Deloitte.

CFO Insights
July 28, 2022

Why CFOs are moving toward a more dynamic finance function

Over the past decades, CFOs have worked diligently to mitigate as much risk to their business operations as possible. But, with the many unforeseen events of the past few years, they have likely concluded that a better approach may exist. To ensure their companies are prepared to respond to a multitude of unanticipated forces, their organizations need to be more nimble and agile. Indeed, the ability to adapt to the pace of change by harnessing tools and processes that boost flexibility may very well differentiate one finance team's performance from another's.

The concept of building a dynamic finance function is fast becoming a priority. A flurry of factors have made it feasible, ranging from technological advances to heightened expectations from top management, as companies have confronted overlapping, high-magnitude shocks.[1] Challenges have come at CFOs from all directions. There have been external jolts like the pandemic and the Great Resignation. Meanwhile, internal exigencies have fueled the need to change business models, expand into adjacent markets, and complete acquisitions or divestitures.

Embedding the finance function with enough speed, strength, and flexibility to adapt—despite what uncertainty may arise—can turn a traditional support function into a competitive advantage. A streamlined, adaptable finance function can enable an enterprise to capitalize on disruption-generated opportunities, helping the business advance its goals while rivals are still struggling to react. Developing a dynamic finance capability ranks among CFOs' uppermost priorities, as reflected in Deloitte's CFO Agenda, which describes "the need for agility in the face of volatility" as leading CFOs and others to "rethink the role of the corporate finance function." Such deliberations, however, are only as valuable as the tangible actions that follow.

In this edition of *CFO Insights*, we'll explore what it means for CFOs to embrace a dynamic vision for finance, what barriers may hinder their progress, and how, as economic headwinds gather strength,[2] CFOs can make the business case for investing in dynamic capabilities.

Harmonic convergence

While a dynamic operating model for finance may ultimately burst with agility and resilience, reaching that state requires CFOs to undertake a taxing job. Creating this sort of responsive finance organization, with the necessary capabilities, demands that CFOs assess and improve coordination and alignment within the function. It also means promoting partnership across the business. In reality, CFOs can only foster nimbleness by systematically understanding the necessary data strategy, talent model, and technology infrastructure required to serve the business and its changing needs.

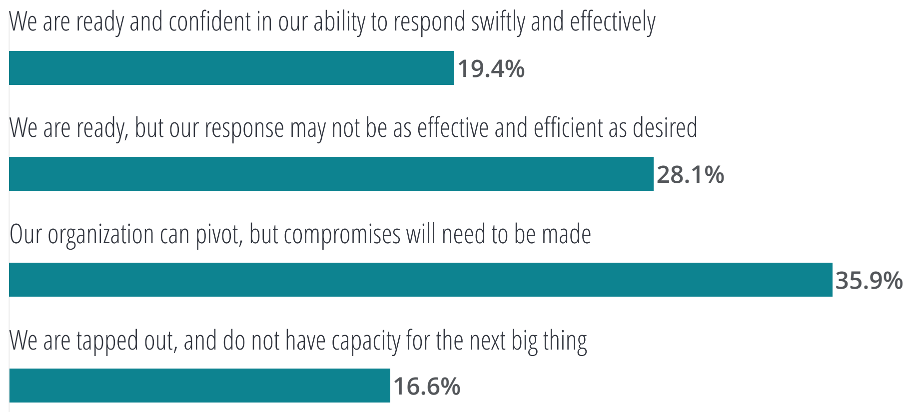
Of course, the magnitude of the job ahead depends on the finance function's end game. While some CFOs may ultimately want to own analytics and lead the mission to manage data—how it's collected, maintained, and governed—others may have a completely different take on the role of finance in supporting the business. What's key here is for the finance team to develop a solid sense of the company's direction, and determine how finance fits in. Absent an objective, a CFO may end up heaping uncertainty on a project aimed at helping finance deal with uncertainty.

Few finance functions may be hardwired for change, but that's not because CFOs are oblivious to the need to catch up with the accelerating pace of it. At a webcast conducted last month titled "Dynamic Finance: Transforming Finance from function to dynamic capability," attendees were asked to participate in a poll about their company's preparedness for the next big external force. Only about one-fifth of those surveyed agreed with the description of their company as "ready and confident," and able to "respond swiftly and effectively" to such an event (see Figure 1).

Among webinar attendees, almost two-thirds (64%) depicted their companies as ready, but not with a response that's as "effective and efficient" as they'd like (28.1%) or able to pivot, but not without making compromises (35.9%).

Figure 1. Ready or not: CFOs assess their level of preparedness

How ready do you think your organization is to react to the next big external force (M&A, business model transformation, market shocks, etc.)?



Source: Deloitte webinar, Crunch time series, June 30, 2022

Nuts and bolts

From such vantage points, the ideal of a dynamic finance function can resemble a finance utopia of sorts: harmonious teams working together to leverage data from systems and sharing information seamlessly. Yet there are real-world ways the principles of dynamic finance can be applied, such as the following.

- **Adopting a transformation mindset**. In what way does your organization operationalize transformation? In recent years, many companies have executed multi-year finance transformations. These types of initiatives shouldn't be regarded as completed—ever. Transformation is a continuous process; there is no finish line. Recognizing this, companies may choose to set up transformation offices, bringing together cross-functional teams to review and resource initiatives as part of the planning process. Other companies may design transformation roadmaps, reviewing and updating them as business challenges emerge.
- **Cultivating the workforce of now**. A dynamic finance function requires a workforce with skills beyond foundational finance and accounting competencies. CFOs should recruit and develop tech-savvy employees with data science and analytics capabilities—skills that help drive reporting. Hiring should be guided by a thoughtful assessment of where the function needs to build long-term capabilities.
- **Investing in no-regrets tech**. A CFO should ensure that finance has a digital and flexible core. How? By leveraging compatible and scalable platforms that can change with the business. Keep existing technology up to speed by adding components and capabilities.
- **Developing the capacity to sense and mitigate risks**. While dynamic finance is all about coping with unexpected events, it's still necessary to identify and measure the business's most important risk and performance indicators.

Are CFOs ready to role-play?

In a dynamic finance function, CFOs can become ultra-skilled and efficient as operator and stewards, thanks to investments in people, processes, and technology. As a result, they can pivot their focus to serving as strategists and catalysts (as outlined in Deloitte's Four faces of the CFO[3]). They'll likely want to focus on strategy execution and business performance, not transaction processing and reporting. It will be up to the CFO to catalyze new behaviors across the organization, including retiring outdated systems and leading the charge toward cutting-edge tools.

Harnessing analytics and AI, finance can gather internal and external data to identify insights and trends early, and begin to predict what will happen in certain scenarios given a myriad of informing variables and moving targets. Such capabilities could confer a sharp competitive advantage on those companies.

Powered by analytics and machine learning, FP&A processes will aim toward producing one set of numbers, accompanied by clearly defined targets. By prioritizing valued-added activities, including treasury and risk-management, CFOs can fortify their businesses for the future. By being well-versed in data strategy, architecture, and reporting, CFOs can have the capacity to spearhead dynamic functions.

To assess whether the rest of the finance function is prepared for the new approach—and where to begin the work of making finance dynamic—CFOs may need to fully address the following five questions:

1. **How has your finance organization adjusted to recent disruptive external events?** The last three years have tested every organization's ability to adapt, with CFOs forced to make hard decisions affecting customers, shareholders, and employees. To make smarter choices, they've needed access to information in a reliable and timely manner. The finance leaders with the necessary data can draw more accurate assumptions, which are crucial to scenario planning. The takeaway: Evaluate the finance function's blind spots and work on eliminating them.
2. **Does the workforce have the necessary skills?** Finance employees may need to be equipped with the necessary techno-functional skills to take advantage of next-generation capabilities. Finance teams want to display a mindset of action, constantly reminding the greater organization of what the vision is and what priorities they are driving, as well as modeling the commitment required to succeed. Some CFOs have invested in infrastructure but may not have devoted resources to developing a team with the necessary skills and approaches to be truly dynamic.
3. **How solid is your relationship with the CIO?** CFOs and CIOs need to work in lockstep when identifying the finance function's technology priorities. This means working out an agreed-upon roadmap for the next three, five, and seven years. At a minimum, the company should develop a core ERP and GL strategy. In addition, CFOs might want to roll out a SaaS or cloud-based version of its legacy software. Core technologies will differ depending on the industry. An oil and gas business will probably need capital-intensive project-management tools, while billing software may make the difference in the technology, media, and telecom sector. Other technologies allow CFOs to standardize and automate many of their existing processes. Finance chiefs will likely need to continue funneling capital into technologies such as predictive forecasting and AI.
4. **What first step should you take to begin the finance organization's dynamic journey?** Start by notching some quick wins. If finance has a reliable forecasting process that supplies clear and reliable numbers, the team might be able to apply that expertise to other areas. Here again, the need to understand data is paramount. Inputs into systems provide outputs on the backend for reports, which means that companies need to start by getting better at capturing relevant, timely information.
5. **Are you prepared to be a dynamic CFO?** How have you, as CFO, engaged with the rest of the business in devising ways to respond to changing market dynamics? Take stock of recent disruptions—COVID-19, the talent war, skyrocketing inflation—and examine to what degree finance has helped address these issues. Also: Are internal finance teams working together and engaging with each other?

Admittedly, building out a finance function that pivots swiftly to address urgent needs may seem lightyears away to some CFOs. Siloed data and scarce resources still hamstring many organizations. This can make it difficult to standardize and automate legacy processes, key to a dynamic finance function. But the possibility of returning to business as usual, as reassuring as it may feel, is gone. And responses to the new dynamic reality may prove to be the difference between thriving or surviving.

Barriers to dynamic finance

What factors can impede a finance function's progress?

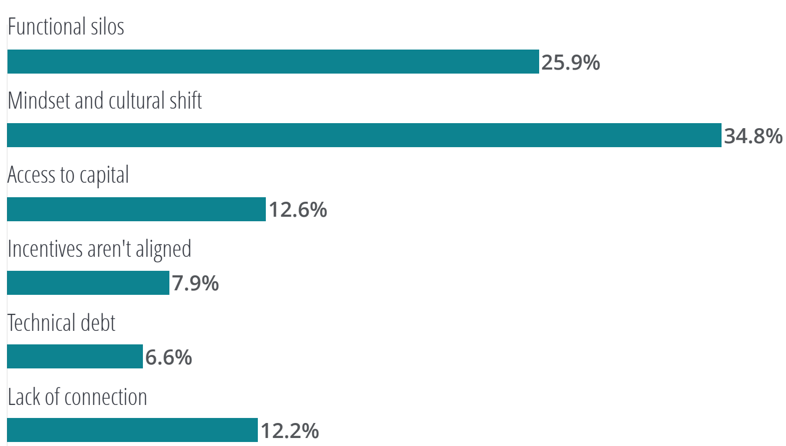
Not many finance functions can likely move as fast as they need to, especially when it comes to trying to help their organizations navigate their way through disruption.

But dynamic finance functions develop the capability and capacity to sense, weight, and mitigate risks. By identifying and measuring the most important risk and performance indicators, finance can guide the business in how to respond. What stands in the way of building a finance capability that is hardwired for change? These may be among the obstacles.

- **Functional silos**. Too much work occurs in silos, with different parts of finance not engaging with one another—or with the business—to understand the downstream impacts of decisions. CFOs may need to drive the issue of establishing strong governance over data for internal and external consumption. To do so, the finance team may have to better understand how data is structured, created, maintained, secured, and consumed—allowing the organization to be more responsive and flexible with analysis.
- **Mindset and cultural shift**. Change is hard for any function, but it's particularly hard for finance, which has always held an essential role as a steward of stability. Recognizing that flexibility is key to stability is necessary to consistently navigate change (see Figure 2).

Figure 2. Sound barriers: CFOs evaluate the obstacles

Which barrier to becoming dynamic is most relevant to my organization?



Source: Deloitte webinar, Crunch time series, June 30, 2022

- **Lack of connection**. Many things need to happen to transform finance, and they don't always seem connected. But without integration, you can't build the connective tissue of a dynamic finance capability.
- **Technical debt**. Transforming the technical architecture and platforms that finance uses can be costly and challenging to implement. Furthermore, system changes alone won't fix broken processes and underlying data challenges.
- **Incentives aren't aligned**. An organization's reason for transformation may come from diverse perspectives, but it should be aligned across the business and championed by leadership. Everyone should know how to answer one question: What is your organizational vision?
- **Access to capital**. CFOs compete for capital. Many rely on traditional ROI business cases. CFOs should consider putting a value on intangibles, such as better and faster information to make the case for the investment they need.

A dynamic finance function is one that provides information, and strategic insight, which allows the enterprise to pivot on a dime. Whatever the nature of the disruption—a market shock or a business model transformation—finance can quickly provide management with multiple options for how to blunt any negative impact. What once may have felt like an insurmountable challenge is now an opportunity for finance to shine.

End notes

1 "Crunch time series for CFOs: The future of Finance is Dynamic," Deloitte Development LLC, 2022

2 "Headwinds outside of the United States pose a challenge to growth and policymakers," *Deloitte Insights,* May 26, 2022

3 "Four faces of the CFO," CFO Program, Deloitte Development LLC

Contacts

Mike Danitz
Principal, Consulting
Finance & Enterprise Performance
Deloitte Consulting LLP
mdanitz@deloitte.com

Jonathan Englert
Principal, Consulting
Finance & Enterprise Performance
Deloitte Consulting LLP
jenglert@deloitte.com

Thomas Klingspor
Partner
Lead Finance & Performance
Deloitte Consulting GmbH
tklingspor@deloitte.de

Philippe Podhorecki
Senior Manager
Finance & Enterprise Performance
Deloitte Consulting LLP
ppodhorecki@deloitte.com

Ryan Reiber
Principal, Risk and Financial Advisory
Deloitte & Touche LLP
rreiber@deloitte.com

Mario Schmitz
Partner
Lead Finance Strategy
Deloitte Consulting GmbH
marschmitz@deloitte.de

About Deloitte's CFO Program
The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject-matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career—helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information about Deloitte's CFO program visit our website at:
www.deloitte.com/us/thecfoprogram.

Follow us @deloittecfo

Deloitte *CFO Insights* are developed with the guidance of Dr. Ajit Kambil, Global Research Director, CFO Program, Deloitte LLP; and Josh Hyatt, Manager/Journalist, CFO Program, Deloitte LLP. Special thanks to John Goff, Senior Manager and Editor, CFO Lens, Deloitte Touche Tohmatsu Limited.