

# FIFTY SHADES OF FP&A MATURITY



Anna Oblakova

March 2021


Recent technological advancements and constant changes in the business environment enable the finance function in general and FP&A teams in particular to adopt new ways of work, new practices, new tools to meet the needs of their internal and external customers.

Unfortunately, 75% of time of FP&A teams is still allocated to data gathering and process administration. Trying to balance between doing donkey work, performing ad hoc requests and meeting strict deadlines, FP&A professionals have no time left to reconsider the state of the FP&A function. These outdated practices and old-fashioned FP&A organizations can no longer coexist with modern realities which require the FP&A function to be focused on value creation.

From a strategic standpoint, FP&A capabilities to provide business insights and drive informed decision making can become a source of competitive advantage for the company. That is the reason why many finance and FP&A leaders are taking the steps to transform their functions: restructure processes, upgrade systems and tools, develop teams. The starting point in this arduous journey is to understand the current state of the FP&A function and then determine which way to evolve based on the existing, emerging and likely to appear requirements and expectations of the stakeholders.

This article describes the FP&A maturity assessment model focused on major tasks of the function (strategic planning and budgeting, forecasting, analytics, management reporting, performance management and decision support) and built around 3 key areas – processes, tools/systems and people. **To assess the level of maturity of your FP&A function a free high-level and easy to use tool is available for download** (Excel file which does not contain macros).

FP&A Maturity assessment model shown below comprises five stages representing evolution of FP&A: lagging, emerging, defined, progressive and visionary.

FP&A MATURITY ASSESSMENT MODEL					
					
1. LAGGING					
2. EMERGING					
3. DEFINED					
4. PROGRESSIVE					
5. VISIONARY					
PROCESSES AND FUNCTIONS					
Overall FP&A processes	No formal processes	Partially defined but inconsistent	Defined and documented	Standardized enterprise/group-wide	Fully defined, documented and optimizes
Planning processes	Annual bottom-up budget with focus on legal entities Highly manual	Annual budget with limited focus on business units Often require manual manipulations	Annual budgeting with focus on business units Mainly standardized with limited ad hoc activities	Driver-based rolling forecasting instead of annual budgeting Rely on IT	Data-driven dynamic forecasting aligned with strategic planning Fully automated
Forecasting	Mathematical forecasts	Manual, single-point estimates	Mainly standardized with limited manual adjustments	Rely on IT	Fully automated
Collaboration in planning/ forecasting	No collaboration	Minimal collaboration	Some elements of collaborative planning	Collaborative planning	Real-time collaborative planning
Analytics	Detective (identification and reporting of deviations)	Descriptive (What happened?)	Diagnostic (What and Why happened?)	Predictive (What will happen?)	Prescriptive (What should we do to make something happen?)
Performance management	No metrics (KPIs)	Many metrics exist but provide limited insight	Many metrics exist, most of them are useful	Established KPIs	Automated KPI management
Management reporting	Highly manual, book of records	Mostly manual, unstructured and inconsistent	Dashboards of different levels of automation, provide valuable insights	Right information to right people in right time and in right format	Self-service real-time information and insights
TECHNOLOGIES AND SYSTEMS					
IT systems	Minimal use of IT systems	IT systems are used but with high reliance on manual manipulations	Multiple IT systems, not all of them are/can be integrated	High level of IT systems integration, few systems allow real-time updates	Highly integrated IT systems used to provide real-time support to business
Tools	Predominant use of spreadsheets	Advanced use of spreadsheets	Combination of spreadsheets and dedicated FP&A software	Tending towards the use of dedicated software with limited use of Excel	Predominant use of dedicated tools with machine learning capabilities
Data	Manually sourced and manipulated siloed data	Highly fragmented data with lack of depth	Complete and accurate data available in timely manner	Complete and accurate data with limited possibilities of real-time updates and use of some external databases	Real-time available data from internal and external databases
BI	No BI tool, no practices to support BI implementation	Basic BI tool with limited number of users and fragmented projects	Defined BI tool widely used across the organization	Advanced BI tool intensively used to support business decisions	All FP&A processes are integrated with BI tool, BI is used to drive business strategy
PEOPLE AND SKILLS					
Image	Back-office function, recorder of the budget	Highly dependent on key individuals and is seen as the source of reporting	Reactive support of business delivering limited amount of valuable insights	Proactive support for business with valuable insights	Catalyst for change, active participation in elaboration of business strategy
Roles and responsibilities	Roles and responsibilities are not defined	Some definition of roles and responsibilities	Roles and responsibilities are clearly defined	Roles and responsibilities are clearly defined with some elements of business partnership	Roles and responsibilities are clearly defined, FP&A specialists act as trusted business advisors
Development plan	No plan for skills development	Lack of understanding what skills to develop	Skills development is limited to current needs and responsibilities	Talent improvement plan is established	Continuous talent improvement plan is followed
Skills to develop	Accounting and finance	Financial analysis, advanced Excel skills	Financial analysis, advanced Excel skills and knowledge of dedicated FP&A software, data analysis and visualization	Business acumen, dedicated digital technologies, scenario planning and analysis	Data science, business acumen, strategic thinking, interpersonal and communication skills, influence

As FP&A organizations can vary from one to another and differ significantly in size, scope, structure and culture, we understand that it is rather challenging to create one model that fits all this diversity. Moreover, the FP&A function encompasses many processes and activities which even within the same company can be positioned differently in terms of their maturity. Thus, every FP&A organization can simultaneously demonstrate attributes of several stages depending on the criteria of assessment and the focus of the provided services. Therefore, the overall result of the assessment may fall somewhere in between the proposed stages of maturity. Keeping this in mind, the main

goal of the model is to evaluate the capabilities and highlight the opportunities for improvement in various aspects of the FP&A function.

### ***Lagging***

At this stage of the maturity, the FP&A function or team is usually a part of other finance entities such as accounting, treasury or finance function in general, with roles and responsibilities that are not clearly defined and processes that lack formal description. Reporting, planning and forecasting exercises are highly manual, require significant efforts and are based on standard general ledger information. No or minimal IT systems are used with data sourced and manipulated manually which results in errors, further corrections and outdated information.

Lagging stage can be common to some recently founded startups and is characterized by the lack of formal FP&A structure, processes and procedures. However, some elements of the lagging stage can exist in mature organizations focused on accounting and reporting functions rather than on analytics or simply in the companies that prefer not to invest in the evolution of their FP&A functions. The positive side of this stage is that there are plenty of opportunities for improvement, so if you are an enthusiastic leader and recognize your FP&A function in the description, it is time to roll up the sleeves and get to work.

### ***Emerging***

At this stage the FP&A function is hardly supposed to be distinguished from the rest of the finance function. However, some core processes, such as budgeting and forecasting, are partially defined. This definition can be rather inconsistent as well as the description of team's roles and responsibilities mostly focused on generic finance activities. Annual budgeting is a bottom-up exercise and has some focus on business units in addition to legal entities. Reporting is mostly unstructured and inconsistent as data is highly fragmented. IT systems can be implemented, including a basic BI tool, but all processes mostly rely on the advanced use of spreadsheets.

Emerging stage is perhaps one of the most widespread or at least the one every FP&A organization passes at a certain period of development. Surveys show that 75% of organizations still rely on spreadsheets while preparing their budgets and plans, which results in various issues with functional constraints, data integrity, versioning, accessibility. The goal of the FP&A function at this stage of maturity is to proceed to the next stages as soon as possible to create and streamline core processes, enrich analytics and start to create value.

### ***Defined***

This stage is characterized by clearly defined and described roles, responsibilities and processes within the FP&A function which distinguish FP&A professionals from other members of the finance team. Planning, forecasting and reporting are focused on business units, are mainly standardized and partially automated based on the combination of spreadsheets and dedicated FP&A software solutions, including a widely used BI tool. Accurate and complete data contributes to generating valuable insights and providing strong analytics with an emphasis on what happened and why. Many metrics are included in the performance management system and the most of them are useful for the business.

Defined stage is the FP&A organization based on the established, proven standard practices that can support FP&A processes in their traditional forms. However, there is room for improvement in terms of talent development and the implementation of emerging best practices which will be more adjusted to modern needs, requirements and expectations.

### ***Progressive***

At this stage of maturity, the FP&A function adopts a range of advanced systems, techniques and tools to support its processes. Annual budgeting is replaced by a driver-based rolling forecast performed in a collaborative manner with a high reliance on integrated IT systems and a dedicated FP&A software. Getting rid of manual tasks, FP&A analysts have more time at their disposal to offer proactive support to business providing meaningful analysis and valuable insights. Analytics is focused on the future aiming to predict what will happen, model risks and opportunities. Reporting and established KPIs reach their users in the right time and right form to influence business decisions. A shift towards a business partnership model is supported by the talent improvement plan with an accent on the development of commercial awareness, business acumen, scenario planning as well as proficiency in digital technologies.

Progressive FP&A is characterized by using best practices in key processes of the function and tends to leverage technologies to bring value. In terms of automation of planning and forecasting processes, this stage of maturity is reached by less than 10% of FP&A organizations which confirms that most FP&A functions have a long way to go.

### ***Visionary***

At a supreme stage of the FP&A maturity, all processes are optimized, fully automated and integrated: self-service real-time planning and reporting aligned with business strategy, forward-looking prescriptive analytics based on the “what-if” scenario planning and machine learning capabilities. The FP&A function not only participates in the decision-making process but ensures strategic alignment and drives change. Continuous team development plan is followed and is

focused on data science, business acumen, strategic thinking, interpersonal and communication skills to support the role of FP&A professionals as trusted business advisors.

---

The development of the FP&A function is, undoubtedly, a long and hard journey which takes many years and requires significant investments in IT systems, tools and talent acquisition. However, not taking the path of transformation will lead to the FP&A organization falling behind the current and emerging needs of its stakeholders, missing the opportunities to leverage technological advantages and contribute to the business development.

References:

1. APQC, AFP Next level of FP&A study, 2019
2. Upping your game: Realigning the four faces of finance, Deloitte.

FPANDA CLUB is a blog about the finance function and its transformation, the latest trends in finance and secrets of FP&A practices.

For more information, please visit our website <http://www.fpandaclub.com> or contact us at [admin@fpandaclub.com](mailto:admin@fpandaclub.com).

#### AUTHOR

Anna Oblakova

Copyright © FPANDA CLUB 2021

All rights reserved. This article may not be reproduced or transmitted without the written permission of FPANDA CLUB. The information and opinions expressed in this article were prepared by FPANDA CLUB. This article does not represent any kind of advice and FPANDA CLUB accepts no liability for any damage arising from any action taken as a result of the information provided by this article or sources referred to in it.