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4 CFO Priorities to be a Digital Leader

INSIGHTS FOR SUCCESS | IDEAS TO EXECUTE

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Key insights:

Chief Financial Officer (CFO) is now a strategic partner for the board and top leadership. His/Her perspective on adoption of technology and achieving strategic growth goals is an important factor for entity's success.

Understanding the technology bottom up is imperative for the CFO. Digitization of the finance function should be the number one priority. It should lay the foundation to identify skill gaps in the finance function, align it with new business model innovation and look at M&A as a powerful mechanism to acquire skills, technologies and business model innovations previously unheard of in the incumbent company.

For a CFO to truly turn digital, he needs to build renewed focus on the financial strategy to back the new digital transformation initiatives. It should also focus on the compensation strategy, build new measures of performance and understand regulatory compliance in this new digital world order.

Introduction

CFOs have a strong need, ambition and influence to drive business growth. The role is now moving towards predicting the future rather than reporting the past, and as a consequence adopting the digital wave is key to ensuring that they are not left behind. Creating new value from data, enabling digital transformation across the enterprise, and using the power of data to align long-term business goals are the key imperatives for incumbent finance leaders.

"The CFO role has moved beyond just finance and accounting. It's a much more multi-faceted role that includes the strategic use of technology to drive business growth and operating velocity[1]

- John Murphy, Executive Vice President and CFO at Adobe

[1] Digital Is Disrupting The Role Of The CFO. Here's How

Figure 1: **Evolving Role of the CFO**

TRADITIONAL CFO: NARROW FINANCE FUNCTIONAL FOCUS FOR MEETING FIDUCIARY RESPONSIBILITIES	DIGITAL CFO: STRATEGIC, OPERATIONAL FOCUS FOR LOW COST EFFICIENT FINANCE ORGANIZATION
1. Report financial performance based on historical information.	1. Harness financial and operational data for real-time business insight generation.
2. Ensure compliance with financial and tax regulations.	2. Redefine business models for digital transformation.
3. Communicate shareholders' value and risks to board members and investors.	3. Explore disruptive technology for long-term cost efficiencies.
4. Create management reports to project business performance.	4. Identify right skillsets and capabilities to complement digitalization in finance.
5. Determine the capital structure with the mix of equity, debt and internal finance to support business operations.	

Role of a Digital CFO

Today, and in the future, CFOs must take financial and operational data to influence business decision-making and strategy. Now, they need to push digital boundaries and increasingly harness data to generate insights and shape forward-looking business models.

While meeting business needs, CFOs can become powerful digital leaders with their ability to access and analyze vast amounts of historical and current data for driving data- and insight-driven business decisions. Moreover, being guardians of financial and operational data, CFOs can assess the regulatory and operational risks for redefining business models, while becoming digital-ready organizations.

Figure 1 illustrates the evolving role of the CFO. This research focuses on the four practices that a 'digital CFO' must follow in today's fast-paced business environment to achieve low-cost efficient finance organization (see Figure 2). Further, the research highlights tactical insights to champion these four practices. However, historical tasks of the finance function such as financial and management reporting, financial planning and statutory compliance are still of fundamental importance. These tasks are mission-critical and fall as primary responsibility of the finance team, while the CFO leads that team. Additionally, these responsibilities are considered as table stakes for a CFO's performance measurement.

Figure 2: **4 CFO Priorities to be a Digital Leader**

1 HARNESS DATA, PERFORM ANALYTICS

Need: Drive data-driven strategic decisions and become valued business partner.

How: Create a single centralised repository of financial and operational data

Outcome: Identification and standardisation of relevant datasets to apply on digital tools like machine learning and predictive analytics.

2 REDEFINE FINANCE BUSINESS MODELS

Need: Reduce the burden of routine, transactional activities and focus on strategic activities with strong compliance mechanisms.

How: Evaluate the finance activities based on complexity and impact to determine the best suited operating model.

Outcome: Desired business model to achieve quality, accuracy and speed to support functional and business goals.

3 TRANSFORM FINANCE FUNCTION WITH DISRUPTIVE TECHNOLOGIES

Need: Achieve long-term cost efficiencies through automation and drive business value.

How: Explore and understand emerging technologies for process or activity based automation.

Outcome: Finance function transforms to be strategic partner to the business and the CEO from a back office operating hub.

4 BUILD A DIGITAL DEXTEROUS FINANCE WORK-FORCE

Need: Upgrade existing workforce's skills to fully utilize the potential of digital tools and fill talent gaps.

How: Design upskill and reskill coaching mechanisms and fill any gaps through lateral and external hiring.

Outcome: FInance workforce instills the ability and willingness to embrace and work with technology efficiently.

① Harness data, perform analytics

Analyze financial and operational data for providing real-time business performance insights to improve decision making.

Finance function has predominantly been the owner of financial data enabling the CFO to drive data-driven strategic decisions. However, the growth of new data analytics capabilities such as predictive analytics, machine learning and cloud computing allow CFOs to analyze and integrate operational data produced by business units typically residing beyond their purview. This creates a fundamental change in the CFO's role to level-up from their traditional responsibilities of financial reporting, budgeting and forecasting to become a business partner in driving operational decision-making. CFOs can exercise further control on making profitable business decisions through analytic support.

For CFOs to harness the potential of data and improve business decision-making, they must begin by creating a single centralized repository of financial and operational data. The advantage of storing the data in a centralized location helps to quickly and easily identify relevant datasets for analysis. Digital tools such as machine learning and predictive analytics provide the most accurate results when they are applied on large volume of data. Moreover, the repository helps to create different data hierarchies, lakes for analysis, while maintaining adequate data log and audit trails. A single data repository is uniquely capable of serving as an integration platform that links financial data to operational data. This enables organizations to improve the flow of information from digital tools to systems and consequently, varied business users.

Further, CFOs must conduct regular check-ins with business units and other functional heads to determine and understand the required analytic support. It helps in defining the operational decision challenges while building credibility to be a trusted value partner. Additionally, CFOs can use these check-ins to advise and drive operational business decisions helping the functional and business heads understand the implications of analytic results.

2 Redefine finance business models

Evaluate the digitalization potential of finance activities to redefine the business operating model.

The high level of non-compliance and reputational risk in performing finance activities (financial accounting and reporting, budgeting and forecasting) had traditionally resulted in CFOs being reluctant to adopt different business models. But today, CFOs view most finance activities as potential candidates for automation, enabling them to identify entirely new strategic activities with broader organizational impact. Today, a number of CFOs say that standardizing, automating processes and building agility and quality into processes will be a significant priority for tomorrow's finance function.

The key reason for CFOs to change their mindset about automating finance activities is the embedded governance mechanisms that create auto-audit trails to maintain compliance. For example, back office activities such as accounts payable and receivable, billing, payroll and general accounting can be fully automated using robotics process automation (RPA) in a decentralized low-cost offshore center. This helps CFOs ensure quality, accuracy and speed, while maintaining governance control through auto-validating check-points in each step or process. Moreover, decentralizing and automating low-value activities, increases focus on high-value complex activities that require multiple human interventions and have a strategic, organizational impact.

CFOs must review the level of complexity and impact of their finance activities to determine the automation potential of those activities. Based on this assessment, they can evaluate different business models:

Figure 3: **Types of Finance Business Models**

FULLY DECENTRALIZED

- Move low-value transactional activities to an outsourced location (shared services centers, offshore centres) for standardizing and automating routine work.
- Leverage outsourcing partners' technologies (e.g., RPA) to automate activities.
- Achieve cost efficiencies through speed, accuracy and reduced manpower at the centre.

PARTIALLY CENTRALIZED

- Identify sub-process within complex high-value activities (e.g., in financial reporting, sub-processes such as business unit accounting, report generation, G&A cost accounting and taz computing) to automate and move in outsourced location.
- Create sub-process owners to check accuracy and quality of deliverables at the centralized finance function.
- Appoint a sign-off authority to review at the centre before integration and ensure non-compliance.

FULLY CENTRALIZED

- Retain highly complex, strategic activities (e.g., strategic investments, M&A decisions, regulatory compliances, technology adoption and investor relations) at the finance centre.
- Use the freed-up manpower to identify new and agile revenue opportunities that have an organization wide-impact.

CENTRALIZED COE

- Create analytic centre of exellence (CoE) to conduct advanced and specialized analytics for solving complex business problems.
- Develop cross-functional collaboration to leverage analytic expertise through interdiciplinary teams.
- Define specialized roles: data analyst, data scientist and business partners to carry out analysis and support the business.
- Deliver division support at the center to reduce inaccuracies, maintain business relation and avoid non-compliance.

For large organizations, the above finance business models are relatively easier to evaluate and adopt due to their size, number of business unit finance teams, geographical diversity and several finance sub-functions. For small to midsize organizations, it becomes rather difficult and expensive to adopt these 'as-is' and achieve scalability across their processes. But these organizations, based on the activity split and their functional need, can adopt the given model(s) in a phased approach.

3 Transform finance function with disruptive technologies

Explore and understand emerging technologies that leads to transforming the way finance function operates, while bringing long-term cost efficiencies.

To add greater value in their function, CFOs must begin to explore technologies and make hard-headed decisions on the feasibility of the technology, time to invest, scale to run pilots and capabilities required. CFOs do not have the liberty to first see the outcomes of a technology, and then plan to adopt it. This puts them in a definite competitive disadvantage, especially at the pace at which technology is changing and evolving itself.

The average finance professional spends up to 70% of his or her time getting ready to do their real job, whether in collecting, assembling and organizing data, or in creating and updating spreadsheet models. As discussed in the previous section, many such traditional activities will be reduced through decentralization, while being automated. New-in-kind technology will also create new roles as the CFO expands his mandate to provide predictive insights and drive business value creation. To reap the benefits of digitalization, CFOs should develop their digital strategy as part of their broader functional strategy. Different technologies, when applied to finance processes, including data ingestion tools, RPA, advanced analytics, artificial intelligence (AI), cloud ERPs and visualization tools can enable CFOs to make faster, more accurate and more impactful decisions across the business.

82% CFOs are driving digital transformation either in their own finance department or at an enterprise level as they see digital as a means to propel finance into a front office function of greater significance to the CEO.

- Vikas Gopal, Global Managing Partner, Finance & Shared Services Transformation, TCS[2]

[2] THE IMPACT OF DIGITAL FINANCE

4 Build a digitally dexterous finance workforce

Instill digital dexterity among existing finance workforce and hire for digital talent to support technological innovations while embracing rapid changes.

When it comes to applying critical thinking, humans retain an edge over technology. However, pairing human inventiveness, creativity, empathy, and influencing skills with cognitive technologies and building used cases in finance has the potential to elevate their problem-solving capabilities. CFOs should define work outcomes they expect the workforce to deliver and determine which outcomes are best delivered by smart machines. This will help CFOs carve out activities where humans and machines should work together, and where old-fashioned humans are best suited to deliver. Additionally, it helps them identify the upskill and reskill opportunities for existing workforce to complement new technologies.

While CFOs must begin with elevating the skills of the existing workforce, they can also evaluate the digital talent available outside their function and organization. This will help them fill any talent gaps existing within the function, creating a powerful digitally dexterous finance workforce.

[Digital dexterity: The ability and willingness to learn and understand technology for delivering value from business decisions.]

With digitalization in finance, there is an emergence of new-in-kind roles and responsibilities, creating various career shifts and opportunities that did not exist in the past for the workforce. To begin with, CFOs can adopt the below practices to instill digital dexterity in their function:

1	**Start a young-to-old coaching mechanism**	Pair senior experienced workers with millennial digital citizens within the function and outside it to provide hands-on coaching in a desired comfortable and flexible environment.
2	**Identify lateral rotation opportunities**	To reskill and upskill the workforce, set up rotations for finance staff both within the function and outside of it.
3	**Create job postings for digital recruits**	Create job postings that go beyond attracting the traditional responsibilities, and inculcate the new digital capabilities required within finance.

Conclusion

CFOs' role has evolved from predicting the future rather than reporting the past, creating new value from data and enabling digital transformation.

The evolution in CFO's role creates 4 priorities that helps them become a successful digital leader for leading a successful finance organization in today's dynamic, fast-paced business environment

For a sustainable future, CFOs must think about:

1. What continuous change management efforts to adopt for building an agile intelligent function?

2. How to stay unaffected and achieve successes when predicted downturn arises?

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