

CFO EVOLUTION<sup>®</sup>

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CFO EVOLUTION 2.0:

# The Path to the Transformational CFO

AN ARMANINO WHITE PAPER / CFO SURVEY REPORT








## CFO EVOLUTION 2.0

**What does the “evolution” of the CFO really mean today? In short, it’s nothing less than a complete transformation of the thinking and skills necessary for the CFO, the finance organization, the technology infrastructure, human resources, compliance and the organization itself to survive in the future. Forces both internal and external require finance leaders to have the strategy and tools to envision—and prepare for—a dramatically different role. The world of the CFO already has undergone rapid changes, but the pace, complexity and nature of change is now at a critical stage.**

Our CFO Evolution 2.0 offers fresh thinking and perspectives on how CFOs can navigate this turbulent environment and focus on the areas of their business that drive strategic value. In the

following pages, we provide insights from our 2017 CFO Evolution Benchmark Survey, our extensive consulting experience and our own market research.



## The robots are here and more are coming, the workforce is restless, the customers are demanding, and the CEO is looking to you.

Consider these predictions for the future of the CFO and the finance organization:

- Automation may deliver 80 percent of accounting and finance tasks in the next few years.<sup>1</sup>
- Advances in artificial intelligence (AI) may put at risk more than two million jobs in accounting.<sup>2</sup>
- Changing workforce demographics mean that up to four generations—Baby Boomers, Gen X'ers, Gen Y'ers, and Millennials—will be co-existing inside the finance department (or, unmoored from offices, inside the local coffee shop, working in the cloud).
- Customers are becoming more of a disruptive force than competitors: 82 percent of respondents said customer expectations had a significant effect on their company's strategy and operations.
- And CEOs want more: Almost one-third of CEOs in a worldwide survey said their CFO doesn't understand or assist them enough with the challenges they face running the company.<sup>3</sup>

Fear, change, fear of change, the speed of innovation, complexity and, perhaps most importantly, uncertainty. This is the world of business today. Uncertainty always includes risk, but now the risk of not acting during periods of uncertainty can be lethal. Driving that point home, 73 percent of CFOs in our newest survey agree that if their company fails to transform, it will not exist in the future. In addition, 78 percent feel the competitive landscape is changing—CFOs cited “more

aggressive” and better performing competition—and 79 percent believe the pace at which their company needs to change is accelerating.

“You no longer have the luxury of time to respond to uncertainty,” says Matt Armanino, partner and COO of Armanino. “It would be dangerous for CFOs to underestimate the current and future changes underway, not the least of which is that the expectations by CEOs for the value they need from their CFOs has really increased in recent years. While you may be recognizing the disruptive environment we live in, the bigger question to ask yourself is ‘What should I be doing about it?’ This is the question we get from our clients all the time. Nothing short of new and bold strategies are now mandatory for CFOs to help the CEO transform the organization.”

### The Disruptive Forces of VUCA

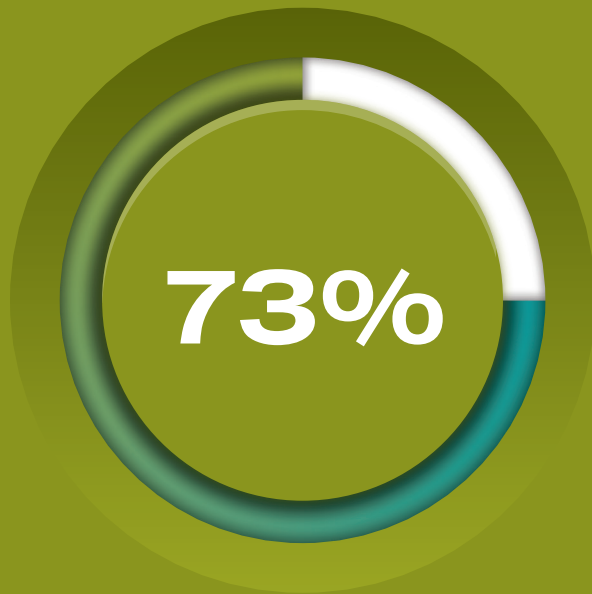
The current environment mirrors the disruptive elements of “VUCA”—a military acronym for volatility, uncertainty, complexity and ambiguity that was introduced by the U.S. Army War College to describe the multilateral world that resulted from the end of the Cold War. The acronym came about in the late 1990s, and it took hold as the way we prepare for and fight wars after the terrorist attacks of 9/11. Harvard Business School adopted the use of VUCA to illustrate that the accepted management models of the past are no longer relevant in a business world that can only be described as “Hey, it's crazy out there.”<sup>4</sup>

<sup>1</sup> *How AI, Cloud, and Robots Will Revolutionize SMB Accounting*, [forbes.com](#), March 13, 2017

<sup>2</sup> *Robots Will Soon Do Your Taxes*, [wired.com](#), February 2017

<sup>3</sup> *CEOs to CFOs: We Need More From You*, [cfo.com](#), January 8, 2016

<sup>4</sup> *What VUCA Really Means to You*, *Harvard Business Review*, January-February 2014



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VUCA means new customer demands, disruptive business models from unexpected competitors, unforeseen technology advancements and opportunities, and an incomplete picture of policy changes from Washington relating to global trade, immigration, taxes, health care, regulation and the environment. These are just a few examples of how VUCA forces are causing disruption to organizations and their leadership teams, including the CFO.

“CFOs must adapt and embrace this potential—if not, they face a much diminished role in their own company or, worse, face watching their company fail on their watch,” says Armanino.

The pressure is on.

### **Why Today Is Different: Transforming Through Change and Disruption**

While CFOs have affirmed in past surveys the pressures and complexities they face, today’s perspective can best be summed up as: It’s . . . *different* this time. That’s

because of the accelerated pace of change today. CFOs in the 2017 survey offered some blunt assessments of the forces affecting their industries, including: “changing customer expectations,” “speed of innovation,” “channel disruption,” and “legal and regulatory landscape.” Significantly, 81 percent of survey respondents do not feel they are keeping up with the exponential pace of change very well.

“It’s not surprising that CFOs feel a greater sense of urgency and a more pressing challenge,” says Armanino. “For example, a new, ‘disruptive’ company or technology can have a strong effect on an industry in less than a year, leaving companies and executives who aren’t paying attention scrambling to catch up. As Andy Grove, the former CEO of Intel said, threats come not from new technology but from new business models. Consider Netflix—it didn’t kill the brick-and-mortar movie rental retailers, they did it to themselves with late fees and the inconvenience of having to drive to return a movie. Netflix’s business model took advantage of those shifts. It wasn’t just about ‘better technology.’”



# SPEED OF CHANGE: THE FOURTH INDUSTRIAL REVOLUTION

The speed of disruption and change and its impact on business is often called the “Fourth Industrial Revolution.” It is technology-driven—and almost breathtaking in its reach:

*“Now a Fourth Industrial Revolution is building on the Third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a range of new technologies that are fusing the physical, digital and biological worlds, impacting all disciplines, economies and industries, and even challenging ideas about what it means to be human. The resulting shifts and disruptions mean that we live in a time of great promise and great peril. The speed of current breakthroughs has no historical precedent. When compared with previous industrial revolutions, the Fourth is evolving at an exponential rather than a linear pace. Moreover, it is disrupting almost every industry in every country. And the breadth and depth of these changes herald the transformation of entire systems of production, management, and governance.”<sup>5</sup>*

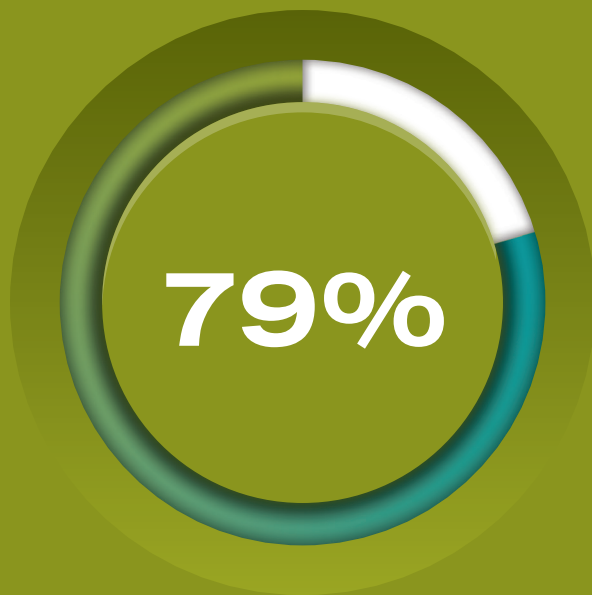
Our surveyed CFOs echo the impact of the Fourth Industrial Revolution:

- 71 percent agree that the future success of their company is dependent on their technology infrastructure
- 67 percent say their own technology investment had a significant effect on strategy and operations
- 65 percent say the acceleration of the technology landscape had a significant effect on strategy and operations

“It would be arrogance in the extreme to believe the CFO is not affected by all of this,” says client Peter Bardwick, former CFO of Nitro and a *San Francisco Business Times* CFO of the Year. “They must initiate the strategic response and enable their team’s success in a world that doesn’t play by the old rules of business. What may initially be perceived as negative forces can ultimately result in a positive and powerful transformation for the company.”

That is the challenge—and the opportunity—for CFOs today.

<sup>5</sup> *The Fourth Industrial Revolution: What It Means and How to Respond*, [weforum.org](http://weforum.org)



believe the pace at which their company needs to change is accelerating



say that changes in customer expectations have had an impact on their industries



#### THE IMPACT OF TAX REFORM

One of the big uncertainties on the minds of CFOs is tax reform. While it's unclear exactly what and when major tax reform will be enacted, it seems a certainty that changes are coming. This will add another layer of change and complexity for finance leaders, particularly for businesses with international operations. If you're a CFO whose company is multinational, you need to prepare for the disruption to your processes that may come from a border-adjustable, destination-based, territorial, consumption tax system and for the impact of tax reform on the non-tax parts of your company's operations.



# CFO EVOLUTION 2.0: THE PATHWAY TO TRANSFORMATION

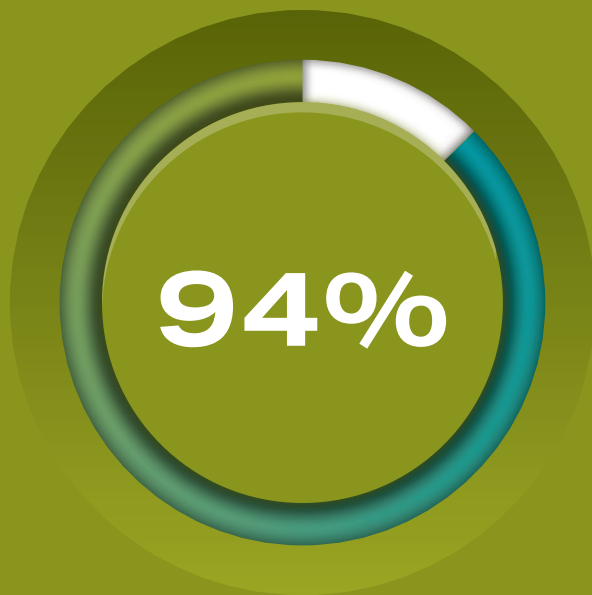
**In 2008, Armanino launched the CFO Evolution, a set of initiatives designed to “take the pulse” of CFOs on their role within the organization through the CFO Evolution Benchmark Survey. We wrap the results within our own market research and insight from our extensive consulting experience with companies in all industries and of all sizes. The goal has always been to help CFOs recognize and adapt to change within their own organization and in the external environment, so that they can become more strategic leaders. Today we have a rapidly changing world and a markedly different business environment from that of 2008. The word “transformation” aptly describes the new mindset that CFOs and their organizations need in order to meet the future.**

The CFO Evolution has traditionally viewed the CFO's role as being a leader, protector and accountant. As leaders, they must enable, by being forward looking and strategic; as protectors, they must optimize their organization's risk posture and help it avoid surprises; as accountants, they must streamline and be fast and accurate with processes and information. In past surveys, CFOs said their time allocation for these elements of their role was 25 percent leader, 20 percent protector and 55 percent accountant. But their goal was to split their time differently and spend 50 percent as a leader in the organization, and 20 and 30 percent as the protector and accountant, respectively. Now, CFOs must position themselves for a new transformational

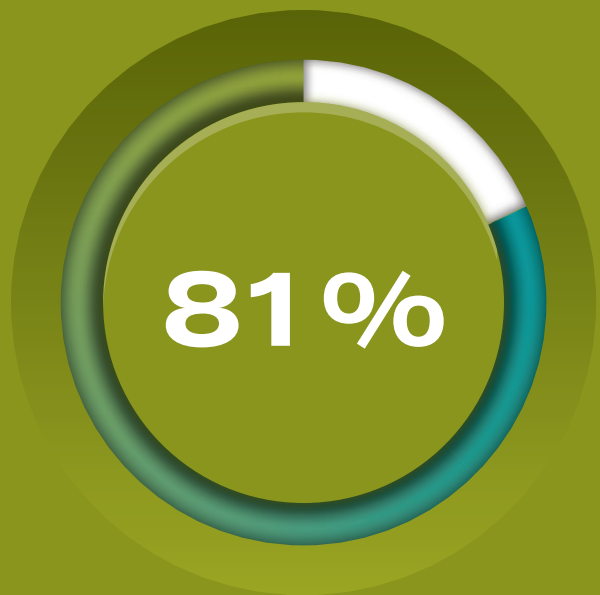
model, one that requires a new skillset to deal with the disruptive landscape. They must apply influence and innovation to their accountant, protector and leadership roles to truly transform the organization.

These new skills are key elements of our CFO Evolution 2.0, which advances our original premise by focusing on the transformation required as a result of extraordinary forces of market disruption. Far beyond being a business buzzword, disruption is a fact of life today, prevalent across the people, processes and technology of all industries. We and our surveyed CFOs believe that finance leaders must influence and innovate across the three core roles of accountant, protector and leader to evolve into the role of a transformational CFO.





believe that being an influencer is an important skill to initiate change



believe that being an innovator is an important skillset

**Innovation:** As strategy and transformation specialist Mithran Doraisamy tells us:

*“Chief Financial Officers must drive innovation. They are the first to understand key financial risks and opportunities and they hold the purse strings for investment that could combat disruption and provide new opportunities. In addition, CFOs are often closest to the market and understand market expectations and the boundaries that will guide trade-offs.”<sup>6</sup>*

Eighty-one percent of our surveyed CFOs believe that being an innovator is an important skillset. Being an innovator is accepting that your future success is not tied to the way you operated in the past. The innovator drives the business to bring in productive changes and deliver value.

**Influence:** Our survey respondents emphasize the value of influence. Fully 87 percent report an increased demand on the CFO to collaborate on cross-functional initiatives, and 78 percent indicated that their influence

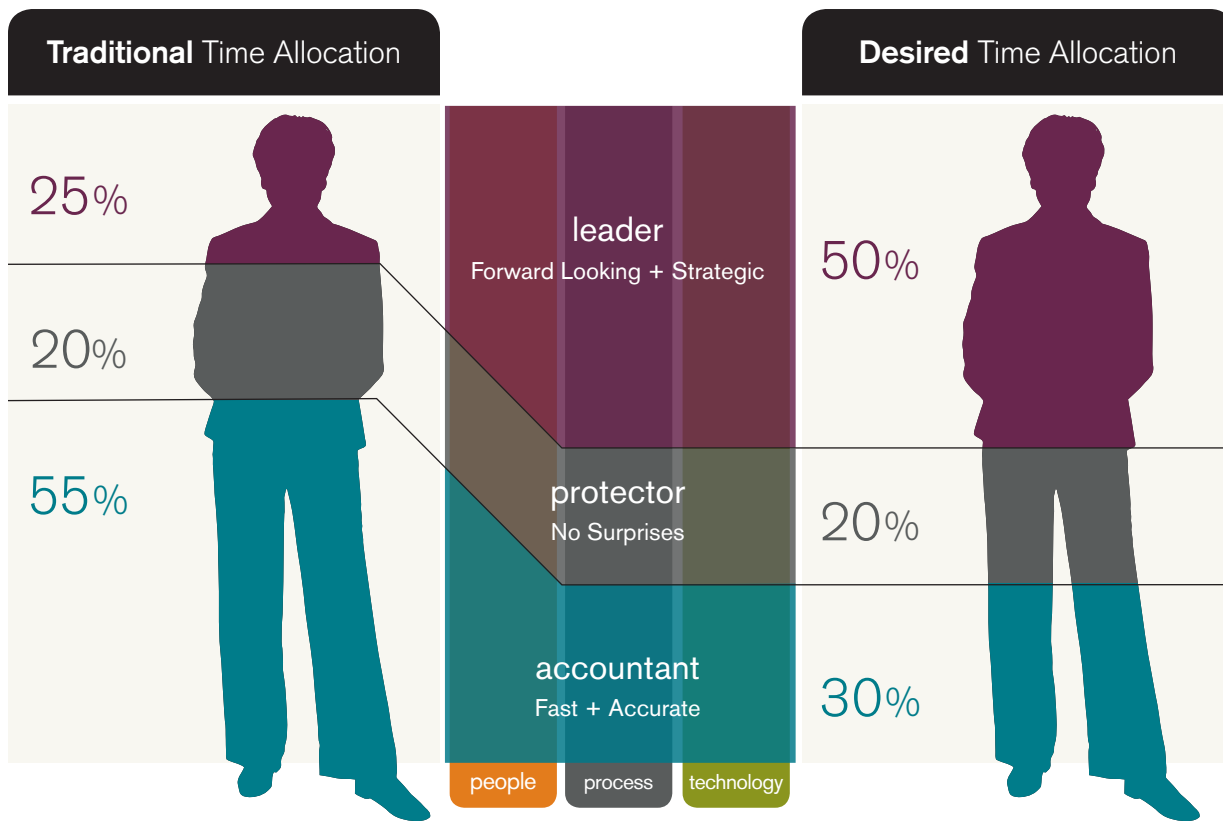
has expanded beyond accounting and finance within the last year. Ninety-four percent believe that being an influencer is an important skill to initiate change. A CFO’s influence enables the company to plan and establish prominence in the market and among other executives, boards, customers and potential customers, vendors and employees. The successful CFO of today and the future builds and maintains a network of relationships to get things done.

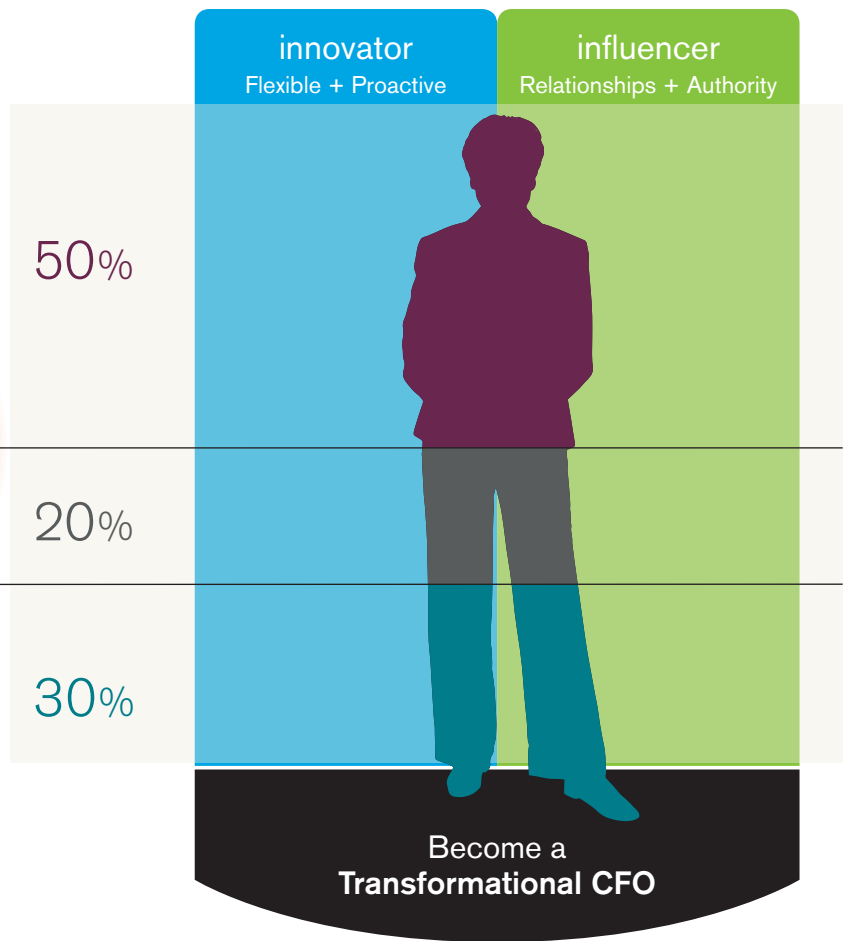
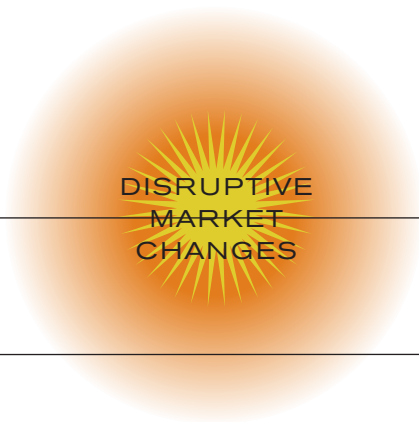
“In simple terms,” says Armanino, “this means a CFO must be the in-house thought leader and the advocate for change. But that doesn’t mean that CFOs can stop at simply championing blue-sky ideas—they must mobilize their teams to make the business case for change and then implement action. Real leaders initiate and guide change.”

In short, because of the extraordinary change underway, tomorrow’s CFO must not only recognize new challenges, they must respond to them.

<sup>6</sup> *Innovation and CFOs: Why Championing Innovation Is Now a Key Function of the CFO role, 6/29/17, Acuity Magazine*

# THE CFO EVOLUTION<sup>®</sup> 2.0







# PEOPLE, PROCESSES, TECHNOLOGY: THE ONLY CONSTANT IS CHANGE

**Now more than ever, CFOs must address rapid change across the three key areas of people, processes and technology.**

## **People: Is Your Team the Team of the Future?**

Given the technology advancements that are soon to come online for accounting departments, CFOs are concerned about the ability of their teams to take them to the next level. Sixty-two percent of finance leaders in an outside survey say that their current team lacks the mix of capabilities to meet the demands of future strategic priorities.<sup>7</sup> Our survey indicates that the top priority for talent management, after recruiting and retention, is identifying the next set of skills for the CFO organization. By 2020, accounting staff are predicted to be approximately two to three times more productive than they are today; as a result, staffing costs are expected to drop by 40 percent.

Technology advances will mean that the way in which your team accomplishes their day-to-day tasks will be unrecognizable. A key driver behind this shift is robotic process automation (RPA), which can be applied to many areas within the finance organization. Another cognitive technology—artificial intelligence—uses an algorithm that can incorporate a wide range of internal and external data sources. With increased analysis, finance departments can use more accurate, data-driven insights to inform business decisions.

Of course, AI will replace some employees in the finance department, but it also offers great opportunity to free people to do other functions that add more

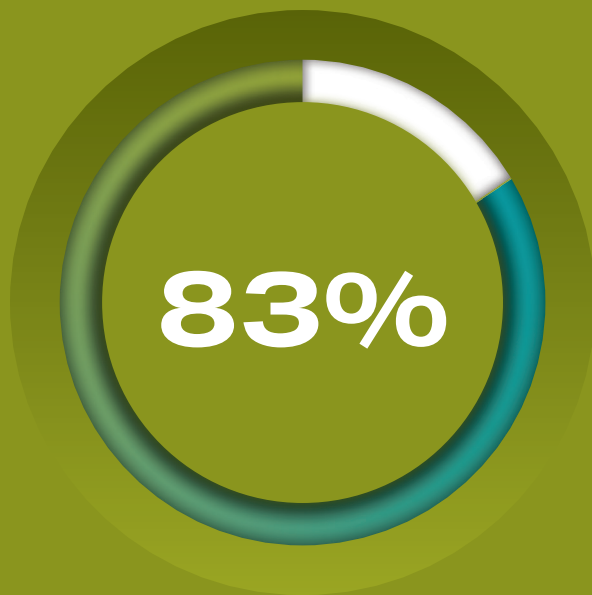
value, in turn making them more valuable to the company. Yet, in our survey, only 32 percent of CFOs were concerned about the impact of AI, robotics and blockchain technology, a view that could be detrimental to designing the finance organization of the future.

Many of today's specialized roles in the finance department are spending two-thirds of their time on low-value information activities, illustrating the downward spiraling effect that task-driven activities can have on an organization when it is not making the effort to move toward a more strategic approach.

“Many of our clients underinvest in developing the team of the future,” says Perry Kaufman, partner, Armanino. “Too many companies think they can hire a smart CFO and that’s all they need from a financial perspective—the rest of the team is not a priority. These companies are then often disappointed with the results from this strategy. Companies need to prepare the controller to step up into the CFO’s role, just like the CFO is preparing to move up to the CEO role.”

To be a truly transformative agent, CFOs must develop a great team with the right skills, so that the CFO can shift from tactical expert to strategist. In fact, 83 percent of our survey respondents will be investing in development and training, and 77 percent will focus on leadership capabilities in their teams.

<sup>7</sup> [http://www.ey.com/Publication/vwLUAssets/EY-do-you-define-your-cfo-role-or-does-it-define-you/\\$FILE/EY-do-you-define-your-cfo-role-or-does-it-define-you.pdf](http://www.ey.com/Publication/vwLUAssets/EY-do-you-define-your-cfo-role-or-does-it-define-you/$FILE/EY-do-you-define-your-cfo-role-or-does-it-define-you.pdf)



will be investing in  
development and training



will be investing in a  
technology roadmap

The CFO organization must be very innovative in thinking about new models that will work for the changed workforce of today. Talent management for the future is now an urgent issue for finance leaders. And for CFOs to move toward significant transformation, they must not only conceptually embrace technology as part of the new model of talent management, they must understand it themselves.

“We’re not saying that all finance professionals need to learn how to code,” says Ryan Prindiville, director of Strategy & Transformation Services at Armanino. “But CFOs can’t become innovators and influencers unless they can articulate to their CEOs why an investment in employee skills, training or re-training, and enablement technology will add value to the company. They need to make the case for new or re-trained employees as true business analysts. And they can’t wait for these decisions to be forced on them. The CFO must initiate these talent management changes.”

CFOs must look outside of their internal teams for two purposes. First, they should develop partnerships with subject matter experts who can explore new staffing

and robotic process automation strategies with them. Second, they can identify areas to outsource, from low-level tasks and cyclical processes to high-expertise roles such as technical accounting and regulatory compliance. The directive is to create, through new team skills and a partnership strategy, a new CFO organization that can be a change agent across the entire organization.

### **Process: Keeping Up With the Speed of Change**

The demand for change to existing processes and systems is higher than ever—three-quarters of our CFOs reported feeling this pressure. And 80 percent of CFOs in our survey say that “changes in customer expectations” have had an impact on their industries in the last two years.

Prindiville says the “Amazon effect” cannot be ignored. “Customers now expect organizations to be fast with everything. Their demands are forcing CFOs to shorten their cycle of activities that support the business’s offerings—developing compressed timelines to add new products, new packaging, new pricing, new billing methods—sometimes in days, not months. Vendors

and suppliers are expecting this, too. The key words for many businesses will be 'customizable' and 'on demand.' All of this requires automating more routine business processes to support sales, marketing and operations teams, and developing and positioning people to focus on what the customers care about. Planning and sequencing changes is critical, especially in terms of your team. Mid-market companies are going to feel these pressures more acutely than others as they are expected to compete at a higher level."

Remember that processes are not siloed—the processes that CFOs need to focus on for improvement are those that impact the entire organization. To continually evolve as an influencer, CFOs must collaborate with other executives to "create and participate in ecosystems that can easily adapt to rapidly changing customer demand and can capitalize on those disruptors."<sup>8</sup>

Of the surveyed CFOs, 85 percent plan to invest in process automation. Yet, organizations are not sure how they need to update existing processes to accommodate automation. "We have clients who reach out to us, asking only for a technology solution," says Tom Mescall, partner-in-charge of the Consulting practice at Armanino. "When we meet with their teams, we discover that many of their business processes are misaligned. It's important to take a holistic view of how the CFO can add value to the company."

Process re-engineering is a lever CFOs can use to address the disruptive speed of change and customer demands. The faster and more efficient, transparent and scalable the organization's processes are, the better they can adapt. Transformational CFOs will ensure their approaches to process improvement encompass transparency, automation and adaptability to ensure their organizations can scale and grow fast enough to anticipate customer demands.

## **Technology: Optimizing Your Ecosystem Today and in the Future**

CFOs are showing a desire to build the business case for innovative technology. Eighty percent say they will make an investment in a technology roadmap in the next two years. A roadmap can help CFOs match short-term and long-term goals with specific technology solutions for those goals, describing the organization's unmet needs, the critical factors desired, and the individual or suite of technology applications recommended. The key is to truly optimize the current technologies already owned and ensure new investments are made in systems that will fully integrate across the technology ecosystem.

"By integrating cloud business systems, CFOs and their employees move from managing technology risk to getting in front of changes in their industry," says Dave Burlington, partner at Armanino.

When CFOs were asked what their top investment in technology would be, they identified analytics and scalability for the future as their top two priorities, followed by implementing a cybersecurity program. There's no question that detailed analysis of "big data"—in particular, predictive analytics—can help companies find patterns in customer behavior and market trends, show the relationship between revenue and market segments, and improve competitive advantage. And 83 percent of CFOs cite providing insights to the board or investors as an influential part of their role as leaders.

The concerning news is that 80 percent of CFOs surveyed do not have a specific transformation or innovation budget. They tell us that there is "not enough time" to implement, "lack of resources for proper investment," and that the "cost is high." To successfully initiate transformative change, CFOs will need to secure budget and build consensus across the organization. They must also seek external guidance for their technology roadmaps, integration of disparate systems to achieve scalability, cybersecurity programs, and effective analysis of their key performance indicators.

<sup>8</sup> *The Disruptive Force of Disruption, forbes.com, March 28, 2017*



# THE TRANSFORMATIVE CFO: “FUTURE-PROOFING” YOUR COMPANY

**Continuous change is the new normal for companies in all industries. The transformative CFO is adding a layer of new, required skillsets to their arsenal: innovation and influence. These skills are necessary to combat the disruptive market changes. Today’s finance leader needs to build a relationship network of external thought partners and subject matter experts who will work together with the CFO to tackle these broad-reaching, strategic challenges and opportunities.**

The good news is that 81 percent of CFOs in our survey say their companies have increased their job responsibilities because of the CFO’s leadership acumen. The challenge is to deliver on the faith placed in them by the CEO and other senior executives.

“The CFO’s role today is a vastly different job than the job of those who came before,” says client Brian Kinion, former CFO of Marketo. “Expectations by and accountability to many constituents have increased dramatically. Transformation to becoming an innovator and an influencer requires CFOs to step out of their comfort zone. The timing and extent of change due to disruptive forces will vary depending on the internal team, the industry, and the product or service being offered, but the words ‘The world is changing around you’ have never been truer.”

CFOs must also consider the business environment from an outside perspective. Ultimately, organizations depend on leaders to make informed decisions to achieve their goals, and CFOs will need to rely more heavily on their strategic network of thought partners to explore solutions.

“Our CFO survey respondents are fully aware of the challenges that lie ahead,” says Armanino. “They recognize the opportunity to initiate their move into

a more innovative and influential leadership role. Armanino, too, has embraced how today’s volatile business environment is too big and complex for clients to handle on their own. Today, more so than in the past, we’re moving from a project-based engagement model with a single solution, to a more strategic, relationship-based model, with the majority of clients. The focus is to enable our clients to engage us as a go-to thought partner and to allow them to take advantage of our network of expertise on demand when they need it to tackle the multi-faceted and ambiguous situations that they are confronting on a regular basis.”

CFO Evolution 2.0 creates a framework and approach to enable finance leaders to transform their companies to meet the challenges and take advantage of the opportunities of today and the future.

Armanino has an ecosystem of accounting and technology experts to evaluate and provide a roadmap of your optimal future state. This will allow your organization to scale for growth and perform the deep analysis of your data that your many constituencies demand.

## ABOUT US

Armanino LLP provides an integrated set of accounting and consulting services to a wide range of organizations—privately held companies, non-profit organizations and public entities—operating in the U.S. and globally. We provide four main areas of service: assurance/audit, tax, consulting and business management. Our technology focus and global services are key aspects of our service lines. We work with clients in a large range of industries, including technology, manufacturing,

and distribution, consumer-retail, nonprofit, private schools, real estate, professional services, life sciences, insurance and healthcare.

Since 2008, our CFO Evolution has offered a set of initiatives focused on the people, processes and technology needed to streamline the accounting function, optimize the protector role, and elevate business leadership with influence and innovation as two critical skillsets, thereby enhancing the value of the CFO organization.

