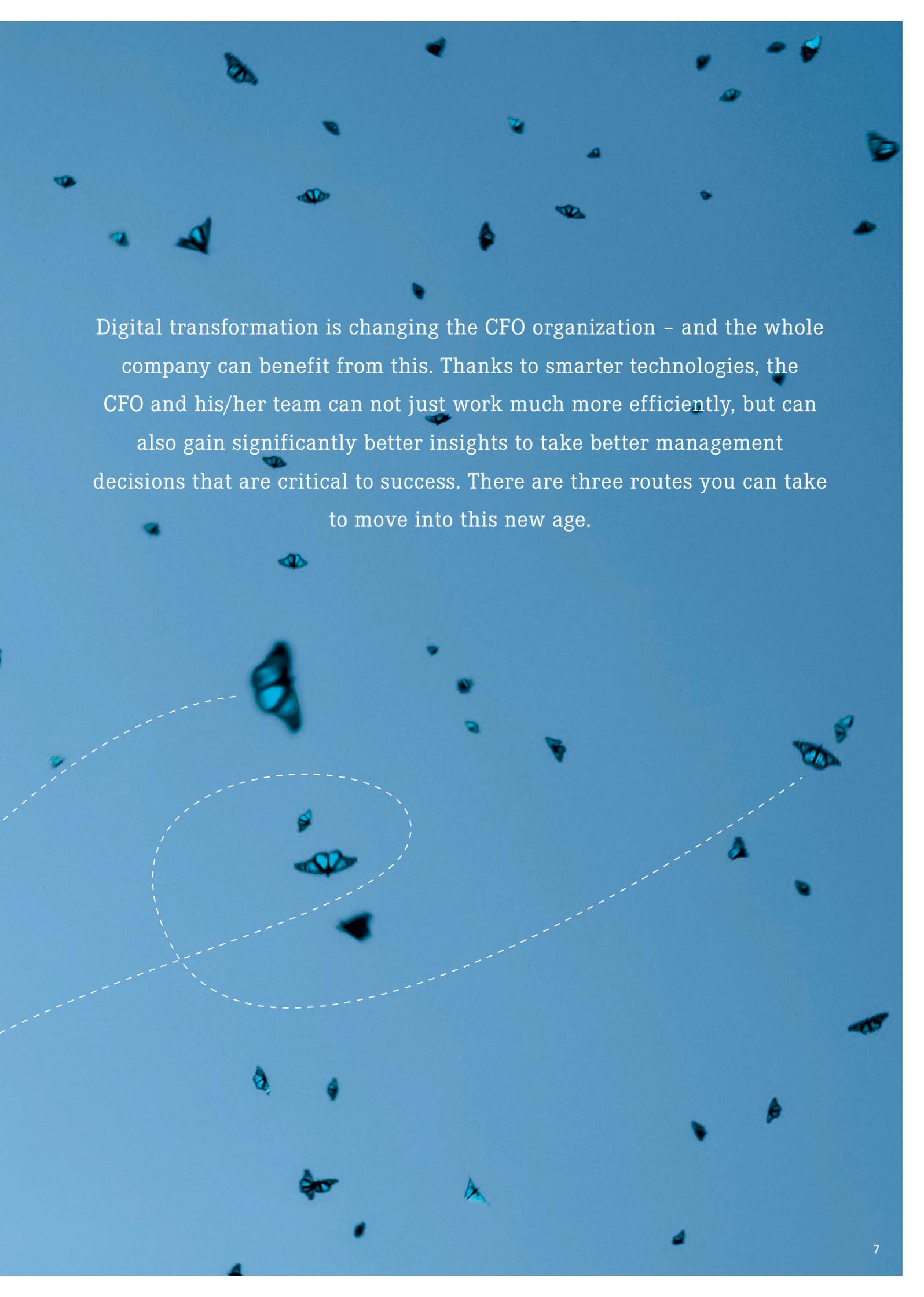


THREE ROUTES INTO THE DIGITAL FUTURE



Digital transformation is changing the CFO organization - and the whole company can benefit from this. Thanks to smarter technologies, the CFO and his/her team can not just work much more efficiently, but can also gain significantly better insights to take better management decisions that are critical to success. There are three routes you can take to move into this new age.

The wave of digitization has swept into the finance department at full force. Unlike even two years ago, when the issue was a minor one for most CFOs, it is now right at the top of their agenda: According to the current CFO study carried out by Horváth & Partners, two thirds of companies in German-speaking countries have launched initiatives to increase digitization in the finance area. Nobody doubts any longer that there is a fundamental need for action.

CFOS ARE BEING SWEEPED ALONG

There are a number of reasons for this change in attitude. There are today not just a whole series of performant new technologies available, such as robotic process automation (RPA), cognitive computing and advanced analytics, but digital transformation is now playing an increasing role both in public life and inside your own company. Finance directors and managers no longer want nor are able to lag behind the already advanced digitization of core processes in the value chain. Manufacturing companies, for example, have already automated production to a large extent, under the watchwords "Industry 4.0" and the "Internet of Things (IoT)". This is placing pressure on CFOs to catch up.

For the more than 200 CFOs from Germany, Austria and Switzerland that Horváth & Partners surveyed for the 2018 CFO Study (see pages 14 and 15), the search for efficiency is one of the trends that continues to be a prime driver for their transformation. Initial experiences show that digital tools can deliver quite significant savings, especially in data management and transaction processing.

The impetus for a "finance transformation" often comes from initiatives in other areas of the company which throw up cross-departmental organizational issues. For example, you may be trying to set up an Analytics Competence Center, because marketing wants to attract new customers using modern analytical tools. Or you need to clarify who is responsible for the operation and governance of a company-wide data platform.

CREATING ADDED VALUE IN A NEW ROLE

Focusing solely on an efficient financial factory falls short of the mark. To fully benefit from digitization, the finance function has to reposition itself. It needs to define its future role within the company, what its core competences are, and what tasks it handles. If the right course is charted now, digital transformation will offer many opportunities to the CFO and his/her team.

New technologies such as analytics and cognitive computing, which evaluate massive volumes of data from a wide variety of sources in seconds, and can simulate a variety of developments, provide CFOs and decision-makers in other departments the management information they need at the push of a button. It is also much more accurate and informative than was previously the case. When combined with modern collaborative tools, then managers can take decisions more rapidly and based on better information – which significantly increases the overall performance of the business. The finance function takes a much more dynamic approach and creates a basis for efficient and proactive corporate performance management.

OPPORTUNITIES AND RISKS ON-SCREEN

In a digital management system like this, active management of opportunities and risks plays a key role. Because you can only work proactively when you identify all the opportunities and risks for the whole organization at an early stage. Risk management must not be limited to compliance issues. Companies that can exploit the potential of the huge data volumes that digitization makes available to them will gain the competitive advantage. For example, the so-called Business Radar tool from Horváth & Partners can help, as an intelligent management tool, to unearth these gems. It provides companies, in real-time and tailored to each company, with a structured view of their full business environment – from public opinion and trends, to patent registrations and treasury risks. Energy provider E.ON is currently testing this tool for its strategic corporate performance management (see page 27).

When the finance organization makes intelligent use of new digital tools and methods, all departments across the company will benefit. The CFO has an opportunity here to more strongly position him/herself and his/her team as a business partner, advising both management and other departments from procurement to sales, based on more wide-ranging, improved insights. This also renders the governance role of the finance function more valuable. A digitalized company is required to share uniform systems,



Digital transformation offers CFOs and their teams the opportunity to create strategic added value for the entire company.

5 FEATURES

OF A DIGITAL FINANCIAL ORGANISATION

1 Proactive, dynamic management

Comprehensive future orientation at high speed

2 Inclusive approach

Integrated functional and financial steering processes based on shared platforms

3 Efficient organization

A high level of automation allows you to focus on critical issues

4 Changed roles

Heavy focus on "business partnering" and "governance" / development of methodologies

5 New skills

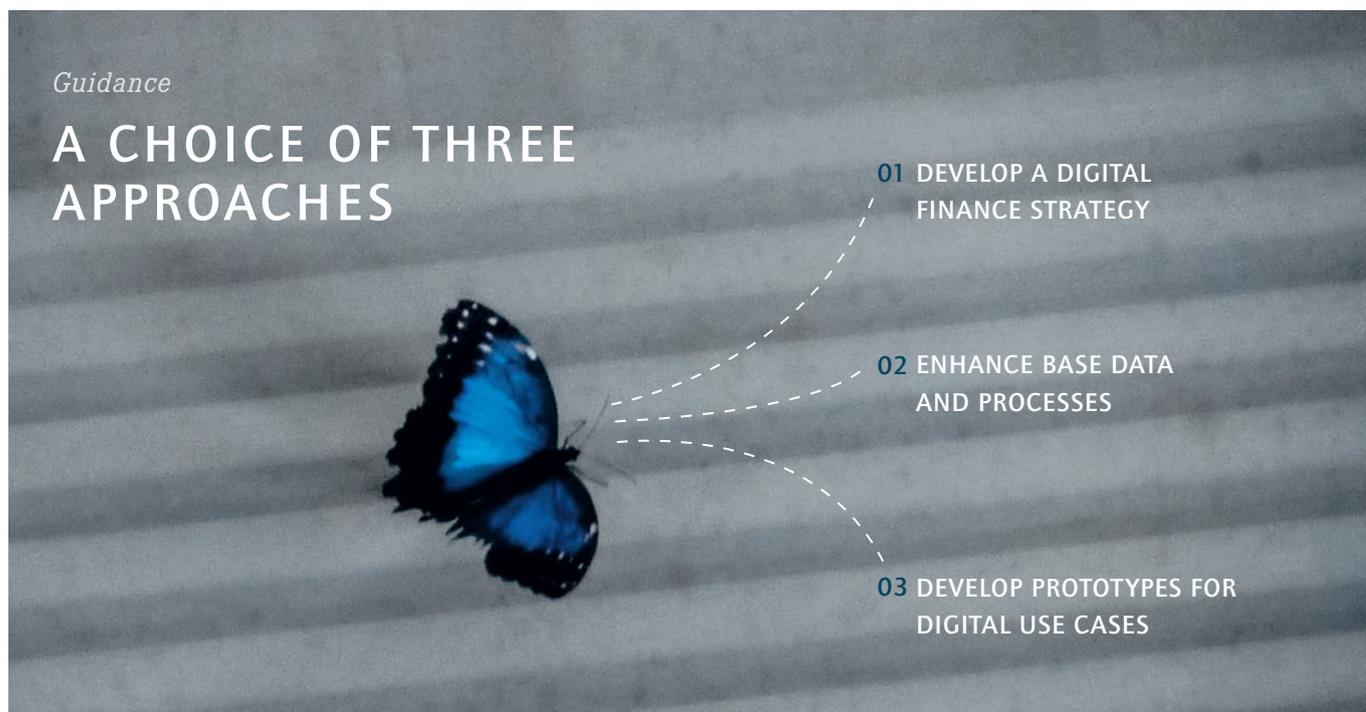
Statistical expertise and comprehensive knowledge of functional steering are a core part of the job skills profile in the finance area

standards, methods and guidelines in order to set up and successfully run the necessary data platforms.

THREE ROUTES TO THE GOAL

As the head of the Planning Business Segment, Michael Kappes, a partner at Horváth & Partners, coaches many digitization projects in the CFO area. "There is no single, right route to a digital finance organization. Companies can choose different routes to get there, depending on their culture and individual requirements and goals," he says.

We see three approaches: The first starts from a digital finance strategy, the second enhances the base data and its associated transactional processes, and the third develops detailed prototypes for specific digital applications. "We can see from our consulting work, that the three approaches are almost equally common. Each has its pros and cons," stresses Michael Kappes. "Companies often combine different approaches."



HEADING STRATEGICALLY INTO THE FUTURE

Those who choose the first route and develop a digital finance strategy, are taking a holistic, systematic approach. This approach looks at all aspects of digitization, including processes and responsibilities. In this way, companies acquire a comprehensive overview of their own status quo, and create from this a target operating model for the future CFO organization, including a detailed roadmap to the goal. This approach reduces the risk of betting on the wrong horse, and increases the chances of the whole organization becoming involved in the transformation process.

This approach does, however, involve the risk of spending too long on abstract discussions of principles, which do not add much value. Neutral project managers with a clear project plan are certainly the best antidote to this.

While companies with a digital finance strategy do not initially achieve any tangible results, many organizations will set up other digitization projects in parallel. An example of this is Deutsche Bahn, which has created specific initiatives in individual areas to run alongside its global "FINANCE 4 DB" transformation program (see page 12).

“ **THE BETTER THE BASE DATA,
THE HIGHER THE LIKELIHOOD
OF SUCCESS FOR DIGITAL
APPLICATIONS.**

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HARMONIZING DATA AND PROCESSES

The second main approach to digitization, of starting by optimizing the data and transactional processes, tackles a core problem for many organizations. In the current CFO Study by Horváth & Partners, half of all CFOs – so 20 percent more than last year – complain about the fragmented, disjointed IT landscape in their company. It not only slows down processes, but adversely affects company decisions that must be based on consistent and valid information. Central business platforms can help here. Many companies are therefore installing SAP S/4HANA, an ERP suite that processes very large data volumes in real-time thanks to its in-memory technology and provides consistent data across the company.

This creates the preconditions for proactive forecasting for corporate performance management in a fairly easy to calculate manner and it provides huge benefits regardless of any further digitization projects. On the other hand, this approach is often tedious and expensive – projects of this kind can take up to three years. Therefore it tends to be larger companies who opt for this approach, such as Innogy (see page 19) or Bayer. The life sciences conglomerate transformed its finance organization under a project called "Data.One",

using integrated data, systems and processes to make it ready for upcoming digitization.

A DIGITAL PROTOTYPE AS A TEST-BED

Using digital prototypes for special applications, companies can achieve tangible results rapidly and with easily defined costs. Usually individual analytics scenarios are addressed in pilot projects like this. The energy provider Thüga, for example, developed a successful pilot for automated sales planning (see page 24). This kind of prototype can normally be implemented within a few months. As a first step towards digitization, they provide a learning experience for the following steps, and help to convince the organization through short-term gains of the benefit of further investment in digital transformation.

The base data plays a key role here. "Pilot projects like this often fail due to the quality of data required. The better the base data, the greater the likelihood of success for digital applications," says Michael Kappes. Whether the prototypes deliver any sustainable benefits to the business or are mainly intended as information-gathering exercises depends mainly on whether the prototypes can be integrated with the normal processes.

THINK OUTSIDE THE BOX AND KEEP CALM

Whichever route a company takes – it must always deal with the organizational changes of transformation. One of the keys to success is planning all digitization measures collaboratively, across the board, and involving other areas and functions. Silo thinking is counterproductive in the face of central, business-wide IT platforms. In addition, the fundamental CFO duties, such as budgeting, reporting and forecasting will in future be integrated, involving both functional data and financial information.

Ongoing digitization projects also show that things do not always go as planned. Whenever you break new ground you can expect surprises. What is more, technology is still developing at a furious pace, so that new opportunities will constantly need to be explored. "A trial-and-error approach, that is able to gather positive results from failures is the key to success," stressed Michael Kappes. For project management, agile methods have proven themselves able to handle the dynamics of transformation. Change management also has a key role to play. Early communication activities help to reduce employee anxiety and avoid resistance.



Using advanced analytics, the finance department can enable more efficient, proactive analytical controlling.

LEARNING FROM THE PIONEERS

The first results from companies who started early down this route are now available to us. Those who are starting now can learn from these pioneers. Although it will still take years before these pioneers complete the digital transformation of their finance function, the pressure is growing on other CFOs. Those who miss the boat now, who do not set sail for transformation, are likely to find they increasingly fall behind those of their competitors who are planning ahead. It will not only be the market that punishes them in the long-term for being too slow to act. New graduates and young professionals are more attracted to companies that use the modern technologies they have learned during their studies. Plenty of reasons therefore to start down the digital finance organization route now, and to follow through consistently. ■

*Find more information at
www.horvath-partners.com/cfo-organization*

*// Michael Kappes
MKappes@horvath-partners.com
Tel. +49 711 66919-1303*