



From CFO to CVO

The new role of the Chief
Financial Officer in Enterprise 4.0



**Expense Reduction
Analysts**

Contents

Executive Summary.....	3
Digitalization’s impact on business functions.....	4
Which company departments will see the biggest changes during the next five years?.....	5
At what point will the CFO be involved in the strategic planning process?.....	6
New competencies for the CFO in Enterprise 4.0.....	7
Role of the CFO in the next five years.....	8
Strategic planning processes: Where are investments required to achieve Enterprise 4.0?.....	10
The Insight.....	11

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Executive Summary

The next evolution in business is upon us. In an increasingly global and digital society, technological advancement will continue to play a significant role in the continued progress of entire industries and set the stage for the emergence of new ones. "Enterprise 4.0" is the term used today to define the combination of digital technologies, data, and analysis tools found throughout the design and production chain.

The impact of Enterprise 4.0's digitalization will be significant in all sectors such as manufacturing, retail, service, healthcare, utilities, and transportation.

The CFO will provide vital support for the company's strategic and business decisions, with a broader professional horizon and vision enabling him or her, almost naturally, to undertake a growth process potentially leading to the role of CEO.

In the 4.0 era, the CFO has the opportunity to increasingly become a Chief Value Officer, focusing on the creation of value for the business.

The next wave of digital technologies will bring profound changes to the responsibilities, size, and shape of the CFO role. In a 4.0 world, the Finance Department will be a smaller function than it is now, but with more highly skilled staff and more competencies.

As companies prepare to further integrate digitalization into their day-to-day processes, cost-reduction efforts can play an integral role in shoring up the cash flow needed to make necessary investments in new technologies.

The development of new technologies is a process that requires investments.

Enterprise 4.0, in particular, represents a structural change for companies, which has to be funded. A third of funds are generated via intelligent management of company costs. This approach may be much more effective than borrowing to fund investments.

It is in this context that the role of the CFO becomes crucial, to ensure that the company does not miss out on major growth opportunities and trail behind its competitors due to the lack of adequate resources.

Digitalization's impact on business functions

All businesses are affected by digitalization and the integration of new technologies. Each function within a company will be shaped by digital transformation, but in different ways.

Based on a point scale of 0 - 100 (0 = not significant and 100 = very significant), the functions that will be most significantly impacted by digitalization include controlling systems (70), procurement (67), sales processes (65), research and development (65). The functions within a company that will be least impacted are organizational structures (61) and marketing (60).



Digitalization will also affect employees directly. In fact, it's employees—whose professional competencies and specific qualifications—who will make the implementation of digital processes possible.

Digitalization will have the most impact on companies' organizational and management control systems. Digital technologies are used in companies mainly in organizational processes and can be seen in network systems such as a company-wide intranet or a digital employee address book that can be accessed via Outlook. This aspect of digitalization is valued at 60 points, which indicates many companies are well positioned in this area. Additionally, a majority of companies use digital control management systems (58), which provide relevant information to decision-makers. Finally, just over half of companies (51) are giving attention to developing employees' digital competencies.

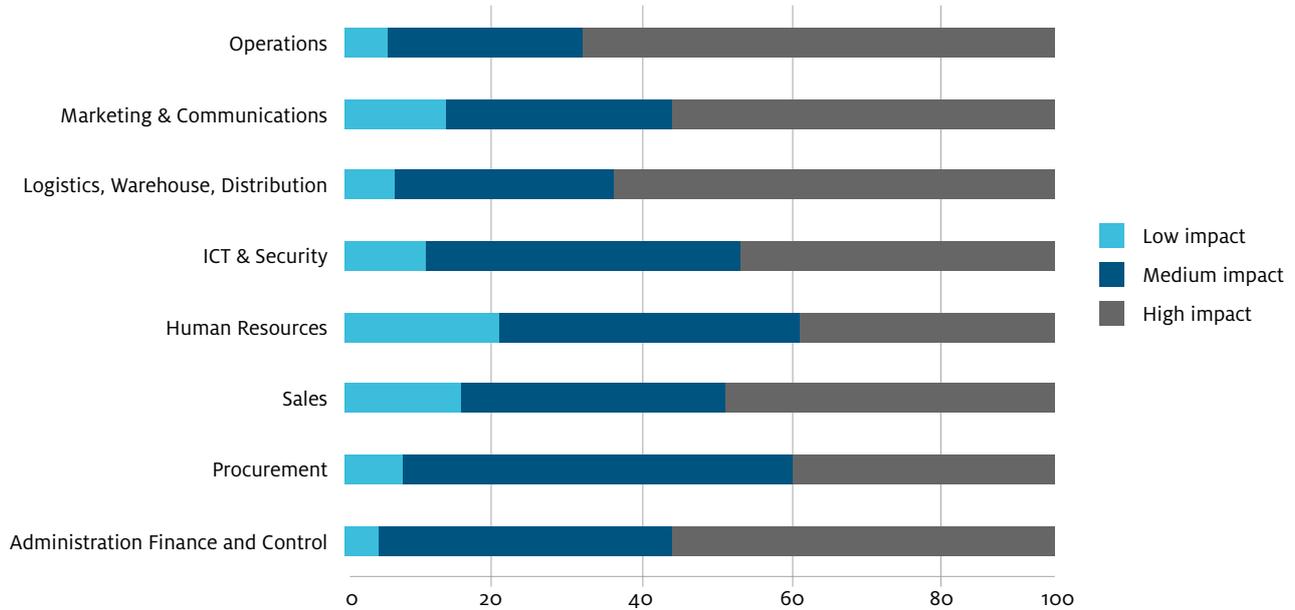


* Based on a point scale of 0 - 100 (0 = not significant and 100 = very significant)

Which company departments will see the biggest changes during the next five years?

The data analysis findings reveal that 88% of CFOs predict major changes to the Internet, Communications and Technology Department (ICT) as a result the adoption of Enterprise 4.0 procedures and approaches.

Impact of department changes (in %)



However, CFOs are fully aware that their own work will also be significantly impacted by the forthcoming changes, to the same degree as ICT, Security, Logistics, and Operations processes. Nowadays, there is more awareness that the impact of the digital transformation is not restricted only to the purely technical functions, but involves the whole company, including the Finance Department.

There is also greater awareness of how the role of the Finance Department may change within Enterprise 4.0. A profound rethink of the overall model of the CFO's activities and processes is required, especially for tasks related to the company functions referred to above.

In a constantly changing economic environment—also undergoing profound changes in management, governance, and direction due to digitalization—the Finance Department cannot continue to be merely a hub that produces and checks data. CFOs must be provided with the tools needed to acquire methodologies that enable them to support management in administrating priorities and strategic planning. Our decision to focus our attention on CFOs derives from the conviction that digital enterprise, agile processes, and diffused leadership processes are all closely interrelated.

However, the idea that transition to Enterprise 4.0 contains a single leader capable of choosing the future path is obsolete. The concept of the single, visionary leader is so widespread that there is the need for a real rethink of organizational roles in the front line of the company's management, to enable the organization to provide an environment that allows innovation to flourish. Instead, this process will require a cohesive approach that involves the input of many stakeholders.

Without a doubt, it will be the task of every company's board of directors, now and in the coming years, to ensure more involvement of the entire company management, including CFOs. The directors, in turn, must be aware of and be ready to deal with the big bang disruptive advancements, that will affect businesses and industries going forward.

An organization's stakeholders must decide together what is important, establishing the group's priorities and choices. However, many CFOs have developed the skills and competencies that will be an asset in carrying out the organization's priorities and strategic game plan.

At what point will the CFO be involved in the strategic planning process?

CFOs have identified the need for “more orientation towards company strategy” within their role.

Strategy is not created by just drawing up a plan.

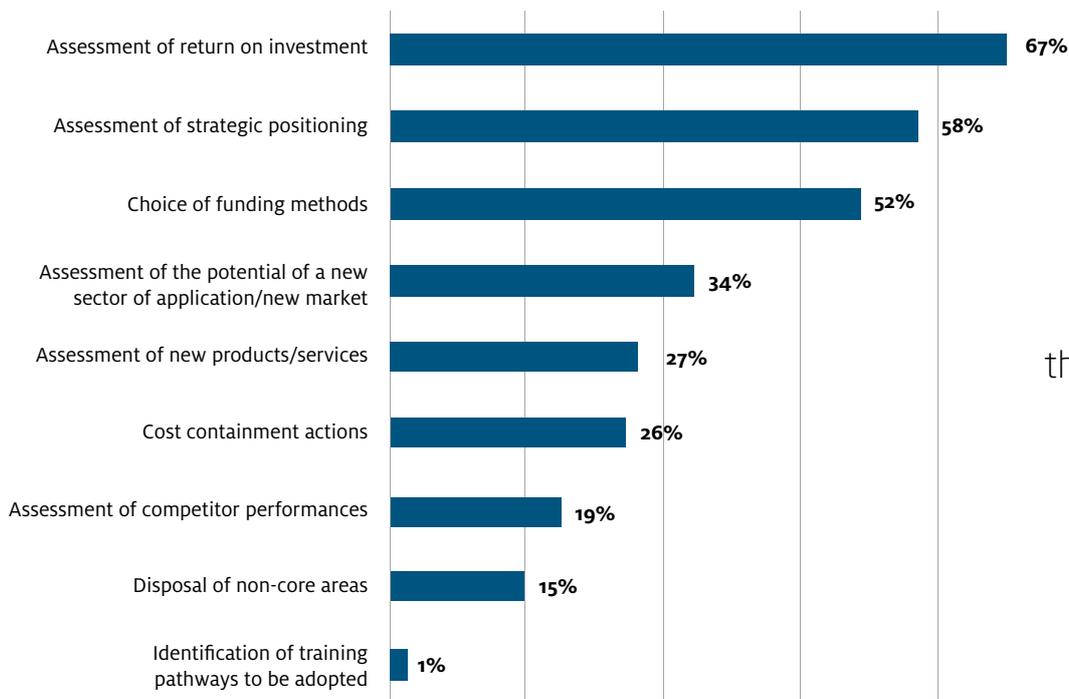
Strategy is the means by which those governing the organization decide how to achieve the goals set. At the same time, strategy is also the combination of decision-making criteria and action, as it involves deciding how to satisfy the demands of potential customers/consumers, how to respond to and/or keep ahead of the competition, and choosing the sectors/markets/segments in which to compete. The involvement of several players in the various phases of the strategic planning process may provide huge benefits for the company.

While planning for Enterprise 4.0, CFOs need to be mindful of the fact that the competitive advantages sought out must be economically and financially sustainable in the medium and long term.

The data confirms expectations in this area as the CFO of the 4.0 era will be involved in:

- investment assessment processes;
- strategic positioning decisions, and;
- the search for funding to support investments and the chosen strategic positioning.

Areas for CFO involvement (in %)

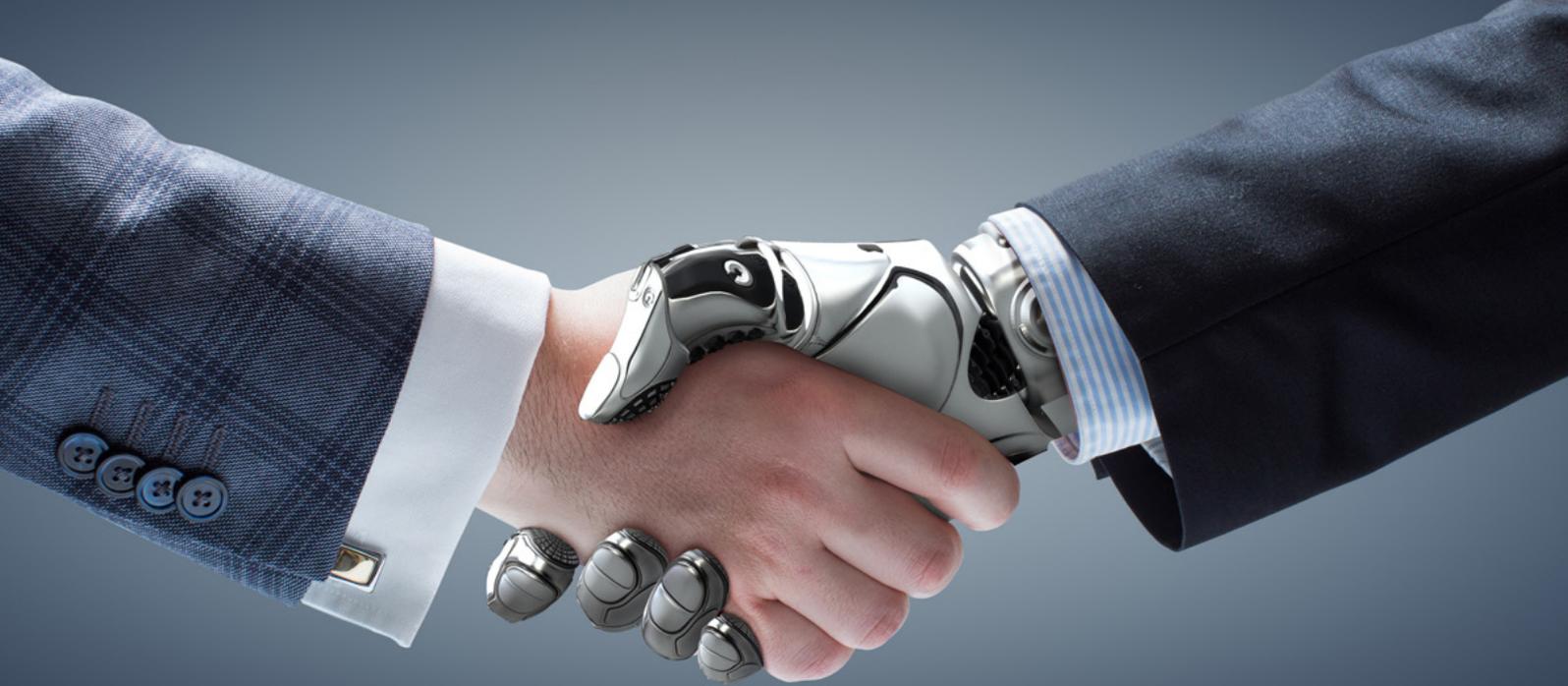


The CFO of the 4.0 era will be involved in the search for funding to support investments

The CFO's role will therefore reach well beyond technical competencies, and will need to influence the company's strategies and process of change. The CFO's main objective must always be to support the business to create value, in line with the strategic objectives, by providing the top management with proactive, consistent, and quick analysis for profitable growth.

Enterprise 4.0 companies will invest large sums of money. Appropriate prior assessment and constant retrospective monitoring will be necessary.

To invest in Enterprise 4.0 related-initiatives, the company must be able to generate sufficient future incoming cash flows in relation to current cash outflows. It is the CFO's responsibility to decide the financial ratios to be complied with and, above all, the funding sources to be used to avoid jeopardizing the company's future as a business.



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New competencies for the CFO in Enterprise 4.0

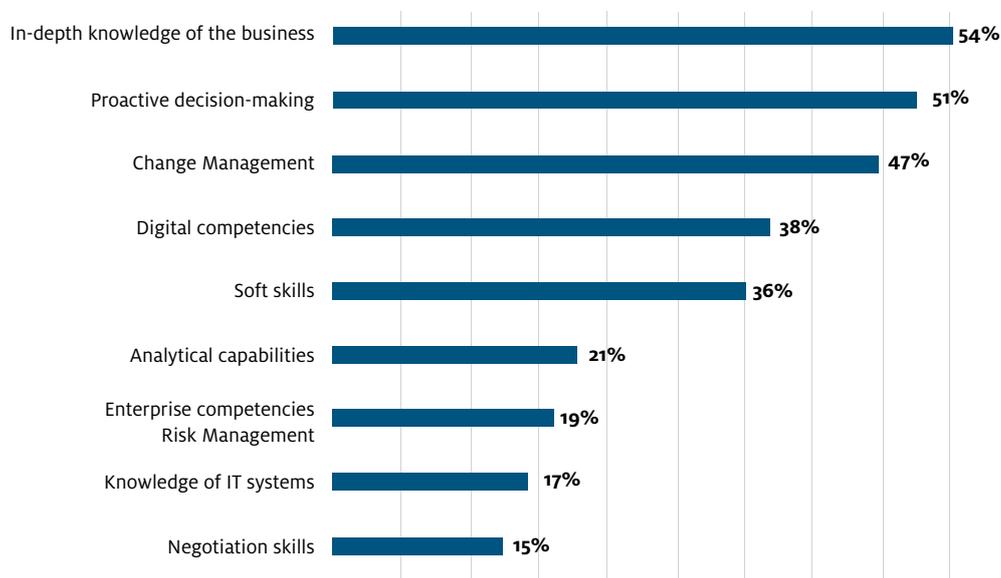
We are therefore presented with a “new” CFO, one that has considerable capabilities for managing change, has in-depth knowledge of the business, and has good digital competencies.

A CFO will be required to lead a Finance Department that is more streamlined but with higher skill levels, since automation will drastically reduce routine activities, giving employees the opportunity to focus on higher-value activities.

According to the responses given by the CFOs, particular importance should be given to the following competencies:

- in-depth knowledge of the businesses in which the organization operates;
- change management, and;
- proactive decision-making.

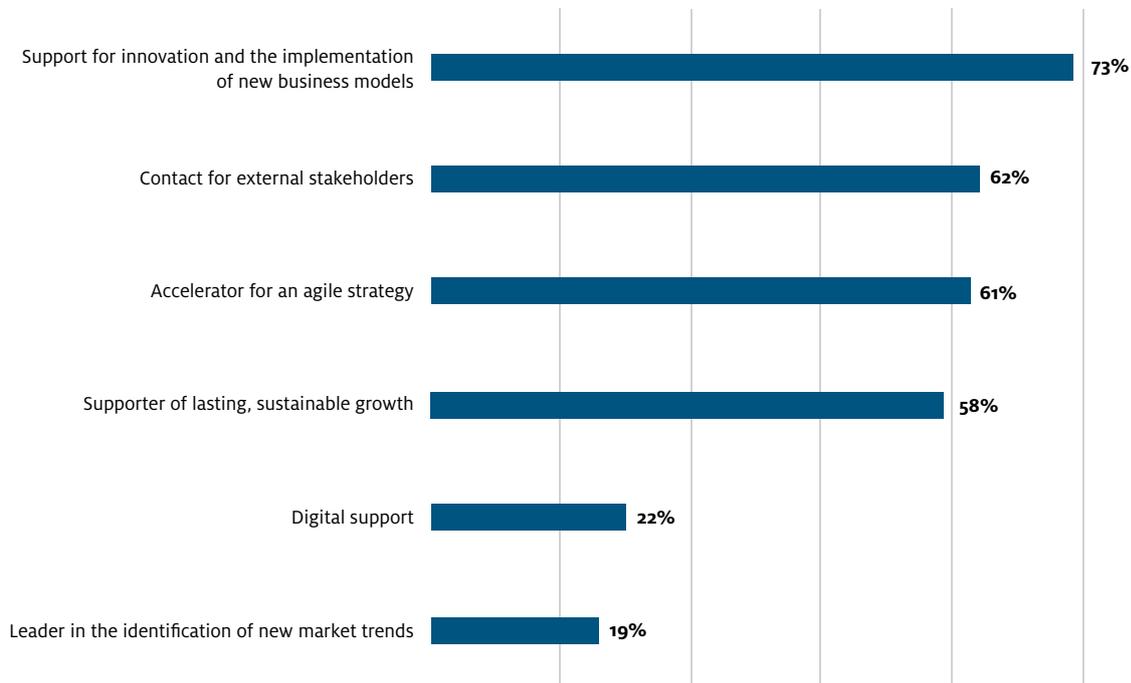
CFO competencies in Enterprise 4.0 (in %)



Role of the CFO in the next five years

During the next five years of Enterprise 4.0, CFOs will be required to support innovation and the realization of new business models, to act as accelerators for new strategies and to foster growth.

Roles for the CFO (in %)



CFOs will shift from their traditional role as administration and finance experts, with technical skills based on administration, management control, cash-flow management, and financial planning.

They must be able to:

- effectively manage the run-up to Enterprise 4.0, by modifying their area's processes to enable them to deal with periods of profound disruption;
- adopt a forward-looking approach to performance, based on in-depth knowledge of the organization and business models, and;
- develop managerial competencies directed towards knowledge of the strategy and business, and impressive soft skills.

The CFO will therefore provide vital support for the company's strategic and business decisions, with a broader professional horizon and vision enabling him or her, almost naturally, to undertake a growth process potentially leading to the role of CEO.

In the 4.0 era, the CFO has the opportunity to increasingly become a Chief Value Officer, focusing on the creation of value for the business.

The next wave of digital technologies will bring profound changes to the responsibilities, size, and shape of the CFO role. In a 4.0 world, the Finance Department will be a smaller function than it is now, but with more highly skilled staff and more competencies.

In the coming years, automated processes will increasingly take care of routine activities and repetitive tasks. Thus, the CFO's attention will be concentrated on advanced data and analytical assessments to provide effective support for analysis of the business context and definition of company strategies.

The increasing "democratization" of data will gradually fill the gap between the data available to management and that available to shareholders.

New roles will therefore arise, especially in the field of data analysis and organization. In this context, the CFO, as "data custodian", will occupy a key role.

The focus of the CFO function will shift further towards creating value for the business, through the provision of potential scenarios that the organization could face in the future. Additionally, the speed and efficiency of measuring historic data will continue to increase.

The control process will be more automated and the CFO function will provide relevant information (including non-financial data) to a larger group of stakeholders, increasingly in real time. In particular, the CFO will have to define new benchmarks for the measurement of the organization's value in the long term.



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Strategic planning processes: Where are investments required to achieve Enterprise 4.0?

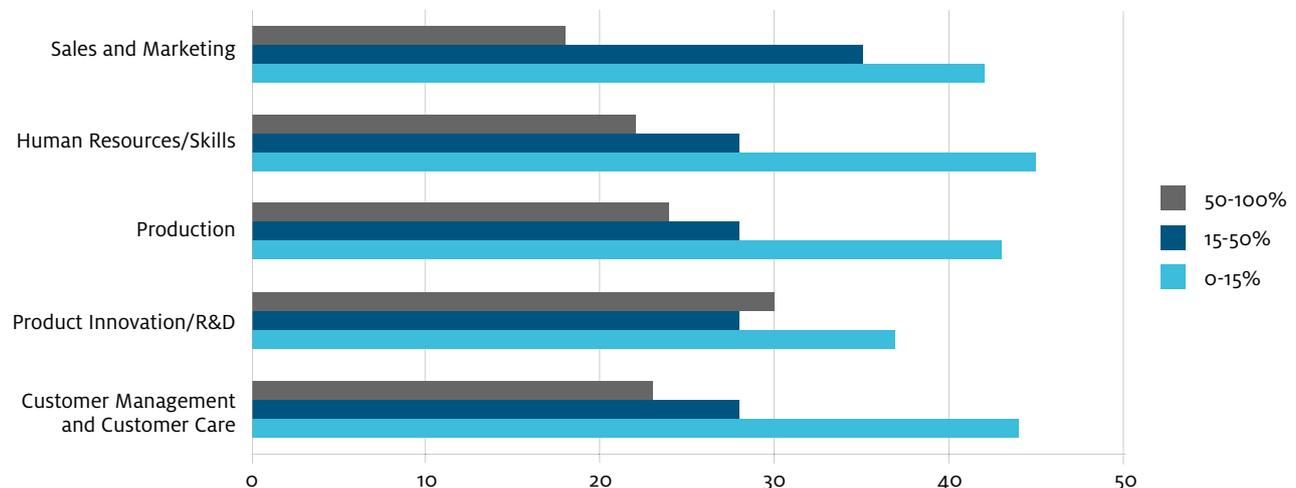
It clearly emerges that digitalization will accelerate the CFO's progression towards the role of business partner and the architect of value creation.

The CFO will be required to support innovation in products/services and management processes more effectively, becoming a facilitator and accelerator of new growth strategies and new business models.

The data shows CFOs believe that the highest priorities and thus the largest investments, decided during strategic planning for the realization of Enterprise 4.0, relate above all to:

- product/service advancement (R&D);
- the production/delivery of products/services, and;
- Human Resource Management for the administration, management, and upgrading of professional skills.

Required department investments (in %)



Companies working towards Enterprise 4.0 will invest huge budgets in product/service advancement. The launch of new products/services enables companies to significantly increase their profits. On the other hand, when companies decide to reduce the innovation rate, the absence of new products/services leads to the loss of existing customers and the inability to gain new ones.

At the same time, the need to be the first to launch new products/services on the market requires very effective, integrated, intelligent production/delivery processes.

Therefore, company staff will be required to develop new competencies as well. As a result, it will not be sufficient to hire people who already have these competencies; it will also be necessary to create personalized training pathways for those already working for the firm. The complexity of service production/delivery cycles and the communications capabilities of smart machines reinforce the role of the functions which give intelligence to, or integrate it in, the technological capital, in any form. Strategic planning processes identify the few key priorities which will require CFOs not only to control what is happening but also to prepare ahead of time for what might happen in the future.

Thus, CFOs must be increasingly aware of the importance of the role they play.

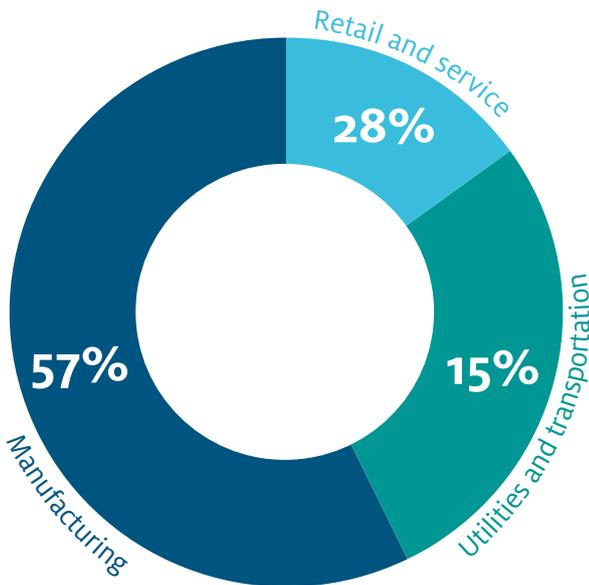
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The Insight

The data underlying this paper, produced by Expense Reduction Analysts, springs from the awareness of the importance of the “4.0 transformation” currently under way in businesses, and specifically aims to offer guidance about the support CFOs can (and must) give to business today and, above all, in the near future. We are, in fact, convinced that professional horizons will soon be dramatically extended for all the corporate roles tasked with governing these new models and exploiting them for the business’s benefit. The CFO will play a key part in this process.

Data was acquired from the CFOs of international companies. The data includes both service/utilities and transportation firms and manufacturing companies.

Respondent’s Industries (in %)



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About Expense Reduction Analysts

Established in 1992, Expense Reduction Analysts is a specialized cost and supplier management consultancy focused on delivering improved business performance to clients of all sizes in both the private and public sectors. Operating in over 25 countries with more than 650 consultants, Expense Reduction Analysts provides deep industry expertise in a wide variety of expense categories, such as Logistics, Facility Management, Operational and Medical Supplies, Corporate and Personnel Services, Banking and Financial Services, as well as Telecommunications and Information Technology.

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