

February 2021

Thought Leadership Series

Target Operating Model:
The Foundational Framework



AEGIS Advisory Partners, LLC
Thought Leadership Series – The Target Operating Model
“The Foundational Framework”

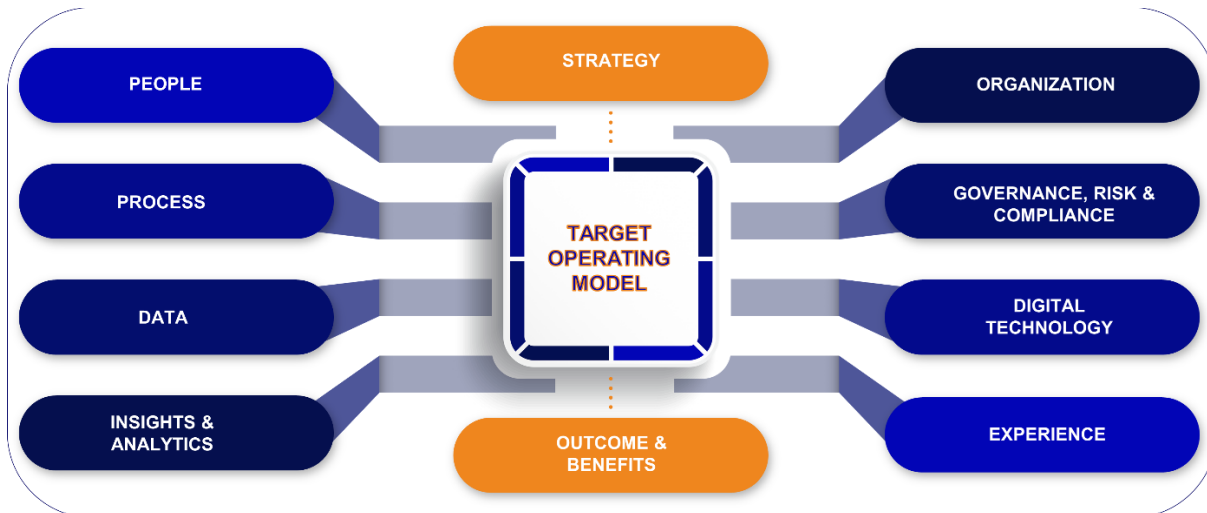
Doing more with less is business as usual today. Meeting regulatory requirements, understanding market dynamics and competitive impacts, delivering on the information demands of the organization, and providing a desirable constituent experience all challenge the Finance function. CFO’s and Finance leaders need a sound framework to balance these challenges and make the crucial decisions that enables Finance to succeed - for less.

What is the Target Operating Model?

This is where the Target Operating Model (TOM) comes into play. Some firms (and consultants) define it strictly as the organization (or service delivery) aspect of Finance. Others come at it from a people, process, and technology vantage point. Our view is that it includes these elements and more.

The TOM serves as a foundational framework to analyze the Finance function from a holistic perspective. The TOM is comprised of ten key components (see Exhibit 1) and can be leveraged to facilitate a comprehensive review.

Exhibit 1 Target Operating Model framework



How is the Target Operating Model useful?











The TOM is useful to understand where an organization is, what they aspire to be, and capturing the gaps. The key is to understand the knock-on impacts across TOM components and building those dependencies into your modernization plans.

Each TOM component can leverage leading practices (see Exhibit 2). However, it would be unusual for an organization to target leading practices in each of the ten



components. The combination of business priorities, financial requirements, outcomes targeted, and constituent experience desired will impact the TOM choices.

Exhibit 2 Target Operating Model Leading Practices (examples)

 <p>STRATEGY</p>	<ul style="list-style-type: none"> • There is an alignment of strategy, business objectives and operational plans. • They are clearly defined, communicated and actioned. 		
 <p>PEOPLE</p>	<ul style="list-style-type: none"> • Flexible and responsive to change. • Skills are matched to roles and responsibilities. • Individuals are adequately trained on systems and tools. • Key metrics are used to assess employee performance. 	 <p>ORGANIZATION</p>	<ul style="list-style-type: none"> • Roles are fully understood and clearly defined. • Promotes economies of scale and leveraging "like-kind" assets. • Key person risk is eliminated.
 <p>PROCESS</p>	<ul style="list-style-type: none"> • Flexible, scalable and sustainable. • Design aligned with current and future capabilities of data and technology. 	 <p>GOVERNANCE, RISK & COMPLIANCE</p>	<ul style="list-style-type: none"> • Clear governance framework, policies and controls matrices are tied to processes, data, and systems architecture. • Automated preventative versus manual detective controls is in place and operating effectively.
 <p>DATA</p>	<ul style="list-style-type: none"> • Data is standardized and governed across the entire entity. • Processing, reporting & analytic capabilities are considered in the design. • Gold standard for data exists. 	 <p>DIGITAL TECHNOLOGY</p>	<ul style="list-style-type: none"> • Integrated enterprise-wide systems architecture, with straight thru processing and minimized manual intervention.
 <p>INSIGHTS & ANALYTICS</p>	<ul style="list-style-type: none"> • Dynamic business monitoring and analysis is available timely and accurately. • KPIs assist in the overall management of the business. 	 <p>EXPERIENCE</p>	<ul style="list-style-type: none"> • The breadth of constituents is identified and their desired interaction understood. • Each operating model component is calibrated and adjusted appropriately to reflect the desired interaction profile.
		 <p>BENEFITS & OUTCOMES</p>	<ul style="list-style-type: none"> • Operational and financial metrics to monitor achievement of business objectives are aligned and effective. • Desired goals and ROI are qualified and quantified.

Why is the Target Operating Model important?

CFOs are focused on striking the right balance among certain critical priorities:

- Driving growth
- Managing costs more effectively
- Navigating regulatory change

These drivers are closely related and have a reinforcing effect across the Finance function. Finance organizations are being forced to optimize their cost structures in ways that position the enterprise for long-term growth, while complying with ever-evolving regulatory requirements. So, making the trade-offs between streamlining finance processes and improving management information becomes challenging.

At the same time, companies are struggling to overcome operating model legacy challenges, especially those related to their data and technology infrastructures. Here again, underlying challenges and high-level objectives are closely interrelated.

Consider how robust data management and technology capabilities are essential to today's CFOs top priorities. Having the right data that translates into meaningful information enables Finance's ability to serve as a strategic business advisor.

Organizations must overcome their most pressing operating model challenges if they are to achieve their strategic goals. Given the scope of the challenges they are facing and the urgency to act, Finance leaders have significant work to accomplish to optimize their operating models. This is driving the need for Finance modernization activities and

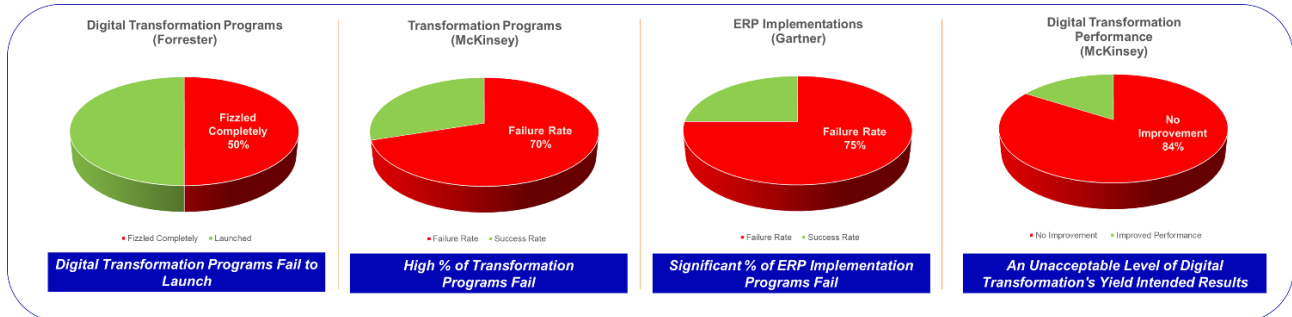


transformation programs to develop the appropriate future state TOM to meet their strategic imperatives.

What are the challenges facing Target Operating Model transformation?

While the business driven need to act is evident, this ambition does not come without challenges for CFOs. Recent studies have yielded staggering statistics on transformation program failures (See Exhibit 3).

Exhibit 3 TOM Performance Statistics



According to Forrester, in 2018, leaders set their sights on large-scale initiatives such as digital transformation and customer experience. Unfortunately, many faced the harsh reality that these strategies are hard, costly, and challenge the way leaders run their businesses. Customer experience performance was flat and more than 50% of digital transformation efforts stalled. Leaders are now planning pragmatic, surgical efforts.

McKinsey research shows that 70% of complex, large-scale change programs don't reach their stated goals. Common pitfalls include:

- lack of employee engagement
- inadequate management support
- poor or nonexistent cross-functional collaboration
- lack of accountability.

Gartner noted that 75% of ERP implementations fail. They found that failed implementations can be avoided by adopting a phased approach for deployment and avoiding these common errors:

- inadequate planning
- massive customization
- lack of change management
- unrealistic expectations (cost & time)
- improper adequate staff training.

Finally, a recent McKinsey study found that only 16% of employees said their company's digital transformation improved performance and are sustainable. These successful programs indicate characteristics that fall into 5 categories:

- leadership
- capability building



- empowering workers
- upgrading tools
- communication.

These categories suggest where and how companies can improve their chances of successfully making digital changes to their business.

The bottom line: a Target Operating Model foundation must be established for today and tomorrow

The trends reshaping the Finance function have many CFOs rethinking their core operating models. The rethink is long overdue, given the significant constraints of legacy operating models relative to operational agility, cost management and maturing data and technology capabilities. Defining the outcomes and benefits expected and the constituent experience desired are essential aspects of the TOM foundation.

The redefinition of the Finance operating model leveraging the TOM foundational framework will address these factors. In addition, this can provide a rallying point for linking the many significant and separate change initiatives already underway in many organizations.

About the authors:

Gregory S. Derderian is a recognized leader in the areas of finance, risk & compliance. He has thirty-five years of experience as both an industry practitioner, strategy and management consultant, and thought leader. Greg has directed complex change improvement programs across multiple industry verticals through the design, construction, and deployment of the underlying processes, data, information, tools and technology.

Donald B. Rogers is recognized in the strategy and management consulting industry as an innovative thinker with broad based expertise in executable strategy, target operating model development, finance transformation, organizational change, operations improvement and cost optimization. Don is a seasoned business leader with over twenty-five years of experience in implementable strategy and management consulting. He has worked with many Fortune 500 companies, across multiple industries.

Experience Centric | Practical Solutions

These Strategy & Management Consulting industry veterans co-founded AEGIS Advisory Partners, LLC in January 2021. AEGIS embodies large firm excellence, while delivering the undivided attention, care and individual client service necessary for transformation program success.

