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White Paper

Reframing the CFO Function in Space and Time: A Digital Transformation

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CFOs around the world are contending with a range of pressures, as a combination of old and new forces create challenges for the finance function. Recent macro-economic uncertainty has revealed how finance processes need to become more responsive to market volatility, and have exposed vulnerabilities in traditional ways of working. Moreover, a growing imperative to foster sustainable growth and meet stakeholder expectations, alongside the evolving role impact of technology, mean CFOs have a lot on their plates.

The pressures on CFOs have been magnified during the COVID-19 pandemic, which has acted as a catalyst for business transitions and pushed sustainability to the top of the corporate agenda. In an era of upheaval, it has never been more important for the finance function to be able to adapt speedily and effectively. This requires transformation at its heart — the role of the CFO.

To shape their remits and navigate the rapidly evolving environment, CFOs may plan for the future based on three strategic imperatives:

- **Embrace a forward-looking paradigm shift**. Forward-looking CFOs have already begun to invest in new technologies as they seek to create leaner, more efficient, and digitized organizations, and refocus on value-adding activities. New skills, agile ways of working, and improved data ownership and mastery – will be key elements of making the change.

- **Reframe the function along the two pillars of "time" and "space"**. The CFO function should be reframed "in time and space" to maximize value creation. CFOs should enhance processes and capabilities to embrace more dynamic steering in the short term to cope with uncertainty and ensure alignment with a sustainable path in the long-term beyond the traditional 3-5 year planning horizon (time), while navigating the ecosystem in which the company operates including partners, customers and suppliers (space).

- **Take a holistic view**. CFOs should define a vision and then implement a broad-based transformation program cutting across the company's activities – from IT strategy to the operating model. To get there, they need a more fundamental upgrade of their role, enabled by technology, data and analytics, new capabilities – and by a significant cultural change.

Through these three levers, CFOs can help align the finance function with the evolving needs of business and society, address pressure points in the finance function's operating model, and, assuming effective execution, redefine the roles to make the most of their skills in the years ahead.

A Forward-Looking Paradigm Shift

The finance function is subject to powerful forces of change. Rising macro-economic uncertainty – exacerbated by the COVID-19 crisis – has revealed the limits of traditional finance processes, and highlighted the need for speedier adaptation mechanisms. The imperatives of sustainability, meanwhile, have added new objectives to existing KPIs and targets.

As a result of these dynamics, CFOs are being asked to create a faster, more dynamic function, based on better management of short-term and long-term trade-offs. The experience of the past year shows that supply chain interoperability and resilience to external shocks is critical, and CFOs should contribute by broadening the scope of their planning and reporting activities, bringing external stakeholders into their remit.

Moreover, CFOs are seeing the numbers of their interactions multiply significantly across an array of stakeholders, from the board of directors to the business, and from regulators to investors and corporate communities. These stakeholders are imposing new responsibilities on CFOs, requiring a step change in the role — both internally and externally. CFOs are being asked to free up time and resources, drastically cutting low-value add activities (such as data gathering and reporting) and moving to advanced analyses and insight generation to drive decision-making. This requires the CFO function

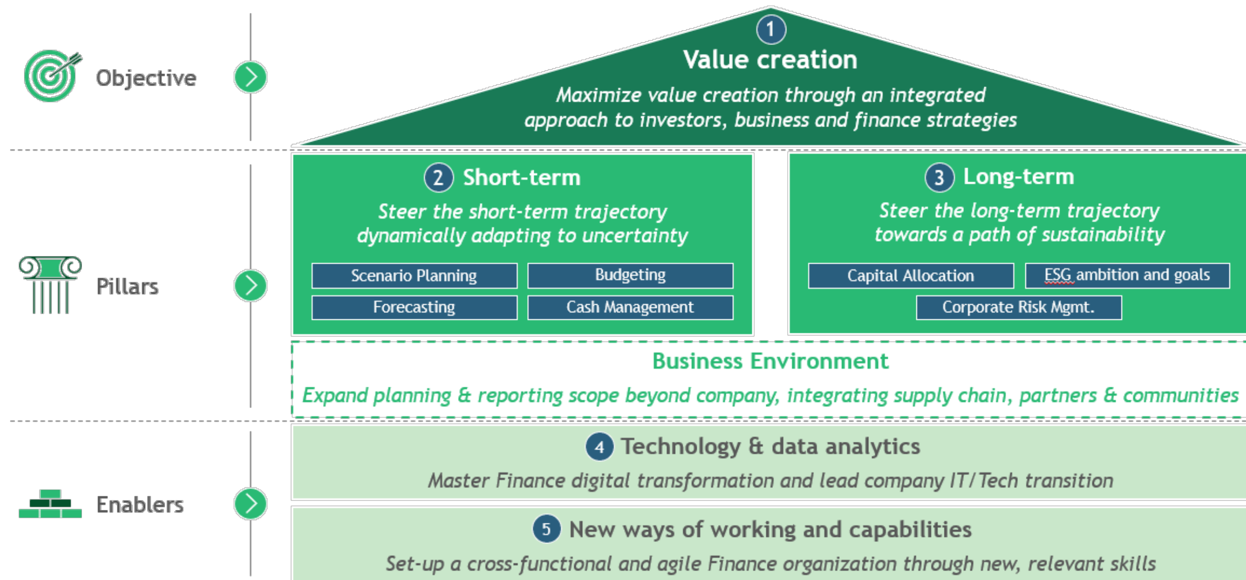
to become a custodian of company data assets and a business partner to other functions. To get there, CFOs need to build a cross-functional and agile finance organization, introduce new skills and career paths, and enable closer collaboration with business functions.

Leading CFOs are already gearing up to address these challenges. They are investing in new technologies/analytics and integrated data platforms on cloud, enabling automation, intelligent planning and more dynamic forecasting. In addition, they are adopting agile ways of working, acting as a "business partner" for other functions. These are necessary enablers. However, the real step change for CFOs must be to adopt a new mindset. That means adopting a double lens – one highly dynamic and reactive for the short-term and the other, driven by sustainability targets, which accounts for potential impacts on longer time horizons. Further, CFOs must expand their view beyond the corporate perimeter, looking to ensure the sustainability of its external business environment as well. In short, finance technological and operating transformation must be aimed at re-framing the function in time and space.

Reframing the CFO Function in Time and Space

We believe CFO's should adopt a holistic view when reframing the CFO function, based on value creation, short- and long-term perspectives, technology (including data and analytics) and new ways of working, based on relevant skills. (See Exhibit 1).

Exhibit 1: A holistic approach to shaping the CFO function



CFOs should start by establishing a value-oriented culture within their function, aimed at addressing the expectations of investors, business, and finance. A precondition is to extend finance planning horizons in time and space. Timewise, both a short-term and a long-term perspective should be integrated. In order to address uncertainty in the short term, CFOs need to build the necessary capabilities and data platform to dynamically adapt as soon as environmental changes materialize. This implies introducing scenario-based financial planning and evolving key finance processes such as budgeting and cash management. At the same time, CFOs need to put in place mechanisms to ensure a sustainable long-term trajectory. That will first require identification of material ESG[1] factors, which must be embedded in planning processes and capital allocation decisions. In fact, while sustainability is a long-term objective in many industries, achieving it requires short-term investment. Think, for instance, of the climate and environmental transition, requiring urgent investment to move toward emissions targets set out in the Paris Agreement.

As for space, CFOs should aim to extend the scope of finance planning and reporting activities also to the external business environment. Indeed, monitoring impact at

[1] Environmental, Social and Governance

supplier, partner and community level is part and parcel of delivering sustainable value to shareholders. The COVID-19 crisis exposed the interconnectedness of global supply chains, suggesting risk management and corporate sustainability also need to be looked at in a more holistic way. Some CFOs may wish to upgrade planning processes to incorporate the supply chain (i.e., third-party risks, variability of services, and supplier financial and operating dynamics). This may extend to supporting suppliers via financing, training, knowledge transfer, and shared back-office activities. Broadening the planning horizon in "space" may require cultural shifts and trade-offs with financial optimization, but the benefits may outweigh the costs.

New technologies and ways of working are critical enablers of this transformation, allowing the finance role to focus on more value-adding activities, improving efficiency and drastically cutting the share of manual processes. Successful digital transformation may also pave the way for CFOs to take a greater steering role in the company's data and digital agenda.

Maximizing value creation and societal impact through an integrated approach

Traditional approaches to defining strategy – typically business-driven – may be suboptimal when looking to achieve sustainable value creation and societal impact. Conversely, an approach that applies an integrated lens to business, investor, financial strategies and sustainability will be key to superior value creation, potentially delivering a 300-500 basis point increase in total shareholder returns (TSR).

As an ambassador of value creation, the CFO should leverage an integrated TSR approach, both maximizing shareholder and societal value. The first step should be to use valuation driver analyses at company and peer level, ensuring that the key drivers underlying historical TSR performance are adequately identified and understood. The CFO should then "decode" these to create financial metrics/thresholds (for example EBITDA margin, ROE, ROCE) and operating levers (for example, new business growth, product mix review, cost reduction, working capital optimization). These thresholds and levers are a powerful tool to steer dynamically the short-term trajectory and quickly adjust to changes in

external market/economic conditions. This approach will also help clarify targets and financial trade-offs when prioritizing investments, going beyond traditional prioritization logics focused on NPV or IRR. Among real-world success stories, several financial institutions have pioneered these approaches, shifting away from growth-driven to risk-adjusted return strategies — leading to a significant boost to their financial and share price performance.

Finally, when communicating with investors, CFOs should clearly address their ESG aspirations and develop concrete, measurable targets to achieve these. A transparent ESG strategy will signal that the company has taken steps to mitigate downside risks, while potentially unlocking new upside opportunities. In fact, there is evidence that ESG drivers have a positive impact on TSR. Lower-emission companies in chemical, energy and mining sectors, for example, tend to have a higher-than-average valuation.

The pillars: Adapting to uncertainty in the short-term, and achieving sustainability in the long-term

Rising macroeconomic uncertainty calls for a more dynamic approach to planning - moving from a traditional "one-scenario" planning approach to a "multi-scenario" way of working. Scenario-based financial planning can be achieved by accurately designing scenarios – both macro and idiosyncratic – including stress scenarios that capture company vulnerabilities – and defining trigger-based mitigating actions to address volatility in downside situations.

Effective scenario-based financial planning requires the use of analytical capabilities to rapidly quantify the sensitivity of key metrics – such as revenues at risk, profits at risk or EBITDA at risk – within multiple scenarios. This approach enables businesses to adjust management decisions in line with the external environment, while reducing financial volatility through well-planned contingency actions. For example, during the Eurozone sovereign crisis, one financial institution developed a contingency plan based on five levels of risk (i.e. triggers), and defined specific remediation actions for each. This enabled

the institution to address issues such as liquidity shortages – both at strategic and operational levels.

Greater levels of uncertainty, driven by the COVID-19 crisis, have also a significant impact on budgeting. Market headwinds make target setting increasingly difficult, impairing the quality of long-term forecasts. To address this challenge, spending limits may not be helpful. Flexibility and scenario-based budgeting are key. This can be achieved by reducing scope (for example by defining the budget at more aggregate organizational levels, or focusing on key value drivers rather than granular KPIs), shortening the time horizon, and switching to relative/benchmark-based targets, rather than absolute targets. CFOs may also wish to reduce the budgeting process duration and simplify alignments and follow-up actions.

Finally, uncertainty can drive cash shortages in the short-term, putting companies under significant stress. The COVID-19 crisis clearly revealed how macro-economic uncertainty can swiftly translate into liquidity shocks – either by reducing consumer demand or disrupting supply chains. Within this context, building short-term cash resilience has become a crucial responsibility for CFOs. Fortunately, there are a wide range of options to do this, from tactically addressing aged trade receivables and inventory, to shortening payables timings to achieve "cash excellence". From a more structural standpoint, CFOs should create an integrated view of cash and the balance sheet. This can be achieved by centralizing cash management – frequently scattered around local finance departments – within a dedicated “cash office”. In situations where cash is a critical resource, adopting a direct liquidity planning process within the short-term (less than 12 weeks), and an indirect process for longer horizons, will enable CFOs to accurately project cash levels over time.

Selectively reducing capital expenditure can also help strengthen the cash balance by limiting future outflows. CFOs must adopt a “smart” approach when pursuing CapEx cuts – clustering investments based on their strategic intent (for example asset replacement, regulatory, efficiency, growth). They should also use differentiated prioritization logic (for

example risk-return vs. overall financial benefit), as linear reductions can impair business continuity. This approach requires a rigorous clustering and prioritization model, preventing decisions on CapEx reduction from being the result of unpredictable internal negotiations. For example, in order to cut CapEx spending during the COVID-19 pandemic while safeguarding long-term competitiveness, aviation companies had to prioritize "growth" investments – typically characterized by long pay-back periods – with more sophisticated financial trade-offs than regulatory or replacement investments.

CFOs are in a natural position to steer short-term trajectory through planning and budgeting decisions. Yet they also have a responsibility to steer company strategy toward a long-term sustainable path. Sustainability drivers already rank high on the CFO agenda, given their tangible impact on company TSR and financial performance. In addition, by taking a holistic view on strategy – extending beyond traditional business and value considerations – CFOs are the best candidates to apply an ESG lens to steering and business initiatives.

To this end, CFOs can play an active role in defining the company's sustainability path. Not only can they help identify material topics that need to be addressed by quantifying their financial impacts across different scenarios, but they can also ensure alignment between ESG aspirations, TSR strategy and corporate governance across the business. Further, they can "crack the mathematics of sustainability" by decoding drivers into targets and KPIs. As their function includes the oversight of capital allocation and budgeting decision, their influence continues during execution, where initiatives need to be prioritized and financed. They are also best positioned to build and maintain an audited data base of sustainability topics, an important task given that high-quality ESG reporting is likely to become a competitive factor – if not a regulatory necessity.

In selected cases, CFOs can take the lead in steering, becoming the owners of cross-functional, high-impact ESG initiatives. Initiatives related to climate change topics are an example. Risks arising from climate change can impact company finances in significant ways, from higher costs and unexpected operating/financial losses to revenue shocks due to shifts in consumer demand and behavior. Steering the business toward net zero

emissions requires companies to reduce the carbon footprint of their portfolio of assets and activities, while bearing the economic implications of the transition. Being in charge of capital allocation and overall portfolio strategy, CFOs are best positioned to lead this transition. In some sectors (for example oil & gas, utilities, mining, cement) they are also driving the adoption of new approaches to long-term strategy and planning across the entire organization.

Initiatives related to corporate social responsibility topics can also benefit from CFO leadership. In the end, a strong performance in areas such as corporate social responsibility can have significant impacts on returns to shareholders and society. As an example of best practice, the CFO of a prominent player in the food and beverage industry led the assessment of risks connected with supply chain (e.g. child labor, de-forestation) and products (e.g. health hazards, misleading communication), quantifying risk exposures and implementing mitigation initiatives as part of company sustainability plan.

The enablers: New technologies and cross-functional working

CFOs have an unprecedented opportunity to lead finance digital transformation, leveraging on new technologies – like robotic process automation (RPA), big data and advanced analytics, artificial intelligence, advanced data visualization and cloud computing - already tested and successfully deployed on high-impact finance use cases. These new technologies will enable automation of repetitive low-value tasks – which are estimated to absorb about 60% of finance resources[2] - so freeing up capacity to re-focus on more strategic priorities and accelerate transition to a modern and integrated finance IT landscape In one example, a European multinational used a central, AI-powered engine to aggregate inputs and automatically produce forecasts for units across countries, regions and legal entities, cutting forecasting production from several days to just one hour.

[2] BCG Center for CFO Excellence analysis

In parallel, advanced data visualization tools are paving the way for dynamic reporting dashboards. These can help companies breach the limits of standard reporting, which often fails to effectively support management decisions, due to being too "rigid". By integrating performance data and allowing self-service access, these tools significantly reduce effort spent on low-value activities such as data gathering, data reconciliation and non-standardized report production, while facilitating collaboration across the business.

As these new technologies can be applied in virtually every function, it is no surprise that companies are investing heavily in digital transformation. Still, often, IT investments fail to deliver, due to inadequate digital capabilities and skills, and excessively complex infrastructure. Some CFOs, already responsible for IT, are reclaiming their role as promoters of IT/tech transition. To succeed, they must act on two levels: lead finance digital evolution while orchestrating the transformation across other business functions.

To get there, they need to focus on three areas: upgrading their technological infrastructure, acting as data "gatekeepers", and re-assessing their roles within the IT/tech transformation. When driving an enterprise resource planning (ERP) upgrade, CFOs should opt for solutions that overcome the limits of siloed legacy IT systems that separate ERP infrastructure, data, and analytics. The ERP infrastructure should be standardized and minimal, while the data layer should be expanded to integrate new data sources. Analytics engines should be built on top of these two layers only where they truly add value. This requires the creation of a single, open-source platform that allows data to be accessed by the entire organization. As "gatekeepers", CFOs should establish adequate data governance – intervening where necessary to ensure high data quality standards.
In delivering such a strategy, moving to cloud will prove to be pivotal under several dimensions: first, it will enable both infrastructure simplification and optimization, offsetting hardware/software redundancy in multi-entity companies and favoring the adoption of single global platforms for enterprise-wide processes (e.g. financial control, account payable, etc.); second, cloud will give a boost to data mastery, enhancing the capabilities to capture, store and elaborate third-party data in conjunction with higher volume and more granular internal information; finally, it will gear-up system

performance and facilitate the adoption of cloud-native advanced applications for processes that are typically less digital.

More importantly, CFOs need to re-assess their roles in IT/tech, putting technology back at the center of their function. They must be both co-designers and promoters of technological solutions, defining and prioritizing high-impact use cases to enhance the analytical capabilities of their function, also enhancing their ability to scan future-state technologies (e.g. distributed-ledger technologies or quantum computing) in order to plan for their introduction in finance and beyond. This requires CFOs to partner with CIOs/CTOs when designing company target IT and data architecture, including a thorough assessment of the make-or-buy trade-off between automation and operating model re-shaping via selective externalizations.

Reviewing the finance operating model

While technology is critical, CFOs should also review the finance operating model to re-focus on strategic value-adding activities. This might, for example, comprise automating repetitive tasks such as accounting and standard reporting in shared service centers – or alternatively, evaluating their outsourcing. This would allow other finance units to focus on value-added analyses of products, customers or new business opportunities.

Additionally, CFOs should promote agile working models in expertise functions (for example planning, ad hoc reporting and business partnering), where cross-functional teams – such as squads and communities dedicated to specific topics – can help achieve better output quality while removing duplicative roles and cutting unnecessary interactions. A global company, for example, experienced significant benefits from adopting this approach, as the centralized handling of customer analysis led to more insightful reporting being rolled out across the business. Moreover, the introduction of squads, aligned on time-critical tasks, enabled highly reactive planning, with the company adjusting to new information in a matter of days rather than weeks.

Turning finance into a good business partner is also a critical task for CFOs, with great potential for value creation thanks to a proactive engagement on the agenda of the business. This requires CFOs to build out business competences in addition to financial ones, attracting talents with more diversified skill sets and creating new career paths for them.

Finally, CFOs should be aware of the significant cultural impact that a digital transformation agenda can have on their organizations. Creating a more data-driven and agile function takes time, and cultural barriers are likely to be a key challenge. Identifying and addressing barriers such as legacy IT systems and outdated skill sets early will be vital to obtaining faster results – and possibly a truly successful transformation. Fostering the transition from a focus on technical financial aspects towards digital skills and business insight will also be key.

Taking a Holistic View

There are two main forces re-shaping the CFO function: macroeconomic uncertainty, requiring dynamic adaptation in the short-term, and the need to drive sustainable value creation for shareholders and society at large – requiring a long-term focus.

In addressing these two forces and designing a transformation strategy for their function, CFOs' priority should be to react to uncertainty by enabling adaptive steering in the short-term. This requires setting up effective scenario planning and making budgeting, forecasting and cash management processes more reactive to external changes, as well as intervening on IT systems and operating models to support these changes.

In parallel, CFOs should envision the future of their functions. This should go beyond the "simpler, faster, and better" paradigm and include macro-initiatives focused on sustainable long-term goals. As interventions related to these topics are likely to take some time, it is important for CFOs to launch a design phase as early as possible, which in due course will lead to detailed implementation plan.

Reshaping the CFO function is a matter of culture before strategy. To address all the forces defining their role, CFOs must first adopt a new mindset. While new capabilities, metrics, technologies, and ways of working are key enabling factors, CFOs need also to carefully select tools based on their future vision for the finance function. Taking a holistic approach of the task at hand is the best place to start.

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