



Cover Page



DIGITAL ENTERPRISES – IMPERATIVE OF CFO

Dr. S. Gopaakrishnan

CFE, Consultant Director - Divasprik Intelligence Pvt Ltd
Kochi & Visiting Faculty with Institute of Chartered Accountants of India
Ernakulam branch, Kochi, Kerala, India

ABSTRACT

The Digitalisation is ruling the business world and every new business venture can explore its avenues only through the right exploitation of the digital tools. The process driven operations and effectiveness of Internal controls mechanisms are by default the pillars of any business and in the current world the digitalized internal controls and process are inevitably required for any business success. When looking critically into various business functions, conventionally, the finance function and the CFO, being the chief finance technician, is being considered as the custodian of the cash flowing into the business, but the emerging business needs demand the CFO and the team to take control over the digital processes to ensure business cash flows. This transformation of the CFO is censorious as every business need to achieve customer delight instead of customer satisfaction, only due to which the revenue growth on sustainable basis can be ensured. The application of the digitalization will be leading the business organisations in attaining the anticipated top line and the bottom line. As the business requirements are touching its roof, and the hectic competition dictates, every business to rise beyond the situations, the roles of the CFO need to undergo a total transfiguration where by the digitalized data control and analysis became the main duty. Hence the route map for the CFOs and the finance team are subject for a re-definition, as the traditional routines of the team are very well replaced by the robust computer functions. Moreover, the wider regulatory implications on each and every business requires high level qualitative compliances and digitalized data will be helping the businesses to achieve this. The CFO is expected to take the lead in adhering to the compliance needs to ensure continuity of the business and therefore the finance chiefs are the real time game changers for the corporates.

Keywords: CFO (Chief Financial Officer), Digitalisation, Big Data, Data Analytics, Operational Value, Digitalised Financial Controls.

INTRODUCTION

The current business world is heading towards a new digital era which results in new business avenues, new business models and a thorough revamp of the existing business processes and control mechanisms. Such a scale of change demands the enterprises to prioritise the business initiatives with due considerations to the current vogue of customer delight, social media marketing and a clamor for data. These demands of the business will have a clear impact on the competitiveness and success of the organization which is made possible with a concrete application of digital systems throughout, which will navigate the entire processes involved. In line with this situation, it is apparent that the roles of the Chief Financial Officer (CFO) are to be reformed to meet the requirements. The managements robust thinking about the paths the CFOs and the finance function as such to be followed going forward are taking a different shape. As the business these days are being hit by hectic competitions, wider regulations, thrust on a completely technologically driven systems and the resultant risks, the expectations on the roles and responsibilities of a CFO have undergone a vast change. The CFOs are indeed looked into as game changers to create and sustain business value. The Board of Directors of organisations depend on the CFOs in the current world who are all expected to dive into the business to preserve the cash flow ratio or absolute liquidity, maintain shareholders confidence and managing risks.

Over the past few years, it is visibly evident that the CFOs have changed their roles as financial strategists from the earlier role of a conventional accountant. The current business trends require the CFOs to be the business catalysts whose functions are technologically driven to partner on time with other functions of the business to achieve operational efficiency, internal control process excellence and innovation. The CFO, to act as an evangelist of technology should consistently identify the organisational needs and to extend a total support to achieve the same.

From Managing to Running the Business

Finance as the core function has been driven for a longer span by data and quality of its reporting relies upon the way the data are being managed by the experts within the function. The big data and the growth of data analytics have elevated further the importance of the CFO and the finance function. The Chief Financial Officers are expected to bridge the gap, currently visible between the analytics and the strategic operational decision-making process. A paradigm shift in the role of the CFOs has been interestingly noted, whereby as the Chief Functionary, from the traditional roles of managing the business through planning, budgeting, forecasting and controlling, transforms oneself, to conceive the role of a dimensional manager who focuses on the minute



Cover Page



DOI: <http://ijmer.in.doi./2022/11.03.07>

aspects of operational decision making for running the business successfully and sustainably. The business trends these days witnesses an increasing focus on big data to take timely and effective decisions for achieving the core objective of value maximisation. The CFOs are enthusiastically involved and playing a pivotal role in such decision-making processes as financial implications are associated with each element of the business transaction. To accomplish this key responsibility, business informations in its entirety are much relied upon by the CFOs and the qualitative and quantitative availability of these informations in the form big data can lead to a clear, focused and economically viable decisions. The big data management so far has been considered as the key responsibility of IT function alone, but the need for the involvement of the CFOs and being very serious about the same are felt very strongly as the big data can transform the way the decisions are taken. The Big data analytics can benefit the business firms in multiple ways and the core advantages being a) Continual performance improvements, b) well informed decision making, c) delivering a competitive advantage and d) drive the revenue gains. The CFO with the active use of these data in a sophisticated way for strategic decisions, helps the business to take competitive advantage in the market. The big data as well helps the CFOs in taking a better edge in terms of future orientation and makes the finance function more responsive. As the CFOs are having a financial insight into the whole business, they can fix up a perfect position for themselves for identifying any critical problems and address the same with the help of big data. Through effective utilisation of these big data, the CFO will be able to contribute towards growth in the top line, value creations throughout the chains, cost optimisations, focused internal control processes, persistency of earnings and better management of risks. A study conducted by Bain & Company, whereby 400 different business enterprises were chosen and subsequent to the study observed that these companies are able to command a larger market share with most developed capabilities in terms of the data analytics. Moreover, these companies were found to be two times more than 25% of the sector's top companies in terms of profitability and their decision-making pace were five times more than that of their competitors. These observations confirms that the business enterprises which are capitalizing on the big data analytics can prosper and move ahead. In addition to the above findings, the following observations were also made by Bain & company with respect to the surveys conducted in the above mentioned 400 companies:

- 36% of the companies surveyed had a dedicated data insight team
- Only 19% of the companies were having high quality consistent data
- 23% of the companies were having clear strategies for using analytics effectively
- 38% of the companies are found to be using analytical tools

Further, a study conducted by University of Texas subscribed the findings of Bain & Company. The study was conducted in Fortune 1000 corporations and analysed the impact of Data Analytics on Profitability. The following key findings are part of the study:

- By using 10% of available data, the companies could increase the profit over \$2 billion per year
- More accessibility of the data resulted into Return on equity going up by 16%
- By implementing advanced reporting, the companies could generate additional revenue of \$2.87 million
- By making a comparably low investment in data analytics, the companies could achieve the above results.

When it comes to the Indian scenarios, certain companies are observed to be professionally adopting matured strategies to manage the data and have seen the results, mentioned as below:

- Matured Data Strategy resulted into a growth in profit by 8% every year, on an average
- Many Indian organisations, lost \$52939, annually due to missed opportunities arising on account of poor handling of data
- 100% of the Decision makers of the companies which were subject for the survey, opined that better management of data has impacted on the overall performances on the positive note.

Armed with analytics, the CFOs can exercise more-centralized control of operational business decision-making, answering questions such as, what price point should be used for this customer on this day? or What inventory products should be pulled forward or out of the supply chain? Moreover, advanced analytics can allow companies to hedge against volatility and to respond faster, and with greater insight, to changes in the marketplace, to such a degree that the predictive power that analytics offers—in pricing, the supply chain, and other areas—can have an increased impact on how business is done. While some CFOs may hesitate to lead analytics in operational areas because it's not necessarily about “big picture” issues, the insights into the customer that analytics can provide go right to the bottom line. A lot of profit can fall between the operational cracks, and analytics can be a game changer in the way it leads to improved operational discipline.

In order to take a lead in driving the data analytics in the business, the steps as mentioned below will be of great help to the Finance Chiefs:



Cover Page



DOI: <http://ijmer.in.doi./2022/11.03.07>

Defining the advantages of analytics.

CFOs can play a vital part in exhibiting to the other functionaries, how Finance as a function, lead the Data analytics within the business to bring in more value and drive operational insights. Mostly with many business enterprises, the finance function will not be owning the data related to the operational side. But the CFO, being the key functional head, must take all steps to drive value outside his or her function by performing the following finance supported analytics in the business:

- Vendor Management and Spend Analysis
- Analysis related to Margin erosions
- Price analytics
- Service Level Analytics
- Analysis of customer profitability
- Analysis related to revenue-leakage
- Elasticity analysis of the demand and price
- Churn and Customer retention analysis
- Profitability for the New products launched
- Technology Investment Planning

Using Analytics to deliver the Operational value.

Delivering the value is considered as the basic motto behind leading the analytics in operational decision making. The CFO should ask to themselves the questions as to what business decision can drive margin outside the finance, through analytics and try to address the same.

The above facts highlight the need of a very strong tie up, the CFO to have with information and technology systems and brings closer the relationship with Chief Information Officer of the organisation. In the situations when the CFOs and CIOs together can carve out a common platform for efficient and effective decision-making process, the CFO in totality will be able to give a strong base in building up a pull in revenue strategy, in partnership with the marketing function. With this style of extension of support to marketing function in terms of arriving a top line planning, the CFO acts as a bridge between information systems and marketing function. The analytical, interpretation and partnering skills of the CFOs are key in delivering a perfect efficiency in this regard.

As the business currently are marching towards attaining a core value in each element of its transactions, investments in technologies become inevitable. The organizations apparently are focusing towards increased investments in technologies and reporting more and more steps towards such digital investments to achieve qualitatively their objectives. These investment initiatives are progressively helping the CFOs in managing their functional roles and responsibilities. The CFO, with the base and support of the digital systems will be able to curb the silo mentality within the organization and can help to reap many benefits.

To make the new digital environment of the business work positively for the enterprise, the CFOs are central and instrumental. As their roles in the organizations are shifting from a narrow cost controller to a broad growth initiator, digital technology is of great importance to the CFO. With the digital driven systems, the CFO as the main representative of the corporate will be able to ensure earnings quality and achieving persistency in earnings reporting, which is an important market driving process. Moreover, they can sharpen their focus towards the following key result areas of their core function:

1. Strategic decision making
2. Architecting the business value across the organization
3. Great care on Cost optimisation at all levels of the business
4. Management of risks and complexity

In the march of a CFO towards an elevated role in the organisation, certain challenges in reality are encountered by them. The topmost challenges could be in the form of Disconnected systems and processes, lack of business insights, too much of manual tasks, inaccuracy of budgeting and forecasting and lack of real time informations. The Accenture Strategy High Performance Finance Research conducted during 2014, reveals that the complexity in all forms is the biggest challenge a finance function face. The major challenge being the complexities can be associated with the legacy systems, managing the rising needs of the stakeholders and the business risk factors. Moreover, transformation strategies and data analytics strategies can also pose a different challenge to the CFOs. A CFO must concentrate in understanding these complexities regularly and work towards minimisation of these complex factors to eliminate the risks or to mitigate the effect of these risks and this is made thoroughly possible in the organisations where the functions are digital oriented.



Cover Page



DOI: <http://ijmer.in.doi./2022/11.03.07>

The CFOs performances with respect to management of complexities will take a better shape when they are funneling their focus on to develop the talents within their function. When the digital transformation takes its full form, in order to manage efficiently the digital transformation and the subsequent environment, the CFOs should ensure the talents in the finance functions are beefed up. As the great talents are the key to the success of the finance function and a lens approach is adopted by business to see the value the finance function contributes, the CFOs are required to give utmost importance in this regard and to initiate to impart best talent practices. Over and above this, the CFOs being the head of the function and the carrier of the management responsibility over financial reporting as defined under the Sarbanes Oxley Act of 2002, enacted in USA, they must be committed always to competence in terms of ensuring only competent finance professionals are recruited to ably support, carrying out the functions and to overcome the challenges. The CFOs also to focus on balancing the skills within the finance value chain to ensure no systems are overridden and are intact.

Despite all these visible advantages as sited above for the finance function as such in an organization, an active role of a CFO these days are not witnessed while the digital transformation initiatives are kicked off by the management. The factors which could be cited for the lack of CFO's involvement could be numerous and could be explicit or implicit. But the main reason could be the fact that the finance function in general dresses up to take the role of a total support function and the CFO in particular quite often act as backdrop when it comes to any prominent business decisional situations, be it operational or strategic. But whenever any situation emerges in business for taking a complex investment decision, which always aims for a higher return, the CFO being a better person to evaluate, analyse and judge financial feasibility, must take the role of a front runner rather than a background player. The CFO must position his chair to act as a competent partner to drive these digital transformation initiatives of the management. They must adopt a clear mindset in these transformation stages to conceive the managements digital thoughts and put in their best efforts for speedy implementation to reap the advantages.

CONCLUSION

In brief, the roles and responsibilities of the CFOs and the finance function in totality are undergoing a change in line with the current business needs and it becomes almost crucial for the CFOs to accept and conceive these shifts in paradigm of their function. It is also equally important for the CFOs to look critically into the challenges which are being faced by them in the process of managing the data and work towards converting these challenges into an opportunity to enhance the financial performances of the business. More than a strategist, the transformation as an operational controller is inevitably required for the chiefs in the current business world and this could be achieved by way of involving actively into managing the leveraging upon the big data qualitatively. Big bottom-line savings, delivering real time benefits, accuracy in forecasts and improving cohesion must be the sightedness for the CFOs in addition to putting solid efforts to overcome the challenges.

References

1. The value of Big Data – How analytics differentiate winners – Article by Bain & Company, Management consultants.
2. Measuring the Business impacts of effective data – Study by Dr. Anitesh Barua and Rajiv Mukherjee, University of Texas at Austin
3. Mint, e-paper, 27th February 2022 – “Indian Companies with mature data strategies saw profit growth” (Article by Abhijit Ahaskar)
4. www.accenture.com, CFO and Enterprise value, Article by Dr.Christian Campagna, Aneel Delawalla, Annie Peabody and Haralds Robeznieks – 9 February 2021
5. FM Magazine.com – CFOs work on data analytics reaps exciting results – By Tim Cooper, 4 December, 2021.
6. Delloite.com – How CFOs can own analytics? – Article by Ajit Kambil
7. ITConvergence.com – Financial Planning and analysis – Challenges for CFOs
8. Forbes.com – It's time for CFOs to get comfortable with Advanced data analytics – Article by Jim Deloach – 11, February 2021
9. Teradata.com – White Paper – The Data Driven CFO
10. Ey.com – How Private company CFOs can use data to make a difference – By Randall Tavierne – 7 May, 2021
11. Ibm.com – IBM Institute of business value – New CFO Hoirizons – The dawn of cognitive performance analytics
12. Healthcarefinancenews.com – How big data if forcing CFOs to become more innovative – 23 July, 2018
13. Thecfo.com – Does the Big data affect the CFO? – By Karen dela torre – 9 July 2015
14. Cgma.org – Blog – 5 traits of data enable CFO – 3 August, 2018
15. Cfo.com – Analysing big data – A Finance Chief's guide – by Paul M Perry – 6 October, 2015
16. Harnham.com – Why CFOs must harness big data? – By Dapo Agiri – 28 October, 2021
17. Acuitymag.com – Big data can make CFOs transformation leaders – By Adam Beavis – 20 January, 2021
18. Gartner.com – 4 data & analytics trends CFOs can't afford to ignore – By Jackie Wiles – 30 September, 2021