



ARTICLE

The CFO and mastering the art of digital process transformation



The changing role of the CFO has often been discussed and written about with much of the rhetoric focused on the CFO becoming a more effective business partner. That concept of business partnering has taken a fundamental shift in the wake of digital transformation, which most companies are either finding themselves going through or about to embark on. For most large corporations, in a slow revenue growth world, the importance of generating competitively differentiating performance is on dramatically changing the customer experience, and making the value chain nimbler to cater to changing customer demands.

In our experience of working with global corporations, more and more CFOs are stepping up to take the pivotal role in enabling end to end transformation. Consequently, we have observed the CFO taking on three distinct roles to achieve success.

1. The catalyst for driving transformation through "matrix" performance management

Continually reshaping customer experience and ensuring it delivers competitive advantage, means companies need to have the much discussed "one office" approach in place - the ability to drive value chain transformation as a flow of goods, information and money. This is intuitive but also unbelievably hard given the way corporations are structured in functional divisions, where financial performance management is done discretely in different groups and units. This is a legacy of 19th-century corporation design.

Organizations try and overcome this by promoting matrix working and balanced scorecards. However, our experience shows that one of the biggest impediments is still the traditional budgeting mechanisms and dichotomy of costs and benefits, which reside in different budgets. This can either derail or slow down the "one office" transformation approach. For example, in a recent conversation with a global manufacturing transformation leader, he explained the unsatisfactory progress his company had made in improving cash flow throughout the year. This was in spite of it being called out as one of its key focus areas and a strategic imperative.

We see this story replayed on too many occasions where great opportunities for revenue and cost maximization, beyond functional overheads, do not get the traction they deserve.

However, the same company is hopeful that 2018 will be different. The CFO is changing the scorecards across the company by embedding "cash" across the organization. This sounds simple but is hard to do. There are choices to be

made on investments and ensuring each group feels it has control over their own performance, and are involved in the transformation. And that choice is not just based on astute understanding of the dependant, the output variables, and the right set of metrics but equally on the organizations working, compensation, and change culture. In most cases where we see success, we find the CEO and CFO combination creating the burning platform and the performance management model to make the initiative happen.

2. The guide through digital chaos

There is no corporation of significance which is not currently discussing "digital transformation". In most cases this has started with the front end of customer interaction and then connecting the middle and back office into the "one office" approach. One of the fundamental shifts we have observed is corporations moving away from an elusive single integrated tech stack (the "one instance all functionality ERP" paradigm) to a mosaic of micro-services/platforms.

This shift has been driven by the development of focused use case based applications, which combine cloud based computing, mobility driven, AI embedded models, and the relative ease of data exchange between applications through flexible APIs. Even the leading ERPs like SAP are adopting this mosaic architecture for their end to end functionalities. And then there is the drive to implement robotic process automation with machine learning and cognitive computing.

Yet our experience shows a dramatic difference in leveraging these micro services/platforms and transformation results between companies in similar industries and similar contexts. At the heart of benefitting from digital advances is an ability to continuously experiment with different solutions, and have the ability to discard initiatives and pick up new ones. It's important to be comfortable with the notion that the technology lifecycle is now down to months as opposed to years and to understand what that means in terms of investments and ROI models.

In short, the ability to thrive in digital chaos. For example, a CXO for a leading life sciences company explained that the finds it hard to invest in “digital transformation” because of two things - (a) the sheer confusion across many choices of the long-term “tech vision” and (b) the associated ROI models to justify those choices.

This is where the CFO’s role is becoming pivotal. Investing in digital process transformation needs a very different mind-set of investments and budgeting. It needs to allow for experimentation, continuous gatekeeping, and the revision of choices. This is hard and very different from the more established practices of capital allocation and budgeting, moving towards “option modelling” and venture funding practices.

3. The futurist leveraging data

It’s rightly said that data is the new oil. And the ability to use data from all sources - internal, external, structured, unstructured in a meaningful way to make future business decisions is now at the core of competitiveness for companies. Our market surveys point out that most CFOs and other CXOs are deeply dissatisfied with how much leverage they are getting with the data they have.

We see evidence of some CFOs beginning to take the lead in transforming the way they think about enterprise performance management (EPM), and that shift has three characteristics:

- a. A redefinition of the operating model from traditional financial planning and analysis organisation to data/ analysis. Organizations are using big data technologies and different skill sets including data scientists and analysts with good business acumen beyond financial expertise
- b. A clear focus and drive to future forecasting and predictions versus reporting on the past; leveraging analytic workbenches, simulation tools and using data from all relevant parts of the organization
- c. Focusing on the delivery and use of analysis and insights for design making

In our work with many different customers in this area, we see real variation in the speed and ambition of digital transformation, but little difference in the intent from most CFOs. Overall we believe this area is still nascent in adoption and it needs the CFO - in all his or her ‘roles’ - to be the driver for dramatic change. There has never been a better time and opportunity for CFOs to make the biggest difference to competitive performance through digital process transformation.

This article was authored by Shantanu Ghosh, global business leader for CFO Services and Transformation at Genpact. Finance Digest first published this article in January 2018.

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