

March 2021

Thought Leadership Series

Target Operating Model:
The Modernization Journey



AEGIS Advisory Partners, LLC
Thought Leadership Series – The Target Operating Model
“The Modernization Journey”

As we discussed in “The Foundational Framework” edition of our Target Operating Model Thought Leadership Series, the trends reshaping the Finance function have many CFOs rethinking their core operating models. The rethink is long overdue, given the significant legacy operating model constraints relative to operational agility, cost management, and maturing data and technology capabilities.

A fundamental question Finance executives are asking now is how does the modernization journey take hold?

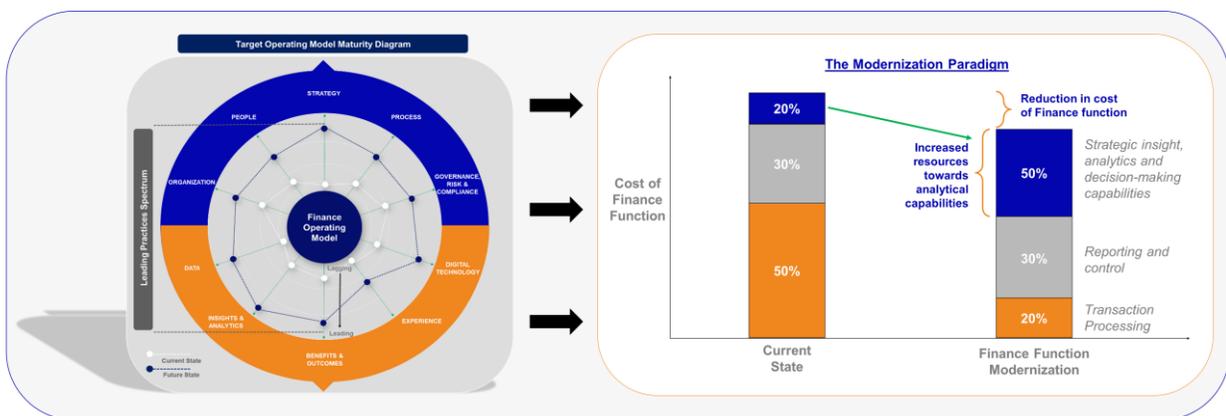
The modernization paradigm

Typically, the Finance function modernization goal is to create an integrated and scalable Finance function that efficiently delivers value-added services to stakeholders. This should reduce manual labor and significantly increase the Finance function’s ability to deliver strategic insights, perform analytics and enable decision making capabilities.

The modernization paradigm can include specific operating model components that are targeted for improvement. Or efforts can be encapsulated in a broader transformation program to achieve the desired results.

As shown in Exhibit 1 below, the modernization paradigm is expected to reduce Finance cost while expanding its insight & analytic capabilities. The changes in individual target operating model components leads to the aggregate Finance improvement.

Exhibit 1 AEGIS Target Operating Model Maturity Improvement Goals (illustrative)



Where do you begin?

The Finance modernization journey begins with the alignment of Finance strategy with the firm’s business objectives and operational plans. Each organization must craft a unique Finance vision that is right for them. That Finance vision then needs to be



translated into executable actions and results in a step-by-step plan to realize their targeted goals.

It starts with defining the Finance target state operating model. Using the AEGIS Target Operating Model Framework, Finance leadership plots their intended target state and identifies the current state. Exhibit 2 depicts the lagging and leading practices profile for each operating model component. This structure is expanded to five levels (i.e., lagging, evolving, maturing, enhancing, and leading practices) for the actual analysis. A series of improvement actions (projects) are defined to close the gap. These actions are then prioritized and sequenced to establish the target state migration roadmap.

Core to this effort is agreeing on the desired outcomes. The gap between the current state and the future state is where the modernization opportunity exists.

Exhibit 2 AEGIS TOM Components: Lagging to Leading Practices

Lagging		Leading
Finance strategy is not aligned to business strategy, clearly defined or communicated. Finance plays minimal or tangential role in strategic decision making.	STRATEGY	Alignment of strategy, business objectives and operational plans. Clearly defined, communicated and actioned.
Skills are matched to challenges in the current environment and tend to be labor intensive. Little formal training exists. Performance is not tied to goals and key metrics for assessment.	PEOPLE	Flexible & responsive to change. Skills are matched to roles. Trained on systems / tools. Key metrics used to assess performance.
There is little process orientation to the operating model and business objectives are executed in a non-standard fashion. Highly manually intensive.	PROCESS	Flexible, scalable and sustainable. Design aligned with current and future capabilities of data & technology.
Systems are not integrated and locally developed for each business unit. Breaks in processing flow necessitate manual work.	DIGITAL TECHNOLOGY	Integrated enterprise-wide systems architecture, with straight thru processing and minimized manual intervention.
Business monitoring relies heavily on cobbling disparate data together resulting in information quality and usefulness concerns. Reporting is not readily available in a timely fashion.	INSIGHTS & ANALYTICS	Dynamic business monitoring and analysis is available timely and accurately. KPIs assist in the overall management of the business. Oriented toward predictive and prescriptive, not just historical facts.
Responsibilities are not fully understood and clearly defined. Organizational structure is primarily a loose federation of decentralized teams that lacks alignment to business objectives.	ORGANIZATION	Roles are fully understood and clearly defined. Promotes economies of scale and leveraging "like-kind" assets. Key person risk is eliminated.
Policies and procedures are complex or non-existent, and there is a lack of defined controls and segregation of duties. Controls are primarily detective.	GOVERNANCE, RISK & COMPLIANCE	Clear governance framework, policies & controls matrices tied to processes, data & systems architecture. Automated preventative controls.
Data is fragmented across the architecture and the organization lacks common data definitions. No single version of the truth exists.	DATA	Standardized and governed across entity. Processing, reporting & analytic capabilities considered in design. Gold standard exists.
A lack of consideration for constituents impacted by the function leads to dissatisfaction, complaint resolution issues and a lack of adoption to processes (work arounds).	EXPERIENCE	Constituents are identified and their desired interaction understood. Each operating model component adjusted to reflect the desired interaction profile.
Understanding business case outcomes or return on investment is difficult to ascertain.	OUTCOME & BENEFITS	Aligned operational and financial metrics to monitor achievement of business objectives. Desired goals and ROI qualified and quantified.

Evaluation criteria and goals achieved

As modernization areas are translated into specific initiatives, it is important to filter them through key evaluation criteria and ensure they align with your future state vision.

Key evaluation criteria can include some or all the following:

- Ability to Implement
The initiative is feasible to implement with tangible benefits and minimal disruption to operations and business.



- Cost / Benefit
The realized benefits of the initiative outweigh the cost of implementing the solution and yield an acceptable ROI.
- Time to Implement
The Future State Vision can be realized over a specific timeframe with proper sequencing of initiatives.
- Risk to Implement
The initiative should be within an acceptable tolerance level of risk with minimal impact to core finance operations over long periods of time.
- Impact
The initiative deliver's a specific result or is foundational to achieve the desired benefits. Goals to be achieved can include:
 - Outcome / Benefits
 - Single source of the truth / gold standard for data
 - More insightful reporting and analytics
 - Improved efficiencies
 - Reduced costs
 - Increased preventative controls
 - Experience
 - Component improvements align with constituent experience expectations
 - A comprehensive experience approach is in place

Initiative prioritization

When the modernization journey begins, program leadership needs to consider not only new initiatives identified as part of the transformation plan, but also in-flight or other parallel initiatives. In every organization, there is a finite number of resources available for transformation efforts. These resources will need to be managed appropriately to achieve the desired outcomes.

As the Finance function modernization analysis unfolds, initiatives will typically fall into one of the following three categories:

1. *The initiative is part of the future state strategic vision.* These initiatives should be prioritized on the modernization journey roadmap and allocated appropriate resources to accomplish it.
2. *The initiative is critical to “keep the lights on” or is “foundational” (does not meet the return requirements but is necessary for subsequent initiative benefit realization) as the modernization journey unfolds.* These initiatives should be prioritized on the modernization journey roadmap and allocated appropriate resources to accomplish it.



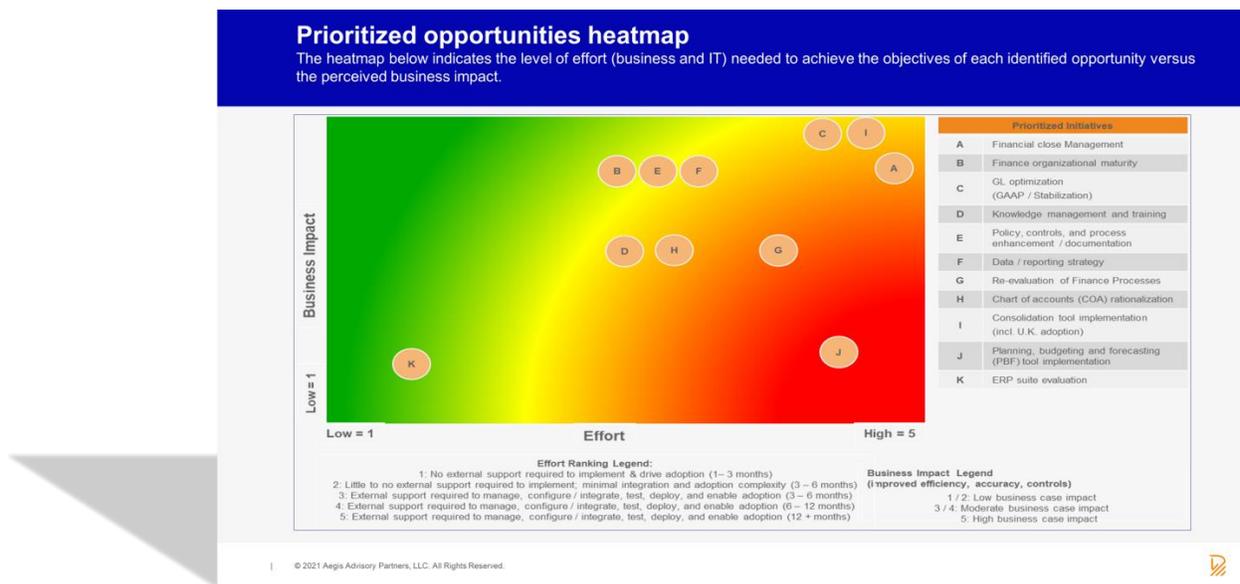
- The initiative is not part of the future state strategic vision NOR necessary to “keep the lights on.” These initiatives should be deprioritized and discontinued immediately. This will free up resources for initiatives that fell into one of the two previous categories.

A great way to facilitate initiative prioritization is by holding constituent working sessions. Typically, the session participant’s come from Finance and the key beneficiaries or support functions - business leaders, operations, and technology personnel.

The session can leverage a prioritization heatmap (depicted in Exhibit 3 below) to show how the initiatives compare relative to the selected key criteria (e.g., in this illustrative - business impact, effort, cost, time, etc.). The prioritized opportunities heatmap creates a visual that facilitates discussion and prioritization. This allows all parties impacted by the initiatives the chance to voice their opinion or opposition to a particular initiative.

These sessions create a level of ownership among constituents for the modernization program, while narrowing the focus of the program. This “buy-in” is important for a successful Finance function modernization journey.

Exhibit 3 AEGIS Prioritization Opportunities Heatmap



Finance function modernization journey roadmap

The final list of approved (and funded) initiatives are then sequenced on the execution roadmap. The sequencing process considers the outcome & benefit priorities along with those actions necessary (foundational) to realize those goals.

This roadmap will be the step-by-step plan to realize your targeted goals. As noted, these initiatives should be prioritized on the modernization journey roadmap and allocated appropriate resources to accomplish it. It will include a series of mobilization

plans, implementation timeframes and priorities, considering known internal and external project and program dependencies.

The deployment approach will group initiatives into execution ‘waves’ that map to the desired interim and target states. Organizations can choose between the various approach methodologies that best fit their specific project needs and corporate culture (e.g., Waterfall, AGILE, Hybrid, etc.). This will serve as the program playbook for implementation. It also provides a summary of what (and when) change is expected. This will be informed by business priority and enterprise impact.

Conclusion

Many CFOs believe that their current finance function is not equipped to meet the demands being placed on it. Digital transformation and disruptive innovation have gone from being vague concepts to real time action items. Competitive threats, cost pressures, and aging technology are among the forces that demand significant change and a new / improved operating model for the Finance function – making the Finance function modernization journey a strategic imperative.

This does not come without risk. Research shows that 70% of complex, large-scale change programs do not reach their stated goals. It is critically important to know how to lead each phase of the modernization journey, and to be able to anticipate program pitfalls and challenges before they derail program progress.

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.

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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.

