

May 2021

Thought Leadership Series

Target Operating Model:
“Delivering on the Promise”

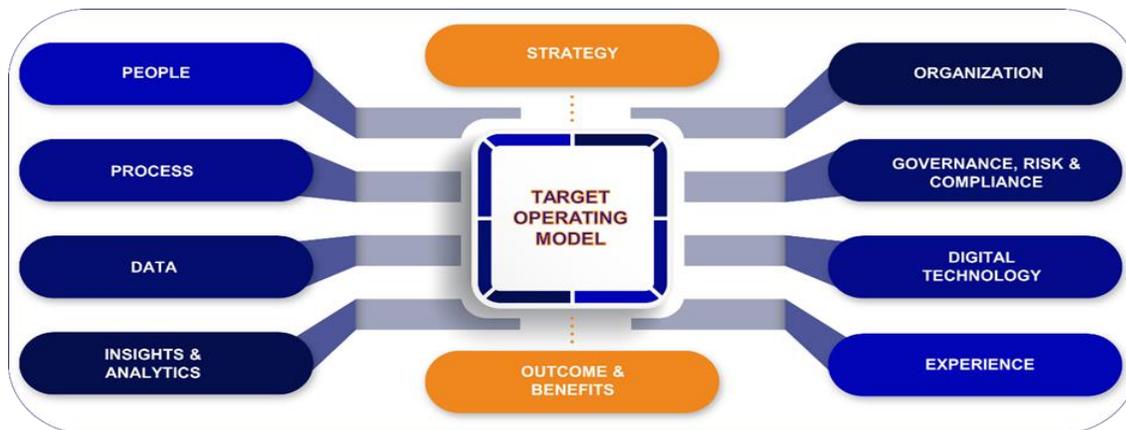


AEGIS Advisory Partners, LLC
Thought Leadership Series – The Target Operating Model
“Delivering on the Promise”

The Target Operating Model (TOM) trilogy shares the AEGIS team insights and experience advising clients on how to plan, approach, develop and deliver successful Finance Modernization programs.

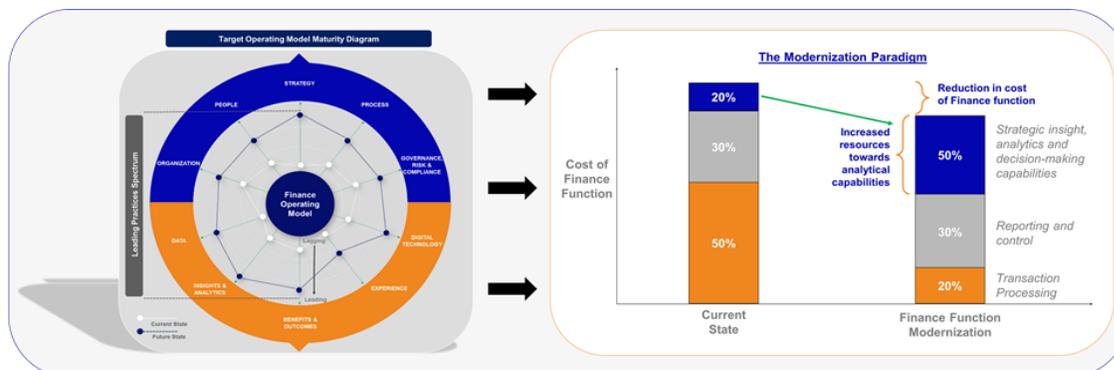
In the first installment, “Target Operating Model: The Foundational Framework,” AEGIS defined the ten (10) Operating Model components (as seen in Exhibit 1). It described how they are used as a modernization journey starting point. It pointed out the knock-on impacts across the TOM components and building those dependencies into your modernization plans.

Exhibit 1 Target Operating Model Framework



The second paper “Target Operating Model: The Modernization Journey” explored the approach and the considerations for successful Target Operating Model improvement. AEGIS noted that the modernization effort will be founded on changing the Finance “ways of working.” As shown in Exhibit 2 (The Modernization Paradigm), Finance improvement efforts are typically targeted at reducing costs, improving quality, developing / enhancing business insights, and maintaining a vigorous control environment.

Exhibit 2 AEGIS Target Operating Model Maturity Improvement Goals (Illustrative)



The “TOM Modernization Journey” provides the framework to gauge the trade-offs and establish a basis for determining the path forward. It notes that a disciplined priority resolution approach when setting the Finance modernization direction is required.

In this third trilogy instalment “Target Operating Model: Delivering on the Promise,” we examine:

- The AEGIS Finance Maturity Model
- Expected Modernization Program Macro Results
- The “Art of the Possible” relative to specific TOM component improvements

AEGIS Finance Maturity Model

The AEGIS Finance Maturity Model (see Exhibit 3 for a high level illustrative) is a tool used to gauge Finance function performance today and the desired target performance in the future.

It is based on a five stage “leading practices” spectrum (e.g., lagging to leading practices). It highlights the ten operating model component practices that define Finance’s operating effectiveness.

Exhibit 3 AEGIS Finance Maturity Model (Illustrative)

CATEGORY	Leading Practices Spectrum				
	LAGGING	EVOLVED	MATURE	ENHANCED	LEADING
STRATEGY	• Link to corporate strategy not apparent	• Finance strategy – mission statement in place	• Finance strategy emphasizes corporate contribution	• Actively manage strategy alignment	• Priorities driven by businesses
PEOPLE	• No performance management, coaching	• Performance reviews and evaluations	• Structured talent development	• Formal performance evaluation and development planning	• Integrated hire to retire, cultural fit, and talent development
ORGANIZATION	• Local unique structures	• Limited spans of control	• Globally consistent organization	• Shared services in place (some outsourcing)	• One Finance org concept
PROCESS	• Segregated inconsistent activities	• Inconsistent process automation	• Targeted, unified process activity automation	• Process measurement initiated (outcome view)	• Single, global process taxonomy
GOVERNANCE, RISK & COMPLIANCE	• No internal control framework	• Regional/local controls frameworks	• Unified internal controls framework deployed	• Preventative controls	• Active preventative controls monitoring
DATA	• No data strategy	• Local data management	• Front end data standards linked with subledgers	• Global data standard framework • E2E data standards across financial systems	• Data driven culture • Data warehouse/data lake segregates analytical data from core financials
DIGITAL TECHNOLOGY	• Disparate, multiple financial systems and tools	• Financial systems architecture regionally	• Global financial systems architecture	• Unified tools and platform approach	• Global financial systems – unified tools and platforms
INSIGHTS & ANALYTICS	• No centralized management information – ad hoc reporting	• Business unit finance driven management information	• Consistent group performance reporting/KPIs	• Predictive analytics for BU’s • Driver based planning & forecasting	• Integrated architecture • Integrated financial management model
EXPERIENCE	• Experience concepts not addressed	• Customer experience predominant focus • Limited service differentiation	• Constituent experience concept in place – groups identified and defined	• Constituent group service preferences achieved • Service delivery culture	• Human centric constituent group service in place • Focus on experience, innovation, and intelligence
OUTCOMES & BENEFITS	• No outcomes defined • No tracking mechanism	• Limited/macro cycle time metrics defined	• End to end productivity metrics	• Productivity and qualitative metrics in place • Business case tracking	• Full metrics profile, part of routine reporting • Forward looking incentive structure

Organizations must define their own priorities and strategic imperatives, then establish their operating model component targets accordingly. Note that targeting leading practices across each operating model component is NOT an expected outcome. The ideal answer (or stage on the spectrum) will be unique for each individual organization, however, it should be informed based on the practices of their industry and relative competition.



Expected Macro Results

Conflicting priorities beset the Finance function and disruption is the new economic driver. Whether it is protecting the firm’s financial assets, executing cost reduction actions, delivering better and more timely information, ensuring compliance with complex regulatory requirements, or enabling the growth agenda; changing the way Finance works is a necessary action.

No single disruptive force is predominant. Companies face many of these issues, often simultaneously. Each of these challenges/needs/requirements impact one to many of the operating model components. The table below provides a glimpse into the challenges and the impacted operating model components:

Exhibit 4 Operating Model Component Impacts (Illustrative)

Disruptive Action	Directly Impacted Operating Model Component(s) ¹
➤ Evolving competition	Strategy, Experience, Outcomes & Benefits
➤ Achieving growth	Data, Insights & Analytics, Experience, Outcomes & Benefits
➤ Reducing costs/increasing profit margins	People, Organization, Process, Digital Technology, Experience
➤ Introducing new technology	Process, Data, Digital Technology
➤ Increasing business insight	Data, Digital Technology, Insights & Analytics
➤ Expanding data privacy requirements	Process, Data, Digital Technology, GRC
➤ Restructuring the organization	Strategy, People, Organization, Experience
➤ Responding to regulatory changes	GRC, Data, Digital Technology, Insights & Analytics, Experience
➤ Addressing ESG and DEI	Strategy, Data, Insights & Analytics
➤ Improving capital & liquidity position	Process, GRC, Data, Insights & Analytics
➤ Executing leadership change & succession	Strategy, People, Organization, Experience

¹ This table identifies those operating model components directly impacted. In many cases other components will see a knock-on impact. Those are not called out in this table.

When several of these disruptive actions are occurring, most CFO’s will structure a modernization program to address them holistically. The interaction amongst the operating model components must be understood, the target environment defined, and the cross initiative impacts managed. There is no one single approach or answer for all organizations. This is a highly dependent set of actions that require content understanding, operating model component perspective, and execution discipline. Those organizations that bring these capabilities together can avoid being among the 70% that fail (according to McKinsey and Forrester).

The “Art of the Possible”

The pressure on the Finance function to perform is at an all-time high - the new normal is constant change. CFO’s find themselves at the epicenter of this shift in “business as usual” and must adapt or be left behind by the competition.



Organizations must take on a nimble approach, ready to adapt to the ever-changing eco-system where they compete. CFOs must take a closer look at their Operating Model and begin to drive the changes necessary to adjust to the disruptive forces that are on the horizon.

When CFOs start modernization efforts, several promises (articulated as improved performance) are made to solicit the investments necessary to modernize the Finance function. Captured below, by operating model component, are potential improvement profiles and the corresponding outcome impacted.

STRATEGY

“The reason most people never reach their goals is that they don’t define them, or ever seriously consider them as believable or achievable. Winners can tell you where they are going, what they plan to do along the way, and who will be sharing the adventure with them.”

- Denis Watley, Motivational Speaker

CFOs must ensure that their functional strategy is in line with the corporate strategy, and in lock step with the needs of the business. Simply put, strategy is about resource allocation and understanding where the goal posts are, so the team can strive for them with their key constituents. Without a clear line of site of what you are trying to achieve, you will never be able to effectively deliver on the modernization program promises.

Potential Impacts:

- Relevant Finance support of corporate and business unit needs
- Finance advisory support based on content knowledge and business understanding
- Stakeholder centric collaborative culture

PEOPLE

“We tend to think that, in a traditional organization, people are producing results because management wants results, but the essence of a high-quality organization is people producing results because they want the results. It’s puzzling we find that hard to understand, that if people are really enjoying, they’ll innovate, they’ll take risks, they’ll have trust with one another because they are really committed to what they’re doing and it’s fun.”

- Peter Senge, Systems Scientist and Senior Lecturer at MIT

While change is an inevitable modernization journey outcome, that change can be managed to cause minimum workforce disruption. The new ways of working require that Finance team members develop new skills. Establishing a talent management and development approach is essential. The performance management process needs to emphasize coaching and planning individual development. We have learned that



employee experience is influenced through modernization and visible talent investments.

Potential Impacts:

- Right people with the right skills at the right location
- Retention above industry norms
- People development focused on today's requirements and tomorrow's needs

ORGANIZATION

“Once you have a clear picture of your priorities – that is your values, goals and high leverage activities, organize around them.”

- Stephen Covey, Author (The 7 Habits of Highly Effective People)

There are many organizational models that can work for your Finance function. Whether it be centralized, decentralized or some form of hybrid model. Leveraging the concept of having one Finance organization is critical and should be a “non-negotiable” element to the desired future state model. That is, “shadow Finance functions” in the business units that ARE NOT aligned with the priorities and strategy of the CFOs agenda should be avoided.

The organization model is a key culture enabler. Highly effective Finance organizations embed Finance business partners with the business unit leaders (dual reporting relationship). They have the content understanding, finance skills, and business acumen to influence key business decisions. Thereby, protecting/increasing shareholder value.

The service delivery model is under cost and execution pressure. It needs to support collaboration and enable remote working. The constituent experience impact needs to be considered as the model is modernized. Transaction processing will be automated with people driven support at the lowest possible cost. Business insights and analysis will be close to the decision makers. Corporate stewardship and control will permeate service delivery. Most organizations will consider a “global” model using shared services – whether done internally or executed by a third - party partner.

Potential Impacts:

- Increase shareholder value
- Unify process management
- Optimize service delivery at the right cost
- Understood Interactions with specified roles & responsibilities

PROCESS

“There is nothing so useless as doing efficiently that which should not be done at all.”

- Peter Drucker, Management Consultant, Educator and Author



Organizations should drive for a single, global process. This involves setting up a unified process taxonomy, deploying global process owners, and applying process technology consistently.

The process design considers what is being done and why. Establishing an effective process considers the activities, technology, and controls. Activities should be automated to the extent practical - manual workarounds should be avoided. Today's technology (cloud based specifically) should be kept as vanilla as possible; that translates into process configuration versus process customization. The control framework should be automated and preventative.

Global process measurement and related reporting should be created to monitor processes and determine where improvements can be made. As noted previously, modernization is not a once and done exercise. It should continue to be monitored and improved as new tools become available. End to end straight through processing, with the appropriate preventative control environment, should be the goal for a safe and efficient process.

Potential Impacts:

- Reduce cycle times
- Decrease transaction execution cost
- Improve manual/Automated activity profile
- Reduce error rates/re-work

GOVERNANCE, RISK & COMPLIANCE

“If you always do what you always did, you will always get what you always got.”

- Albert Einstein, Theoretical Physicist

Governance, Risk & Compliance (GRC) are often overlooked when planning modernization programs, but they are the glue that holds the components of the operating model together. GRC is the combination of processes and structures implemented to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

When designing GRC, the following guiding principles should be considered:

- A globally deployed controls framework should be established.
- Active preventative controls and monitoring should be in place.
- Active participation in data strategy & management should occur.
- Program Risk Control should be leveraged to reduce the challenges related to modernization efforts.

Potential Impacts:

- Increase controls automation
- Improve automated/manual controls profile
- Reduce inherent risk



DATA

“Information is the oil of the 21st century, and analytics is the combustion engine.”

- Peter Sondergaard, Thought Leader and Keynote Speaker (former EVP and Member of Gartner’s Operating Committee)

Information and insights are the mechanism that creates competitive advantage. They are dependent upon a strong data environment that properly identifies data, ensures its accuracy, and delivers it at the right time. Leading organizations have met these objectives by:

- **Remediating data quality and control issues at the source** – it is less expensive and more effective than relying on subsequent data cleansing and scrubbing.
- **Capturing source data with sufficient granularity** and attribution to enable downstream enrichment, calculation, and reporting.
- Leveraging a structured **data governance framework** including the use of finance data stewards.
- Ensuring that general ledger data **should meet external statutory and regulatory reporting requirements only**.
- Establishing a **data lake or data warehouse** as the gold standard or **single source of the truth** for management reporting.

Potential Impacts:

- Transition to a data driven culture
- Segregation of analytical data from core financial data
- Expand finance team profile to include data science skills

DIGITAL TECHNOLOGY

“Think of digital transformation less as a technology project to be finished than as a state of perpetual agility, always ready to evolve for whatever customers want next, and you’ll be pointed down the right path.”

- Amit Zavery, VP/GM and Head of Platform, Google Cloud

First, let us demystify the concept of “Digital Technology”. Simply put, digital technologies are electronic tools, systems, devices, and resources that generate, store or process data. Ideally, organizations should strive to have a unified set of tools and platforms. These tools are organized into a logical financial systems architecture (FSA). Each stage of the architecture is targeted for additional automation with newer technology – the end-to-end architecture is a constantly changing environment.

Today, the technology focal point is cloud based solutions. The core tool in any FSA is the Enterprise Resource Planning (ERP) platform. The ERP vendors are pushing their clients to migrate to the cloud version of their platforms. This represents a three - fold



benefit for their clients: 1) ease of maintenance and upgrade, 2) change in ownership cost structure (consumption based) and 3) ability to scale quickly. In addition, clients are looking for those tools that are complementary to the selected ERP - automating a specific process activity.

Potential Impacts:

- Reduce total cost of ownership (technology)
- Streamline upgrade process
- Improve processes end-to-end or at a targeted point

INSIGHTS & ANALYTICS

“An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.”

- Jack Welch, Former Chairman & CEO of General Electric

Insights & Analytics is where it all comes together for the Finance function. Over the last ten years, this area has seen the greatest change. Organizations have expanded their appreciation for the information needs of all constituents, understand the context required, and have begun to develop the advance analytical skills (data science) needed to deliver the requested information.

All ten of the components of the Target Operating Model are important, and their successful design/function are critical. For example, the use of a reporting factory (for recurring production reports) impacts the process, data, technology, GRC, organization, and insights & analytics components. The result is the creation of an integrated architecture that reflects the organization's chosen financial management approach.

Clarifying the financial management model and use of data science should be considered for enterprise / business unit analytics. Insights is the moment when data and analytics come together into a cohesive story that allows you to better see the reality of what is going on with your business.

Potential Impacts:

- Increase business insight
- Improve time to decision
- Support breadth and depth of information needs

EXPERIENCE

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.”

- Warren Buffett, CEO of Berkshire Hathaway



Traditionally organizations have looked at and measured their “customer” experience as a way of measuring success. However, expanding this concept to the “constituent” experience, Finance can provide more value to the businesses they serve.

Building a service delivery culture within the Finance function requires a clear understanding constituent expectation. Finance serves a broad array of internal and external constituents. Those constituents have a variety of service and information needs. This has a direct impact on the other operating model components during modernization.

Melding constituent experience, innovation, and service delivery will shape the finance function modernization requirements. Add in 360-degree feedback will help Finance deliver on their mission, and how they are perceived to add value to the organization.

Potential Impacts:

- Improve cross organization relationships
- Align finance services with prioritized business needs
- Develop human centric service model

OUTCOMES & BENEFITS

“However beautiful the strategy, you should occasionally look at the results.”

- Sir Winston Churchill, Former Prime Minister of the United Kingdom

Measurement and understanding the modernization return on investment is important to retain buy-in for these initiatives. Value promised must be realized, and reported on, in both quantitative and qualitative measures.

Modernization programs make many improvements promises. However, they do not always put in place the qualitative and quantitative measures necessary to show progress towards their goals and results they have achieved – are they delivering on their promises?

Outcomes and benefits are not only critical during the modernization effort, but also important relative to how the operating model is performing on a go forward basis. Note that the process to collect and measure critical metrics should not outweigh the usefulness the measurement provides in the first place.

Potential Impacts:

- Implement a defined management system and process
- Establish a concise set of Finance operating measures and metrics
- Improve finance financial performance



Conclusion

The latest research indicates that despite the multitude of challenges faced by the global economy in 2020, including COVID-19, CFOs are highly optimistic about the future. They are ready to capitalize on an economy that appears to be on the precipice of unprecedented growth. This growth is expected to fuel investment in modernizing finance teams to keep pace with the competition.

Finance organizations need to adapt by investing in their operating models.

Nobody could have predicted the economic uncertainty we would face due to COVID, however, the pandemic and resulting economic recession have elevated the role of the CFO to a new strategic height. CFOs must deliver on the Finance function modernization promise as a critical strategic necessity. The role they play in helping transform the future of their business is now more important than ever before and the Target Operating Model is the vehicle that can help them achieve their mission.

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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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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.

Visit our website at www.aap-us.com to learn more.

