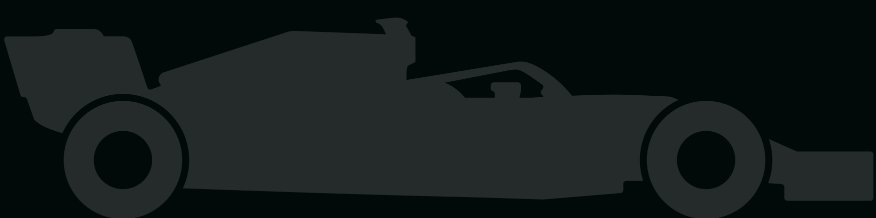
# THE CFO IN POLE POSITION



## Leading next-generation decision-making in a data-driven organization

Mohamed Bouker, Frank Geelen, Nart Wielaard

“*The CFO in Pole Position* is a must-read for CFOs and their senior finance teams to understand the power of data and revolutionize decision-making. Many organizations focus too much on the technology and short-term decision-making. This book helps CFOs to take the lead in really transforming the company’s decision-making process and focus on what is really important.”

René Hooft Graafland, member of the supervisory board of Ahold Delhaize, Koninklijke FrieslandCampina N.V. and of Lucas Bols N.V., former CFO and member of the executive board of Heineken N.V.

“A highly recommended read for CFO’s who want to lead their organization in taking the best decisions in these turbulent times. It’s not a handbook, but it will definitely inspire finance leaders to go for pole position. The authors make it clear: it’s not only about mastering the technology but, maybe more important, to master the data and act upon it.”

Prof. dr. F.H.M. Verbeeten MBA, professor at Amsterdam Business School and vice Program director Executive Master Finance & Control program at the University of Amsterdam

Mohamed Bouker | Frank Geelen | Nart Wielaard

# THE CFO IN POLE POSITION

**LEADING NEXT-GENERATION DECISION-MAKING IN A DATA-DRIVEN ORGANIZATION**

Boom | Management IMPACT

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# Introduction

Formula 1 racing is approaching a historic moment – machines are about to outperform even the best professional racing drivers.

Former world champion Sebastian Vettel was very clear about this. He argued that telemetry systems have been given a far too dominant role in motor sport. In the past, when a driver was the fastest at taking a chicane, it was because he was following his own course, and if he did this right, he would keep his lead for the whole racing weekend. Today, with abundant data, everything is so transparent and systemised that it is the engineers who suggest the even better course to follow. [1]

Compare that with a famous statement by another former champion, American Mario Andretti, who decades ago said, 'If you think you're in control, you're just not going fast enough'. At the time, this typified a racing world in which everything revolved around the driver and his unique qualities, which included a healthy dose of bravery and courage.

Within only a few decades, top class racing has turned itself upside down, and the exact reverse of Andretti's quote has in fact become true: 'If you're in control, you can go faster'.

This revolution is based on data – huge amounts of it. With this data, computer systems make instant decisions about tyre choice, the optimal line to follow on the circuit track, timing of pit stops, engine management as well as many other things. It enables drivers to be more in control so that they can go just that little bit faster.

Now that car performance is so similar among top teams – differences in lap times have become extremely small – it has become increasingly clear that he who makes the best decisions wins the race. And we simply have to acknowledge that computers are much better at this than any driver.

All of this is true in the corporate world as well.

In business, better information also leads to better decisions. In a data-driven era, successful competition increasingly revolves around this simple principle. And those unable to keep up will soon be out of business. In the not too distant future, almost every decision will be the result of data analysis, and the human factor will play either only a marginal role or an entirely different one.

Just as Sebastian Vettel is experiencing first-hand how such systems are impacting the racing profession, so too must top business managers take a step back and hand their decision-making autonomy over to computers.

Business leaders all agree that this is what they should do, but strangely enough hardly anyone behaves accordingly.

As far as information processing systems and technology are concerned, many organizations are still stuck in the proverbial Dark Ages. They have become addicted to a world of slow systems, are not able to change their firmly established routines, and have trouble understanding the vital importance of reliable information.

No business leader worth their salt should accept this type of inertia. Much is at stake. The challenge is to become a Decision Oriented Organization, an organization that excels in speed and quality of decisions based on data. Those who fail to transform their organization into this kind of well-oiled information processing machine will lose the battle in the corporate arena.

One may think that this line of reasoning is only valid in predictable circumstances and relatively calm markets.

This couldn't be further from the truth.

Excelling in decision-making is especially important in crisis situations and in highly ambiguous and chaotic dynamics. In the eye of a storm, organizations that are in control of their data and have sophisticated systems for scenario planning and exploring a wealth of internal and external data are best prepared. This has been demonstrated in numerous cases in which companies were in crisis. It was also demonstrated in the financial crisis that shook the world in 2008. And in the extreme turbulence following the outbreak of the COVID-19 virus, it once again became clear that the future of many organizations was largely determined by their ability to take smart and quick decisions based on reliable and relevant data.

These times of crisis underpin one simple truth we mentioned before:

The ones who are in control of their information can go faster. And will therefore be the winners.

All of this stresses the fact that organizations need to transform their decision-making processes. Chief Financial Officers (CFOs) are best equipped to manage this transformation into a Decision Oriented Organization. They understand the value of tracking and analyzing data.

Many CFOs have long since outgrown the antiquated role of bean counter and have become fully fledged sparring partners in practically all strategic areas. Now it is time for the next phase. We are convinced they can learn from Formula 1 teams how to build a Decision Oriented Organization. CFOs are the ones in pole position to help their organizations excel in data processing and become champions of decision-making. This book will guide them in this transformation.

# Management summary

The big idea: transforming into a
Decision Oriented Organization

In a world increasingly filled with data, our decisions all become much more explicit. Decisions in the past would often be made, based upon experience, expertise, and intuition. These days, decisions rely increasingly on data; in the world of racing, drivers and team managers compete on the basis of data and decision-supporting models. They are in fact Decision Oriented Organizations, with a dedicated focus on taking the best possible decisions at all times. It has become essential for winning races.

Business leaders can learn from the experiences of the world of racing. In this book we argue that they must transform into Decision Oriented Organizations to remain successful in business, especially in times of chaos and crisis.

One of the main challenges is that business leaders must learn to look at decisions in the same way Formula 1 teams do. They need a new lens. That is precisely why we must first realize that a Decision Oriented Organization has to deal with various types of decisions.

**1. Types of decisions**
A decision has two dimensions:

- First, the speed at which the decision is made (or should be made).
- Second, the impact of the decision.

Plotting these dimensions on two axes creates a simple matrix with four different types of decisions.

| | Low Speed | High Speed |
|---|---|---|
| High Impact | **Smart scenario** | **Advanced algorithm** |
| Low Impact | **Human decision** | **Business rule** |

Table 0.1 Decision types

**2. Design principles for a Decision Oriented Organization**
With this simple model in hand, leaders can plot the dynamics of their organization –or certain processes or units – and link design principles to them. We can define four different design principles.

Two of these are related to the speed of decisions:

**Autonomy:** If a high decision-making speed is required, it is often not feasible to have the decision made at the top via a strict hierarchical organization. These decisions call for an organization where teams / professionals have the autonomy to make decisions on the spot.

**Level of automation**: In many cases, computers are faster at processing data and calculating scenarios for a decision. That is why high-speed decisions will in many cases require a relatively high degree of automation.

The other two are related to the impact of the decisions:

**Investment.** It goes without saying that every organization should invest mainly in high-impact projects. As little money as possible should be spent on less important matters. And that also applies to decision-making processes: high impact justifies a high investment in resources to improve those processes.

**Reliability.** Every decision requires reliable data and robust business rules or algorithms, but especially in cases of high-impact decisions, nothing should go wrong. High-impact decisions therefore require a great deal of attention to the aspect of reliability.

**The CFO in pole position**

The matrix with the types of decisions combined with the four design principles is at the core of transforming into what we call Decision Oriented Organizations, well-oiled information processing machines that continuously deliver state-of-the-art decisions throughout all domains and all organizational levels. It is a new perspective on how to optimize the use of data for excellent decisions, based on the modus operandi within Formula 1 teams.

This book describes the various challenges of applying this perspective. This book also argues that this job is well-suited to CFOs and analyses how they can take up this role with confidence.

# PART 1
# SETTING THE SCENE

The impact of datafication on business and how data can revolutionize decision-making

# Chapter 1 An old new role for CFOs

Who is managing the store when it
comes to information?

> '*Information is a corporate asset to be managed by a top-ranking executive.*'

This is considered a truth among many experts in an era of abundant data. It is also a statement in the first international edition of *CIO Magazine*, published in 1987 (!). At the time, Chief Information Officers (CIOs) were expected to take on this role. More than 30 years later, however, many CIOs have not stepped up to this plate. In practice, many CIOs mainly play the role of Chief Technology Officer. They have enough trouble keeping systems up and running, managing costs, and managing today's myriad cybersecurity risks without worrying about the bigger picture.

Taking the time to rethink how information could be used to create greater business value appears to be a rather neglected element.

With fundamental changes taking place in many areas of our world, this situation no longer seems tenable. More than ever before, organizations need to take better decisions – based on better insights – if they are to outperform their competition. And *how* those decisions are being made is also changing – radically (see Table 1.1).

| Old | New |
|---|---|
| Periodic decisions | Ongoing decision-making process |
| People make decisions based on instinct and experience | Machines make decisions based on facts and rules |
| Decisions are made unconsciously | Decisions are made consciously |
| Managers make the decisions (top down) | Everyone makes decisions (bottom up) |
| Decisions are an internal matter | Decisions are made in external ecosystems |

Table 1.1 Overview of changes in decision-making

Back in 1987 (the time of the aforementioned quote in *CIO Magazine*) , companies were hardly thinking about Big Data, Artificial Intelligence, Robotic Process Automation and other innovative digital technology. How very different this is, today. Today, they could not survive without paying strategic attention to those subjects. Managing information is no longer merely a prerequisite for running a successful business – information management IS the business. And it is high time that companies anticipate on this new reality.

They must transform into Decision Oriented Organizations. This is necessary not only because of the huge potential of data (and the blossoming amount of tooling to use this data), it is also necessary to withstand times of chaos and crisis. In the eye of a storm it is more important than ever to have reliable and relevant information at hand for decisions. In 2020, the world faced the COVID-19 coronavirus pandemic. At the time of writing this book, it is too early to tell with certainty which companies have the best responses. Early signs, however, show that frontrunners in data-driven approaches are the ones best prepared for a multitude of challenges posed by COVID-19. They are the ones that can quickly develop scenarios and have the information at hand for swift and powerful anticipations of a new reality, even at a time when this new reality is still fuzzy.

**The CFO in pole position**

This book thoroughly analyses the changes in decision-making (Table 1.1). First, however, it is important to take a closer look at the role of CFOs, as they are best suited to prepare organizations for the new reality.

CFOs were not chosen at random to get this job done. The choice has to do with three unique characteristics of CFOs (and the finance function as a whole). The job of building a Decision Oriented Organization fits them like a glove.

*Characteristic 1: CFOs are impartial*

Traditionally, CFOs have always been the – business economics – conscience of an organization and, therefore, have always filled an impartial role on any executive board. They have a decisive vote in allocating resources to projects (i.e. they are in charge of the money). In doing so, they always needed to rely on the facts without sentiment or prejudice. CFOs are trained to prevent these emotions from playing a role in the assessment of information and to always look for the facts.

*Characteristic 2: CFOs are a connecting link*

Integral, connecting, holistic. These are the key concepts, according to the majority of reports by consultancies, on how organizations should successfully anticipate the digital transformation. And quite rightly so, because the walls should be removed between the traditional compartments of organizations. Here, too, CFOs have the advantage. They are already a connecting link between the various disciplines, and research[2] has shown that the span of control of CFOs is increasing, with people reporting to them from IT to cybersecurity and from risk management to Mergers & Acquisitions. The same research also notes that more than half of all CFOs have responsibilities 'at the forefront of digitization', such as in automation, robotics, data visualization, and artificial intelligence (AI). Increasingly, all support functions (like HR, IT, Finance, Procurement) report to the CFO who thereby has the overarching responsibility to enable a smooth-running primary process.

*Characteristic 3: CFOs understand information*

Last but not least, CFOs are trained to create, analyse, report, distribute, and communicate reliable information. It is at the core of their responsibilities – and always has been. With some imagination we can go back six centuries to the Italian invention of the double-entry bookkeeping system – with a debit and credit side – which is still in use today. In his book *The Reckoning: Financial Accountability and the Rise and Fall of Nations*,[3] US historian Jacob Soll writes about the importance of this invention as a basis of modern capitalism. 'Good accounting practices have produced the levels of trust necessary to fund stable governments and vital capitalist societies, and poor accounting and its attendant lack of accountability have led to financial chaos, economic crimes, civil unrest, and worse.'

It is also a fact that finance professionals are trained like no other in gathering reliable and verifiable information. Their training includes the processing, categorization, and consolidation of information. In cases of any doubt, they can and will turn to accounting guidelines that provide guidance for the correct categorization of transactions. They set up frameworks with key controls to ensure that information is reliable, and are also familiar with the related Three Lines of Defence (see Chapter 6). In recent decades, financial experts have implemented and refined International Financial Reporting Standards (IFRS) in Europe, in order to improve the comparability of information for the capital market. To this end, they have often had to invest heavily in systems that deliver better information for supervisory bodies. In the financial sector, the same applies to the supervisory frameworks of Solvency II and Basel II, which also ensured better provision of information all based on a combination of very precise definitions and policies on how to register and report on an increasing number of indicators.

**Navigating in the eye of a storm**

The mentioned specific competencies that CFOs have are especially relevant in times of change or crisis as information tends to become notoriously unreliable in these times. The COVID-19 crisis has highlighted this again; various sources offer conflicting information and experts formed their view of what needs to be done based on their information source of choice. Jevin West and Carl Bergstrom, professors from the University of Washington and founders of an online course called 'Calling Bullshit in Big Data' call such crises a 'natural ecology of bullshit',[4] as such an environment offers psychological and financial rewards for attracting attention regardless of the accuracy and trustworthiness of information. The COVID-19 pandemic soon proved to be a real bonanza for statistics, graphs, and data visualizations of how the virus developed with an overload of questionable information. Fighting incorrect information proved to be a tough cookie for social networks and tech companies such as Twitter or Google.

This is not only true when it comes to societal crises and news media. It's also valid when it comes to being well informed in corporate crises. One of the main objectives in such times is to distinguish crappy or subjective information from reliable and fact-based information, thereby making sure that there is one version of the truth as a solid base for decisions. Cutting through a complex jungle of misinformation is key. And CFOs are well positioned and trained to do this.

**How the CFO can become the architect of the Decision Oriented Organization**

The aforementioned three characteristics are typical of many CFOs and other financial professionals. In fact, professionals in other areas, such as human resources (HR), marketing, and logistics, could learn a thing or two from CFOs. Finance departments have, for instance, spent years perfecting elaborate accounting manuals to make sure that everyone speaks the same language when it comes to processing information. To many other professionals this may not be a top priority. For instance: Which HR professional comes up with the idea to define what an FTE (full-time equivalent) is? Or how many sales executive would think of correcting monthly sales statistics for essential elements, such as the number of weekends in a given month?

For many financial professionals, such questions are routine. It is deeply ingrained in the professional ethics of finance professionals to present their organization with the best available information, thus providing peace of mind to the managers who need to be able to rely on such information.

This is an essential skill, particularly in a time when the volume of data is exploding. And so, besides taking the lead in classifying, consolidating, and analysing the financial information, CFOs must also do this for all other types of information. They should become the architects of the Decision Oriented Organization. And they definitely could use some help from other executives.

CFOs need the help of other executives to succeed in this.

First of all, they must team up with the CIO. In the past, there was some doubt about the strategic value of the CIO. In 2013, an analysis in *Harvard Business Review*, with the revealing heading '*Why can't a CIO be more like a CFO?*', concluded that it is 'time for CIOs to move beyond their role as chief technology officer and embrace the name with all of its implications: Chief *Information* Officer.' The article continues by answering the question of why they are not doing so: 'Because no one is managing the store'.[5] Although the I in CIO stands for *information*, CIOs have not been including this aspect in their responsibilities in recent decades.

This criticism does not alter the fact that CIOs have an incredibly important role in ensuring that the IT landscape – the backbone of any company – is strong and secure. They are essential to enabling organizations to innovate and to build a robust yet flexible IT infrastructure. That is their contribution to building a Decision Oriented Architecture.

Then there is the chief executive officer (CEO). Generally speaking, CEOs have a strategic role and are a company's face to the outside world. The fact that the handling of information is a strategic issue goes without saying. CEOs must therefore be missionaries and communicate clearly and often. They must inspire the organization to make sure that the CFO's work of building a Decision Oriented Organization is well understood.

The following two chapters analyse the impact of the omnipresence of data and the related digital transformation. The main focus is on what will change and what will not, and, subsequently, on what that means for how companies should handle information.

# ABOUT THE AUTHORS

**Mohamed Bouker** (1978) is partner at Deloitte where he leads the Digital Finance practice for Deloitte Netherlands. He is passionate about new technologies and new ways of thinking. He advises local and international CFOs on their digital plans. With a background in ERP, Finance and data management, his core expertise lies in transforming financial processes with Robotics, Data Analytics, Best in Class Financial Systems and Cognitive Technology. He has also driven many Digital Finance strategies, financial process re-engineering initiatives and financial systems selection. He is a true believer in the power of data as the driver of businesses transformation.

**Frank Geelen** (1967) is the EMEA Lead Finance Transformation partner within Deloitte Consulting. He also leads the Deloitte CFO Program in The Netherlands and has a long-standing experience working with CFOs of the larger multinational companies to further improve their finance function. After a career in various finance management roles at Unilever and Royal Philips, Frank decided to move to consulting where he worked for IBM Consulting and PwC before joining Deloitte in 2011. He is passionate about the adoption of new (digital) technologies and enjoys working with client- and consulting teams discovering the 'art of the possible' and realizing the subsequent business benefits. He holds a master's degree in econometrics from the Erasmus University Rotterdam, a European master's degree in finance & control (RC) from the University of Amsterdam and an MBA from the Institute for Management Development (IMD) in Lausanne.

**Nart Wielaard** (1970) was trained as a Certified Public Accountant. He now works as an independent business writer, public speaker and consultant. Wielaard is curious by nature and is fascinated by how digital technology impacts business and society as a whole. He helps clients turn complex topics into crisp and compelling stories and has authored multiple award-winning business books.

Like in Formula-1 racing, decision-making is crucial for business success and can be the difference between a checkered flag or the gravel pit. Decisions are increasingly made based upon data, but which function within an organization is most suitable to drive the transformation towards a Decision Oriented Organization? An organization that beats competitors based on excellence in decision-making.

In *The CFO in Pole Position*, Mohamed Bouker and Frank Geelen (partners at Deloitte Consulting) and Nart Wielaard (business author) make a convincing plea to put the CFO behind the wheel of this exciting transformation. With the right CFO, any business can become a Decision Oriented Organization and make the right decision.

You will learn to transform your business into a Decision Oriented Organization, to recognize the different types of decisions and what exactly a CFO needs to do to lead the organization towards success in uncertain times.

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Management **IMPACT**