Association of International Certified Professional Accountants™

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Agile Finance Reimagined

Jump-starting resilient and reimagined operations

Contents

Increasing resiliency and growth

No crisis has been as challenging in recent memory as the COVID-19 pandemic, severely testing the strength of corporations and the business guidelines under which they operate. Even before the coronavirus, CFOs had begun designing more agile, resilient organizations with higher levels of digitization to better equip their finance teams to deal with today's rapid pace of change. That charter has been accelerated, as finance leaders realize the limitations of outdated platforms in helping their companies innovate their way out of crisis and move to equip their employees with the digital tools they need to keep operations running.

To support this effort, the Association of International Certified Professional Accountants (AICPA and CIMA) is producing *Agile Finance Reimagined*, a five-part webcast and white paper series offering CFOs practical advice on how to increase resiliency and growth not just in finance, but also in the lines of business that rely on finance to guide the way forward, including supply chain operations and the customer experience. The series includes guest speakers from McKinsey & Company, who shared knowledge and insights from the firm's body of research on the global pandemic and its implications for business.

Agile Finance Reimagined: Jump-starting resilient and reimagined operations

The fourth webcast in the *Agile Finance Reimagined* series, "Jump-starting resilient and reimagined operations," was broadcast in the United States, Canada, Europe, Asia, Africa and Latin America during the week of July 27, 2020, drawing over 1,700 finance professionals. The webcast identified best practices for facing supplier and logistics disruptions, explored digital initiatives that help with these challenges and examined ways to accelerate product innovation and time to market. Joining the Association's Managing Director of CGMA Learning, Education and Development, Ash Noah, CPA, CGMA, FCMA, on the webcast as guest speakers were Bill Lacivita and Ignacio Marcos, partners at McKinsey & Company; and Rick Jewell, senior vice president, SCM Applications Development, Oracle.

"This pandemic has really shown us that it is essential to accelerate the speed of digitization. This is essential to build a more intelligent supply chain."

Ash Noah, CPA, CGMA, FCMA

Managing Director, Association of International Certified Professional Accountants

Setting the stage for reimagining operations

The inaugural webcast in the series, held in May 2020, examined how CFOs and their teams can navigate the COVID-19 crisis. Specifically, it focused on how finance leaders can boost the resiliency of their finance organizations and return their businesses to scale, mapping progress on a five-stage cycle developed by McKinsey:

Resolve — The organization addresses the immediate challenges COVID-19 represents to its workforce, customers, technology and business partners.

Resilience — The organization handles near-term cash management challenges and broader resiliency issues as a result of virus-related shutdowns.

Return — The organization draws up a plan to return the business to scale after shutdown orders are lifted.

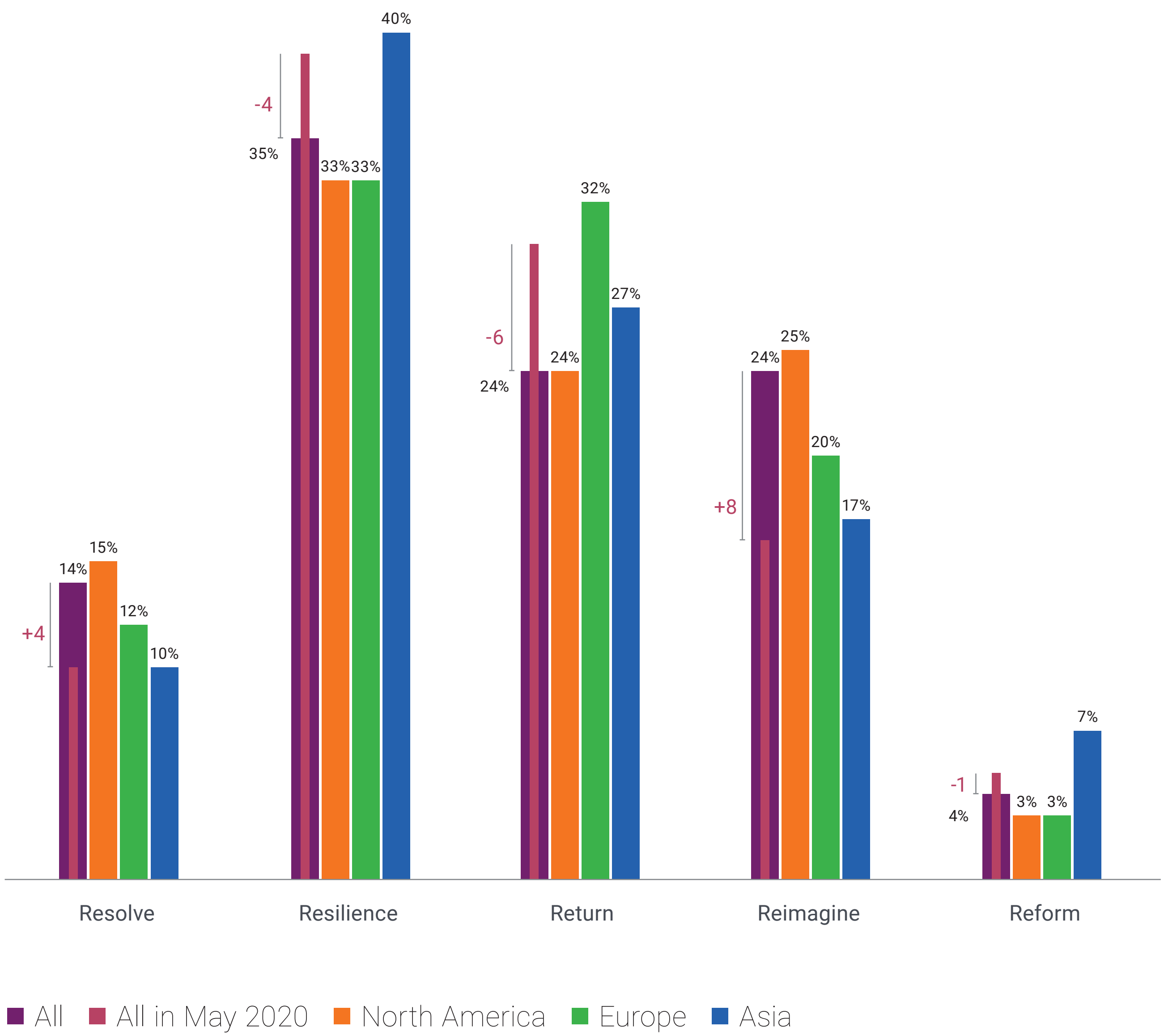
Reimagination — The organization envisions the "next normal," including what a discontinuous shift looks like, and implications to guide how the institution should reinvent.

Reform — The organization develops a detailed understanding of how the regulatory and business environments may shift as a result of COVID-19, and a long-term plan for adapting to these changes.

In a poll conducted during the first webcast in May 2020, the majority of respondents identified themselves as being in either the resilience phase (39%) or the return phase (30%). Only 16% said they were in the reimagine phase.

In late-July, when polled again during the fourth webcast, a third (35%) of respondents said they were in the resilience phase, while those who placed themselves in the reimagine phase had grown from 16% to 24%. McKinsey's Lacivita noted during the webcast that it is in this particular phase (reimagine) that there is real opportunity for organizations to accelerate their digital strategy and reimagine their operations

Figure 1: Based on the McKinsey framework where would you map your company today (as of late July 2020)?



Reinventing supply chains and operations now to prepare for the future

A global crisis accelerates transformation

During the July webcast, all panelists agreed that the pandemic has exposed weak and broken links in global supply chains, even as demands from consumers and businesses are radically changing. They can't always get what they want, so they turn to alternatives. And often, with life as we know it potentially changing forever, they want different things.

"Ninety-nine percent of the world's population now has the words 'supply chain' in their vocabulary, which they probably never had before this," observed Oracle's Jewell. "So there's a new respect for the importance of supply chains in everyone's lives."

On a positive note, the panelists shared their observations about how digital transformation was driving reinvention of supply chains well before the pandemic, and that this crisis has accelerated that change. While rightly focused on adjusting to immediate conditions and planning for when they can restart and ramp up operations, finance and operations teams are also thinking more long-term as they emerge from crisis mode.

In the survey conducted during the webcast, the majority of respondents (67%) said they will continue with or will accelerate their organization's digital transformation efforts as a result of the pandemic. Meanwhile, just 16% said they have other projects that are currently more important, while 17% will revisit the topic in three to nine months.

Figure 2: *Fortune* 500 CEOs believe that the crisis will force their companies to accelerate technological transformations. How has COVID-19 impacted your thinking on the need to accelerate your finance and operations digital transformation?

When looking to the future, finance organizations must consider both downside risks and upside opportunities, noted McKinsey's Lacivita during the webcast. This starts with an in-depth review of an organization's product portfolio and consideration for the impact a new mix of products will have across supply chains and logistics. "It's an Industry 4.0 approach," Lacivita noted, "that leverages and accelerates a digital mindset to adapt to changing customer needs, regulatory adjustments, and shifts in the competitive environment."

"The current global supply chain has always placed the premium on stability and predictability," added Oracle's Jewell. "And that, quite honestly, is no longer there." Before COVID-19, a widespread strategy was to manufacture goods in the East and sell them in the West. But the coronavirus has placed a renewed emphasis on local suppliers, calling into question efficiency and low cost as the primary drivers of value.

"This is where the CFO comes in," said Jewell. "It really needs to be on a much more multi-dimensional value framework that puts equal weight on risk exposure or supply alternatives, tax and tariff consequences, as well as channel complexity. What we really are seeing is that agility and speed are the new low cost."

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Senior Vice President, SCM Applications Development
Oracle

Digitization drives supply chain reimagination

An enterprise-wide reimagining of supply chain and logistics will often lead to major shifts in an organization's business model. As the Association's Noah observed, an example might be transforming products into services, such as what has been going on in the enterprise software world.

"Shifting away from a low-cost paradigm involves multi-dimensional aspects," said Noah, "such as better demand forecasting. Digitization is going to be critical."

End-to-end digitization is indeed the key to winning in the future, McKinsey's Marcos agreed during the webcast. He outlined the three critical considerations, starting with data — the need to establish consistency and quality. When that is accomplished, the next step is to deploy the right analytics capabilities to drive accurate insights. And, finally, the digitization of processes means embracing automation that often includes accepting new capabilities for artificial intelligence (AI) and machine learning (ML).

"But don't invest in technology for the sake of technology," Marcos said during the webcast. "Find the right solution that tackles your specific business and operational problems in a more efficient way."

"What we're all seeing is that the most successful companies really use crisis as a catalyst for change," said Oracle's Jewell. "We've seen competitive disrupters enter markets and displace long-time leaders." That should be of concern to finance and operations now, he added, because this current crisis has left so many organizations exposed to competitive threats.

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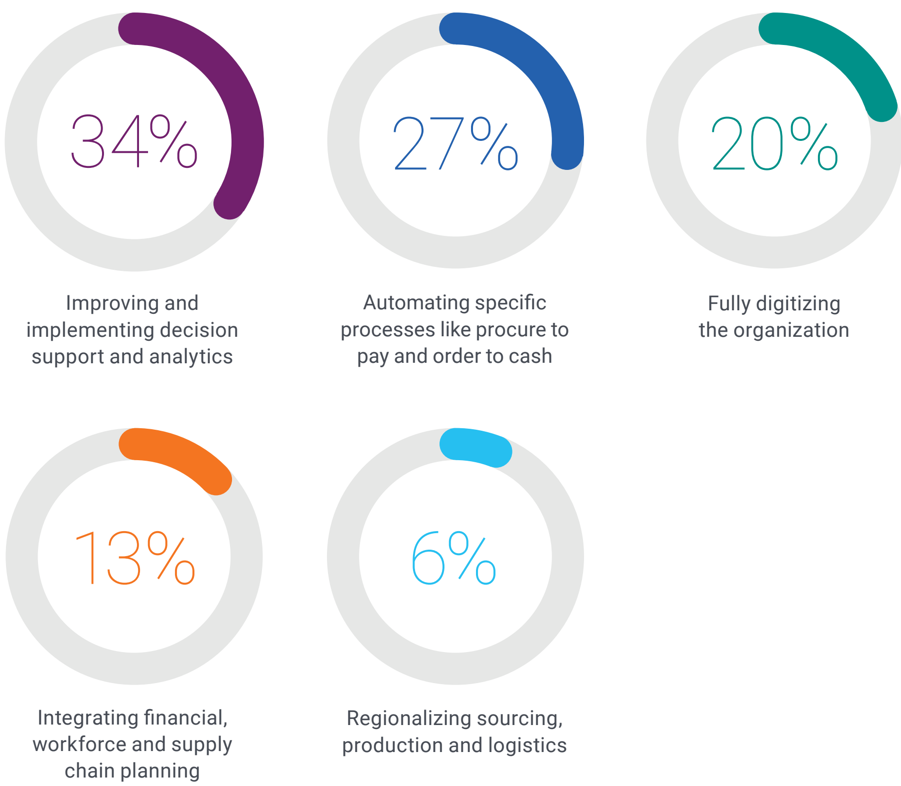
>
> *Ignacio Marcos*
>
> *Partner, McKinsey*

Jewell continued by laying out the case for an intelligent supply chain, which is built upon an actionable framework of "detect, decide and execute." Every organization today is awash with data, gathering structured and unstructured data into a data lake from external sources that needs to be contextualized with an organization's own enterprise data. From there, tools monitor digital signals in the data to detect trends and identify anomalies. In the decide phase, analytical tools, which are increasingly powered by AI and ML, provide insights and casual analysis. Then, organizations execute on these decisions through their processes, which are powered by a variety of business, manufacturing, and supply chain applications.

"Of course," Jewell adds. "This can't all happen in a black box. All members of the enterprise must have access to that information across all devices and mediums to do analysis. And, increasingly, they can leverage chatbots and digital assistants to ease the overall execution and efficiency of the process."

In the survey conducted during the webcast, respondents were asked which initiative they are considering to increase their finance and operation resiliency. Improving and implementing decision support and analytics was the most common strategy (34% of respondents), followed by automating specific processes like procure to pay and order to cash (27%), fully digitizing the organization (20%), and integrating financial, workforce and supply chain planning (13%).

Figure 3: What initiative are you considering to increase your finance and operation resiliency?

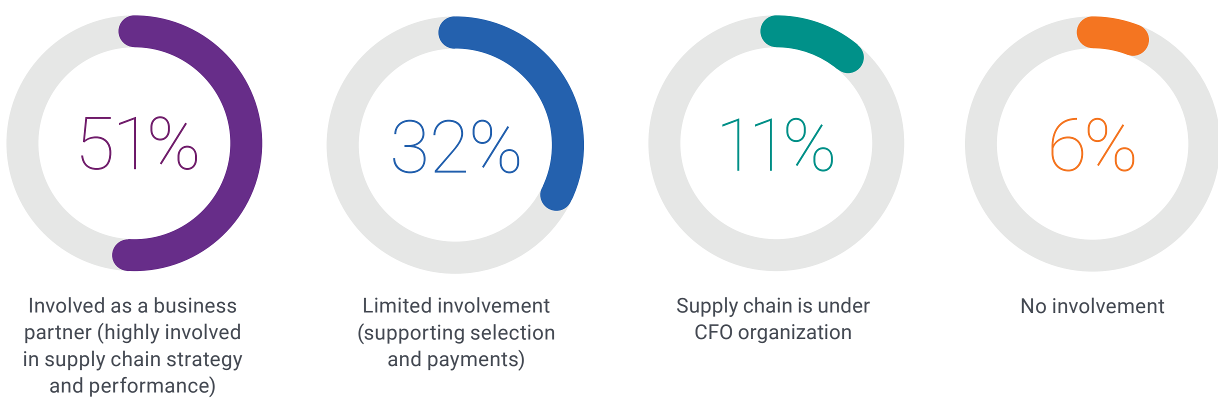


The CFO’s role in digital transformation

Any discussion that rises to the level of complete supply chain reinvention and shifts in business models must include the roles of the CFO and office of finance. With so much at stake in current socio-economic conditions, transparency throughout the end-to-end value chain — from raw materials all the way through delivery — becomes a must-have instead of a nice-to-have.

The good news is that most CFOs and finance organizations are actively involved in their organization’s supply chain strategy and performance. In the survey conducted during the webcast, almost two-thirds (62%) said the CFO/finance team was involved as a business partner or the supply chain is under the CFO organization. Nearly one-third (32%) said they had limited involvement, while 6% said there was no involvement.

Figure 4: Describe CFO/finance involvement in supply chain and operations.



"The reality is that when you get a couple of layers below the CFO, there's really not a lot of transparency on the day-to-day cost performance in many organizations," said Lacivita during the webcast. This lack of understanding applies to capital management as well. Lacivita shared that he is seeing clients attacking the middle of the capital pyramid by completely re-examining their current capital portfolio. They need transparency to make determinations as to what must be done immediately for projects and operations that are in-flight to protect cash and liquidity. But decision-makers also require the same transparency to make assessments regarding their top-level capital strategies and base-level processes, people and systems.

"Our clients want to see the current vision of truth, model what's going to happen going forward, and then increase that intervention cycle to be able to protect — and eventually build going forward — on those cash and liquidity needs," said Lacivita during the webcast.

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Bill Lacivita

Partner, McKinsey

"We've seen successful companies really use the transition to cloud as an opportunity to transform the business to reduce complexity end-to-end, improve business practices, and prepare for the future."

Bill Jewell

Senior Vice President,
SCM Applications Development
Oracle

Moving from on-premises to cloud technology systems quickly becomes a key component to capital discussions. Oracle's Jewell shared that 75%–80% of the costs of on-premises software deployments are gobbled up by maintenance — just keeping the lights on. By design, moving to the cloud frees up both capital and operating expenses that allow IT departments to become enablers of change.

"We've seen successful companies really use the transition to cloud as an opportunity to transform the business to reduce complexity end-to-end, improve business practices, and prepare for the future," said Jewell.

But that transition can't simply be a "lift and shift" of existing processes to a different platform, Jewell warned. Otherwise, CFOs may see their organizations experience cost savings but miss the opportunity to materially impact the business.

The impact of digitization on people and R&D

The move to digitization rarely happens without a corresponding influence on a business' workforce and research and development efforts. Talk of automation, AI and ML can make some people nervous about how human resources may be reallocated or retrained. And new processes and business models spawn innovation in products and services. Effective change management becomes essential, with the office of finance leading the way.

Digitization is bringing new jobs to supply chain operations in ways that often requires a massive reskilling effort. "In the next normal, CFO's must also rethink labor deployment," McKinsey's Marcos said during the webcast. For example, when shifting toward a nearshoring supply chain, local workforces are brought into play more. Local supply chains may make businesses more competitive by creating new social contracts with the workforce, taking into account important considerations such as safety and job satisfaction.

Accelerated digitization during the pandemic has also influenced businesses to rethink the products and services they offer. Health care services have been at the vanguard, scrambling to adopt new procedures and repurpose their inventory and manufacturing resources to support the urgent needs of their patients. Other industries have taken notice and learned from their experiences.

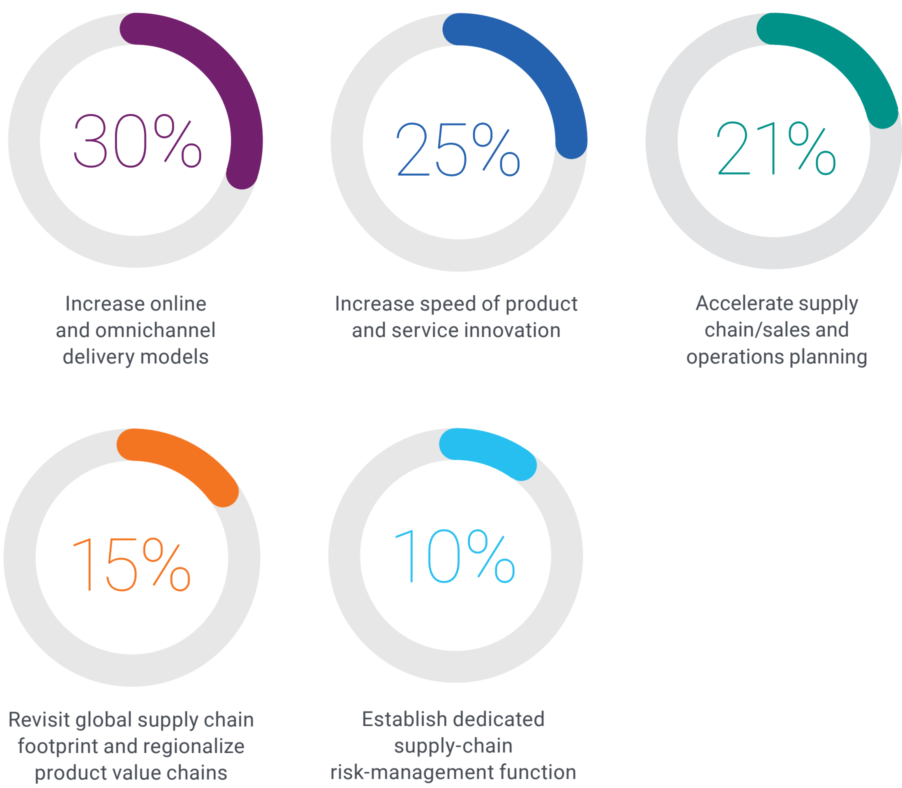
"We've proven that we can work virtually, collaborate, do idea generation and share things without needing to be physically together," said McKinsey's Marcos during the webcast. "And that has created many strange partnerships between global companies." Whether it's modifying shop floor operations remotely, radically modifying last-mile delivery, or building more environmentally sustainable supply chains, organizations may realize that they can't do everything themselves or that they must forge partnerships with unexpected allies.

McKinsey's Marcos adds that finance holds the critical role of enabling accelerated adoption of new processes and moving financial guardrails to secure the right training and equipment to maintain healthy and secure operations. Implementation teams charged with rolling out new business models and processes must fully understand the problems and challenges frontline teams are facing. They must employ the configurability of modern technology solutions to shape new business models and processes in ways that are most helpful to the business and their customers. And M&A activity must also be realigned to reflect the goals of reimagined supply chains and operations.

"CFOs must understand the implications if you don't do these things," said McKinsey's Marcos during the webcast. "They may need more backing from the investment community to make this sustainable transformation a reality."

In the survey conducted during webcast, participants were asked to choose which strategy — from a list of five options — they were considering to drive resilience and growth within the supply chain. The most frequently selected strategy was increasing online and omnichannel delivery models (30% of respondents), followed by increasing the speed of product and service innovation (25%) and accelerating supply chain and sales operations planning (21%). Only 10% of those polled said they were establishing a dedicated supply-chain risk management function.

Figure 5: What strategy are you considering to drive resilience and growth in your supply chain?



Supply chain and digital transformation can't happen without cloud

It is important to understand that moving from legacy on-premises to cloud systems is not just a next step. It's a revolutionary shift to a new computing model. The most compelling evidence to that is the impact of frequent updates.

Oracle's Jewell pointed out that new technologies advance rapidly, saying that, "the ability to implement quarterly updates — that include advances in machine learning, chatbots, voice interface and such — really help to increase organizational speed and agility."

Jewell added that a unified and integrated cloud platform breaks down data silos that exist in many, if not most, companies. The end-to-end unobstructed flow of information across departments and teams, accelerated by automation, provides lines of business transparency to work cohesively towards common goals.

The built-in flexibility cloud empowers people to outpace and anticipate shifts in markets, products and business models through times of crisis, acquisitions, divestitures and the like. With on-premises systems, these changes require massive reprogramming that can overwhelm time and resource-constrained IT teams, diverting their focus from the business.

"Cloud makes the business more efficient," said Jewell, "allowing them to do more innovation for their customers. And they become future-proof for the next change and the next piece of volatility which we all know will happen."

Next steps for businesses

Review your organization's asset strategy. Improving supply chain risk management and increasing agility begins with a detailed understanding of current processes and sourcing policies. From there, organizations must determine future-ready strategies for adjusting what is sourced internally versus via third-parties. And, they must evaluate the optimal mix of inshore, offshore and nearshore sourcing throughout the supply chain.

Implement digital tools. Digital systems, including advanced analytics, virtual onboarding and training and dynamic schedule optimization, allow organizations to increase efficiency while cutting costs.

Make operational transparency a priority. With transformational cloud-based tools, you gain visibility across your manufacturing and supply chain operations to improve planning, reduce costs and better employ working capital.

Invest in reskilling. Times of disruption provide opportunities for meaningful change. As you reformat your workplace to exist in a new reality, consider establishing programs to retrain workers to fill emerging positions.

Analyze what elevates your business above competitors. What is working to set you apart? And how can you use this period of intense disruption to amplify existing competitive advantages or create new ones?

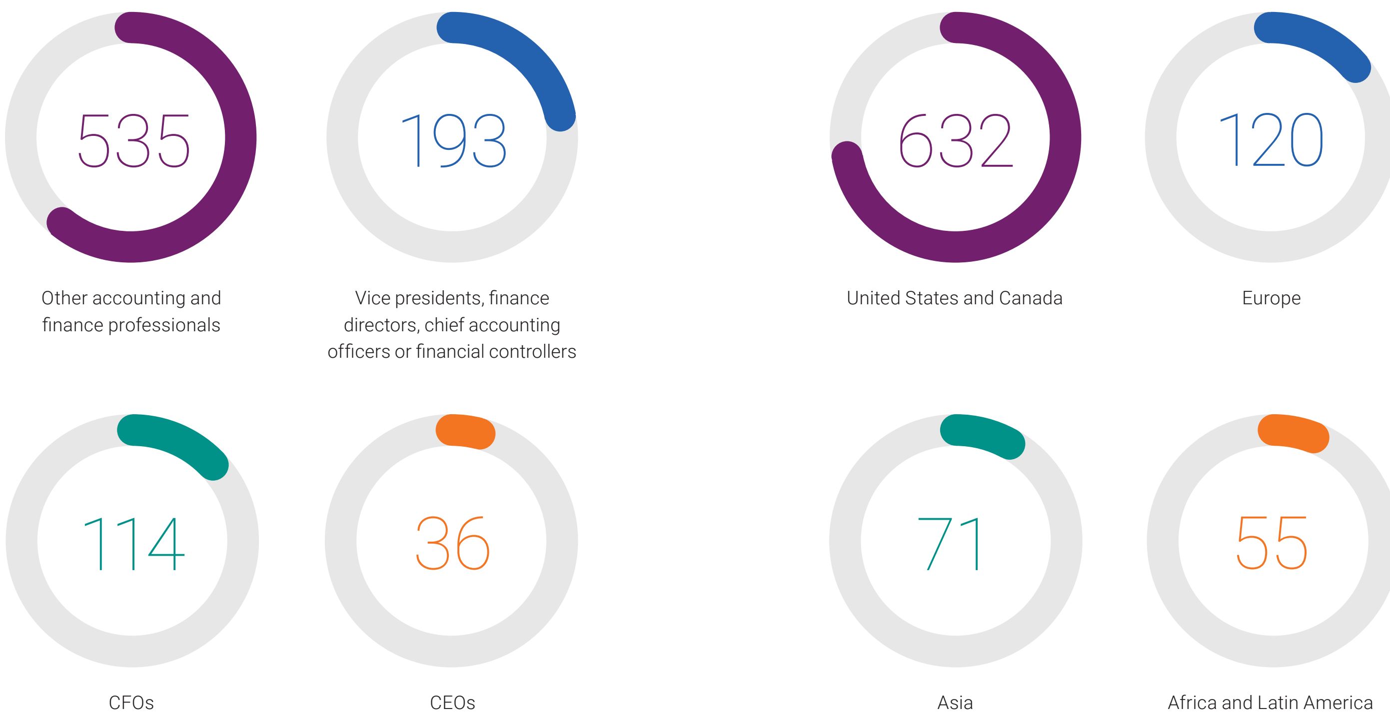
About the Agile Finance Reimagined Series

Agile Finance Reimagined is a five-part webcast and white paper series brought to you by Oracle and the Association of International Certified Professional Accountants (AICPA and CIMA). Visit the *Agile Finance Reimagined* landing page for the full story.

About the Agile Finance research

On the Agile Finance: Jump-starting resilient and reimagined operations webcast, broadcast on July 28–29, 2020, attendees were asked to submit responses to five pulse questions. Each question garnered between 853 to 878 responses. The following is a breakdown of the 878 respondents:

Figure 6: The following is a breakdown of the 878 respondents



About the Association of International Certified Professional Accountants

The Association of International Certified Professional Accountants (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs® (AICPA) and the Chartered Institute of Management Accountants® (CIMA) to power opportunity, trust and prosperity for people, businesses and economies worldwide. It represents 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMA designation holders and accounting and finance professionals globally.

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