It’s possible to imagine a future where finance will become the business partner that drives the enterprise’s growth agenda.

While accounting software and platforms have evolved dramatically in sophistication and complexity, the fundamental design principle has remained that each transacting party maintains its own ecosystem and exchanges information with other stakeholders.

It is this core premise that blockchain, with its distributed ledger structure, has the potential to disrupt.

Blockchain works on a distributed ledger model that records every transaction and maintains the chronology and authenticity of that information on a secure global network designed to be tamper-proof. The technology allows transacting parties to interact seamlessly, eliminating recordkeeping activities across procure-to-pay, order-to-cash, and record-to-report processes.

With this promise, blockchain has started to catch the imagination of finance and accounting executives with the possibility of transforming finance and accounting (F&A) operations similar to the ways the internet revolutionized knowledge sharing and collaboration.
By eliminating the need for accounting transaction management among companies and related stakeholders such as banks, blockchain and distributed ledgers may eventually be the method for integrating the commercial world’s recordkeeping.

Value creation in F&A has evolved significantly over the last two decades. Centralization and global sourcing (both offshoring and nearshoring models) helped realize economies of scale and cost advantages by moving transactional work to lower-cost locations. This gave birth to an industry of F&A service providers that drove investments in back-office process excellence, with domain expertise and business process management systems to create competitive differentiation in the market beyond labor arbitrage.

More recently, digital technologies have provided new opportunities to drive greater collaboration. Cloud-based applications with analytics focused on specific use cases like account payables and receivables, contract management, reporting, and others have transformed F&A processes. Robotic process automation, along with artificial intelligence, is the next wave—converting human labor to electronic labor.

But none of these waves eliminated the need for an additional step of exchanging information among transacting parties. Blockchain, at its core construct, is fundamentally different, and both complementary and alternative to many of these waves of F&A value creation.

Before we get too carried away, we need to remember blockchain today is still in its inception. Many experiments are taking place, but examples of substantial commercialization are rare. Most blockchain experiments have been in payments (led by banks), as well in insurance and logistics.

We believe there is also enormous potential in supply chain management. We are working with a client on blockchain-based smart contracts to capture order terms and conditions between the company and its end customers. This seamless and automated execution of transactional data could eliminate the potential for errors and get past-due invoices down to nearly zero. The same concept could be extended to procure-to-pay by leveraging smart contracts for purchasing goods and services.

Most experts believe it will take three to five years for blockchain to become mainstream; however, like most revolutionary technology, we expect this to reflect the classic “hockey stick” adoption curve in the next two to three years. Some pioneering enterprises will benefit from early mover advantage to set industry standards.

Still, challenges remain. A few fundamental areas to be resolved before blockchain can take off include:

1. There are more than 15 distributed ledger platforms being developed in parallel, with specialist applications on top of them. It’s uncertain how we can move from this multitude of platforms to a common standard that can truly take advantage of blockchain across all organizations

2. Will existing regulations on financial transactions suffice? By definition, blockchains are distributed ledgers and are location-agnostic, so which country’s law will be applicable on blockchain transactions? And how will governments ensure blockchain-based recordkeeping is not circumventing existing regulations? The question of data security has also not been convincingly answered. The Federal Reserve’s Distributed Ledger Technology in Payments, Clearing, and Settlement¹ also outlines risks and challenges that regulators will need to address with regard to blockchain

3. Blockchain technology implementation is based on multiple parties, stakeholders, and entities adopting its use. A blockchain-based order-to-cash solution we are implementing with a large multinational corporation cannot succeed without banks, third-party logistics providers, and customers embracing it. Business cases remain fuzzy, as some are unable to articulate the problem clearly and visualize the transformed

By eliminating the need for accounting transaction management among companies and related stakeholders

future state. Moreover, adoption requires investments in both the actual technology solutions as well as the accompanying necessary change management procedures, requiring a strategic commitment from an F&A organization.

Notwithstanding the challenges, it is possible to imagine a future state where controllership will transform from transactional integrity management to an aggregation and code validation function, and finance will become the business partner that drives the enterprise’s growth agenda. This has huge implications, starting with basics such as which skills will be necessary for an F&A professional. The future F&A professional will have to express debit and credit in smart contract terms. Contracts (legal and otherwise) will be pieces of code, not PDFs or paper files. Insurance policies and commission agreements may be expressed quite differently in 10 years.

For many accounting and finance professionals, this prospect of a reconciliation-free world is probably a bit threatening but also hugely liberating.
Shantanu Ghosh, SVP and Business Leader, CFO and Transformation Services at Genpact, authored this article, which first appeared in Financial Executives International Daily.

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