Why CFOs must embrace a new world of work

View PDF
08/02/2024
Articles and Op-eds

Kalin Anev Janse, ESM Chief Financial Officer
“Why CFOs must embrace a new world of work”
Op-ed published by the World Economic Forum, 8 February 2024

- Against the backdrop of changing markets and monetary policy, chief financial officers (CFOs) emerge as financial captains steering organisations through uncharted waters.
- As the recent World Economic Forum Annual Meeting in Davos highlighted, CFOs play a pivotal role in capitalising on the potential of artificial intelligence (AI).
- As Co-Chair of the World Economic Forum Chief Financial Officer Community, here I share key insights from the Davos summit and delve into the discussions

and events attended by CFOs.

The last two years have been acutely difficult for chief financial officers (CFOs). We faced the fastest pace of interest rate increases in history, which pushed up the cost of capital. The outlook for 2024, however, seems to be more positive.

The year started upbeat, with great deals in the primary market. Capital markets are accessible for CFOs, which is a good sign, but there are risks out there to navigate, especially market and geopolitical tensions. At the World Economic Forum Annual Meeting in Davos last month, the CFOs noted the importance of managing risks, especially during refinancing waves. The upside is that Central Banks seem to be at the end of the cycle in hiking and more accommodative monetary policy might be next.

Surprisingly, cyber risks were identified as a less discussed, yet significant, concern for CFOs. The World Economic Forum Global Risk Report 2024 ranked cyber risks among the top five risks over the next decade. CFOs need to increase their attention to cybersecurity, given the potential for cyber events to create instability.

Mid-to-long term: AI and implications for CFOs

CFOs discussed the opportunities and challenges associated with artificial intelligence (AI), particularly generative AI, which can generate tailor-made content (from business plans to investment policies). The discussion emphasised the need for action in implementing AI strategies and adapting to technological discontinuities. Key challenges and opportunities raised include:

Blockchain versus AI

Unlike blockchain, which was seen as a technology looking for use cases, AI, especially generative AI, was considered a transformative technology with substantial applications. Research into AI is consistent as it reveals three things. Firstly, the productivity benefits are large. Secondly, they are implemented quickly. Thirdly, it’s the least skilled and least experienced people who benefit the most from these technologies. While blockchain had a negative return on investment for many CFOs, AI holds much greater potential.

AI is top of mind for most boards and investors

CEOs, CTOs and investors asked organisations and CFOs how they would transform their institutions using AI. One CFO admitted that just a year ago, there was only one question raised on AI during the quarterly investor call. Just three months later, it skyrocketed to 50 questions. Every CFO should have an innovation and AI strategy these days.

Risks of AI implementation

When discussing generative AI, the room is often divided between the pessimists and the optimists. When such a disruptive technology comes along, the companies that are early adopters usually are not the same companies in the lead at the end. Concerns were raised about the pricing of AI products and the difficulty in determining input-output relationships, although we do know it is net positive and margin enhancing.

AI regulation in Europe

Stifling innovation is the real risk of regulation. The impact of GDPR privacy laws on innovation is a point of contention. While some argue that the regulation has significantly hindered innovation, others say research indicates only marginal impacts. Critics point out that social media and algorithms still gather extensive data about individuals, irrespective of GDPR compliance. The effectiveness and true influence of GDPR on innovation remain debatable. AI regulation needs to find a balance, not starve off innovation and, at the same time, it must find a way to protect humanity. CFOs need to factor in AI just as they do factor in ESG regulation.

Enhanced productivity and cost savings to boost returns

History shows the pattern clearly. Every time a powerful new technology is introduced, there is alarm about job losses. Yet, over the long term, these technologies have created so much demand for higher-value jobs. The question is whether this time it is different with AI.

- Division of humans and machines is difficult to establish, the line is blurring, creativity was a human skill. Well, not anymore? Persuasion? Empathy? The

division of labour between humans and machines is in flux more than ever before. Examples were given of AI showing 'empathy' with HR decisions. The right balance between AI and keeping the 'human' in human is key for CFO and C-suite decisions.
- The rapid implementation of AI stands in stark contrast to the challenges associated with reskilling the workforce. Consequently, investing in AI appears more straightforward than undertaking the process of reskilling individuals. CFOs will need to focus on both. Re-education and re-skilling the workforce for the future needs to be a priority.
- A crucial aspect to consider is that, while we often discuss AI productivity, there's a need to focus on refining our data capabilities. How can we effectively integrate our data into large language models? We need to become adept value integrators. For CFOs, there might be an opportunity to boost returns and profitability by smartly using innovation and AI. Companies that don’t use it, will be laggards.

CFOs: brace yourselves for a new world

The year 2024 starts upbeat and more positive. Central Banks seem to be at a more balanced point with monetary policy. Markets might be more accommodative. However, geopolitical risks and a huge election year, with 70 countries – 3.7 billion people – half of the global population going to vote, means there is a lot to navigate for CFOs this year.

As one fellow CFO said, if an organisation has no AI or ESG strategy, it might be out of business in ten years. CFOs need to put AI (and ESG) on top of their agendas. CFOs need to actively engage with emerging technologies, especially AI, while addressing regulatory challenges and ensuring a proactive approach to risk management.

Over the coming months, the Forum's CFO community will explore use cases of generative AI (GenAI) for CFOs.

Author

[Kalin Anev Janse]
Chief Financial Officer and Management Board Member

Contacts

[Cédric Crelo]
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

[Anabela Reis]
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

[Juliana Dahl]
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu

George Matlock
Senior Financial Spokesperson
+352 260 962 232
g.matlock@esm.europa.eu