

# Digital leadership: Leading finance digital transformation

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**Pick up any journal or review any business website and you will find articles on digital transformation. It has become a significant force in the business world. One estimate in 2016 suggested that it could be worth in excess of US\$18 trillion in added value to organisations<sup>1</sup>.**

Whether the organisation concerned is large or small; irrespective of the industry involved, it will be on a digital journey. The nature of that journey may vary but for many in the finance community there is a challenge of change and adoption.

In this article we explore how finance leaders must play an important role in this process. What does it take to be an effective digital finance leader?

## **WHAT IS DIGITAL TRANSFORMATION?**

Many organisations are undergoing some form of digital transformation. They are using digital technologies to create robust and efficient business processes that optimise the effectiveness for the various stakeholders, be they customers or employees.

In the era of the digital economy, data has become the core asset to drive economic growth. Digital technologies such as cloud computing, Internet of Things, and artificial intelligence are building a new digital economic infrastructure and the tools to accompany it. Therefore, the drivers of the development of digital

economy are the rapidly emerging technology and full realisation of value of data. Digital technology and data are also profoundly affecting all walks of life in the digital economy, which is the fundamental reason why organisations need to embrace digital transformation.

The evolution of technology is set to continue. The development of 5G and edge computing will enable us to capture and process even more data. Data that we must closely link to our business model and strategic objectives. The use of virtual and augmented reality, in combination with advances in computing power, will enable us to develop digital twins<sup>2</sup> of organisations, products and processes such that we can envisage the impact of alternative business decisions. The finance leader needs to appreciate and embrace the changes in forecasting and planning that the advent of these technologies can bring. By utilising both front and back office data they can model business performance in ways that we have not previously seen. As those whose inherent skill, in part, is the appreciation of data as information this is

a key role in the organisation that is key to understanding consumer behaviour.

However, digital transformation is not just about the use of technology, it is also about the culture of the organisation itself. How it responds to customer needs in increasingly faster timescales. How it develops a mentality of try, learn and retry, constantly adapting to a changing business environment. The organisation needs a robust set of business processes that are sufficiently flexible to adapt to change, yet robust in integrity. Whilst for many organisations the lens of competition has moved from process efficiency to optimising the customer interaction, the absence of robust processes will still negate the competitive edge and increase a potential for disruptive entrants.

For the finance function some of these traits may be counter cultural. However, digital transformation is not a respecter of traditional boundaries; it impacts all aspects of the organisation in varying degrees. Finance is no longer an island in this.

<sup>1</sup> IDC FutureScape: Worldwide Digital Transformation 2017 Predictions <<https://www.idc.com/getdoc.jsp?containerId=US40526216>> accessed 4 October 2019.

<sup>2</sup> Digital twin – a digital replica (using virtual and/or augmented reality) to represent the physical world. In combination with data collected from devices this enables us to model the physical world.

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Nor is digital transformation a finite process. With the developing scale of opportunities of cloud-based computing, with the increasing use of artificial intelligence and machine learning as part of day to day organisational activities, organisations will continue to need to improve and focus on their core purpose. The constant evolution has arrived, and the standalone project has departed.

Yet the pace and nature of change is very different between economies. In mainland

China, for example, the cashless society is very much the reality, as it is in parts of eastern Africa; other economies are still catching up. For global organisations being able to adapt to these varying paces of change is important.

The evolution of the finance function itself is enabled by this transformation. This is considered in ACCA / PwC's paper *Finance: a journey to the future?*<sup>3</sup> which considers the transition from a pure stewardship to a more strategic role.



## Digital transformation: Lessons learned and trends

**Digital transformation is a huge challenge. Success and failure often alternate in the digital transformation of organisation. The constantly emerging disruptive technologies and the business model innovation of new competitors not only intensify the urgency of digital transformation of organisations, but also further bring uncertainty.**

The digital transformation of each organisation is closely connected with the characteristics of the organisation itself: For example, a retail enterprise focuses on the improvement of the consumer experience, a manufacturing industry pays attention to the high level of automation in production and quality inspection, and a financial industry applies the digital technology to build strong middle-back offices. But the experience they have accumulated through years of exploration can still serve as the reference for the digital transformation of most.

**Digital transformation is a top-level design and strategic decision-making process**, which should be led and guided by the Chief Executive Officer (CEO) and the senior management team of the enterprise. Digital transformation should not be regarded as a large-scale project nor should it be assumed that if the executive layer uses the digital technology, the organisation has embraced digital transformation. The CEO and top management team of the enterprise should focus on digital trends and be bursting with curiosity and be adventurous.

**Digital transformation experts at all levels should be introduced.** Companies should invest in capabilities for digital transformation at all levels including the top management team, middle management, and grassroots management. It should encourage employees to enhance their digital capabilities and transformational thinking in different business departments (not just within IT teams). Organisations should recognise the value of digital skills and cultivate the digital expert culture. For example, beyond the management scope, strengthen the promotion or career of professional experts, especially strengthen digital literacy indicators such as digital leadership, digital technology and data insight.

**Data capability is the basis of digital transformation.** Strong data capability is the basic guarantee of digital transformation of organisations. Its capability in any field (such as data acquisition, data summary, and data standardisation) determines the success or failure of digital transformation. Organisations need to build a unified data service platform<sup>4</sup> to provide stable, efficient, and secure universe data services; transfer continuous data energy to various business demanders; continue to enable data to support digital transformation, and gradually establish a global, unified, and general data system to drive business innovation.

**Chief Financial Officer (CFO) for digital transformation.** Digital transformation is accompanied by large-scale or continuous technology investment. CFO and its team actively participate in investment decision-making, management, monitoring and service, which can effectively reduce investment risk, improve investment effect and establish good cooperative relationship between the business team and finance team. For organisations that have experienced this process, the finance team has often been an active supporter of new technology investments and redefinition of corporate cost modes.

<sup>3</sup> ACCA/PwC: *Finance: a journey to the future 2019* <<https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/finance-journey.html>> accessed 28 November 2019.

<sup>4</sup> A Unified data service platform is a set of technologies that work together to move data throughout an organisation irrespective of size, structure or source of the data (either internal or external) to the organisation thereby merging fragmented data sources into one central view.

Whilst the application of technology is fundamental to the digital transformation of an organisation there are two other elements that are essential for success; a digital culture and effective leadership.

### **BUSINESS CASE FOR CHANGE**

Establishing the business case is often a challenge. Finance seems to suffer from a perspective that investments in enterprise solutions in the late 1990s and early 2000s failed to deliver the suggested returns. In a completing, cost conscious, world the need for effective and efficient processes is paramount. Organisations are now increasingly competing on their ability to know their customers' preferences not on the quality of the core business processes. Cloud based solutions facilitate this as exemplified by the Alibaba Cloud business model where the membership data is shared across multiple divisions of the business through the unified data service platform.

Optimal processes and quality data are essential components of the business case. Yet for the finance team this should be an element of an organisational wide transformation project. The return on the investment in digital transformation is measured by the achievement of these goals.

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### **AN AGILE ORGANISATION?**

This speed of change requires a different approach from the traditional organisation. The phrase 'agile' is often used in conjunction with digital transformation, although its derivation in this case is from an approach to software development. Being able to respond quickly to changing customer demands and market trends requires a different form of management. It requires a clear focus on what the organisation is seeking to achieve, its purpose, and how it is structured in a way that supports this level of evolving change. Technology is often at the heart of that process, it is not, however, the means to the end. The data component of digital transformation is as important and effective governance needs to be established. All this needs to be part of a strong culture that supports innovation and manages both success and failure effectively.



## **Disrupting with Network Liquid organisations**

**Organisations undertaking digital transformation should consider having a shadow organisation that embeds disruptive characteristics, a so-called networked liquid organisation. This enables the organisation to optimize decision-making efficiency and response speed, while activating individual values, and ultimately reaching the synchronisation with the change of the external environment.**

This organisation should have four key features:

- New core driving force: Transform to a customer-centric "outward-looking" perspective from internal enhancement and focus;
- New innovation method: Transform to collaborative creation and diversified and decentralized model from vertical integration and large enterprise dominated innovation;
- New organisational infrastructure: Transform to mobile interconnected office mode from fixed process;
- New development pace: Transform to appropriately accelerated iterative development and cross-boundary competition from stable and sustainable business model.

The digitalisation of the organisation is the key to digital transformation. Organisations should establish an agile culture oriented by digitalisation, intellectualisation and business innovation, to promote continuous innovation inside and outside the organisation and create a digital innovation ecosystem. The organisation should also gradually realise online organisational structure, online organisational collaboration and digital organisation, and gradually realise the digitalisation of human resource management, talent supply and human investment.

The effective finance leader needs to ensure that they are conversant with the trends in technology and be able to identify how they apply to create, or support, strategic advantage. To remain up to date and current.

### A DIGITAL CULTURE

Organisational culture has long been recognised as one of the essential elements in delivering on business strategies and goals. For much of the late 2000s organisations were focused on developing visions and mission statements. In the digital world this has transitioned to a more simplified view of its purpose, as referred to earlier. What is it that the organisation is seeking to achieve? Aligned to this are personal goals that reflect the contribution of the individual to that common purpose. Performance management systems, both at the operational and the personal levels, are being thrown away and replaced with simplified goals aligned to purpose.

Leaders need to respond to the changes brought by digitalisation in a different manner to which they are used. Nick Petrie in his *First Law of Leadership Development*<sup>5</sup> explains that, 'every leader continues in his state of rest, or in the habitual direction he was heading, unless compelled to change that state by external forces acted upon him.' The impact of digitalisation on the organisation is clearly one of those external forces that require the leader to modify their behaviours.

### WHAT IS A DIGITAL LEADER?

What may therefore constitute an effective leader in the digital age? Clearly there are different leadership traits that are required. The transformation of roles inherent across organisations, but especially in the finance function, means that a different set of skills is required. The traditional hierarchical models are being transformed into more flexible, flatter, structures. The career paths of yesterday are being transformed into variable career structures where promotion is not automatic, and skills and capabilities reign supreme.

The digital leader is somebody who is a human and not a tool. They are somebody who has a natural appreciation of data and trends such that they can critically appraise the organisation's strategy. In the complexity of the constantly changing world they can identify innovation that will help sustain the organisation in the longer

term. Cost control will never enable organisations to succeed in this fast-changing world. Business models become outdated and those organisations who fail to seize the opportunity are frequently left by the wayside. The anticipation of the rate of change in the next 10 years is that it will be even more significant than that experienced in the previous 10.

Yet they are also somebody who can understand the impact of change on the individuals in the team as well as the larger picture across their span of control. They are people who encourage but do not manage. Somebody who is adept at getting the best from people in the digital world in what sometimes can appear a scary and uncertain world.

Perhaps crucial to this is the ability to link the purpose of the organisation to the functional requirements. In so doing, being able to critically appraise, at a strategic level, how organisational performance can be evaluated with the support of robust and efficient processes that are in turn built upon an effective data and technology infrastructure. The evolution of cloud-based technologies facilitates such a model, as discussed in *Finance: a journey to the future?* (ACCA/PwC 2019)<sup>6</sup>. The effective finance leader needs to ensure that they are conversant with the trends in technology and be able to identify how they apply to create, or support, strategic advantage. To remain up to date and current.

They are not, however, required to be deep technical experts in technology or transformation. Rather they need to be sophisticated business users, able to demonstrate drive and vision. They should be supported by those with deep technical expertise in areas from reporting to compliance; from risk to control.

The skill of the digital leader is also to accept the ways in which, as a human we process information, and to be able to recognise the impact of the data driven world on decision making. As individuals we can develop an addiction to data as we react to it in the frontal lobes of the brain. In contrast our interpretation of information and strategy occurs in the back of the brain<sup>7</sup>. These two are not

5 *The How-To of Vertical Leadership Development – Part 2*, Nick Petrie, Center for Creative Leadership, 2015 <<https://www.ccl.org/wp-content/uploads/2015/04/verticalLeadersPart2.pdf>> accessed 28 November 2019.

6 *Finance: a journey to the future?* ACCA/PwC 2019 <<https://www.accaglobal.com/gb/en/professional-insights/pro-accountants-the-future/finance-journey.html>> accessed 28 November 2019.

7 This is explored in the work of Daniel Kahneman, *Thinking, Fast and Slow*, Farrar, Straus and Giroux, 2011 ISBN 978-0141033570.

We need to accept that the traditional way of thinking; the confirmed five-year plans from which we feared to deviate, are replaced by a strategy of considered action and foresight. Using the data wisely and inferring opinion from it.

always connected and we tend to react to the shorter-term actions from data whilst not invoking the strategic decisions. It is too easy to become a data junkie caught up in the detail of the ever-changing data yet not seeing the strategic picture.

As a finance leader in the data driven, transformed world, we need to focus clearly on the purpose of the organisation

and to use the data sources available to us, be these internal or external, operational or financial, to invoke our assessment of the strategy. We need to accept that the traditional way of thinking; the confirmed five-year plans from which we feared to deviate, are replaced by a strategy of considered action and foresight. Using the data wisely and inferring opinion from it.



## Technology challenges faced by the organisation

**The traditional IT infrastructures have caused a sluggish transformation.** While the traditional IT infrastructures established in the past continuously consumed capital and manpower, there are many problems such as poor flexibility, insufficient supply of resources and limited scale expansion. These structures cannot meet the needs of digital transformation of enterprises. Cloud computing is a new way of providing digital technology services and IT resources. It enables IT resources to be centrally integrated, quickly configured, and quickly redeployed and distributed, dramatically increasing the flexibility of enterprise system management or reducing operating costs (such as saving IT resources).

**The artificial intelligence base is poor and needs to be from 0 to 1.** It has been proved that artificial intelligence has great value in the scenarios of marketing, finance, social network relationship mining, text processing, unstructured data processing and other various predictive scenarios (prediction of rainfall and football match results, for example), and is one of the key technologies in the digital transformation. But for most enterprises, not only the artificial intelligence base is poor, but they need to face the challenge from 0 to 1 (to be complete). Organisations need to establish in-depth cooperation with artificial intelligence companies or build their artificial intelligence capabilities based on mature artificial intelligence infrastructures (such as cloud platform for machine learning).

**Uncertainty caused by rapid technology iteration.** Different from traditional IT, the continuous high-speed iteration of digital technology represented by cloud computing, big data, Internet of Things, and artificial intelligence have brought great uncertainty to the application of technology in digital transformation. Organisations need to continuously improve their understanding and insight into technology and choose the right partners. Of course, due to the rapid iteration speed, digital technology can effectively drive the frequency and speed of business innovation.

**Flexible technology ecology.** For both business and technology providers, it's important to build a more open and collaborative ecosystem. An open technology ecology<sup>8</sup> enables organisations to obtain suitable digital technologies through its ecology, realise the transformation of business modes and the technology value chain. Otherwise, organisations are easily locked into any closed technology (or a dominant technology supplier) in digital transformation, which will not only reduce the speed of technical iteration, but more importantly, the enterprise may lose the technology choice in digital transformation.

<sup>8</sup> Technology ecology: the range of technology components that are integrated to form the infrastructure, systems and processes of the organisation.

**There is no such thing as finance transformation, rather there is organisational transformation of which finance requirements are a not insignificant part. Understand where technology can be used to commercial advantage.**

### **WHY DOES DIGITAL LEADERSHIP MATTER FOR FINANCE?**

Organisational success is increasingly built upon its ability to react to changes in the customer demand and behaviour in shorter spaces of time. The need to have a clear view of the data aligned to the purpose and the story that it tells is essential. Finance is often unique amongst organisational functions in that it spans all areas of a business. Having the tools and the skills to answer the complex question, to model the evolving scenario with a significant element of confidence are essential.

Finance leaders therefore need to take a holistic view of transformation across the organisation. There is no such thing as finance transformation, rather there is organisational transformation of which finance requirements are a not insignificant part. Understand where technology can be used to commercial advantage. Importantly as well, understand the impact on the team, their skills and their careers. It changes the dynamics of relationships in the organisation.

Above all, the digitally inspired leader seizes the opportunity and forges ahead.



