Future of Finance: Finance disrupted

How should the CFO respond to a business environment in turmoil?
As we edge toward the third decade of the century, business-as-usual methodologies no longer keep pace with the tides of innovation and unprecedented change. In fact, findings from KPMG’s 2018 Global CEO Outlook survey indicate that nearly 60 percent of chief executive officers (CEOs) see agility as the dominant currency of business and that if they are too slow they will go bankrupt. “Acting with agility is not just the new currency of business; it’s the most valuable currency today,” explains Mark A. Goodburn, KPMG’s Global Head of Advisory.

Yet CEOs remain optimistic about leveraging disruption for growth. Ninety-five percent of CEOs view technology-driven change as an opportunity, not a threat, to their business, and 54 percent are actively disrupting their sector.

Changing demands on finance

The dynamic nature of contemporary business urgently calls for a new breed of finance function. The reality, however, is that most finance teams are not prepared to meet these wider demands. “The finance function is, by nature, very conservative, detail-oriented, rule-oriented, and structured,” says Jim Carroll, a futurist and trends and innovation expert. “To make the transition to a more forward-looking model requires a lot of innovative thinking. Unfortunately many finance functions are not structured to support that.”

Yet, over the next decade, finance will have to disrupt itself to meet the demands of its customers, including regulators, corporate boards, sales and marketing departments, suppliers, and internal and external auditors. These stakeholders increasingly expect finance to serve as a true business partner, not a back-office department focused on transactional processing and historical reporting.

“It’s a move from bean counter to bean grower,” says Samantha Louis, vice president for Strategic Engagement – Management Accounting at the

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Association of International Certified Professional Accountants. She calls for proactive discussion and recommends that finance be open to feedback from customers to better understand and meet new demands.

**How should the CFO respond?**

Today’s rapidly changing business environment requires finance to address disruption head-on or risk being left behind more nimble competitors. Leading chief financial officers (CFOs) are focusing on leveraging disruption into opportunities for competitive advantage and growth while also improving their delivery of products and services to their stakeholders. Experience shows that CFOs are deriving specific benefits for their companies by focusing on these key areas:

**Innovation and investment**

CFOs need to maintain a firm grip on the numbers while preserving a focus on market opportunities, threats, sector disruptions, and customer retention. That means serving as creative strategist while continuing to oversee capital allocation and, ultimately, playing a key role in enabling innovation across the enterprise.

In essence, CFOs need to think like venture capitalists. They must first understand the trends and economics that are driving market disruption in their sectors. They can then manage innovation investments as a portfolio, using metrics aligned with the organization’s overall strategic objectives and governance program.

**Extreme automation**

Finance professionals must embrace technology disruptors to transform their operating models and unlock the benefits of extreme automation. Leading finance organizations are already reaping the rewards of cloud enterprise resource planning (ERP) and robotic process automation (RPA)—from reduced costs and risks to heightened efficiencies and improved cybersecurity. With a baseline technology infrastructure in place, these organizations can look to future investments in more advanced technologies. Indeed, 58 percent of finance leaders report that their organization is already exploring emerging technologies such as machine learning and artificial intelligence.

Successful finance functions will make good use of blockchain, data analytics, and other enabling technologies, while emerging technologies will change the nature of shared services centers. Furthermore, businesses can exploit artificial intelligence for sharper predictive insights and better deployment of capital.

**Insights and analysis**

As the only person in the enterprise with both the permission and the duty to integrate strategy, finance, and analytics, the CFO is uniquely positioned to define the analytics agenda.

“Finance leaders will need to capitalize on their unique position in the company to pursue a data and analytics agenda closely tailored to their companies’ needs—or risk the finance function’s relevance as a strategic and business partner,” say the authors of *Advanced Analytics and the CFO*, a Harvard Business Review Analytic Services white paper sponsored by KPMG.

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1. Aggregate of 500 finance and business leaders’ responses to polling questions collected during KPMG LLP’s CFO Real Insights Webcast, The CFO agenda: Leveraging disruption into opportunity (December 2017).
2. Aggregate of 591 finance and business leaders’ responses to a polling question collected during KPMG LLP’s CFO Real Insights Webcast, Advanced Analytics and the CFO (March 2018).
Nearly 80 percent of finance leaders indicate their organization is currently laying the foundation for advanced analytics. A powerful technology toolbox also strengthens finance’s ability to identify and make investments in the right projects to drive innovation. The increasing ability to automatically analyze very large data sets will help CFOs decide whether to invest capital to expand capacity.

**Organization and talent**
The renewed groundswell of digital transformation will turn finance into a business support function that combines strong analytical and strategic capabilities with traditional accounting skills. “Skills requirements are changing really fast,” says Carroll. “How can we make sure that we get the right skills, at the right time, for the right purpose?”

By redefining the skills, roles, and structure of its workforce, finance will be able to attract, retain, and develop talent to match its evolving needs. In the future, it will require both strategy and finance skills, process and control leaders, and the ability to collaborate and build relationships across formerly siloed departments. “The more integral that finance is to the business, the more the silos will break down,” says Louis. “Leading organizations already have finance sitting with the teams they support as opposed to sitting in a centralized finance function.”

**Service delivery model**
Extreme automation will dramatically change the size, structure, and delivery model for finance, separating human expertise from automated execution and simplifying the organization’s operations. Finance organizations must assess what new work needs to be done, how those demands translate to the skill sets of their workforce, and how to manage processes end to end, rather than in a silo. They will need fewer people with higher skills, less hierarchy, and fewer offshore locations. A smaller finance team will represent a diverse range of high-level skills of employees who are freed up by intelligent automation to work on tasks that add real value across the enterprise.

**Risks and controls**
An estimated 60 percent to 70 percent of manual controls performed today will be automated over the next five to ten years. And it is no wonder—extreme automation promises to improve...
Call to action

As the process of preparing compulsory reporting becomes increasingly automated, finance functions have more time to solidify their position as valued business partners, using advanced analytics to model future scenarios and map the best outcomes for the enterprise. “That’s very much about the head of finance or CFO sitting on the board, being part of setting the strategic direction of the organization, and then monitoring the performance and achievements against targets,” says Louis.

To drive this process, CFOs need to take steps to disrupt their finance functions or face a talent drain as well as an inability to grow revenue or deploy capital effectively. The key to success is to create a blueprint for how the finance organization can turn disruptors into opportunities.

Such an effort involves taking steps to:

- **Set organizational strategy by understanding future trends**
  - Scan signals of change to better understand and prepare for potential disruption with innovative solutions.

- **Build a portfolio that enables the business to make smarter bets**
  - Use a venture-capitalist approach to balance riskier investments in disruption with ongoing investments to sustain the core.

- **Establish a strategic framework based on a disciplined process**
  - Align investments to strategic, operational, and financial plans to help ensure the organization is nimble and competitive.

- **Use appropriate metrics and models for evaluation**
  - Utilize financial metrics that blend customer, operational, and risk assessments; effective metrics will yield opportunities for learning and strategic fit.

- **Adopt strong governance to drive alignment**
  - Deploy scarce capital and labor with a structure that drives alignment from the C-level through operations to prevent mismanaged resources.

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KPMG’s Financial Management practice supports the growing agenda and increased responsibilities of the CFO. We work with our clients with passion and purpose, integrating innovative approaches and deep knowledge to deliver real results.

Our approach, methodologies, and tools are time-tested across various industries and have consistently demonstrated enhanced strategic value to the finance function. KPMG’s global network of financial management professionals helps clients align their finance organizations with the strategies and needs of their businesses to realize and sustain value over the long term.

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