IBM Institute for Business Value

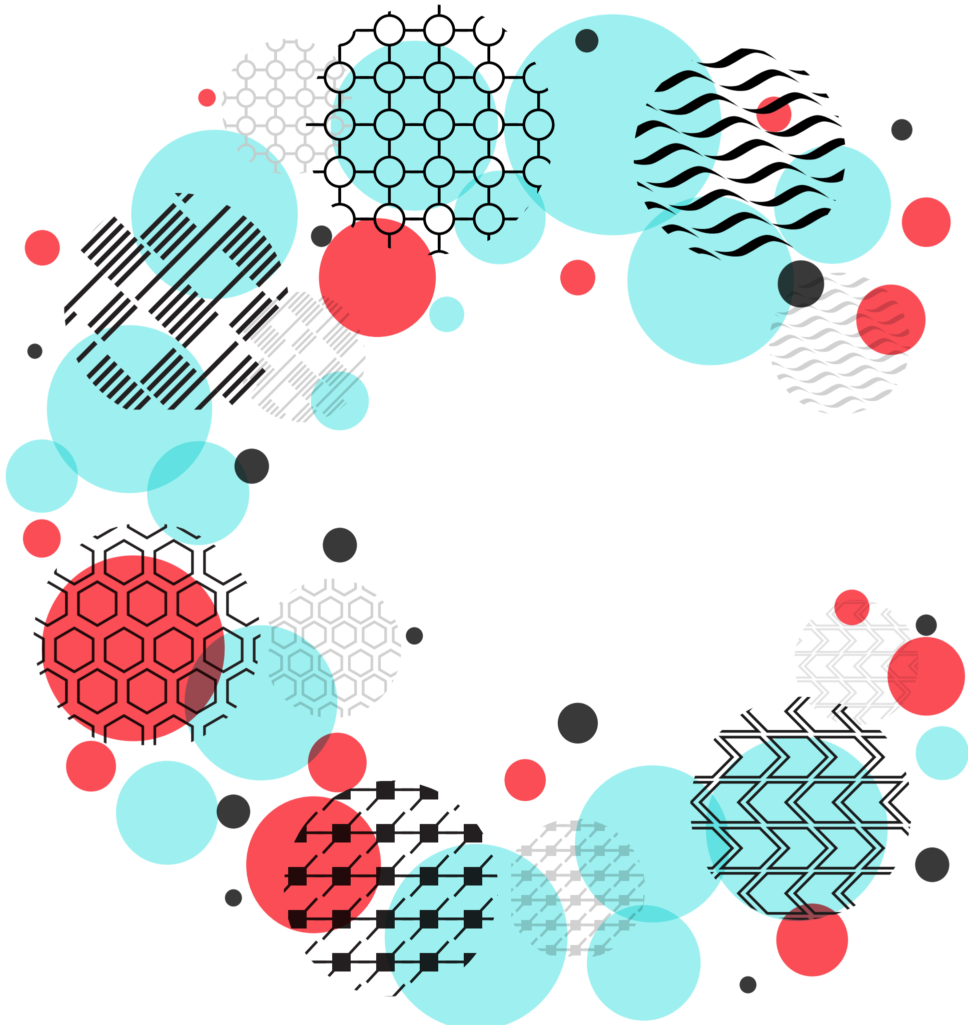
Global
C-suite
Series

31st Edition

CFO Study

6 power moves CFOs must make

Tackling hard truths
in the generative AI era



IBM

About the study

In Q1 2024, in cooperation with Oxford Economics, the IBM Institute for Business Value surveyed 2,000 Chief Financial Officers (CFOs). Separately, a small group of executives was engaged for in-depth qualitative interviews. These discussions focused on key insights from the study and the CFOs' on-the-ground experience leading their finance organizations and interacting across their organizations on developing and executing strategy in the new era of AI. Respondents span 26 industries and 34 locations worldwide. For more details, see "Research methodology and analysis" on page 60.

The cover concept and individual patterns in this report were developed using generative AI.

IBM IBV designers translated each of the "power moves" into prompts, and then used these prompts within Adobe Firefly to generate vector-based imagery that inspired the basis and structure for each pattern. Similarly, the photos that appear in this report were identified using AI-assisted, natural-language search, using the generated patterns as reference images.

Overall, the efficiency gained by integrating these tools into the design process is as follows:

Concept—3 weeks to 1.5 days

Patterns—2 weeks to 2 days

Photography—1 week to 2 hours

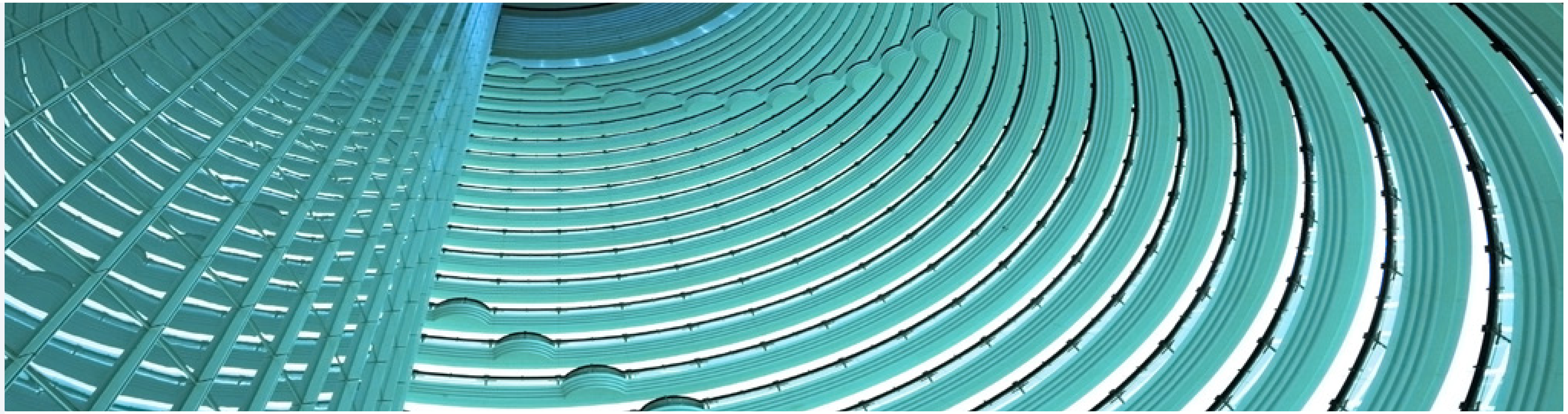
Contents

The imperative of bold leadership

It's the generative AI era. Will your organization disrupt—or be disrupted? It depends on how your organization reacts today and prepares for tomorrow.

Generative AI is a once-in-a-generation opportunity to drive radical productivity and create new avenues for explosive growth—but only for leaders who make the right moves. CFOs must use their influence to advance their organization in innovative ways.

Execution is essential. Complacency is not an option.



"The role of the CFO has migrated from a more traditional financial perspective to one with a really strong understanding of the business and a repository for insights."

Diana Vuong
VP, Finance & CFO, Vancouver Airport Authority

Nearly two-thirds of CEOs in our 2024 CEO Study say they need to rewrite their organizational playbook to remain competitive.[1] You can't run the business of tomorrow with today's skills, technology, or operating models. And with 72% of top CEOs saying competitive advantage depends on who has the most advanced generative AI,[2] the tensions finance leaders already face are compounded: risk versus reward, short-term versus long-term, optimization versus constraint, agility versus discipline, and innovation versus financial stability. So, what's a CFO to do?

CFOs must be both guardians of stability and agents of transformation.[3] At the epicenter of strategy development and execution, CFOs, working hand in glove with tech leaders, supercharge technology as the transformative force in their organization.

CFOs play a crucial role in driving competitive advantage and creating value for their organizations. They are looking to change-heavy initiatives such as accelerating technological modernization, creating economies of scale, differentiating products and services, and building strategic alliances (see Figure 1) to help them deliver this advantage. Yet, our study reveals some CFOs are leaping forward while others are being cautious:

- 72% of leading CFOs identify their CTO as highly important or critical to their success, more than any other role.
- 65% of all CFOs say their organization is under pressure to accelerate ROI across their technology portfolio.
- Only 35% of finance organizations engage in early IT planning with tech leaders to set expectations on how technology advances enterprise strategy.

In this high-stakes environment, CFOs must make power moves that confront hard truths about transformation, talent, innovation, and more.

Figure 1

Competitive advantage and barriers to overcome

CFOs expect competitive advantage coming from change-heavy initiatives and innovation requiring tough choices.

Most important enablers of competitive advantage over the next 3 years

- #1 Accelerated technology modernization
- #2 tie Scale advantages (economies of scale)
- #2 tie New differentiated products and services
- #2 tie Strategic alliances and partnerships

Greatest barriers to innovation in the organization

- #1 Management resistance to change
- #2 Aversion to risk/ disruption
- #3 tie Limited budget/financial resources
- #3 tie Lack of clear innovation strategy

Qs. What are the most important enablers of your competitive advantage over the next three years? Which factors present the greatest barriers to innovation in your organization?

62%

of CEOs say they must rewrite their organizational playbook.[4]

72%

of top CEOs say competitive advantage depends on who has the most advanced generative AI.[5]

Perspective

How are leading CFOs preparing for an uncertain future?

We've identified a group of leading CFOs, representing 9% of our global data set, that is outperforming the competition.

Here are the four powerful CFO characteristics that enable tackling the hard truths of the generative AI era.

1

A sharp focus on a strategic future
Leading CFOs articulate vision and strategy to optimize long-term investment value. They not only control and manage risk, but also finesse it with financial effectiveness.

2

An adeptness at strategy execution
Leading CFOs translate decisions into financially astute actions—as well as embrace cloud-based enterprise performance management.

3

An agile responsiveness to changing market conditions and new opportunities
Leading CFOs are decisive, making decisions with more speed and financial effectiveness than their competitors. They're enabling better, faster decisions across their enterprises.

4

A keen eye for technology that drives competitive advantage
Leading CFOs connect tech investments to quantifiable business outcomes. They create cross-functional teams to forecast and allocate technology costs and manage tech budgets.

What sets leading CFOs apart?

High performance starts with financial metrics. Leading CFOs drive significantly higher annual revenue growth and operating margins than their peers. In 2023, they outperformed their competition by 39% in revenue growth. In 2023, leading CFOs achieved nearly 11% greater operating margins.

Leading CFOs

All others

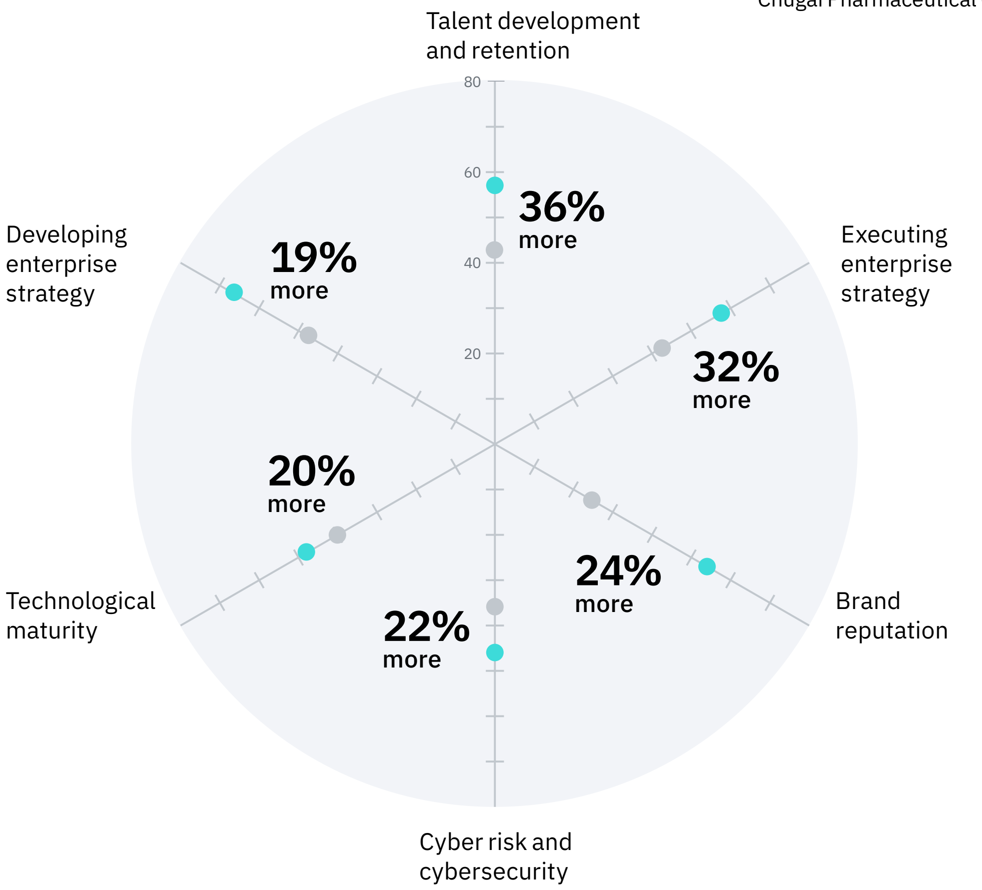
And their success transcends financials. Leading CFOs say their organizations outperform in several key areas that deliver a competitive edge.

> “It is important for not only the CFO but also management to have a broad perspective in order to see the bigger picture.”

Iwaaki Taniguchi
Director, Executive Vice President & CFO
Chugai Pharmaceutical Co., Ltd.

Leading CFOs

All others



Qs. Rate the effectiveness of your organization in the following areas: Developing enterprise strategy, executing enterprise strategy. Percentage reflects “effective” and “highly effective.” How does your organization’s performance compare to similar organizations over the past three years? Percentage reflects “outperformed” and “significantly outperformed.” How would your closest competitor rate your organization’s performance compared to similar organizations? Percentage reflects “leading” and “significantly leading.”

"You have to be able to understand the levers of your business and how each and every decision impacts your business—and then potentially which levers need to be pulled in order to achieve the desired result."

Martin Günther
CFO, smart Europe GmbH

The six power moves

Here are six power moves that CFOs must make—from managing risk tolerance to strengthening tech partnerships to embracing generative AI—that successfully use technology to propel their organizations forward.

1. Champion tech as core.
2. Make execution the yin to strategy's yang.
3. Show me the ROI.
4. Determine your risk tolerance, then place your big bets.
5. Make data your AI's oxygen.
6. Ignite your talent revolution.

1

Champion tech as core.

With technology becoming core to the enterprise—not just an enabler—CEOs recognize that collaboration between finance and tech is crucial to success. Leading CFOs say CTOs are their most important relationship, with 72% identifying them as highly important or critical. Now is the time for CFOs to supercharge technology as the transformative force at the core of innovation. CFOs need to advocate for tech leaders' expertise in the boardroom by integrating evaluation, investment, and planning, forming a powerful coalition that drives strategic growth.

> "The real question is: Who will adapt and ride this wave of change? Those who do will thrive, while others risk being left behind."

Fabio Martinez
CFO, Alstom Brazil

Every product is becoming a digital product. Yet when organizations see technology as an enabler, they treat it like a toolbox. They wait for problems tech can solve rather than exploring what new opportunities it creates. Only when they recognize technology as the transformative force at the core of innovation can organizations seize first-mover advantages, define markets, and gain economies of scale.

Tech strategy and business strategy cannot be separated, and the CFO plays as important a role—if not more—in this integration as anyone. To drive innovation, competitiveness, and sustainable growth, the two must align.

CFOs must seize this opportunity to transform their role: this requires shifting from a financial overseer, approving or rejecting technology project funding, to a strategic ally. In this new role, CFOs align technology initiatives with advancement of enterprise strategy and promote technologies that drive transformation. They need to evolve from evaluating tech investments via traditional business cases to using a holistic value assessment that includes strategic, operational, customer, and financial impacts.

With time of the essence, and detailed business cases too often yesterday's "nice to have," it is on CFOs to make sure that tech is at the table, providing invaluable context and knowledge. One telling trait of a leading CFO? They recognize that, when pursuing enterprise success, the most important relationships are technology related.

Leading CFOs are diplomats, with the CTO, CISO, and CIO topping their list of CxO relationships needed to be successful. With no single tech role being the lone expert, leading CFOs recognize that each tech leader brings their unique strengths to form a high-powered coalition necessary to drive critical technology transformation. Leading CFOs say CTOs are their most important relationship, with 72% identifying them as highly important or critical. And 63% of leading CFOs value relationships with their CISO. Given their longstanding influence, CFOs are in the best position to actually help build the long overdue bridge between business strategy and technology.

> "I work closely with our CIO to make sure that we make the right decisions. We evaluate trade-offs."

Yoshito Murakami
CFO Power & Gas Power, GE Vernova

CEOs rely heavily on CFOs and tech leaders for their assessment of technology. Where is the greatest potential? What captures value? CEOs need boots on the ground to gather intelligence yet only 50% of CFOs say that finance connects technology investments to quantifiable enterprise business outcomes.

When compared to all other CFOs, leading CFOs blaze the trail to help ensure that technology investments are aligned with financial goals and overall business strategy (see Figure 2).

Only 50% of all CFOs

say that finance connects technology investments to quantifiable enterprise business outcomes.

72% of leading CFOs

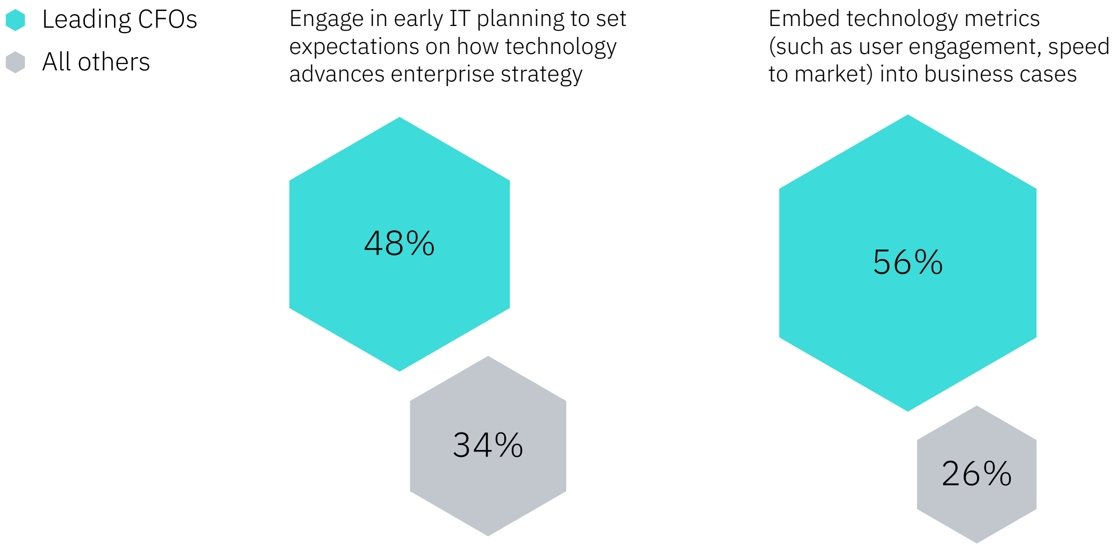
say CTOs are a highly important or critical relationship, more than any other role.

Nearly half of these high performers engage in early IT planning to set expectations on how technology advances enterprise strategy in driving innovation, efficiency, and competitive advantage. 115% more leading CFOs embed nonfinancial technology metrics (for example, user engagement and speed to market) into business cases, providing a more comprehensive view of technology investment impact on the overall business. Over half meticulously measure the performance of technology investments, helping ensure that each dollar allocated to technology drives tangible business outcomes.

By nurturing tech relationships and engaging in the strategies above, all CFOs can harness tech's potential, inform strategy, and capture value—and educate their CEOs accordingly.

Figure 2

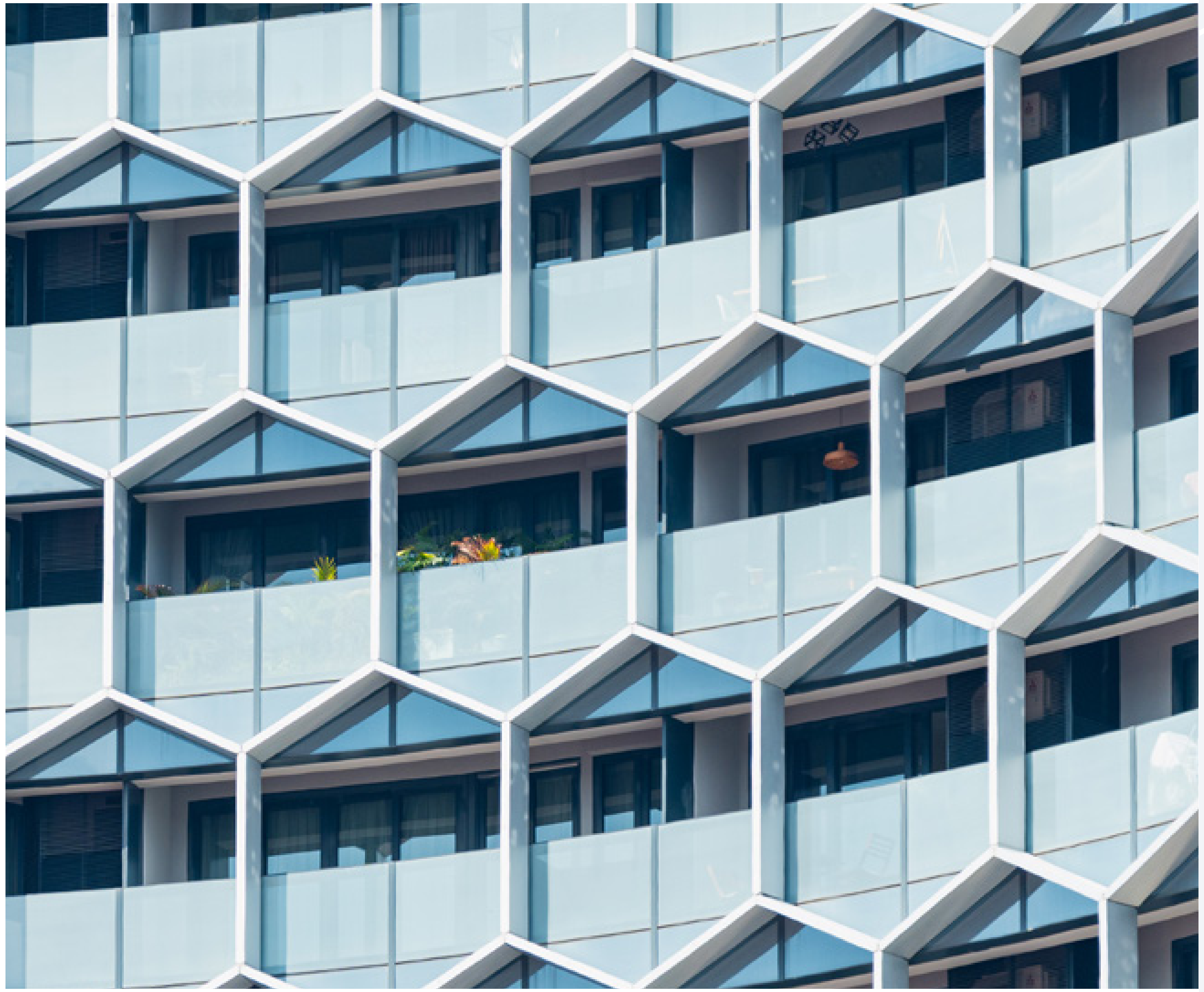
Bringing tech to the table



Q. To what extent has finance collaborated with your technology leaders to do the above? Percentage reflects "to a large extent" and "to a very large extent."

"I see IT and the CIO as my strongest counterparts. The CIO has to understand the whole end-to-end process, translating business requirements—and then implementing them for an IT solution."

Martin Günther
CFO, smart Europe GmbH



What to do

Forge a tech-finance alliance.

- Refocus funding discussions around long-term value creation instead of traditional "CAPEX versus OPEX" debates.
- Redefine technology investment success metrics to capture indirect benefits such as user engagement.
- Work with tech leaders at the beginning of technology planning processes to create board presentations with financial analyses and strategic considerations related to technology initiatives.

Apply FinOps across the enterprise to make technology more valuable.

- Set up/refine your organizational home for FinOps with a responsibility assignment matrix with resources from finance, IT, and the business.
- Implement a cost estimation and tracking framework that can help your team understand the costs associated with technology projects.
- Modernize budgeting, forecasting, and chargebacks to reflect costing, agile scenario planning, and incentives for shared objectives.

Decode tech value.

- Track and report post-implementation value creation. Quantify tangible and intangible benefits, including revenue enhancement, productivity, customer satisfaction, insights for decision-making, and brand impact.
- Articulate the opportunity or pain point that the technology can address and its impact on KPIs.
- Assess the risks of not making technology investments. Not investing could contribute to inefficiencies, limit the ability to scale operations, lead to falling behind competitors, result in missed opportunities, hinder service delivery, cause customer dissatisfaction, yield higher costs, and increase risks.

Case study

The Standard: Rationalizing cloud costs by aligning IT spend with key business priorities[6]

Successful FinOps practices combined with Technology Business Management (TBM) exemplify the budding synergy between finance and technology. The disciplines of FinOps and TBM foster a collaborative culture that breaks down silos so organizations can translate cloud and other technology investments into value.

The Standard, a leading provider of financial products and services, is realizing the benefits of adopting these practices. Facing a lack of transparency on key drivers of technology spending, the organization's business and IT teams were not working together efficiently. The company was relying on a legacy ERP system and spreadsheets to prepare the budget, analyze financial data, and make decisions about technology investments—a manual and time-consuming process that was prone to error.

The Standard implemented an IBM Apptio® solution to build cost transparency, provide actionable insights, and enable faster decision-making. Adopting FinOps and cloud governance practices alongside the Cloudability product gave the company insights into its cloud spending—allowing it to drive greater accountability by enhancing cloud procurement and provisioning decisions. In addition, the Target process product helped the company improve its resource and program management—aligning team workstreams to business priorities, gaining greater visibility into consolidated workflows, and tracking dynamic variables like status, stakeholders, dependencies, and progress.

The Standard has realized significant benefits. It has increased business/IT alignment and financial agility, with the IT Finance team now able to focus 80% of its time on analysis, decision support, forecasting, and insights. The company has also gained more control over cloud spend, with projected savings of 10% in 2023 and even more in 2024. Additionally, the company improved its say:do ratio by 20%—a measure of the gap between what the IT organization says it will do and what it actually delivers. The company plans to continue investments in cloud governance to drive similar business results across the organization.

> "Our approach for digitalization is the operational iron triangle, where finance, IT, and operations management come together to form the driving engine. IT represents technology, operations represents process, and finance represents data."

FuShan Hu
CIO, CHINT Group Co., Ltd.

2

Make execution the yin to strategy's yang.

CEOs are accelerating transformational change in 2024, with 77% maintaining or increasing their pace.[7] With decision-making processes and performance management intertwined, CFOs are poised to be agents of change. To succeed, CFOs must balance precision and agility while navigating new factors influencing strategies, requiring a harmonious "dance" of strategic planning and execution. In fact, 36% more leading CFOs are able to respond with agility to changes in strategy than their peers.

> "The CFO is the architect responsible for making things happen by translating and facilitating the company's mission through culture."
>
> **Júlio Ponte**
> CFO, Terral Agricultura e Pecuária S.A.

Executing strategy requires a coordinated dance. It's choreographing strategy into actionable steps, optimizing resource constraints, and aligning and communicating priorities across the enterprise. Executing strategy is complicated, and less than half (46%) of all CFOs say their finance functions are effective at strategy planning and execution—even though that's up from 38% in 2022.[8]

The strategic direction of the enterprise can only be steered by thoughtful metrics to drive behaviors needed to achieve the organization's objectives. CFOs have shifted from evaluating strategy performance using siloed views of financial and operational metrics toward a broader outlook that's more suitable to their role as cross-organizational leaders.

That perspective considers a combination of financial and operational KPIs, including customer satisfaction, product quality, employees, and project delivery, all holistic indicators of an organization's future health and productivity (see Figure 3). This expansive approach empowers all CFOs to more easily and effectively fine-tune strategies.

Succeeding in finance requires purposeful decision-making agility. To implement strategies, CFOs must move away from structured, methodical processes such as hierarchical, fixed-planning cycles and periodic reviews with minimal feedback loops. Leading CFOs are engaging robust monitoring and reporting mechanisms—using shorter planning cycles and insights to quickly adapt to changes.

> "Executives are asking us how non-financial and sustainability factors impact our financials."
>
> **Masakatsu Sato**
> Director, Managing Executive Officer (CFO)
> Sumitomo Mitsui Trust Holdings, Inc.

Leading CFOs measure the contributions of critical processes. 54% of them (26% more than peers) foster adaptability by forecasting and communicating business environment changes. They act—sometimes with ruthless precision. When it comes to redeploying capital from underperforming projects, they report cutting their losses and redirecting resources to areas that will drive growth 29% more often than their peers. As a result, they can adeptly respond to shifts and changes in strategies and business models.

For all CFOs, a combination of agile performance management and a broader set of KPIs beyond financial metrics is critical to orchestrate business evolution.

Execute with purpose.

Only

46%

of all CFOs say their finance functions are effective at strategy planning and execution.

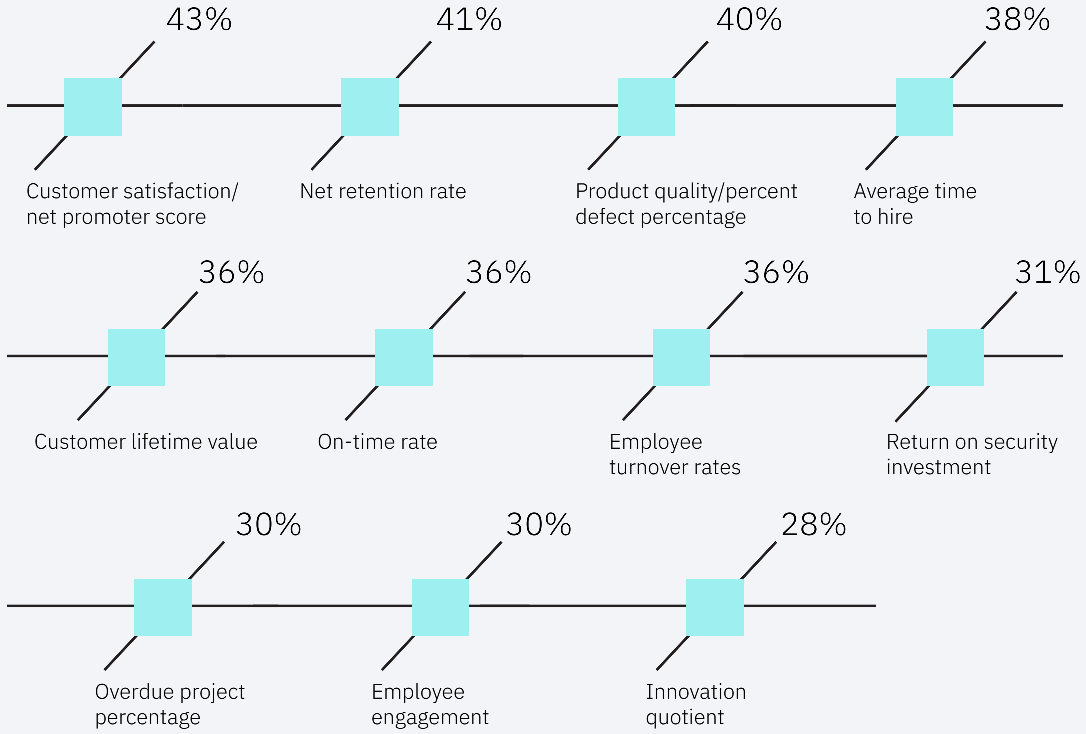
36%

more leading CFOs are able to respond with agility to changes in strategy than their peers.

Figure 3

Establishing a foundation for future health and profitability

Most important non-financial metrics to help predict an organization's future health and profitability



Q. Which of the above non-financial metrics are most important to help predict your organization's future health and profitability?

"If you look at the role of finance, it's not only the accounting and the controlling and looking into the numbers, but also making the business model happen."

Martin Günther
CFO, smart Europe GmbH

What to do

- Partner across business units to translate high-level strategic goals into financial targets and metrics.
- Enforce financial discipline by monitoring performance of critical processes against goals and benchmarks.
- Promote a culture of accountability where leaders take ownership of their decisions and outcomes.

Foresee possibilities.

- Assess, forecast, and communicate economic factors, industry-specific competitor actions and geopolitical trends that could impact the organization.
- Adapt financial strategies in response to changes in the external environment or shifts in company priorities. Embrace agile processes that allow teams to seize new opportunities and adapt to threats.
- Anticipate various future scenarios and their potential implications on the organization's financial health and strategic objectives.

Achieve impact.

- Set and monitor outcome indicators that serve as early warnings for potential opportunities or risks associated with customers, employees, product quality, security, and innovation.
- Determine the data sources and leverage financial management systems, analytics tools, and business intelligence platforms to track your outcome indicators.
- Prove business value during regular reviews and report progress on financial metrics, operational efficiency indicators, and market performance measures.

Case study

Ikano Group: Preparing your organization to meet sustainability reporting requirements[9]

The Ikano Group, a multinational conglomerate, has sustainability embedded into its DNA as a key driver for its business strategy. The group recognized the need for an ESG reporting and data management solution to support each of its six subsidiaries' work toward individual sustainability targets.

The group is implementing the IBM Envizi™ ESG Suite to simplify complex data capture and reporting required by the EU's Corporate Sustainability Reporting Directive (CSRD). The platform is being configured for each Ikano business to streamline the reporting and disclosure process. There are already 15,685 data types being captured in the platform across all businesses. Envizi allows Ikano Group to trace data to source, maintain change records, and provide direct auditor access, making all businesses audit-ready.

The implementation has enabled Ikano Group to establish aggregated KPIs across all businesses, increasing confidence in their sustainability data foundation and accuracy of emissions calculations. The Envizi ESG Suite provides a reliable accounting system for ESG performance metrics, such as energy, water, materials, and recycling data, making it robust and accessible.

Within Ikano Group, the CFO is accountable for the CSRD reporting process. A Steering Committee at the Group level meets monthly to review project progress, discuss challenges, track advancements across the businesses, and make necessary decisions. Regular updates are also shared and discussed across the C-suite and in management meetings at the Group level. Additionally, meetings are held regularly with all the business CSRD teams, which include the CFO, CSRD project coordinator, and function managers from all departments (finance, sustainability, risk/legal, HR, and operations).

> "Because you are seeing the organization a lot more broadly and from a different lens at times, you help put in place plans to execute strategy which is often directly tied to your capital allocation."

Diana Vuong
VP, Finance & CFO, Vancouver Airport Authority

3

Show me the ROI.

CEOs sacrifice long-term innovation for short-term gains, citing short-termism as their biggest hurdle.[10] 57% of CFOs succumb to prioritizing short-term targets over long-term investments—often increasing technical debt, for example, by sacrificing long-term maintainability for short-term functionality. Opportunities in tech, sustainability, and emerging markets demand a departure from traditional investment strategies. With their strategic oversight and financial acumen, CFOs must guide investment decisions that capture value over short-, mid-, and long-term horizons.

> "We can no longer assume static environment assumptions when we make investment decisions. We're going to have to revisit, validate, test, and pivot, and that requires us to change the way we manage the process."

Yoshito Murakami
CFO Power & Gas Power, GE Vernova

CFOs understand that tech investments must be made, and tech improvements that support long-term business strategies need to be prioritized. However, less than half say their finance functions are intimately involved in the development of technology business cases. Neglecting prioritization for exciting new use cases that come into view every day will constrain future growth.

With nearly two-thirds saying they are under pressure to accelerate the value across the technology portfolio, CFOs can be compelled to pursue short-term investments. But these choices can ultimately hinder digital transformation by compromising long-term strategy, undermining employee morale, and sacrificing critical needs in technology and innovation.

While their peers sometimes get mired in short-termism, leading CFOs play the long game. They're not sacrificing growth for short-term gains; instead, they strike a balance between efficiency and innovation. 30% more of these top-of-game CFOs hit that sweet spot, balancing both cost reduction/efficiencies and growth opportunities (see Figure 4).

Figure 4

Balance investments focused on efficiency with growth opportunities.

Q. To what extent does your finance function do the above to manage your organization's investment priorities? Percentage reflects "to a large extent" and "to a very large extent."

These CFOs are also tech-savvy trailblazers, intimately involved in developing business cases that connect tech spend to real business value. A substantial 20% more of these leading CFOs drive digital transformation through rigorous involvement in the development of technology business cases.

How do leading CFOs manage such a nuanced approach? What sets them apart is an agile multihorizon investment strategy. Over half of them are not just focused on quick wins or distant dreams; they're allocating investments across the short, medium, and long term. This pragmatism helps ensure they're servicing immediate needs—but not at the expense of future ambitions.

Tightrope walking is tricky, especially when it comes to investments. Wobbles happen, risk is incurred. And risk is necessary—if CFOs can manage it more adeptly than their competitors, their organizations can ultimately benefit over the long haul. Forward-thinking CFOs provide the guidance needed in the organization's strategic investment process. They're visionaries who help the entire organization find ways to effectively balance short-term pressures with long-term value.

> "We've got five lenses, and those lenses are expected to be used through every single decision we make. You put it through the financial lens, the reconciliation lens, the climate lens, the digital lens, and the customer lens."

Diana Vuong
VP, Finance & CFO, Vancouver Airport Authority

65%

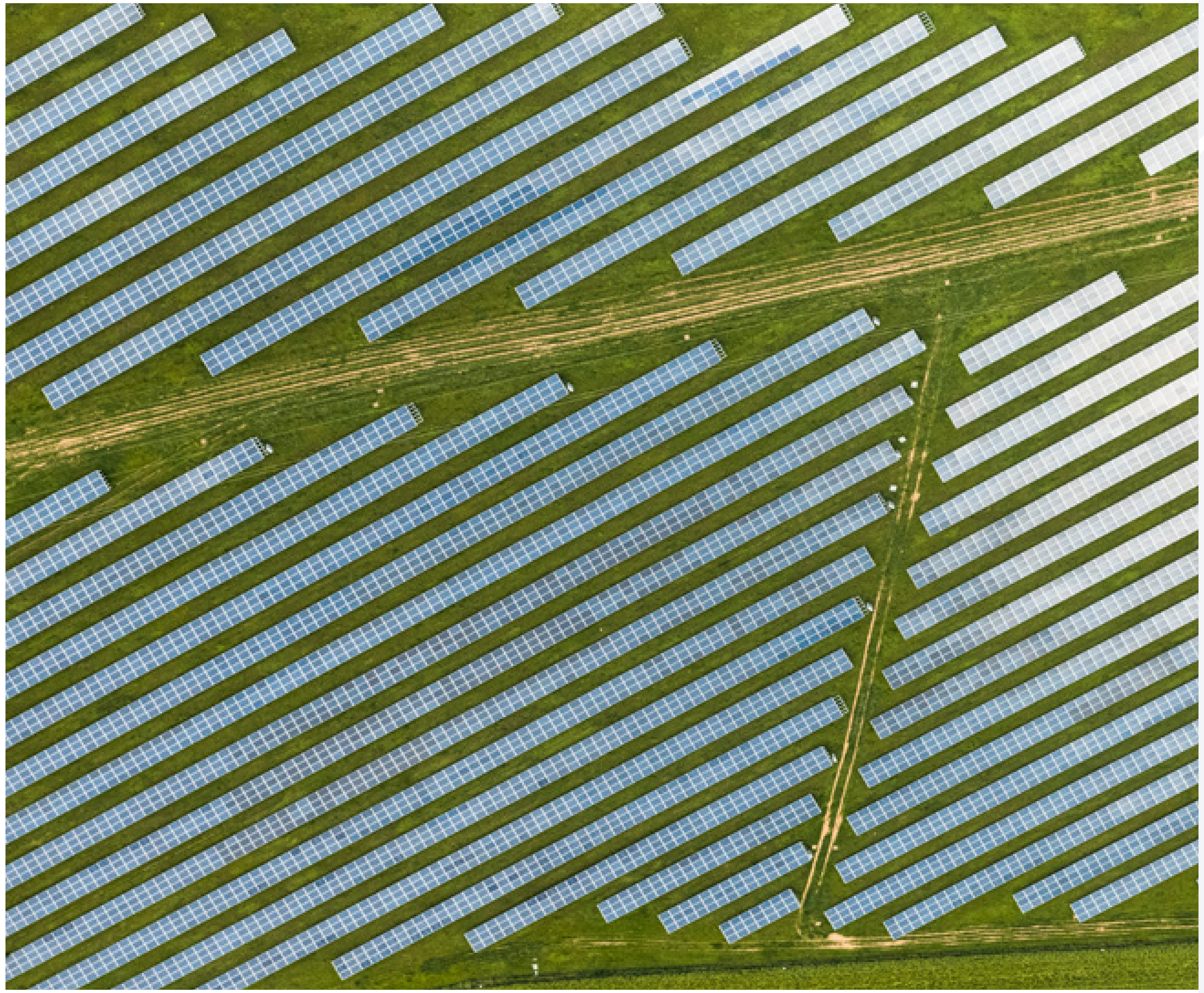
of CFOs say their organizations are under pressure to accelerate ROI across their technology portfolio.

Over half

of leading CFOs allocate their organization's investments across the short, medium, and long term.

"We must be mindful of allocating resources to balance investments in growth areas, ensuring that we don't miss out on opportunities for expansion."

Masakatsu Sato
Director, Managing Executive Officer (CFO), Sumitomo Mitsui Trust Holdings, Inc.



What to do

Cultivate a future-focused perspective.

- Provide long-term guidance to your stakeholders and share the progress toward achieving long-term goals.
- Structure executive compensation that's tied to long-term performance of your enterprise.
- Create dynamic, longer-term forecasts on future cash flows and educate employees on how the market recognizes value creation over time.

View spending through a wide-angle lens.

- Invest in the initiatives (for example sustainability, generative AI) that align with your long-term goals.
- Prioritize technology applications that accelerate the transition from piloting to gaining efficiency to driving new growth.
- Evaluate and quantify the opportunity cost of borrowing from tomorrow to pay for today.

Fund the future—flexibly.

- Introduce option theory into investment opportunities with contributions over different future time periods.
- Avoid static capital allocation. Use a fluid portfolio with each investment focused on outcomes.
- Conduct regular investment evaluations to drive capital redeployments and resource reallocations.

Case study

Edger Finance: Accelerating the collection and analysis of investment information with generative AI[11]

Edger, a fintech company, partnered with IBM to develop a pilot project using generative AI to improve investment analysis and reporting for retail investors. The pilot aimed to create a more efficient and personalized experience for investors by collecting and reviewing investment data.

The tests conducted during the pilot demonstrated clear results and great potential for generative AI at Edger:

- 90% improvement in the turnaround time for quarterly report data extracts. Whereas previously the process could take up to a week, the pilot demonstrated that it could be accomplished in just four hours.
- Approximately 96% improvement in the time it takes to summarize the main points of a 30+ page report. Whereas previously it could take an analyst up to half an hour to complete this task, the pilot demonstrated that it could be accomplished in a matter of seconds.

The results showed potential benefits for retail investors, including improved efficiency, relevance, and personalization of information. The pilot also demonstrated the value of Edger's solution for corporations, which can leverage the data to gain insights and make informed decisions.

> "So, it's always a weighing up, but if we can demonstrate that a certain activity would bring value and massive efficiencies in the mid to long run, then this is the way to go. We would fight for it."

Martin Günther
CFO, smart Europe GmbH

4

Determine your risk tolerance, then place your big bets.

CEOs are willing to take bold risks to stay ahead, with 62% increasing risk-taking to maintain their edge.[12] CFOs need to use their influence and lean into risk, making strategic data-based decisions that align the organization's risk appetite with its financial well-being. This brave move separates winners from wannabes, with only the most daring organizations reaping the rewards. To that point, 67% more leading CFOs continually scan for possible threats and opportunities than their peers. Given the rapid pace of technological innovation, inaction or overly cautious approaches may actually pose the greatest risk.

> "Risks are much higher now because of technology."

Geoffrey Liang
CFO, 407 ETR

In the rapidly shifting currents of today's business climate, CFOs need to provide solid ground. Embracing generative AI opportunities—with their potential for immense rewards but also heightened risks—requires a more responsive approach to strategy development and risk management. This need compounds the challenge in which less than half of organizations are effective at developing enterprise strategy, according to CFOs.

Each CEO articulates a risk tolerance. And CFOs are uniquely positioned to clarify their organization's risk appetite, a crucial factor in making informed strategic choices. However, only a little more than half (57%) of all CFOs understand this urgency and calibrate a clear vision of risk appetite, as well as visibility to risk itself. Without this clarity, misalignment between risk tolerance and business strategy can lead to contradictory decisions, misalignment of initiatives with organizational goals, and increased exposure to excessive risks or, conversely, stifling growth by being overly cautious.

Successful risk oversight means using data to establish greater clarity around the risks associated with strategic choices. CFOs are heroes in embracing calculated risks as they make strategic choices, facilitating innovative ideas and aligning those risks to overall enterprise tolerance. This requires incessant calibration, replacing static strategies with dynamic initiatives that flex according to real-time data and changing circumstances.

> "With a certain level of risk calculation, our investments are a bet on the future."

Júlio Ponte
CFO, Terral Agricultura e Pecuária S.A.

Clarity on risk appetite is one challenge—but managing enterprise risk effectively ups the ante to adapt to changing market conditions. Continuous risk monitoring is required to quickly identify potential issues and adjust strategies as needed. This is no small feat: CFO assessment of finance's effectiveness at control/risk management has declined over time—44% in 2021 to just 29% today.[13] Without proper risk management, the organization becomes most susceptible to unexpected events, financial losses, ineffective decision-making, reputational damage, resource misallocation, and operational disruption.

Only a little more than half (57%)

of all CFOs say their organizations' leadership shares a clear understanding of the organization's risk appetite.

67%

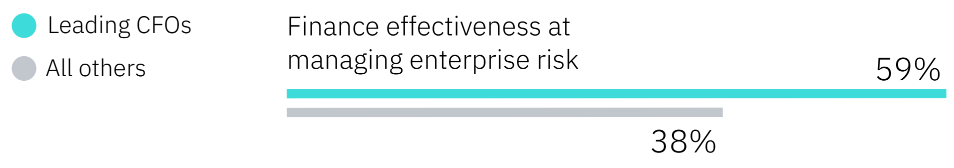
more leading CFOs continually scan for possible threats and opportunities than their peers.

Leading CFOs excel in both dimensions of dynamic strategy development and adaptive risk management. 76% of these leaders have clarity on the organization's risk appetite, setting them apart from all other CFOs. Clarity on risk appetite allows organizations to make strategic choices without being overly cautious. And, when compared to their peers, more leading CFOs are effective at managing enterprise risk (see Figure 5). They are continually scanning for possible threats and opportunities, and modeling scenarios and associated outcomes and impact on enterprise strategy.

Context is everything, and leading CFOs see the big picture and understand how risks and opportunities impact their organization's financial performance. They can spot gaps and are more likely to recommend actions to close them, with 45% more of them taking proactive steps to address potential vulnerabilities. A clear risk appetite and strong risk management effectiveness empower CFOs—and their organizations.

Figure 5

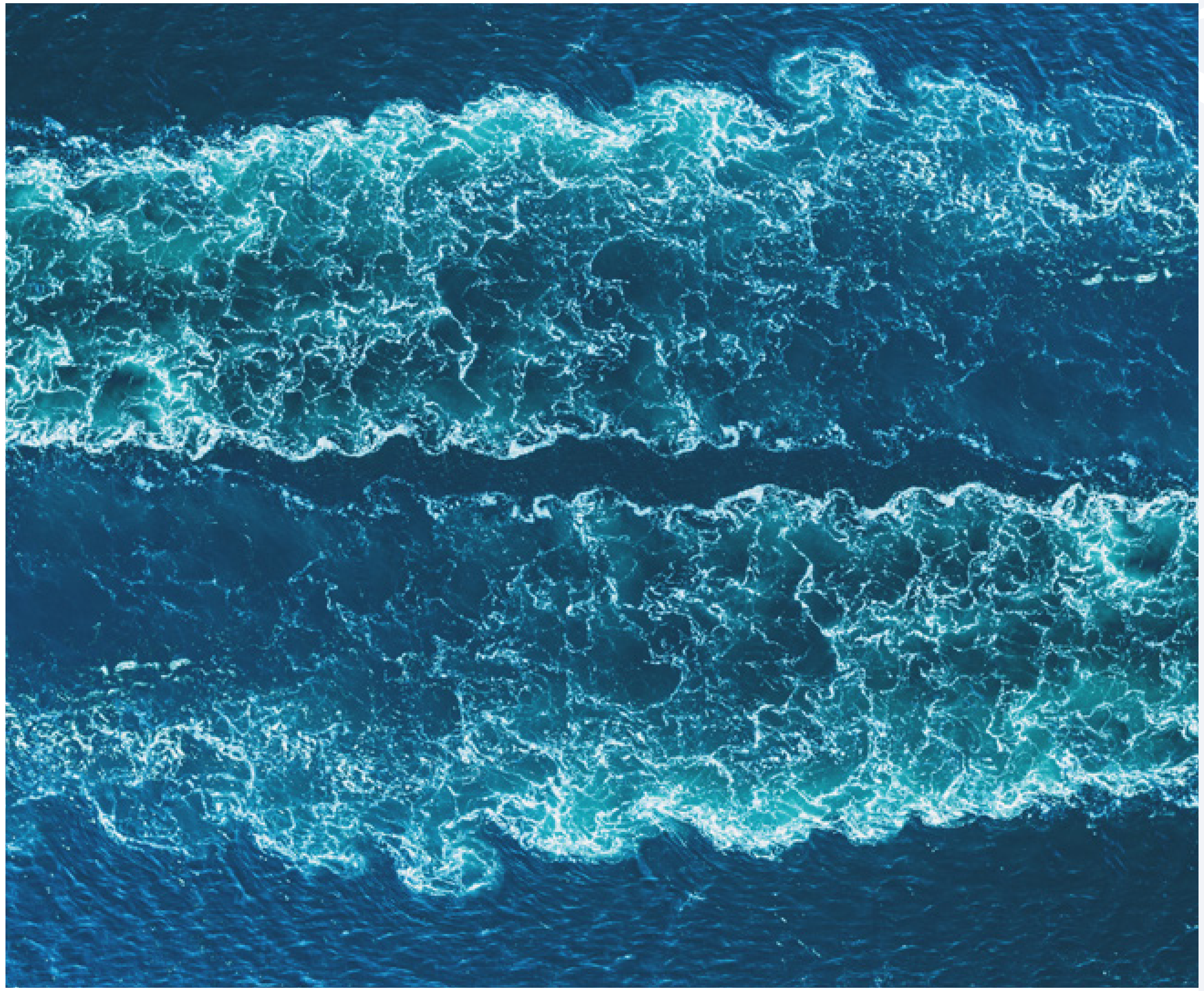
Riding the risk rollercoaster



Q. How effective is your finance function at managing enterprise risk? Percentage reflects "to a large extent" and "to a very large extent."

"Collaboration across the business is critical to crafting effective responses to investor and management risks."

Masakatsu Sato
Director, Managing Executive Officer (CFO), Sumitomo Mitsui Trust Holdings, Inc.



What to do

Determine acceptable strategic risk.

- Determine risk capacity and tolerance, for example, the maximum level of risk the organization can manage based on financial stability, access to capital, and resources.
- Define risk appetite based on strategic intent, technology developments, competitive landscape, and compliance.
- Provide transparency around your organization's risk types, acceptable levels of risks, and integration of the risk levels into financial and non-financial metrics.

Take risks with confidence.

- Broaden the scope of risks that the enterprise faces. For example, with the adoption of generative AI, move beyond the standard bias drift and include compute resources and costs, energy consumption and costs, and talent impacts.
- Evaluate each risk, creating estimates of probability of occurrence and impact, and associated mitigation (for example, insurance and financial reserves).
- Make risks visible by providing periodic reporting of risk exposures, early warning signals for known risks, and clarity on risk owners.

Spark strategic thinking.

- Lead on strategy by developing a detailed view of enterprise business drivers.
- Showcase the financial circumstances of the enterprise by continually scanning for possible threats and opportunities.
- Be a disrupter by challenging assumptions about customers, competitors, or internal capabilities.

Case study

Intas Pharmaceuticals Ltd: Mitigating supply chain risks[14]

Intas Pharmaceuticals Ltd. is a global pharmaceutical manufacturer that relies on month-end sales data from 48 global subsidiaries for production planning. With increased supply chain disruption, this information is critical to maintain optimal inventory levels and to deliver to clients on time. However, each entity had its own chart of accounts. Consolidating month-end sales data took between 10 and 15 days, meaning it took weeks before data insights could be shared with manufacturing teams, increasing the risk of delays.

To solve this challenge, Intas moved to a single global chart of accounts on SAP Business Suite powered by SAP HANA. By applying in-memory analytics from SAP HANA, the company targeted greater control and visibility of global inventory while reducing the time and effort involved in the month-end closing process. With this solution, Intas can access real-time analytics capabilities without making changes to the third-party manufacturing and quality management systems that were already integrated with its ERP platform.

Intas has unlocked measurable improvements across multiple business processes. The company has greatly accelerated month-end closing to just five days, a reduction of 67%. Sending sales data to planning teams faster has reduced order backlog by 25%.

> "Sometimes factors, which are completely out of our control, force us to think of other possibilities to mitigate risk. And that ends up making us more resilient."

Júlio Ponte
CFO, Terral Agricultura e Pecuária S.A.

5

Make data your AI's oxygen.

AI's potential in finance is largely untapped, despite demonstrated benefits: only 34% of finance operations are operating or optimizing traditional AI.[15] AI depends on clean, timely, and secure data. To safely adopt AI in all its forms, CFOs must create a strong foundation of simplified data access, integration, and evaluation. This requires coordinated advancement of data management practices and financial system modernization, boosting the effectiveness of finance teams.

> "Fragmented data can significantly hinder our use of AI."
>
> **Masakatsu Sato**
> Director, Managing Executive Officer (CFO)
> Sumitomo Mitsui Trust Holdings, Inc.

AI overall can literally transform the finance function, with benefits that include:[16]

33% faster budget cycle time
57% lower sales forecast errors
43% reduction in uncollectable balances
32% decrease in the days sales outstanding (DSO)
33% faster cycle time for monthly close
31% lower cost per journal entry
25% lower cost per invoice paid.

Brilliant, right? Then why does AI adoption in finance remain so sluggish? Only 34% of finance operations are operating or optimizing traditional AI. For generative AI, that number falls to 11%.[17]

Part of this reticence is justified. Finance processes are among the most sensitive in an organization, and automation and augmentation must be airtight. CFOs may work with a prioritized range of processes, from those easiest to automate to those last in line due to their complexity and the criticality of error-free outcomes.

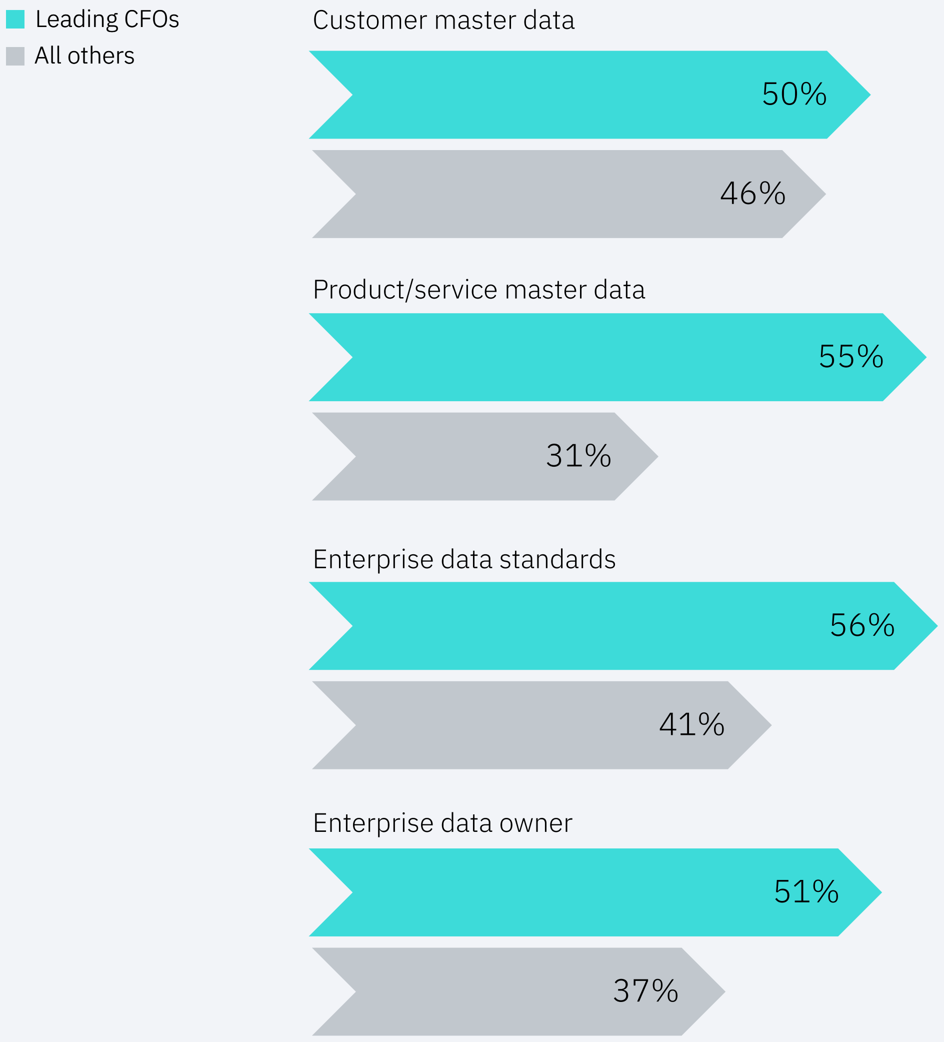
Structural complexity can also be a hindrance. Many finance organizations still wrestle with silos and gaps, including disparate data and governance, multiple ERP and financial applications, and a tangled web of manual processes. Teams struggle to extract and validate data—a tedious effort that devours time and resources. In fact, our 2022 CFO Study found that 61% of performance management time was spent on data gathering and reporting.[18] In a sense, every year of siloed data can subtract years from your organization's life.

The solution: establishing the data ecosystem to build a solid foundation for AI, an effort that must create easier access, integration, and evaluation of data. Rather than holistically applying this solution across all sorts of data, CFOs should focus on select business issues and the subset of associated data. Of course, strong relationships between CFOs and tech leaders help accelerate a robust, accessible data environment.

Leading CFOs set a winning pace by using data management practices for product/service master data 77% more than their peers. More of these leaders have appointed enterprise data owners and use enterprise data standards than their peers (see Figure 6).

Figure 6

The lifeblood of AI:
accessible, integrated data



Q. To what extent has your organization implemented the above to build a data-driven culture? Percentage reflects "to a large extent" and "to a very large extent."

Overall, CFOs need to both advocate and implement modernized finance IT to harness the power of data. Updating financial systems with cloud-based ERP can help organizations consolidate standalone legacy applications, as well as standardize and integrate existing and new applications. Leading CFOs are again further ahead than their peers in cloud ERP adoption.

For finance, this is a data revolution, and everyone must commit to the cause. To truly succeed, AI implementation—and its supporting foundation—must evolve from ad hoc initiatives into a well-defined finance transformation strategy. And that strategy must "click" with employees. Troops rally when they get the "why" behind the marching orders. However, less than half (46%) of all CFOs have a well-defined finance transformation strategy that employees understand.

The takeaway? Finance organizations must tame structural, process, and technical complexities across the enterprise. Only then can they create a crystal-clear, easily communicated finance transformation strategy—with the data ecosystem—that unlocks AI's full potential. And only then can they communicate that ever-important "why," motivate employees, reap the rewards of AI, and give a friendly wave to their competition in the rearview mirror.

Only

34%

of finance organizations are operating or optimizing traditional AI.[19]

46%

of leading CFOs have implemented cloud-based ERP.

What to do

Unlock AI potential with a unified data ecosystem.

- Start by knowing what decisions your data needs to address.
- Standardize data management and maintain strict governance on data administration, privacy, and security.
- Create central repositories to aggregate financial, operational, and externally curated data.

Transform finance with cutting-edge tech.

- Articulate investment requirements, as well as business cases and a benefits-tracking approach to deliver ROI, cost reduction, risk mitigation, and insights.
- Speed up the adoption of automation, AI, and generative AI solutions and shift quickly to scale implementation.
- Upgrade legacy ERP systems and enterprise performance management (EPM) applications to provide greater transparency of financial data, accelerated reporting, and improved productivity.

Pursue modernization holistically.

- Incorporate data and system modernization into an overall finance transformation strategy.
- Implement flatter structures that accelerate decision-making capability.
- Prioritize the creation of lights-out transactional processes to free up time on decision-support.

Case study

Global photonic innovation company: Transforming finance[20]

A global company in the photonic innovation industry has an annual revenue of more than $1 billion with more than 6,500 employees. Having grown through acquisitions, the company was using and supporting several ERP solutions from several different vendors for financial information and processes across the organization.

In addition to business inefficiencies, the cost and platform risk of maintaining this collection of solutions was mounting. Given the level of fragmentation across its platforms, using a single-pane-of-glass view into key financial information was impossible. This inherently undermined key business decision-making at every level because it was almost always informed by stale data.

The company worked with TruQua, an IBM company, to consolidate ERP platforms and 18 legal entities and harmonize financial master data on an integrated SAP Central Finance solution consisting of SAP S/4HANA finance and other solutions from several vendors. The company also centralized several key financial processes, including accounts receivable; accounts payable; cash, credit, and revenue management; reporting and analytics; and the close process.

As a result of this transformation, Forrester was able to quantify the company's benefits. The accelerated path to central finance was worth nearly $8 million in avoided internal labor and reskilling costs. The company also generated a business-impact benefit of $3.5 million in faster revenue recognition through faster acquisition onboarding.

By greatly improving the level of visibility into financial information, end user productivity benefits of nearly $4 million for several categories of employees were generated across finance, purchasing, and other areas. Employees spent less time on unproductive finance-related searches and were able to accomplish more meaningful work. Finally, the company increased the speed with which it could retire legacy platforms and related infrastructure and implement future upgrades, resulting in direct cost savings of more than $2 million.

> "You need to have a data architecture that allows you to make better analysis and better decisions in a timely manner."

Júlio Ponte
CFO, Terral Agricultura e Pecuária S.A.

6

Ignite your talent revolution.

Finance is experiencing a shortage of skills at the crucial intersection of technology and domain knowledge. These skills are the key ingredient to unlocking the value of AI. To put technology at the core of business, CFOs must evolve finance skills and mindsets, empowering teams to contribute strategically to the broader organization. CFOs must foster open communication, value employee input, and invest in data-driven skills. Leading CFOs set the pace here by implementing employee training on data understanding and usage 63% more than their peers. Integrating business partnering with insightful decision-making creates a potent pairing to help organizations pivot as priorities change.

"The more we talk about digital transformation and AI, the more dependent we become on external sources, so we must strengthen our internal structures, human resources, and skills."

Iwaaki Taniguchi
Director, Executive Vice President & CFO, Chugai Pharmaceutical Co., Ltd.

CEOs acknowledge the crucial role of people in driving successful technology adoption, with 64% saying that succeeding with AI will depend more on people's adoption than the technology itself.[21] For CFOs, this entails empowering staff to contribute strategically beyond their financial duties.

In addition, CFOs are evolving their organizations' capabilities to create a place where AI and digital talent can thrive. Through 2025, 40% of finance roles will be either new or significantly reshaped due to finance technology.[22]

To adapt takes a mindset shift: CFOs must drive an evolution in how their employees think about their roles and develop their skills. Finance employees must be savvier about technology, and they must figure out how to move faster. Their tech adoption and engagement are essential to the CFO's ability to execute their strategic imperatives. It's a shift from mere financial oversight to strategic partnering and collaboration, and from transaction processing to thriving in a data-driven, insightful culture.

Leading CFOs proactively engage with their employees. They take the initiative in soliciting employee ideas—and weave those ideas into finance transformation strategies. Not surprisingly, leading CFOs recognize the importance of "people skills" to critical finance leadership, citing practices such as considering employee input, providing constructive employee feedback, and valuing each employee's viewpoint—all of which enhance a culture of transparency. Even more powerful is how CFOs value employee perspectives and input based on insights. In a real sense, insights give soft skills muscle.

Leading CFOs invest in upskilling to harness technology effectively and treat decision-support capability building as essential to their organization's success. In fact, they implement employee training on data understanding and usage 63% more than their peers.

Additionally, leading CFOs are far more likely to invest significantly in skills such as data security, data curation, and machine learning and algorithms to train cognitive systems skills (see Figure 7)—an evolution from "old school" finance skills such as accounting, financial reporting, and spreadsheets.

Unsurprisingly, this data-centric approach can culminate in the establishment of centers of excellence for data science, firmly embedding the practice in organizational culture. Leading CFOs have implemented a data science CoE a stunning 104% more than their counterparts.

Bolstering employee communication. Brainstorming with data-driven insights. It's easy to regard these as two separate strategies, but in reality, it's an approach that incorporates individuals into decision-making processes. It enables finance teams to leverage financial expertise to partner with the business on driving innovation and transformative growth.

Across all CFOs, only

31%

have implemented a center of excellence for data science.

Leading CFOs implement employee training on data understanding and usage

63%

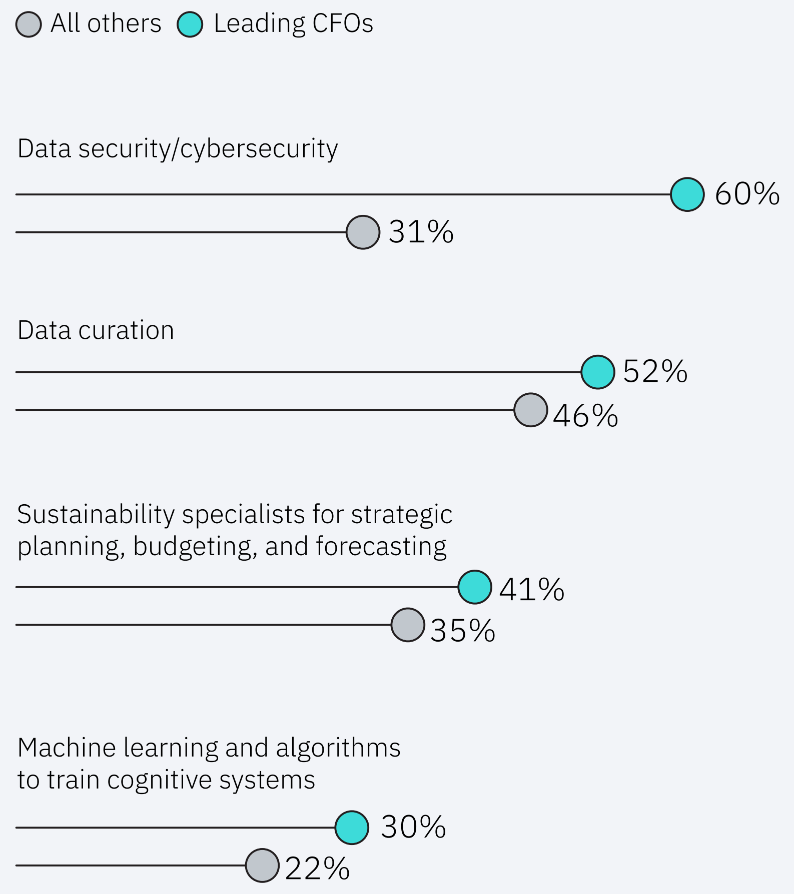
more than their peers.

"We want to shift time from entering the numbers in the right box to looking at the numbers and saying why is this happening? What is this telling me? Why are we spending so much here?"

Geoffrey Liang
CFO, 407 ETR

Figure 7

The skills to invest in



Q. To what extent has finance invested in the above skills? Percentage reflects "to a large extent" and "to a very large extent."

What to do

Recognize that talent is the ultimate tech advantage.

– Analyze workforce data to determine where your organization has skills gaps.

– Know when to buy, build, borrow, or bot. Assess where it makes sense to fill the gap with employee training, targeted automation, or outsourcing resources.

– Build tech-capable talent bench strength through joint development programs with technology CxOs.

Move finance skills from “plus AI” to “AI plus.”

– Determine where finance teams focus on uniquely human decisions and activities, specifically where nuanced understanding adds value beyond what AI can accomplish. This can include long-term strategies, risk assessment, and capital allocation.

– Invest in data science, security, and curation skills and scale in a center of excellence.

– Be prepared to spend more than you have in the past to hire staff with a combination of analytics and soft skills.

Elevate decision-support capability building to a strategic imperative.

– Put your best talent in the key business partnering roles.

– Anchor analytics on the growth, innovation, and customer experience decisions that can create significant value.

– Incentivize the adoption of new technologies by highlighting time, quality, and cost improvements.

Case study

UK's Ministry of Defence: Unlocking innovation with enterprise applications and analytics[23]

Like all large modern organizations, the UK's Ministry of Defense (MoD) depends on the efficiency of a host of business services, such as finance, procurement, and human resources. Instead of the Ministry and individual forces each running their own accounting, purchasing, and HR departments, the MoD operates a central shared services model, delivered by its Defence Business Services (DBS) division. DBS is responsible for the end-to-end delivery of these services, including not only staff and business processes, but also the underlying technology.

DBS has created a centralized data warehouse for management information, drawing data from its accounting operations and contracting, purchasing, and finance (CP&F) systems as well as the planning, budgeting, and forecasting (PB&F) platform and several other data sources.

Using the IBM Cognos® Analytics solution, users can access and visualize financial and operational information and automatically generate reports on cross-functional data. The platform breaks down data silos and helps eliminate the need for manual spreadsheet-based reporting—saving hours for analysts throughout the Ministry.

MoD decision-makers increasingly trust the data warehouse to provide robustly controlled data from well-governed source systems. This reduces the need for departments to maintain their own figures and helps ensure that decisions are made based on consistent, accurate information.

> "In the business partnering area, I've created a FP&A team, which stands for Financial Partnering and Analysis. It is not the traditional acronym of P for Planning, but P for Partnering."

Diana Vuong
VP, Finance & CFO, Vancouver Airport Authority

“The role of the CFO is three-dimensional. The first is the governance role to ensure that internal controls are in place and the accounting principles are adhered to. The second is business partnering. The third is living and fostering the company values.”

Martin Günther
CFO, smart Europe GmbH

Leading through technology-driven change and uncertainty

Generative AI has prompted unprecedented turbulence for organizations, and it’s both exciting and harrowing. These are not times for the faint of heart.

But CFOs are stepping forward with fortitude. Traditionally, they’ve held a lot of influence. Now, they need to assert that influence across the enterprise and in new ways that align with their evolving organizations. They must emerge as visionary leaders who fuse inspiration with insight, steering their organizations into a future that’s full of challenges, but also possibility and promise.

By coming to terms with—and mastering—uncertainty and risk, CFOs can make hidden opportunities real. And yes, that also means playing the long game, balancing short-term gains with long-term vision. They must shift from a cautious, take-it-slow mindset to a more proactive, CFO-as-catalyst approach. CFOs must transform strategy into results with lightning-quick velocity.

It means understanding that today’s technological innovation drives tomorrow’s business success. Currently, only half of CFOs say that finance connects technology investments to quantifiable enterprise business outcomes. Yes, tech must be an integral part of enterprise decision-making, yet they need CFO advocacy to not only get those seats at the table, but to be valued and heard.

Uncertainty? CFOs must be undaunted. Within their own finance function, CFOs must keep pace with their broader organizations in harnessing the transformative power of AI—embracing the critical prerequisites of simplifying data access, integration, and evaluation. While it makes sense that AI has been slow to penetrate finance, CFOs must determine how to accelerate that process—or their organizations risk being left behind.

And ultimately, CFOs must create a matrix of input and insights, tapping their teams for ideas but also backing observations and insights with a data-centric approach.

The six power moves are there for the making, and it’s time to make them yours.

Research methodology and analysis

In Q1 2024, in cooperation with Oxford Economics, the IBM Institute for Business Value surveyed 2,000 Chief Financial Officers (CFOs). Respondents span 26 industries and 34 locations worldwide.

Separately, a small group of executives was engaged for in-depth qualitative interviews. These discussions focused on key insights from the study and the CFOs' on-the-ground experience leading their finance organizations and interacting across their organizations on developing and executing strategy in the new era of AI.

The IBM IBV data analytics team performed a series of in-depth analyses and data transformations to uncover deeper relationships between complex and emergent phenomena, such as which behaviors drive specific benefits and which factors are accelerating the realization of value. As part of this data analysis, a group of leading CFOs was identified, corresponding to clear-cut performance on a variety of financial and operational measures.

Those in this group are more likely to excel in having a sharp focus on a strategic future, an adeptness at strategy execution, an agile responsiveness to changing market conditions and new opportunities, and a keen eye for technology that drives competitive advantage.

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