The CFO Guide to Finance Centralization & Automation

by David Cass & Robert Hickey
Executive Summary

Finance centralization refers to the co-location and consolidation of financial processes across multiple entities into a single location. This enables organizations to provide optimized, streamlined services across the multiple locations from a single site. The centralization of procure-to-pay (P2P) processes, in particular, delivers opportunity for greater efficiencies. P2P refers to the entire process by which organizations buy and pay for goods and services. Automation of processes is an essential part of a centralized finance function, proven to yield impressive cost savings, improved efficiencies, and greater transparency in operations. P2P, in particular, is an area where traditional, manual processes can cause inefficiencies and, as a result, high costs can be incurred. With high costs comes the opportunity for vast savings.

This white paper presents the benefits of centralization and assesses the best practice approach to successfully establishing a centralized finance function. Finally, it will detail how finance leaders can deploy P2P automation to optimize their centralized finance structure, outlines the various ways in which P2P automation can be integrated with existing ERP systems, and presents the results that global organizations have achieved in doing so, including:

![Fig 1. Results that organizations typically achieve by centralizing and automating P2P processes](image-url)
Introduction

Organizations with multiple entities across different geographical areas face a multitude of challenges. Inconsistent processes, the lack of control over finance activities both locally and across the entire organization, and different systems in place can be difficult to manage. Subsequently, these organizations are landed with high costs as a result of slow, inefficient practices; slow growth due to the difficult and time-consuming nature of establishing new finance functions and new processes; and poor reporting capabilities leading to inaccuracies and deficient decision-making.

Centralizing finance functions is an effective solution for standardizing processes, reducing overheads and labor costs, and obtaining a clear view over the whole organization for enhanced reporting. Automating standardized processes, such as procure-to-pay (P2P) processes, allows organizations to leverage investments in centralization and reap additional benefits including improved control over spend, faster invoice processing times, and enhanced employee productivity.

The centralization and automation of finance is a change journey. It is important for organizations to appropriately set up for success and to mobilize the change to ensure they achieve optimum results. For leading organizations, the automation of processes is the key way in which success can be achieved quickly and easily.

This white paper explores the difficulties that decentralization poses for organizations with multiple entities across different geographical locations. Centralizing and automating finance functions leads to significant benefits, including standardization, the elimination of duplicated tasks, and a reduction in labor costs. This white paper will demonstrate how to achieve those benefits while overcoming the challenges of internally centralizing finance, including change management and automation.
Why centralize finance functions?

For an organization with multiple entities in multiple locations, decentralization of finance functions results in unnecessary complexity, duplication of resources, and a lack of visibility over financial processes. Challenges include:

- **Inconsistent process and service levels** across sites which results in inefficiency and duplication of work, subsequently driving up costs.

- **Expansion and growth in business** opens new markets. An organization that is looking to further expand needs to be agile in order to take advantage of emerging opportunities. Companies with decentralized finance need to establish new, separate finance functions in each new location. When finance is centralized, organizations can be more agile: new entities can be established quickly because processes are standardized and can be replicated.

- As there is no single view of finance activities, there is a **lack of visibility and control** over processes. This in turn makes it difficult to generate accurate reporting, hinder the ability to produce effective forecasting and informed decision-making.

- **Diverse processes in place with multiple systems**, locations, and integrations. Managing different systems can be costly and time-consuming, and when multiple ERP systems exist, it is difficult to perform tasks without manual intervention.

![Centralization Diagram](Fig 2. The migration approach to centralization)
Key benefits of centralized finance

- The single point of control enables decisions to be made more quickly and easily, as managers will have a clearer view of the whole organization.
- It makes the organization easier to co-ordinate and control from a single location.
- All the information is stored in one place, allowing for accurate reporting.
- It avoids the duplication of roles across the organization, thereby saving costs.
- A centralized finance function provides a single view of the organization, allowing for complete visibility over processes and better, more informed reporting.
- The standardization of processes allows for higher levels of efficiency, productivity, and reduced costs.

Fig 3. Standard inputs and outputs of automated and centralized finance functions
Managing the change is the key to success

Frequently, the key challenges organizations have to successful implementation are change management issues. By acknowledging this from the outset and design and implementing a structured change management program, these challenges can be identified and overcome. Resistance to change, inadequate sponsorship, unrealistic expectations, a poor case for change and a lack of a change management program should be addressed at the outset, in order to ensure optimum acceptance and the earliest start to a return on investment.

In order to achieve the significant benefits of centralization, it is important to understand how change affects the entire organization and effectively manage each phase of the project’s life-cycle.

Fig 4. Deloitte survey results depicting the primary barriers to implementation
The approach to organizational change

Successful and sustainable organizational change comes from a thorough understanding the organization in its multiple dimensions. One of the most effective ways to build this understanding is to represent the organization as three layers:

1. **Constitutive layer**
2. **Architectural layer**
3. **Intelligence layer**

![Diagram](image)

**Fig 5. The organization structure illustrated as three layers**

The **constitutive layer** of an organization sets out at the highest level why the organization exists, what its customers value and how through its key processes the organization adds value to its customers. It also sets out future strategic direction. When the constitutive layer is clear and agreed between all stakeholders it enables the organization to thrive and to avoid the waste associated with disagreement, uncoordinated actions and lack of direction.

The **architectural layer** underpins the constitutive layer. It is what translates the customer needs and strategy into the structures and processes required to deliver them. The architectural layer is informed by what is important in the constitutive layer.

The **intelligence layer** covers the operations activity of the business. It is necessary to understand, at a granular level, the current state across the organization. Once the architecture has been agreed, the changes will then be translated into clear instructions for which aspects of the intelligence layer need to be changed and how this change must happen.

Successful change is achieved by ensuring that change made in one layer is supported by corresponding changes in the other layers. The barriers to change arise when the balance between the layers is not well managed. For example, resistance to change occurs when the change is overly focused on the constitutive layer and the concerns of the other layers are not adequately addressed.
The four phases of change management

There are four distinct phases to every change program:

1. **Phase 1 – Constitution:**
   - Understand who the key stakeholders are.
   - Establish what is important to the key stakeholders.
   - Set up good governance arrangements for the change project.

2. **Phase 2 – Assemble, Analyze & Assess:**
   - Establish what issues must be addressed.
   - Provide strong grounding for which are the key issues requiring strategic or operational attention.
   - Produce a comprehensive and clear diagnosis that is accepted by all key stakeholders.

3. **Phase 3 – Design:**
   - Understand the key principles that define how the organization will operate in the future.
   - Define the business architecture and operating model required to achieve the strategy and address the issues identified in the diagnosis.
   - Design the people, process, technology, organizational design, and management practices changes that are required.

4. **Phase 4 – Mobilization:**
   - Make the change happen on the ground.
   - Prepare the staff for the changes and ensuring that they are fully briefed and trained.
   - Support the new processes, management practices and new behaviors until they become established and can stand alone.
   - Ensure the management practices are working to sustain the change.
   - Summarize and document what has been achieved.
The importance of good governance

The program is then set up with agreement across all roles from the beginning. The success of this program depends on each person understanding their role, their promise to the program, and ultimately to customers. The program/change team will ensure progress is delivered to the sponsor in line with the timelines, quality, and budget set out to deliver the strategic goals as agreed. The program team’s principle role is to set out the approach, manage progress, and make the interventions necessary to ensure the business outcome is delivered by the business owners, whose role it is to deliver business benefit.

This program configuration ensures that the organization does not end up with a sub-optimal outcome as a result of poorly understood ownership between the program and business teams. In change programs, business owners incorrectly look to a program to deliver the business benefit. The reality is that successful programs happen as a result of transparent and healthy tension between sponsors, business owners, and program teams. Good governance, quality, and management practice underpins this configuration.

Fig 6. The Pathfinder inter-relationship model between the sponsor, business owners, and change team
Opportunities for further savings with P2P automation

P2P automation delivers a solution for inefficient, manual processes, maximizing the benefits of finance centralization. P2P automation provides cost savings, improved productivity, enhanced control over spend, enabling informed reporting.

As the pressure to drive cost savings intensifies, finance leaders realize they need to be agile, and an increasing number look to modernize their P2P processes as a result.

A recent survey by Deloitte found that a top priority for 75% of participating CFOs is to reduce costs and in order to improve profitability; more than 80% of CFOs plan to implement productivity and efficiency improvement initiatives. Organizations across all industries may opt for automated solutions in order to modernize the P2P process and achieve real savings. Based on research carried out by PricewaterhouseCoopers, over 70% of CEOs see digital technology and automation as an opportunity to enhance operational efficiency, customer experience, innovation capacity, and brand reputation.

According to this research, finance leaders have the opportunity to develop a more strategic role within the business, pivoting between their roles as advisor and operator. However, they could be marginalized if they fail to provide the analysis, insight, and guidance that boards and business leaders demand.

Finance teams need to become creative in order to deal with disruption and change, assessing business models, not just budgets. The real value of finance is not in its ability to gauge current performance, but in its ability to foresee what business needs to do to thrive. To do this, finance management needs speed, agility, and foresight.

Results from customers who have implemented P2P automation solutions consistently show significant cost reductions by eliminating manual tasks, including manually raising POs and sending to vendors, matching and approving invoices, and posting the vendor invoices for payment. In addition to costs savings, the risk of human error is dramatically decreased and, in cases where the process is fully automated, eradicated entirely.
How does P2P automation work?

P2P refers to the entire process by which organizations buy and pay for goods and services, from the request for the product to the issuance of the PO, receipt of the goods, and finally the processing and payment of the vendor invoice. Successful organizations are modernizing their P2P processes by automating each of the steps involved. P2P automation can be achieved by transforming the following tasks:

- **Requisition** automation ensures that an organization is always in complete control of company spend from the start. Requisitioners can choose products and services from defined catalogs with approved vendors so full visibility is maintained over what is being purchased and why. POs are only sent to vendors after being fully approved which enables companies to enforce strict ‘No PO, No Pay’ policies once the invoice has been received.

- All types of invoices including paper (using intelligent character recognition (ICR)), PDF, fax, EDI, XML, and email can be automatically captured in the system. Touchless processing for most invoices through capture, matching and approval means only exceptions need to be handled by AP team members. Other automated checks trap problems such as duplicate invoices, missing PO numbers, and unregistered vendors at source before they cause bigger problems and more work downstream.

Fig 7. Framework for P2P automation
Automated 2-, 3- or 4-way matching of POs, invoices, and goods received notes eliminates manual paper-based processing, which typically results in the straight-through processing of up to 80% of all invoices.

Approval automation allows for invoices to be routed electronically, reducing approval times. Complex rules based on roles, hierarchies, and varying approval limits can be configured to ensure adherence to company spend policies. Sophisticated workflow automation not only enables approval routing within a single entity, but also across multi-entity organizations.

Seamless interoperability between the P2P system and ERP systems ensures full visibility of the end to end P2P process along with a complete audit trail for every transaction.

KPI dashboards and reporting analytics enable finance leaders to continuously monitor and improve the operational P2P processes while also delivering timely and accurate month end reporting.

Conclusion

For an organization with operations in different geographical locations, gaining a view over its financial performance can be an extremely difficult task. In addition, there is a lack of standardization of processes, resulting in inefficiencies and subsequently driving up costs. Centralization is proven to save money, prevent the duplication of work, and provide a single view over the entire organization’s finance activities. Internally centralizing disparate finance functions is ultimately a change management process which requires agreement from business owners from the very beginning of the project to ensure ownership of the project and continuous success.

Process automation is a necessary step to reap the many benefits of centralization including increased productivity, and full visibility and control over financial processes. P2P automation seamlessly integrates with any existing ERP system and delivers optimized requisition, invoice capture, matching, approval, and analytics, allowing finance teams to complete tasks quickly and accurately, and focus on strategy rather than spreadsheets.
Customer references

**The Finnish Government**, which develops efficient internal services and processes for finance, administration, and HR, implemented SoftCo AP to automate the processing of over 3 million invoices per annum. SoftCo AP reduced the cost of processing each invoice from €30 to €10 and has saved billions of man hours and €40 million a year on invoice processing. The Finnish Government has gained full visibility of all of its invoices, reduced invoice processing times, improved financial control, and increased archive and reporting compliance.

**Logitech**, a global provider of personal computer and tablets accessories, established a shared services organization (SSO) in Dublin, Ireland, which handles the company’s AP process centrally on behalf of over 30 European, Middle Eastern, and African (EMEA) offices. SoftCo AP was deployed for centralized business automation, providing integrated scanning and routing across EMEA, and storage in the SoftCo compliant archive. Using SoftCo AP, a team of 5 people can deliver a streamlined AP function to the entire EMEA region. The capture of invoices at origin has reduced human error and supports the automatic routing of information to appropriate personnel. It has also simplified query handling and enabled timely payments, and provided Logitech with a real-time view of its invoices and accruals.

Pathfinder successfully worked to specify, select, and oversee the implementation of a financial reporting package to centralize group consolidations. The solution needed to cater for an aggressively growing business with more than 40 individual entities across the group, consisting of hotels that are fully leased and managed. Each entity was managed as a fully autonomous unit and consolidated group accounts were compiled on complex spreadsheets which were difficult to manage and maintain. The engagement was a key step for in helping the client to streamline centralized finance functions and positioning the organization for further expansion.
About the authors

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David is a Director of Management Consulting Services at Pathfinder Consultants with over 15 years’ experience delivering business strategy, organizational change, and operational efficiency programs for blue chip clients in Ireland, the UK, and globally. David has built up significant experience in process centralization and automation across a wide range of industry sectors including utility, banking, retail, agribusiness, insurance, and financial services.

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SoftCo delivers solutions that increase productivity, reduce costs, and ensure organizations meet compliance obligations. SoftCo is a global organization with over 500,000 users worldwide and offices across the US and Europe. SoftCo is ISO 27001 certified, is an AWS Advanced Technology partner, and a Microsoft Gold Partner.

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