

The 21st Century CFO: In Volatile, Uncertain, Complex and Ambiguous Environment



In the last 20 years, the pace of advancement has been so fast that it is difficult to talk about what lies in future. From the invention of Internet, mobile technology, to artificial intelligence, our ability to seamlessly connect with anyone or anything in the world had changed the way we do business. The social networking platforms like Whatsapp, Facebook, YouTube, and Twitter did not even exist a decade ago. Today, these digital platforms have totally changed the way business is done or even how society works. These new platforms and technology allow innovators to launch new products and services that are operationally better and cost efficient and which are putting the major players out of business.

We have seen companies vanishing due to lack of disruption—Nokia, Blackberry, Kodak, Yahoo are few examples. These companies featured amongst the top 10 companies a decade ago. They are now replaced by names like Apple and Google who quickly adapted to the fast changing world and turned it into opportunity. With these massive changes taking place so frequently, we must learn to deal with VUCA (volatile, uncertain, complex and ambiguous) environment. Read on...

Ideas like Hyper-loop Transportation which we thought are difficult to commercialise can be a reality in coming years. We can find innovations like this happening every day. It's just a decade ago when we

started experiencing rise of shopping malls in our neighbourhood but with the growth of online market place we can already experience changing trend and consumer behaviour.



CA. Prateek Jain

(The author is a member of the ICAI and CFO Reliance Nippon Life Asset Management Limited. He can be reached at prateekmjain@hotmail.com)

Events of the last two years have been unforeseeable – demonetisation, GST, Brexit and Eurozone instability, geo-political turbulence, the North Korea crisis, choppy global markets, technological disruptions, recent financial crimes and so on. Business leaders, as a result, have to contend with a whole new era, which requires new ways of leading. All of these unforeseen

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events have also created new vulnerabilities for business, and traditional management techniques are no longer sufficient to address these uncertainties.

Evolution is everywhere, Amazon's Alexa and Apple's Siri use voice command for processing and are making decisions, Tesla and Google are competing to bring autonomous self-driving cars to consumers, nano-technology, robotics and many more. Everything is changing so fast around us that it is very difficult to forecast what lies in future. As Leaders we continuously need to evolve to keep ourselves relevant in the business.

As professionals scramble to meet new expectations, CFOs or Chartered Accountants in general are well positioned to leverage their existing knowledge and core competencies to tackle an organisation's rapidly changing needs.

We live in a VUCA world, which stands for volatile, uncertain, complex and ambiguous. *"It requires different skills than, for example, people leading companies in the '90s and the early part of the 21st Century."* As professionals scramble to meet new expectations, CFOs or Chartered Accountants in general are well positioned to leverage their existing knowledge and core competencies to tackle an organisation's rapidly changing needs. Below is a brief perspective on how Finance leaders can use their skills to help lead their organisation into the future.

Volatility
Uncertainty
Complexity
Ambiguity



Volatility has become a constant feature of today's business environment. We being very close to the financial markets are first to observe these shifts. The changes in consumer behaviour, technology, government's priority have brought about structural shifts. Every change or shift comes for a cost and thus as an enabler the finance function needs to closely work around these changes and be fast and responsive which can enable them to support business teams to implement organisation's strategies.

To respond to the uncertainty and understanding the situation with a clear vision in hand, the business leaders need an in-depth understanding of their organisation's capabilities and strategies. We as financial custodians act as facilitator to provide this vision and help to formulate a concrete strategy to reduce the impact and also find opportunity in such uncertainties.

Uncertainty in market behaviour has made it very difficult to predict. This coupled with changing regulatory environment, government policies like GST and Demonetisation has created kneejerk reactions in financial markets. These events were not really foreseeable and demonstrate how easily we can be overtaken by a course of events. This uncertainty is prevalent in the economy today. To respond to the uncertainty and understanding the situation with a clear vision in hand, the business leaders need an in-depth understanding of their organisation's capabilities and strategies. We as financial custodians act as facilitator to provide this vision and help to formulate a concrete strategy to reduce the impact and also find opportunity in such uncertainties.

Complexity in today's world is rising and it is directly connected to the privilege of having too many choices. The financial markets are not only fragmented but there has been a significant increase in the range of financial instruments which are available in the market, which gives rise to more complex products offering. With the changing business environment the business is also getting complex every day. As finance leaders we not only have to deal with competitive pressure of containing costs and improving profitability but also need to be very innovative in our product offering, service standards and customer experience.

Ambiguity can be more than just unsettling; it can be downright frightening. In an era of rapid political, economic and regulatory changes you are many times indecisive and are unable to make firm commitment on anything which may result in inaction or business may lack proper direction and focus. We have witnessed this in recent decision by apex court on usage of Aadhar UID for KYC. The GST implementation was another such issue where we had to quickly upgrade our systems to be able to run our business smoothly. We as Finance function needs to be agile on such changes and upgrade ourselves to be able to adopt such changes and evaluate its operational risks on operational structures in line with a rapidly-changing environment.

Changing Role of CFO in VUCA Environment

The world of the CFO already has undergone rapid changes, but the pace, complexity and nature of change is now at a critical stage. In fact, I don't believe that the current definition of the title adequately captures the diversity of their position. To the CFOs I would say; *Are you ready to be the Chief Future Officer?* That is what I imagine to be the ultimate role of today's CFO, to be *Chief Future Officer*, someone who offers the kind of multifaceted, high-end skills that organisations can use to achieve their strategic financial goals and drive innovation.

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Finding the skills needed to move an organisation forward is going to be an ongoing challenge. One critical trend that will have an impact on the CFO's role is the growing appreciation of the importance of non-financial measures and big data. Big data and better analytics would change the way business is done over the next 10 years. Meanwhile, CFOs will play big role in helping organisations benefit from big data projects, with many envisioning collaboration between finance and IT and leaders from other departments.

Thus I believe that the future success of CFOs would depend on high-end analytical skills on the technical side and softer skills like being collaborative, communicative and creative. The five key traits expected from the data-enabled CFO will be:

- The ability to identify the data points that are useful in understanding what drives the business.
- A clear sense of what customers care about most, and ideas on how to track this.
- The ability to embrace new forms of data and incorporate them into business decision making.
- Being comfortable with uncertainty, including the reality that big data may not provide definitive answers.
- Being able to explore new ways to interpret data to better inform management.

A CFO has to respond to all this volatility, uncertainty, complexity & ambiguity not just as a book keeper but should go beyond his traditional responsibilities to being a true business partner. CFO has to continuously

put efforts towards learning and adopting to these changes and to formulate a concrete strategy to overcome these changes.

The Change Is the Only Constant: People, Processes or Technology

Now more than ever, CFOs must address rapid changes across the three key areas of people, processes and technology.

People: Is Your Team the Team of the Future? The robots are here and more are coming, the workforce is restless. Given the technology advancements automation may deliver 80 percent of accounting and finance tasks in the next few years. Many in today's finance department are spending two-thirds of their time collating MIS; advances in Business & Artificial Intelligence (AI) may put their jobs at risk. Changing workforce demographics mean that up to four generations – Baby Boomers, Gen X'ers, Gen Y'ers, and Millennials – will be co-existing. The CFO must be very innovative in thinking about what will work for the changed workforce of today. They need to invest in employee skills, training or re-training, and enablement in technology. They must not forget that on one hand Customers are becoming more demanding and on the other hand the expectations of CEOs for the value they need from their CFOs has really increased in recent years. Therefore, they need to constantly explore option of outsourcing low level tasks and create robotic process automation strategies for cyclical processes so that they can focus on high-expertise roles.

Process: Keeping up with the Speed of Change; the demand for changing the existing processes and systems is higher than ever. "Changes in Customer Expectations" have had an impact on their industries in the last two years, this "Amazon effect" cannot be ignored. "Customers now expect organisations to be fast with everything. Their demands are forcing CFOs to shorten their cycle of activities that support the business's offerings – developing compressed timelines to add new products, new packaging, new pricing, and new billing methods. All of this requires automating more routine business processes to support sales, marketing and operations teams, and developing and positioning people to focus on what the customers care about. CFOs must collaborate with other executives to ensure process improvements, transparency, automation and adaptability so that their organisation can scale and grow fast enough to anticipate customer demands.

Technology: Today CFOs are showing a desire to build the business case for innovative technology. The key is to truly optimise the current technologies

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already owned and ensure new investments are made in systems that will fully integrate across the technology ecosystem. There's no question that detailed analysis of "big data" in particular, predictive analytics – can help companies find patterns in customer behaviour and market trends, show the relationship between revenue and market segments, and improve competitive advantage. Technology advances will mean that the way in which your team accomplishes their day-to-day tasks will be unrecognisable. A key driver behind this shift is robotic process automation (RPA), which can be applied to many areas within the finance function. Another cognitive technology – artificial intelligence – uses an algorithm that can incorporate a wide range of internal and external data sources. With increased analysis, finance departments can use more accurate, data-driven insights to inform business decisions. Of course, AI will replace some employees, but it also offers great opportunity to free people to do other functions that add more value, in turn making them more valuable to the company.

In all the uncertainties of today's world, the winners will be those business leaders who will stay focused and adapt to these changes and who have courage to quickly change or modify their strategy by building on their strengths and capacities. Those who lock themselves into fixed positions, will find it very difficult to adopt and will end up losing. Our offerings need to stand out like never before. The underlying principle is that your financial and support ecosystem should be ready to serve as a growth engine of your company. You need to navigate for sustainable profitability and value innovation. In this ever changing and dynamic world, many Start-up's have become world's leading companies like Flipkart, Paytm, Ola, etc. while many world class companies have vanished like Nokia. This is not the time for financial re-engineering which was prevalent in last decade. Today we need multiple contingency plans while also preserving strong financials to support the changing business strategy to be implemented.

Embrace the VUCA Environment

The world is changing and so do we; we are learning to deal with this environment; we need to be ready to look at the unknown in a different way, to become capable of working with the uncertainties. We want to be ready to gather all the benefits of engaging with the unknown, we believe this unknown can be turned into opportunity and we keep looking to create something new to grow our business in this VUCA environment. As Tom O'Shea put it *Are you*

ready to shift your VUCA to VUCA Prime. VUCA PRIME calls for leaders to focus on building *Vision, Understanding, Clarity and Agility* as the pathway to coping and overcoming the daunting and somewhat paralysing impacts of the VUCA world.



Volatility can be countered with Vision
Uncertainty to be transformed into Understanding
Complexity can be countered by Clarity
Ambiguity can be countered with Agility!

CFOs today are expected to thrive in volatile, uncertain, complex and ambiguous (VUCA) environments. Stakeholder relationships and processes within and around organisations have become increasingly dynamic and unpredictable. In order to thrive in the VUCA world, be consistently aware of the changing trends around you and plan your strategies early to remain flexible and AGILE. Do not be afraid in taking well-informed and calculated risks. Cultivate a collaborative work environment with other functional leaders and multi-disciplinary teams to tackle issues that may require creativity and innovation. An AGILE CFO is one who *creates a perfect alignment between people, process and technology and the one who:*

Anticipates Change,
Generates New Ideas,
Initiates Action,
Liberates Thinking, &
Evaluates Results

Denise Caron said *"We are moving from a world of problems, which demands speed, analysis, and elimination of uncertainty to solve, to a world of dilemmas, which demands patience, sense-making, and an engagement of uncertainty."*

Finally but Most Importantly – A CFO Must Stay Grounded:

"I have just three things to teach: simplicity, patience, compassion. These three are your greatest treasures."
 - Lao Tzu. ■