

TRENDS

# The Rise of the Postmodern CFO

Why the CFO's Mandate Must Embrace Agility  
amid Digital Transformation



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# EXECUTIVE SUMMARY

The CFO role faces a plethora of pressures. As the job evolves from that of a traditional finance and accounting executive to a broadly strategic function within enterprises, fundamental changes in business models and non-traditional challengers requires a postmodern CFO archetype to emerge. Using the Constellation Business Hierarchy of Needs as a framework, this report highlights the key shifts in the role. Conversations with more than 100 innovative finance leaders indicate the trends that postmodern CFOs will face in 2018. By year's end, Constellation predicts that the CFO will gain ground as a strategic player in the executive suite.

## Business Themes



New C-Suite



Data to Decisions



Digital Safety  
and Privacy



Technology  
Optimization

# THE FIVE ROLE SHIFTS OF THE POSTMODERN CFO

CFOs not only face short-term, traditional, quarter-to-quarter pressures, but they also must address a plethora of challenges including digital transformation, competition from disruptive startups and business model shifts. Unfortunately, CEO and board pressure have focused CFOs on operational efficiency and regulatory compliance at the expense of middle- to long-term growth. As the stakes mount for agility and growth, CFOs must address these five role shifts:

## 1. From bean counter to business model

**strategist.** Traditional finance and accounting roles no longer pass muster. Digital transformation requires CFOs who can craft new business models, plan for agility, create outcome-based versus product-based offerings and identify new joint venture opportunities.

## 2. From financial-only proficiency to

**enterprise-wide know-how.** Financial metrics remain useful, yet successful CFOs

must also master non-financial KPIs in other departments. The goal: to craft a holistic digital boardroom. Expertise should include an understanding of customer experience and satisfaction, conversion rate optimization and employee retention to round out existing analysis.

## 3. From static forecasts to rolling agile

**forecasts.** The shift from quarterly close to monthly close to weekly close and now even daily close requires a new degree of agility. Forecasting must account for multiple models and a constantly changing set of variables. Organizations must build agility across a wide range of business risk scenarios, such as price wars, natural disasters and terrorism.

## 4. From adult supervision to co-innovation

**partner.** The CFO has often served as the creator of policies, enforcer of policies and steward of the organization's risk and liability. Going forward, the CFO must also add co-innovation partner to the job description. Business units need finance expertise to craft new offerings and adjust

business models. Technology teams need support for long-term platform investments. HR leaders seek guidance on managing talent. Marketers need support to align the company's offerings to brand strategy.

- 5. From data aggregation to decision-making.** More than 50 percent of CFOs have technology teams reporting to them. Subsequently, data aggregation and analytics programs often reside within the CFO's office. But merely capturing the data is not enough. CFOs must find ways to democratize decision-making across the organization by providing both analytics and reporting and, in the longer term, machine learning to support ambient decision-making. Ambient decision-making brings relevant and contextual data to the forefront, helping to guide and augment human decisions.

## INSIDE THE EXPANDING CFO MANDATE

Traditional CFOs focused on mastering finance and accounting. Responsibilities included accounting, audit, analysis, budgeting, controlling, planning and taxation (see Figure 1). As those roles became commoditized and in some cases sent to business process outsourcing (BPO) providers, CFOs became experts in specialties such as corporate strategy, enterprise risk management, forecasting, investor relations, mergers and acquisitions analysis, performance management and technology. Often the "adult in the room," these CFOs became focused more on the operational efficiency and regulatory compliance areas of the organization in Constellation's Business Hierarchy of Needs.

But as CFOs evolve into the postmodern era, they must build new capabilities that address revenue growth, strategic differentiation and brand. Constellation's surveys show growth in areas such as big data, board engagement,

**Figure 1. Constellation's Business Hierarchy of Needs**



**Source:** Constellation Research

capital allocation, co-innovation and creation, cybersecurity, joint ventures, new business models and technology management.

The shift from traditional to strategic to postmodern CFOs will affect all industries and organizational models (see Figure 2).

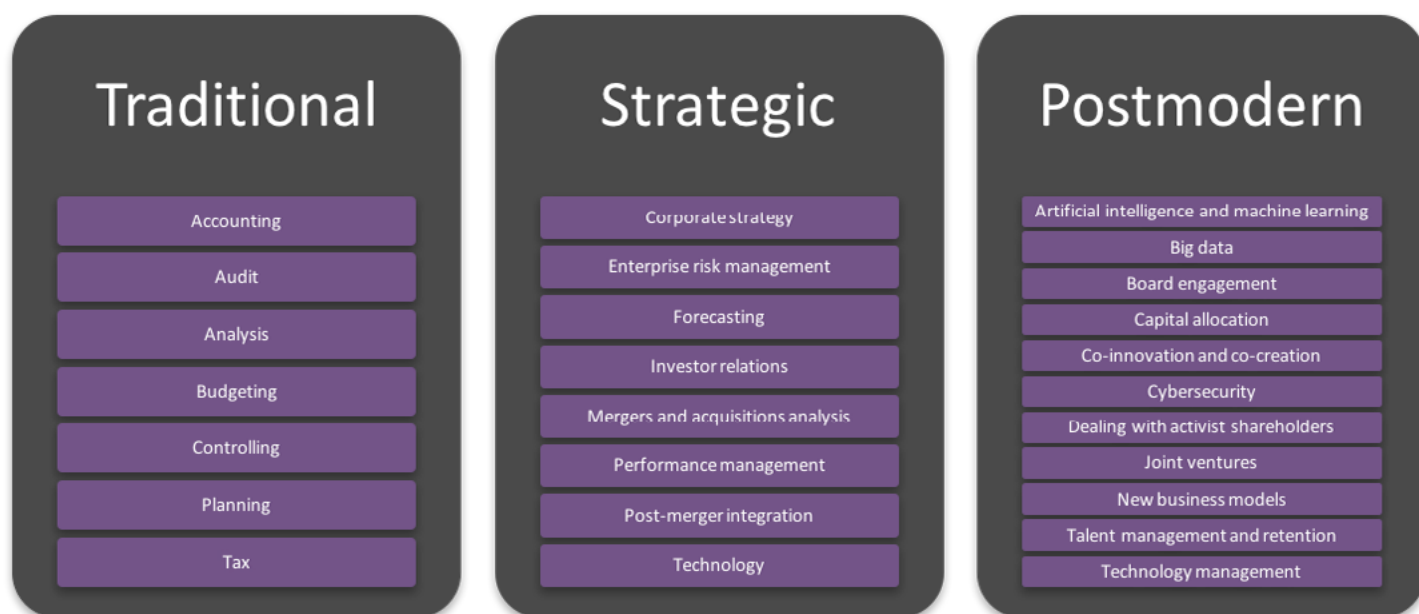
Postmodern CFOs must identify and prevent business extinction events from occurring.

Successful CFOs will play a key role in crafting new strategies and business models.

## TRENDS FOR 2018 INDICATE A STRATEGIC SHIFT

Constellation surveyed 117 financial leaders with titles of CFO, VP of finance, controller, head of finance and COO in the fourth quarter of 2017. The survey results show not only a more-confident 2018 business outlook but also a greater prioritization of strategic initiatives.

Figure 2. Inside the Evolving Role of the Modern CFO



Source: Constellation Research

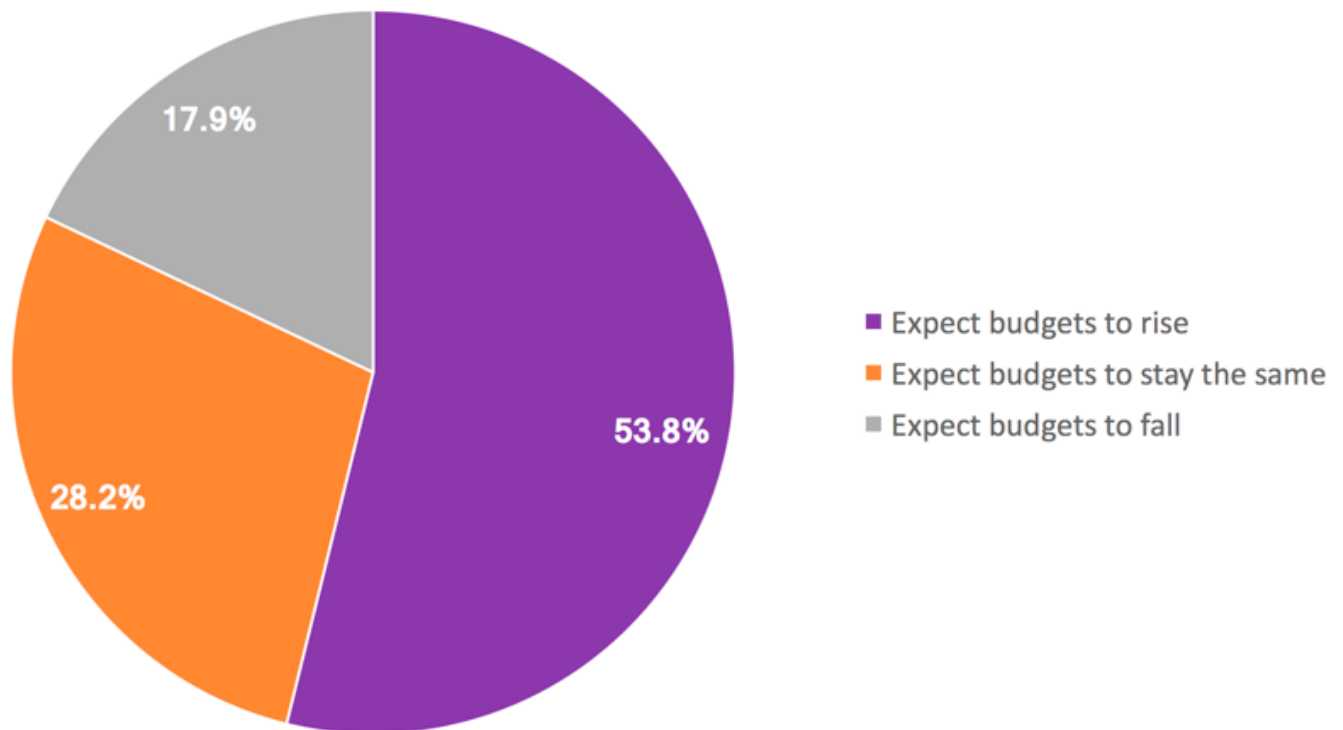
## Economic Conditions Highlight Positive 2018 Outlook

More than half (53.8 percent) of CFOs surveyed expect budgets to increase for 2018 (see Figure 3). Less than 20 percent expect budgets to shrink, and 28.2 percent expect their budgets to remain the same. From a historical context, the data remains the most positive in almost a decade. CFOs clearly see growth ahead on the agenda.

## Postmodern CFO Priorities Rise to the Top

Asked to rank their top five priorities for 2018, CFOs resoundingly chose cybersecurity as the top priority (82.9 percent) followed by the impacts of the U.S. tax overhaul (69.2 percent) (see Figure 4 on page 9). The results reflect the number of firings and the brutal stock price hits organizations have faced because of security breaches. On the U.S. tax overhaul, CFOs have been working overtime to model tax implications of not only effective tax rates but also repatriation of profits. Consequently,

**Figure 3. CFOs Remain Optimistic in Their 2018 Budget Outlook**



Source: Constellation Research

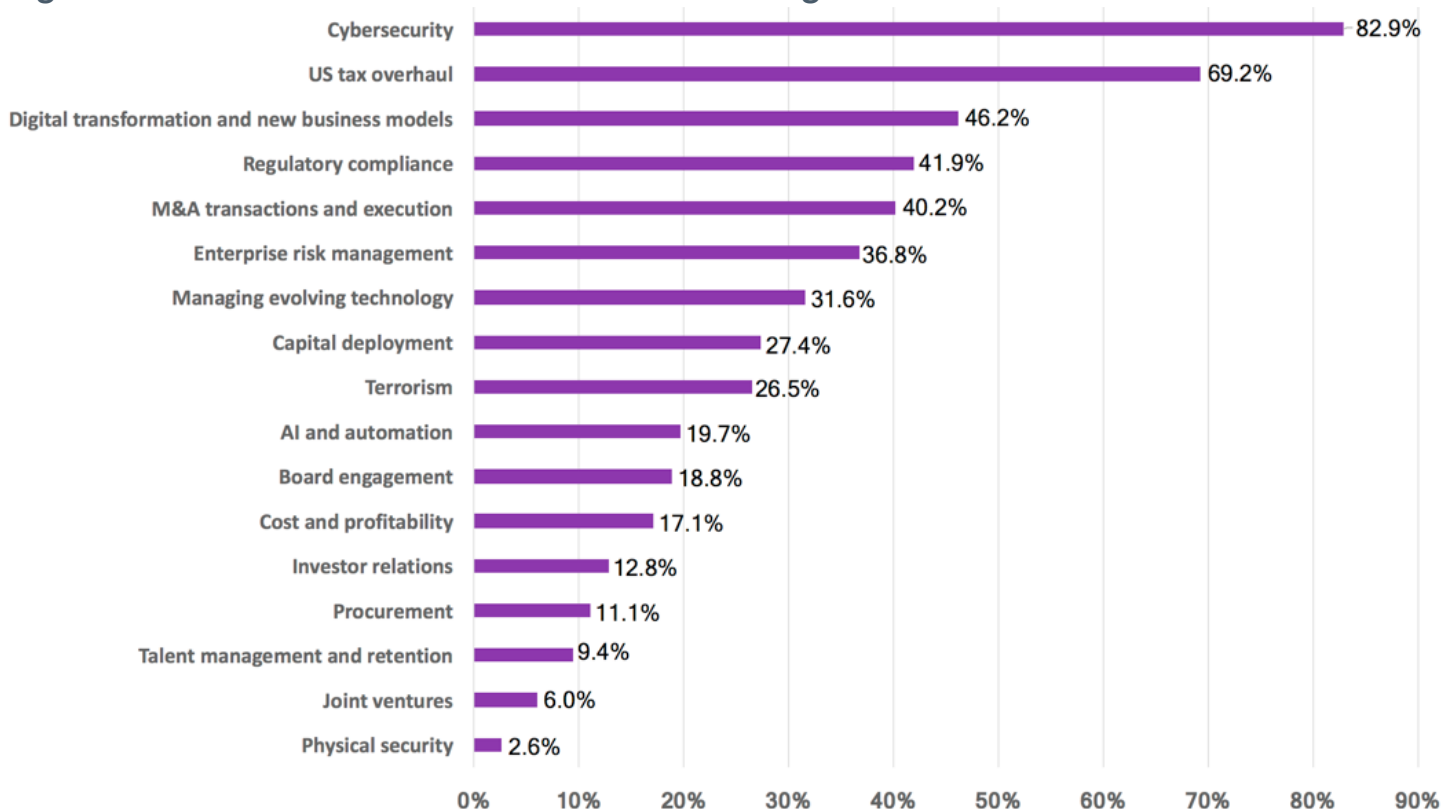
these top two priorities outranked the other 17 items identified by survey respondents.

Digital transformation (46.2 percent) has emerged as a significant boardroom issue as new business models and non-traditional competitors have upended markets. Almost every boardroom has made digital a top goal for 2018. Meanwhile, classic priorities such as regulatory compliance (41.9 percent) have risen in importance, as global companies must address privacy compliance with the European

Union's General Data Protection Regulation requirements as well as the firestorm of new regulations organizations have faced over the past three years. Merger and acquisition transactions (40.2 percent) have come into greater priority with the repatriation of funds and the search for inorganic growth.



Figure 4. 2018 CFO Priorities Reflect Shift to Strategic and Postmodern Priorities



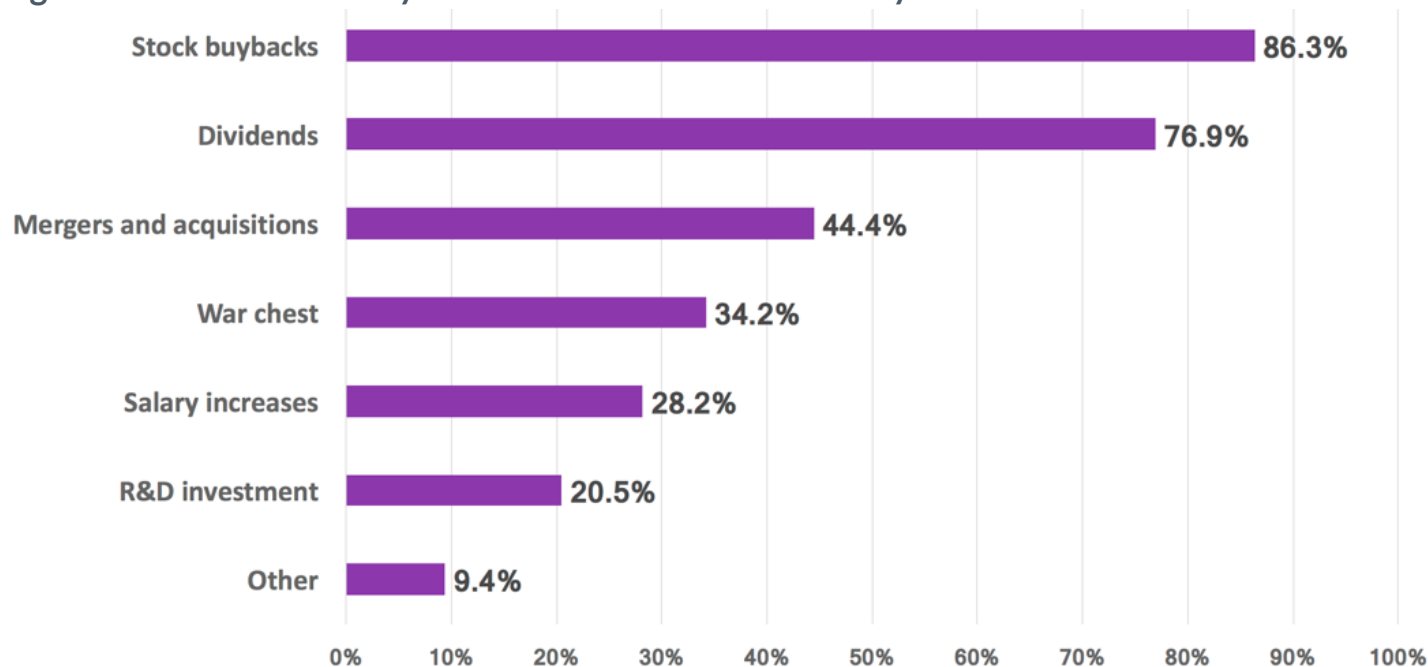
Source: Constellation Research

## Growth Remains a Concern Given How Profits Are Reinvested

As the U.S. cuts back on regulations and reforms its tax code to improve global competitiveness, one area that remains a concern for jumpstarting growth among organizations is how profits have been reinvested (see Figure 5).

From the survey respondents, stock buybacks (86.3 percent) and dividends (76.9 percent) remain the top two areas for capital allocation. Mergers and acquisitions (44.4 percent) and war chest funding (34.2%) round out the third- and fourth-highest priorities. Salary increases (28.2 percent) and research and development (20.5 percent) rank the lowest, coming in fifth and sixth. Constellation believes that in order for sustained growth to occur, R&D investment needs to be higher. This long-term trend, where

**Figure 5. Growth Stifled by Short-Term Gains for Stock Buybacks and Dividends**



Source: Constellation Research

R&D spending has remained flat, reflects organizations responding to short-term market forces instead of long-term growth.

## EXPECT THE RISE OF THE POSTMODERN CFO

The evolving role of CFOs will place them in more strategic positions. As regulatory compliance and operational efficiency tasks move to BPO, automation and machine learning and AI, CFOs will free up resources to

focus on growth and strategic differentiation.

This shift will improve the CFO's profile as a strategic resource. The transition from strategic to postmodern has begun. Expect the majority of innovative CFOs to achieve this transition by 2021.

## ANALYST BIO

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Founder and Principal Analyst

R “Ray” Wang is Founder, Chairman and Principal Analyst of Constellation Research, Inc., and the author of the popular enterprise software blog, “A Software Insider’s Point of View.” He previously was a Founding Partner and Research Analyst for enterprise strategy at Altimeter Group.

A background in emerging business and technology trends, enterprise apps strategy, technology selection and contract negotiations enables Wang to provide clients and readers with the bridge between business leadership and technology adoption. Wang has been recognized by the prestigious Institute of Industry Analyst Relations (IIAR) as the Analyst of the Year, and in 2009, he was recognized as one of the most important analysts for Enterprise, SMB and Software. In 2010, Wang was recognized on the ARInsights Power 100 List of Industry Analysts and named one of the top Influential leaders in the CRM Magazine 100 Market Awards.

Wang graduated from the Johns Hopkins University with a B.A. in natural sciences and public health. His graduate training includes a master’s degree from the Johns Hopkins University in health policy and management and health finance and management.

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Constellation Research is an award-winning, Silicon Valley-based research and advisory firm that helps organizations navigate the challenges of digital disruption through business models transformation and the judicious application of disruptive technologies. Unlike the legacy analyst firms, Constellation Research is disrupting how research is accessed, what topics are covered and how clients can partner with a research firm to achieve success. Over 350 clients have joined from an ecosystem of buyers, partners, solution providers, C-suite, boards of directors and vendor clients. Our mission is to identify, validate and share insights with our clients.

## Organizational Highlights

- Named Institute of Industry Analyst Relations (IIAR) New Analyst Firm of the Year in 2011 and #1 Independent Analyst Firm for 2014 and 2015.
- Experienced research team with an average of 25 years of practitioner, management and industry experience.
- Organizers of the Constellation Connected Enterprise—an innovation summit and best practices knowledge-sharing retreat for business leaders.
- Founders of Constellation Executive Network, a membership organization for digital leaders seeking to learn from market leaders and fast followers.



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