MODERN FINANCE IN THE DIGITAL AGE

PROJECT FINANCIAL MANAGEMENT BEST PRACTICES

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Introduction

Gartner calls them the "Nexus of Forces." **IDC** says they constitute the "3rd Platform" for innovation and growth. No matter how you define it, cloud, social, mobile, and big data are changing the competitive dynamics of the global economy and creating significant value for companies that know how to create business models leveraging these technologies.

According to new research by **Deloitte** and **OpenMatters**, the shift to digitally enabled business models is also influencing shareholder valuation strategies.[1] Investors are paying more for companies with business models that embrace and emphasize "intangible assets"—customer, human, and intellectual property—and leverage the wisdom of crowds to co-create products and services. The historic method of value creation matters less in today's digital age: tangible assets, including plants, property, equipment, and financial assets, now constitute just 20 percent of total corporate value on the S&P 500, compared to 80 percent in 1975.[2] CFOs who continue to allocate their company's capital to tangible assets using previous generations of technology are putting their company's management and shareholders at serious risk, generating lower levels of performance and enterprise value than digitally and big-data-savvy CFOs who are spending their organizations' resources on building and mining intangible assets powered by today's technologies.

"By 2018, one third of the top 20 market-share leaders will be significantly disrupted by new competitors that use the 3rd platform to create new services and business models."

—IDC Predictions 2014

[1] Libert, Barry; Ribaudo, William J.; and Fenley, Megan Beck. "CFOS; Embrace Digital or Put Your Company's Future at Risk," CFO Journal, Wall Street Journal Online, July 28, 2014.
[2] Ibid.

Impact of Digital Technologies

Transforming How Industries Create Value

US$1+ trillion in mobile e-commerce revenue by 2017

US$17+ billion in big-data revenue by 2015

US$200+ billion in cloud services revenue by 2015

US$290+ billion in Machine-to-Machine revenue by 2017

Health Sciences
Personalized Medicine

Hospitality
"Above Property" Cloud Solutions

Communications
Machine-to-Machine Communications

Utilities
Smart Grids and Flexible Power Consumption

Asset Intensive
Flexible Capital Planning & Development

Retail
Commerce Anywhere on Any Device

Financial Services
Online Banking & Mobile Payments

> "We believe that the shift to digitally enabled business models is very much a CFO issue and opportunity. First, CFOs are the stewards of corporate value; they have the finance background and understanding of market valuation of business models that is needed to comprehend the long-term implications of different business models. Second, they can act as catalysts of business model change due to their understanding of finance and growing oversight of IT strategy and investments. And most importantly, digital transformation provides CFOs with a significant opportunity to be leaders and strategists by rebalancing their investment portfolio into intangible assets that can help create more sustainable, valuable business models."
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> **—David Pleasance, senior partner, Deloitte Consulting LLP**

Not surprisingly, change on this scale has produced new tensions as the C-suite attempts to prioritize competing initiatives to support a more customer-centric approach to business, and meet the growing demands of social-media marketing and an apparently inexhaustible clamor for data. It is becoming increasingly apparent that if organizations are to successfully navigate the challenges of the Digital Age, then the roles of the CEO, CFO, CMO, and CIO must coalesce around a new model of collaboration with the acquisition, maintenance, and consumption of data at its core.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration. They recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and the demand for new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to potentially assume the CEO role when the time is right.

This research identifies the new best practices of modern finance organizations in five key processes critical to any finance function:

- **Report and Comply**
- **Measure and Respond**
- **Plan and Predict**
- **Procure to Pay**
- **Project Financial Management**

The research also examines how modern CFOs are adopting new best practices in **Change Management** and new ways to measure **Return on Investment** (ROI) in digital technologies to modernize the finance function.

"The CFO is the glue that brings everything and everyone together. In that role, you are the collaborator and the alignment person with the other C-suite executives to make sure that there are no gaps in strategy, in decision-making, in execution. No one else can really touch all the parts of the enterprise the way that the CFO can."

—Keith Kravcik, EVP and CFO, Ovation Brands

Project Financial Management Best Practices

The Project Financial Management process includes:

- Costing, budgeting, and forecasting
- Contracts and billing
- Project control
- Project performance reporting

"**Skanska Sweden** has around 3,500 projects at any given time. If you go to the group level, it's roughly 10,000 projects. Every project has unique combinations of clients, subcontractors, and authorities. We are a decentralized organization, so we need to have systems that are intuitive for us to be able to work in an efficient way."

—Anders Lilja, CFO, Skanska Sweden

What's changed in the Digital Age?

Today's project-driven organization must embrace technology advances to successfully execute a project. Gone are the days of siloed projects, static reporting, and a lack of visibility. In its place are collaborative and social project management advances, real-time contextual reporting with role-tailored dashboards, and an enterprise perspective to executing and financially managing a project.

The tools at the project financial management team and the project manager's disposal must incorporate these elements to allow organizations to take advantage of new project management technologies and facilitate their incorporation for effective project delivery and reporting. These radical shifts in the management of projects are necessitating the use of tools geared to accommodate the changes, not only to keep up with the new requirements, but also supersede legacy and archaic methods to execute and financially manage projects successfully.

The following best practices can help you modernize the Project Financial Management process:

1. Use analytics to proactively monitor health of projects
2. Standardize processes and data to ensure single source of project truth across the enterprise
3. Deliver real-time information via mobile and social tools to facilitate decision-making and project success

#1 BEST PRACTICE

Use analytics to proactively monitor health of projects

Founded in 1853 and based in San Francisco, the **California Academy of Sciences** is among the largest museums of natural history in the world. The Academy still continues to carry out a large amount of original research, with exhibits and education becoming significant endeavors of the museum in recent years.

"The projects module of our new ERP cloud solution was probably the primary reason why my non-financial managers wanted to upgrade," notes Kristin Klingvall, controller at the California Academy of Sciences. "The Academy bought a new accounting system in the mid '90s, and it is no longer new. And we felt the pain points as the Academy has grown from roughly 300 people to double that. We have now 75 departments to keep track of and our legacy systems weren't keeping up."

Klingvall recalls that her previous system had a segment on the general ledger to track projects, but it was a cumbersome, Excel-based process to get insight into what the project owner was spending on an exhibit. "With our new cloud-based project module, project owners will be able to use the dashboard to dial right in to the project and see what they have spent on labor or supplies. This will really give us better insight into our projects."

#2 BEST PRACTICE

Standardize processes and data to ensure a single source of project truth across the enterprise

Stockholm-based Skanska Group is one of the world's largest construction groups, with roughly 12,000 projects ongoing at any point in time, from the United Nations refurbishment in Manhattan, to stations for the giant Crossrail project in London, and hospitals in Sweden. Skanska recently decided to standardize on a modern project portfolio management solution, to get a consolidated view into project performance for better analysis and reporting.

"A lot has changed internationally since our last project implementation 14 years ago, from the way we are structured internally to the way we need to report based on international accounting standards," notes Skanska Sweden CFO Anders Lilja. "We were forced to make additional reporting based on Excel and other legacy systems, which created difficulties in how we structured our consolidated accounts. We needed an integrated system so that everyone is using the same numbers and the same definitions. We want to have a clear line of sight from the project level to the executive team."

For Lilja, the value of an integrated project management platform is really around the reduction in complexity. "I think the ability to share definitions through the general ledgers and share information between the development units of Skanska and the construction unit will be key going forward," he notes.

"We'll use the same definitions, share the same numbers, and reporting will be automated to a much greater extent than it is today. That will save time, enable better analysis, and really give us an opportunity to be best-in-class among our peers."

SITA is a company that is heavily project based and sees the value of having an integrated view into project performance. "We look at every product as a project and every customer as a project as well," says CFO Colm O'Higgins. "We do very large contracts—for example, we are building a new software reservation system for airlines, with very complex algorithms and heavy-duty industrial-grade software. Project accounting was a huge manual effort and the subject of intense debate with our auditors because it was an area which was recognized as requiring improvement. Our project managers had little knowledge or understanding around balance sheet questions that our auditors asked, because all they saw was project profit and loss."

For O'Higgins, standardizing on a modem project financial management module has been critical to resolving that gap.

"We now have a full project view of what's on the P&L and what's on the balance sheet our project managers have moved to where they should be, managing project working capital and not just P&L. We have also brought in new financial performance metrics for the project manager's bonus systems and so we are measuring those as we move forward, working together with our Project Management Office."

—Colm O'Higgins, CFO, SITA

#3 BEST PRACTICE

Deliver real-time information via mobile and social tools to facilitate decision-making and project success

Today's project manager must be a supreme communicator, with a broad working knowledge across multiple domains, including project financial management and execution management. The way that a project team functions has significantly changed as well. Newer mobile and social technologies make the process of information dissemination and team communications much more fluid, and mobile support is key, providing access for the hyper-connected "on-the-go" workforce of today.

The California Academy of Sciences is just one of many organizations that see the value of mobile and social capabilities for project reporting. "We have about 140 non-financial managers who need access to project reports, to keep tabs on have much they have spent against budget on their exhibits, their animals, or any other projects they are involved in," notes Controller Klingvall. "Our previous system was temperamental and didn't always work well. Once we are live with our new cloud-based project module, I will be able to just dial in from home and have real-time access to project information when I need it. It's going to make all our lives a lot easier."

Skanska's Lilja also sees the need for better collaboration tools that reduce the complexity of large-scale projects such as those in the construction industry. "We have projects where we are the owner, the developer, the contractor, and the financier," he explains. "That's a complex model, so having different kinds of collaboration tools embedded into the system portfolio is very important. More and more in the construction industry, we share open books with clients, so the ability to interact and share information easily is key."

Conclusion: Mastering Digital Transformation

To succeed in the Digital Age, CFOs and the organizations they lead must recognize the value of a holistic approach to digital transformation that can drive both operational savings and the flexibility needed to change business models or shift in and out of markets quickly.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration.

Today's modern CFOs also recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and thus are embracing new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation not just in finance but across the enterprise are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to ultimately assume a greater leadership role in their organizations.

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