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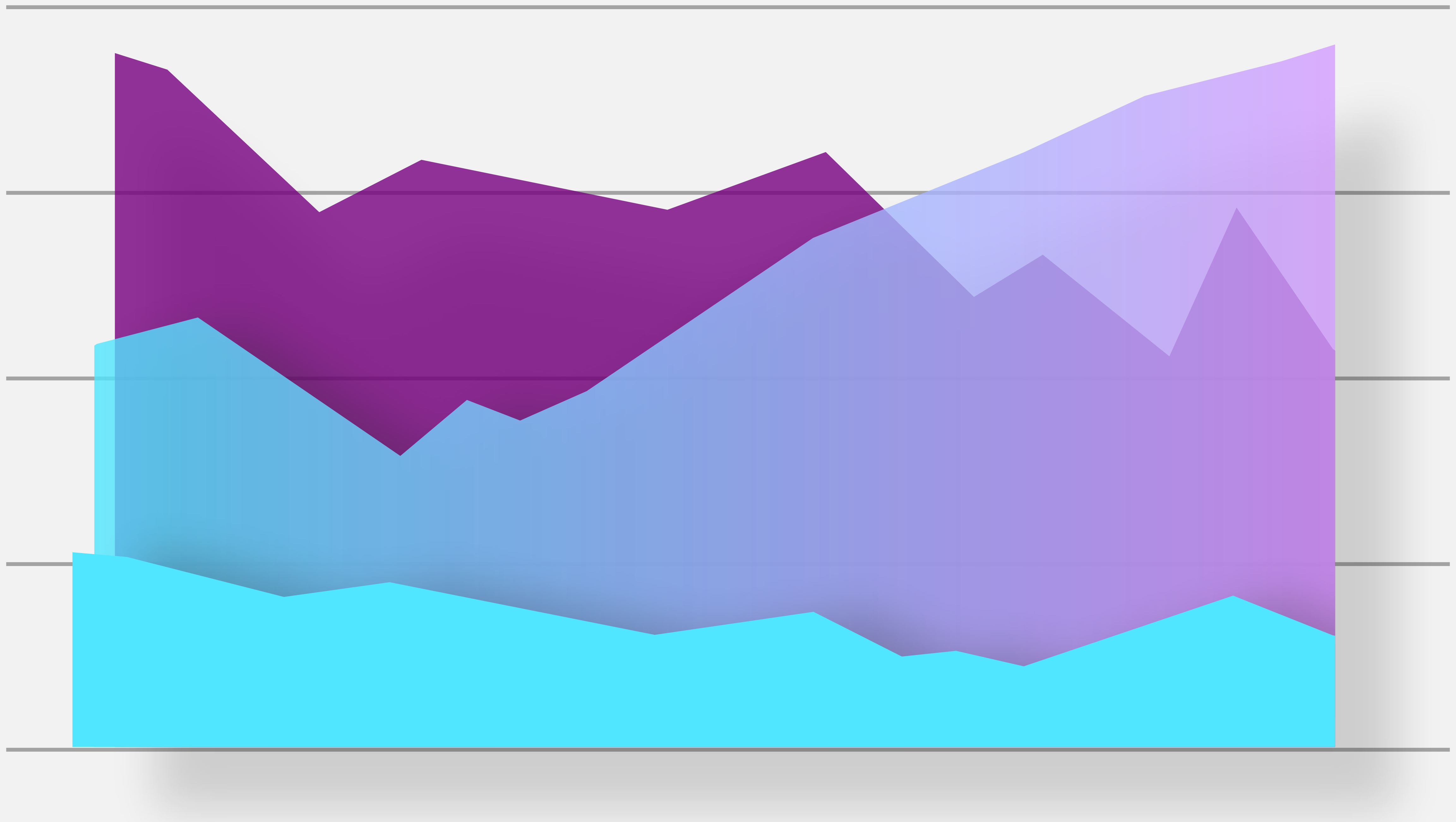
9 Emerging Trends for the Futurist CFO



Who this is for

CFOs and other finance leaders seeking to understand key trends that will affect their departments and businesses over the next few years.

Estimated reading time: 12 minutes

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Executive Summary

CFOs bring a data-driven mindset and strategic insights to power competitive advantage.
This report highlights nine key trends they should know.

1 Increasing responsibility for reporting on and managing complex risks

From climate change to cyber risk, CFOs must understand a vast breadth of risks and their potential impact on the bottom line.

2 More demand for actionable financial data across the business

Accurate, validated data will still be important for key finance tasks, but speeding the delivery of decision-ready data will become increasingly critical.

3 Greater use of cloud-based and self-service planning tools

In an uncertain world, planning and forecasting is moving outside traditional, time-intensive financial processes to other parts of the business.

4 Heightened focus on and investment in learning and development

In a tight labor market, companies are placing major emphasis on upskilling existing talent, both inside and outside the finance function.

5 CFO participation in hybrid-work strategy

The bottom-line impact of return-to-work programs will require CFOs to take a stronger hand in analyzing the costs and benefits of hybrid and remote work.

6 Liberation of finance talent through AI and automation

By implementing more advanced forms of automation, CFOs will be able to streamline workflows end to end for radically improved efficiency.

7 Increased focus on strategic transactions

Higher levels of mergers and acquisition (M&A) activity, joint ventures, and partnerships will continue as companies seek to modernize faster.

8 Hunger for new digital business models

Topline revenue opportunities from digitally enabled products and services are again becoming a central priority.

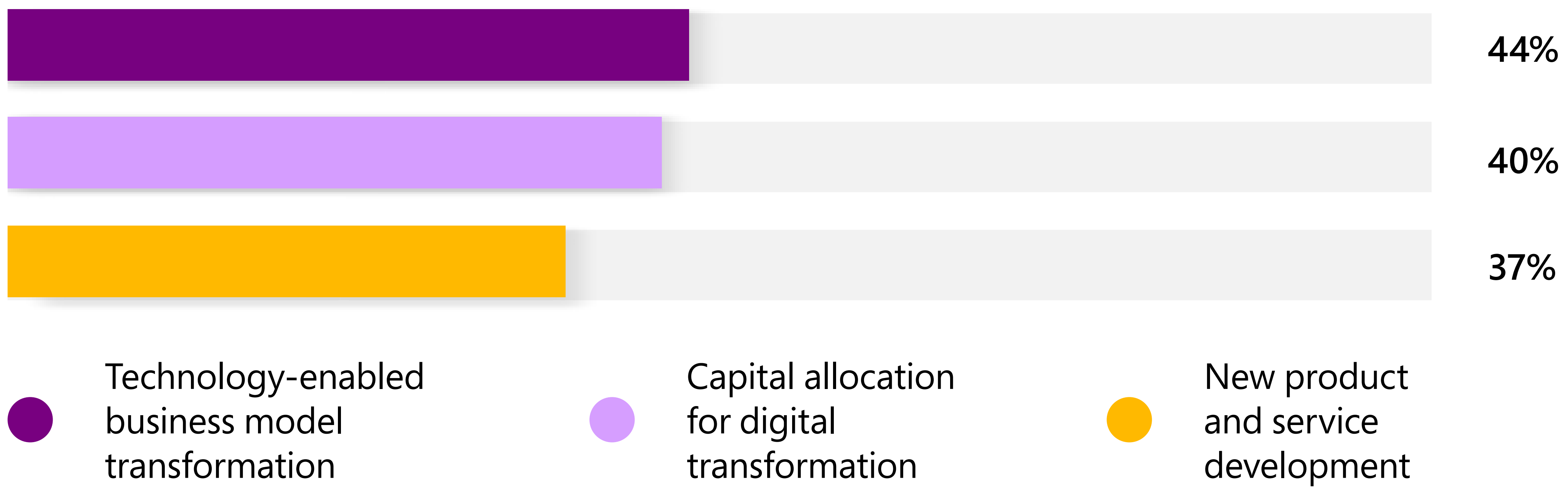
9 Data ROI through focus on skilling and culture

With massive investment but low returns on data analytics to date, organizations will invest more heavily in data culture and skills to achieve their goals.

Introduction

In a fast-changing world, the strategic CFO is more central than ever

The role of the CFO has steadily expanded from crunching numbers to driving corporate strategy—a trend that is expected to continue. The challenges of the pandemic are a dramatic example of disruption demanding action from finance leaders, but it's only one of many strategic challenges on their plates. When CFOs were asked in where they will be playing a critical role within the next five years, the top answers were technology-enabled business model transformation (44 percent), capital allocation for digital transformation (40 percent), and new product and service development (37 percent).[1]



Success is critical. The difference in financial results between top performers and others is striking. According to McKinsey, between December 2018 and May 2020, the market-implied annual economic profit of the top quintile of companies grew by $335 billion. The companies in the bottom quintile lost $303 billion. The firm concludes that the widening gap is due to acceleration of pre-crisis trends.

Additionally, top performers pursue big strategic moves throughout all phases of the business cycle. CFOs must find ways to drive company strategy and reimagine the future rather than simply reporting on the past. This will require new mindsets and new technologies.

In this e-book, we identify nine trends that influence finance or require the strategic CFO's input and perspective.

[1] "How future-ready CFOs are driving real-time business performance," Tata Consultancy Services, 2019.

Resilience trends

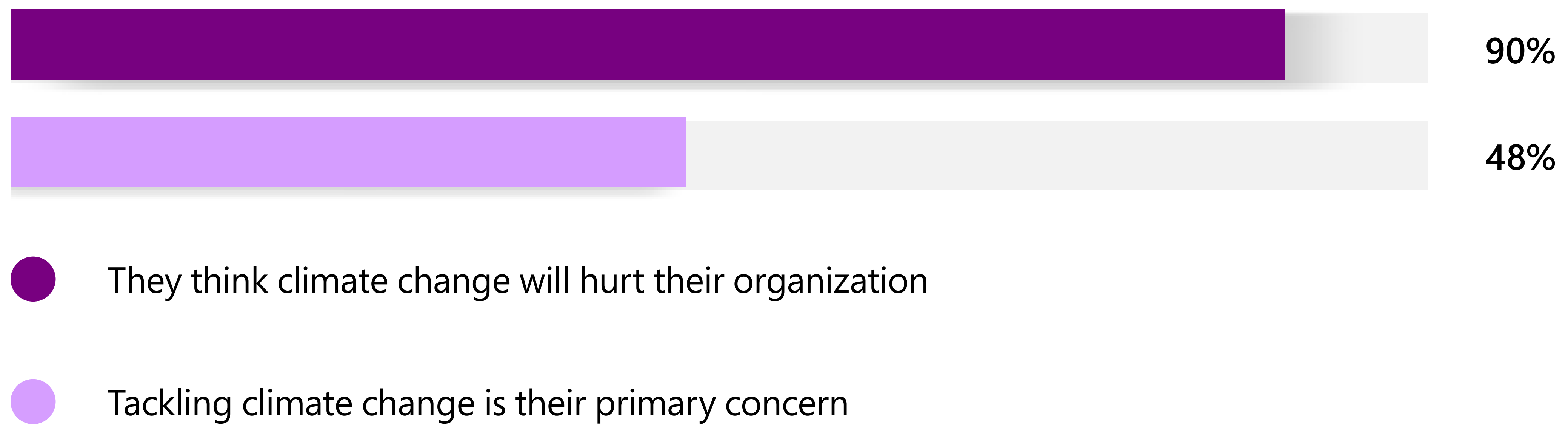
Surviving and thriving through risk and change

Facing unprecedented disruption, CFOs have risen to the challenge and helped their organizations adjust to swiftly changing circumstances. Now, they are positioned to build on those investments to succeed in a new reality.

1 CFOs face growing responsibility for reporting on and managing complex risks

According to multiple international bodies, disruption is becoming more frequent and severe across multiple areas, including global uncertainty, geopolitical risk, cyber incidents, and natural disasters.[2]

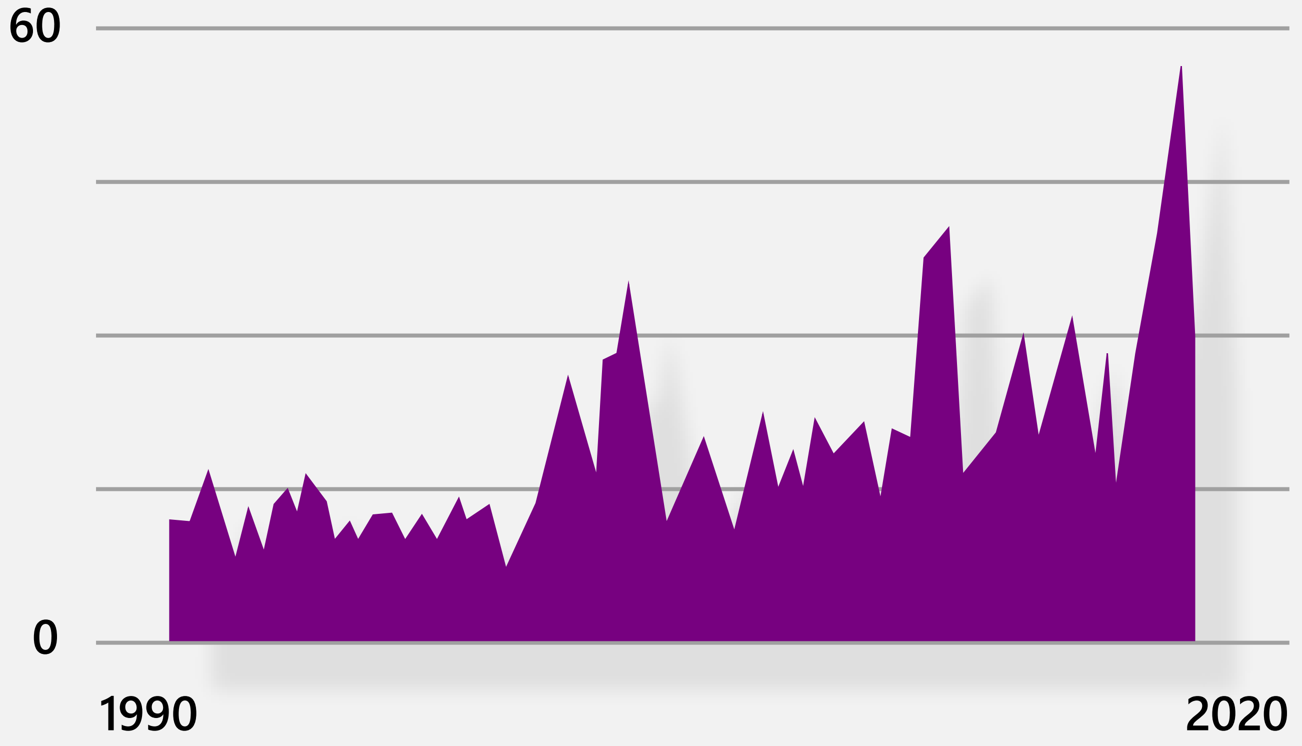
With an increasingly interconnected world, CFOs must confront these issues and their impact on the business. For example, more than 90 percent of finance leaders reported to Deloitte that they thought climate change will hurt their organization, and 48 percent say tackling climate change is their primary concern.[3]



[2] "The resilience imperative: Succeeding in uncertain times," McKinsey, 2021.
[3] "The Fourth Industrial Revolution: At the intersection of readiness and responsibility," Deloitte Development, 2020.

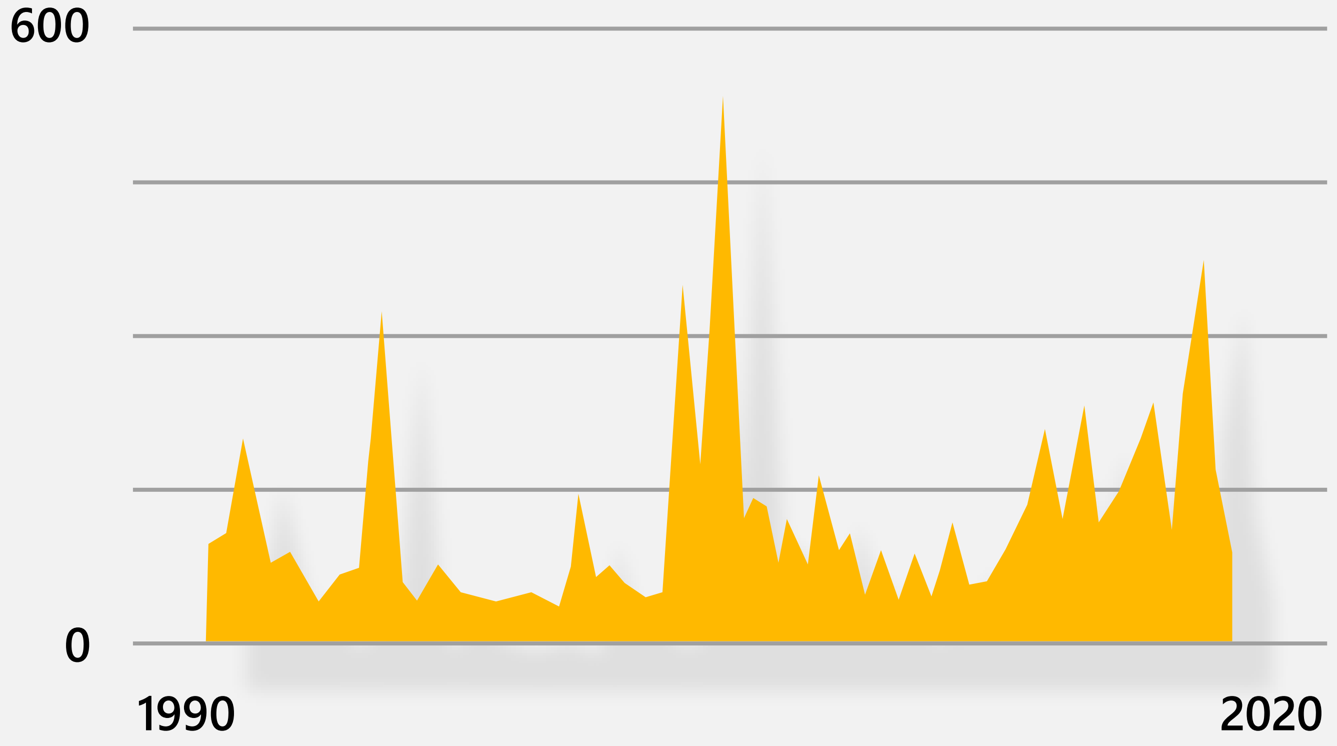
IMF World Uncertainty Index,[4] thousand

Global uncertainty has grown manifold since 2000



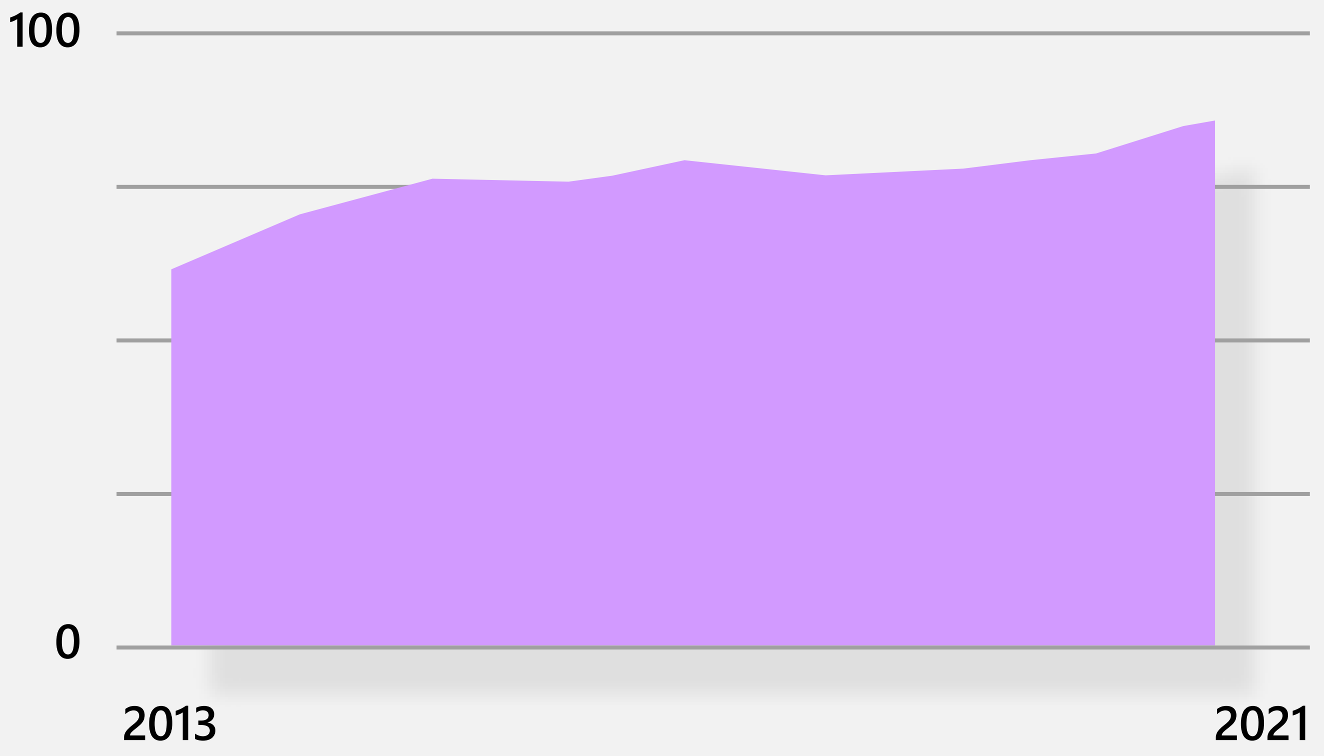
Federal Reserve Board Geopolitical Risk Index[5]

Geopolitical risk has not been higher since 2003



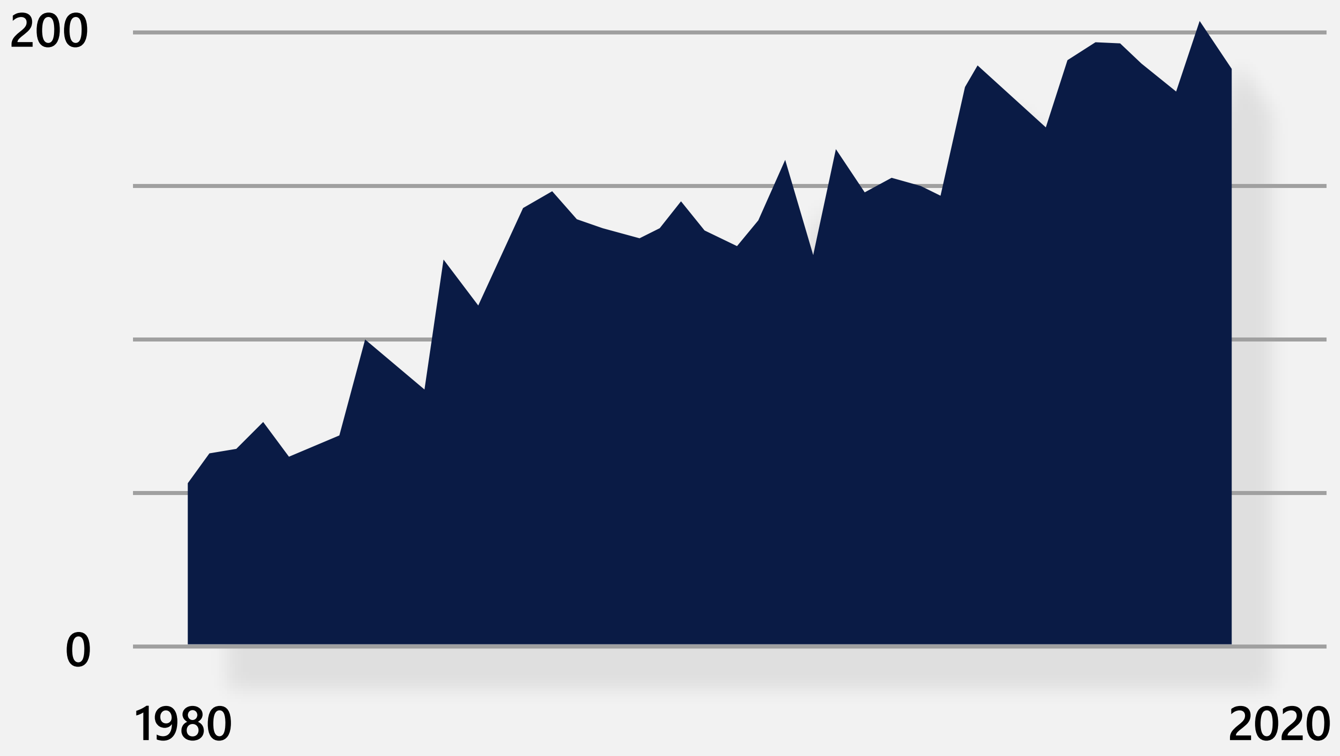
Companies subject to a cyber breach per year, %

Cyber incidents have risen 24 percentage points since 2013



Natural disasters per year, number

Frequency of natural disasters is rising

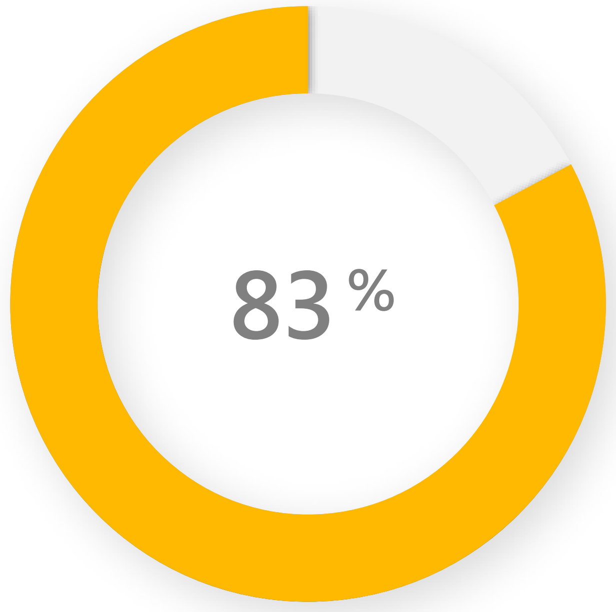


[4] Based on the percentage of the word "uncertain" (or its variant) in the Economist Intelligence Unit Country reports, undated.

[5] Automated text-search results from the electronic archives of 11 newspapers: Boston Globe, Chicago Tribune, Daily Telegraph, Financial Times. Globe and Mail, Guardian, Los Angeles Times, New York Times, Times, Wall Street Journal, and Washington Post. Index was calculated by counting the number of articles related to geopolitical risk in each newspaper for each month (as a share of the total number of news articles). Source: CyberEdge; Swiss Re.

Increasingly, businesses seek to go beyond the minimum regulatory requirements when it comes to environmental, social, and governance (ESG) and diversity, equity, and inclusion (DE&I) issues. Most CFOs not only consider these areas a priority but also expect to increase investment in them.[6]

These activities have significant reputational benefits, given that 83 percent of consumers expect companies to actively shape ESG best practices.[7] Additionally, 79 percent of CFOs agree that "our investors are increasingly requiring us to provide much more information on how we create value for all our key stakeholders, not only shareholders."[8] More fundamentally, transparent reporting on issues such as climate change can help improve capital allocation, risk management, and strategic planning.[9]



83 percent of consumers expect companies to actively shape ESG best practices.[7]

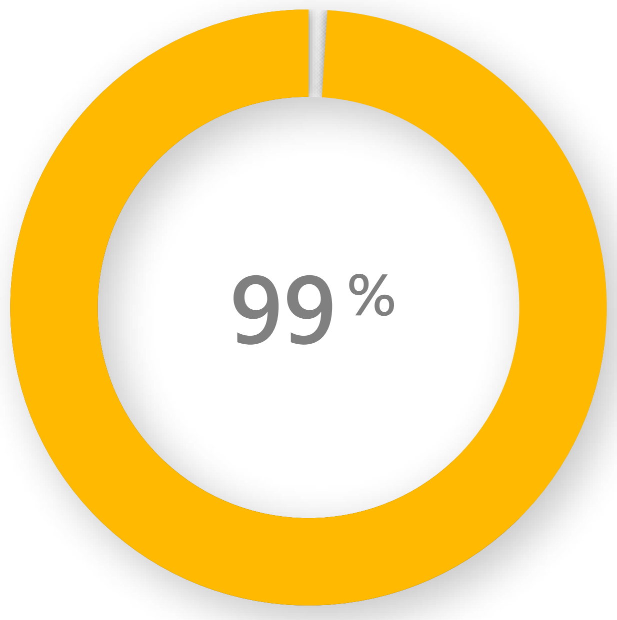
Strategic CFOs will drive conversations about how organizations respond to ESG, DE&I, and global risk trends. They are in a unique position to identify material impacts and potential outcomes of various courses of action. A holistic view and wide-ranging curiosity are essential. While these issues are complex, starting with existing tools and frameworks can help. For example, the Task Force on Climate-Related Financial Disclosures provides a foundational methodology for measuring the financial impact of climate risk.[9]

[6] "CFOs aren't waiting for normal. They're ready now," GrantThornton, 2021.
[7] "Beyond compliance: Consumers and employees want business to do more on ESG," PwC, undated.
[8] "How can the CFO evolve today to reframe finance for tomorrow?," Ernst & Young, 2020.
[9] "Climate change presents financial risk to the global economy," Task Force on Climate-Related Financial Disclosures, undated.

2 Business units are increasingly hungry for decision-ready data

Finance departments of the past aligned to quarterly and annual reporting cadences. Today, business units want up-to-date financial data to make decisions in real time. Among CFOs surveyed by Accenture, 99 percent want to use real-time data to improve decision-making, yet only 16 percent can do so.[10]

To deliver decision-ready financial data, CFOs need to look beyond traditional reporting to make usable financial data available to the business. In McKinsey's estimation, "best-in-class finance organizations…look for what data exists at the company that can be used by different functional leaders and business-unit leaders to drive performance."[11]



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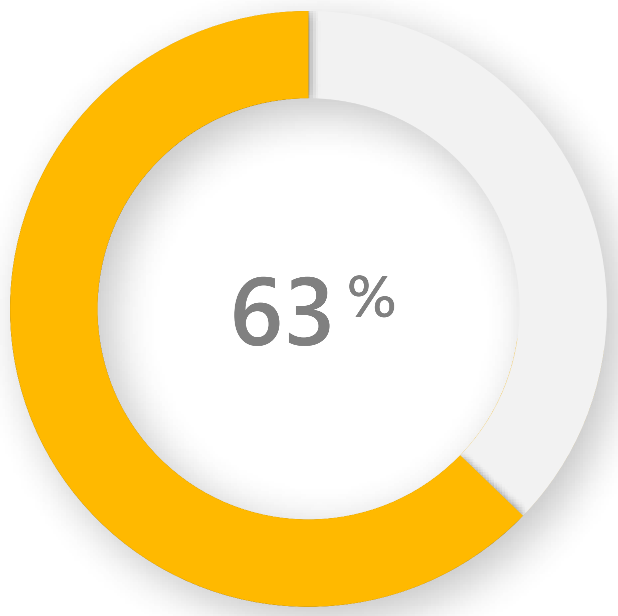
Financial leaders will tend to work more closely with potential data consumers across the business to understand how finance data can help them make better decisions. This might include retooling reports based around user needs rather than traditional finance functions and making data available through tools employees can easily understand and use, such as intuitive BI and visualization solutions. New technologies, such as voice-based assistants that allow people to query data using natural language, will help bridge the gap.

[10] "The Power of the Finance Operating Model," Accenture, 2020.
[11] "A primer in resilience: A conversation with Kevin Carmody," McKinsey, 2020.

3 Planning is more important than ever, with new technologies and techniques at the forefront

Across verticals, 89 percent of CFOs report that their industries have become more dynamic in recent years.[12] Adapting to the pace of change will require upgraded planning capabilities. Financial analysis and planning have conventionally been labor-intensive, manual duties involving complex spreadsheets. Traditionally, finance has been the gatekeeper of these functions. Without mature financial planning capabilities, reports can take months.

A growing proportion of decision-makers will demand forecasts every 30 days or less so they can respond to changing signals in the data. This will require planning and forecasting to take place directly in business departments. Self-service planning has grown to become the number-one trend in planning software, with 63 percent of companies adopting it, a trend that is likely to continue.[13] The use of cloud-based planning software has also risen dramatically, from 8 percent in 2016 to 38 percent in 2021.[13] These platforms typically offer fast deployment and ROI, modern user experiences, and rapid results through scalable computing resources.



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In response to an increasingly dynamic business environment, organizations will adopt advanced scenario planning and simulation. Using mathematical models and variable parameters, they seek to measure the impact of today's decisions on future events. In fact, 90 percent of businesses say they use these techniques already or plan to do so soon. With their quantitative skills, CFOs will lead the adoption of simulation and scenario planning.

[12] "Fast Results are a Must for Corporate Management," BARC, 2020.
[13] "Infographic: Increase in Self-Service Planning in Business Departments: A Sign of the Times," BARC, 2021.

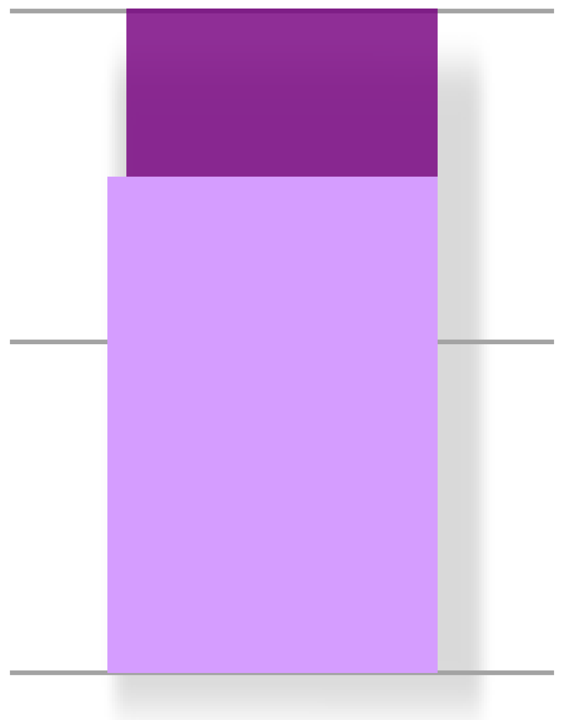
Talent trends

How CFOs are developing and executing their people strategies

Disruptions in markets and shifts in employee expectations require companies to focus on attracting and retaining talent. In a competitive labor environment, many will pivot to make the most of the workforce they already have, refining their hybrid- and remote-work strategies, and using technology to free people for value-added activities. CFOs contribute to the conversation around human capital with data, strategic insights, and a commitment to collaboration and transparency.

4 Leaders place growing importance on learning

Making the most of talent will become an even higher priority across sectors and businesses. The perceived value of capability-building has grown dramatically in the past two years, with 78 percent of leaders saying it is very or extremely important today compared to 59 percent before COVID-19.[14]

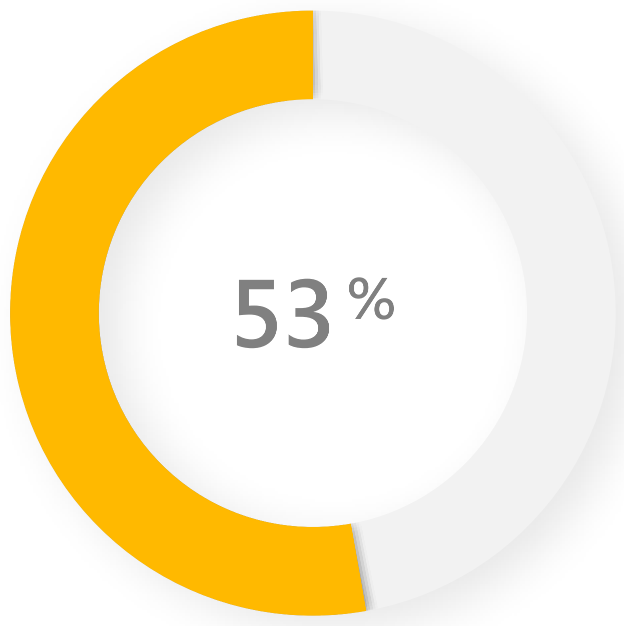


Percentage of leaders saying capability building is "**very**" or "**extremely**" important

After COVID-19

Before COVID-19

Reskilling employees is by far the most highly favored way to close capability gaps, with more than half of leaders (53 percent) saying it's the best approach. That's more than the combined percentages citing hiring, redeploying, and contracting. When asked what value their organization places on learning, 67 percent of businesspeople say "high" or "very high," and 41 percent say they themselves are spending more time on formal learning and skill building.



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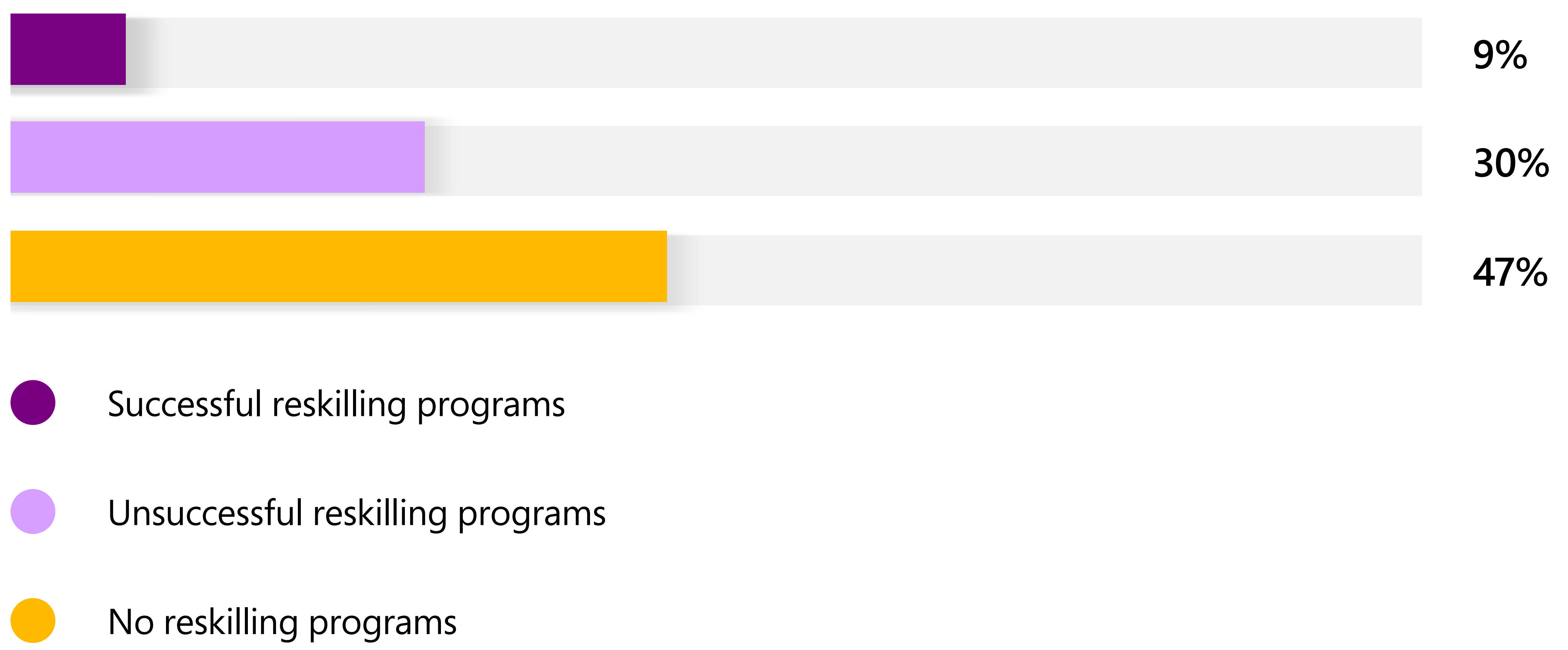
[14] "Rethink capabilities to emerge stronger from COVID-19," McKinsey, 2020.

CFOs will be called upon to help carve out budget for these activities. Research during the 2008 recession demonstrated that cutting learning budgets only delays investments rather than providing cost savings.[15]

There's no reason to wait. Organizations learn from reskilling efforts and become more prepared to address disruptions—even if their initial investments are unsuccessful. Among those who thought their reskilling programs were successful, only nine percent said they were unprepared to address market and technology disruptions.[15] Among those who thought their programs were unsuccessful, 30 percent felt unprepared for disruption. However, of those who had not yet begun the reskilling journey, almost half (47 percent) said they were unprepared. Going forward, renewed investment in talent will deliver outsized returns.

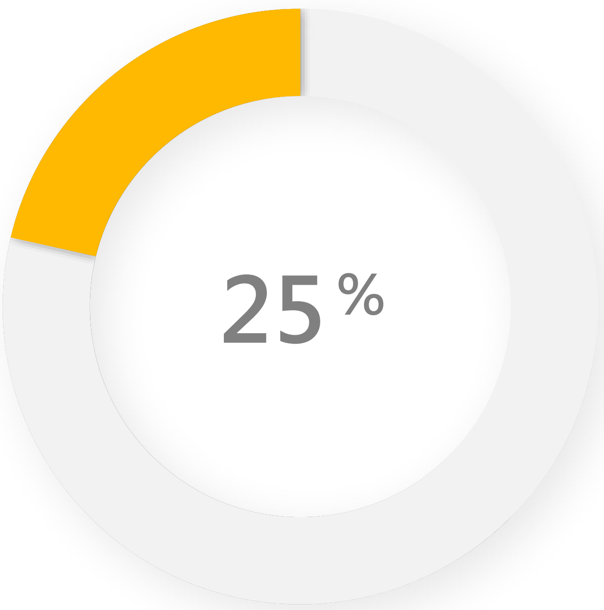
Percentage of respondents who say they were **unprepared** to address market and technology disruptions



[15] "To emerge stronger from the COVID-19 crisis, companies should start reskilling their workforces now," McKinsey, 2020.

5 Organizations will demand CFOs shape remote and hybrid work strategy

The ability to work remotely at least part of the time has been convincingly demonstrated in many industries. In fact, one study estimates that 20 to 25 percent of workforces in advanced economies could work from home three to five days per week without negative economic impact.[16] Organizations are seeking financial benefits from this change, with one survey finding that, on average, companies intend to decrease office space by 30 percent.[16]



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As in other departments, CFOs navigated the shift to remote work by adopting new collaboration technology and work practices. A large majority (71 percent) say they will continue to work remotely or mostly remotely.[17]

More broadly, CFOs are contributing to the complex, high-stakes challenge of determining the timing and pace for returning to work. Not only does this include physical employee location, but how businesses can grow and react differently without a regular in-office team.

As there is no universal game plan for a transition like this, successful finance executives will need to forecast and model their organization's unique attributes to develop a game plan that works. For example, some companies will seek to make remote customer meetings permanent to reduce the cost and environmental impact of air travel. Others may see it as a competitive advantage to return to in-person meetings as soon as possible. CFOs will help identify the financial impact of such decisions to identify the right approach for their organization's needs.

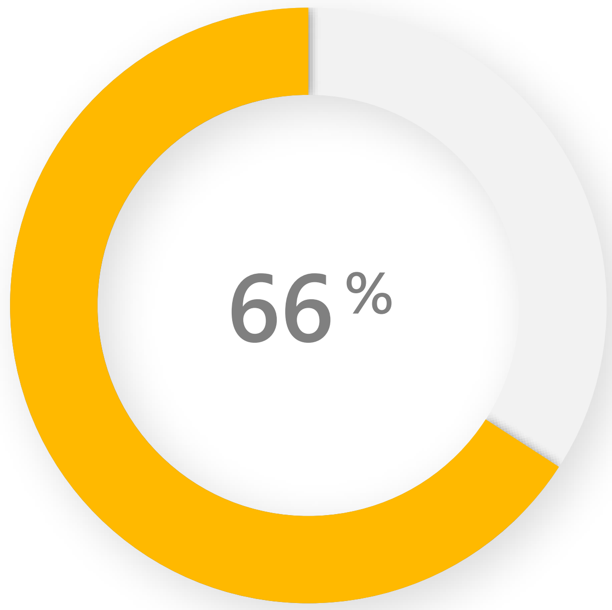
[16] "The future of work after COVID-19," McKinsey, 2021.
[17] "CFOs Taking More Prominent Strategic and Enterprise-Building Responsibilities Following Their Critical COVID-19 Work, New Survey Shows," CFO, 2020.

6 Automation and AI will liberate finance departments to pursue strategic activities

CFOs will continue seeking ways to free their people from the repetitive tasks that characterize traditional finance activities. To do so, they will increasingly turn to AI and automation.

Simple automation is widespread: 80 percent of finance leaders indicate that at least 5 percent of their workforce consists of robotic process automation (RPA) or other technologies.[17] Additionally, a Gartner® survey in late 2020 listed "RPA and other workflow automation technologies in finance" as one of the "Top 5 Digital Priorities for CFOs in 2021," and reported 66 percent of "CFOs expecting to spend more time in [that] area."[18]

However, as Gartner® points out, "The use of RPA, the de facto automation choice for finance teams, has grown exponentially, delivering speed, efficiency and cost optimization. But RPA doesn't scale easily. CFOs now need to focus on additional technologies (including chatbots, artificial intelligence and machine learning) that cover increasingly complex, dynamic processes requiring human judgment."[19]



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Decision-makers will need a holistic strategy to achieve this goal. In fact, when asked why they implement automation, 90 percent of CFOs say it's to reduce time-consuming manual activities. Only 32 percent say cost savings is the major benefit of automation.[20] World-class finance organizations that are digitally enabled will spend more time on high-value activities, such as preparing predictive analysis and working directly with business stakeholders.[21]

[17] "CFOs Taking More Prominent Strategic and Enterprise-Building Responsibilities Following Their Critical COVID-19 Work, New Survey Shows," CFO, 2020.
[18] "Gartner® CFO Survey Reveals A Dramatic Digital Acceleration Since COVID-19," Gartner®, 2020.
[19] "Smarter with Gartner®, Top Priorities for Finance Leaders in 2021," Jackie Wiles, 13 January 2021.
[20] "CFOs Are Ready for Digital Transformation in 2021, New Survey Shows," CFO, 2021.
[21] "Digital World-Class Finance: Reaching New Heights in Peak Performance," The Hackett Group, 2021.

Innovation trends

Capitalizing on new business models will be a winning game plan

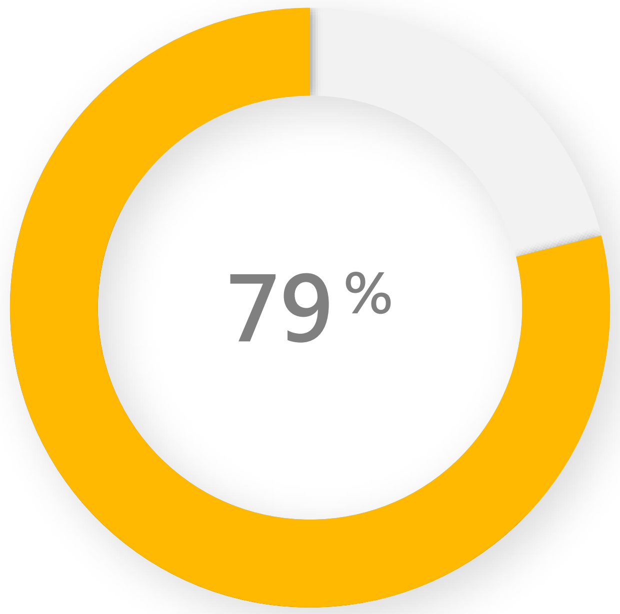
With technology becoming even more central to revenue and profitability, CFOs will become increasingly involved in the quest for new digital opportunities. While only 13 percent of CFOs are currently involved with CIOs to drive digitalization, 93 percent think their involvement will grow significantly in the next five years.[22] According to 70 percent of finance leaders, this participation will extend to ecosystem and platform strategy as well.[23] By partnering closely with IT and becoming more technology savvy, CFOs will help their organizations identify the right investments.

[22] "Finance of the Future: Being a Resilient Digital CFO," KPMG, 2021.
[23] "How CFOs can build resilience is response to a changed reality," Ernst & Young, 2020.

7 There will be new focus on strategic transactions and investments

The second half of 2020 had the highest volume of M&A activity on record.[24] This momentum is expected to continue as organizations seek to become more agile and resilient by acquiring young, tech-first companies and digital-native competitors.

Changes to corporate tax policy could fuel further growth in strategic transactions, with 79 percent of companies reporting that they want to grow M&A strategies, partnerships, and joint ventures if corporate tax rates jump.[25] Another potential driver of change would be policies that incentivize onshoring, which, according to 64 percent of organizations, would drive increased investment in domestic production.



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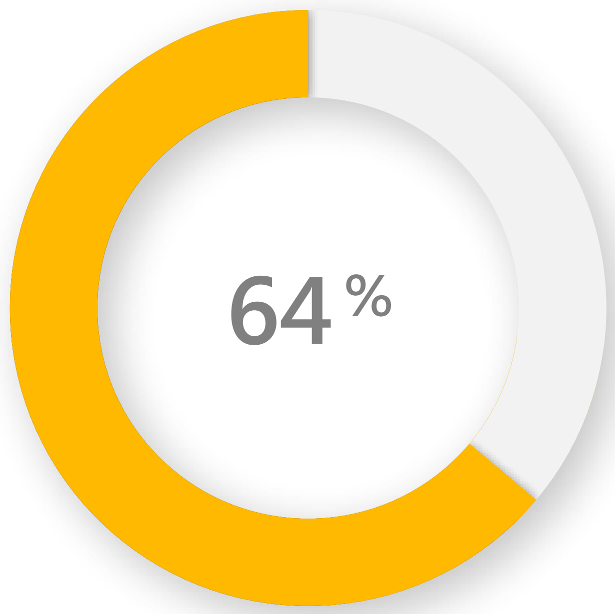

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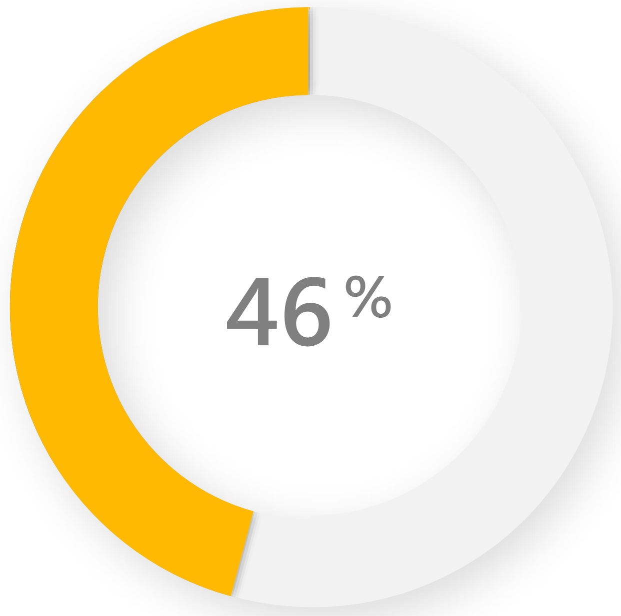
CFOs are working cross-functionally to ensure that their organizations are positioned for future growth. This means investing in talent and technology, investing in R&D, and making strategic transactions easier to create a strong, competitive organization.

[24] "Will COVID-19 turbo-charge M&A and transformation?," Ernst & Young, 2021.
[25] "US executives rethink corporate strategies in anticipation of post-election legislation, regulation, and policy changes," Ernst & Young, 2020.

8 New digital business models will deliver extraordinary profit opportunities

As companies seek additional topline growth, digitalization will become increasingly attractive across industries. In fact, 43 percent of CFOs report that adding digital capabilities to existing products is the top strategic priority moving forward, with 29 percent saying speed to market is number one.[26] Nearly half (46 percent) of CFOs see the explosion of the digital economy as a high-growth opportunity.[27]



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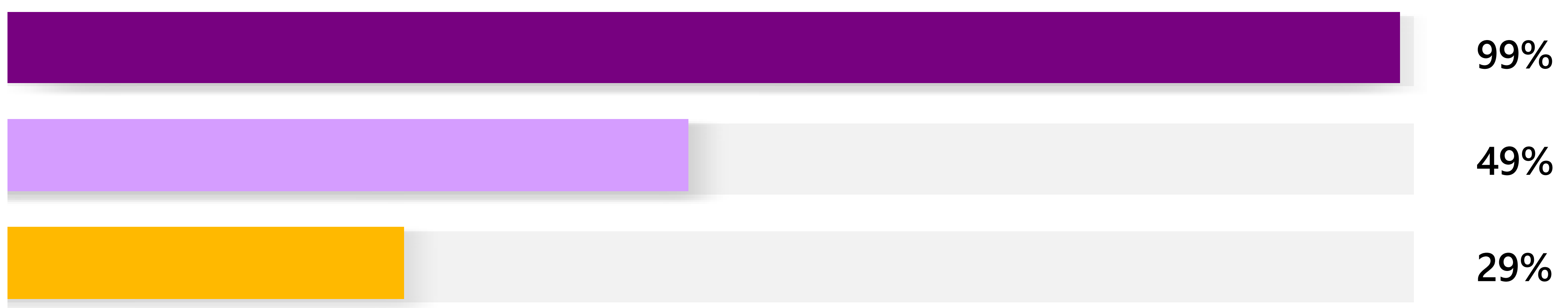
Businesses of all kinds are using connected devices and data to offer new as-a-service business models while digital commerce continues to grow. CFOs must help evaluate opportunities and control costs as they expand into new business areas. Advantages of digital business models include recurring revenue streams, greater resilience through diversification, higher margins, and increased cash flow.

[26] "Finance of the Future: Being a Resilient Digital CFO," KPMG, 2021.
[27] "From defense to offense: CFOs look to drive growth in a digital economy," PwC, 2021.

9 AI and analytics will deliver significant competitive advantage to firms that crack the culture challenge

Virtually all firms—99 percent in one survey—actively invest in big data and AI.[28] Yet only 49 percent report driving innovation with data, and only 29 percent are achieving transformative business outcomes. Clearly, there is significant headroom for additional ROI from data investments.



- 99% of firms invest in AI, yet only
- 49% report driving innovation with data
- 29% report achieving transformative business outcomes

The gap has more to do with people and process than technology. Organizations that focus on building a data-driven culture will leapfrog the competition when it comes to getting value from data.

This will mean a renewed focus on hiring and training for data skills. Today, 66 percent of companies report that they lack the human resources needed to make the best use of advanced analytics.[29] Companies that focus on building capabilities in this area will be able to drive better decisions, faster response times, and deeper innovation.

The situation is similar when it comes to AI. According to Gartner®, "CFOs must invest in artificial intelligence (AI) within the next few years, or their companies will be left behind."[30] To do so, they will need to go beyond using AI simply to modernize the finance function. Those who think bigger about how AI can transform the business—and who are willing to experiment with new approaches and technologies—will achieve more significant results.

[28] "Big Data and AI Executive Survey 2021," NewVantage Partners, 2021.
[29] "Infographic: The Future of Analytics," BARC, 2020.
[30] "Gartner® Says CFOs Have a Limited Window to Derive Competitive Advantage from Artificial Intelligence," Gartner®, 2021.

From number-cruncher to strategic partner

The role of the CFO has not only evolved dramatically, but the pace of evolution has accelerated. The demand for data-driven insights and skills they and their teams bring to the business has never been higher and is still growing. Complex risks, potential disruptions, and dynamic customer expectations mean the job is anything but boring. In fact, while the role today is extremely challenging, 76 percent of finance leaders say there has never been a more exciting time to be a CFO.[31]

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[31] "How can the CFO evolve today to reframe finance for tomorrow?," Ernst & Young, 2020.

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