



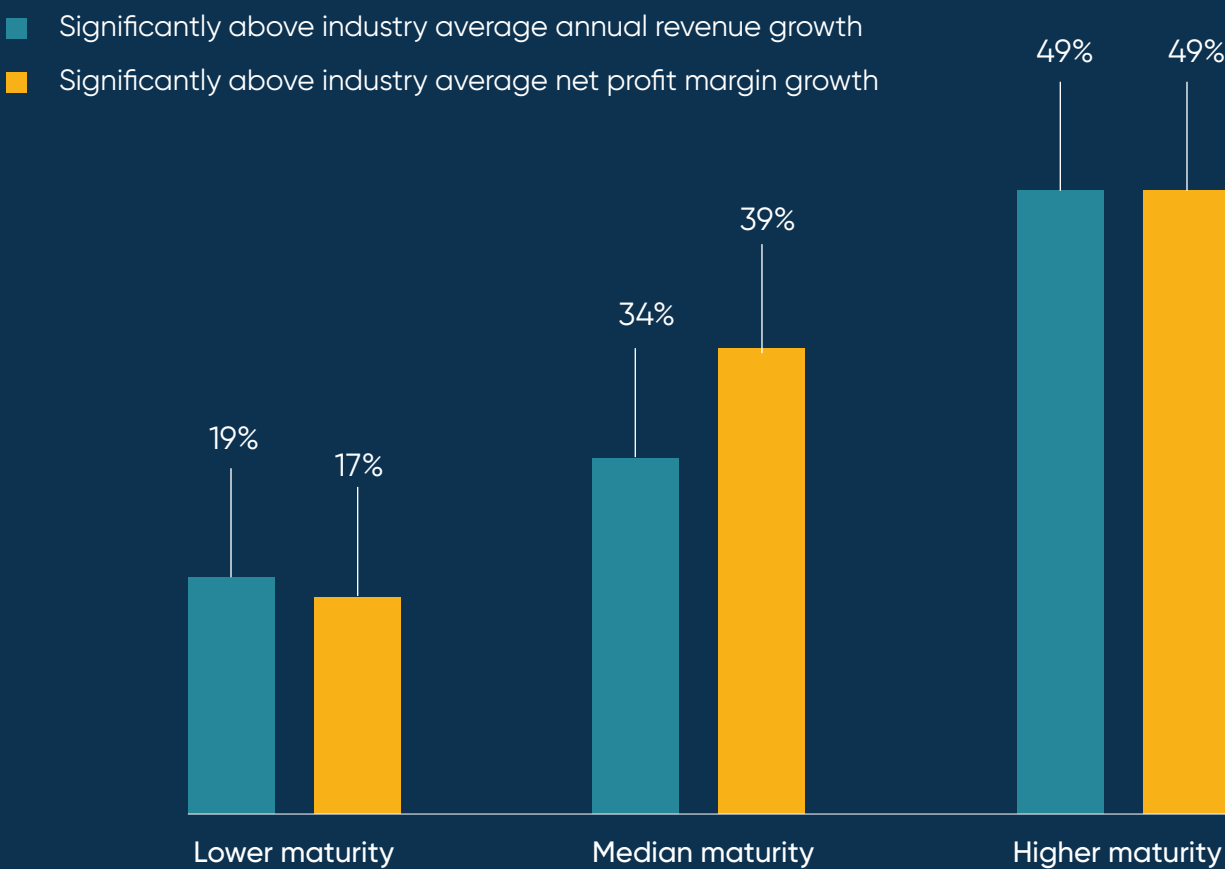
THE CFO'S ROLE IN DIGITAL TRANSFORMATION

A BEAN COUNTER OR A STRATEGIST?

As MIT economics professor **Rüdiger Dornbusch** once remarked, "Things take longer to happen than you think they will, then happen faster than you thought they could." This holds true for the digital transformation triggered by the COVID-19 pandemic. According to a **McKinsey survey** conducted around peak pandemic time, COVID-19 had accelerated technology adoption at an unprecedented pace. In fact, **63%** of leaders had embraced digital transformation earlier than anticipated, a process typically taking three to four years.

At the center of this change were the CFOs, who recognized the potential of advancing digital capabilities as a panacea for generating better quality data that could result in sharper analytics and actionable insights for stakeholders. Individuals who were thought to be masters of money matters, suddenly transformed into technology evangelists and the results were out there for all to see. Companies with a stronger digital maturity adapted to rapid digital transformations, giving them a significant edge over competitors. Deloitte research shows that **49%** of enterprises with high levels of digital maturity saw net profits way beyond the industry averages.

Digital maturity correlates with financial performance



(Source: Uncovering the connection between digital maturity and financial performance, Deloitte Insights 2020)

As organizations migrate to more effective digital operations, Chief Financial Officers (CFOs) must play a crucial role in guiding their organizations through the digital transformation era. This is a wake-up call for CFOs to take a deeper look at digital technology and reinvent themselves. The old mindset of finance as a back-office support function requiring minimal IT investment is outdated. The modern CFO is no longer limited to number-crunching and financial reporting. They must now understand how technology can drive growth and streamline operations within their company. In some ways, the CFO could well assume the role of a Chief Digital Officer in an organization starting the transformation process. Right from developing strategic plans for digital transformation to overseeing the implementation of new systems and monitoring performance against targets, the CFO must be well-versed in all things digital.

DIGITAL TRANSFORMATION – A NECESSARY DISRUPTION

Digital transformation is now more vital than ever as businesses strive to enhance operations and meet evolving customer expectations during the COVID-19 pandemic. According to a 2021 [Cornerstone Advisors study](#), only 25% of banks and credit unions had begun implementing a digital transformation strategy before 2019. In line with this urgency, a [survey](#) conducted by McKinsey found that 64% of business executives believe their companies must build new digital businesses.

According to a [2020 survey](#) by Twilio, a staggering 97% of executives revealed that the pandemic had significantly expedited their digital transformation. In fact, Microsoft 365 [reported](#) experiencing the equivalent of two years' worth of digital transformation in just two months during April 2020. These statistics highlight how data-driven changes and evolving customer expectations regarding products and services have propelled digital transformation.

Embracing digital transformation isn't a one-and-done deal; it's a process that calls for bold action and continuing adaptation. This means reimagining how a company harnesses technology, people, and processes. It involves revamping existing business methods or creating fresh revenue streams and models. It prompts us to question traditional operating models, encouraging experimentation and fostering agility in responding to customers and competitors.

Organizations are conducting large-scale audits to make the most of their digital investments. This process has brought to light missing capabilities and redundant or conflicting systems that were only identified when people began using them. In response to the dramatic disruption, many organizations have prioritized functionality over flashy features and undergone a healthy re-negotiation of their relationship with digital technology.



HOW CFOs ARE BEING COMPELLED TO PARTICIPATE IN DIGITAL TRANSFORMATION

According to the International Monetary Fund (IMF), the [global inflation rate](#) has decreased from 8.7% in 2022 to 7% in 2023. However, the growth rate is also declining, from 3.4% in 2022 to 2.8% in 2023, reinforcing the rationale for digital transformation.

Traditionally, the main responsibility of a CFO was to protect the company's assets and ensure compliance with reporting requirements. Today, they have surpassed their traditional financial roles and transformed into strategic partners across the C-suite. They are expected to play a vital role in driving business value, fostering growth, and enhancing profitability through digital transformation.

The accelerated pace of technological progress has reshaped the finance function, increasing the pressure on CFOs to remain relevant. As digital tools and data-driven insights become indispensable for improved decision-making, CFOs are compelled to adopt and leverage technology to remain competitive. The pandemic has amplified the urgency for CFOs to undergo transformation. This global crisis has disrupted business operations, financial markets, and supply chains. As a result, CFOs are now faced with the daunting task of navigating through unprecedented challenges. Now more than ever, they are expected to provide financial stability, mitigate potential risks, and foster resilience in uncertainty.

According to a survey conducted by [Gartner](#) in 2022, CFOs want to safeguard digital investments while reducing expenses in other areas. With digital acceleration as their top priority for spending, 98% of respondents indicated they would safeguard existing digital investments, and 66% said they intended to boost them.

As stakeholders pay greater attention to environmental, social, and governance (ESG) concerns, the need for CFOs with experience in tackling these issues grows. CFOs are increasingly being entrusted with incorporating ESG issues into digital strategy in addition to their regular responsibilities. This adds a critical dimension to their transformative mission as they pursue sustainable and ethical business practices.

The convergence of technological developments, the profound influence of the pandemic, and a heightened emphasis on Environmental, Social, and Governance (ESG) factors have collectively intensified the demands on CFOs to transform their roles and responsibilities. To thrive in this new reality, they must adapt to these changes and embrace new strategies, technologies, and mindsets to drive sustainable growth and create value for their organizations.

But digital transformation is no easy endeavor. Bombarded with an array of technological options, CFOs often feel overwhelmed. Past experiences of failed technology implementations have left them scarred and skeptical about promised returns on investment. Gartner recommends embracing **digital deflation** that promises a great ROI by reducing labor and production costs while increasing productivity and decision-making capabilities.

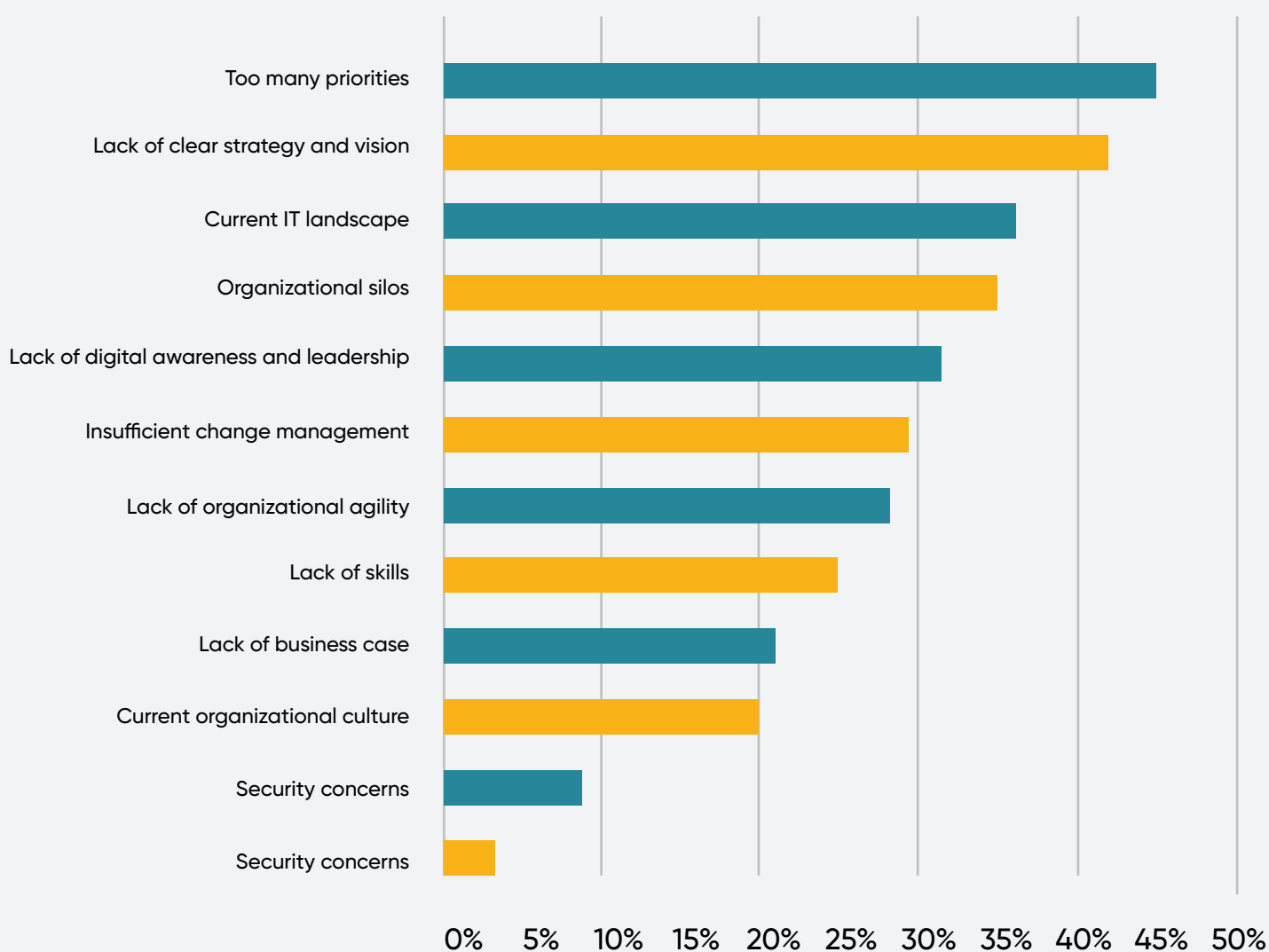


THE CFOS NEED TO BE DIRECTLY INVOLVED IN OVERCOMING THE CHALLENGES

McKinsey uncovers the challenges organizations face in embracing digitalization through the lens of four horsemen. War symbolizes organizational challenges; conquest signifies technology modernization hurdles; death portrays the inability to capture value; and famine represents poor resource allocation,

Let's dive deep into each of these categories:

The most significant threats to successful digital transformation within the CFO function:



% of all respondents selected the activity

(Source: Digital Transformation: The CFO's role, McKinsey & Company)

THE WAR ON ORGANIZATIONAL CHALLENGES



Data Security

Digital transformation offers organizations the opportunity to enhance their agility and foster innovation. However, it is important to acknowledge that it also brings about potential security threats and operational risks. As businesses continue to accumulate and store larger amounts of data, their susceptibility to cyberattacks also grows. The rise in cyberattacks can be attributed to the widespread adoption of digital technologies, the increasing significance of data, and the development of new technologies. Consequently, organizations are constantly under pressure to adopt digital trust technologies to safeguard their valuable data.

The CFO should collaborate with the company's IT department to ensure the proper protection of data. Compliance challenges pose a significant risk as businesses strive to meet new regulations. Additionally, the possibility of financial fraud adds further complexity. To navigate these risks effectively, companies must establish a robust risk management strategy before embarking on their digital transformation journey.

This is where CFOs can make a difference. By closely collaborating with the CIO, CFOs can ensure that resources are allocated to security measures while developing robust contingency plans. By actively raising awareness of risks and engaging leadership, the CFO can play a crucial role in ensuring successful digital transformation by identifying and assessing risks, developing mitigation plans, and monitoring progress.



Lack of internal alignment with stakeholders

The CFO is pivotal to fostering a culture of innovation and facilitating meaningful conversations that enhance internal alignment. They are responsible for maintaining open lines of communication and forging strong partnerships with CEOs, investors, and cross-functional business partners. This collaboration ensures everyone is on the same page and working towards the same goals, resulting in a cohesive approach to achieving success.

They should make sure that the whole executive team, including those in key roles like the CEO, CIO, and business head, are on board with the digital transformation strategy. They should also create a captivating investor story that encompasses the digital transformation journey and highlights how it will disrupt the sector, improve consumer relationships, and eventually benefit financial performance. In the event of disruptions, CFOs should collaborate with other stakeholders to strengthen the organization's capacity for adaptation, agility, and risk management.



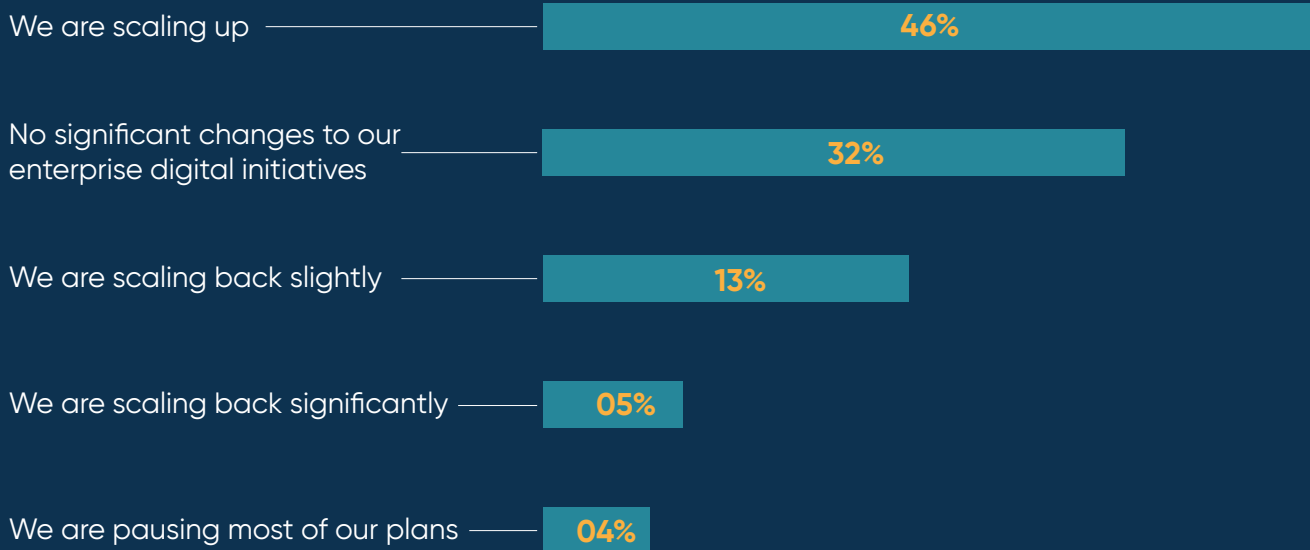
Lack of alignment with business goals

A successful digital transformation requires a strategic approach and alignment with business goals. Otherwise, it could become an expensive and time-consuming endeavor without tangible benefits. CFOs must establish their priorities and goals while regularly assessing the planned investments in digital technology to guarantee alignment with organizational objectives. The CFO must have an extensive understanding of digital transformation to establish a comprehensive strategy that maximizes return on investment (ROI). This requires in-depth knowledge of organizational data and an effective strategy for managing that data. Additionally, they must be equipped with strategies to mitigate potential business model disruptions. They should stay on top of the latest technology trends to ensure the company's digital transformation initiative stays on track.

A CONQUEST THAT REQUIRES TECHNOLOGICAL MODERNIZATION

CFOs' Enterprise-Level Digital Plans for 2022 & 2023

Percentage of CFOs and Finance Leaders



Source: CFOs 2022 Playbook for Enhancing Profitability & Driving Digital Acceleration Webinar, Gartner, 2022



Outdated systems and technologies

According to McKinsey, many companies are grappling with outdated technology systems that hinder their ability to keep up with the demands of digital transformation. Transitioning away from legacy systems can be daunting and time-consuming, as traditional linear processes and incentives may not align with the rapid changes and skill sets required for successful transformation. Companies need to embrace a more agile and cross-functional approach to navigate these challenges.



Underestimating the complexity of digital transformation

Digital transformation is no simple task. Companies must fully grasp the complexity of this endeavor before taking the plunge. It requires a comprehensive understanding of all the moving parts and preparation for unexpected challenges. It involves redesigning core processes and experimenting with new business models. When it comes to reinventing the core, it means revamping existing processes to bring them into the digital age.

Digital and analytics go hand in hand to drive organizational success. While digital entails revamping processes and leveraging technology, analytics involves gathering and structuring data to derive valuable insights using cutting-edge techniques. Despite making strides in digital transformation, many organizations lag in their analytics journey. In the current scenario, CFOs must embrace the power of cloud-based solutions, robotic process automation, and other digital tools. They should incorporate digital analytics into corporate strategy, efficiently allocate resources, collaborate with the leadership team, explain the impact to stakeholders, and lead by example to unlock a plethora of opportunities for growth and innovation.

On the other hand, exploring new business models requires creating innovative digital channels. At its core, digital transformation predicts how technology will impact your organization, recognizes disruptive forces, and capitalizes on new possibilities. CFOs should ensure that the digital strategy complements the organizational vision by analyzing the impact of digitization on business processes and identifying new business models. They should have a thorough understanding of the potential benefits and risks of the digital transition. This involves evaluating the financial repercussions of digital analytics in the coming years and recognizing potential opportunities for reducing costs and increasing revenue.



The Famine around resources and their allocation – Not considering the people factor:

Technology is just one aspect of digital transformation; it redefines how employees work. Moreover, the shift towards digitalization requires a fundamental change in mindsets and behaviors, making culture and talent integral to the process. Cultivating the right culture and attracting, hiring, and retaining talented individuals with diverse capabilities are key hurdles in achieving digital transformation. CFOs should invest time and resources in hiring the right talent with the necessary skills and experience to leverage digital investments and enhance the value proposition. Furthermore, CFOs can invest in training and development programs to empower employees to acquire new abilities and stay up-to-date with cutting-edge technologies.



AVOIDING DESTRUCTION THROUGH BETTER PLANNING



BUDGETARY CONSTRAINTS AND POOR ROI

Simply incorporating digital elements into the mix is not sufficient. Companies must prioritize value adoption and change management within the business to truly reap the benefits of digital transformation. Additionally, CFOs should consider investing in new technologies and tools to optimize operations and enhance efficiency.

Additionally, the CFOs should track important metrics and key performance indicators (KPIs) to gauge the efficiency and effectiveness of rolling out new technologies and processes. These metrics include employee satisfaction levels, which provide insights into the overall morale and engagement within the organization. Furthermore, tracking the financial impact of digital transformation initiatives is crucial in understanding the direct costs of implementing new systems and the indirect costs associated with increased employee productivity.

Another important aspect of the CFO's twin role relates to avoiding the common pitfalls that any digital transformation exercise brings with it. A successful digital transformation exercise requires adequate funding, which the CFOs need to consider as part of the organization's larger budgetary goals and outcomes. This obviously means aligning the digital goals to the company's business goals, failing which the process could result in loss of time and resources with no tangible benefits. Furthermore, digitally transforming a business requires changes in staff mindsets, which is where the CFO also needs to incorporate the human element while preparing and implementing digital strategies.

This is why companies must find a delicate balance between giving back to their customers and capturing the value they need to thrive. In today's digital age, businesses must create new service models that enhance their product offerings, enabling them to extract more value from the digital realm while reducing cost structures. This strategic move becomes even more vital as consumer demand starts to decline. By breaking free from rigid year-on-year planning cycles, companies can adopt a more flexible approach that allows for strategic technology investments and operational adjustments.

IN CONCLUSION...

The role of the CFO is rapidly evolving as businesses embrace digital transformation to stay competitive in an ever-changing business landscape. No longer limited to mere bean counters, CFOs are now shouldering new responsibilities as architects of digital transformation within their organizations. By embracing digital technologies and leveraging data analytics, CFOs can empower their organizations to make better-informed decisions, enhance operational efficiencies, and create sustainable growth opportunities. CFOs have emerged as strategic leaders, driving innovation and shaping the future of organizations.

