

CFO Study 2020

“The digital future of
finance organizations”

A Stocktake



Foreword

Our annual CFO Study highlights current trends in finance organizations and outlines the challenges CFOs currently face. The study regularly specifies measures that can be taken to respond to these challenges and trends, as well as the strategic approaches being implemented in order to handle the resulting transformations within finance organizations.

This year the CFO Study takes a critical look on the mega trend “digitalization in the finance functions” and questions the current status quo: What has been achieved so far and how far have digitalization plans advanced in finance organizations? In particular, the study examines the issue in terms of current challenges and measures, as well as the role that finance organizations have in digitalization. It also showcases experiences companies have already gained through rolling out digital methods and technologies. In addition, this year’s study has questioned the degree of investment in the development of digital skills and the introduction of digital technologies, as well as the respective amounts of time that employees are spending on digital tasks, roles and projects.

Since March 2020 at least, the coronavirus crisis has been dominating management agendas in finance organizations. In light of this, an additional ad hoc survey was undertaken with respondents after the main survey period. It appears that digitalization, with its associated opportunities for increasing efficiency and obtaining future-focused information, is enjoying a further boost as finance organizations undergo a transformation.



For CFOs, it is particularly important right now to question its strategy, structures and processes in the company and to drive digitalization forward with a holistic transformation agenda and targeted measures in the direction of sustainable increases in efficiency and effectiveness.

Wolfgang Heinrichs, Deutsche Bahn
Head of Finance Transformation “FINANCE4 DB”



This study report contains all of the exciting findings and valuable insights into the digital transformation of finance organizations. We are confident that it will provide helpful information and experience to assist you in your endeavors.

Happy reading! All the best,

Kai Grönke
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Management summary

Digitalization remains a top trend in finance organizations. Its effects, prerequisites and design possibilities are among the greatest challenges facing managers and decision-makers alike. In this regard, there are four main factors behind the pressure to transform in the direction of a “digital CFO” function:

Four drivers are pushing the transformation of finance organizations through digitalization

Data availability and data integration are key

Cross-company and cross-functional data will allow an improved and more holistic management. “From data to value” is the guiding principle in supplying the most suitable and most up-to-date information to support management decision-making processes.



Global data integration is of central importance for Kärcher's management. The current developments confirm that we are on the right track.

Sefan Patzke, Kärcher
Chief Financial Officer



In future, corporate steering will be conducted completely different

Corporate steering will transform from being reactive/analytical to proactive/predictive. Algorithm-based data evaluation, machine learning and artificial intelligence are just some of the methods that can be used for forecasting business performances and designing future-oriented decisions.

The pressure for efficiency will continue to rise

Routine processes will be radically streamlined and based on clear decision-making rules. Tasks

that have previously been performed by humans are already increasingly being switched to robot- or algorithm-based activities. Resources that are freed up as a result may be eliminated or be transferred to processes that add more value.

Finance roles and competences will change

On the one hand, finance organizations need to integrate or develop new skills and competencies to handle the digital transformation; and on the other hand, young talents are seeking working environments in which they can incorporate their digital skills and technological competencies and expand them. Modern role profiles, such as data scientist, are being established within finance organizations, and at the same time existing roles such as the governance role are being expanded to create uniform framework conditions, especially with regard to digitalization initiatives and further development.

There is still much to be done and rethought on the road to a digital finance organization

Nevertheless, in view of these four drivers behind the top trend “digital transformation”, it is obvious that the digitalization of the CFO function is being advanced in very different ways across various companies and also that in many cases it is at an early stage of development. The key findings from the CFO study presented below outline the stocktake of the digital transformation effectively, and also indicate areas where work is needed to open up the advantages and opportunities that digitalization presents and to fully realize them – not only in pursuit of continuous improvement, but also with a view to emerging stronger from the crisis.

- Very often, competencies, knowledge and mindset needed to facilitate the digital transformation are lacking.
- Isolated implementation of individual use cases dominates the digital transformation at present – holistic strategies are rarely pursued.
- The CFO function is actively shaping the digital transformation, but there is hesitation around taking on a visionary pioneering role.
- The allocation of resources – namely time and financial means – is often insufficient and stands in the way of substantial transformation.
- Digitalization is proceeding slowly. Digital changes often remain at the level of a proof of concept or a pilot project. Scaling-up of digital methods and technologies to productive operations is still too rare an occurrence.

Successful finance organizations utilize digitalization in a target manner. Organizations that hesitate

too long are needlessly throwing away potential and risk falling behind. The fundamental requirement for successful transformation is to have a digital strategy and roadmap in place. Our study points out that the majority of the top management opt for a use-case-based approach. A holistic, target-oriented strategy is still a rare phenomenon, even though this has been proven, in practice, to be the most efficient approach.

As the success of digitalization projects become increasingly apparent and the demands on finance organizations intensify further, digital initiatives will continue to grow over time. Equally, further digitalization is not happening solely as an impact from the coronavirus pandemic, but also a response to it in order to better manage the crisis. As such, we can expect to see burgeoning investment budgets for transformation initiatives in the future.



Methodology and study design

The results of the study are based on an international online survey. The questionnaire was aimed mainly at CFOs and senior managers within finance organizations. It was intended to provide a critical appraisal of digitalization, and to offer an insight into the current status of finance organizations in relation to digital transformation. It illustrates and summarizes how companies are coping with current challenges and drivers, and sets out the current situation with respect to measures for the implementation of digitalization.

Over 200 companies, most of them from the DACH region and the Nordic countries, were asked to take part in the study at the end of 2019. In April 2020, the CFO study was expanded by an additional ad hoc survey due to the coronavirus crisis,

which was highly topical at that time. Survey respondents were mainly CFOs or managing directors.

Overall, the sample represents companies of different sizes from various industries. Statements and conclusions can therefore be understood to present a comprehensive picture of digitalization in finance organizations, and not to pertain solely to individual industries or large corporate groups. Participating companies can be categorized into eight different industry segments, with chemicals, oil and pharmaceutical industries most strongly represented. One third of the participating companies had more than 5,000 employees and over 1 billion euros in revenue in the previous fiscal year.

The sample comprises companies from different industries and sizes

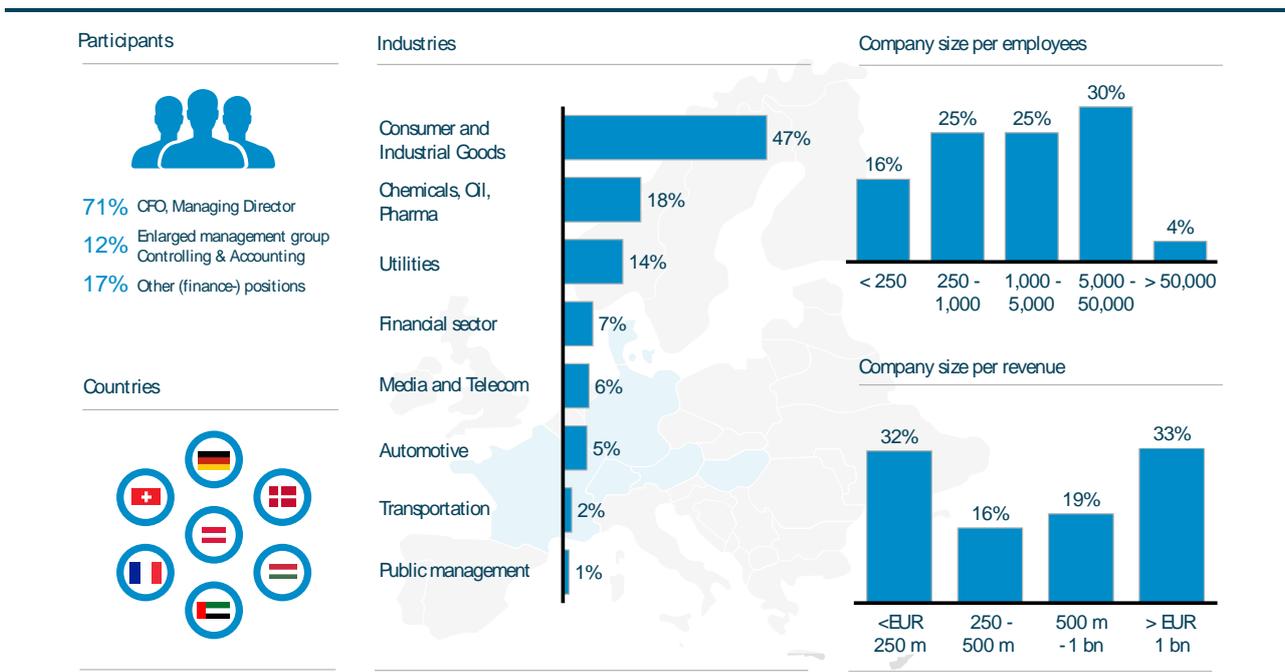


Fig. 1: Study design



Study report

A digital finance transformation affects all dimensions of the Target Operating Model

Shaping and changing of finance organizations can only succeed in a comprehensive and consistent manner if all dimensions of the Finance Target Operating Model are evolved in an integrated manner. The proven SCOPE model developed by Horváth & Partners describes these dimensions in a holistic way, differentiating them into “Strategy & Steering”, “Customers & Services”, “Organization & Processes”, “People & Culture” and “Enabler & Technology”.

A digital transformation must always involve these five dimensions, although not all of them are always affected to the same extent. Focusing a digitalization initiative on just one selected dimension will fall short and inevitably necessitate adjustments in other dimensions when it comes to long-term anchoring. As such, the level of maturity and/or the status quo of modern and digital finance organizations should always be evaluated in terms of the SCOPE dimensions.

Strategy & Steering

Without a clear strategy and a uniform understanding of how the company should be steered, it is difficult to implement a target oriented digital finance transformation. The future target picture of a finance organization – with its mission and vision, as well as its strategy including principles, values and purpose – must be oriented towards the corporate strategy and allow for efficient, focused corporate steering. For example, in context of the digital finance strategy, it is necessary to define the purpose that digitalization is intended to serve; in which areas the future technological and methodological development should be; but also which transformative aspects are a no-go. In case of cross-functional initiatives in particular, it is important for digitalization strategies to encompass all relevant functional strategies that are derived

from the holistic corporate strategy. By this conflicts of objectives and redundancies can be eliminated.

The distribution of roles and responsibilities of a digital transformation are also based on strategic considerations. Last but not least, a digitalization strategy for finance organizations must be transposed to an implementation roadmap.

Customers & Services

Modern CFO organizations are characterized by orienting their service and product portfolio to the requirements and information needs of their internal and external stakeholders, and optimize them accordingly. In this context, it is important to assess which tools and methods will best fulfill the customer's requirements in terms of digital finance transformations.

Organization & Processes

The introduction of digital methods, tools and technologies primarily affects finance organization processes. Here digitalization becomes tangible, for example through changed processes, end-to-end perspectives, new activity splits, e.g. for humans and machines; or for office and remote workstations, with modern IT tools and an adapted use of re-sources. As the structural organization forms the basis for the processes, it must inevitably adapt when processes are automated and digitalized. The roles model of finance organizations shifts, and organizational structures and functional interfaces and reporting lines must be adjusted.

People & Culture

It is also necessary to consider the effects digitalization in finance processes have on company's employees and culture. One of the key factors for successful digital transformation is the further development and enablement of employees within the digital competency model. Modern finance organizations have a clear catalog of requirements and developments in this respect. Nevertheless, learning new things and engaging with changes

that may be perceived as threatening requires the anchoring of a digital mindset and framework for an open-minded digitalization culture.

Enabler & Technology

Digitalization and automation are inseparable from the data, software, and technology landscape within finance organizations. Successful digital finance organizations are characterized by standardized IT landscapes as well as integrated, harmonized databases which allow rapid, efficient and effective data exchange. Various enablers of digitalization – such as RPA, Advanced Analytics, Predictive Forecasting, Machine Learning, AI and blockchain – are used on this basis.

With regard to these SCOPE dimensions of the Target Operating Model for finance organizations, the following findings can be extrapolated from the CFO study:

A holistic strategic foundation is absent in many digital transformations

The necessity of a general digitalization strategy is clear to those responsible for digital transformation. A total of 90 percent of this year's respondents report that they are following a strategy in their transformation. In all, 50 percent of respondents are pursuing a use-case-based strategy as their core strategy. By contrast, acceptance of a holistic finance transformation approach is surprisingly low, with just 8 percent of respondents reporting that they are pursuing this. This presents a problem because – as outlined above – a digital transformation affects all dimensions of a Target Operating Model and these must therefore all be taken into account to ensure sustainable, holistic change.

In addition, there is often no clear implementation roadmap derived from the strategy. A total of 27 percent of respondents stated that the lack of an implementation roadmap is a major obstacle for a successful finance transformation (see Fig. 4). The frequent application of a use case strategy can be better understood in this context. Use cases that are selected isolated (e.g. small number of use cases with RPA tools) do not necessarily require a coordinated, future-oriented implementation roadmap.

Another reason for focusing on individual use cases lies in the silo mentality that can still be seen in finance organizations, in opposition to large-scale, cross-functional strategies. In this regard, approximately 40 percent of respondents criticize the fact that focusing on an individual function is a hindrance for digital finance transformation (see Fig. 4).

The role played by finance organizations in shaping and designing the digital transformation should also be noted. Although the CFO function often actively drives the digital transformation, it rarely takes on a visionary pioneering role. Almost one third of managers surveyed describe themselves as “co-creators of innovative digital ideas”. By contrast, just 12 percent of managers in finance organizations see themselves as “strategic shapers of digitalization”.

The CFO actively drives the digital transformation as co-creator and innovator

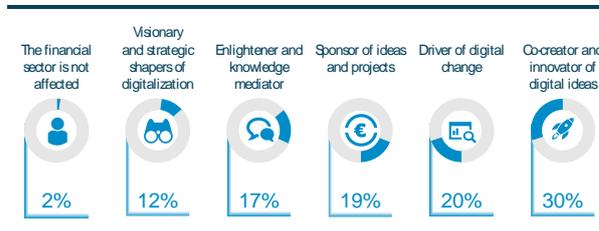


Fig. 2: Role of the CFO in the transformation

Focus on internal customers and optimization of services are decisive

Financial directors are not only prioritizing continuous optimization of services within finance, but also the orientation of these services to the needs of their internal and external customers. Around 90 percent of respondents view the further development and expansion of the business partner role as an essential measure (see Fig. 3). In particular, the opportunities obtainable by digitalization need to be utilized more effectively to generate value-adding activities and results for internal and external customers from this role, as better data availability and increased transparency automatically lead to better-founded, more meaningful indicators and related measures. Improved ability to simulate or forecast business performance supports management in steering operational business. In addition, digitalization of services and related processes relieves pressure on resources, allowing a

more intensive focus on value-adding business partner tasks.

In over 80 percent of cases, those responsible for digital transformation also set out to take an end-to-end approach when thinking about and setting up financial processes and how they are organized. These measures intend to increase the focus on internal and external customers. Functional borders and interfaces are being dissolved so that finance organizations' output can be optimized from a customer perspective.

Process optimization and organizational design are high on the agenda

Shaping and optimizing finance processes and organizational structures are core elements of transformations within finance. These two levers can be used to achieve flexibility and speed, as well as reducing complexity, avoiding interfaces and redundancy, and reducing the use of resources. Pressure to be efficient and profitable is often the main

The top measures of CFO's affect the entire Target Operating Model of the finance area

driver behind these efforts. 93 percent of respondents stated that they feel this pressure and as a direct result are initiating digital transformation within their areas of responsibility. For this reason, 84 percent of managers place traditional levers such as standardization, centralization, and automation on the CFO agenda as specific strategic actions. However, transferring finance processes into a cross-functional end-to-end logic also represents a change of direction for over 80 percent of respondents.

Process optimization is ideally accompanied by a critical examination of existing organizational structures. Modern, role-based structures are often introduced in the context of process changes. In practice, experience shows that orienting an organization towards a role-based logic is a very productive way of unlocking efficiency potentials.

Collaboration within processes and between employees across organizational units is also changing. Three quarters of respondents state that they are dealing with the introduction and use of agile methods and digital working practices.



Fig. 3: Measures on the CFO agenda; multiple responses possible

Successful digitalization and transformation requires the availability of necessary competencies and skills

95 percent of respondents expect to see radical change in the perception of roles and in terms of employee skills within finance organizations; this is also reflected in the challenges faced by finance organizations. Meanwhile, 93 percent of respondents believe that the key challenge is in the requirement for new skills beyond employees' current competencies, and that these requirements will continue to affect finance organizations in the longer term. On this basis, it is unsurprising that 89 percent of managers surveyed are currently working to ensure that their employees' skillsets are future-proof.

This is an understandable measure considering that 37 percent of respondents confirm that a lack of knowledge and an insufficient overview of digital enablers and methods present problems in the course of transformation. Further-more, 42 percent of companies surveyed are experiencing a fundamental personnel shortfall due to a lack of experts and new job profiles.

Lack of skills and mindset are major roadblocks for a successful digital transformation

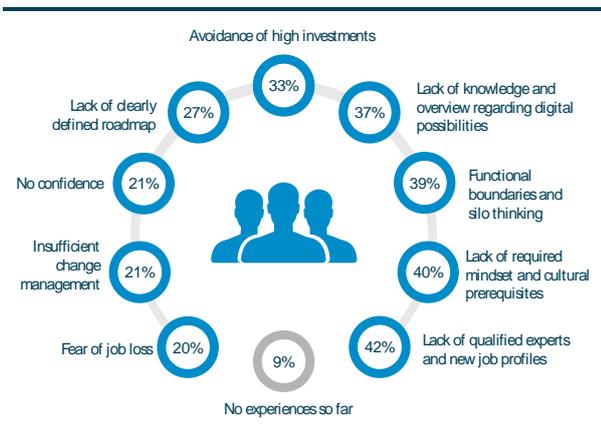


Fig. 4: Main roadblocks in the course of digital transformation; multiple responses possible

Nevertheless, measures are not focused exclusively on learnable skills, explicit knowledge or the experts that can be recruited. 40 percent of respondents still state that there are deficits in this area within their companies, and that they are facing major hurdles in the course of digital transformation.

In cases where transformation initiatives are implemented successfully, a shift can be seen in project management methods. Agile project management (for example using the SCRUM method) has now overtaken traditional project implementation ("waterfall process"). 52 percent of digitalization projects are implemented using agile methods, while 48 percent still follow the traditional approach. Regardless of the project management approach, accompanying change management is an integral component of transformation. Change management is reported as a productive tool in 80 percent of transformations, with insufficient change support being described as a problem area in around just 20 percent of cases.

Digitalization is advancing slowly; many companies have not yet launched any initiatives in this area

For two thirds of respondents, the digital financial transformation is still in a phase that is characterized by hype and high expectations. First productive results have been achieved, but gradual scaling up is a matter for the future. Given that the digitalization trend in finance organizations has been the subject of much discussion for many years now, these assessments are striking.

Reason for this slow progress is still the difficulty of identifying suitable use cases and areas of application for digitalization. If the technologies and methods of digitalization are not understood – either due to a lack of knowledge in this area or if no fundamental overview exists – it will not be possible to identify or evaluate potential areas of application in which digitalization opportunities can be unlocked.

Furthermore, it still takes far too long on average to move from the identification of a digitalization use case to its productive utilization; respondents state that this cycle takes an average of 49 weeks, i.e. almost a year (see Fig. 5). Timing certainly varies across use cases. For example, a bot for routine tasks (RPA application) can be rolled out more quickly than an integrated data lake for steering purposes (Big Data application). However, it is clear that in many instances it still takes far too long to realize digital use cases.

On average, companies need half a year to implement digitalization initiatives

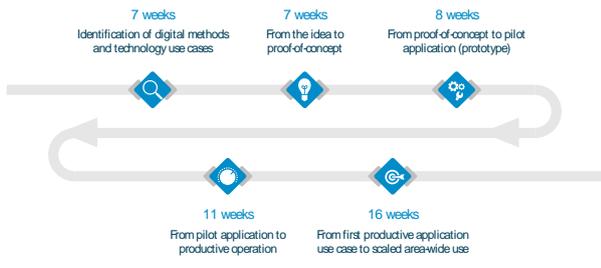


Fig. 5: Duration from use case identification to go-live

Another reason for the sluggish progress of digitalization is the fact that employees in finance organizations cannot or are not permitted to devote sufficient time to digital projects and initiatives. Three quarters of companies surveyed stated that, alongside everyday operational activities, under 20 percent of working time is spent on digital topics.

In addition, following correlation can be indicated. As the perceived level of difficulty and complexity in the technology behind digital enablers increases, the degree of application and implementation decreases. The lack of management team confidence in the positive effects of digitalization measures also appears to be a further factor in the slow speed of digitalizing finance organizations.

64 percent of respondents note that the success of digital projects cannot be measured in a structured manner; in fact, 49 percent believe that in most cases it is not even possible to apply measurable business cases to digitalization initiatives and projects (see Fig. 7).

This halting progress of the digital finance transformation means that many optimization potentials have not yet been realized. In addition to the insufficient number of digitalization initiatives, many projects which have already started have not yet progressed beyond the proof of concept, prototype or pilot project development stage. The threshold to productive integration into operational processes and thereby everyday application is still very high (see Fig. 6). Potentials for greater efficiency can only be sustainably realized once this threshold has been passed. It can be assumed that the need to increase efficiency within finance organizations was previously considered less pressing than it is today, or since the coronavirus crisis began. The rising pressure for efficiency will significantly increase the speed at which measures are implemented.

Many optimization potentials are still completely untapped in the finance area

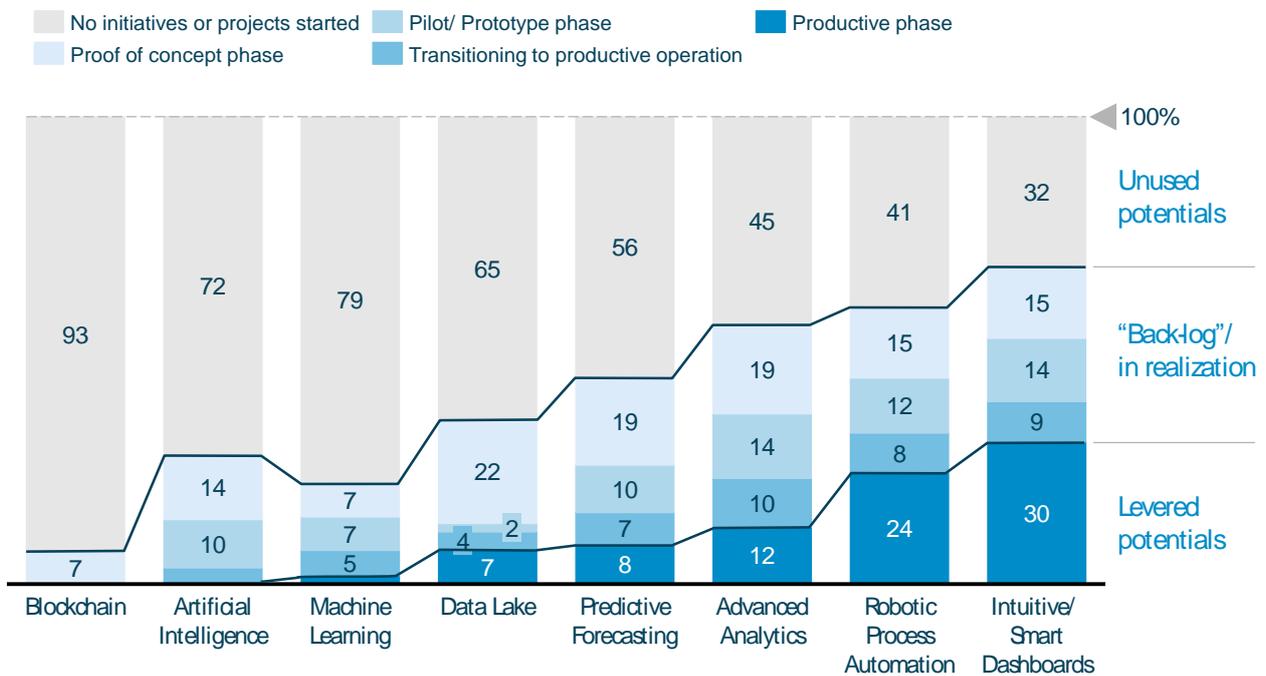


Fig. 6: Degree of application and implementation in the area of digitalization; figures in percent; multiple responses possible

Conclusion and recommendations

The digital journey will continue - more intensely than it has been until now

As expected, the coronavirus crisis will give fresh impetus to digitalization. On the one hand, because necessary measures can be implemented, offering advantages in terms of cost and performance, and on the other hand, because companies have learned a lot within a very short time about digital opportunities in a kind of “crash course of necessity”. Especially in the field of digital collaboration, positive experiences have been made, and even those who were previously skeptical of digitalization measures have been convinced.

These efforts in the area of digital finance transformation will expand considerably in the future, but not solely because of the pressure to act that the

Digital transformation is evaluated differently

coronavirus crisis is currently generating within finance organization divisions. Many qualitative and quantitative benefits that can be achieved by utilizing digital opportunities independently of the crisis should provide sufficient momentum. Increased efficiency, improved controllability, higher quality services and enhanced attractiveness as an employer, to name only a few.

For this reason, it is necessary to move the digitalization of finance organizations out of the hype phase, and tangibly meet the high expectations surrounding it. The realization that increasing digitalization also gives rise to a more open and unreserved mindset among employees with respect to this trend is also useful. 60 percent of respondents confirmed this. At the same time, 67 percent of managers also expect finance organizations to develop into a clearly more attractive workplace as digitalization takes hold (see Fig. 7).

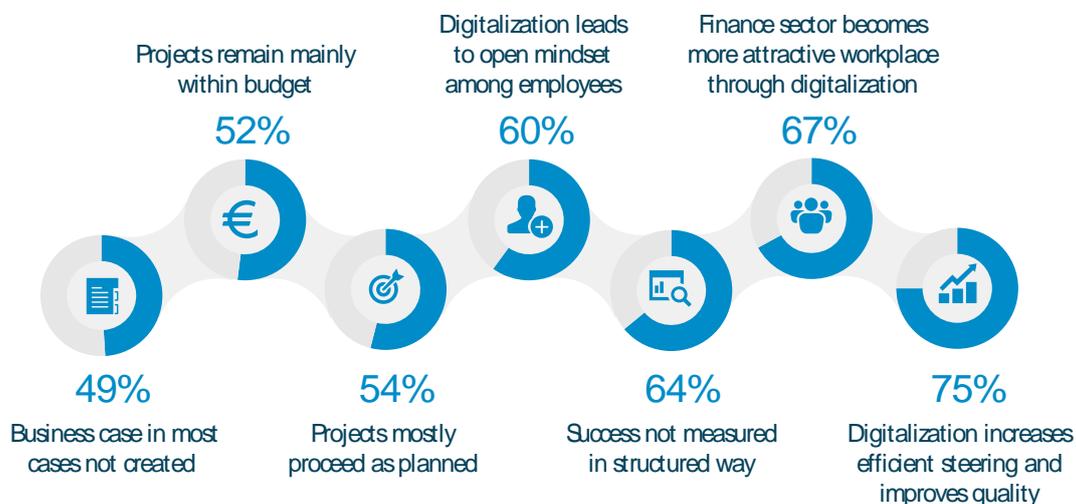


Fig. 7: Experience and successes with digital transformations; multiple responses possible

With respect to further digitalization, it is advisable to take a holistic approach using an integrative process.

This is the only way to ensure that all dimensions of the Target Operating Model of a finance organization can be applied equally on this journey, and to guarantee a balanced mix of the various digital enablers. The latter must always be examined to determine whether and how they can be combined and to identify synergetic effects, and they must collectively contribute to the business case.

Nevertheless, it is still important not to digitalize simply for the sake of digitalizing. The digital transformation must always be geared toward a specific objective. That is also why it is so important to have a digital strategy and an implementation roadmap.

Along the digital journey, we are continually gaining experience and gathering knowledge, which must be shared. We will certainly make wrong decisions and mistakes. Managers within finance organizations must permit this as part of an error culture – but they must also draw the right conclusions from such errors for the future steps towards digitalization.

One further factor for success is collaboration with other organizations that are involved with the digitalization of finance organization or which have already embarked on their digital journey. Establishing contacts for dialogue with companies, institutions, universities or consultancy firms could be of great help in this respect. The field of digitalization is too big for each finance organization to gather all of the experience by itself or to have all the knowledge required.



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