

# Resilience: The Digital World Class<sup>®</sup> Finance Advantage

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# Resilience comes with digital leadership

The confluence of macroeconomic factors – including inflation, geopolitical unrest, supply chain challenges and workforce labor dynamics – are creating unprecedented levels of uncertainty across all dimensions of business. On top of these already-significant challenges, growing concerns about a potential economic slowdown or recession have further elevated the sense of uncertainty and only serve to intensify the focus on profitable growth. While managing costs in times like this is critical, so is agility. Companies that are best able to absorb shocks, navigate trials and accelerate past peers are those that champion resilience.

What does it mean to be resilient? From our research, it is increasingly evident that resilience is aligned with digital leadership. Digital World Class® organizations – those in the top quartile of business value and operational excellence (see sidebar “The Hackett Value Grid™,” on page 5) – are better at navigating uncertainty, risk, and complexity than peers because they are more disciplined at maintaining strategic focus and more adaptive to rapidly changing circumstances. In large part, this is because they can harness data more effectively, deliver faster and better insight, and use it to make better decisions. They also execute more effectively, focusing on things that matter most in times of uncertainty – such as conserving cash and managing costs in the near term – without sacrificing long-term strategies and goals. Not insignificantly, their leadership and competitive strengths are attractive to top talent.

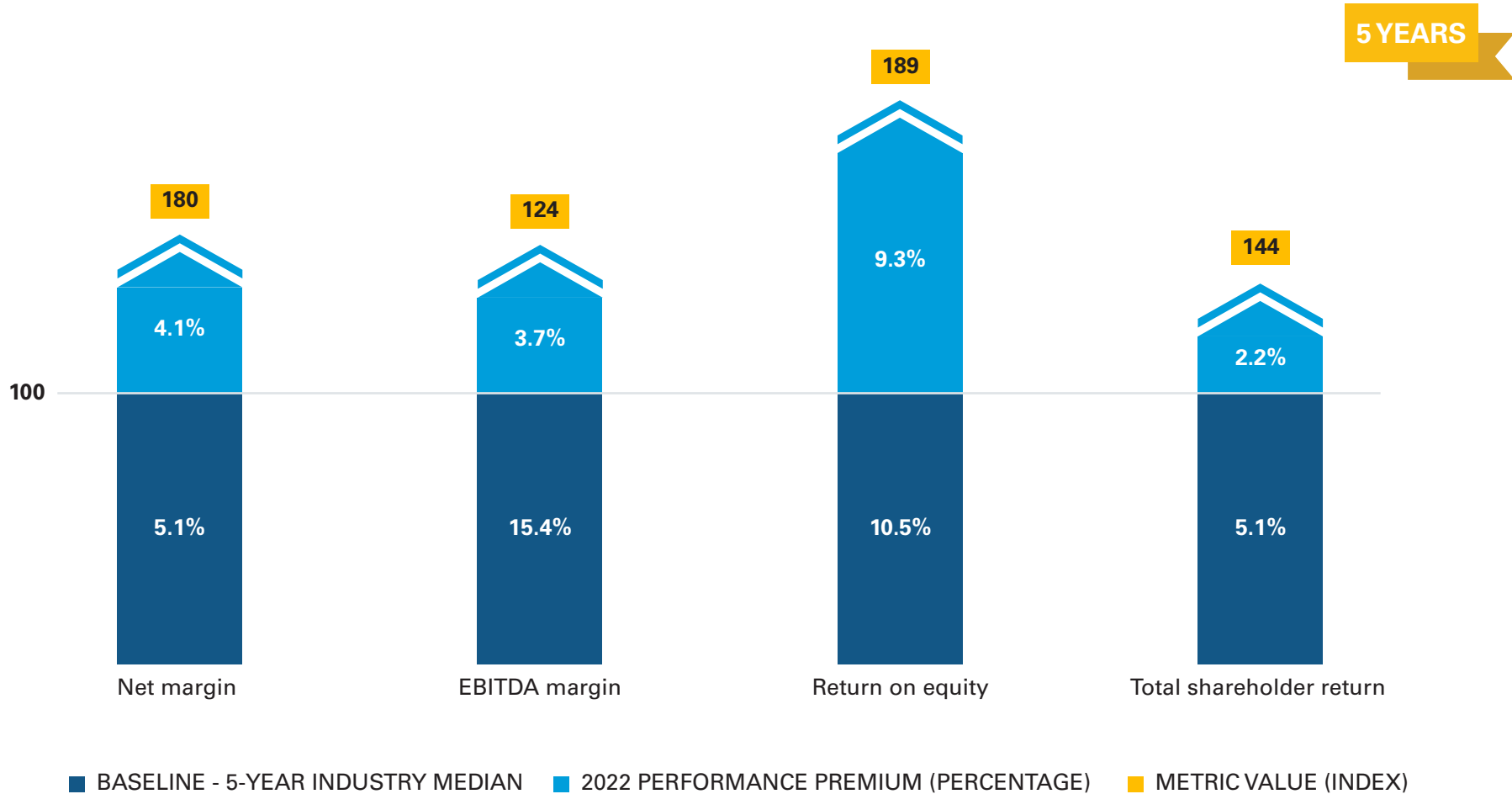
Our research quantifies the tangible performance benefits. Digital World Class finance organizations run at a 47% lower cost than peers – a \$48 million advantage for a typical \$10 billion enterprise – with 50% fewer full-time equivalent (FTE) staff. Just as significant, they deliver greater value – for example, more effective management of the cash cycle by optimizing on-time accounts receivable collections. As a result, they are 44% more likely to be perceived as a valued business partner.

# Why Digital World Class® matters

While most factors that drive financial performance are beyond the control of business services functions, finely tuned operations can and will have an impact. The more digitally integrated and data-centric the operating model, the more this becomes the case.

Our analysis found a correlation between Digital World Class and better enterprise financial performance. When we compared companies with at least one business services function operating at a Digital World Class level with their industry median, we found a five-year average performance premium across several key financial metrics (**Fig. 1** on page 4). While this advantage is not solely due to having Digital World Class business services, these companies do tend to display greater innovation, operational and commercial capabilities, in part because of their higher-caliber talent, analytical capabilities, and technology architecture.

FIG. 1 Enterprise financial performance advantage of companies with at least one Digital World Class® business services function



In the figure, the index of 100 represents the median performance level for each metric across all industries. The higher index number is the average performance premium achieved by companies with Digital World Class business services function over their industry median. The lighter blue bar represents the actual percentage performance premium for each metric.

Source: Analysis, The Hackett Group, 2023

# The Hackett Value Grid™

The Hackett Group defines Digital World Class® organizations as those that achieve top-quartile performance in business value (a composite of stakeholder experience, digital enablement and traditional effectiveness metrics) and operational excellence (a composite of efficiency and business process automation metrics).



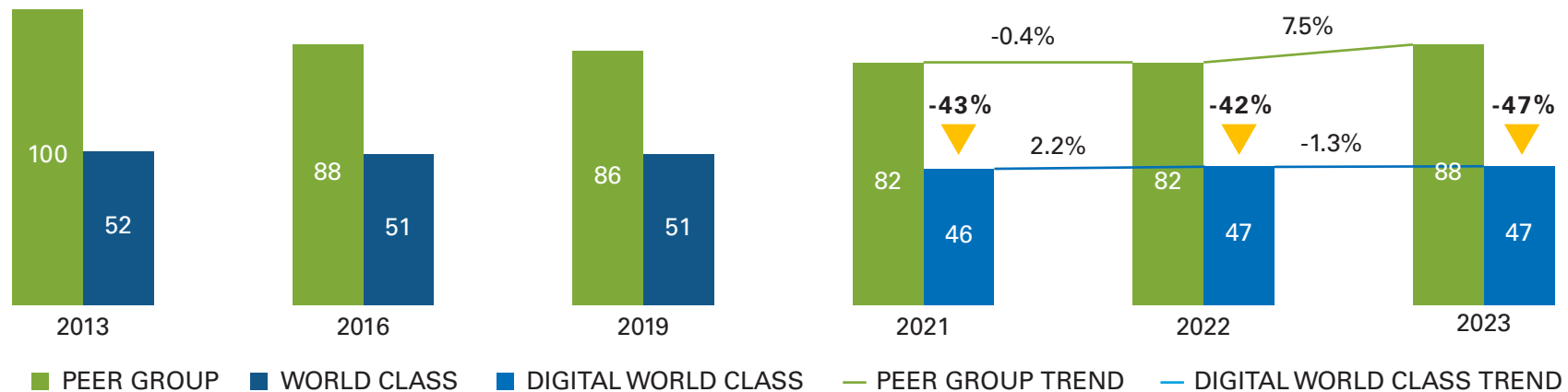
Business Value = Effectiveness, Experience, Digital Business Enablement  
Operational Excellence = Efficiency, Business Process Automation

# The finance Digital World Class<sup>®</sup> gap continues to widen

The Hackett Group annually measures the gap in cost between Digital World Class finance functions and their peers. Over time, the cost gap has narrowed gradually as top-performing finance organizations optimized their cost structure and peers began to catch up. Recently, however, the gap has begun to widen again. This is due to the impact of digital transformation.

While peer companies have seen operating costs increase likely due to inflationary impacts, Digital World Class finance organizations have maintained their cost advantage. As a result, the Digital World Class finance cost advantage expanded from 42% in 2022 to 47% in 2023 (**Fig. 2**).

**FIG. 2 Finance operating cost as a percentage of revenue**

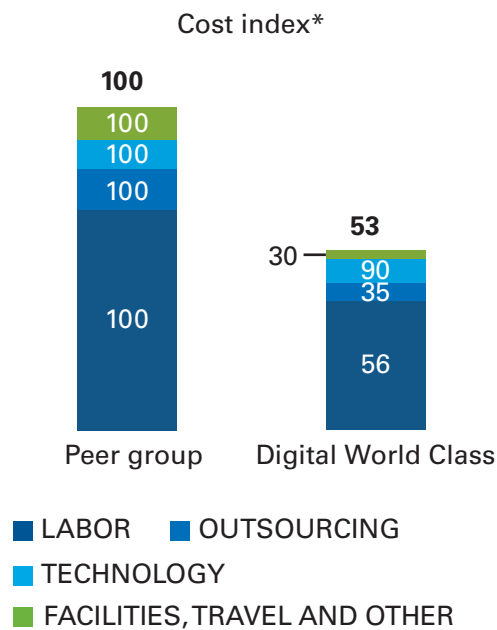


Note: The cost index is 100 for the 2013 peer group finance cost. For example, the 2019 world-class cost index value of 51 represents a 49% lower cost than the 2013 peer group.

Source: Benchmark, The Hackett Group, 2023

# Understanding the elements of Digital World Class<sup>®</sup> finance

**FIG. 3 The Digital World Class cost advantage**



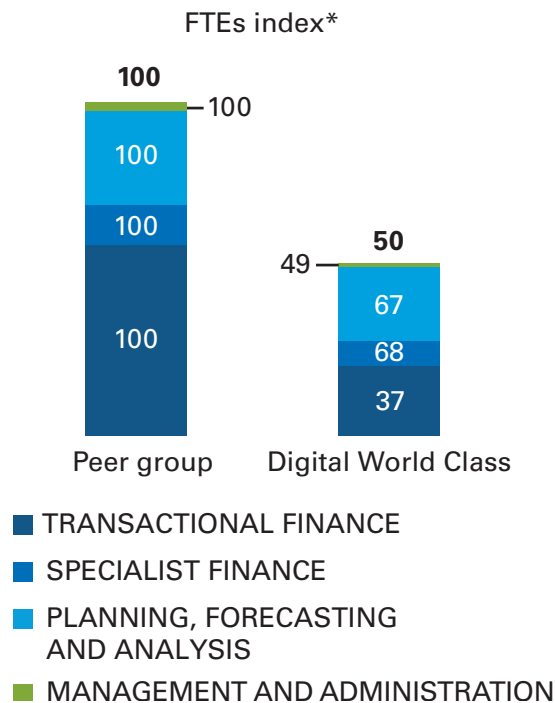
\*The baseline cost of FTE level of peers corresponds to an index value of 100 for each cost or FTE category. So, for example, an index value of 59 for Digital World Class labor cost represents 41% lower labor cost than peers.

Rationalizing the technology environment has traditionally enabled top-performing finance organizations to continue to modernize the technology landscape, which explains why their technology cost is 10% less than that of peers (**Fig. 3**). But they also invest in technology architecture modernization and emerging technologies – such as smart automation, advanced analytics and collaboration tools – that enable greater automation, further reducing labor cost. This investment shows when looking at the change in balance among labor, outsourcing, technology and other costs from 2022 to 2023. For Digital World Class organizations, cost as percentage of revenue dropped for labor, outsourcing and other costs in 2023, while it grew for technology.

It is important to note that not all technology investments are associated with labor-eliminating automation. As the finance services portfolio shifts toward higher-value services, leaders also invest to equip their knowledge workers with modern digital tools. Although Digital World Class finance organizations spend less on technology as a percentage of revenue than peers because of their higher technology deployment efficiency, they have a far more technology-intensive operating model and spend a larger component (15%) of operating cost on technology than peers (9%).

# Understanding the elements of Digital World Class<sup>®</sup> finance (cont.)

**FIG. 4 The Digital World Class labor advantage**



\*The baseline cost of peers corresponds to an index value of 100 for each FTE level. So, for example, an index value of 37 for Digital World Class represents 63% lower transactional FTEs than peers.

Digital World Class<sup>®</sup> finance organizations have traditionally run with far fewer FTE staff than peers. In 2023, that gap has grown to 50% – up from 46% in 2022 (**Fig. 4**). Peers increased FTEs per billion in revenue slightly, while Digital World Class organizations reduced FTEs per billion in revenue by 7% – largely by accelerating automation.

In fact, Digital World Class finance organizations have fewer total FTEs per billion in revenue than peers have in transaction processing roles alone. Digital World Class finance organizations operate with 63% fewer FTEs in transactional roles, but just 33% fewer FTEs in financial planning and analysis (FP&A) roles, and 32% fewer in specialist finance roles. This shift of resources into higher-value roles explains their superior value contribution. It also enables them to have a 22% greater management span of control (ratio of staff to managers).

There is strong evidence that peers haven't embraced automation to the extent Digital World Class finance organizations have. Since 2019, peers have reduced transaction processing FTEs per billion in revenue by 10%. Digital World Class finance organizations have seen a corresponding 23% drop in FTEs in transactional roles, while also starting from a smaller base.



# Superior performance on two dimensions

Beyond operating with a 47% cost and 50% FTE advantage, Digital World Class® finance organizations excel across all facets of business value and operational excellence. Here are some highlights:

## Business value

### EFFECTIVENESS



more FTEs focused on business analysis



more likely to employ sensitivity, investment and modeling techniques



more likely to have finance staff performance goals and expectations linked to the company's strategic plans

### EXPERIENCE



higher degree of forecast reliability



more likely to be perceived as agile in responding to business challenges



more likely to be viewed as a valued business partner

### ENABLEMENT



more likely to provide self-service reporting and analysis capabilities for ad hoc inquiries



more customer self-service



more suppliers using web-based self-service

# Superior performance on two dimensions (cont.)

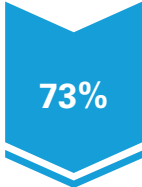
## Operational excellence



lower transaction processing cost as a percentage of revenue



lower process cost per accounts payable invoice



less time required to process an accounts payable invoice for payment

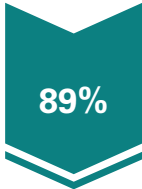
### EFFICIENCY



faster close-to-report cycle



shorter annual budgeting cycle



fewer business reports per billion of revenue

### AUTOMATION



more suppliers submit their invoices electronically



greater share of automated cash management transactions



more customer payments are automatically matched and posted at the account level

# The Digital World Class<sup>®</sup> finance advantage translates to greater value

## **Superior reliability**

Management is 28% more confident in the reliability of annual forecast produced by Digital World Class finance organizations (versus peers). Eighty-two percent of the organizations place a high degree of reliability on the annual forecast – up from 74% in 2022. Peers, on the other hand, backtracked, with high degree of confidence dropping six percentage points from 2022 – illustrating the difficulty in handling multiple uncertainties simultaneously. Business stakeholders are also more likely to rate the outcome of finance cost analysis to be on target.

Our benchmarking analysis sheds light on how Digital World Class finance organizations produce more accurate analyses and forecasts. They are more likely to use one version of the truth, generating 61% more business performance reports from a central data repository. They are 94% more likely than peers to equip cost center managers to enter budgets online. And they have far less complexity in reporting, with 89% fewer business performance reports per billion of revenue.

# The Digital World Class<sup>®</sup> finance advantage translates to greater value (cont.)

## **More focus on value creation**

Digital World Class finance organizations are more accurate in their work. For example, they have 54% fewer customer billing errors, and 75% fewer accounts payable transactions requiring corrections. That means they have more time to focus on value-added activities – and building better capabilities for supporting the business. As an example, they do a better job of helping the enterprise manage and improve its cash cycle, which is particularly critical amid today's economic uncertainty. While both Digital World Class finance organizations and peers show continued improvement in percentage of receivables collected within terms, Digital World Class companies are approaching optimal performance at 96% collected within agreed customer terms.

## **Faster time-to-value**

Digital World Class finance organizations complete the closing/consolidation process 35% faster than peers. Both Digital World Class and peers have improved, but Digital World Class have accelerated their advantage by improving faster (23% in 2023). They also complete budgeting 29% faster and financial reporting 41% faster. Both groups improved in 2023, but Digital World Class finance organizations are reaching a point of optimization given generally accepted accounting principles reporting requirements. This enables them to learn and react faster – a key source of sustainable competitive advantage.

# The Digital World Class<sup>®</sup> finance advantage translates to greater value (cont.)

A key reason they work faster and deliver value sooner is process automation. For example, they are 57% more likely to have automated customer-to-cash processes and 22% more likely to distribute customer invoices electronically.

## **Elevated stature as a business partner**

Advantages in reliability, value orientation, and speed contribute directly to greater enterprise agility and resilience. It is not surprising, then, that Digital World Class finance organizations are 44% more likely to be viewed as a valued business partner. That perception gap widened significantly in 2023 – from 19% previously – while peers' perception as a valued business partner declined slightly. That said, both Digital World Class finance organizations and peers have significant room to continue improving their stature as a business partner. Finance executives ranked this a top 10 priority in our 2023 Key Issues Study.

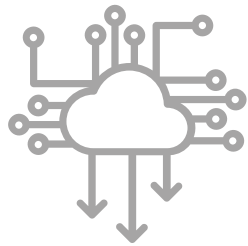
# Digital World Class<sup>®</sup> finance organizations get it done by focusing on six key dimensions

Technology enablement is at the heart of the Digital World Class performance advantage. However, to fully unlock the potential of technology, leading finance organizations also transform five other key areas.

- 1 Technology enablement
- 2 Data and analytics
- 3 Modern cloud architecture
- 4 Operating model evolution
- 5 End-to-end process design and ownership
- 6 Talent management

# 1

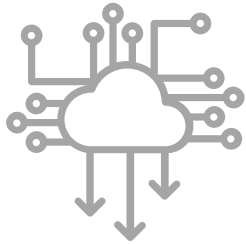
## Technology enablement



Finance automation efforts have traditionally focused on transactional processes such as accounts payable. By upping the automation quotient, the function has been able to reduce or even eliminate manual intervention, thus significantly lowering process cost. Digital World Class® finance organizations have a clear lead in transaction automation over peers and in some cases have reached maximum levels. For example, they have automated 96% of journal entries, versus 80% for peers. They receive 84% of supplier vendor invoices electronically, versus 54% for peers. And they automatically match and post 94% more customer payments at the account level.

Their leadership is also evident in business process automation. For example, 100% of Digital World Class finance organizations have a high percentage of credit applications completed online by customers or sales representatives, versus only 11% of peers. Similarly, 73% of Digital World Class finance organizations have fully automated accounts payable workflow – 20% more than peers. Furthermore, Digital World Class finance organizations have improved by 11 percentage points in this area in the past year.

## Technology enablement (cont.)



They are more likely to employ self-service. For example, 6.7 times more suppliers use an online self-service solution to support supplier queries.

These organizations have also made substantial inroads in automating knowledge processes, freeing up staff capacity to perform value-adding work and equipping them to deliver better analysis and insight. For example, 78% of Digital World Class® finance organizations provide online access to management reports and the ability to run ad hoc reporting and analysis, compared to just 38% of peers. They also have a more robust data foundation: 87% of Digital World Class finance functions have a central data repository to generate business performance reports, versus only 54% of peers.



# 2

## Data and analytics



The heightened demand for faster and more accurate forecasts is forcing organizations to rethink their existing data analytics approach and required tools. In our 2023 Key Issues Study, turning data into actionable insight was again a top 10 finance function priority (No. 6). But data and analytics are also vital to many of finance executives' other top priorities, including supporting growth strategies, accelerating preparedness for uncertainty, and optimizing working capital.

Digital World Class<sup>®</sup> finance organizations have a significant head start. They have 2.2 times more staff (FTEs) focused on business analysis and spend 2.1 times more time employing sensitivity, investment, and value analysis techniques. They spend 55% more time on analysis rather than collecting and compiling data. And they spend 60% more analytical time focused on proactive decision-making, rather than historical reporting – a gap that has widened significantly from 38% two years ago.

# 3

## Modern cloud architecture



The Digital World Class® finance transformation involves integrating or retiring legacy systems, adopting emerging technologies, migrating applications into the cloud and integrating data from disparate sources. Modernizing architecture design and managing it effectively are absolutely critical for simplifying the complexity. Probably the most impactful aspect of finance architecture modernization is the transition to the cloud. The Hackett Group’s 2023 Key Issues Study found that 32% of organizations have implemented a cloud-first approach to new applications in the past five years, and 31% are planning to migrate most transactional and analytical functions to the cloud in the next three to five years. Nearly one-quarter (23%) of respondents expect their organization to be 100% in the cloud by 2025. That’s a significant increase from the 7% of companies that run completely in the cloud today.

Digital World Class finance organizations are at the forefront of architecture modernization and cloud migration. They have developed clear capability ownership models within finance via process ownership roles and forged effective partnerships with their internal technology groups, leveraging the deep technical skills required in both finance and the technology organization. Finance organizations with large-scale cloud deployments are 68% more likely than peers to meet enterprise business objectives – a significant increase from 32% in 2021.

# 4

## Operating model evolution

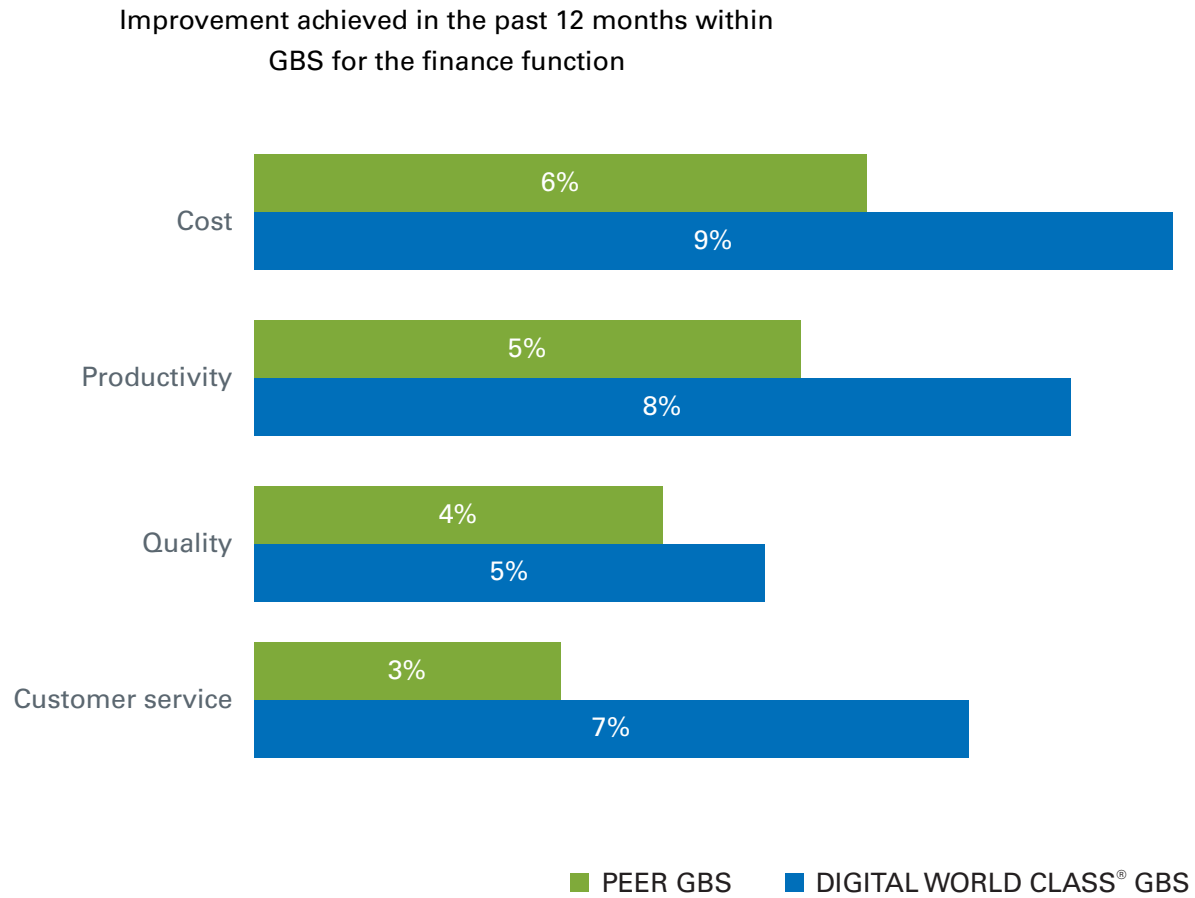


Business services functions must reimagine, redesign and evolve their operating model as digital operations mature. Operating model success in the future involves decisions about scope, modality and placement of work that leverages organizations' centers of excellence, customer-facing business units, the role of global business services (GBS) and strategic partnerships.

The pandemic and recent economic challenges have led to a major rethink of where work can be done. In The Hackett Group's 2023 Key Issues Study, 30% of finance executives projected an increase in insourced (previously outsourced) work, and 53% projected an increase in the volume of work moving to captive-only, low-cost locations. This is driving renewed interest in GBS and shared services strategies, which can deliver tangible cost, productivity, quality and customer service benefits (**Fig. 5** on page 20).

Furthermore, in the GBS Performance Study, 68% of executives said the GBS organization adds some or significant value in working capital – over and above cost, productivity, quality, and customer service improvements.

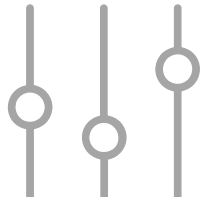
FIG. 5 Finance improvements achieved within GBS organizations



Source: Global Business Services Performance Study, The Hackett Group, 2022

# 5

## End-to-end process design and ownership



The expected pace of transformation and deployment of new capabilities underscores the importance of end-to-end process design and ownership within finance.

In The Hackett Group's 2023 Key Issues Study, finance executives cited process complexity as the No. 3 impediment to successful finance transformation, behind only funding/resources and skills deficiencies. When a process is executed in a piecemeal fashion, it is not only more expensive; it also undermines the ability to respond quickly to changes in business conditions or stakeholder needs. Dedicated global process owners oversee and govern the process, data, and technology capabilities from start to finish and, therefore, can spot bottlenecks and make changes more easily. Digital World Class<sup>®</sup> finance organizations are ahead of peers in this regard. For example, they are 74% more likely than peers to have an end-to-end general ledger accounting/consolidation process with a dedicated owner.

Customer-centricity must be at the forefront of end-to-end process design, and finance organizations must have the requisite skills to enable it.

# 6

## Talent management



Retaining talent and skills is among finance executives' top 10 priorities for 2023,<sup>1</sup> yet it is an area where they have the least confidence in their ability to deliver. Furthermore, only 8% have a major talent or skills-related initiative in 2023. If finance organizations want to ensure the talent necessary to achieve Digital World Class® performance, they must invest – urgently – in making sure professionals have the right skills, experience and motivations for their evolving roles.

Digital World Class finance organizations, again, are ahead. They have 41% of total staff in FP&A roles, compared to 31% for peers. Highly skilled business enablement leaders are at the core of this competency, which requires advanced analytical acumen to drive insight and technical IQ to deliver operational efficiencies through automation and digitization of work. It also requires skills essential to business partnering such as emotional intelligence, relationship management, innovation and change orientation.

This role also requires enhanced understanding of and alignment with business operations. Digital World Class finance organizations are 2.8X more likely to have professionals who hold some type of certification (e.g., CPA, CA). They are also 2.1 times more likely to have finance staff performance goals/expectations linked to the company's strategic plan.

<sup>1</sup> Key Issues Study, The Hackett Group, 2023

# An action plan for achieving Digital World Class®

While there is much uncertainty around us, we believe this is the time to be proactive and accelerate digital leadership. Companies that forge ahead with confidence will be best positioned to accelerate growth, gain market share and – yes – run more efficiently.

Most finance organizations still have work to do to achieve performance leadership. Rather than continuing to pursue incremental performance improvement, finance must focus on accelerating digital transformation and building an operating model designed specifically to perform at a top-quartile level. Here's how:

Pinpoint the value	Design the capabilities for capturing that value	Chart your Digital World Class journey
<p>Determine your most critical key performance indicators (KPIs).</p> <p>Benchmark performance for those KPIs.</p> <p>Assess the effectiveness and maturity of your current finance operating model.</p> <p>Identify and prioritize performance gaps – making these your key areas of focus.</p>	<p>Develop the KPIs required to meet business and finance objectives.</p> <p>Define the capabilities you need to develop to meet those objectives.</p> <p>Identify the digital tools and insight required to enable those capabilities.</p> <p>Determine the digital talent and culture needed.</p> <p>Collaborate with other functions to develop enterprisewide capabilities.</p>	<p>Prioritize desired capabilities based on current performance gaps.</p> <p>Plot those capabilities on a road map, prioritizing technology-led initiatives.</p> <p>Develop a conceptual design for your future digital finance operating model.</p> <p>Collaborate with the internal technology function to map a plan for technology enablement.</p> <p>Develop a journey map that outlines investments, benefits and resources required.</p>

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# Are you ready to close the gap to Digital World Class<sup>®</sup> finance performance?

Backed by our unparalleled benchmarking data and best practices repository, as well as experience across the full transformation life cycle, The Hackett Group is ready to support:

- Performance benchmarking and best practices
- Digital transformation strategy, smart automation and analytics
- Finance and global business services delivery model design, implementation, and optimization
- Talent management, skills and competencies, role definition, and career pathing
- Enterprise performance management and analytics
- Technology road map, cloud migration and modern architecture
- Master data management and architecture
- Transformation management office, change management and communications
- Sales, general and administrative cost optimization
- Working capital and cash acceleration

**Contact us to learn how.**

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World Class Defined and Enabled