

Steering through collaboration:

CFOs driving new priorities for the future



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About this research

Steering through collaboration: CFOs driving new priorities for the future is an Economist Intelligence Unit report, sponsored by SAP. The report explores how collaboration between finance and other business functions is enabling CFOs to execute their strategic mandate. The research presents priority activities through which CFOs can steer the business in a rapidly changing environment to achieve more efficient financial processes, accurate forecasts and integrated risk management.

The analysis is based on a global survey of 800 senior finance executives conducted between August and October 2018. Of these, 400 represent companies with annual revenue of at least US\$500m. Respondents were drawn from four regions, with 200 each from North America, Latin America, Europe, Middle East and Africa (EMEA), and Asia-Pacific. A minimum of 50 respondents each were secured for the US, Canada, Brazil, Colombia, Mexico, Germany, Spain, the UK and Ireland, Japan, India, South-east Asia (comprising Singapore, Malaysia, Indonesia, Thailand, the Philippines and Vietnam), and Australia and New Zealand.

The regional analysis and country case studies will be published in January 2019.

Executive summary

It is well established that the modern CFO has a more strategic role to play in a business, but a clear action plan to achieve this is lacking. A key element of this is helping the business to deal with change. Some changes are planned: launching a new product or service, setting up operations in a new region or acquiring a competitor. Others may be unexpected: a major disruption to supply-chain operations, the emergence of new regulation and legal reporting requirements or the unpredictable impacts of global economic uncertainty.

Either way, when asked about the biggest challenges they face in executing their day-to-day activities, change is a recurring theme, according to a new survey of 800 CFOs and senior finance executives, conducted by The Economist Intelligence Unit. Managing unexpected changes to financial forecasts and adapting finance processes to rapidly evolving business models are top of mind.

Managing unexpected changes to financial forecasts and adapting finance processes to rapidly evolving business models are top challenges finance executives face in executing their day-to-day activities.

90%
of senior finance executives believe that finance should facilitate collaborative enterprise planning to ensure that operational plans are aligned with financial and strategic plans.

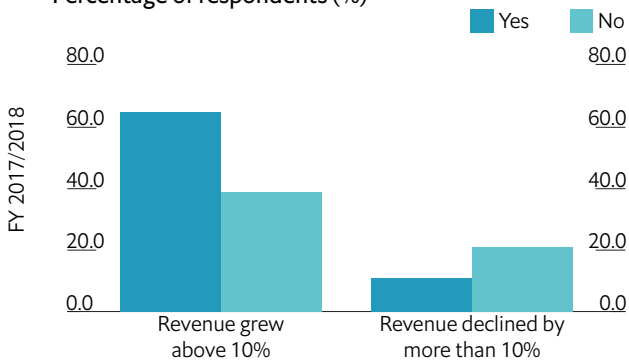
Finance executives are also concerned with identifying how to align strategic, financial and operational plans towards common objectives and meaningfully analysing data across business units and regions. "All functions are working to meet these challenges and, as a finance head, we have to have visibility across all functions, how they are progressing [towards meeting goals] and ensuring that their direction is in line with overall strategic goals," says Lalit Malik, CFO of Dabur, an Indian consumer goods manufacturer. It is incumbent upon CFOs therefore to be prepared not only to help their own function navigate uncharted territory, but the rest of the business too. That means breaking down the silos that commonly exist in organisations, in order to collaborate closely across functions, sharing information and data in the pursuit of common objectives.

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Companies in which finance executives feel empowered to drive strategic decisions were more likely to report higher financial performance

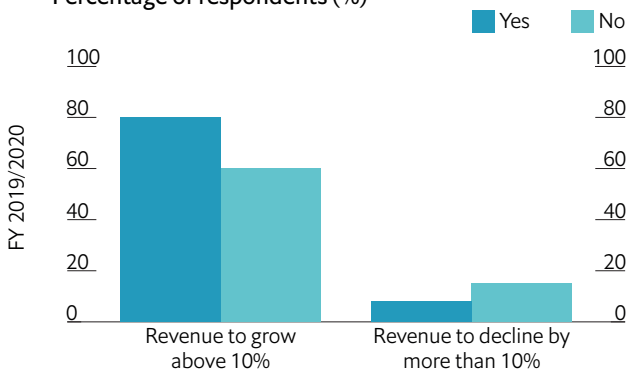
I personally feel empowered to drive strategic decisions in my organisation

Percentage of respondents (%)



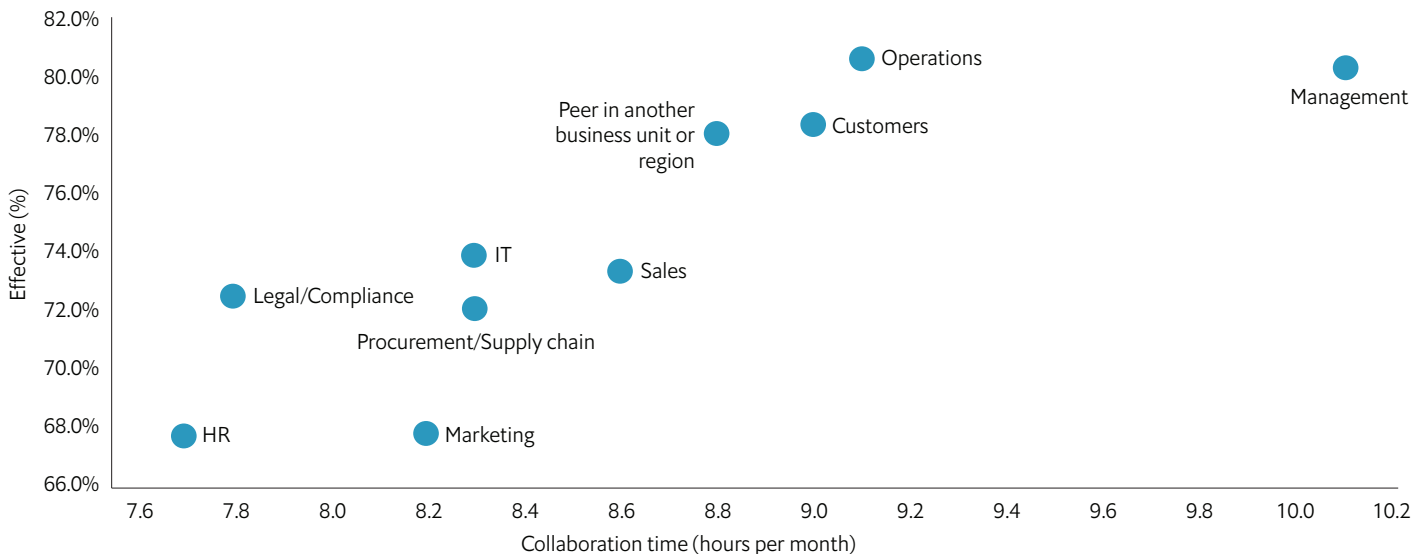
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Percentage of respondents (%)



Source: EIU survey.

More collaboration equals better collaboration?



Source: EIU survey.

The clear custodian of collaboration

There are a number of reasons why the role of leading cross-company collaboration around steering should fall to the CFO and their team. First, through the activities of budgeting, the finance function is the custodian of the clear, quantitative expression of management expectations and determines how resources such as cash and people will be allocated in order to achieve them. In our survey, 90% of respondents say that finance should facilitate collaborative enterprise planning to ensure that operational plans are aligned with financial and strategic plans.

Second, through performance management, the finance function is the gatekeeper for critical data that illustrate how well—or otherwise—the company is rising to the challenge of change. That includes data relating to sales, supply chain and delivery, which need to be reported back to the business in ways that help drive improved decision-making. Our survey reveals that companies in which finance executives feel empowered to drive strategic decisions across business functions are more likely to report a higher financial performance in fiscal year 2016/17 and 2017/18 and anticipate higher growth rates for 2019/20.

Steering through effective collaboration

Today, CFOs and senior finance executives spend the most time collaborating with the management/strategy function—on average, around 10 hours per month. Engaging with them has been important to fulfil a core component of the finance function—spend management. Management/strategy is among the top two functions with which finance executives need the most collaboration to manage eight out of 12 essential spend components. Indeed, 80% of respondents believe this collaboration to be effective, reflecting a much higher degree of confidence in these collaborations than those with any other part of the business.

By contrast, only 68% believe their collaboration with HR to be effective, and the same proportion for marketing. But to go beyond their traditional role and fully embrace their broader mandate will require more and better collaboration with these functions, as well as with procurement/supply chain, legal, sales, and IT.

Our research reveals that the more time respondents spend working with different functions, the more likely they are to believe that collaboration is effective. Correlation does not imply causation, however: time spent with other departments might improve collaboration, or finance teams might simply be spending more time with the departments they already work well with. Either way, finance leaders should consider who they do not spend time with, and the reasons for it.

In our survey, finance executives have clearly identified priority activities through which they can steer the business.

Leading benefits of collaboration:



Better strategic investment planning



More accurate financial forecasts



Better risk management

These directly address the top challenges finance executives face on a day-to-day basis.

These differ by sector too, meaning finance executives must alter the nature of engagement with key functions depending on the sector in which they operate.

Activities they chose demonstrate a **desire for a “deeper dive”** into business operations, enabling them to drive decisions at a more granular level in some instances. They want more involvement in employee retention strategies with HR; vendor selection strategies with procurement and supply chain; and developing sales strategies at the product-, geographic- and client-level with sales and marketing.

The areas of the business that finance executives focus on for more detailed insights vary by sector. In manufacturing, they have indicated a preference for greater involvement in employee productivity analysis with HR and customer acquisition cost analysis with marketing and sales. In financial services and other services, finance executives expressed an interest in working more closely with HR in determining office space requirements and design, which impacts real-estate expenditure.

Such collaboration ultimately helps to secure a more accurate picture of the state of affairs (including forecasts), enabling better investment planning and risk management. These are among the leading benefits of collaboration cited by finance executives, which directly address the top challenges that they face on a day-to-day basis.

To achieve **integrated risk management**, identifying emerging risks across the business is the most important element to collaborate on, they say. This is mirrored in activities they have prioritised such as fraud and corruption detection with procurement and supply chain and cyber-security risk analysis with operations.

While these are important across most sectors, there are noteworthy differences in the approach by sector. To identify emerging risks, finance executives in the manufacturing and consumer sectors want to be more involved in supplier audits and vendor compliance with procurement and supply chain. With marketing and sales, identifying evolving consumer preferences is prioritised in the manufacturing sector while customer data privacy management strategies and compliance is prioritised in the consumer sector. Respondents

in financial services are keen to focus on brand reputational risk assessment with marketing and sales; employee conflict management with HR; and guiding regional management on evolving tax procedures and business regulation with operations, in their efforts towards integrated risk management.

Effective collaboration benefits spend management too. Respondents cite a better understanding of intransigent costs and improved budgeting among the top five benefits of collaborating with other business functions. Globally, finance executives find technology investment and capital expenditure the most difficult to manage, requiring collaboration with the management/strategy function (along with IT for technology investment and operations for capital expenditure) to manage the expenditure more effectively.

Technology investment and capital expenditure are the most difficult cost components to manage. It requires collaboration with:

-  **Management**
-  **IT**
-  **Operations**

This acknowledges that a strategic and collaborative approach can be effective in optimising spend management, expanding

the toolkit beyond traditional approaches of across-the-board cost and headcount reduction.

Managing technology investment is particularly challenging for the manufacturing and financial services sectors (cited by 47% in each industry v 37% on average in the remaining sectors). These were the highest levels of concern in any industry about any cost: against the backdrop of the fourth industrial revolution and fintech respectively, CFOs grapple with the pace of technological change and uncertainties around variables to assess return on investment.

Supply-chain costs, listed third after technology investment and capital expenditure, are similarly exposed to change. The industry in which supply-chain costs are significantly more difficult is manufacturing (37% of respondents v 27% on average in the remaining sectors). With increasingly global supply chains, this cost is the most susceptible to unpredictable changes to tariffs, labour disputes, disruption in logistics as a result of extreme weather conditions and partner compliance, among others. For companies that deal in the physical supply of products in particular, greater involvement in vendor selection with the procurement/supply-chain function for instance, may help to mitigate some of these issues. In the consumer and energy/natural resources functions, finance executives are interested in supply-chain analysis for mergers and acquisition assessment, to determine which aspects of the value chain need to be brought in-house to mitigate risks and manage costs.

Benefits of effective collaboration between finance and other business functions



Source: EIU survey

Priorities for collaboration between finance and other business functions



Source: EIU survey

A matter of time

Despite a willingness to engage more deeply with colleagues in other functions, significant constraints continue to hamper the ability of CFOs and senior finance executives to do so. The limited time available for collaboration given their current workloads was more of an impediment than leadership and cultural challenges.

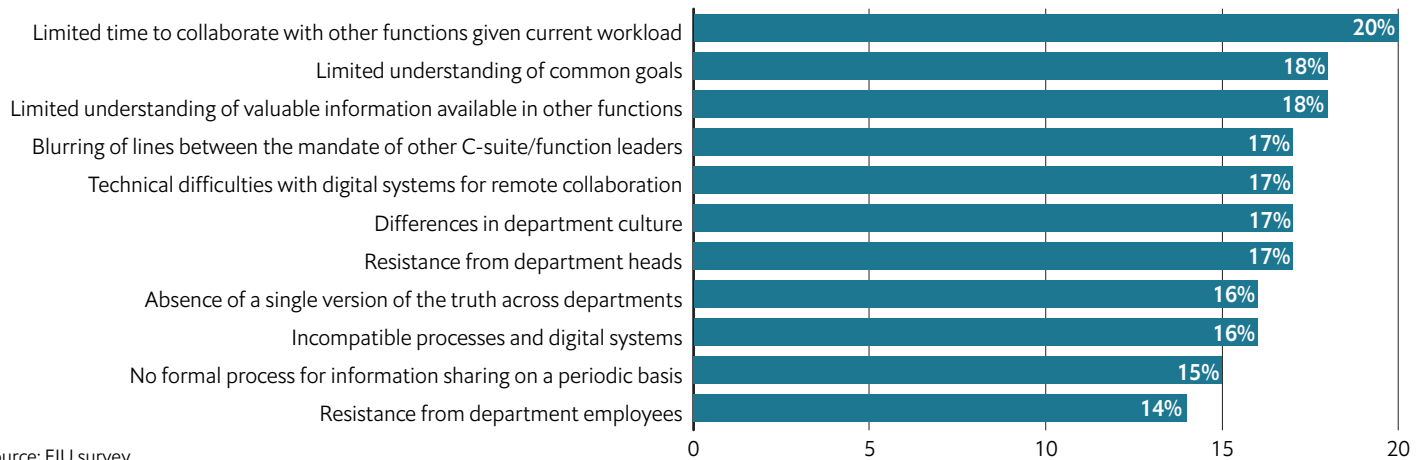
Automation could do much to alleviate the pressure imposed by time constraints, respondents agree. They expect that around 20% of the CFO role will be automated in the next three years, about 30% in the next three to five years, and about 40% in five to ten years. Recent research from McKinsey & Company, a management consultancy, bears this out: it concludes that currently demonstrated technologies can fully automate 42% of finance activities (for example, cash disbursement, revenue management, and general accounting and operations) and mostly automate a further 19%.

The finance team has already been an enthusiastic adopter of technology and is keen to leverage it more to steer the business.

Now, they're looking at a range of emerging technologies to enhance collaboration. Top of this list is cloud computing and real-time information sharing technologies, according to 67% of respondents combined. Both reinforce the need for an up-to-the-minute view of current business conditions and emerging trends. In third place is predictive analytics, where sophisticated algorithms parse historical data in order to make accurate forecasts of future outcomes. All three emerging technologies tie in closely with this need to keep up with the pace of change, react quickly as events unfold and manage unexpected changes to financial forecasts, in keeping with the previously stated challenges facing CFOs.

Respondents are in no doubt as to the implications of this for their own work, anticipating more time to work on higher value, more strategic activities. Should automation of core accounting processes lead to greater efficiency and free up 30-50% of their time, CFOs say they would most like to focus on identifying more strategic investment opportunities for the business and be more involved in sales and operational strategy development. Globally, respondents were least likely to focus on human resource and supply-chain strategy development, but our research reveals that these are critical areas for collaboration for better risk management, more accurate financial forecasts and managing intransigent costs.

Impediments to more and better collaboration between finance and other business functions



Source: EIU survey

Moulding tomorrow's CFO

When it comes to members of their department, however, senior finance executives would prefer the time freed up through automation to be focused on training in more advanced financial and technical skills (57%). This suggests that, despite having a broader, more strategic mandate within their organisations, finance executives are keen to retain and define the unique capabilities and perspective they offer to the business.

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But they acknowledge that collaboration will be a core component of the job going forward. In addition to traditional financial skills, finance executives of the future will need to possess an understanding of business strategy and operations, 50% of respondents believe, as well as critical thinking and effective communication skills. "You need soft skills to collaborate," explains Alexander Lind, CFO of Allergopharma, a pharmaceutical company. "When you're a CFO who is very technical, who knows a lot about finance and

who only talks about the numbers but does not understand what's behind the numbers, doesn't speak the language of other functions in the business, and does not really know how to deal with people, then collaboration is difficult."

At the same time, a large share believe knowledge of emerging technologies to be imperative, but they make a clear distinction between this general proficiency and more in-depth technical capabilities, such as writing code. For the rising finance executive and tomorrow's CFO, this offers vital guidance, as direct reports to the CFO surveyed for our research were significantly less likely to anticipate automation.

Skills for the future finance executive beyond traditional financial skills



Source: EIU survey

What is clear is that collaboration has become an important tool for finance executives in delivering on their strategic mandate, enabling them to steer the business amid fast-paced changes to the business environment. Technology could hold the key to overcoming barriers to greater collaboration, particularly those that support real-time information sharing and predictive analytics, as well as automation that frees up time for greater engagement with other functions. Ensuring that CFOs feel empowered to

drive decisions through company-wide collaboration and planning is vital and can deliver many benefits—from better investment planning to better risk management, and more accurate financial forecasts to improved understanding of intransigent costs. “At this level we help the business to make the right strategic and operational decisions,” says Lionel Finidori, the North America CFO of Schneider Electric. “And it is at this level that the value of the function is at its highest.”

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