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SCHOOL**

WHEN DO FINANCE OFFICES CREATE MORE ORGANISATIONAL VALUE?

How does the finance function's digital maturity affect organisational performance?



ACKNOWLEDGEMENTS

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In this study, we develop a measure to assess the digital maturity of finance offices. We find that, as finance offices mature digitally, they improve their ability to act as strategic business partners, enabling them to create significantly more organisational value.

INTRODUCTION

The ever-changing digital environment is forcing organisations to adapt to remain competitive. The new era of Industry 4.0, in particular – characterized by numerous innovative technologies such as cloud computing, big data analytics and the Internet of Things – is opening many opportunities and challenges. In addition, the outbreak of Covid-19 accelerated organisations' digitalization process, as they had to adapt to cope with the lockdowns and manage cross-location teams. The current energy crisis and inflation are pushing firms to organise themselves most efficiently. Digital technologies can also play an important role here.

Digital maturity can be defined as the measure of an organisation's ability to respond to, take advantage of, and create value through digital technologies. It is commonly accepted that companies with high levels of digital maturity have a competitive advantage along multiple performance indicators: revenue growth, time to market, cost-effectiveness, product quality and customer satisfaction. In contrast, organisations with low levels of

digital maturity struggle to exploit the benefits of digitalization.

In this white paper, we discuss the possible benefits of an increase in the finance office's digital maturity level. To do this, we develop a construct that represents the digital maturity of the finance office. Further, we examine the impact of the finance function's digital maturity on the organisation's performance, and we discuss the finance function's ability to take on a strategic role in steering the organisation.

The analysis behind this white paper is based on the responses of 103 CFOs and finance leaders of Belgian firms. The sample comprises smaller and larger-sized enterprises and covers various sectors like manufacturing, finance, retail, and information and services. We find that more digitally mature finance offices positively affect organisational performance gains. Moreover, from our data, it seems that digital technologies enable finance offices to act more strategically, allowing them to secure their seat at the CEO-table and become true value generators for their organisations.

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THE FINANCE OFFICE'S DIGITAL MATURITY

This white paper presents a construct representing the **finance office's digital maturity level**. To measure a finance office's digital maturity level, we used a questionnaire that was answered by the CFO or finance office managers. We distinguish between 4 sub-dimensions that are reflections of a finance office's digital maturity: strategy, people, culture, and technology.

Digitalization is not a goal in itself. Organisations that only use **digital technologies** without integrating them into a **strategy** are ineffective. That is to say, one needs to ask how one can add value to the needs of the internal and external stakeholders and how this effort can benefit from technology. Refraining from having a suitable digital strategy results in ineffective (investment) decisions that negatively impact organisational performance.

Hence, digitization projects should be closely aligned with the firm's digitization strategy and digital business model. Although some digitization efforts can be initiated in a decentralized manner, digitization should be a joint effort by multiple executives and functions. Nevertheless, we believe that the

challenges and benefits of using emerging business analytic tools are especially relevant for the **finance function**.

Allow us to take a step back. Traditionally, companies create strategies that are aligned with their values and purpose and that identify their future directions. They then pursue a particular course of action to execute these strategies, allocating the required resources to achieve the proposed goals. Financial metrics that translate the company's strategic plans are crucial to supporting the management and implementation of the strategy. The finance function generally ensures valid and accurate **financial reports** by collecting, storing, analysing and reconciling financial data. Internal decision-makers, like the C-suite, make suitable business decisions by exploiting these financial reports.

However, this traditional view of finance as a purely reporting function ignores the **changing role of finance**: advising stakeholders on future financial and business performance, making information accessible in real-time, and helping the firm create a positive impact on society and the planet. To this end, finance offices are moving away from solely processing and disclosing purely financial data, towards **exploiting** additional (often less structured) internal and external **data sources**. For this, they need new digital solutions and a vision on how technologies can improve their activities and help the organisation's business strategy. On top of investments in digital technologies, CFOs and finance managers should clearly understand how technology can be important to improving the business. As such, finance offices should have a **digital strategy** aligned with their **business needs** and monitor this strategy over time. Of course, finance offices will benefit when the CEO and all of the C-suite help drive the digital agenda, create a customer-centric culture, and put digital at the forefront. Questions capturing the **strategy sub-dimension** can be found in Table 1.



STRATEGY

- Our organisation has a clear digital strategy. (QS_1)
- Our digitalization strategy is clearly communicated within the company. (QS_2)
- Our digitalization strategy has a significant impact on our business models. (QS_3)
- Our digitalization strategy is continuously evaluated and adapted. (QS_4)

Table 1: Questions capturing the strategy sub-dimension.



PEOPLE

- The finance function has sufficient employees/experts with digital knowledge. (QP_1)
- The finance function is looking for job profiles with digital knowledge. (QP_2)
- Employees have access to resources and chances to develop themselves in a digital business environment. (QP_3)

Table 2: Questions capturing the people sub-dimension.



CULTURE

- Our company is transparent; employees know what is expected and what to expect. (QC_1)
- Continuous changes are part of our corporate culture. (QC_2)

Table 3: Questions capturing the culture sub-dimension.

As finance offices operate in a fast-moving environment in which technology plays a central role, they require finance **colleagues** with **digital skills** and competencies. CFOs and finance managers should listen regularly to employee feedback, provide context on how digitalization will impact their current job, and build a **culture** that allows for **experimentation** and **innovation**. For instance, the digitization or automation of traditional administrative or regulatory tasks in the finance function can stir up fear of losing employment, or of diminished job relevance, as new roles supporting and developing this digital environment are created. Optimally, the culture should embed **flexibility** and **transparency** to swiftly respond to business-changing innovations and ensure that the finance employees take the proper steps. Senior management should facilitate this **learning-friendly** environment to mitigate the emergence of a digitally savvy employee group and a more traditional business group that is technologically lagging. As such, attaining high levels of digital maturity requires the training of people and the attraction of the right skills. That is to say, next to traditional accounting, tax and finance skills, digitally mature finance offices also need to invest in competencies such as data science, creative problem solving and communication skills, to ensure the development of a culture with a clear understanding of both financial matters and the change capabilities of technology. Questions capturing the **people** and **culture sub-dimensions** can be found in Tables 2 and 3.





Digitally mature finance offices exploit **digital technologies** to achieve various objectives. For example, the traditional work of finance offices – holding the books and records of the company, financial reporting and statutory compliance – is primarily based on standards and rules that are easy to standardize and can be digitized cost-effectively. Technologies such as robotic process automation (RPA) can then **improve** the automation of **simple workflows**, improve the office's reporting speed and accuracy, and reduce costs.

Other technologies could then help link all data sources throughout the organisation and produce a dashboard of **actionable insights** and **KPIs**. Technologies such as arti-

ficial intelligence (AI) and machine learning (ML) can improve the finance office's ability to make sense of large amounts of financial and non-financial data. For example, ML-supported forecast models can help finance offices anticipate future scenarios in terms of sales and market opportunities, inventory management, production capacity and marketing needs. Such ML-based forecasts reduce human bias, handle more diverse data volumes in the forecasting equation, and render more accurate production capacity and inventory predictions. A **digital roadmap** ensures that your digital technologies are aligned with the organisation's strategic goals and detects the technology investments that are still needed.



TECHNOLOGY

- The finance function exploits digital technologies like RPA, machine learning, AI and business intelligence and analytics tools. (QT_1)
- The finance function has implemented or is developing (in collaboration with, for instance, IT) a clear digital roadmap. (QT_2)
- The finance function makes use of task automation. (QT_3)
- Our company uses a large amount of data to optimize strategies, processes and products. (QT_4)

Table 4: Questions capturing the technology sub-dimension.

As companies generate more **data** every day, finance offices have seemingly limitless opportunities to glean new insights and boost their value to the business. Therefore, digitally mature finance offices consider data to be an **asset**. Hence, the availability, quality, and safe usage and storage of data are prerequisites for the effective functioning of today's finance offices. To manage all this, digitally mature finance offices collaborate closely with their IT colleagues and/or external technology vendors. These experts inform the finance employees about the right technologies for collecting, processing, governing and acting upon reams of information. Examples are cloud-based architecture that helps finance offices organise and reassemble data on the fly and data lakes that allow structured and unstructured data to be stored. The questions capturing the **technology sub-dimension** are found in Table 4.

Answering the various questions in our survey is a great starting point for CFOs and finance managers to assess their office's current level of digital maturity. At the same time, these questions help you reflect on a path forward. We asked the participating respondents to assess the survey statements regarding their finance office on a 5-point Likert scale (1 = 'strongly disagree', 5 = 'strongly agree'). While there are 4 sub-dimensions - i.e., strategy, people, culture and technology - we aggregate all of the results to reach an average **digital maturity level measurement**. After all, from our survey data, we find a strong correlation between the 4 sub-dimensions. Of course, these sub-dimensions co-vary as they share a common construct: i.e., the finance function's digital maturity. Since these **components** are **connected**, a weak performance on one dimension is often accompanied by a weak performance on another dimension. For instance, finance offices without a digitally savvy workforce are unlikely to exploit advanced technologies, and more conservative finance offices are less likely to attract digitally savvy employees. Hence, finance offices need to **invest** in all **4 sub-dimensions** before they can be classified as digitally mature. Therefore, the CFO or finance leader must have a good understanding of the characteristics of each dimension.

To assess the finance office's digital maturity, we split our sample into 3 groups: that is, we consider finance offices with a mean performance on all sub-dimensions below 3 as **digital pursuers**, offices with a score between

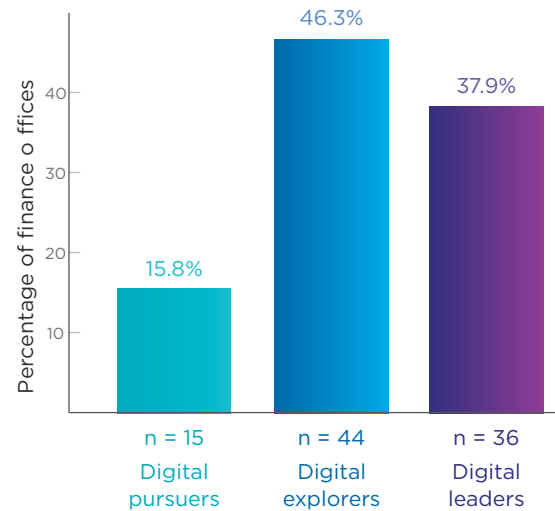


Figure 1: The average score of the sub-dimensions of our digital maturity construct. Results are based on the responses of 103 finance leaders of Belgian companies. The statements are graded on a 5-point Likert scale. Observations with missing values have been deleted.

3 and 4 as **digital explorers**, and finance offices with a score of 4 or higher as **digital leaders**. Digital pursuers are lagging behind and often lack many crucial components (culture, people, technology and strategy) to take advantage of and create value through digital technologies. Digital explorers have embarked on the digital transformation, while digital leaders are characterized by the successful use of analytics and data and possess the right skills and talents to embrace the technological advantages.

While almost half of our sample consists of finance offices that are digital explorers, more than 15% of the offices still need to get started (See Figure 1). 37.9% of the offices consider themselves to be digital leaders. As these are overall average scores, we notice that the sub-dimensions of culture and digital strategy score particularly high on the digitalisation agenda of CFOs and senior finance managers, with an average of 3.98 and 3.72, respectively. The technology and people components are lagging behind, with an average of 3.48 and 3.54, respectively.

When taking into account the **size** of the organisation (Figure 2), we see that we have relatively more digital finance leaders in large organisations compared to small and medium-sized firms. In terms of **sectors** (Figure 3), we find that the finance and technology sectors' finance offices are relatively more digitally mature compared to the healthcare and consumer goods and services sectors.

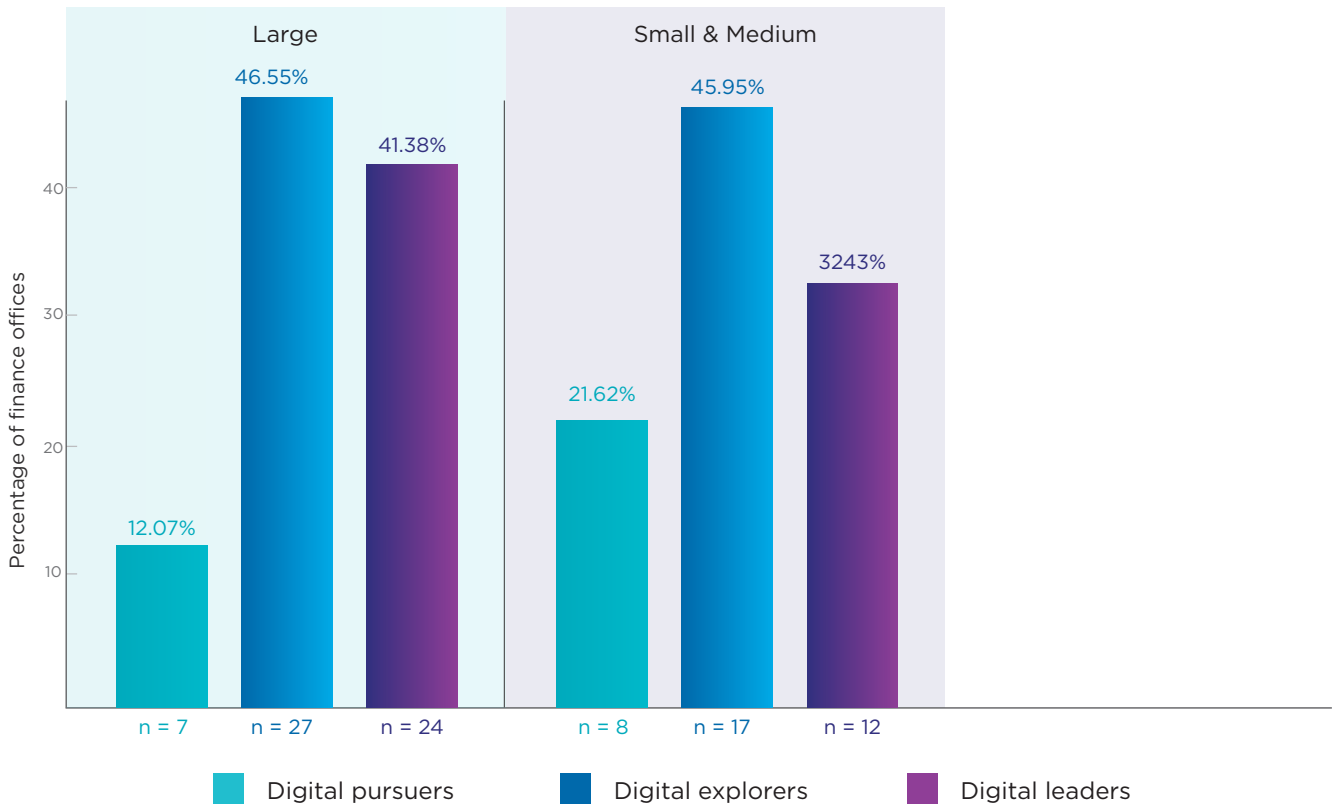


Figure 2: The relationship between the average score of the sub-dimensions of our digital maturity construct and sector. Results are based on the responses of 103 finance leaders of Belgian companies. The statements are graded on a 5-point Likert scale. Observations with missing values have been deleted.

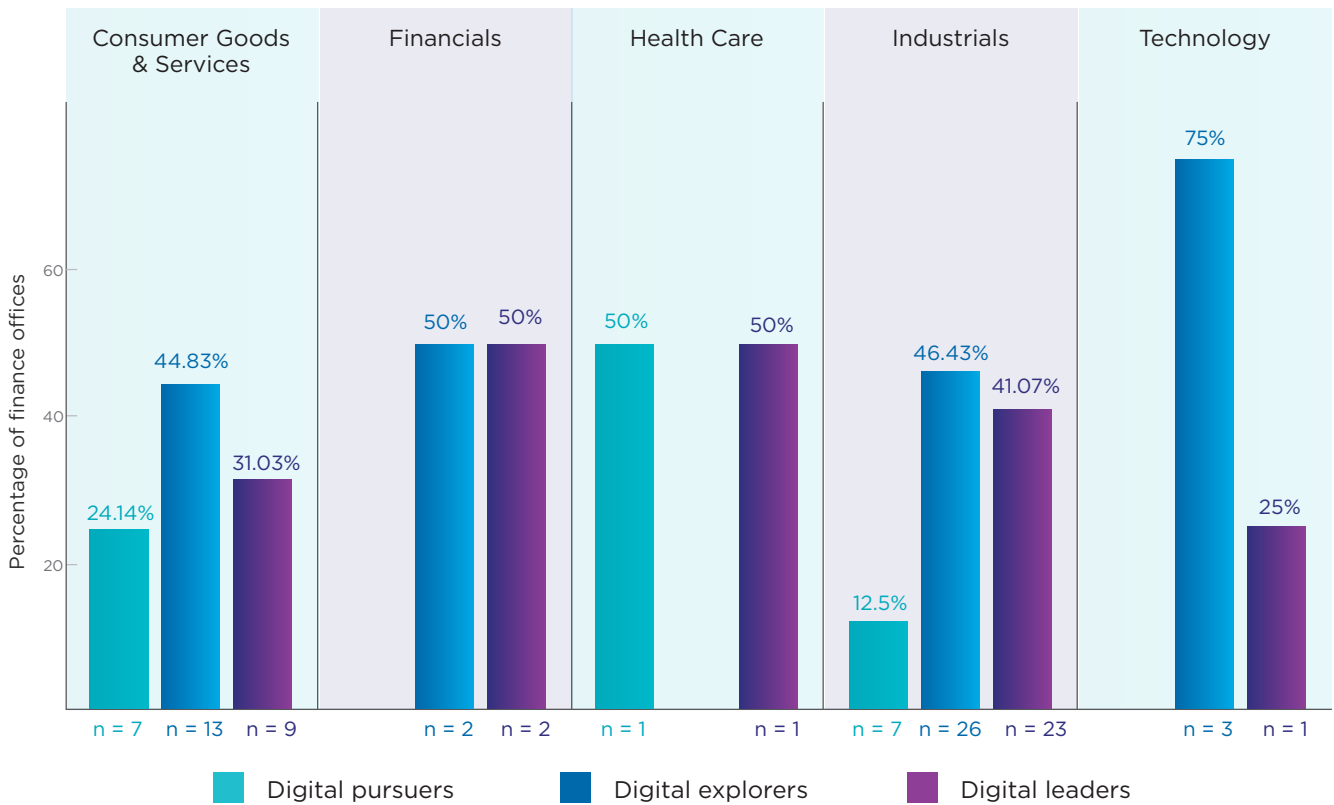


Figure 3: The relationship between the average score of the sub-dimensions of our digital maturity construct and company size. Results are based on the responses of 103 finance leaders of Belgian companies. The statements are graded on a 5-point Likert scale. Observations with missing values have been deleted.

THE IMPACT OF THE FINANCE FUNCTION'S DIGITAL MATURITY LEVEL ON ORGANISATIONAL PERFORMANCE

Although many reports claim that finance offices that are more digital-ly mature succeed in creating more value by being more efficient and effective, to our knowledge, no prior studies have

empirically explored and found this to be the case. In this study, we analyse the relationship between 3 main variables: the finance function's digital maturity, the finance function's strategic role, and **organisational performance**. To capture organisational performance, we developed a questionnaire that comprehends growth, profitability, and productivity spread out over 4 questions (Table 5).



ORGANISATIONAL PERFORMANCE

- The revenue of our organisation is increasing. (QPR_1)
- The number of employees in our organisation is growing. (QPR_2)
- Our organisation is becoming more profitable. (QPR_3)
- The productivity of our organisation is increasing. (QPR_4)

Our results (see Figure 4) show that more **digitally mature finance offices positively affect organisational performance**. As such, our study confirms that more digitally mature finance offices help companies become more efficient and create value by improved decision-making through data-based analytics.

Table 5: Questions capturing organisational performance.

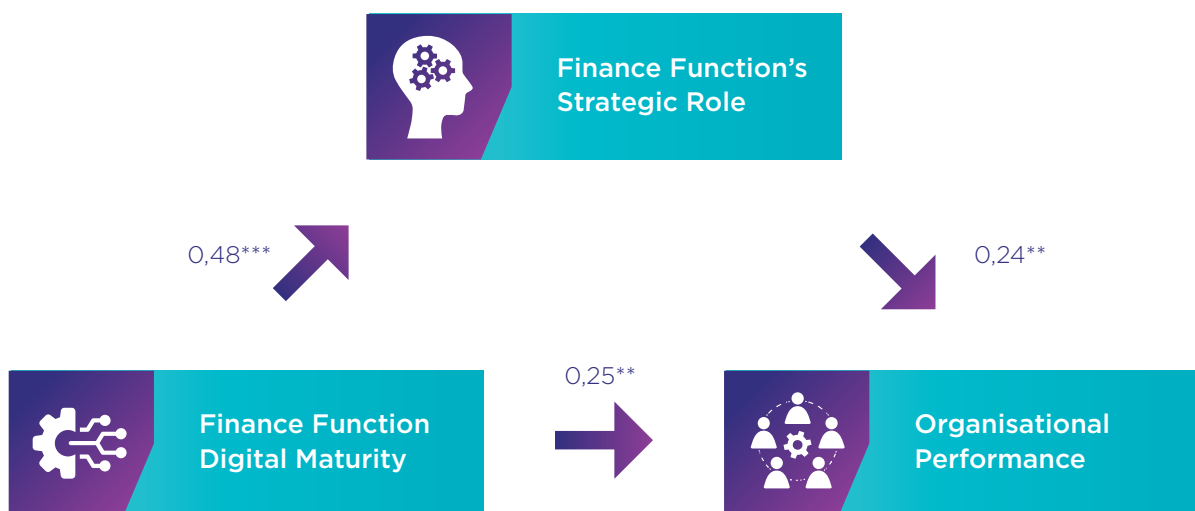


Figure 4: The relationship between the finance function's digital maturity, its strategic role and organisational performance. Results are based on the responses of 103 finance leaders of Belgian companies. The statements are graded on a 5-point Likert scale. Observations with missing values have been deleted. Results are significant under a confidence level of (**95%) and (***)99%.

What is still more interesting is that this relationship is largely **mediated** by the **finance office's strategic role** (table 6) within the company. That is to say, digitally mature finance offices help transform the finance office from merely a financial manager and backwards-looking observer into a forward-looking partner. Thus, the digital transformation of finance offices enables them to become their organisation's preferred partner to help them thrive in the future. **Digitally mature finance offices** not only **help their organisations create value**, investing in the digital transformation of your finance office

will also help it **play a leading role in the organisation's strategic decision-making**. In other words, whereas, in the past, finance offices have often operated in isolation from the business and have been rigidly centralized, the digitalization of finance offices allows them to use data and technologies that enable them to work more closely with the business and provide strategic advice. More digitally mature finance offices are perceived to be more strategic by the outside, and therefore they are more often consulted for their advice.



THE FINANCE FUNCTION'S STRATEGIC ROLE

- The finance function is increasingly involved in strategic decision-making. (QSR_1)
- The company provides formal and/or informal advisory channels for finance function employees to participate in strategic decision-making. (QSR_2)
- Several finance colleagues are considered strategic partners of the management team. (QSR_3)

Table 6: Questions capturing the finance function's strategic role.

CONCLUSION

This white paper provides empirical evidence of the positive effect of the finance function's digital maturity level on an organisation's performance and on the strategic role of that finance office. In particular, more digitally mature finance offices are considered to be true strategic

partners to the business. That is to say, by embracing digital transformation, CFOs and finance employees begin to think bigger – they move from trying to solve traditional finance problems to helping reimagine the business, develop new operating models, and create sustainable value.



CAN'T GET ENOUGH?

We gladly refer to the previous white paper from the Centre for Financial Leadership and Digital Transformation: 'Do CFOs play a leading role in digitally transforming their SMEs? And if so, what does a successful digital CFO look like?' Among other things, this white paper discusses how CFOs who are involved in the digital transformation process distinguish themselves from others who are not involved. In short, to take the lead in digital transformation, the CFO

should possess or develop the following characteristics: an innovative mindset, leadership, and technological knowledge. Finally, we also recommend the white paper: 'Digital with a purpose', which is a collaboration of the digital specialists at Vlerick Business School. This white paper discusses what digital transformation means for your organisation and how you can have an even more significant positive impact on the bottom line, society, and the environment.

For more information about this white paper or about becoming a partner or member of the Centre for Financial Leadership & Digital Transformation, please contact:



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