

Digital Chief Financial Officer (CFO): Value Creator through Technology Investments



If you do not change direction, you may end up where you are heading - Lao Tzu

We are living in times of Alexa, Echo and Google Assistant among others, where a digital device or app, understands and executes simple voice commands - eliminating the need to push a button or remote. It is interesting how technology or digital has become all pervasive across activities that we engage in. This has changed the way we behave – be it as individuals or organisations. Corporate entities as torch bearers of the nation’s economy have been deploying technology to improve efficiencies, cut costs, increase production as well as sales, enhance profits and gain customer loyalty. We are living in a dynamic world where new technology solutions are being developed and deployed at a far greater pace than ever before. Organisations that are slow in responding to these changes or are comfortable with the status quo are at a major risk of business disruption. Read on...



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As a part of risk management, top management needs to ask questions about the organisation’s preparedness for a technology-induced disruption, experiment to create new systems and even leverage talent that is outside of the organisation.

Going Digital is Critical

To put the business disruption in perspective, a 2016 Harvard Business Review Analytic Services

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global survey reported that firms that embraced digital transformation averaged a 55% increase in gross margins over a three-year period. On the other hand, companies that were slow in adopting new age technology solutions generated an average of 37% growth during the same period.

In this context, it is worth recalling what John Chambers, former CEO and current Chairman Emeritus of CISCO Systems said : *“At least 40% of all businesses will die in the next 10 years... if they don't figure out how to change their entire company to accommodate new technologies.”*

What is behind this shift?

It's strategic. Going digital is no longer a simple IT challenge. Organisations are turning to digital technologies to gain competitive advantage and strengthen their ability to compete. The digital initiatives support new products, business models and customer experiences, in the process collaborating with other support functions.

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This change is crucial that indicates a marked shift in the way organisations perceive the impact of digital interventions.

But change has never been easy. Companies face formidable barriers, be it achieving business goals or adopting digital strategy.

Amongst all the departments and functions, the one that can benefit the most from digital transformation as

Surprisingly, at a time when emerging technologies such as artificial intelligence and predictive analysis are buzz words to drive customer centric innovation, in many organisations, the finance function seems to be held back by legacy systems. According to Innovation in the Finance Function Survey 2018 a staggering 65% of respondents are not actively committed to innovation.

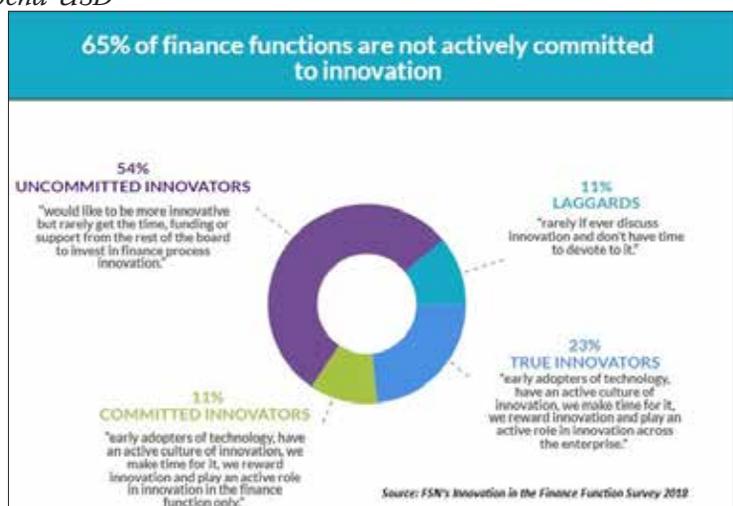
well as contribute immensely to business growth is *finance and accounts (F&A)*. **There lies the catch!**

Paradigm Shift

Surprisingly, at a time when emerging technologies such as artificial intelligence and predictive analysis are buzz words to drive customer centric innovation, in many organisations, the finance function seems to be held back by legacy systems. Such systems are not integrated and as such don't communicate with each other. That means the organisation doesn't have access to a single, real-time view of customer engagement.

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**The study was conducted by FSN Modern Finance Forum on LinkedIn that has over 50,000 senior finance professionals as members (survey respondents) across 23 countries and 13 industry sectors.*



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That brings to the fore a pertinent question. **Why does F&A function shy away from digital innovation?**

- Fear of making mistakes?
- Culture of indifference?
- Lack of platform to share ideas?
- Failure of leadership to drive innovation?

It could be a combination of more than one factor. However, **what comes out clearly is the need to bring about a paradigm shift in the F&A function's thought process, especially from digital transformation perspective.**

Redefining CFO's Role

It is extremely important for F&A function to make the digital transition as historical data in legacy systems has no real significance in strategizing future outcomes. This change invariably should be initiated by the CFO whose role has evolved over the years from a financial controller to a strategic partner in business growth. As such, along with the core duties of a CEO, the CFO further needs to drive digital transformation.

That is possible when CFOs rethink process architecture to **reduce complexity, improve effectiveness and increase collaboration.** Integrated data and digital analytical tools help CFOs detect and quickly respond to business changes with timely decision making.

A recent Accenture research report puts the role of the new age CFO in perspective, "today's CFOs oversee more than just the finance function and are now integral players in directing enterprise-wide digital investments and managing their economic outcomes and impacts."



In this context, future of the business is a key priority for CFOs

- ✓ Where do we want to see ourselves 5 or may be 10 years down the line?
- ✓ What line of business should we be in?
- ✓ Which geographies should we be present or operate?
- ✓ Which technology solutions should be invested in and deployed to improve efficiency and productivity leading to profitability?

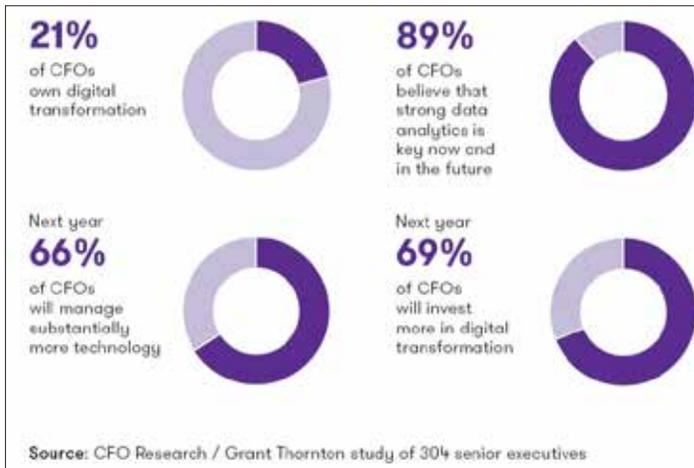
The Accenture report states that **81% of the CFOs see identifying and targeting areas of new value across the business as one of their main responsibilities** while 77% believe driving business-wide operational transformation also comes under their purview!

For CFOs, this is an incredible time to engage in **forward-thinking and creative innovation** that empowers an organisational dynamic benefiting every line of business, every stakeholder, and most of all, every customer! Without doubt, technology is definitely on top of mind for CFOs.

According to a reliable **CFO Survey 2018**, more than two-thirds (69%) of CFOs are increasing investments in digital transformation to keep their competitive edge in the marketplace. It further states that current and future CFOs will have to be technology-savvy and attuned to using data analytics to their enterprise's advantage. Some insights:

- ✓ **Technology investments:** Along with improving operational performance and reducing costs, focus on improving customer experience, competitive differentiation and product innovation.
- ✓ **Automation:** Process automation will shift focus from the day-to-day operational efficiency (AP/AR financial reporting and control, treasury and working capital management), to strategy, analysis and growth prediction in the future.
- ✓ **New technologies:** Advanced analytics and optical character recognition (OCR) lead the way.

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Process automation will play a critical role in achieving these objectives by leveraging on emerging technologies:

- ✓ Front-end and back-end automation
- ✓ Processing using platforms and robotics
- ✓ Domain customization
- ✓ SMAC (Social, Mobile, Analytics and Cloud-based services)

This transition essentially involves the fundamental redesigning of F&A processes and systems. It places the internal business customer at the centre, enabling the delivery of real-time, contextual and relevant business specific insights.

It is extremely important to get the digital transition right. *George Westerman, Principal Research Scientist with the MIT Sloan Initiative on the Digital Economy* puts it in perspective, “When digital transformation is done right, it’s like a caterpillar turning into a butterfly, but when done wrong, all you have is a really fast caterpillar.”

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Digitalization, while enabling *flexibility and transparency*, also brings in the *value of frugality*, which is “*do more with less*” capability by supporting business growth.

Most importantly the perception about F&A function, as difficult to work with due to earlier constraints, will fundamentally undergo a positive change, much to the benefit of the organisation.

Consider a case in point from customer experience perspective:

In today’s age where people are so used to doing things and getting updates on smart phones without handling paper, engaging with the F&A department that is still paper-based would be difficult.

Harbinger of Change

Digital transformation often starts with the ability to capture, integrate, easily access, and analyse high-quality data. Fortunately, over the last decade the costs of data storage, cloud infrastructure, and processing power have come down drastically. That’s good news because predictive analytics, artificial intelligence, and other digital tools use lots of data.

But, as harbingers of change, how should organisations or CFOs go about bringing digital transformation?

To start off with, it’s important to understand that going digital doesn’t mean adding only some technology or automation layers to existing systems.

Most finance processes are designed around *compliance, control and efficiency*, usually in that order, and therein lies the challenge. Digital on the other hand requires the customer perspective of *convenience, simplicity and insight*.

Therefore, the digital transformation process requires *radical and creative thinking on doing business that has customer experience at the centre*.

Secondly, the transformation requires a multifaceted and holistic approach that involves three core elements, *people, processes and technology architecture (including process automation)*.

From F&A perspective, **customer centricity and insight generation** are the key focus areas.

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This is today's irrefutable reality and the digital transformation should accommodate it to make the life easier for the customer.

When redesigning the processes, CFOs would do well to talk to business customers and end users of F&A services for the experience expected from the department. This exercise in all probability will result in a different view of how F&A process should be designed, which is integrated with other systems of the organisation.

Integrated systems enable seamless information flow leading to a more positive customer experience. For CFOs, such experience delivers the business benefit of increased compliance and less likelihood of users circumventing processes.

That brings us to the second key aspect of insight generation. By now it is clear that the scope of data analysed by F&A is expanding. It is now moving towards analysing real time tracking of revenue and expenses and integrating financial operations into business, including monitoring competition and market trends.

Another key element in the digital journey is effective collaboration with the IT function. It is essential to ensure integration of front-end and back-end systems or else the financial dashboards will lack real-time access to critical data.

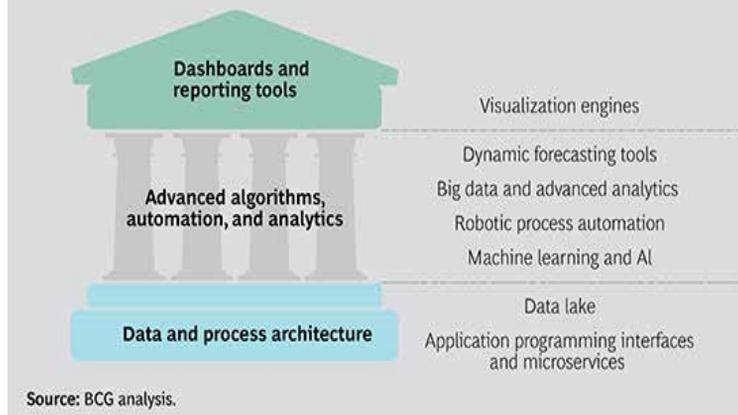
From the CFO's perspective, working with the business to build a partnership with the CIO is imperative. Both need to be joining and locking hands for growth and gaining competitive advantage.

Digital CFO or Hybrid CFO:

As the F&A function undergoes digital transformation, CFOs in their redefined role would provide '*Strategy-as-a-Service*' through recommendations based on deep insights from various data.

CFOs across the globe have been doing '*What*

The Digital CFO Invests in Architecture, Analytics, and Reporting Tools



If analysis' and Scenario planning of data by choosing various inputs to arrive at possible positive outcomes. In a digital set up, CFO would carry out tasks using **Robotic Process Automation, Business Intelligence and Predictive Analysis** tools to better interpret data for key business decisions that drive value, improve efficiency and enable strategy beyond the finance function.

How do digital tools benefit CFO?

Business Advice:

- Digital tools such as **Predictive Analytics, Artificial Intelligence (AI) and Advanced Algorithms** can deliver powerful new insights into how the business can improve its financial performance. The greatest impact that digital investments will have is most probably in the role of CFO as proactive advisor to the business.

Planning and Forecasting:

- Provide the flexibility, agility, and responsiveness. Digital tools also improve the accuracy of plans and forecasts by eliminating human bias and analytical error. According to a BCG report, using predictive analytics and algorithms, some analysts have boosted accuracy by more than 20% and cut forecast volatility by nearly 50%.

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Accounting and Compliance:

- Minimise compliance errors and enhance transparency while saving time. Compliance requirements are becoming increasingly stringent. CFOs who can design data tools to make the auditor's job easier add significant value.

Decision Making:

- With access to better, more timely data, finance teams can analyze patterns and trends, gain new insights, and respond more quickly to changes in the marketplace. AI, predictive analytics, machine learning, and advanced algorithms can reveal unexpected drivers behind business performance.

Reduces Cost and Rework:

- Digital tools are more efficient and less error-prone than humans. Robotic Process Automation (RPA) can reduce the manual work associated with routine rules-based tasks and sharply reduce error rates and rework.

Lower Risk, Higher Returns:

- Machine learning and AI algorithms can help CFOs unlock greater financial value from these activities.



Challenges for the CFO

For any transformation, digital in particular, one of the biggest impediments is the organisation's culture. Not many people are wired to work in a digital set up. F&A function needs to take a lead role in creating a culture of collaboration across functions, by breaking barriers or delayering decision-making and simplifying control structures.



Another critical challenge for the CFO is getting the talent with right digital skills and retaining them. Today's finance executives require a wide range of capabilities, from data visualisation to flexible thinking. Most CFOs recognise that finance skills will continue to move away from core finance to advanced digital, statistics, operational and collaborative skills.

To acquire the necessary capabilities, CFOs will need to follow a combination of strategies, including up-skilling their F&A staff through structured training programs, stepping up external recruitment and facilitating internal transitions from the frontend business and strategy functions.

Value Creation: The Way Forward

Digital technologies, for all their inherent strengths and value they bring in, cannot work without a comprehensive strategy that is aligned to the organisation's business goals. Making use of the benefits of the digital tools, CFOs need to transform the finance function into a *value creator for the organisation*.

In a nutshell, for the new age CFO it's all about gaining a strategic advantage over competition.

As Jeff Bezos of Amazon rightly puts it, "In today's era of volatility, there is no other way but to re-invent. ***The only sustainable advantage you can have over others is agility, that's it.*** Because nothing else is sustainable, everything else you create, somebody else will replicate." ■