Finance function of the future

The CFO as a proactive advisor to the CEO

The role of the Chief Financial Officer (CFO), and ultimately the entire finance organization, is undergoing significant change as technology and new business models transform traditional finance functions. The overall business environment is also growing in complexity and uncertainty (e.g., globalization, COVID-19, war, supply chain issues), driving demand for the finance organization to make more informed decisions quickly to remain competitive.

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In the past, the finance function was seen primarily as a back-office function, performing highly transactional and repetitive tasks, and compiling historical financial data to produce financial statements. Rather than focusing solely on back-office tasks, today's CFO must become a strategic advisor to the CEO as key stakeholders, such as shareholders, customers and employees demand that companies focus more on creating long-term value.

It's now time for the finance function's view of the past to be redirected toward the future. The CFO and finance organization must evolve into a business advisor as well as a sounding board for the CEO and the core business. In this new strategic role, the CFO and finance organization will need to:

- **Focus on value-creating activities:** Instead of dealing with time-consuming and repetitive transactional activities, the CFO will provide the CEO and the core business with meaningful reports and analyses. Simple and repetitive tasks are automated as much as possible to free up the finance organization for value-added tasks.
- **Turn data into insights:** Since the vast majority of data flows through the finance department, the CFO has a major advantage over other departments. This edge will be used to evaluate the existing data with the help of the latest technologies and to provide the business with helpful insights.
- **Automate the core finance tasks:** The usual core business of the CFO (e.g., preparation of annual financial statements and accounting) is automated as far as possible. This creates capacity for value-adding tasks and immensely increases the quality and informative value, which further increases trust in the finance organization.

On the upcoming journey to evolve the finance organization into a proactive advisor, the CFO should consider the following dimensions.

How can the performance and quality be measured?

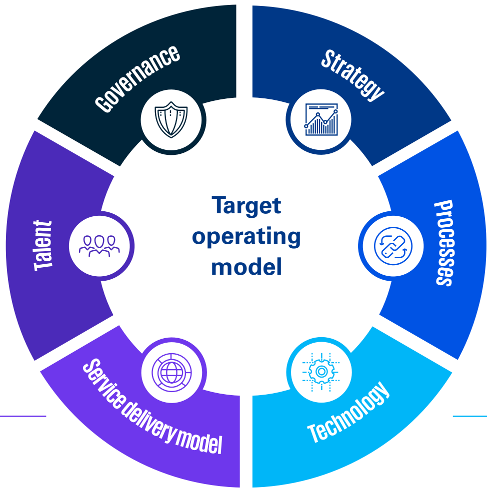
How should the finance function position itself strategically?

What roles will finance need for the future?

What should the finance process landscape look like?

Which delivery model supports the business best?

What technologies should support the finance function?



Strategy

CFOs should derive the vision, strategy, and goals for their own finance organization based on the overall strategy of the company. This relies on strategy being aligned with the CEO and other executives from the business to create a common understanding, increase management buy-in and ensure that all actions serve an overarching goal. This could be major investment in technology, the regional coverage of the organization or expansion of the product/service portfolio. Overall, the "CFO Strategy" lays the first building block for the further development of the finance organization, ensuring that all important – external and internal – requirements of the finance organization are considered.

Recommendations

- Create and communicate your own CFO strategy and coordinate it with other departments
- Make sure your employees understand the business model, explain the CFO strategy, and take them along on the journey early on

Processes

The finance organization has many points of contact with other departments in its daily business. When designing future processes, it is important that processes are considered end-to-end (E2E), e.g., from quote-to-cash, source-to-pay, record-to-report. Even if the CFO is not responsible for the entire E2E process chain, he or she must ensure in consultation with other departments (e.g., procurement, sales) that all process steps are carried out properly, as ultimately every business transaction must be reflected in finance at some point.

E2E processes ensure a seamless workflow between different functions. Standardizing processes ensures that all parties involved (e.g., business units, procurement, HR, IT) operate in accordance with standard principles to prevent redundant steps and inconsistencies. When designed as part of an overarching whole, processes function as a conceptual basis, for example for the implementation of new ERP systems and other digital solutions.

Another benefit of E2E processes is that they help streamline the finance function and increase efficiency. This leads to cost savings and improves process cycles, which in turn support better results for the business. Furthermore, E2E processes help safeguard accurate and consistent financial data, which is essential for effective decision making and the credibility of the finance function.

Recommendations

- Introduce a centralized finance process improvement office
- Ensure a high degree of flexibility in processes to be able to respond to changing business requirements and fulfill the role as a business partner

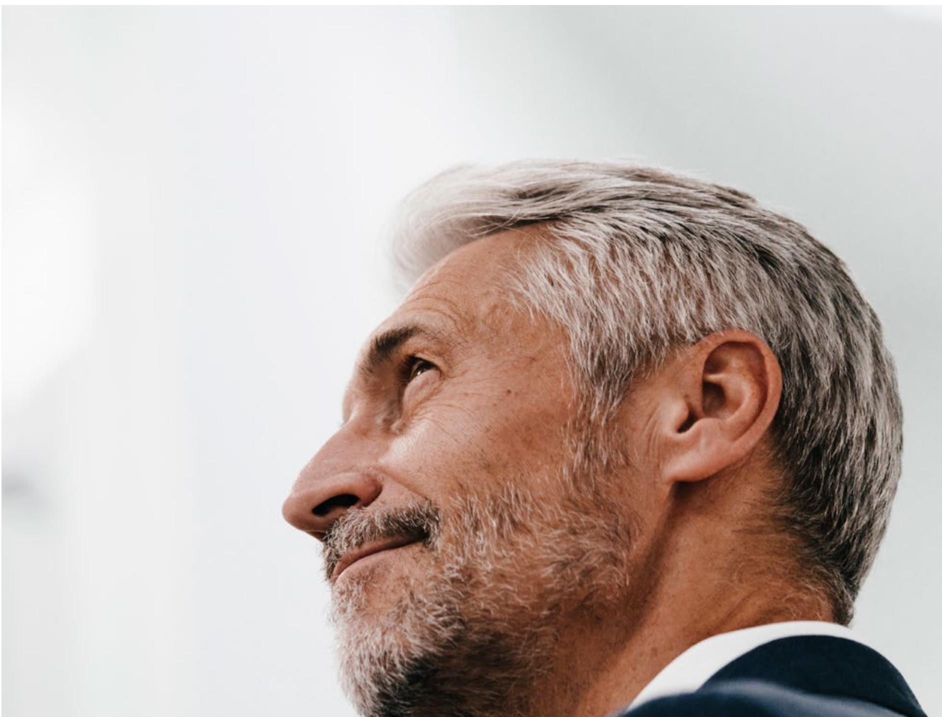
Technology

The latest technology can support the CFO in daily life through automation and smart analytics – when aligned with the processes and business requirements. Time-consuming and transactional tasks should be automated as far as possible, to relieve employees and free up capacity for other activities. If processes are standardized and a clean database (e.g., purchase order, customer data, order details) is available for processing (e.g., invoice processing), technologies will ensure consistently high quality.

Technologies also enable meaningful analytics to be produced at the push of a button, supporting the finance in delivering the best possible insights to the CEO and business. When selecting a suitable technology, it is important that it is tailored to the company's processes and existing IT infrastructure. The technology must be adapted to existing processes to comply with standard processes and enable efficient and effective work.

Recommendations

- Standardize the data structures and make data bases centrally available to ensure that system applications communicate with each other
- Prioritize and limit digitalization projects to focus on targeted investments and enable initial prototypes to be developed rapidly



Service Delivery Model

To derive a proper service delivery model for a finance organization, the CFO should consider the geographic spread and location of the organization’s operations, including any legal, regulatory or cultural differences that may impact service delivery. The ability of the service delivery model to adapt and scale as the organization grows and evolves is also one key criterion to be considered, depending on the overall finance strategy.

Shared service centers and global business services have proven highly suitable models of service delivery. The COVID-19 pandemic has increased the importance of these options as centralized functions can be better coordinated, investments better planned and digitalization projects implemented more easily.

By considering these criteria, a finance organization can design a service delivery model that aligns with its business objectives, provides efficient and effective services and meets the needs of its customers.

Recommendations

- Centralize as many processes as possible, leave as many decentralized as necessary
- Make use of a central governance to initiate optimization projects in a targeted manner and to be able to steer them in the long term

Talent

The CFO must consider different factors that influence people’s work engagement and job satisfaction, including the global pandemic and current technological disruptions.

The COVID-19 pandemic accelerated the trend toward remote work, which allows employees to enjoy more flexible schedules, work from abroad and save travel time. The CFO organization of the future will allow employees to continue to work as flexibly as possible, not least to remain competitive in attracting and retaining talent.

Technological capabilities will free up capacity for employees to spend more time on value-adding activities. At the same time, the notion that more and more work will be taken over by technology in the future can lead to anxiety among employees; they may feel underqualified for higher value tasks or even fear that their job will become obsolete in the future. Against this background, the CFO should prepare employees for upcoming changes at an early stage and help them understand the advantages of a digitalized working environment.

Recommendations

- Highlight the advantages of a digitized workplace to your employees and apply effective change management skills to avoid change resistance
- Address your employees’ needs through flexible working models (e.g., “work from home/anywhere”) and new trainings and career opportunities

Governance

In line with the new role of the CFO as a “value creator”, monitoring quality will play a paramount role alongside the pure measurement and controlling of figures. To this end, the existing steering and controlling concept must be revised so that the “value case” can also be reflected in the future. There are already suitable tools available for financial reporting that leverage efficiencies and create value-added analyses for the entire company. The CFO must now define which additional values to measure and report on.

Recommendations

- Develop performance management with KPIs that also make the quality of performance measurable to meet the increasing demands on the finance function
- Review your reporting for effective visualization of performance metrics to simplify the reporting, make it more meaningful and save valuable time

Summary

When developing the finance function, the CFO should consider all six dimensions of the Target Operating Model. This will prepare for all upcoming challenges and enable to develop the finance organization into a true business partner for the CEO and the core business.

Important answers for the CFO of the future and how to best support the CEO as a proactive advisor:

How can the performance and quality be measured?

- Quality will be a new steering parameter in performancemanagement
- Efficiency will remain a key steering parameter

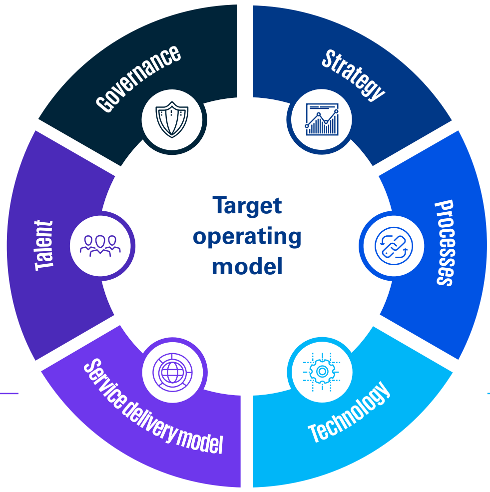
What roles will finance need for the future?

- The finance organization offers flexible ways ofworking
- New career and training paths will be provided toattract new talentsand retain existing talents

Which delivery model supports the business best?

Central structures will be the basis for the organization's further process-related and technological development

The service portfolio of the finance function is eingexpanded to provide even better advice to the business



How should the finance function position itself strategically?

- The finance function should become a value creator and advisor for the CEO and business
- The CFO strategy needs to be aligned with key stakeholdersand communicated across the entire organization

What should the finance process landscape look like?

- Processes will be designed end to end
- Flexibility will be a key driver in process design

What technologies should support the finance function?

- Transactional tasks will be automated to greatest possible extent
- Data structures will be standardized, with data bases centrally availableto ensure a smooth interaction among the systems

The finance function of the future will become a strategic advisor to the CEO and focus on value creation with meaningful reporting and analysis for the entire company. Processes will be designed end-to-end to ensure seamless and standardized processing and consistently high quality. Transactional tasks will be automated as much as possible, allowing finance staff to focus on value-creating activities. Finance processes will be centralized in a shared service center wherever this makes sense – and decentralized as little as necessary. Finance staff will have to adapt to the new technologies that bring new ways of working, while the company itself will need to focus on employee retention through attractive and flexible working models. In the future, the CFO as value creator and advisor to the CEO will focus more on measuring quality than on simply reporting hard numbers.

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