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Special Edition:
European CFO Survey

The digital frontline

Spring 2018

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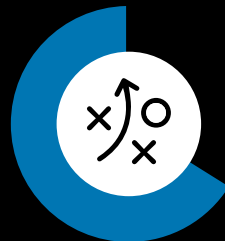
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Key messages



Companies in Europe have yet to unlock the full potential of digital technologies

The share of companies using digital capabilities to engage talent is 50% less than those using them to improve general processes.



CFOs are the bridge between strategy and implementation

The role of the CFO is shifting to that of a strategist, with 30% of CFOs reporting that they are the strategic lead on digital initiatives.



Investment into digital initiatives is on the rise

A net balance of 55% of CFOs plan to increase investments in training employees on digital initiatives over the next 12 months.

The digital potential

Companies in Europe are yet to unlock the full potential of digital technologies.

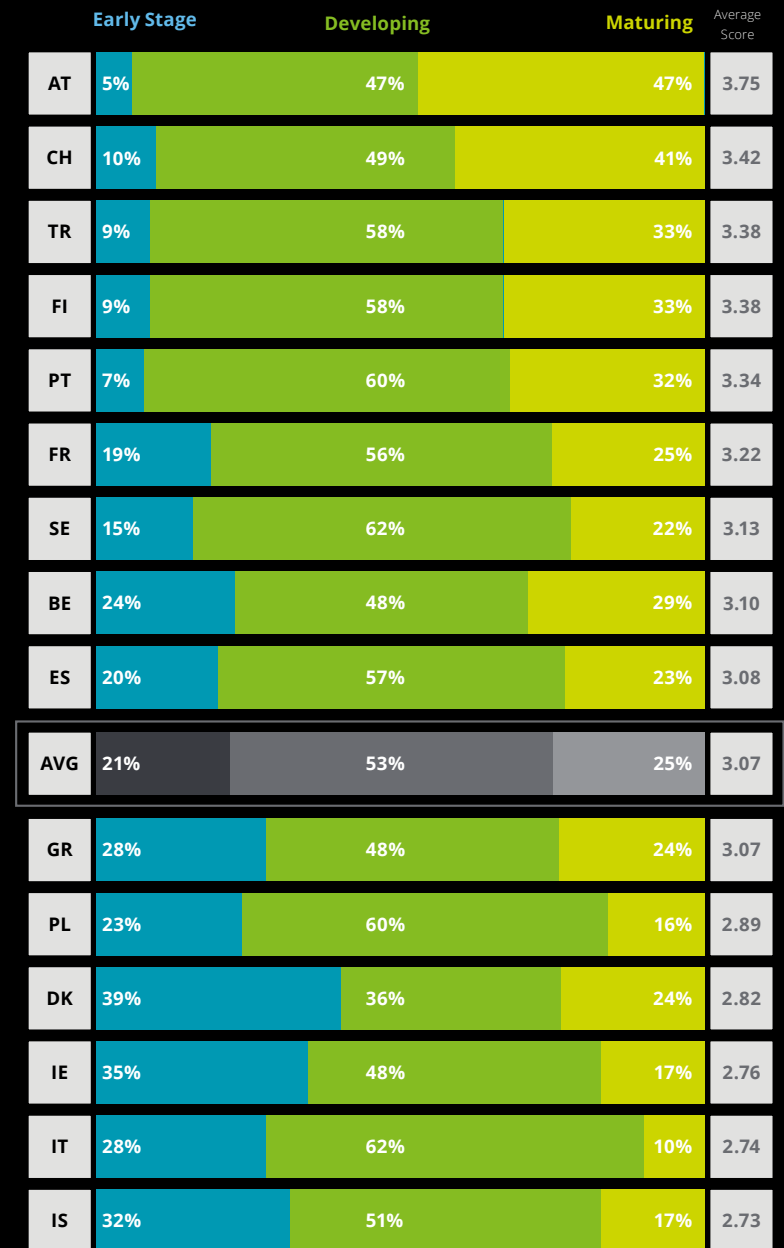
While there is much discussion about digitisation and digital transformation, the debate often lacks clarity on what exactly is meant by these terms. In collaboration with the *MIT Sloan Management Review (MIT SMR)*, Deloitte has developed a framework for discussing digital business based on the psychological concept of 'maturity', going beyond the simple implementation of advanced technologies - to focus on how organisations use these technologies to transform their interactions with customers, employees and other stakeholders.

Adapting a question used in Deloitte's **Global Digital Study**, we asked CFOs to rate on a scale from 1 (not at all) to 5 (full extent) the extent to which their company uses digital technologies in three areas: to improve processes; to drive new business models; and to engage talent across the workforce. Based on the average rating assigned to the use of digital

technologies in the three key areas, we grouped companies into three stages of digital adoption: 'early' (average rating <2); 'developing' (average rating between 2 and 4); and 'maturing' (average rating above 4).

We found that European companies use digital technologies to some extent but not to their full potential. The average rating given by CFOs for their company across the three areas of digitisation was 3.07 (out of a maximum of 5). Of the 15 countries in the sample, based on the average rating for companies in each country, about 20% are at an 'early' stage, slightly more than 50% are 'developing', and the remaining 25% are at the 'maturing' stage (see Chart 1). The 2018 *MIT SMR Deloitte Global Digital Study* finds similar results at the global level. Apparently, then, European companies are neither leaders nor laggards in terms of digital maturity.

Chart 1.
Proportion of companies in the 'early', 'developing' and 'maturing' stages of digital development (based on responses from CFOs)



* Note: Based on the average grade assigned to the use of digital technologies in the three key areas, we clustered companies into three groups: "early" (average index <2); "developing" (average index between 2 and 4); and "maturing" (average index above 4) stages.

The digital divide

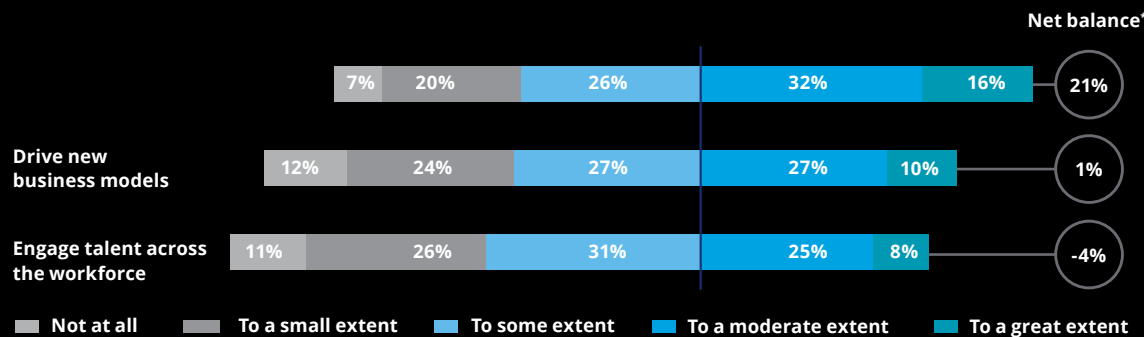
Process improvement is where digital technologies are most used - talent engagement is not a primary focus.

While the majority of CFOs indicated that their companies use digital technologies to improve processes, a much smaller number use digital capabilities to drive new business models. Specifically, 37% reported that they use digital technologies to a moderate or great extent while 24% use them only to a small extent, and 12% not at all. These larger proportions on the lower end of the ratings scale lead to a small net balance of 1% of companies that use digital technologies to drive new business models (Chart 2).

The numbers are even smaller, and the net balance turns negative, when it comes to engaging talent across the workforce. In Portugal and Switzerland, a relatively high net balance of CFOs report that their organisations use digital technologies in this area (+21% and +20% respectively), but in all other participating countries, the net balance is either substantially smaller, or even negative. It seems that talent engagement is not yet a priority when it comes to using digital technologies (Chart 3).

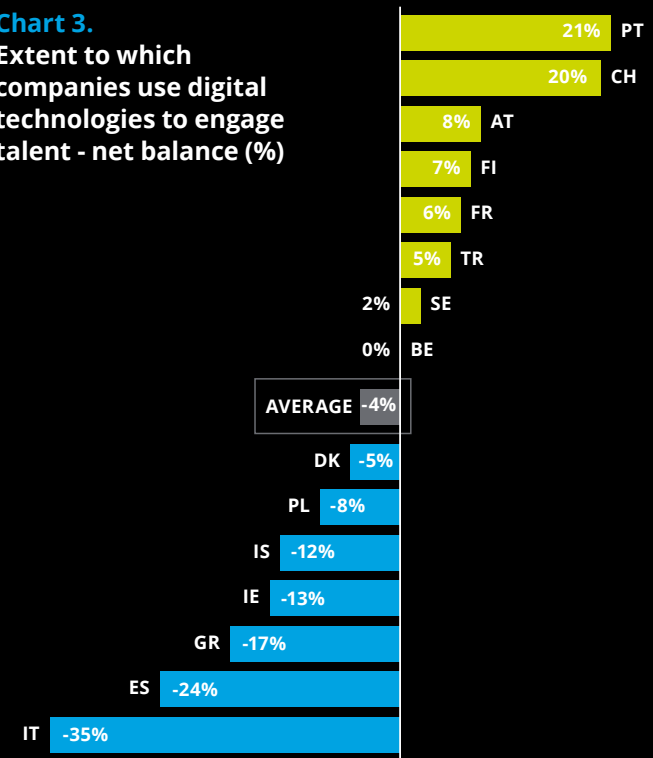
Chart 2.
Use of digital technologies

When it comes to strategic decision-making, to what extent does your company use digital technologies and capabilities to:



* The net balance shows the difference between the proportion answering "To a great/moderate extent" and the proportion answering "Not at all/ to a small extent".

Chart 3.
Extent to which companies use digital technologies to engage talent - net balance (%)



The digital leader

CFOs are the bridge between strategy and implementation of digital transformation.

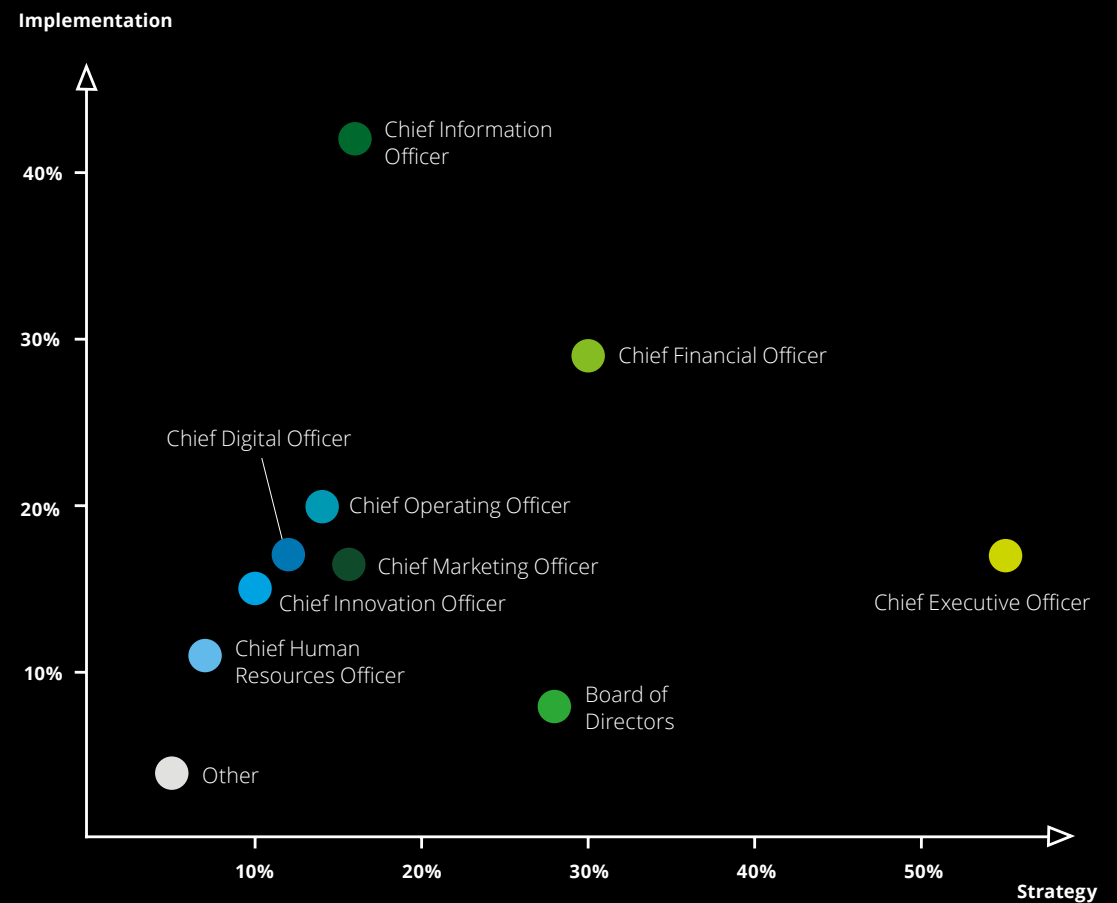
There are two main aspects to consider when deciding on the use of digital technologies: strategic decision-making and the implementation of strategies. While CEOs typically lead the strategic aspects of digital business initiatives and CIOs the implementation aspect, CFOs are closely involved in both (Chart 4).

Almost 30% of CFOs indicated that their Board of Directors take the lead in strategic digital business initiatives. Since it is usual for independent non-executive directors to sit on the Board, it is therefore interesting to see that in a fairly large proportion of companies, there is some external influence over the drivers of change.

In line with survey responses showing a low adoption of digital technologies for engaging the workforce, Chief HR Officers (CHROs) emerge as the senior leaders least involved in digital business initiatives. Less than one in ten CFOs identified them as strategic leaders of digital initiatives. This number increased only slightly when their role was looked at from an implementation perspective, to 11%.

Chart 4.
C-level involvement in strategy and implementation of digital initiatives

Who in your company is leading in digital transformation or digital business initiatives?



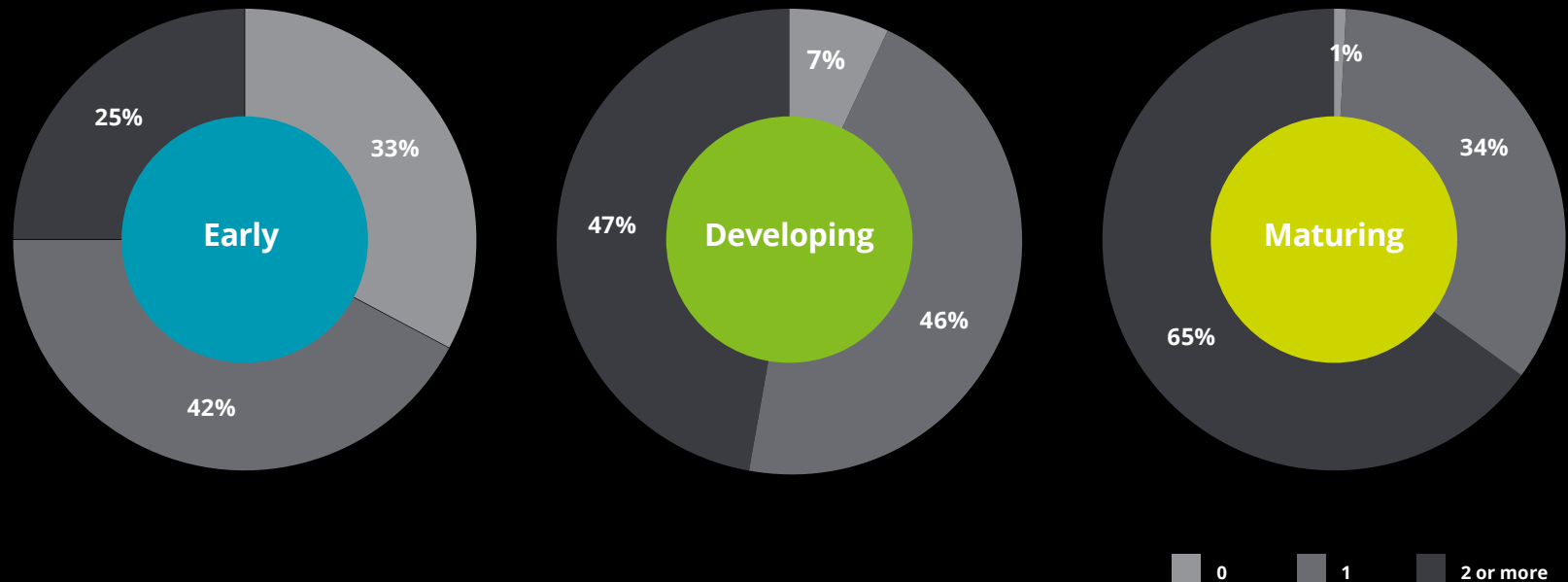
* Note: % of CFOs reporting the role as the lead position for strategy or the implementation of digital initiatives

Interestingly, companies who are more mature from a digital transformation perspective have senior leaders involved in digital business initiatives, particularly in the strategic aspects (Chart 5).

Only a quarter of companies in the 'early' stage have more than one senior executive leading the strategic aspects of these initiatives, compared to 65% of companies in the 'maturing' stage.

As the *MIT SMR Deloitte Global Digital Study* emphasises, becoming digitally mature requires a change in culture and the establishment of a clear vision for the organisation. To achieve that, the involvement and commitment of senior leaders in companies at an early stage is essential.

Chart 5.
Distribution of companies by number of senior leaders involved in the strategic aspect of digital initiatives

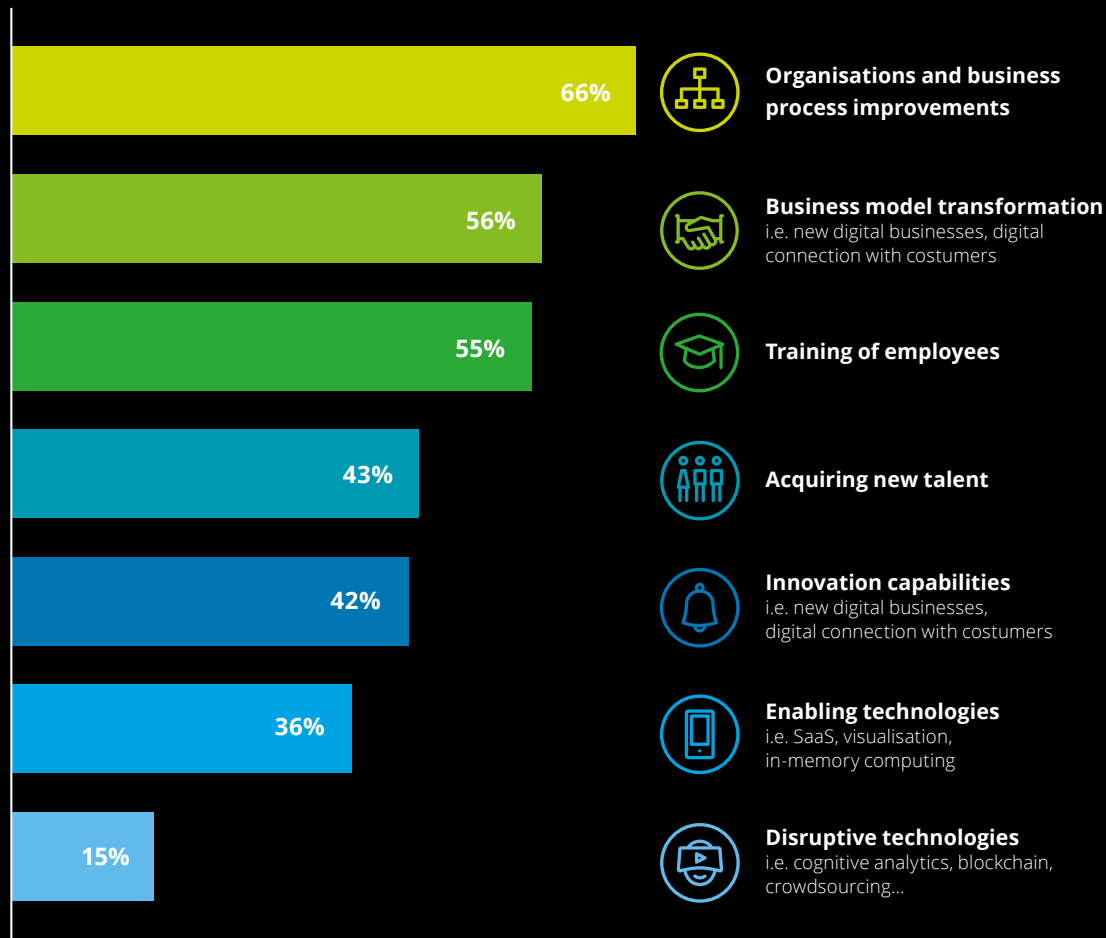


Investment in digital

European companies plan to invest more in digital initiatives over the next 12 months, focusing on process improvements, business model transformation and training of employees.

Chart 6.
Investment in digital initiatives

In the context of investments in digital business or transformation initiatives, how will your company's investments change over the next 12 months (compared to the past 12 months) (net balance* %)



The breakdown of these investment intentions can be seen in Chart 6.

Investing in the training of employees and acquiring new talent comes much higher in the priorities of CFOs in Europe than investing in digital technologies (either enabling or disruptive). As highlighted in the Spring 2018 edition of the **European CFO Survey**, CFOs increasingly see a shortage of skilled labour as one of the most important risks to their businesses. The focus on human capital rather than on bare technologies reinforces the seriousness of their concern about this issue. It is also interesting to note that a larger proportion of CFOs expect to increase investment in the training of existing employees (net balance +55%) rather than in acquiring new talent (net balance +43%). This may reflect the fact that in many European countries labour markets are currently very tight, and the pool of young talent entering the labour market is expected to shrink. Investing in upskilling the current workforce may increasingly become the more cost-effective strategy.

* Note: The net balance shows the difference between the proportion answering 'increase/significantly increase' and the proportion answering 'decrease/significantly decrease/no investment'

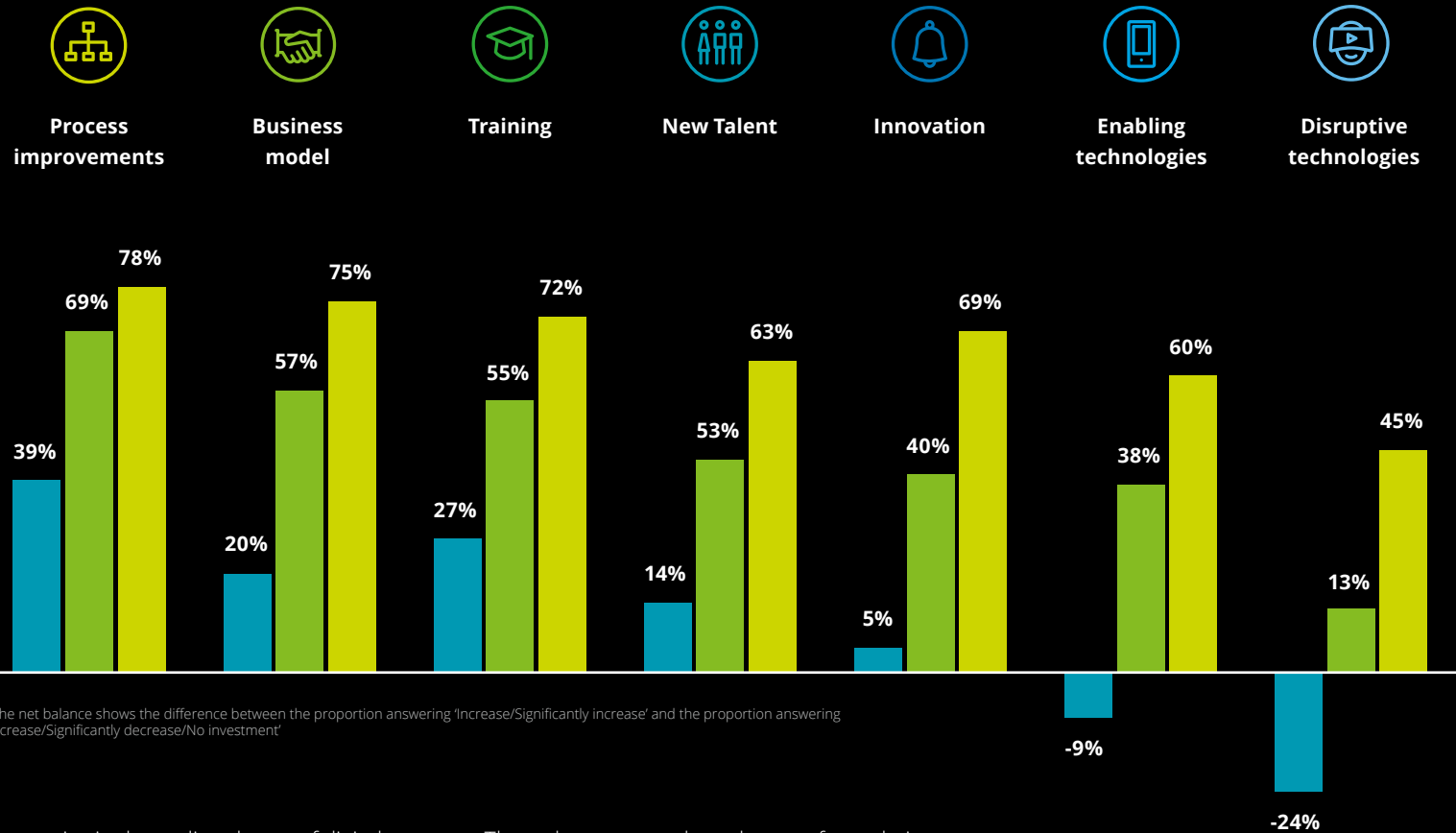


Chart 7.
Investment intentions of companies at differing stages in the use of digital technologies

■ Early
■ Developing
■ Maturing

Although there is much discussion around disruptive technologies such as blockchain, cognitive analytics or crowdsourcing, these have the lowest prioritisation, although the net balance remains positive at 15%. The proportion of CFOs reporting no plans to invest in disruptive technologies is high, at 19%. Companies at an earlier stage of digital maturity are less ready to invest overall. The gap is particularly wide for investments in enabling and disruptive technologies while companies at a more mature stage of development give greater priority to investments that will help transform their business model (Chart 7).

Companies in the earlier phases of digital maturity are investing more in training their employees. This investment area has the second highest proportion of CFOs expecting to increase funding over the next 12 months.

There does seem to be a degree of correlation between digital maturity and focus on innovation. Unsurprisingly, investing in innovation capabilities is a higher priority for companies who are at more advanced stages of maturity.

* The net balance shows the difference between the proportion answering 'Increase/Significantly increase' and the proportion answering 'Decrease/Significantly decrease/No investment'

The digital operator

Less than one in five CFOs identified human resources, procurement or research & development as a Top 3 function benefiting from digital initiatives.

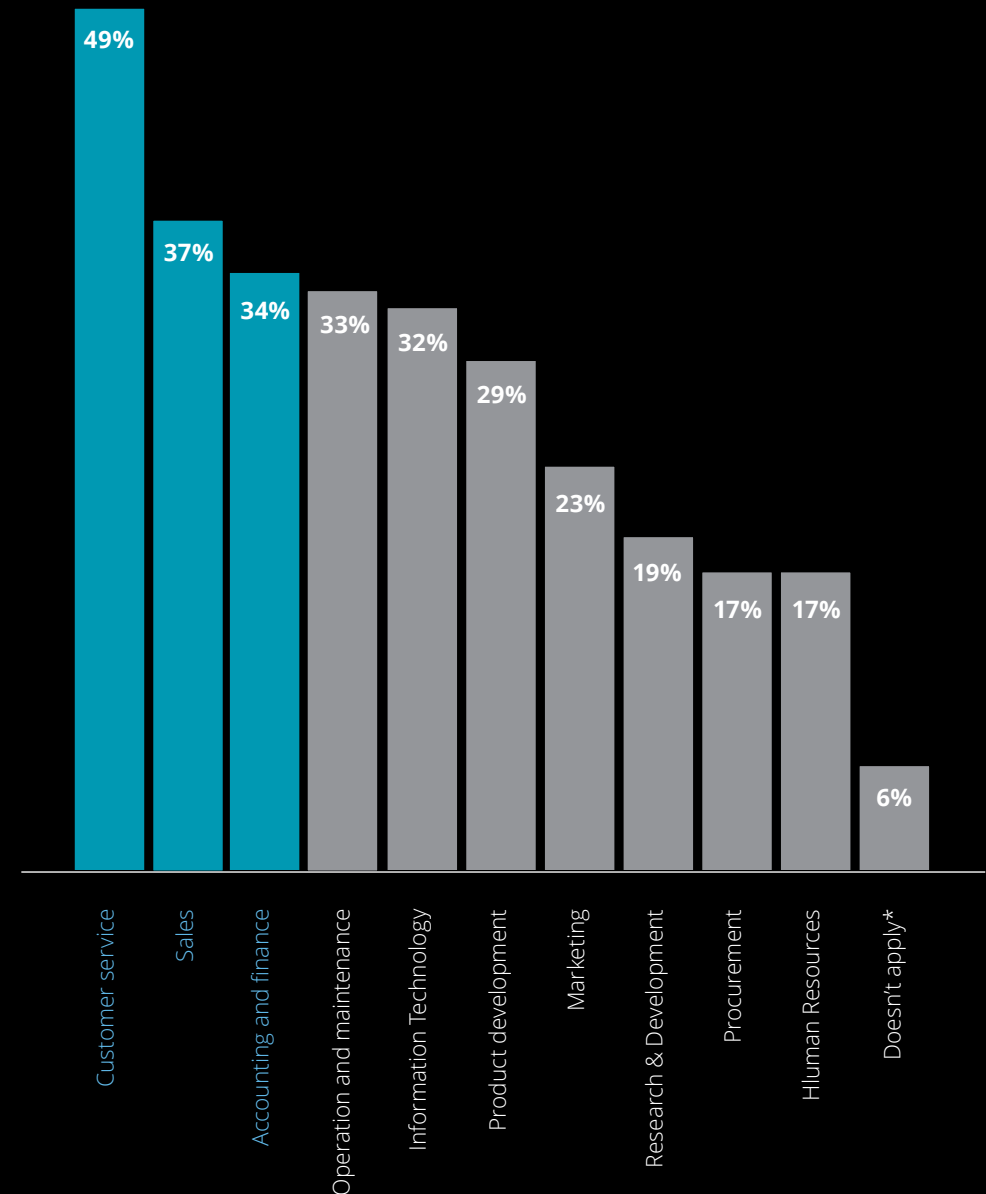
There appears to be some correlation between the level of digital maturity of a company and the functional areas identified as potentially benefiting most from digital transformation initiatives. CFOs in more digitally mature companies put greater emphasis on 'sales' and 'product development', areas that are less operational: these are respectively the second and third areas selected most by CFOs in maturing companies. Those in less digitally mature companies appear to favour the operational benefits of digital transformation, in areas such as 'operation and maintenance' and 'accounting and finance'.

A possible explanation is that more digitally mature companies have already invested in the operational functional areas, and so they are now extending digital transformation into other areas of their business.

That said, overall CFOs identified 'customer service' as the area that could potentially benefit the most from digital initiatives (see Chart 8).

Chart 8.
Functional areas that would profit more from digital initiatives

Given your company's current strategy, in which functional area(s) do you think digital transformation or digital business initiatives would have the most positive impact on your company's balance sheet?



* Digital initiatives would not have a positive impact on the balance sheet of my company.

The digital finance age

CFOs are confident that their teams are prepared to digital age.

CFOs were asked how they rate the extent to which their finance team is prepared for digital transformation. Responses varied substantially between countries (Chart 9). CFOs in France and Poland do not believe their teams are ready for digital transformation, whereas CFOs in Denmark are very confident in their teams' ability.

While variations between countries may be explained partly by cultural differences, the views of CFOs correlate closely with the digital maturity of their company (Chart 10).

Chart 9.
Preparation of company's finance team for digital transformation - net balance (%)*

How do you rate the preparation of your company's finance team in terms of digital transformation?

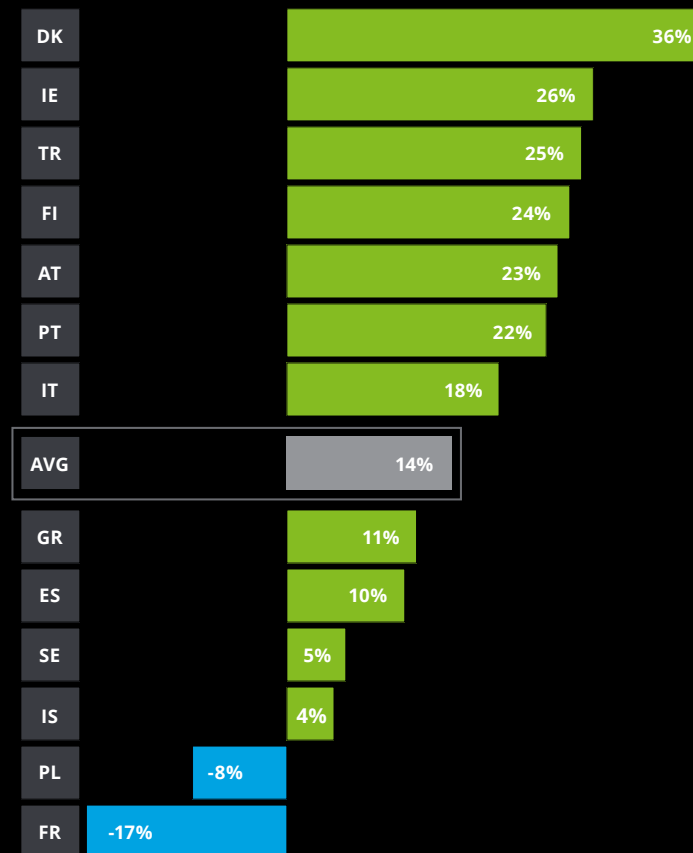
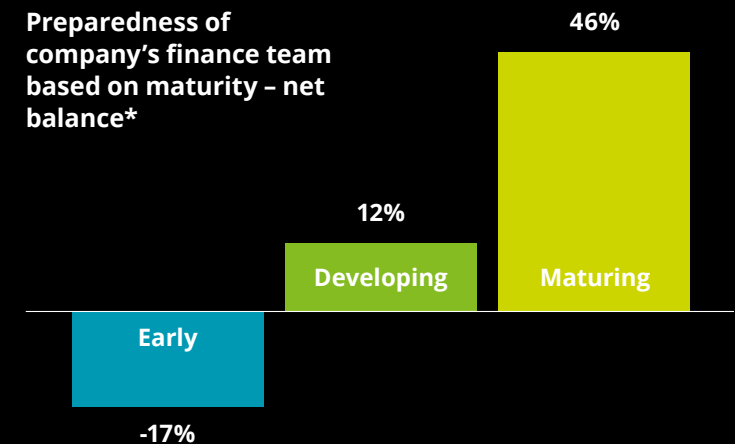


Chart 10.
Preparedness of company's finance team based on maturity - net balance*



* The net balance shows the difference between the proportion answering 'Adequate/very adequate' and the proportion answering 'Very poor/poor'.

What is your role in digital?

CFOs are increasingly performing a strategic role within their companies. As the results of this survey show, they are very often leading both the strategic and the implementation aspect of digital initiatives. But how can they actively guide their company to a higher degree of digital maturity?

The first step is to change the way the company thinks about digital technologies. The focus should not stop at process improvement but also explore areas such as workforce engagement and the core business model. That is because focusing on just the efficiency of processes is a game of diminishing returns while taking a broader perspective is a game-changer that can raise the efficiency of the company to a new level.

What concretely does it mean to adopt a broader view? It means, for example, thinking of the benefits digital initiatives could have in less operational areas, where the advantages in terms of cost savings are less obvious, but the impact on the way the company interacts with its internal and external stakeholders is powerful. This study reveals that CFOs in

digitally maturing companies see functional areas such as 'sales' or 'product development' as benefiting the most from such initiatives.

Adopting a broad view on the opportunities and challenges that digitisation offers also highlights the areas where investment is needed most. While investing in process improvements is important, CFOs in maturing companies are more focused on investments in business model transformation (such as building digital connections with customers) and in boosting the company's innovation capabilities (such as partnerships or setting up governance structures to promote innovation).

To benefit from the full potential of digital capabilities, a company needs a broad cultural change. It has to establish digital priorities for the entire organisation, and not only for a sub-set. Engagement and commitment from senior leaders across the board is therefore necessary. One of the most interesting results of the survey, indeed, is that CFOs in digitally maturing companies report a broader number of senior leaders involved in digital transformation initiatives.

Because of their role CFOs have a privileged perspective of the company. They therefore have a crucial role to play in the digital transformation of their company and need to be involved in creating a digital strategy. It is telling that in 'maturing' companies, CFOs are more likely to report that they are leading the strategic part of digital initiatives; in 'early stage' companies they are more involved in implementation. It is time for CFOs to weigh in on digital transformation.

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About the European CFO Survey

The European CFO Survey is part of a global cohort of surveys benchmarking the current and future intentions, sentiment and opinions of European Chief Financial Officers. The survey in its fourth year collates the views of CFOs based in 20 European countries including: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey and the United Kingdom.

The seventh edition of the series, Undeterred by Uncertainty, presents the opinions of 1,652 CFOs across Europe. For more insights read the full report.

Acknowledgements

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For further information and a more detailed analysis please visit www.deloitte.com/europeancfosurvey. If you would like to contact us please email us at europeanCFO@deloitte.co.uk.

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