Grant Thornton

Investment in new tech reaches the finance function

Digital transformation investment is on the rise throughout the enterprise, increasingly focusing on strategic opportunities. While organizations are moving forward gradually when it comes to adopting new technologies, they do so at a steady pace in order to both enable and disrupt current and future business models. The finance function is set to benefit from these strategic opportunities. At the same time, CFOs are playing an increasingly important role in influencing decisions related to technology and tapping into future opportunities with a defined purpose and strategy.

According to our latest research study — *2018 CFO Insights on New Technologies* — investment in digital transformation is crucial for a competitive advantage. Grant Thornton partnered with CFO Research and surveyed 304 CFOs and other senior financial leaders, from companies with revenues between $100 million and over $20 billion. Overall, more than three quarters of the executives surveyed agree that digital transformation is critical, 23% in the short-term and 56% in the long-term.

Investing strategically in digital transformation

To stay competitive in the market, more than two-thirds (69%) of our executive respondents plan to increase their investment in digital transformation in the coming year. Of these, four in ten respondents, planned an increase of more than 10% in the next twelve months. Notably, while some organizations admitted playing catch-up with their competition, or matching their competition's offerings, 41% of respondents indicated that their digital transformation investment efforts are directed at overtaking their competition through differentiation.

While investment strategies for digital transformation so far have been influenced by the desire to improve operational performance and reduce costs, future investment strategies will zoom in on more strategic opportunities, such as improving customer experience, competitive differentiation, or new products/innovation.

In the short-term, future differentiation will certainly depend on creating an exceptional customer experience. Our research revealed a significant difference in executives' top 10 investment priorities now versus in the future. When it comes to executives' goals today, compared to those prioritized in the next two years, the top four goals shift (as shown in Figure 1). In the future, customer experience tops the ranking, and competitive differentiation enters the top four goals. This represents a shift in focus from internal, operational concerns to external brand perception and service and product offerings that at least match up to the competition.

Figure 1: Goals determining investment strategy

Today	In two years
1. Improved operational performance	1. Improved customer experience
2. Reduced costs	2. Improved operational performance
3. Improved customer experience	3. Reduced costs
4. Better performance management	4. Improved competitive differentiation

41%

of executives reveal that they do not have good financial metrics for IT ROI

From our executives' responses, it becomes clear that, in the next two years, growth will be dependent on customer experience. In addition, other goals related to competitive differentiation move up in the ranking, such as new product development and better innovation support, which, in two years' time, both sneak up three positions from their current ranking.

These current and anticipated goals point to an existing tension in terms of the distribution of funds at the enterprise level. The tension exists between current needs for maintenance and system updates, in contrast to the desire to invest in new automation technologies.

In our survey, executives agreed that their organizations' top IT challenges were systems complexity, including systems integration across the enterprise, upkeep of legacy systems and IT talent. These foundational, urgent realities require significant investments, which possibly stall the pace of adoption of new technologies in other departments of the enterprise — e.g., the finance function — which could benefit from technology investments, but might be deprioritized in terms of budget, due to immediate technology needs.

In particular, as new technologies are by definition untested by the proof of time, their success and value to the company is aspirational. Also, investment decisions are made even more complex by the fact that there is fluidity in the organization in terms of determining exact key performance indicators for measuring the financial success of new technologies. As our research suggests, only 12% of executives strongly agree that they have an effective system of measuring financial key performance indicators associated with the implementation of technology.

Competitive success depends on a steady pace of adoption that also makes sense for your company's priorities because new technologies do hold the promise of alleviating some costly issues for executives, e.g. issues related to risk and compliance. For example, executives indicated that they do intend to prioritize new technology investments for the enterprise that will solve regulatory compliance, as shown below in Figure 2.

Figure 2: New technology investments in the finance function

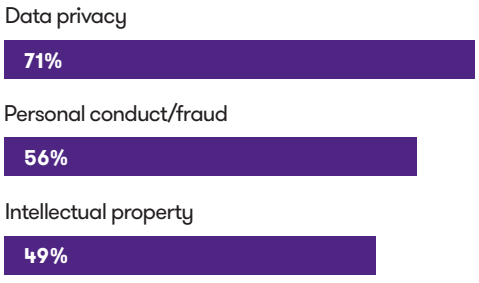


Figure 5: Finance function adoption of new technologies

	Today (currently implemented)	Within 12 months	Within 2 years	Within 5 years
Advanced analytics	24%	24%	25%	11%
Artificial intelligance (AI)	7%	11%	16%	20%
Distributed ledger technology (DLT)	9%	11%	16%	14%
Machine learning	8%	11%	11%	16%
Optical character recognition (OCR)	20%	14%	14%	13%
Robotics process automation (RPA)	7%	11%	11%	15%

How new technologies can improve the finance function

The survey suggests that the adoption of new technologies in the finance function — now and during the next five years — is correlated with the benefits that bring most immediate value to the company, such as better data quality and mining for strategic analysis, optimized processes, minimizing errors, reduced costs, more streamlined reporting and better process scalability to match growth. As Figure 3 shows, top automated processes focus on streamlining operations and freeing up capital now.

In light of these priorities then, it makes sense that currently, the most widely adopted new technologies are advanced analytics and optical character recognition (as shown in Figure 5). In contrast, future investments in automation will focus on better strategy, analysis and predictions for growth (as shown in Figure 4). This explains why executives identified advanced analytics (probably with a focus on prediction and prescription) and artificial intelligence, as top projected investments in new technologies in the next one to five years.

Figure 3: Top process automated today

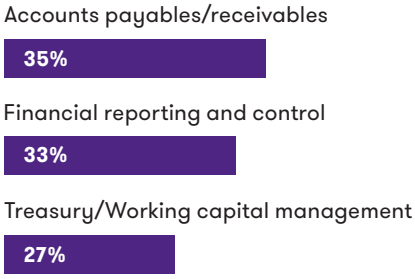


Figure 4: Top processes to be automated in the next 1–5 years

CFO's role in managing technology decisions across the enterprise

As new technologies are increasingly infiltrating the finance function, the role of the CFO is shifting to require an updated set of technical skills. The CFOs we surveyed confirmed the assumption that CFOs will have to assume many more responsibilities related to technology in the future.

In the short to long-term future, CFOs will need a strong technical background. The role will require a person with a strong understanding of such responsibilities that today might fall within the realm of a data scientist/CTO/CIO. What will be required of future CFOs is a technical mindset that will include a strong understanding of the risks that new technologies bring about.

Current CFOs already report starting to assume technology-related responsibilities, as shown below in Figure 6 and Figure 7:

Figure 6: Current CFO responsibilities related to technology

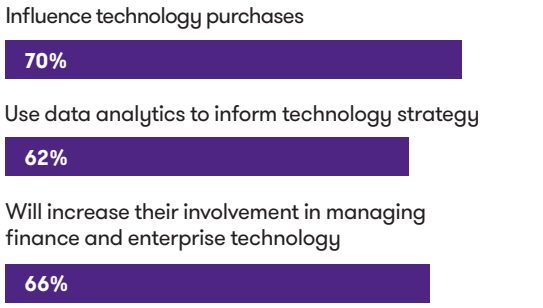
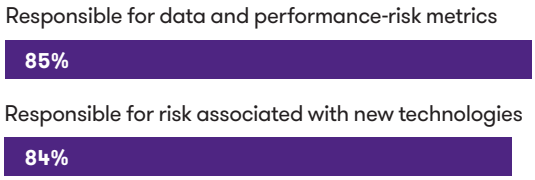


Figure 7: Current CFO risk responsibilities related to new technologies



Close to **89%** of CFOs agree that the CFO of the future will require a much stronger data analytics skill set than current CFOs.

In the current state of the finance function, where new technology opportunities and risks have already started to influence the finance function, today's CFOs have found the immediate, implementable solution of establishing a better collaboration with their executive IT counterparts. The finance function can work with IT to ensure that they support each other and that they collectively make the best technology decisions for the enterprise.

Filling in the skills gap

The consensus on the required technical expertise of the future CFO brings about the larger question of attracting and keeping necessary talent. Filling skill gaps is and will remain a conundrum, with only temporary solutions.

One such solution that three quarters of CFOs embraced was to embark on a personal journey of updating their data analytics skill set in 2018. Yet, the big skill-gap question of the future still focuses not only on securing leadership talent for enterprise growth in the digital age, but also on staffing the finance function, and other functions, once automation technologies become more widespread.

How will companies retain and retrain current staff? Or will they? In our survey, executives indicated that their preference is to retrain existing staff (52%), rather than recruiting new staff (20%), or outsourcing to a third party (17%).

Talent ranked 3rd among future tech challenges

Conclusion

There is no quick solution for implementing digital transformation. It is rather a journey with several phases, where each phase enables the other. When achieved at a manageable pace, digital transformation can give executives the confidence that they can balance today's operational needs with taking strides towards future innovation.

There is no quick solution for implementing digital transformation.

To achieve this manageable pace, executives should take a step back and understand their short and midterm goals in three areas: 1) operational excellence; 2) customer and employee engagement; and 3) competitive advantage. Another factor that they might have to take into consideration is talent. By taking this internal assessment, the finance function has the opportunity to not just drive increased operational visibility, but also operational efficiencies that can free up investment dollars for broader strategic digital transformation efforts.

Contacts

Kevin Baril
Principal, Business Consulting and Technology
T +1 858 704 8040
E kevin.baril@us.gt.com

Roy Nicholson
Principal, Business Consulting and Technology
T +1 408 346 4397
E roy.nicholson@us.gt.com

Chris Stephenson
Principal, Business Consulting and Technology
T +1 425 346 4397
E chris.stephenson@us.gt.com

GT.COM