practus

Results. Delivered.

STRENGTHENING **REAL-TIME** DECISION-MAKING CAPABILITIES OF **CFOs**

The responsibilities that a chief financial officer is expected to fulfill today are broader and more diverse than ever before. The Covid-19-led disruptions, the geopolitical and economic uncertainties, and the wider adoption of technologies under the digital transformation agenda has resulted in CFOs increasingly becoming pivotal to their organization's strategic agenda. Over the past two to three years, the area of influence of a CFO has increased, moving beyond the realm of finance to that of a leader exploring how to accelerate the pace of change as enterprises transform towards meeting modern day challenges.

In an earlier era, CFOs were called upon to report their company's financial health and predict the immediate future. They used a mix of data, intuition and experience to interpret the numbers and provide support-cases for business decisions taken by the Board. The account statements, journals and financial reports from past years were the collective crystal ball that CFOs gazed into to predict the future. Today, they leverage real-time data, a myriad flow of information from multiple sources and advanced analytics to keep abreast of the world and shift over to agile decision making.

A report by McKinsey says, 'the "The S curve of CFO leadership would include at least a couple of new areas. With digital transformations becoming a way of life, CFOs would end up playing a different role - that of a decision-maker who accelerates deployment across multiple business verticals of a company. Moreover, with ESG becoming a non-negotiable part of compliance, the CFOs would require access to a larger set of real-time data than ever before."

The chart below shows how the number of roles that report into the CFOs is increasing steadily. Given this trend, CFOs now need to embrace real-time data analytics and forecasts that can guide the prospective performance of their organization. They are becoming strategic business partners, moving beyond data analysis to performing the following roles:

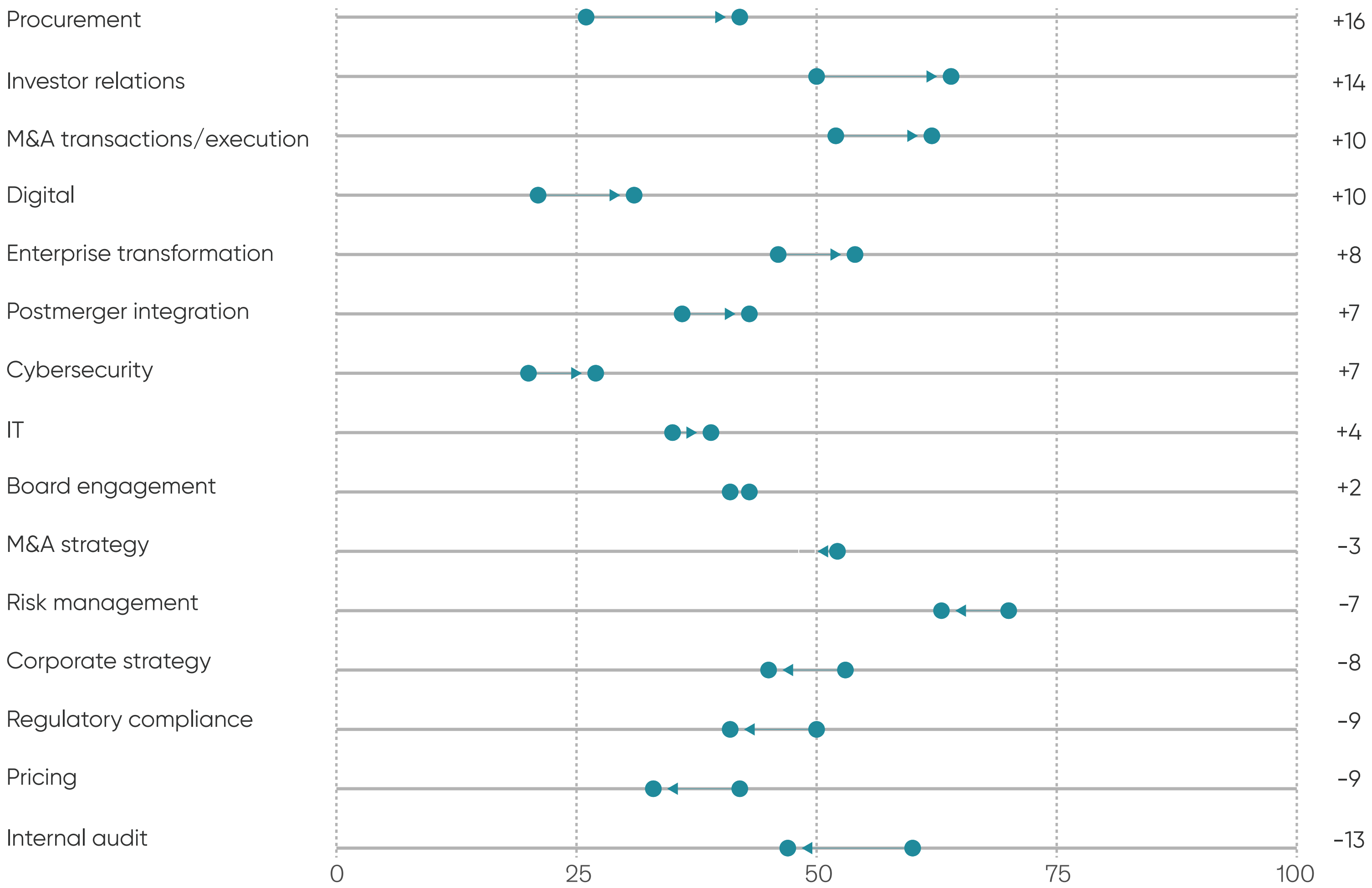
Varying CFO roles

- **Becoming a growth catalyst that can identify new opportunities to scale up and maximize business value across projects**
- **Leveraging data to become a performance and risk manager**
- **Encouraging innovation and disruption within the organization to improve its competitiveness and agility**

Therefore, CFOs will also be expected to take on the responsibilities of data privacy, digitalization, and key technology investments for their enterprise.

The number of roles reporting to the CFO continues to increase.

Share of roles in direct reporting relationships to CFO, %



Note: Respondents who answered “don’t know” are not shown; n = 169 (2018) and 151 (2021).

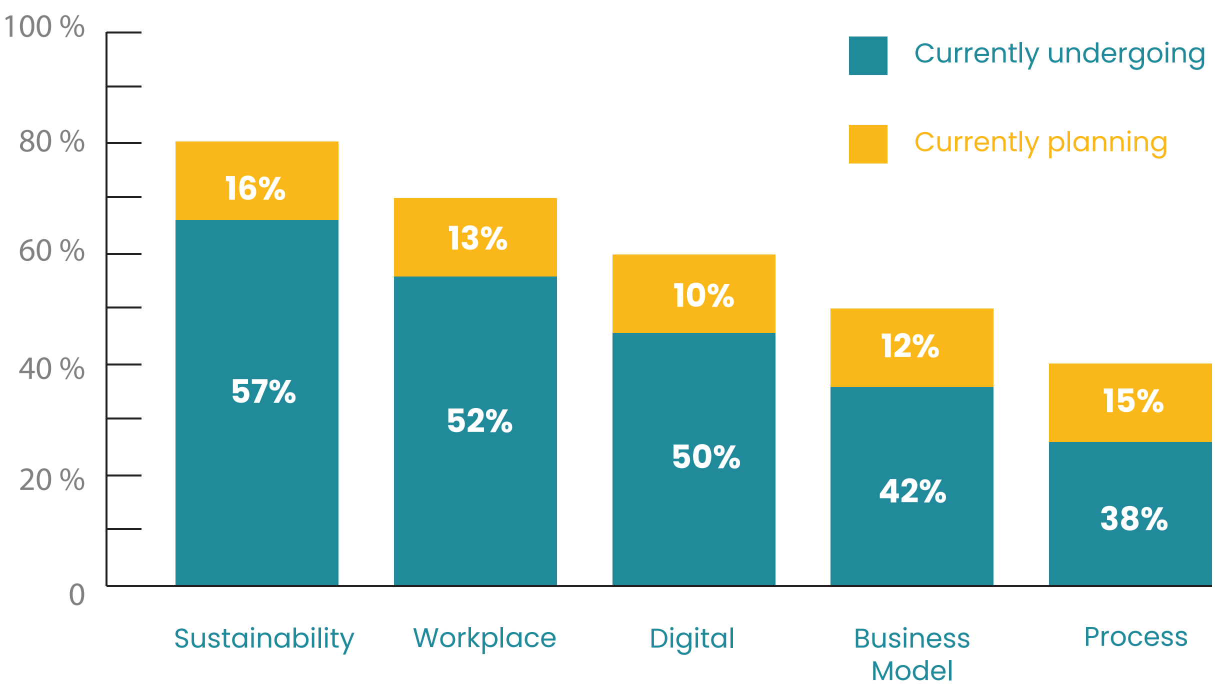
Reference:

The new cfo mandate (2022),Mckinsey Insights Available at (https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/in-conversation-the-new-cfo-mandate)

From Reactive to Predictive – The Changing Dynamics .

The surfeit of data has made it imperative that at an organizational level, decision-making relies exclusively on information threads coming from across an organization. The Accenture CFO Decision-Making Survey of 2022 highlighted the fact that a whopping **93%** of those surveyed felt that their responsibilities were much higher than ever before. While **86%** of the CFOs said the speed of their strategic decision-making had gone up, **67%** accepted feeling paralyzed at times by the number of decisions and the volume of choices they were expected to make. As the pace of business increases, so does the complexity, making yesterday's organizations often feel helpless to tackle today's change. In the survey, **90%** of the respondents felt their company was undergoing an accelerated digital transformation towards optimizing operations and fuelling growth.

Types of transformation CFOs are leading



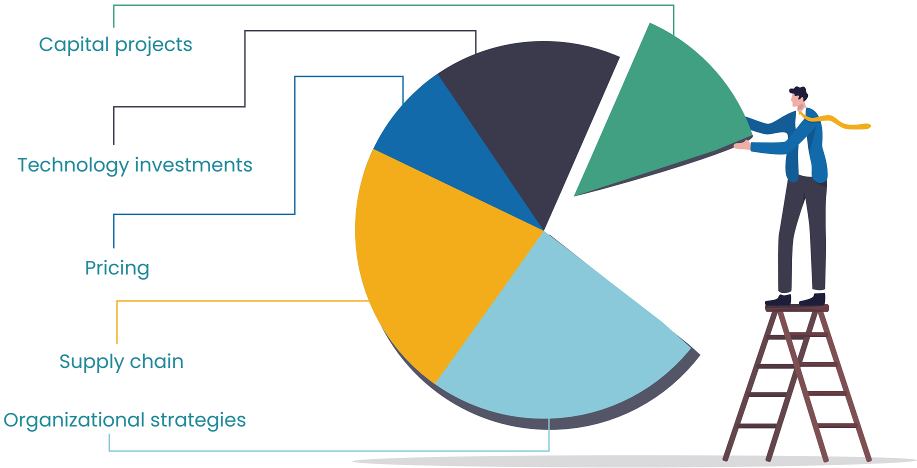
All of this can hardly be done by an individual or a group of people without adequate predictive prowess. Jack Welch, former chairman and CEO of General Electric once said that

"Too often we measure everything and understand nothing. The three crucial things one needs to measure in a business are customer satisfaction, employee satisfaction and cash flow."

To navigate today's global business landscape, the CFOs must transform the data, its measurement and analysis in order to paint a clear picture that would guide strategic decisions. This is the reason real-time information becomes the lifeblood of an organization.

CFOs as Catalysts of Real Time Decision-Making

As digital transformation technologies change the central role of CFOs from "number crunchers" to "strategic thinkers," they must partner with the CIO and other top leaders to build a culture of real-time decision making. Besides being the reporters of financial performance, they have to conduct active analysis and offer insights to leading new business initiatives.



While organizations may have a diverse set of requirements based on their industry and the geographies, some typical decisions that matter for most of them and need inputs from both CFO and CIO include the following:

Capital projects

The fast-changing business environment witnessed in recent years means that companies are constantly making strategic calls on what investments are to be made and where. Take the example of Apple Inc. which faced severe supply side constraints in the post-pandemic period. The question to be answered was whether they should shift some of the production out of China, and if so to which other geographies. In terms of capital allocation, how much should be used where and in what categories? Would the iPhones be a priority, or should they first look at accessories such as the Airpods? Is there a reason for retiring some part of the production facilities from one geography or should it be done over a period of time?

Technology investments

Form another crucial area that needs to be prioritized. The CFO would need to provide a detailed and objective view of where the optimization of current workflows needs to happen and how it would impact both customer and employee experiences

Pricing

Strategies form an equally crucial function for the CFO as several stakeholders would present their own version of what could be the most effective pricing strategy. Continuous data inputs around competition would bring forth the question of when the strategy should change and on what grounds? A prime example of this could be seen in the way smartphones in the Android ecosystem get priced across geographies.

Supply chain

related questions could include what would be the most effective sourcing decisions to reach our goals and satisfy customers and how to optimize sales operations while ensuring supply chain flexibility?

Organizational strategies

include how the company's mission, vision and values are being played at any point in time and what would be required in terms of talent to manage any change. A report by McKinsey says while the CFO is driving long-term performance, a keen eye should be on managing the talent flow into the company. In fact, 40% of the respondents in a survey felt that CFOs are leading the charge on talent, including setting incentives that are linked to the company's strategy.

While harnessing digitalization for such decisions, they also have to connect the dots between their organization's customers, key performance indicators, cash flows and growth.

The key points to consider in this regard would include:

In 2023 and beyond, CFOs will have to address the issues posed by legacy data. Instead of pulling information from disconnected spreadsheets and charts, it is essential to have a reliable and single source of truth, a north star that reduces the errors typical in manual processes and improves decision making.

While overcoming the issue of data silos, CFOs should also ensure the accuracy and audit-readiness of company financial statements. This is even more critical for public companies and banks whose operations typically impact businesses across industries.

Applying Automation to Support Real-Time Decision Making

When robotic process automation (RPA) technology automates transaction-heavy and manually intensive tasks that require conciliation, it not only drives down operational costs but also boosts CFOs' decision-making abilities. Their teams can retrieve and compile data from various back-office systems, reconcile the amounts such as invoice payments–and take actions to fill the gaps in real time.

Most organizations have automated only about one-third of their financial and accounting processes, even though at least 80% of such tasks can benefit from robotic process automation (RPA) and custom software systems. These include general accounting operations, revenue management, financial planning and analysis, risk management, and financial reporting.

CFOs need to check where exactly automation of routine tasks can free up finance teams for more creative work. The ones who have already started deploying such technologies should consider going a step forward with AI, machine learning, and blockchain to maximize process efficiency and business value. As the use of RPA for finance functions increases, reports can also be updated in real-time and support the decisions that matter for different departments.

Preventing Fraud and Cyber Threats

Being the financial guardians of their company, CFOs need to take on the responsibility of risk management. This includes preventing fraudulent transactions and investing in cybersecurity. It is critical to safeguard sensitive data and avoid the potential costs of cyberattacks.

Addressing the challenges posed by the cyber landscape is not easy because risks are evolving faster than companies can react. Threat actors are well resourced–they no longer use "'smash and grab" ' tactics but focus on maintaining their presence for years to cut through the security measures used by an organization. They employ innovative techniques to evade classic controls such as firewalls, antivirus systems and IDS/IPS.

It should also be understood that not all cyber criminals are after credit card data –some of them aim to unsettle what makes an organization better than its competitors.

Ensuring Compliance

CFOs play a predominant role in maintaining regulatory compliance for their organizations. The year 2023 will bring some challenges in this domain too. For example, recent updates in generally accepted accounting principles (GAAP) around lease accounting, the necessary disclosures on environmental, societal and governance (ESG) norms, and changes in fair lending reporting call for major focus on compliance. CFOs may also have to depend on external auditors to ensure the implementation of the changes to come.

Managing Taxes and Industrial Regulations

With constant changes in macroeconomic environment and political climate, CFOs have to stay focused on tax policies and regulatory risks. An increase in corporate tax may be announced in any central or state budget. Currency performance at the global level can go from bad to worse.

Changes in GST, VAT, import duties, as also international trade policies have a measurable impact on business operations. CFOs will be increasingly challenged to give time to scenario planning to mitigate the risks of such issues.

Supporting a Remote Workforce

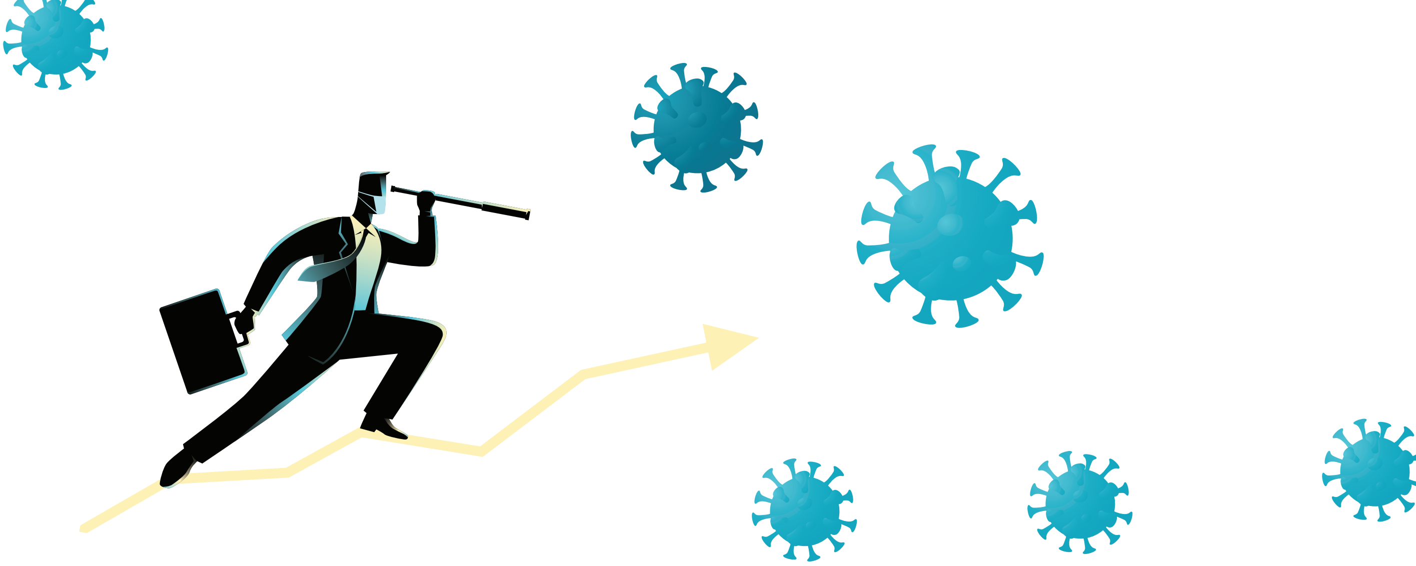
The shift to remote work is real and it brings both opportunities and challenges for CFOs. The organizations that recorded success with complete work-from-home or hybrid work models are rethinking their investments in physical workspace and virtual collaboration technologies.

The challenges in this context for CFOs with remotely working financial teams are the likelihood of, and increase in employee burnout. The blurring lines between work and home life can lead to unsustainable stress.

To prevent productivity loss and attrition, they need to rebuild their work culture.

Accelerating Post-pandemic Growth

Another big challenge for CFOs is to ensure that their enterprises are is prepared to accelerate the growth that they have missed in the past two years. As the fears of recession increase, this will not always be enabled by cost-cutting. The focus will have to pivot to building better total experience (customer and employee experience), strategic investments and partnerships – mergers and acquisitions.



The Hallmark of Future-Ready CFOs

One cannot expect CFOs to be totally free from their instinctive need for spreadsheets. However, their progress on managing their expanding roles will depend considerably on their capabilities for innovation within their companies. Indeed, they should accelerate the pace of change to survive and thrive despite economic headwinds.

Working in tandem with other business leaders, CFOs will have to leverage their knowledge of business performance to adopt growth-oriented innovation for finance functions. Tools for predictive analytics, dashboards and KPIs will play critical roles here.

CFOs and their teams have to optimize the digital transformation functions by considering the inventory of core use cases and determine where they stand with different technologies that broadly include:

Automation and robotics

to streamline budgeting in cloud based platforms, automate data reconciliation, and standardize report generation

Data visualization

to combine information from disparate data sources, turn it into dynamic dashboards and share relevant insights with stakeholders

Advanced analytics for finance

to conduct top-down scenario analysis and develop demand models for optimum working capital and inventory management

Advanced analytics for business

to support optimization of pricing and SKU lineup and create predictive models for early warnings

The key consideration while implementing these tools and technologies should be the potential value obtained from digitization. CFOs can interact with managers to know the pain points for different financial processes, such as slow reporting and inadequate data. They should also review the technological capabilities of their organization with IT personnel to define new system requirements and investments. Involvement of the cybersecurity team is critical to choose the digital tools that can be safely used for finance functions and mutual concerns must be actively addressed.

In some companies, the CFOs may have to rethink compensation schemes and incentives and to combat change-resistance and reward those who offer their support in building new digital finance functions. Such incentives will also enable the organization to attract more digital talent.

Forging a real partnership at the strategic level

As they harness the strengths of evolved digital transformation technologies to improve their real-time deciAs they work to build digital finance functions, CFOs must also address critical organizational and skill-related issues. They must have a clear vision of digital finance functions and how they relate to the organization's business and digital transformation strategy. For such tasks, a CFO and other C-suite officers may also have to publicize their digital agenda by sharing success stories during team meetings and townhalls.sion making capabilities, CFOs will not only help finance teams work more effectively, but also become efficient partners to CEOs and other senior leaders who spearhead business decisions.

It is understandable that for all the benefits of finance function digitalization, there will be issues that an algorithm or bot may not be able to address. For example, when a team has gathered meager data or when it has to evaluate alternative strategies for decisions that matter for a longer period of time, human expertise and judgment will be important. Fortunately, with the right planning, the opportunities with new technologies far outweigh their risks at this point of time. And the mandate is therefore clear CFOs must create - and share with other C-suite officers - their vision for digital finance functions. It will help them to shape the growth of their organizations and gain insightful experiences along the way. All they need to do now is to take the initial steps.

practus™

Results. Delivered.

roibypractus.com