

The Enterprise of the Future and the CFO's Potential Leadership Role

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Adapting to Rapid Disruption

“Plans are worthless, but planning is everything.”

Dwight Eisenhower said this in a speech in November 1957. He went on to explain that the details of a plan designed years in advance are often incorrect, but the thorough examination and debate of potential options, risks and contingencies required by the planning process are invaluable for handling changes in the future.



**In the next five years, enterprises face two significant challenges:
1) disruption is ubiquitous, and
2) the pace of change will never be this slow again.**

Similar to planning, the value of making a prediction is not in the accuracy of the prediction itself but in the thinking and debate that ensues the prediction and the ramifications of change. It is with this spirit that we tackled the questions: what will the enterprise of the future look like and what can a “standard bearer” CFO do to lead her finance organization as a role model for transforming the entire enterprise?

Although it is often misquoted as the “survival of the fittest,” Charles Darwin wrote more than 170 years ago, “In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment.” The key word in this legendary finding is “adapting.” And this is what enterprises must do quickly if they are going to survive and thrive in this new decade.

In the next five years, enterprises face two significant challenges: 1) disruption is ubiquitous, and 2) the pace of change will never be this slow again. Disruption to enterprises has been around as long as business has existed, but the disruptor has traditionally “attacked” a market from one flank. Today, markets are being disrupted from all directions. There is frontal assault on the business model; right flank assaults driving changes in consumer behavior; assaults from the left flank with a fundamental shift in technology; and assault from behind in the form of dramatic product innovation.

The End of One-directional Disruptions

A quick trip through time shows how early disruptions were typically one directional. In 1801, Joseph Marie Jacquard invented an automated loom that used wooden cards to direct the loom to create specific textiles and thus created a significant competitive advantage in speed to market. This shift in technology was one directional. More than 100 years later, the automobile was invented and disrupted the prevailing transportation of the times: the horse and buggy. This example of product innovation is well known, but not always viewed as a disruption.



Today's disruptions are multi-dimensional, attacking markets from multiple fronts.

In the 1950's, Bulova developed the quartz movement for watches. This shift in technology disrupted the entire Swiss watch industry, but its paradigm (namely that a watch required gears and movement) lacked recognition that product innovation could be a disruptor. Not only did Bulova not patent the technology innovation, it took it to an industry conference and showcased it as a novelty. When it did this, the Swiss manufacturers had a collective global market share north of 80 percent, after the conference, companies like Texas Instruments and Casio decided the quartz movement was not a novelty but in fact a new watch that would revolutionize the industry. Today, the Swiss watch industry has a collective market share of less than 5 percent of the global unit volume.

Another product innovation that went unrecognized as a disruptor was the digital camera. In 1975, Kodak invented the world's first digital camera. But Kodak was so stuck in the paradigm that cameras use film that it didn't capitalize on the innovation, and, after a decade or so, the company was bankrupt.

Multi-dimensional Disruptions are the Future

Today's disruptions are multi-dimensional, attacking markets from multiple fronts. CERN created the world's first website in 1990, and 15 years later, Jeff Bezos began a journey built on this disruption. Amazon began disrupting consumer behavior by creating an alternative to brick-and-mortar stores with an online website to search for and order books. It quickly moved to product innovation with the introduction of the Kindle and the new product of electronic books that could be delivered online.



Today's consumers are more loyal to convenience than a brand or channel.

Amazon didn't stop there, it continually drove innovation with the introduction of an e-commerce shopping cart, advanced search and analytic-driven algorithms that suggest books that may be of interest to an individual consumer based on their purchasing patterns and online reviews. This continual innovation not only increased market share and customer experience but created a moving target for potential competitors.

Amazon now is known for its highly adaptive business model, having expanded its product lines from books to just about anything a consumer desires. Pre-COVID-19 pandemic, Amazon had a 47 percent share of all online purchase dollars in the U.S. Today, next-day delivery (and same-day delivery in some markets) has become the norm with an Amazon Prime account and an Echo you can even order by voice. As a dog owner, I order dog food by simply speaking "Alexa, order dog food." The dog food I want is known by Amazon and I receive the shipment the next day. That is the definition of convenience and disruption.

Today's consumers are more loyal to convenience than a brand or channel. This also is the key to Uber's success: it delivers the convenience of ordering transportation in seconds via an app and then getting out of the car at your destination to pay later. That's why, when major cab companies came out with an app of their own, it didn't make a significant difference in consumer behavior without the convenience of paying through the app at your leisure.

The Pace of Change in the Future

The second challenge facing enterprises today is the pace of change.

While it took 110 years for the telephone and 49 for the television to reach 1 billion units sold, it took only eight years for Facebook and smartphones to reach that same number. Unfortunately, the adoption rate is not easily predicted. In the late 1990s, a leading management consulting firm predicted the global market for mobile phones to peak at 987,000 units. Today, there are more than five billion unique mobile devices, and no one knows how many flip phones and bag phones are in landfills. That parable is not meant to disparage the consulting firm or to enforce the need to accurately predict the adoption rate of innovation. Rather, it is meant to point out the need for agility in today's marketplace.

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Decisions need to be made quickly and with less than perfect information before a competitor makes you a disrupted party rather than a disrupting party. The design-thinking principles used in product innovation that include a “fail fast” mentality and rapid prototyping need to be applied to enterprise business and operating model transformation as well.

Now, the COVID-19 pandemic has created an even greater sense of urgency as enterprise survivors will not only be those that prepare for the end of the pandemic but also transform their entire enterprise to take advantage of the “new normal.” This means increasing market share by becoming a disruptor rather than a disrupted enterprise. We are reminded of Blockbuster taking a pass on the possible acquisition of Netflix, which didn’t work out so well in the end.



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What Does the Enterprise of the Future Look Like?

What does it mean to prepare a future to be a disruptor? It means transforming into an “enterprise of the future.” And what does an enterprise of the future look like? We believe enterprises of the future will look to Finance & Accounting as an exemplar organization that can drive the enterprise change. And empowered F&A organizations will have a certain set of characteristics, including an expanded vision that uses technology and a greater emphasis on data to open the door to transformation. By adding predictive analytics and AI into its planning processes, the F&A organization can serve as a champion of change, rely on data-driven decision-making and engage more readily with customers. The F&A organization of the future will include data scientists and behavioral experts, it will embrace business process-as-a-service (BPaaS) and software-as-a-service (SaaS) solutions for increased agility, and it will create and govern a supplier ecosystem for maximum efficiency and innovation.



To drive true transformation, the CFO and the finance organization need to build credibility in the enterprise and earn a seat at the “strategy table.”

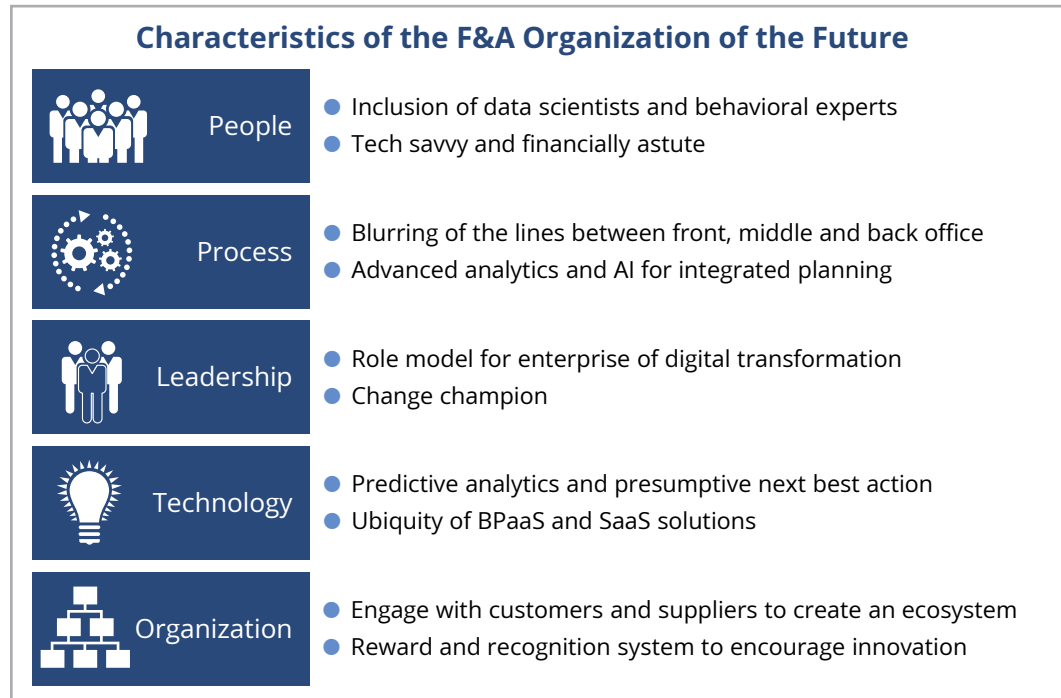


Figure 1: Characteristics of the F&A Organization of the Future

Who or what organization should be driving this transformation in the enterprise? The CFO is in an optimal position to be the “champion of change,” using the finance organization as the model for transformation for the remainder of the enterprise. The finance organization has as much or more interaction with all aspects of the enterprise value stream than other functional organizations in the enterprise. The data lakes required for advanced analytics are populated largely with operational and financial data created in the financial systems and processes.

The traditional role of the F&A organization is to report results and analyze the impact of campaigns and other initiatives. When enterprises are looking to focus on end-to-end process improvement, the finance organization is often right in the “middle” of that end-to-end process and, thus, in a perfect position to influence transformation. But to drive true transformation, the CFO and the finance organization need to build credibility in the enterprise and earn a seat at the “strategy table.”

ISG predicts the CFO and finance organizations of leading enterprises will build new ways of working around five core elements: people, process, technology, leadership and organization.

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5 Core Ways to Reshape F&A

- 1. People:** Not only must the CFO earn a seat at the strategy table, but the F&A organization must begin hiring and developing data scientists and behavioral experts among its ranks. Like the traditional finance team, the F&A organization of the future should be made up of people who are financially astute, but it also needs people who are tech savvy and business minded. A forward-looking culture in the finance organization will be one focused less on score keeping and more on prognostication. This requires finding and maintaining the right skills and talent.
- 2. Process:** The F&A organization of the future will rethink the way it works to create true end-to-end process ownership and transformation. Real-time reporting and effective planning and analysis requires continual cleaning of integrated master data and process standardization and regulation. Prioritize straight-through processing where possible. By applying insights from ongoing market and competitive research, companies can improve their working capital to increase the health of the business and provide proactive customer service.
- 3. Leadership:** Somewhat paradoxically, finance leadership must maintain the traditional F&A agenda at the same time it shapes the innovation agenda and serves as a role model for digital transformation to the enterprise. It must drive a smaller, more variable cost structure and push a solid understanding of key innovations and how they will shape the marketplace. It's not just rainbows in the sky, this is about using data to create a winning strategy.
- 4. Technology:** For the F&A organization of the future, technology is a powerful lever. Putting technological advances in AI and IoT to use in finance can provide the means to augment the workforce, monetize insights and manage risk. Aggregating data for predictive analytics and to identify new sources of revenue and opportunities to increase margins are critical for earning the F&A organization a leadership role. The use of BPaaS and SaaS solutions can drive a variable cost base, while hyperautomation and blockchain applications can move the whole enterprise forward.
- 5. Organization:** A flatter organization that has less need for teams to process transactions and that can embrace enterprise agility will improve efficiency and adaptability. An F&A organization that uses a change reward-and-recognition system to encourage innovation and data mining will see significant results. And as processes become more digitized, teams can repatriate work that has been sent overseas and engage with customers and suppliers to create an ecosystem that drives down costs and increases revenue.



The Role of the CFO

Before its demise, Encyclopedia Britannica had been publishing its famous set of encyclopedias for more than 230 years. Most considered it expensive (\$1,000 for a 20+ volume set) with a limited shelf life for accuracy and relevancy. So, in 2001, when Wikipedia launched with a free online encyclopedia, it completely disrupted the business – and within 11 years, Encyclopedia Britannica published its last set of books.

This is a story about the lack of executive leadership. Without revisiting the key characteristics of its organization, Encyclopedia Britannica was doomed to fail. It is interesting to note that Wikipedia’s founders didn’t quite predict the disruption either; its original goal was to have 100,000 pages. Today, there are over 100 million pages in English language alone.

While not every finance organization will aspire to be the “standard bearer” of the enterprise of the future, standard-bearer CFOs will undoubtedly address the following areas:

- Strong predictive analytics capabilities and data interpretive skillsets.
- Finance transformation and organizational change management capabilities.
- AI-infused processes and systems.
- Automated data modeling and reporting.
- Strong market and behavioral research.
- Resources that incorporate data scientists, behavioral experts and automation centers of excellence.

ISG would like to discuss how your enterprise can become a standard bearer for the new decade. Please contact us at scott.furlong@isg-one.com to entertain some thought-provoking discussions.



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ABOUT THE AUTHOR

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Mr. Furlong is a Partner at ISG and has over 25 years of experience in assisting companies transform their general and administrative functions including finance and accounting, human resources, and procurement. He has expertise in formulating strategies and designing alternative service delivery models (Global Business Services, shared services and outsourcing), transforming processes, driving organizational change and implementing emerging technologies such as advanced analytics, mobile solutions, cognitive computing and cloud based solutions. Mr. Furlong leads ISG's Business Advisory Services practice and serves on the Americas Leadership team.



ABOUT ISG

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