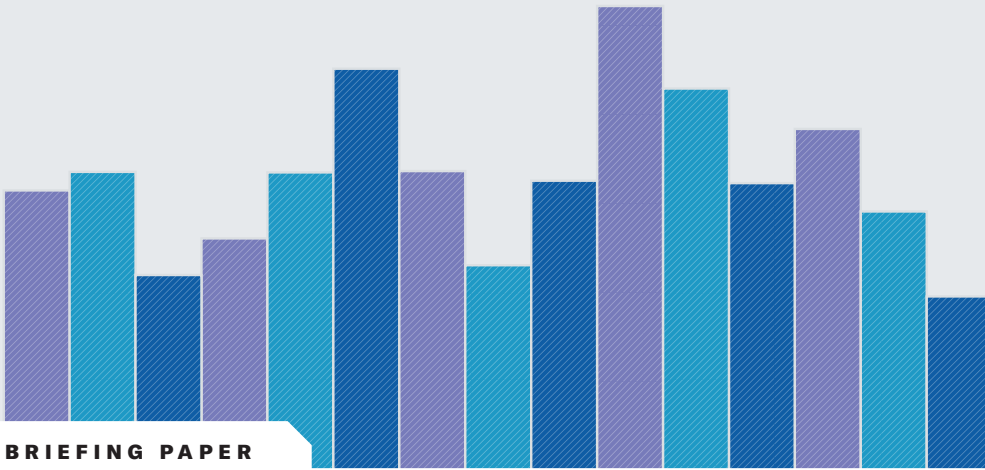




**Harvard  
Business  
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ANALYTIC SERVICES



**BRIEFING PAPER**

# Transforming Finance to Spur Business Growth

A Blueprint for Small and Medium-Sized Enterprises  
to Revolutionize Their Finance Functions and  
Overcome Hurdles



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The recent pandemic has disrupted almost every sector and every business, from small shop owners up to large corporations. We suddenly found ourselves in a world where automakers are building health care equipment and luxury goods makers are producing hand sanitizer. In particular, smaller businesses have been forced into sudden survival mode and challenged to adjust to continually unpredictable dynamics.

On the one hand, smaller and fast-growing businesses usually own the necessary flexibility for fast adaptation and adoption. But on the other hand, they have an amplified need for managing cash flow, marshalling resources to ensure quality and efficiency, assessing and mitigating risk, and coordinating business continuity plans across the entire organization. Or, in other words: Their margin for error is very low.

All these factors are putting finance at the heart of a necessary transformation journey toward more business resilience in uncertain times. And while finance usually operates in the background, often unseen by end customers, it plays a critical role in managing processes and investments (including digital technologies) that contribute to high-quality experiences for customers and employees.

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I'd like to encourage you to read this report, sponsored by SAP, to identify and uncover not only the challenges but also the opportunities that an economic disruption has to offer. Harvard Business Review Analytic Services has done a tremendous job with this compact piece of advice, helping you tackling the next challenge on your very own business journey.



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# Transforming Finance to Spur Business Growth

## A Blueprint for Small and Medium-Sized Enterprises to Revolutionize Their Finance Functions and Overcome Hurdles



Finance experts at today's small and medium-sized enterprises (SMEs) find themselves pulled in several directions at once. They spend much of their time looking outward, toward investors, customers, regulators, and the broader business environment. But they can't ignore their own fledgling finance function, which often consists only of a handful of people working part time with a limited digital tool set—and sometimes without an enterprise resource planning (ERP) system. And then, of course, they also need to help the business owner (who's often a founder, as well) oversee the rest of the business.

Staying on top of the business is a full-time job in itself, especially if the business is entering or already in the midst of a rapid growth phase. As exciting as that growth can be, it can also expose capability and technology gaps that were easy to overlook when the business was smaller or struggling to establish itself. Suddenly, the business has to deal with the ramifications of going international, rapidly adding staff, expanding its product line, or challenging larger rivals with the wherewithal to weather a pricing war. As the SME races to achieve scale, the lack of tools needed to play in a larger arena—tools such as analytics engines and ERP systems that capture documented, system-supported processes—can become painfully apparent.

The decisions that SME owners and finance experts make during that rapid growth phase will likely shape the business for years to come. “They are expected to make decisions that will impact the business for the next five, 10, 15 years,” says Chris Dimuzio, leader of PwC's finance transformation practice. “The complexity of the job has grown a lot.”

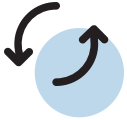
Operating in a competitive milieu characterized by massive and ever-increasing amounts of data, fast-changing customer needs and wants, and heated competition for talent, SME leaders spend much of their time identifying

### HIGHLIGHTS

As a small or medium-sized enterprise (SME) races to achieve scale, the lack of tools needed to play in a larger arena—**tools such as analytics engines and enterprise resource planning systems that capture documented, system-supported processes**—can become painfully apparent.

Digital technologies offer SMEs **the opportunity to innovate as a matter of course, enter new markets, and seize competitive advantage** over less nimble competitors whose legacy systems are often more an encumbrance than a source of strength.

With the right help on the technological side, SME leaders can then direct their attention to the crucial and delicate task of applying those digital technologies **in the finance function** to sustain and possibly even accelerate rapid growth.



“At the end of the day, transformations fail because people don’t understand why they’re doing it, not because of a failure of software,” says Ted Bililies, chief talent officer at consultant AlixPartners.

hurdles to healthy, sustainable growth and figuring out how to overcome them. Unlike larger enterprises, most SMEs don’t have to worry about aligning different functions and departments to implement digital technologies; in most cases, the leaders of the organization are in constant contact and involved in every aspect of the business. Alignment is a natural outgrowth of that close-knit atmosphere, and it serves as an important advantage over larger, more siloed rivals as the organization scales up.

Even the most cohesive organizations, however, need help to address the incredibly broad range of tasks that arise as the business grows. That help often takes the form of a strong technology partner with a thorough understanding of the company’s industry and deep experience in guiding SMEs through the thickets of technological change and shaping a digital agenda. Whether an SME’s top priority is efficiency gains, an app to make online purchases easy and enjoyable, an overhaul of processes to enable data-driven decision making, or crafting a memorable customer experience, the right technology partner can help company leaders identify and implement digital tools that can grow with the business. That expertise can make the challenges that come with rapid, digitally powered growth a lot less daunting.

With the right help on the technological side, SME leaders can then direct their attention to the crucial and delicate task of applying those digital technologies in the finance function to sustain and possibly even accelerate rapid growth. In that undertaking, SME leaders’ most valuable assets are the business acumen and emotional intelligence required to understand the needs and goals of the business, overcome obstacles, and measure results against the strategy. “You can’t do all that without understanding how to educate and inspire—to lead people,” said Ted Bililies, chief talent officer at consultant AlixPartners and leader of the firm’s transformative leadership practice. “You can’t transform without the right software and knowing how to use it, but at the end of the day, transformations fail because people don’t understand why they’re doing it, not because of a failure of software.”

## Advancing to the Next Level, Digitally

The business case for digitally powered growth in finance is straightforward and compelling. Digital technologies offer SMEs the opportunity to innovate as a matter of course, enter new markets, and seize competitive advantage over less nimble competitors whose legacy systems are often more an encumbrance than a source of strength.

Although SMEs’ relatively small size and lack of a full-grown IT infrastructure may appear to put them at a disadvantage to larger, more established competitors, the opposite is true in many cases. Because most SMEs outsource their IT, they don’t need to worry about layering new digital technologies onto legacy IT systems, which are often heavily siloed and highly customized; they can start with a blank slate and in many cases operate their entire ERP solution from the cloud. They’re free to innovate processes and applications without having to worry about integrating them into existing systems or overcoming organizational resistance to change.

It’s no accident, then, that 55% of startups have adopted a digital business strategy, compared to just 38% of traditional companies, according to International Data Group (IDG),<sup>1</sup> and that 84% of SMEs plan to adopt—or are in the process of implementing—a digital strategy, according to SMB Group,<sup>2</sup> a research and consulting firm serving SMEs. Whether the main objective is to win new customers, meet the challenges of competition, or make their people and processes more efficient—the top three reasons for small-business transformation, according to the same SMB survey<sup>3</sup>—SMEs recognize that their digital capabilities will determine whether they will continue to grow and thrive or fall by the wayside.

## Wanted: Devil’s Advocates

To develop the right digital business strategy, however, SMEs need leaders with a clear line of sight across the entire business. That’s often the role of the SME’s finance expert, who straddles at least two roles: the owner’s thought partner, who games out the financial implications of the SME’s strategy, and the operations leader, who organizes and directs the day-to-day work of realizing the strategy. “Those are extremely important jobs,” said Susan Lucia Annunzio, CEO of the Hudson Highland Center for High Performance and an instructor at the University of Chicago’s Booth Graduate School of Business. It requires someone willing and able to challenge the owner’s ideas for the business. “Someone has to play devil’s advocate—to know when to say the emperor has no clothes,” Annunzio says. “As ‘keeper of the purse,’ the finance expert has the most credibility.”

Collaboration between the owner and finance expert creates a climate conducive to scaling the business. But it takes a certain fortitude to challenge the boss, to say, “I’m confused,” “That doesn’t make sense,” or “That’s an interesting idea, but have you considered what might go wrong?” It’s up to the owner

to foster an atmosphere that encourages candor and open discussion, and it's up to the owner's thought partner to model for other core members of the business what constructive devil's advocacy looks like. The CEO, Annunzio says, can encourage such an atmosphere by letting everyone else have a turn before speaking, which counteracts the human tendency to refer to power for guidance, and by using the word "we" far more frequently than its singular counterpart, "I."

The finance expert, in turn, can contribute most to the team by demonstrating that, as Annunzio says, "it's not about winning the argument. It's about helping each other help the company compete." When the right atmosphere is established, true collaboration can take place, which means better decision making. "When people begin to chime in and combine brainpower, everyone contributes to an idea, and everyone owns the idea when it reaches its final form. Great ideas are the result of the idea-generation process, no matter who finally puts it into words."

## Building the Right Team

When the owner and finance expert are well-matched and on the same wavelength, they can turn to the all-important task of putting together a finance team equipped to sustain rapid growth and ensure maximum business resilience in uncertain times. The exact composition of the team varies with the nature of the business, of course, but it's important that the people working at the core of the enterprise be at the top of their fields. A maker of specialty consumer products, for example, will likely place a premium on designers and marketers, to the extent of not hiring for less central roles, if that's what it takes to afford the most talented designer on the market.

It's equally important to round up core team members who don't look or think like the owner and finance expert. A diversity of viewpoints and experiences is a hallmark of successful teams, because the various perspectives of the team members enable them to consider a problem or question in the round. People who possess different strengths from the owner and finance expert can be especially valuable.

Familiarity with digital technologies should be table stakes for finance team members, but, beyond that, they should also be selected for the flexibility and adaptability of their thinking style. Hudson Highland Center CEO Annunzio advises clients to seek out "multidimensional" individuals, such as people who pursued dual majors as undergraduates. For analytical roles, she also looks for technologically fluent MBA graduates with liberal arts backgrounds whose education prepares them to be comfortable with "shades of gray." And she doesn't judge them by their transcripts. "Just because you got good grades," she says, "doesn't mean you're a good thinker."

Bilibies of AlixPartners agrees. He looks for people with undergraduate training in the humanities as well as finance skills and technological aptitude, and he's partial to talented



**When the right atmosphere is established, true collaboration can take place, which means better decision making.**

people who diverged from the typical business-school-to-investment-bank-to-large-enterprise track. "How about some concert pianists?" he asks.

PwC's Dimuzio, for his part, favors "players who can wear multiple hats." For finance team members, for example, functional skills are a must, but so is the ability to own a process such as procure-to-pay from end to end. Above all, he says, he looks for people who can extract insights and solve problems using digital tools, such as analytics.

Despite their sophistication, tools such as analytics engines are within the reach of most SMEs and can be integrated with their existing IT infrastructure, which in many cases are themselves outsourced and cloud-based. Such tools can help SMEs maximize the impact and minimize the cost of advertising and marketing campaigns. Similarly, SMEs can take advantage of affordable customer relationship management solutions to optimize customer experience and concentrate resources where they will yield the highest returns.

## Too Much Data, Not Enough Tools

Which leads to the subject of data. While larger enterprises often struggle with moving data out of silos and into systems where it is standardized and accessible across the organization, SMEs often need help tapping the knowledge of the owner and other members of the core finance team and rendering it in forms useful to other systems and areas of the business. An integrated ERP solution that incorporates process documentation, templates, and ad hoc reporting capability can help make that knowledge available throughout the business. Knowledge transfer is especially valuable to SMEs, which are always at risk of losing crucial expertise when a key player is sidelined by illness, is hired away, or simply takes a week off. Here is where a good technology partner can add value by showing key employees how to access and gain control of the masses of vital information that those employees have acquired through their experience but have not documented in forms usable by the wider business.

Having brought that data to the surface and harnessed it in usable form, the next step is to extract insights from it. "In addition to the traditional finance skills," Dimuzio says,

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“finance players now need to layer on the skills of a data scientist. They need to know to take the core data from their business systems, add in less-structured data, and marry it all to extract better information and insights.” And they need to do so much faster than ever before. One possible application of that hybrid data would be analyses that measure both the cost of an experience—for example, a train trip—and its quality, enabling leaders to make trade-offs to ensure a better experience at a manageable cost.

As employees’ analytical skills advance, they can turn to leveraging data to make predictions, such as pinpointing emerging security risks before they become a threat to the business. Those capabilities are rapidly becoming more affordable to SMEs and increasingly valuable, given the importance of data security and governance to fast-growing, digital-first SMEs. Because such companies rely on data to generate value and fuel growth, protecting data from contamination and theft takes on existential significance. In most SMEs, data security is jointly owned by the IT and finance experts, who share responsibility for retaining the digital trust of customers and investors and ensuring compliance with increasingly stringent data protection regulations.

Digital tools can also enable SMEs to ensure that their finance processes keep pace with their growth rate. Consider the capital-allocation process. The proliferation of data and the sophistication and affordability of analytics now enable SMEs to conduct more frequent reviews and reallocate capital on the fly as conditions change—just the thing for a fast-growing business eager to seize an opportunity before the competition notices. “More and more,” Dimuzio says, “the job involves making strategic decisions guided by new data—making bets and knowing when to fold.”

### **A New Kind of Finance Leader for a New Kind of Enterprise**

A digitally powered SME is one that coordinates a myriad of activities toward a single shared goal. As key players in resource allocation and project management, with a real-time view of the performance of the business, the owner and finance expert to a large extent control the pace and intensity of the SME’s maturation. Identifying potential business pitfalls and hurdles to growth, devising a plan to overcome them, breaking them down into manageable components, and setting priorities have moved to the forefront of the finance expert’s activities,

even as he or she retains traditional responsibilities for control, compliance, and reporting.

Success in the role depends on a number of factors, beginning with alignment with the owner. “There can be no daylight between the owner and finance expert on strategy,” Bililies says. “When you have people speaking from unaligned talking points, the whole organization is at risk.”

But that’s just for starters. Other requirements for advancing to the next level include:

#### **A team that sings from the same songbook**

The core of an effective SME consists of people enmeshed in every aspect of the business and passionate about its growth. “It’s a bad sign if people speak only from within their silo,” Annunzio says.

#### **A team that brings together a variety of skills and capabilities**

A good team delivers on the strategy they shape together, led by the owner and the finance expert. It blends multiple skills—such as analytics, automation, data visualization, and process expertise—into a unit focused on solving business problems, maintaining momentum, and sustaining the business.

#### **A finance expert who embodies excellence**

SME leaders need credibility, and a finance expert who demonstrates effectiveness and efficiency builds trust in his or her insights and recommendations. A finance expert who struggles with the basics of the job will likely see his or her advice fall on deaf ears.

#### **A finance expert who models effective deployment of new technology**

Finance can be a proving ground and showcase for new technology before it’s deployed across the rest of the organization. When a finance expert uses forward-looking analytics to anticipate a recession and make strategic adjustments to cushion the blow, it’s a lesson in how to use new technologies to help the business stay on a growth path.

#### **A finance expert who follows through**

Transformation is a continuous process, not a journey with a fixed destination. As transformation leaders, the owner and finance expert can be effective only by “managing ruthlessly,” Dimuzio says. That means monitoring the growth of the business day to day and week to week and intervening whenever key performance indicators show a loss of momentum or deviation from the transformation roadmap. “No more ‘set it and forget it,’” Dimuzio says.

“Digital changes everything” is a common refrain in business today. At SMEs, what digital has changed most may well be the role of the finance expert.



## Endnotes

- 1 IDG, "2018 Digital Business Survey: Understand How Organizations Evolve to a Digital Business Model," 2018, <https://resources.idg.com/download/white-paper/2018-digital-business>.
- 2 SMB Group, "SMB Digital Transformation: Why, When, Where and How?," January 9, 2018, <https://www.smb-gr.com/blogs-laurie-mccabe/smb-digital-transformation-why-when-where-and-how/>.
- 3 Ibid.



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