples</th>
<th>Implications for finance</th>
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<tr>
<td>Rising affluence of middle classes in emerging markets, rising risk profiles in individual markets</td>
<td>Be global, act local: New market entry with unique market-specific offerings</td>
<td>Banking and insurance product customization by country</td>
<td>Develop alternative product and customer profitability models for markets</td>
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| Market consolidation                                   | Faster entry into new geographies and business models with organic and inorganic changes | ● **Hi-Tech**: Rapid bundling and cross-selling of products acquired from M&A  
● **Hospitality**: Offer efficient back office as incentive to new franchise operators  | Investments for more rapid integration through  
● Robust process models and ERP system blueprint  
● Master data management                                                                        |
| Dramatic shift in consumption patterns and emergence of consumer power | Change business models to enable on-demand consumption of preferred devices  
● **Software**: From on-premise to cloud consumption  
● **Media**: From broadcast to on-demand consumption  |                                                        |                                                                                        |
| Boundary-less workforce                                 | Global sourcing of talent with broader, deeper third-party leverage to create flexible capacity at low fixed costs  
● Global Business Services (GBS) with a central hub and regional spokes, partially outsourced  
● Shared services centers leveraging outsourcing partner facilities and staff (hybrid structures)  | ● Leverage broader ecosystem of service providers for leading practice infusion  
● Develop more structured evaluation frameworks for service entities                            |
| Increase in volume, velocity, and complexity of business data | Develop new skills to best leverage newly available information  
● **Pharmaceutical**: Better insight into performance of product portfolio  
● **Manufacturing**: Better defect and failure evaluation  |                                                        | Train workforce on new methods (e.g., driver based planning) and leverage external providers for niche services (e.g., advanced analytics for second-order effects) |

Table 1: Market forces driving strategic change (Illustrative)
performance and the activities that support it. Both methods enable aligning the corporate scorecard to CFO team goals, and then to the goals of the various functions of finance, and directs leadership attention toward performance as well as its long-term sustenance.

The strategy, frameworks, and metrics of effective governance

Changing the operating model requires both strategy and change management. Therefore, a strong governance structure that monitors changes in all dimensions of the target operating model is critically important. The five key tenets of a good governance program are as follows:

1. **The right configuration**: A clear decision-making hierarchy set up for monitoring performance and issue resolution is required. Typically, process owners and key stakeholders chair process reviews, multiple related processes are reviewed by leaders, and finance leadership collectively reviews finance strategy. Review meetings are held in cascades; more senior teams meet to discuss inputs from underlying teams.

2. **The right mandate**: Governance teams must be empowered to act on issues they oversee. For example, process owners should be able to create and monitor progress against delivery of a target process model irrespective of their position in the company. This requires ownership of a multi-year plan that incorporates process, policy, and technology changes globally. Leadership reviews resolve obstacles and align multiple process plans into one coherent finance plan.

3. **The right people**: Members of governing bodies must be encouraged to challenge and question norms where appropriate. Responsibility assignment matrices are usually developed to assist globally distributed process teams in making joint decisions.

4. **The right metrics**: The metrics framework used to govern performance must be:
   a. End-to-end. All participants in the value chain must know how they contribute to the outcome. This requires an understanding of the process inputs, outputs, and performance drivers. For example, accounts receivable (AR) performance must provide input regarding customer satisfaction and contribute to better understanding of customer preferences.
   b. Cascading. Good structures connect corporate goals to business drivers, performance metrics, and levers that impact those metrics (Figure 1). Shared services centers (SSCs) and use of external services introduce improved measurement practices across finance by implementing rigorous measurement of SLAs and processing costs.
   c. Balanced. Both effectiveness and efficiency measures must be included, as should reactive and predictive measures. Scorecards should also measure soft metrics such as succession readiness and the effectiveness of training programs, sometimes on a different cadence than the performance reporting.

Many finance programs, including process enhancements alongside large system rollouts, and especially organization realignments, may take months or years to generate planned returns. They must be measured using separate scorecards and targets, thus separating the agenda to measure ongoing operations and step changes.

5. **The right tools**: To enable efficient process owner time, leading organizations invest in tools to continuously gather and enhance insights into performance. These bolt-on tools (such as Genpact’s Smartview™) enable leaders to visualize performance across SLAs, and drill down to analyze root causes.
Governance teams must also establish the cadence for generating scorecards, distribute them to facilitate review of the operations they are responsible for, and inform all internal and external stakeholders such as outsourced service providers, sales, and operations.

Don't forget to communicate the new strategy—to everyone

Finally, finance leadership must develop clear communications and articulate the rationale for the strategy as well as the plan. Communicating the strategy is often a neglected pillar of the overall plan. The strategy’s vision and pace must be conveyed to all relevant members of the organization through Finance newsletters, town hall meetings, intranet postings, and other communications channels. Finance must measure, and then “sell” its progress—an act that comes naturally to former captive service providers, for example, but not to a normal finance group.

As business changes faster than ever before, finance must rethink its organizational strategy. Changing operating models call for close attention to governance to maximize gains while simultaneously keeping management effort contained and minimizing resistance. With a clearly articulated strategy and the troops aligned to accomplish it, leadership can focus on the other dimensions of the target operating model to create fast and sustainable success.

<table>
<thead>
<tr>
<th>Key business outcomes</th>
<th>Sub-processes</th>
<th>Key performance measures</th>
<th>Activities</th>
<th>Key performance drivers</th>
<th>Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSO (number of days)</td>
<td>Collections, Disputes/ Deductions</td>
<td>Collections efficiency</td>
<td>% Touched/ total $ past due</td>
<td>86%</td>
<td>Proactively send invoice and statement to selected customers in advance</td>
</tr>
<tr>
<td></td>
<td>Past due % invoices over 90 aging</td>
<td>Disputes and deduction days outstanding</td>
<td>%$ collected/ total $ past due</td>
<td>83%</td>
<td>Best time to call analysis and daily goals for no. of transactions per agent</td>
</tr>
<tr>
<td></td>
<td>% of disputes resolved</td>
<td>Cycle time to resolve dispute</td>
<td>% AR resolved under dispute</td>
<td>43.60%</td>
<td>Link incentives of sales team with $ collected</td>
</tr>
<tr>
<td>Billing</td>
<td>Accuracy (%)</td>
<td>Dispute escalation and resolution</td>
<td>Cycle time</td>
<td>60 days</td>
<td>Workflow tool with clear ownership and escalation metrics</td>
</tr>
<tr>
<td>Order management</td>
<td>Perfect order index</td>
<td>Rebilling</td>
<td>Credit and re-bill %</td>
<td>0%</td>
<td>Dashboards to provide right visibility and accountability</td>
</tr>
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Figure 1: Illustrative scorecard for a key order to cash metric based on Genpact’s SEP framework that is end-to-end, cascading, and balanced
This point of view was authored by Kalyan Raman, vice president of transformation services at Genpact.

About Genpact

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