Harvard Business Review
ANALYTIC SERVICES

RESEARCH REPORT

Driving Efficiency Through Modernized Financial Systems

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As businesses evolve and grow, they often face challenges in keeping their financial systems up to date. Take, for example, a successful company that started as a small business and has now become a thriving middle-market organization. While their operations and workforce have expanded significantly, their financial systems have struggled to keep pace with this growth.

As a result, the company finds itself caught in a tangle of outdated tools and manual processes. Employees grapple with these inefficient systems daily, which hinders their ability to make timely decisions and leads to frustrating errors that slow down progress.

This situation is not unique. Many middle-market organizations have found themselves in a similar situation in recent years. Economic, technological, and competitive forces have shaped the landscape, compelling these companies to prioritize revenue growth, new trends, and innovation. However, as the economic climate changes, the focus is shifting toward efficiency. Organizations are now actively seeking ways to improve processes, reduce friction, cut costs, and enhance both margins and the employee experience. A crucial area that is ripe for transformation is the financial infrastructure that supports functions such as accounts payable, expense management, travel management, and more.

Despite the vital role that financial systems play, many organizations find their current systems lacking in effectiveness. Inefficient workflows reduce productivity, leading to a greater need for manual intervention and resulting in poor decision making. Manual processes also increase the likelihood of mistakes and inconsistencies, ultimately eroding the employee experience. Fragmented financial systems further compound the problem, resulting in operational inefficiencies, higher maintenance costs, and data inconsistencies.

This report examines the current state of organizations' financial systems, identifies their pain points, and delves into the opportunities that modernized financial solutions offer. It also emphasizes the challenges organizations face when updating their financial systems and the factors they should consider as they explore and integrate these solutions. We believe that by addressing these issues, organizations can pave the way for a more efficient and effective financial infrastructure, which will ultimately drive their success in a competitive market.

Dan Skaggs
Head of Product
U.S. Bank

Driving Efficiency Through Modernized Financial Systems

For the past several years, a combination of economic, technological, and competitive factors has driven middle-market organizations to focus on revenue growth, new trends, and innovation.

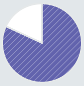
Today, however, organizations are shifting priorities. Companies are now emphasizing efficiency—identifying new ways to improve processes and reduce friction, pinpointing cost-cutting measures, and focusing on opportunities to improve margins and the employee experience.

"Not that long ago, we had the macroeconomic scenario where, at the top of the cycle, there was this real focus on prioritizing revenue growth at all costs," says Martin Koderisch, former principal at Edgar, Dunn and Co., a global consultancy specializing in payments and financial services, headquartered in San Francisco, and a current independent payments and financial technology consultant located in London. "There was a degree of tolerance to the lack of efficiency. But then as we entered a dip in the economic cycle, there was a shift toward actually driving efficiencies, addressing some of those internal bottlenecks, finding a balance between those factors, and focusing on revenue growth."

One area ripe for transformation that promises to deliver greater efficiency is the financial infrastructure that companies rely on for accounts payable, expense management, travel management, and more. In April 2024, Harvard Business Review Analytic Services conducted a survey of 440 members of the *Harvard Business Review* audience who are involved with their organization's decision making about financial systems and whose organization is headquartered (or has at least one location) in the U.S. with fewer than 10,000 employees. While 90% of respondents agree that financial systems are very important to their organization, just 37% say their organization's financial systems are very effective. These organizations are defined here as "leaders." Forty-five percent rate the effectiveness of their financial systems as somewhat effective, and these organizations are defined here as "followers."

HIGHLIGHTS

90% of survey respondents agree that **financial systems are very important** to their organization.



82% agree that having **modern financial systems is important** to organizations today.

37% say their financial systems are **very effective**.

Due to rounding, some figures in this report may not add up to 100%.

Seventeen percent rated their organization's financial systems as not very effective, and these organizations are defined here as "laggards."

Businesses are experiencing various challenges with their current financial systems that contribute to their lack of effectiveness. Credit card, expense, and travel management systems are outdated and poorly integrated. Inefficient workflows reduce productivity, resulting in more manual intervention and leading to poor decision making. Relying on manual processes increases the likelihood of mistakes and inconsistencies and erodes the employee experience. Having fragmented financial systems also leads organizations to experience operational inefficiencies, higher maintenance costs, and data inconsistencies.

"There's [economic] uncertainty now that demands a new level of agility," says Kevin Permenter, research director of financial applications at market intelligence firm International Data Corp. (IDC), based in Needham, Mass. "Businesses are looking at financial transformation as a way to fuel growth—even to push the top line—but definitely as a way to save on the bottom line."

The survey finds that 82% of respondents agree that having modern financial systems is important to their organization. Despite this strong sentiment, however, just 20% of respondents say their organization has recently modernized their financial systems. About a third (34%) are in the process of modernizing, while 31% have plans to modernize or are exploring options to modernize. Fourteen percent have not modernized recently. Leaders, however, are far more likely to have recently modernized (37%), compared to followers (13%) and laggards (1%). **FIGURE 1**

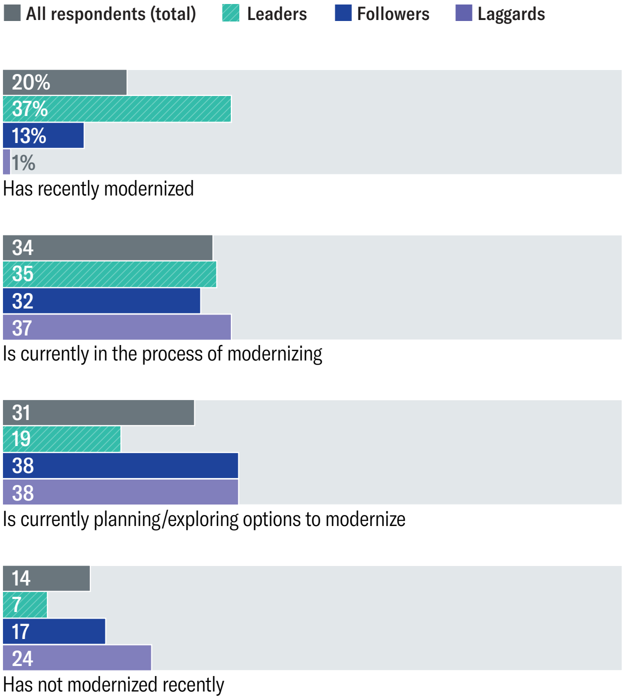
For organizations that seek to achieve greater efficiency, improved processes, better-integrated financial information, improved visibility, and enhanced decision making, modernized financial systems will be essential. This report will explore where organizations are today in this process, identify pain points they're experiencing with their current financial systems, and explore the opportunities that modernized financial solutions provide, including in the areas of travel, expense, and credit card management systems. It will also identify the challenges organizations are facing in updating their financial systems and the considerations organizations should keep in mind as they explore and integrate these solutions.

FIGURE 1

The Journey to Modernization

Most organizations are actively working to make their financial systems more effective

Which of the following best describes your organization's current status regarding modernizing financial systems? My organization...



Base: 440 respondents. Not shown: 0%–2% don't know, varies by segment.

Source: Harvard Business Review Analytic Services survey, May 2024

Driving the Need to Transform

The structure of the financial systems that many organizations rely on today is predominantly a result of their growth over the years—an amalgamation of bolted-on piecemeal solutions, clunky legacy systems, and various technologies acquired through mergers and acquisitions.

"When I think of today's financial systems, the words 'legacy' and 'fragmentation' come to mind," independent consultant Koderisch says. "There might be some fairly modern SaaS [software-as-a-service] platforms in there. There might be some legacy technology. But overall, these companies will have built a tech stack or a set of processes around their financial systems over time—and the current situation is typically a fragmented mishmash of systems."

These systems comprise a variety of components. Among the most common components organizations report using are spreadsheets (83%), accounting software (74%), financial reporting and analytics software (68%), expense management systems (68%), accounts payable systems (66%), and data analytics tools (62%). Notably, leaders are more likely to use data analytics tools (70%) than are followers (62%) and laggards (43%). Leaders are also more likely to use compliance and risk management systems than are followers (40%) and laggards (24%). Conversely, laggards are more likely to use spreadsheets (89%) than are leaders (78%) and followers (84%).

Indeed, fragmentation is one of the top challenges organizations are experiencing with their current financial systems, cited by 60% of respondents. Other top challenges include inefficient workflows (61%), reliance on manual processes (60%), a lack of integration between different financial systems (56%), and poor user experience (45%). **FIGURE 2**

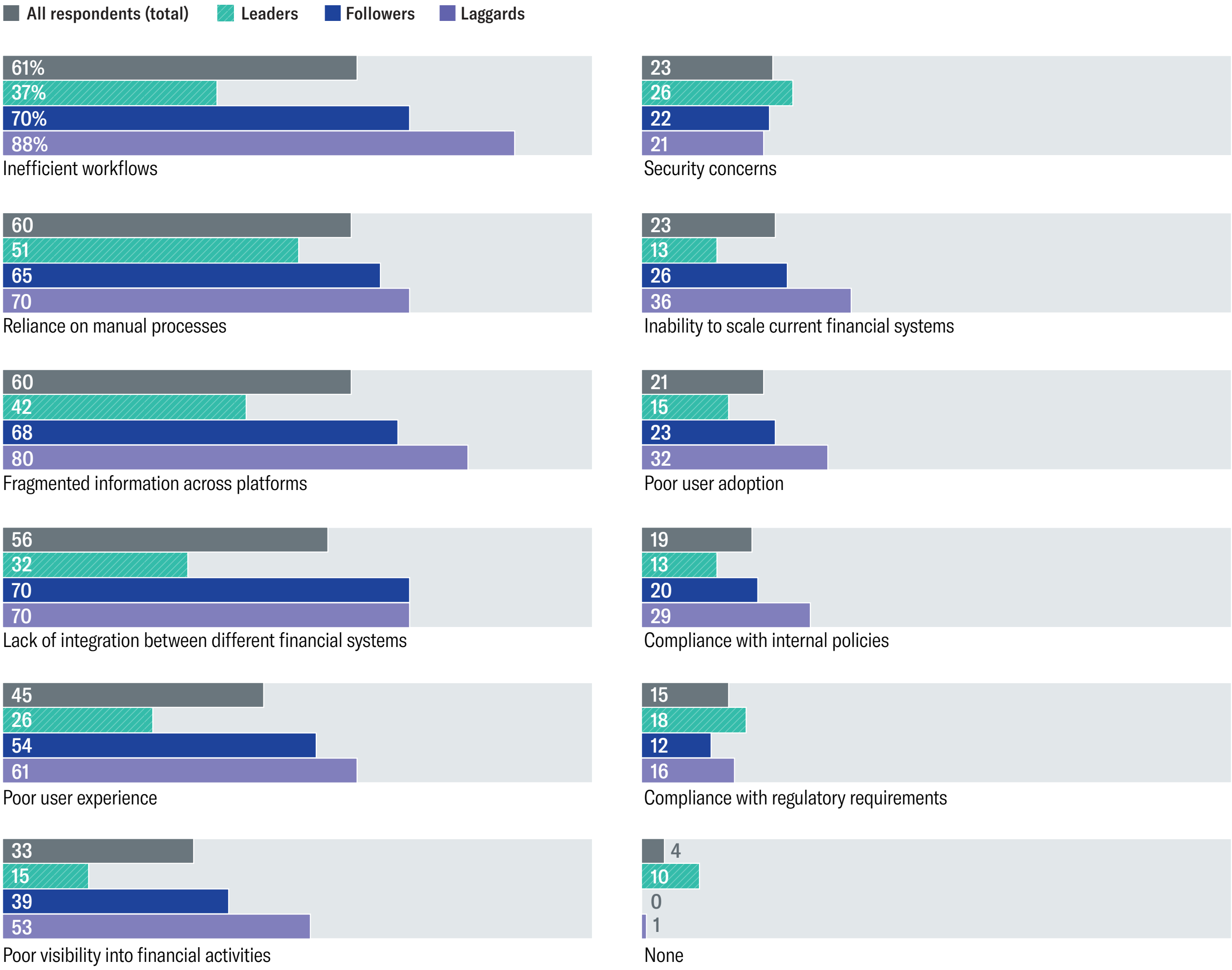
For some organizations, these challenges stem from evolving business models or mergers and acquisitions, says Ben Wildman, partner at The Berkeley Partnership, a management consultancy based in New York City. "Fragmented systems landscapes can be common where businesses have to deal with disruptive events—such as moving to digital, transitioning to new ways of charging or recognizing revenue, or mergers and acquisitions where businesses just don't take the time to integrate systems," he

FIGURE 2

Financial Systems Challenges

Organizations are plagued by inefficiencies, poor integration, and poor user experience

What challenges is your organization experiencing with its current financial systems? *Select all that apply.*



Base: 440 respondents. Not shown: 2%–3% other, 1%–3% don't know, varies by segment.

Source: Harvard Business Review Analytic Services survey, May 2024

> "Businesses need to make decisions instantly, which means they need instant data and very rapid processing of financial information. This isn't a nice-to-have anymore—they'll lose out on competitive opportunities in the marketplace, on good strategic decisions," says Will Tate, partner at GoldSpring Consulting.

says. "There are a number of reasons why these systems have grown complicated and, in some cases, unwieldy."

The survey demonstrates the prevalence of challenges organizations face, particularly among followers and laggards. When asked how well their financial systems integrate with other systems, just 23% of followers and 6% of laggards say their systems are integrated well, compared to 73% of leaders. The survey shows comparable results regarding the ease of use of financial systems: Only 25% of followers and 13% of laggards indicate that their financial systems are intuitive, compared to 71% of leaders. Likewise, only 34% of followers and 12% of laggards are operating modern systems, while 81% of leaders are doing so. Leaders are more likely to have modern financial systems that integrate well with other systems and are easy to use.

Among respondents whose organizations have not recently modernized their financial systems, a variety of barriers are preventing their organization from doing so. The top reasons cited are budget/cost constraints (60%), a lack of focus on modernizing due to other priorities (51%), a lack of executive buy-in (41%), possible disruptions to operations and productivity (40%), and concerns about data migration challenges (35%).

There are other factors, too, that play into these organizational and strategic barriers. Traditionally, finance has been viewed as a back-office function and not a revenue-generating function, and thus these transformations and investments are pushed to the back of the queue, Koderisch says.

Some businesses plug along with outdated systems simply because they work, says Will Tate, partner at GoldSpring Consulting, a business travel and meetings consultancy based in Dallas. "[Modernizing financial systems] is a bit like fixing the plumbing in a house. If it breaks, you have to fix it, but unless it's broken, it's not a top priority," he says.

This lackadaisical mindset is often a product of the company's culture, IDC's Permenter adds. "People develop favorite tools. They don't want to learn new ones because what they have works just fine—you just have to kick it twice and spin it around," he says. "They know what they have works—they don't know that a new one is going to work."

For other businesses, choosing not to modernize is a matter of overvaluing the time, effort, and money they've historically put into building and maintaining their systems. This mindset is also known as the "sunk cost fallacy"—a notion that makes decision makers reluctant to abandon a strategy or course of action because they have invested heavily in it, even when it's clear that abandonment would be beneficial, says Lauren Cohen, professor in the finance and entrepreneurial management units at Harvard Business School in Boston.

"That's essentially what you see happening—these firms have these huge legacy systems built up in a way that if they were to restart today, they certainly would make different decisions," he says. "If you were to put a number on the adjustment cost and say, 'Gosh, if you could just snap your fingers and have this better system and pay this cost, would you pay it?' they would all say yes—and yet they don't."

These standpoints and mindset can be detrimental to the financial organization and business at large, GoldSpring Consulting's Tate warns. "The speed of business is faster today than it's ever been. And when you're making financial decisions on data that might be old, you've already missed the boat," he says. "Businesses need to make decisions instantly, which means they need instant data and very rapid processing of financial information. This isn't a nice-to-have anymore—they'll lose out on competitive opportunities in the marketplace, on good strategic decisions."

Portrait of Modernized Financial Systems

Modernized financial systems possess key characteristics that distinguish them from traditional systems. They're designed to enhance efficiency, the user experience, and overall functionality. Modern financial systems support digital environments rather than relying on paper and PDFs. They also equip users to shift from processes like manual invoicing toward functionalities like digital payments and digital invoicing. Finally, they incorporate automation capabilities, which are designed to seamlessly integrate with other technologies and systems, and provide robust analytics and reporting tools that offer deep insights into financial data.

The survey finds that respondents from organizations that are planning to modernize, are currently modernizing, or have recently modernized seek real-time analytics/reporting capabilities (45%), cost-effectiveness (40%), ease of integration (39%), automation capabilities (32%), and ease of use (27%) as the top attributes in modernized financial systems. **FIGURE 3**

Gerry Tsoukalas, associate professor of information systems at Boston University, says it's unsurprising that these are top priorities for organizations. "They have legacy systems that are not integrated and not talking to each other," he says. "They lack a seamless flow of information across different business functions. As a result, businesses are losing a lot of time because of preventable mistakes, and this can be very costly. With the right tools, they could do significantly better."

Analytics in modernized systems should be highly configurable and visual, Permenter says. Data should quickly flow in and out, enabling businesses to make decisions quickly. "Systems that are built for the modern world need to be fast on both ends so accounts payable, FP&A [financial planning and analysis], and legal all know exactly what's happening and can quickly access the data they need," he says. "You can't have infrastructure that doesn't allow for this level of urgency and speed anymore. The world those systems were built for just doesn't exist anymore."

Most organizations today are looking for a unified solution. Among respondents whose organizations are planning to modernize or have recently modernized their financial system, two-thirds (67%) agree that an all-in-one solution is desired when their organization is modernizing its financial systems. Forty-nine percent of respondents agree that their organization is seeking outsourced solutions for modernizing financial systems.

All-in-one solutions may appeal to businesses because they make convergence easy—a concept in which various financial services, technologies, and platforms are unified into a cohesive, seamless system where decision makers can see areas like expense management, travel, payroll, accounts payable, and procurement in one solution, Permenter says. Convergence is key because it reduces the time to insight.

"That insight is what your CFO, CEO, or the board is going to use to steer the business. That insight can come from those thousands of invoices, and it's the process distance, time distance, and sometimes even the physical distance that determines how fast you can get those insights to the decision maker," Permenter says. "Convergence isn't just something that makes someone's job a tiny bit easier—it really does drive things that are super critical, like resiliency and agility."

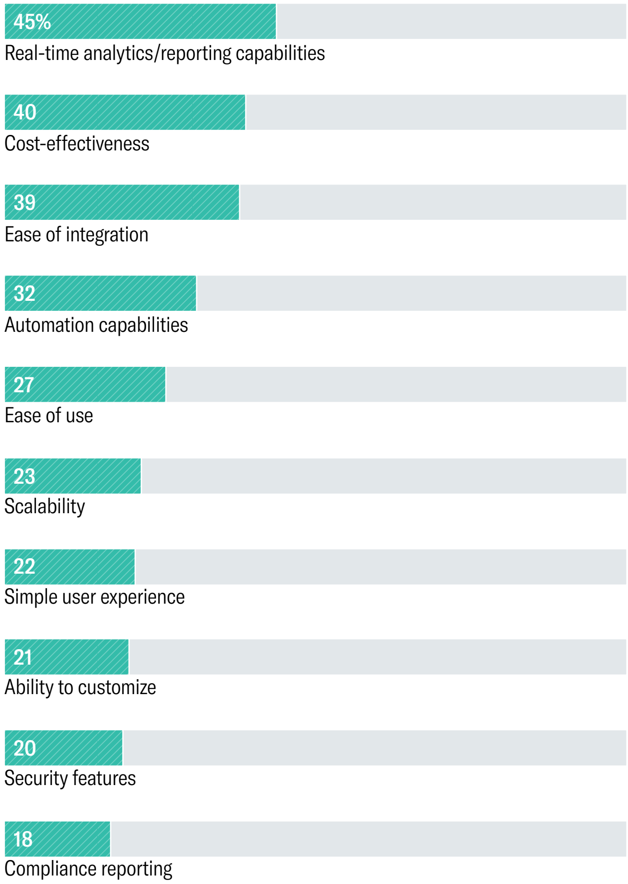
To support resiliency and agility—and to support flexibility as the organization grows—modernized financial systems should also be cloud-based, Harvard Business School's Cohen says. "It's not the system that's the largest or the strongest; it's the system that's most able to adapt that will win the day," he says. "If anything, we're learning that tools continue to be developed at an increasingly fast pace, and you need your system to be able to integrate them."

FIGURE 3

Characteristics Sought in Modern Financial Systems

Organizations prioritize real-time analytics, cost-effectiveness, and ease of integration

What characteristics does your organization look for most in modern financial systems? *Select up to three.*



Base: 371 respondents who say their organization is planning to modernize/currently modernizing/recently modernized.
Not shown: 2% don't know, 1% other, 0% none.

Source: Harvard Business Review Analytic Services survey, May 2024

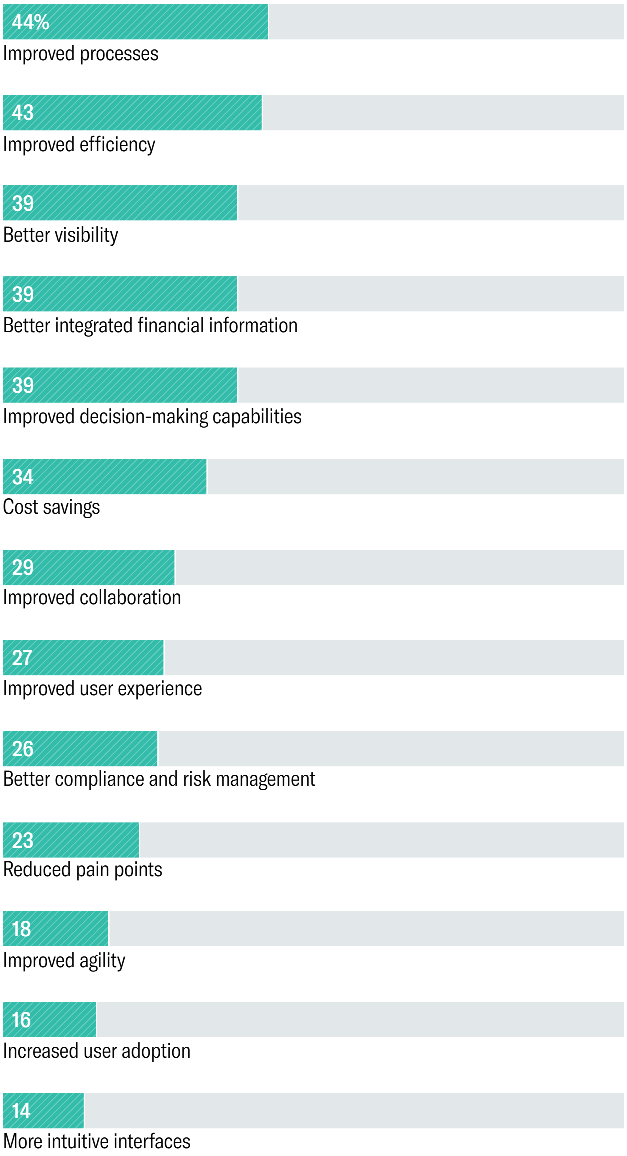
Organizations have certain priorities for integration requirements, too. Respondents from organizations that are modernizing or have modernized cite integration with other business systems (54%) as the top requirement, followed by workflow orchestration (32%), real-time data exchange (28%), and robust security and data privacy (25%). Leaders, however, are more likely to say a top priority is robust security and data privacy (36%) than are followers (21%) and laggards (12%).

FIGURE 4

The Benefits of Modernization

Organizations realize improved processes and efficiency the most from modernizing financial systems

What benefits has your organization achieved by modernizing financial systems? *Select all that apply.*



Base: 228 respondents who say their organization is in the process of modernizing or has recently modernized its financial systems. Not shown: 3% don't know, 2% none, 1% other.

Source: Harvard Business Review Analytic Services survey, May 2024

Given these priorities, respondents from organizations that are modernizing or have modernized say the top outcomes sought include improved decision-making capabilities (49%) and better-integrated financial information (46%). Respondents are also hoping their organization realizes improved efficiency (35%), improved processes (32%), cost savings (25%), and better visibility (25%).

"Companies that have modernized and have a very automated end-to-end system really do reap many benefits," Koderisch says. "They are able to serve their customers better and serve the employees better, which leads to a greater level of efficiency and cascades down to greater revenue growth."

Realizing the Benefits of Modern Financial Systems

In business today, organizations need to make informed decisions quickly. Take, for example, a construction company that owes $1 million to a distributor for a lumber order. In the past, this company may have paid the invoice upon receipt and limped along financially until receivables caught up.

Since modernizing its financial systems, however, this construction company can make more informed decisions. Cash flow management software provides the organization with data on cash positions and future cash needs, which ensures that the company maintains adequate liquidity. Smart budgeting and forecasting tools adjust budgets based on current financial conditions and future projections so the company is prepared for upcoming financial obligations. Automation capabilities within accounts payable also ensure that payments are made on the last possible day to maximize cash flow without risking late fees or penalties.

Though this scenario is a hypothetical example, its potential is very real. "Companies can have so much more control inside their accounting processes than ever before because they have better solutions, better technology, and better platforms that let you do things differently," Permenter says. "This is how you improve productivity and efficiency."

Indeed, among respondents whose organizations are modernizing or have recently modernized their financial systems, many say their organization has achieved several benefits. These benefits include improved processes (44%), improved efficiency (43%), better visibility (39%), better-integrated financial information (39%), improved decision-making capabilities (39%), and cost savings (34%). **FIGURE 4**

Visibility into real-time analytics and reporting capabilities, as well as better-integrated financial information, might benefit an organization operating a complicated supply chain, Boston University's Tsoukalas says. "Understanding the flows of product, money, and information is crucial. If you have an integrated system where you can keep track of these simultaneously, it leads to better forecasting in how

“Companies can have so much more control inside their accounting processes than ever before because they have better solutions, better technology, and better platforms that let you do things differently. This is how you improve productivity and efficiency.”

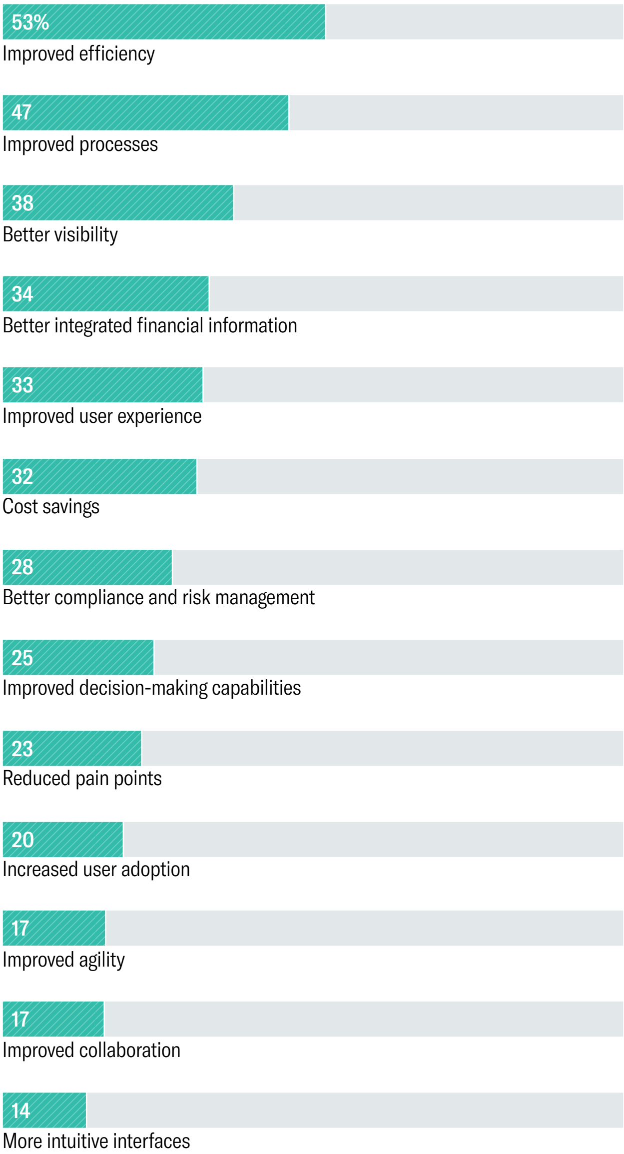
Kevin Permenter, research director of financial applications at market intelligence firm International Data Corp.

FIGURE 5

Improving Efficiency and Processes

These are top outcomes of integrating credit card, expense, and travel management systems

What outcomes has your organization achieved by integrating its credit card, expense, and travel management systems? *Select all that apply.*



Base: 263 respondents who say their organization has integrated or are working toward integrating credit card, expense, and travel management systems. Not shown: 0% other, 5% none, 6% don't know.

Source: Harvard Business Review Analytic Services survey, May 2024

you create orders on one side, lets you effectively detect potential disruptions and anomalies and improve forecasts of customer demand on the other side," he says. "The more relevant data you can collect, the better—but it has to be integrated into a centralized system."

Automation also constitutes a promising area for financial transformation. Automation capabilities not only help improve processes and efficiency but also can result in a better employee experience, explains Koderisch. "When you automate, you're focusing on repetitive, low-risk tasks, which relieves employees to focus on more strategic topics," he says. And while Koderisch acknowledges that improving the employee experience isn't often a core consideration for modernizing because its ROI is difficult to quantify, many businesses still reap the benefits.

"So many CFOs are having trouble managing turnover, and it's because staff is under tremendous pressure and using outdated technology and manual processes that make their jobs more difficult," Permenter adds. "Some companies have made updating their systems a priority not only because of the efficiency and productivity gains but because it was worth it for them to stop paying overtime to their accounts payable staff, particularly toward the end of the month."

The sum of these benefits results in an enduring advantage, Permenter says—the elevation of finance from a back-office function to a business partner. "The business needs finance to be more forward looking and become a true partner in a higher value-add way," he says. "Updating your systems is how you make that happen."

Modernizing Credit Card, Travel, and Expense Management

While modernizing financial systems is critical for improving decision-making capabilities, processes, and efficiency, three areas stand out as priorities and areas of opportunity for modernization—travel management systems, expense management systems, and credit card systems. Overall, 33% of respondents say their organizations have integrated these systems, while 27% say their organization is working toward integrating them.

Respondents whose organizations have integrated these systems or are working toward integrating them see improved efficiency (53%) and improved processes (47%) as the top two outcomes, followed by better visibility (38%), better-integrated financial information (34%), and an improved user experience (33%). **FIGURE 5**

"These areas are very much ripe for updating," Koderisch says. "Companies are transitioning from what was a conventional use of corporate credit cards to new solutions that are digitized." Traditionally, he says, employees were issued a corporate credit card or instructed to use their own. When they made

While modernizing financial systems is critical for improving decision-making capabilities, processes, and efficiency, three areas stand out as priorities and areas of opportunity for modernization—travel management systems, expense management systems, and credit card systems.

a purchase, they'd collect a receipt and submit it alongside an expense sheet to an administrator in finance who would process it. Eventually, the employee would be reimbursed in the next cycle.

Today, organizations can issue virtual cards that employees store in their smartphone's mobile wallet, or employees can upload and store the details from their physical card. These company-issued credit cards integrate with the business's expense system, which allows employees to upload either a photo of the physical receipt or a digital receipt and then categorizes the purchases automatically. Virtual cards also include controls that the employer can set to restrict their use, personalize spending limits, and determine where and how they're used, Koderisch says.

The primary benefit of streamlined processes and integrated systems, of course, is data and analytics. "When everything is digitalized and there's a transaction trail—that's data that can be collected and reviewed," he says. Ultimately, that data collection gives organizations greater visibility and insight into what's really happening in the business.

Integrating travel management systems, expense management systems, and credit card systems can, for instance, help businesses save money by negotiating rates. If employees are purchasing prepaid boarding, seat selection, and Wi-Fi, for example, that data doesn't come through the travel management system—it's appearing in the credit card and expense management systems, Tate says.

"Some airlines might offer bundles for these expenses, so if employees are buying those things, businesses need to know so they're recognized for the spend they give to the airline," he says. "When businesses understand what they've actually spent with a supplier, they can negotiate better and create better wins."

Another benefit of integrating these systems is the ability to surface quick insights and make fast decisions, Tate says. Without integrated systems, travel data can take up to 30 days to surface. If data is from disparate sources, it must be scrubbed and standardized to ensure consistency when consolidated. If data is from one ecosystem, however, business leaders can access data instantly, Tate explains. Integration streamlines the processing of travel data from disparate systems, such as spend on travel and lodging, and allows organizations to make decisions in real time.

Data from these integrated systems can also be used to improve the employee experience. Traveler A, for example, may prefer to return on red-eye flights, while Traveler B prefers to fly in the morning. Traveler A might prefer to stay at a hotel near the airport to make the commute to their flight shorter, while Traveler B might prefer to stay closer to the client they're visiting.

"The idea is to connect the dots on systems and create an experience that's unique and different that employees won't get elsewhere," Tate says. "These areas have a very high level of dissatisfaction—and the greatest opportunity to improve satisfaction."

Challenges During Modernization Efforts

Modernizing financial systems is an inherently complex and lengthy process that can present a variety of challenges. Understanding these potential challenges helps organizations proactively plan for them.

In organizations that are planning to modernize, are modernizing, or have recently modernized their financial systems, respondents say budget/cost constraints (48%) and data migration challenges (47%) are the top challenges. **FIGURE 6**

Budget/cost constraints also ranked as the top barrier preventing organizations from modernizing financial systems, with cost-effectiveness ranking as the second-most-common characteristic that organizations look for most in modern financial systems.

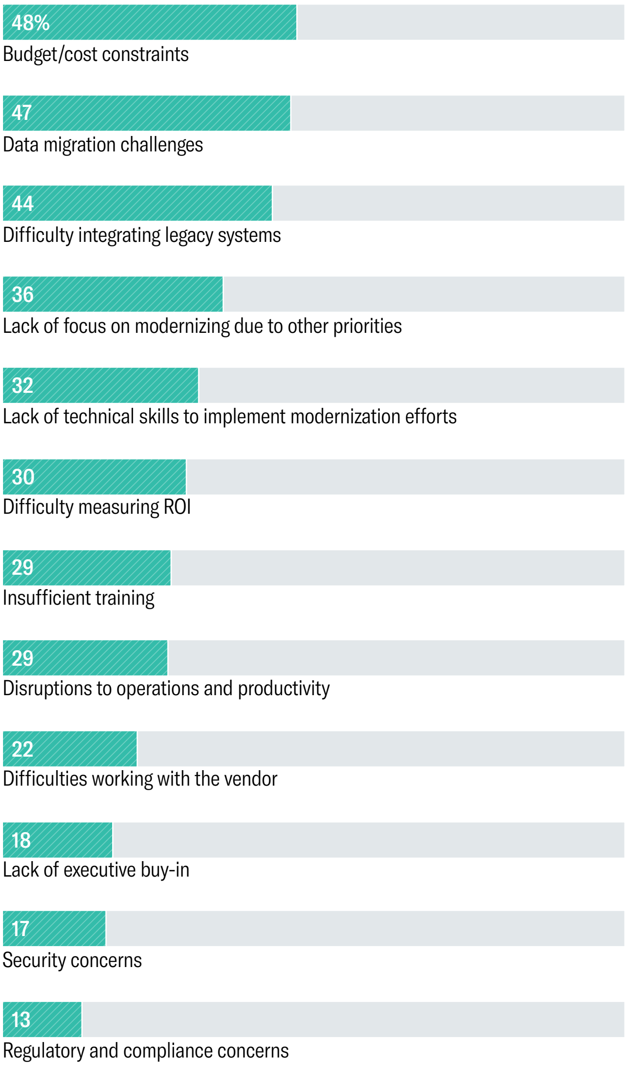
New financial systems do require investment, but some factors—including cloud computing—have made these initiatives more accessible than they were in the past, says Michael Bayer, adjunct lecturer in the finance division at Babson College in Wellesley, Mass. Cloud-based financial systems typically have lower initial costs than do traditional on-premises systems because they don't require significant investments in hardware infrastructure. Subscription-based or pay-as-you-go pricing models also allow businesses to absorb the cost over time rather than make large capital expenditures.

FIGURE 6

The Difficulties of Modernization

Budget and data migration top the list of challenges in modernizing financial systems

What challenges has your organization experienced in modernizing its financial systems? *Select all that apply.*



Base: 371 respondents who say their organization is planning to modernize, is currently modernizing, or has recently modernized its financial systems. Not shown: 2% don't know, 1% none, 1% other.

Source: Harvard Business Review Analytic Services survey, May 2024

"Cloud and SaaS give users a front-row seat in a way they never had in the old world, in which implementations were entirely driven by IT," Bayer says. "IT would go out and get specifications, and when they bought a system, it was basically a pile of Legos that they threw on the floor and had to build themselves. That's not the case anymore. If your controller is spending time customizing and configuring a system, that's an expensive use of time."

And while most respondents (79%) agree that modernizing financial systems requires a significant financial investment, more than half (59%) agree that by modernizing its financial system, their organization has saved more money than expected.

Given the state of many financial systems today—in which systems are fragmented and siloed—it's not surprising that data migration and integration difficulties rank high as challenges, Permenter says. "Integration is a thorny, thorny issue," he says. "It's just one of those things where even if everything is well built, it can still be super slow, particularly if you're using older [application programming interfaces (APIs)]." The survey finds that followers and laggards (both 70%) are more likely to be challenged by a lack of integration between different financial systems compared to leaders (32%).

To help address the difficulties of integrating disconnected financial systems, Permenter says, organizations should consider pre-built connectors for their enterprise resource planning. "The pre-built aspect means the software vendor has taken the ownership of building out a specific and targeted API set. They're keeping it up to date and in alignment with a specific vendor and software," he says. "They'll take care of any updates or rework that needs to be done. It also means you won't have to hire someone to build it for you or take time away from your IT team."

Two other challenges organizations are experiencing in updating their financial systems are a lack of focus on modernizing due to other priorities (36%) and a lack of technical skills (32%). Laggards are more likely to face these challenges than are leaders (53% versus 24%, respectively, when it comes to lack of focus; 45% versus 22%, respectively, regarding a lack of technical skills).

Modernization efforts can become quite challenging and bureaucratic when organizations aren't on the same page, Koderisch says. "When these projects are developed, it requires senior leadership to review and make decisions," he asserts. "If you're not internally organized, and if people aren't prioritizing this, the whole process can really be a drain and take too long."

Similarly, some organizations underestimate the IT skills and expertise necessary for a modernization undertaking, Koderisch adds. Couple those issues with an IT skills shortage across industries, and it's easy to understand why modernization is a challenge from an IT perspective.

> "When these projects are developed, it requires senior leadership to review and make decisions. If you're not internally organized, and if people aren't prioritizing this, the whole process can really be a drain and take too long," says Martin Koderisch, former principal at Edgar, Dunn and Co.

"You're investing in a technology, and when you deploy it, you need the actual IT expertise. A lot of companies just don't have the skill set to be able to develop the technology that they want," he says. "There's a real IT skills shortage, not only in terms of the availability of those skills but also [in terms of] the cost of hiring those skilled developers. The best developers are expensive, but they're also the most efficient, and they're in short supply. That's a real constraint for mid-cap companies."

Without planning for the right talent and skill sets, the challenges can magnify—organizations can experience difficulties configuring and deploying new systems effectively, encounter integration failures and system downtime, and face data migration challenges—all of which are costly and can impact budgets.

Taking Action

Organizations today are continuing to plan for future financial system modernizations. Forty percent of respondents say their organization is planning to modernize in the short term, while 43% plan to modernize in the long-term future, regardless of whether they have recently modernized or are currently modernizing. Just 11% say they do not anticipate modernizing. Furthermore, the priority placed on financial transformation is reflected in organizations' budgets. Eighty-three percent of respondents say their organization is increasing or keeping their investment in modernizing financial systems the same over the next year.

As organizations begin to assess and plan for the modernization of financial systems, there are several things they should consider.

Set ambitions and objectives. Organizations must be clear on what they want to achieve in a financial transformation, The Berkeley Partnership's Wildman says. "Is this a finance efficiency play? Is this just a must-fix technology platform? Is it about an organization redesign or transition to a shared service center? There is a range of drivers and ambitions that organizations can go into this with, and it's very important to be clear about it up front," he says.

It's also important to assess the scope of the project to understand where the boundaries lie, even though the scope may evolve as the project progresses, Wildman says. "Are you just looking within the boundaries of finance? Are you looking at procure-to-pay and your supply chain, as well? Are you talking billing? How big of a piece are you biting off?"

Many organizations tend to skip this due-diligence phase, Tsoukalas adds. "There's a history of companies investing heavily in digital transformation with little return," he says. "You need to have a strategic view of the company and consider whether this really makes sense. What's your business model, and what role could digital play in that model? If you don't have a clear vision, it's unlikely to work."

Gather the right leadership and build the will. Organizations need the right blend of finance and technology leadership to sponsor the modernization program, Wildman says. A cross-functional team from the impacted business units should be involved. "These projects can quickly get expensive when third parties come on board and you move into delivery mode with a large team, so take time up front with your talent to think about who should be involved, how to grow your team, and where you might have talent gaps. Also think about addressing how business-as-usual activities are undertaken when a resource is potentially redeployed to the program," he says. "I can't stress enough the importance of doing sensible and measured foundational and mobilization steps so the organization stays in control as it grows the team."

Building the will, Wildman says, is about ensuring that the organization has a compelling case for change, that it's organized around people to ensure you have the right leadership and commitment, and it's documented in a way that people can understand the costs, benefits, and drivers, and what the future state will look like compared to the current state.

"The success of these implementations nearly always comes down to the people and the effort you invest in getting the right people involved with it," Wildman says. "In implementations that go well, businesses put their most talented people on it. They understand how important it is to make compromises with their operation to get the right people involved, and they give it the time and attention it requires to get it right."

Choose the right technology for your requirements. Develop a list of functional and nonfunctional requirements

By updating, streamlining, and centralizing financial systems, organizations stand to realize a multitude of benefits.

across the stakeholders that will be affected by the modernization, Wildman advises. This list may reach hundreds of items. "You need to know up front the things that are critical for your organization and that you have to get right so you can put them out there with a vendor and say, 'We want to see them demoed in a way that makes sense to us and with our information, our data. We don't want to see PowerPoint slides on this; we want to see how you'll bring this to life.'" This strategy can give organizations a good sense of whether a vendor can meet their needs.

Permenter says it's also worthwhile to investigate the number of partner companies in a vendor's ecosystem. "You want to see that these companies have already taken the time to establish those connections and bring those companies into their ecosystem," he says. "It's the difference between having to build an app as opposed to just going to the app store, for example."

Scalability is another consideration as organizations explore solutions, Babson College's Bayer says. "I've never seen a company succeed only because it had the best system in the world, but I've seen plenty of companies blocked by an inability to manage their growth and deploy the systems they needed in order to facilitate that growth," he says. "It might cost you a little bit more or take a little more time to get the right system in place, but ultimately the systems should serve the human resources and not the reverse."

Focus on change management. Organizations should focus on change management throughout the process—not just once the solution is deployed, Koderisch says. The people affected by these changes and the ones using the tools need to feel involved from the start. "Think through how you can involve people in the whole process in an efficient manner without becoming overburdened," he notes. "This is important to get end-user adoption so they feel as though they've bought into the solution from the beginning."

Success in change management depends on the company's culture and appetite for change, Permenter adds. "You're talking about changing your most precious information—your financial information—so there's a tendency to be cautious. Are people being told they have to change, or are they the ones wanting the change?" he says. "Unless you manage that, you're going to be spinning your wheels."

Conclusion

Most organizations today are experiencing a wide range of challenges with their current financial systems. These systems are products of the company's growth—often a stitched-together hodgepodge of inefficient and fragmented tools that require too much manual intervention, provide a lackluster user experience, and offer poor visibility into financial activities. As a result, these organizations aren't capitalizing on their productivity potential. Instead, they are coping with inadequate speed in decision making, navigating an increased likelihood of errors, and contending with overall operational inefficiencies.

For companies to overcome these challenges, modernization is key. By updating, streamlining, and centralizing financial systems, organizations stand to realize a multitude of benefits—greater efficiency, improved processes, better-integrated financial information, improved visibility, enhanced decision making, and an improved employee experience, for example. These benefits are seen across travel, credit card, and expense management systems, too—areas of opportunity that are ripe for modernization. To succeed in today's ultracompetitive business landscape, achieving these advantages is critical.

"The efficiency gains that organizations will see are starting to outweigh the comfort of sticking to the systems they have," Harvard Business School's Cohen says.

As with any major modernization effort, there are challenges that some organizations will need to overcome throughout the process. For some, those barriers—cost constraints, lack of focus, inadequate executive buy-in—are enough to suspend any action on modernizing financial systems. For others, challenges like data migration disruptions and difficulties integrating legacy systems surface as the business progresses through its modernization project. Awareness of these challenges—and understanding how to overcome them—is key to success.

Despite these barriers, however, companies can reap significant rewards from sacrificing the familiar comfort of their old financial systems and embracing modernization. "Organizations are realizing that they can no longer survive as a business and can no longer compete with the old, outdated systems they have," Cohen says. "These new systems are so much more efficient and less costly that this is no longer a nice-to-have—it's a need-to-have."

METHODOLOGY AND PARTICIPANT PROFILE

Harvard Business Review Analytic Services surveyed 440 members of the *Harvard Business Review* audience via an online survey fielded between April and May 2024. Respondents qualified to complete the survey if they are involved with their organization's decision making about financial systems and whose organization is headquartered (or has at least one location) in the U.S. with fewer than 10,000 employees.

Size of Organization

46%
1,000–9,999 employees

16%
500–999 employees

29%
100–499 employees

10%
50–99 employees

Seniority

44%
Executive management/ board members

32%
Senior management

16%
Middle management

8%
Other grades

Key Industry Sectors

21%
Technology

10%
Education

10%
Consulting services

9%
Government/ not for profit

9%
Manufacturing

9%
Financial services

All other sectors less than 8% each

Job Function

18%
Finance/risk

14%
General management

11%
IT

10%
Operations/ product management

All other functions less than 8% each

Regions

65%
North America

15%
Europe

11%
Asia Pacific

5%
Latin America

5%
Middle East/Africa

Figures may not add up to 100% due to rounding.

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