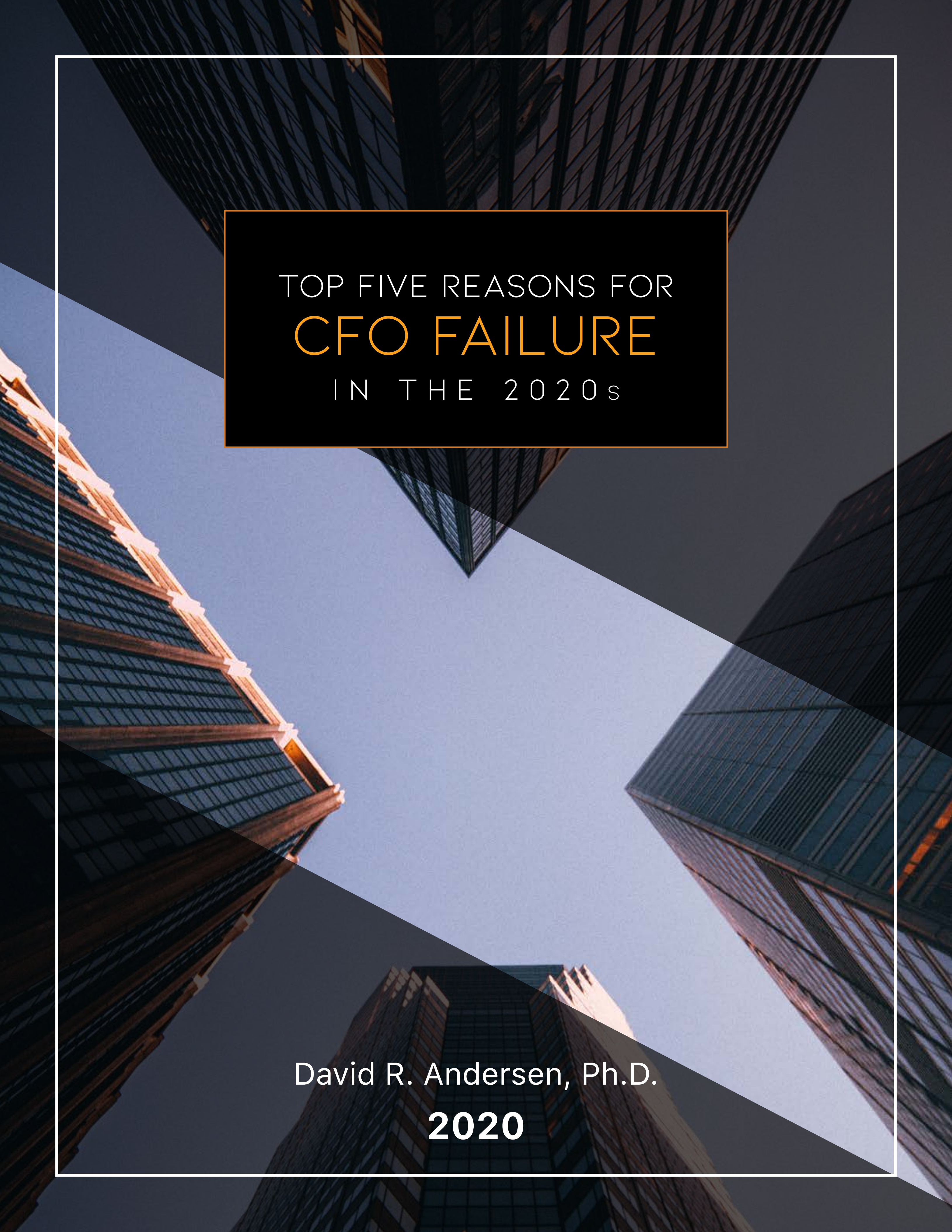

TOP FIVE REASONS FOR CFO FAILURE IN THE 2020s

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2020

Introduction

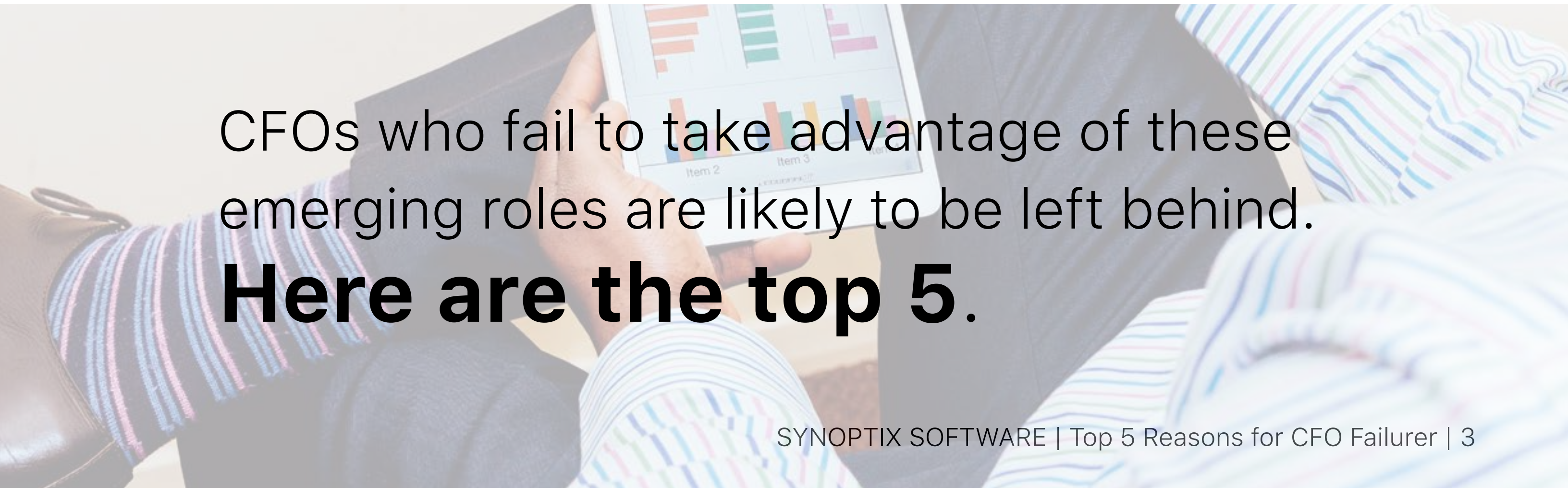
A major transformation is occurring for CFOs and it's one of the most significant ones we've seen in decades. The extent to which this is true is most clearly seen by the CFO's evolution over the last seventy years, in which the role has moved from mainly supportive to strategic enabler and second only to the CEO.

After years of moving beyond traditional back office duties, CFOs are now positioned to drive additional value, enable strategy, and improve corporate efficiency in ways never seen before. According to Accenture Senior Strategy Executive Principal, David Axson, "In virtually every company we look at, the CFO is becoming the second most important C-suite executive, sitting at the right hand of the CEO and articulating a story about the financial results they expect to realize."

Mirroring other changes in the market, much of this is being driven by new technologies (such as advanced analytics, robotics, and AI) promising to automate repetitive tasks and free up finance to play a central role in the organization's strategy-making process. While dramatic, the transformation should come as no surprise. Over the last few decades we watched as entire industries were disrupted, with previously unheard of companies taking command in verticals ranging from taxi service to media. While Silicon Valley has come to symbolize the new economy, technological advances are streaming in from everywhere and threaten to leave CFOs behind who don't embrace the changes rippling through every industry and their function in particular.

Experts agree that the biggest cause for the change is the rapid digitization of organizations. McKinsey reports that the share of digital activities CFOs oversee has doubled in the last few years. As technology adoption increases and lightens finances transactional and reporting burdens, the CFO's role in shaping corporate strategy is taking on new dimensions. In fact, finance itself is taking on a new shape as the partnership between finance and automation changes how the function operates. As the data scientists and analysts begin to predominate, CFOs will be expected to identify and close gaps within an organization that's increasingly data and insights driven.

While these are all exciting developments, they hold promise only for those who take the bull by the horns and make the transition along with their forward-thinking colleagues. To this end, the present white paper is intended to point CFOs in the right direction as they determine where to spend valuable time and resources as we enter a new decade. As you'll see, there's general agreement around the top 5 areas that will demand the most attention from finance leaders.



CFOs who fail to take advantage of these emerging roles are likely to be left behind.
Here are the top 5.

1

Failing to Take Charge in Digitization and Cyber Security

Perhaps the biggest shift in the traditional role of the CFO is that of leading the digitization effort across the organization, which has doubled over the last few years. While the CIO or head of IT has been the past driver of technology adoption, the CFO is emerging as a critical link in the business' evaluation, justification, and implementation of digital solutions. The transition makes sense as CFOs are the natural guardians of the organization's finances and are best suited to evaluate the cost/benefit consequences of expenditures.

> [CFOs] require more focus on their roles as catalysts, as well as strategists.

Because of this, it's generally agreed that CFOs will need to be more digitally sophisticated in order to leverage technological innovation. Deloitte CFO, Frank Friedman, predicts that a world-class finance organization may soon be defined by how well it uses innovative solutions that leverage technologies like mobility, software-as-a-service, data visualization, and predictive analytics to drive cost efficiencies, identify emerging business opportunities, and sound the alarm when the organization is at risk.

CFOs will thus have to be more strategic in their thinking about how to drive the organization's digital transformation. That will include things like developing capital capacity and allocation planning in order to achieve digital strategic objectives, as well as identifying the KPIs that can measure the success of digital investments. Friedman says that will likely "require more focus on their roles as catalysts, as well as strategists." Not only will CFOs need to map out questions the new technologies need to answer, but they'll have to refocus on the talent required to make the new tools and insights effective.

We're seeing a lot of evidence for Friedman's conclusions. According to Accenture's analysis, 349 high-growth firms were identified as greatly exceeding their growth targets; and in these firms, **CFOs are more likely to be driving transformation and are more likely to say their data and analytics capabilities are strong**, which suggests a strong correlation between business performance and the expansion of the CFO's leadership role. In addition, these CFOs say that they're implementing real-time or near real-time monitoring of business performance. This is telling, especially in light of the fact that 76% of CFOs agree that without a single version of the truth, organizations will struggle to meet strategic objectives.

For finance as we enter the 2020s, this means automating routine processes, embracing digitization, and using new AI technologies as part of the longer-term strategy. Doing so will eliminate the drudgery of data entry and dramatically reduce errors, along with significantly reducing the time it takes to close the month/year. In fact, to remain competitive many companies are investing in new technology to help defray rising input prices. As prices increase, companies need to consider whether to push higher costs to customers or look for ways to improve efficiencies, which new technology adoption can do as it allows teams to work better, faster, and more accurately.

69% of finance teams are still using spreadsheets to manage their financial reporting process.

This is all the more critical as recession worries continue, and because a whopping 69% of finance teams are still using spreadsheets to manage their financial reporting process. Not only are spreadsheets outdated and ill-suited for today's enterprise, but they're killing teams' productivity and preventing them from making sound and timely decisions. Mark Schoolcraft, CFO of Midwest Industrial Supply, comments:

> *"Because accounting is the language of business, we need financial people who can embrace the new technologies that allow us to better understand our entire operation and, at the same time, provide good financial management. As we apply new technology to transactional work, analytics will become their core competency. So as CFO, I have to be involved in systems - not only financial systems but business systems - and making sure I have the right people on my team."*

According to Accenture, CFOs are getting the message, with 77% heading efforts to improve efficiency through the adoption of digital technology. With solid options - such as the business intelligence software Synoptix - that would drive efficiencies and deliver business-critical insights, CFOs will falter if they don't plan for quick adoption. The question will be, how effectively can they roll out digital solutions and deal with the human bias for maintaining the status quo?

Still An Uphill Climb

Even with the best intentions, CFOs have some challenges ahead. For starters, there's the harsh reality that only 34% of finance tasks are automated. Accenture estimates that 60-80% of backward-looking accounting activity can be automated; and yet, even by 2021, CFOs see less than 50% of all finance tasks being performed by machines. McKinsey reports a bleaker reality, however, with two-thirds of its survey respondents saying that 25% or less of their work was digitized or automated in the past year, and that the overall adoption of technology is low. Only one-third of finance respondents say they're using advanced analytics for finance tasks, and 14% report the use of robotic process automation. The reasons vary across surveys, but 38% worry about employee resistance to working with their emerging non-human colleagues - a legitimate concern and one we've highlighted elsewhere.

67%

Report insufficient skills as a top problem to finance analytics

On top of that, 53% of CFOs worry that the finance function is reactive or that information-sharing isn't streamlined. Combining disparate information is also a challenge, with three in ten CFOs seeing the need to combine financial data with other information as an obstacle. However, as Accenture notes, "our research suggests that untapped value from financial data alone is significant, even before this information has been combined with other enterprise data sets." Clearly, there are massive gains in digitizing current tasks that are manually intensive, so CFOs will need to prepare their teams to automate any repetitive tasks and processes.

25%

Or less of their work is digitized

Finance's poor digital adoption rate is thrown into relief with the rest of the organization, which 64% of CFOs acknowledge in their concerns about being out of sync with the rest of the company. And unfortunately, fewer than half say their digital investments match or exceed anticipated returns. Gartner's research is even more dispiriting, noting that 76% of CFOs report lagging ROI from technology investments because of long implementation timeframes and slow adoption, but only 24% are confident in their ability to solve it. Insufficient skills rank as a top problem related to finance analytics, with 67% saying it's important or extremely important, while only 28% say they have high or extremely high confidence in solving it. These numbers are especially relevant because one of the top problems consistently cited by CFOs is insufficient forward-looking information in management reports. A full 76% said this is important or extremely important to the organization, while only 52% said they have high or extremely high confidence in solving it.

76%

Report lagging ROI from technology investments

While CFOs have a climb ahead of them, it will be essential that they skillfully navigate the rocky terrain in order to arrive at their data-driven destination. As Mark Garrett, Adobe CFO, points out, CFOs need to build on a foundation of data insights - because as the business becomes more digital it becomes more measurable. The trick, he says, is to turn digital data into insight and draw conclusions that help drive the business. **What if you had access to data that you hadn't previously tracked**? Ignore the insight and you only measure returns; but **handle it correctly and you have an opportunity to drive new sales.** That's the kind of insight that can help CFOs run the business and make better decisions. Yet it's also a warning. CFOs who neglect the adoption of appropriate technology will put the organization at risk against their better prepared competitors.

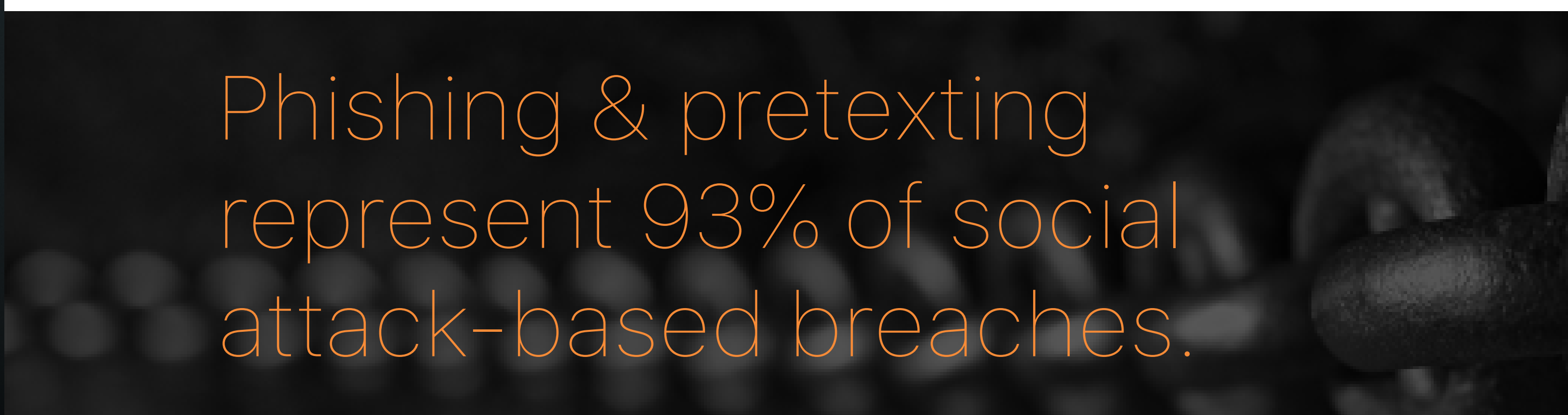
Cyber Security Threats

Research shows that the average cost of a data breach to an organization is $2.4 million. Why does it impact the CFO? In 2018 alone there were 4.5 billion records breached that added up to a loss of more than $2 trillion dollars. As Jeff Thompson of Forbes notes, “It is a price tag and a risk that could keep a CFO up all night.” We’ve noted how much the CFO role has evolved over the last two decades or so, and given the magnitude of cybersecurity risks, today’s CFOs are in the best position to budget, allocate resources, and prioritize cyber defense for the entire organization. Thompson concludes that the “CFO, who is accountable to the entire organization for financial health and stewardship, should be creating heightened awareness about cyber risk.”

One of the top reasons is that 76% of cybercriminal activity is for the purpose of financial gain. Cyber-espionage and the theft of intellectual property drive 47% of all manufacturing IT breaches alone. With 68% of those breaches taking months or longer to discover, it’s troubling to think about how much data has already been exposed to bad actors. Organized crime organizations are behind 62% of external breaches. No industry is immune to cyber risk, and CFOs will need to make sure their organizations continue to increase the quality and speed of their efforts.

This will often mean that they need to convince their CEOs and board members of the importance of security best practices. Given that CFOs say their board engagement activities has risen from 24% to 42% in recent years, it’s apparent that they’re being given more opportunities for doing so. The urgency for this is heightened by a Deloitte survey of CEOs and board members which showed that only 30% describe themselves as highly engaged in developing their organization’s cyber strategy; yet this is key to moving from identifying security threats and fixes to defining business impact, risk escalation steps, and organizational responses. While it’s tempting to feel comfort in current security processes, system admins have been shown to be the top internal people responsible for breaches 25.9% of the time. This is all the more important because databases are the top assets involved in breaches.

In terms of their sophistication, Cyber criminals have advanced to the point that they're fooling the highest levels of the organization. Beginning oftentimes with email attacks, companies have been exposed to breaches that defy belief. Phishing and pretexting represent a whopping 93% of social attack-based breaches. 99% of the attackers are external to the organization, and 59% of these are motivated by financial gain, with an additional 38% aiming at corporate espionage. The well documented Verizon study showed that phishing is used as the lead strategy of a more expanded attack, followed by malware installation that gives criminals access to corporate data. Social breaches gain access to personal data 47% of the time, proprietary IP or secrets 25% of the time, and credentials which are used to launch compromised credential attacks 16% of the time.



Phishing & pretexting represent 93% of social attack-based breaches.

Thompson suggests three ways CFOs can have an impact on greater cybersecurity.

- The first is to have a partnership with the head of IT. While CFOs used to confine themselves to finance, their influence over enterprise-wide controls has been expanding; so they can serve as a much-needed bridge between IT and other departments, including the C-suite. "Working across functions to manage risk is the hallmark of today's CFO."
- Second, because CFOs are the ones estimating the financial impact of cyber attacks, defining strategies, and identifying where to commit resources to counter threats, they need to take center stage in the cyber threat solution.
- Third, CFOs need to prioritize threats and decide how to deal with them. One obvious threat that needs attention is the fact the employees need access to data to do their jobs, which creates an inherent risk. CFOs need to partner with other executives to balance the needed access with appropriate security protocols to reduce the organization's exposure to data breaches.

2

Failing to Assume Responsibility for New Talent

Experts agree that a top finance obstacle for the coming decade will be a lack of people with the right skills. While CFOs need to be people that can cut through bias and provide honest answers to tough questions, their ability to do so will increasingly depend on the team's IT knowledge. This is why Accenture points out that the most significant dilemma will be recruiting people who understand how to collect and use data. A full 81% of CFOs confirm that data storytelling is now an essential skill.

According to Christian Cuzick, VP of finance at Johnson & Johnson and CFO of Johnson & Johnson Vision, "These days, I probably spend 30% to 40% of my time just trying to figure out how to get good talent." The fact is that the skills companies are looking for now are far different than they were a decade ago. Cuzick says that ten years ago the typical finance person was really strong in accounting, auditing, and compliance. Today, the bigger priority is analytical work by people who are naturally business-minded and understand the industry - people who understand how to organize data, understand the database structure, and how to get quality information out of it. "That's the wave of the future," Cuzick notes. However, one study shows that 44% of CFOs say they don't have the skillsets in finance that will deliver the most value to the business in 2025.

What's evident then is that CFOs must make dramatic changes to their workforces. Declan Doyce, CFO of NOONAN in the UK, remarks that the "generation that's coming in now - particularly at the more junior levels - will be appalled to have to put together a set of numbers rather than just be given them. They expect your systems to be good, and having leading-edge technology in finance is a must-have." Doyle notes that when hiring finance talent, it's particularly important that people know that the company embraces new thinking. Adopting current technology is thus an important aspect of recruiting the talent you'll need tomorrow.

> CFOs must make dramatic changes in their workforces.

As exciting as it is to hear that 78% of junior finance people say that there's never been a more exciting time to be a finance professional, it's also a wake-up call for finance to ensure the tools are in place to keep them engaged. While 51% of the younger generation of finance professionals are eager to embrace new technology, an additional 44% say they're willing to move forward when they have the right training. Thus, the onus is on the CFO to provide the right training and seize on the team's enthusiasm, making it one of the top priorities for the coming decade.

3

Failing to Account for Execution Risks

This comes in many guises, so it's not surprising that CFOs routinely cite it as a particularly worrisome internal risk. Three drivers surface to the top: resources, alignment, and behavioral risks. Projects that upset the status quo and drive at transformation can be quickly derailed by things such as insufficient budgets, insufficient resource allocation, demoralizing workloads, and deficient skills. The other killer can be a lack of team support, ineffective governance, and a cultural resistance to change. **The CFO can increase the odds of success by ensuring enough resources (and the right ones), aligning governance to execution, and helping teams overcome resistance to impending changes.**

With the emerging technologically-centric role of the CFO, the ability to bring about substantial cultural change in the finance team is becoming critical. McKinsey notes that "the opportunity for CFOs to establish the finance function as both a leading change agent and a source of competitive advantage has never been better." While in one study CFOs rate themselves highly in "soft" interpersonal skills, they're least likely to rate themselves as "proficient" in strategic change management. 58% say the CFO is responsible for digital change, but half admit that their organization's execution of change management is falling short. All the respondents in this study (over 500 CFOs of companies of at least $1B in revenue) recognize that empowering teams with new digital tools will be key, but they also recognize the importance of executive buy-in. Many risk being left behind because of implementation paralysis and a skill gap in managing change for the finance team.

We've given some helpful suggestions along these lines here for additional resources.

4

Failing to Develop A Multidisciplinary Skill Set

Friedman suggests that a major differentiator separating highly successful CFOs from others will be the ability to operationalize and execute strategy based on data-driven insights. They're already expected to act as a strategic advisor on growth and serve as the steward of the bottom line, but they'll need a much more multidisciplinary skillset and broader career experiences than in the past to do what's now being demanded. That may mean acquiring skills outside of finance, such as holding positions in sales and marketing or running another business unit. "Aspiring CFOs should purposefully collect a more well-rounded set of career experiences that play across the broader spectrum of an enterprise." McKinsey reports that finance leaders are being asked to resolve issues in relatively new areas while minding their traditional responsibilities, and that the number of functions reporting to CFOs has risen from about four to more than six. In part this is being fueled by corporate initiatives, with 44% of CFOs saying that transformation leaders - whether they occur within finance or across the organization - report directly to them. And more than half say they've been actively involved in the transformation strategy themselves.

> "More than half of CEOs say they've been actively **involved in the transformation strategy themselves.**"

And it's not just the CFO role that's undergoing transformation. Two-thirds of finance leaders believe they should train executives in non-finance functions to take on finance activities such as reporting, planning, budgeting, and forecasting. Things like self-service, which empowers people to get more personalized information without having to rely on others (such as IT), has promise. In fact, a substantial majority (78%) of CFOs believe self-service will emerge from digitization. Thus, the broadening of functions is occurring throughout.

For CFOs in particular, numerous factors point to the need for more multidisciplinary experience. **Rising regulations** in many countries will require them to work more closely with regulators to explain why their organization wants to take a particular action in response to shifting economic, market, policy, and technology forces. **Accounting for geopolitical risk** will also be critical for most companies (not just large multinational firms) as so many of them become dependent on the global economy.

This could be caused by several factors which might include the need to operate in new overseas markets, having crucial supply chain links around the world, or locating people and operations. Obviously going well beyond the traditional focus on accounting, CFOs will need to consider the appropriate balance between on and offshore operations, have backups in place for their global supply chains, and plan out risk mitigation strategies around foreign exchange exposure. Thus, as Cuzick points out, CFOs will need to be experts in enterprise risk management across the organization, beyond just finance.

Finally, because it's agreed that they'll have to understand how technology reduces the costs of finance as a service provider and drive its adoption across the enterprise, **CFOs need to develop ways of overhauling business models and operations to capture the opportunities emerging technologies offer.**

To get to this point, however, they'll need a broad skillset that can facilitate their selection of cloud technologies, robotics, artificial intelligence, and mobile applications that move the organization toward greater automation and insights.

This becomes all the more urgent as 6 in 10 CEOs (65%) see disruption as an opportunity rather than a threat to their business, with 3 in 4 (74%) saying that their business is aiming to be the disruptor in its industry. Which will directly impact the demands of CFOs by both the board and CEO. And there's good reason. PwC projects that AI alone will contribute an additional $15.7 trillion to global gross domestic product by 2020, which is an increase of 14%. However, the insights of AI will only be captured by companies that are taking advantage of it now.

5

Failing to Control Costs and Take Risks

Research indicates that cost reduction will continue to be a top priority in the coming years for companies because of growing unease about economic performance. As we head into 2020, recession fears are on the rise again and the majority of CFOs are bracing for an economic downturn. 97% say that an economic downturn has already begun or will begin in 2020. This may be significant as historical data show that trends of declining optimism among CFOs often pre-figures market sell-offs. In fact, many on Wall Street use CFO sentiment as a leading indicator of the business environment i.e., as an indicator of economic activity (rather than stock market behavior). Forbes reports that 80% of CFOs say they've already taken at least one defensive action to protect against a possible downturn, which is shown by their focus on cost reduction and returning cash.

This will put pressure on finance to optimize efficiencies while still maintaining its mandate to enhance management decision-making through better analytics. To do so, CFOs will have to drive digital adoption especially in the areas of robotic process automation, Business Intelligence and AI, and proper data management. While allowing the organization to substantially diminish process costs, digital adoption will also provide the opportunity to redeploy talent to value-added activities. Advocating the vision as the result of the new data insights will then become a top priority, along with winning the hearts and minds of the finance team who will be the linchpin in unlocking its true potential. Challenging core business ideas and competencies, along with identifying new opportunities to disrupt traditional lines of business, will be perhaps the most critical part of the CFOs emerging role.

Conclusion and a Way Forward

We've now seen 5 critical areas in which CFOs will need to become proficient, and fast. With the pace of technological advance showing no signs of slowing, CEOs will demand that finance leaders step up their role in proper corporate governance. Fierce competition will require it. As Accenture points out, the "**CFO is in an elevated position, serving as an innovator and a disruptor who can harness data to unleash new value. Now is the time for CFOs to wield the power of digital and secure their organization's growth objectives.**"

CFOs who capture the new opportunities provided by emerging advances in Business Intelligence, AI, and robotics will be in the best position to help usher their organization into the next decade. Various tools, such as Synoptix, exist that can deliver quick wins and give fresh insights into where an organization should put its limited resources in light of the competitive environment. They'll also simultaneously allow finance to control costs so that the finance team can be redeployed for other value-add activities.

However, as exciting as the new economy seems, **CFOs who fail to walk through the door of opportunity will be left floundering.** This will impact both individual career advancement as well as the organization's ability to stay ahead of the curve. Thus, it's critical that they fully embrace the digitization of repetitive finance functions and then provide leadership across the organization's technology investments. Part of this, as we've seen, will depend on their ability to capture and maintain the right talent for finance's digitization initiatives. Multidisciplinary skills will be a must as CFOs navigate this new world of overseeing so many business functions, but it will place them into growth opportunities that otherwise would never have materialized. In the end, the new demands of the coming decade will empower CFOs to stretch their capabilities and place them into the position of assuming CEO responsibilities when the time comes.

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