



# The Finance Function of the Future

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## BACKGROUND

While the origin of finance can be traced to the start of civilization, with the earliest historical evidence of finance dating to about 3000 BC, it was in the middle of the 20<sup>th</sup> century that finance emerged as a distinct discipline, separate from economics.

The Chief Financial Officer (CFO) role emerged in the 1960s, and together with the finance team, the CFO is saddled with the responsibility for managing the company's finances, which includes financial planning, financial management and financial reporting.

However, the business environment has changed significantly since the 1960s and C-Suite executives expect much more from the finance team than lies within the scope of the traditional functions. With factors ranging from the global financial crisis and the COVID 19 pandemic to technological advancement, today's business environment is more volatile, uncertain, complex and ambiguous (VUCA) than ever before. Due to increasing complexities and uncertainties, today's CFOs are under more pressure to cut costs, grow revenue and manage risks.

## THE NEW CFO MANDATE

The role of the CFO has evolved and expanded to include strategy, enterprise risk management, performance management and communicating the organization's story to the outside world. We are beginning to see the emergence of new designations such as Chief Strategy officer (CSO) and Chief Financial and Operating Officer (CFOO) to capture the realities of the changing role of the CFO and the finance function.

According to a survey by McKinsey, the average number of functional areas reporting to CFOs increased from 4.5 in 2016 to 6.2 in 2018 with notable increase in the areas of board engagement and digitalization (i.e. enablement of business process automation, cloud computing and advanced data analytics). Other non-traditional functional areas reporting to the CFO highlighted by the survey include risk management, corporate strategy and investor relations, with risk management being the function that most commonly reports to the CFO.

Countless organizations are struggling with the effects of the Ukraine-Russia war that has led to major supply chain disruptions and record-high inflation globally, coupled with the aftermath of the COVID 19 pandemic which organizations are still yet to fully recover from. Financial survival is only one challenge as these crisis have resulted in existential threats to many businesses. The CFO is at the heart of efforts to manage the growing risks. Beyond managing financial risks, the CFO and the Finance team is required to

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actively participate in enterprise risk management by facilitating risk analysis, management and contingency planning, and also help to identify risks and opportunities.

Business executives are looking to the finance team to deliver valued insights to enhance the formulation of strategies to navigate through the challenges. PwC's 22nd Annual Global CEO Survey highlights a large gap between data considered critical or important for decision making and the comprehensiveness of that data as currently received from the finance team. There is an increased expectation on the Finance function to support strategic planning through active participation in strategic, forward-looking planning and projections by providing actionable insights. In an age of big data and increased uncertainties, this would require the Finance team to deploy advanced data analytics for robust forecasting through predictive analytics and scenario planning. Finance teams can no longer operate in silos, as they need to collaborate a whole lot more with teams across the organization to gain better insight into the business and understand how value is being created.

**The finance function cannot survive in the future as a back-office function. To remain relevant, finance teams must evolve to become business partners in strategy and value creation**

Business executives are not the only ones calling for deeper insight into business operations, investors and other stakeholders such as civil society groups and labour unions are clamouring for greater disclosures relating to how the organization creates, preserves and erodes value that impact on various stakeholder interests. The challenge here is that how value is defined for investors, customers, employees, the society and other stakeholders varies. For example, value for the society includes contribution to the Sustainable Development Goals (SDGs) while customers perceive value as delivery of innovative and responsible products. These are well beyond the scope of the financial statements which report only financial values. The mandate for the finance function is to evolve from accounting for the balance sheet to accounting for the business and value creation. As Mervyn King, Chair Emeritus of the International Integrated Reporting Council (IIRC), puts it, "the CFO should be known as the CVO – chief value officer." This shift calls for a multi-capital approach which provides a framework to rethink how value is created and measured over time using both financial and non-financial capital such as human, intellectual, natural and social capital. To achieve this, the

International Integrated Reporting Council (IIRC) (now known as the Value Reporting Foundation) created the Integrated Reporting Framework which sets out how CFOs and their teams can measure, track and report performance covering three (3) interconnected enterprise value creation perspectives: balance sheet, business, and societal value.

## THE FINANCE PROFESSIONAL OF THE FUTURE

As industries undergo accelerating change, finance professionals must adapt and embrace new challenges and opportunities for career success. Finance professionals must begin to rethink their roles and reposition themselves to remain relevant or suffer becoming an endangered species.

In 2017, the Professional Accountants in Business (PAIB) Committee of IFAC started creating a vision for the future profile of an accountant in business. This has led to the creation of seven (7) different roles to capture how finance professionals will be integral to business, both currently and in the future.

- **Co-Pilot:** This involves leading strategically, facilitating change, and influencing people and decisions. This requires a strategic mindset in leadership roles, such as CFO or Vice president of Finance, to be actively involved in all significant business decisions and major initiatives to drive change and growth.
- **Navigator:** As a navigator, the finance professional should steer an organization toward value creation and sustained profitability by providing decision-relevant and actionable insights. Requires a focus on supporting decisions to identify trends and uncertainties, opportunities and risks, trade-offs and implications through scenario planning, forecasting and predictive analytics.
- **Brand Protector:** Ensuring business integrity and sound reputation through good governance, risk and control, effective stakeholder engagement and social license to operate, and financial discipline.
- **Storyteller:** Enlightens internal and external stakeholders on the organization's narrative, how it creates value over Time, and the opportunities and challenges it faces.
- **Digital and Technology Enabler:** Enabling a cognitive and data-driven business that utilizes technology, digital and automation in ways that drive decisions.
- **Process and Control Expert:** Ensures efficient and effective end-to-end processes and work flows within and across finance and the organization.
- **Trusted Professional:** Professionally objective and skeptical, challenging the organization when needed.

**Finance professionals will need to grow competence in business and technology to be able to drive value creation and effectiveness**

Some roles will be more relevant to specific leadership roles, such as the CFO or Controller, while others are more relevant to other roles in the finance function, accountants working in commercial-facing and operational roles, or in internal audit.

## REPOSITIONING THE FINANCE FUNCTION FOR THE FUTURE:

No doubt, it is no longer business as usual for CFOs and their teams, but the big question is how can finance teams reposition themselves for the new demands. The transformation into the finance function of the future has to be a deliberate process with a clear development plan in the context of three (3) key dimensions: the work, the work place and the workforce.

- **The Work** – As operations become automated, the key role of the finance team will shift from traditional transactions processing, accounting and operational finance to business finance functions focused on being a business partner that provides actionable insights to guide strategic decision making and drive commercial outcomes.

- **The Workplace** – This represents the structures and practices to enable the finance professionals to create value. As digitalization continues rapidly, CFOs and other Finance leaders must work towards digitization of the finance function. This includes adopting digital tools and technologies such as Robotic Process Automation (RPA), Artificial Intelligence and predictive modeling to transform finance tasks and service delivery models. For example, self-service reporting tools and digital assistants (e.g. chatbots) can be used to respond faster to internal requests from business leaders.

In addition to digitalization, the finance workplace will need to enable and facilitate collaboration across a broad range of interdisciplinary teams to tackle problems and challenges too complex to be addressed by any individual or group with the same skill set.

- **The Workforce** – With the scope of work expanded and the finance function becoming more digitally enabled, teams will need to be multidisciplinary, comprising of other professionals such as data scientists, business analysts and software engineers in addition to finance professionals. Finance professionals will need to grow competence in business and technology to be able to drive value creation and effectiveness.

The responsibility to upskill finance professionals is a collective responsibility of the finance professionals, the finance team leaders and the professional bodies. Finance team leaders need to design learning and development plans, comprising of a mix of classroom and on-the-job trainings to bridge the skills gap within their teams. Bridging the gaps may require hiring new professionals such as business/ data analysts to fill up the gaps. Talent management and learning development strategies of organizations need to support the delivery of a finance function development plan. On a wider scale, professional bodies need to revamp the curriculums to include digital education and other emerging trends in accounting such as multi-capital reporting.

Beyond the skill set of the finance workforce, Deloitte predicted in a 2018 report on emerging tech trends in finance, that the workforce would be augmented by robots and cognitive agents (artificial intelligence)



Talent management and learning development strategies of organizations need to support the delivery of a finance function development plan.

by 2025. According to Deloitte, *“people will do more human work including exception based and insight driven activities—work that is investigative in nature—as organizations realize the potential of automation and blockchain... Computers will handle routine requests from business leaders ... Activities ranging from budget queries to report production and more will be automated.”* In simple terms, the finance workforce would become a hybrid of man and machine. A diverse and digitally-enabled finance function will be more exciting to younger generation of professionals who are digital natives. The automation of transaction processing is seen as an opportunity to simplify processes and free up finance professionals to undertake more value adding roles.

A 2016 global survey on the role of CFOs by McKinsey revealed that many CFOs believe their companies are not yet prepared to manage these changes. However, CFOs need to take the lead in transforming their finance functions. Large organizations can create finance innovation labs to develop a strategic approach to the transformation of the finance function while smaller organizations can create a committee comprising of professionals across the finance, IT and business functions to chart the course for transformation.


## **CONCLUSION**


Faced with advances in technology, volatile business environment and growing expectations from business leaders and stakeholders, the finance function needs to brace up for more responsibilities that extend beyond its traditional roles. While these newer responsibilities present opportunities for finance leaders to differentiate themselves by contributing more to business growth and value creation, many finance teams are not ready for these changes.


To remain relevant in the future, finance teams must evolve from being back-office technical support functions to becoming business partners in strategy and value creation. A dual focus on technology and people development will equip finance teams for these growing responsibilities.

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