2022 CFO Insights Report

Finance leaders pivot from recovery to resilience

Contents

Executive summary

Today, finance leaders find themselves navigating a new wave of unexpected changes, including rampant inflation, talent shortages and supply chain bottlenecks. That's in addition to some long-established but evolving risks – such as cyber attacks and regulatory changes – that have not gone away.

Amid the turbulence, finance leaders have a vital role to play in steadying the course.

» Are they confident in their ability to manage these new risks?

» Are they clear about what mitigation measures they can pursue and how they should work with the wider business?

» And have they actually taken action?

To answer these questions, we surveyed 750 finance professionals in businesses across the U.S.

Where there's risk, there's also opportunity. And finance leaders have a role to play in seizing it. So we examined how they are pursuing opportunities related to ESG (environmental, social and governance) issues and digital transformation. Here are some of the key findings:

» Finance leaders have pivoted their efforts from revenue growth and improving cash flow to risk management, cost optimization and technology deployment. Yet 49% struggle to balance mitigating risk and driving growth.

» Survey participants identify talent shortages, digital disruption and high inflation as their top three risks, but less than 15% are 'very confident' in their ability to manage them.

» A clear digital strategy is needed: the lack of an enterprise-wide digital transformation strategy has risen to become the number one challenge to successfully executing digital initiatives within finance.

» The majority (69%) of finance leaders believe they have a strong role to play in ESG, but action lags intent.

49%

of respondents say they struggle to balance mitigating risk and driving growth

69%

of finance leaders believe they have a strong role to play in ESG

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New priorities: technology, risk mitigation and cost cutting

Risk management rises up the agenda

Finance leaders' priorities are very different today compared with one year ago, when businesses were only just emerging from the worst of COVID-19. In the next 12 months, finance leaders identify three top areas of focus: deploying technology within the finance function; improving risk identification and mitigation; and cutting costs and driving efficiencies within finance. Risk mitigation has particularly moved up the agenda: 30% say this is a top-three priority, compared with 18% last year. In contrast, finance professionals are significantly less focused on driving revenue growth and improving cash flow compared with 12 months ago.

Juggling these priorities is not easy: 49% struggle to balance the mitigating risk and driving growth. To prioritize effectively, the CFO must establish and then maintain a close relationship with the CEO to ensure that initiatives for the finance function are fully connected with the wider business strategy.

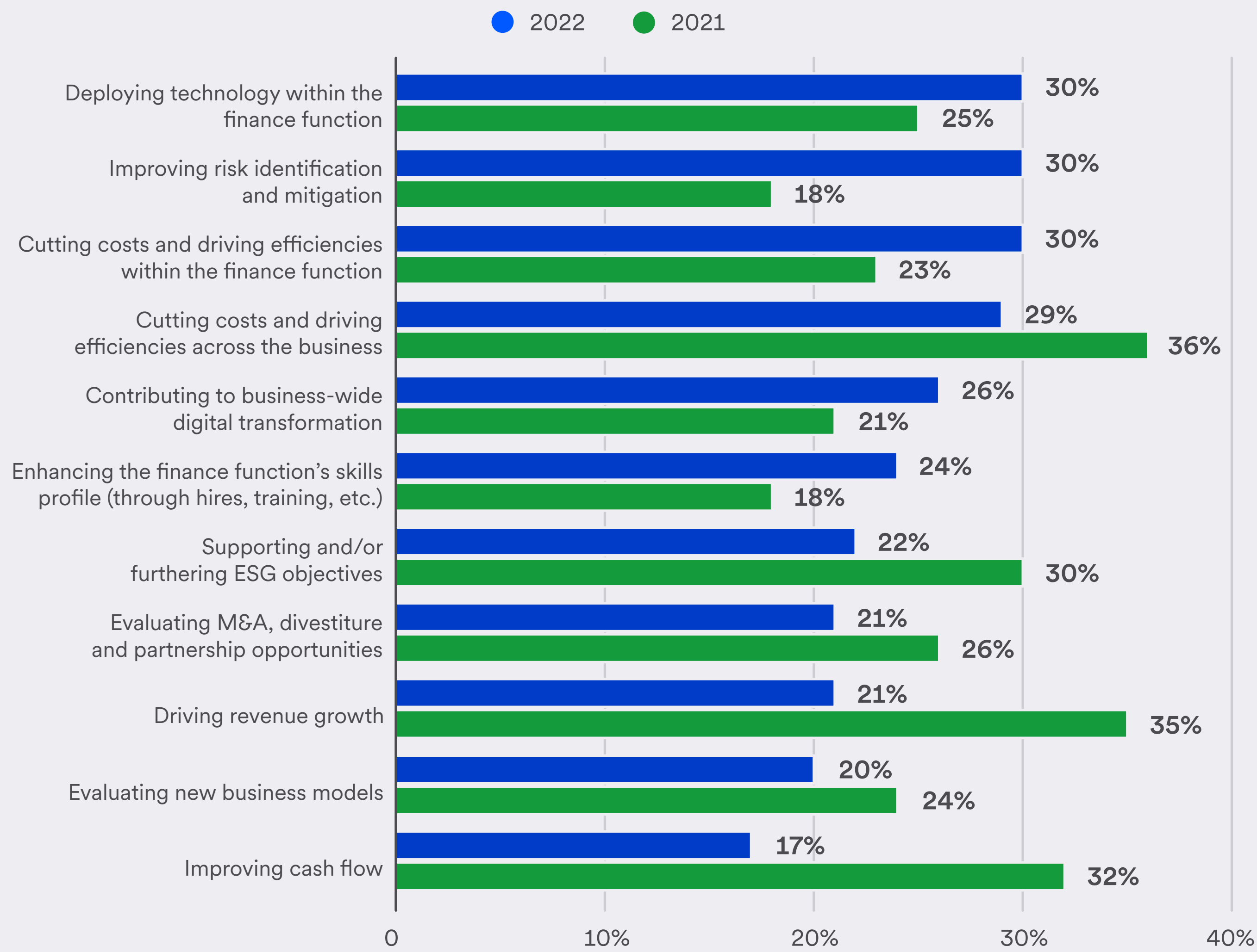
Finance leaders must also acknowledge that their priorities are often interconnected and that certain actions can help accelerate other key initiatives. For example, deploying technology (respondents' joint-top priority) can help cut costs (their other joint-top priority) by automating key business processes and improving the efficiency of finance processes. It can also improve risk identification and mitigation by amalgamating, cleaning and analyzing internal and external data to signal that a risk is about to materialize.

Layoffs fall down the agenda

The method by which finance professionals intend to cut costs has changed. Just 22% currently intend to reduce headcount as a cost-cutting measure – 12 months ago, 40% did. It could be that many businesses have already restructured their workforces in recent months. The 'war for talent' may also mean that businesses are reluctant to cut their workforce due to concerns about replacing them in the future.

Finance leaders have a key role to play in cutting costs, not just within finance but across the wider business. They can identify areas of high expenditure, unprofitable business lines

Finance leaders' priorities are in flux



and low-growth markets. With their unique vantage point of being able to see performance across the entire business, they can also suggest cost-cutting measures to parts of the business that have proven successful in others.

Mid-market businesses are mostly focused on streamlining operations

The priorities of mid-market and large companies are broadly similar, with one key exception. Cutting costs and driving efficiencies is the top priority for businesses generating less than $1 billion, but is only the sixth-most important priority for businesses generating more than $1 billion. This is likely to be because mid-market businesses are taking relatively longer to recover from the impact of COVID-19 than larger organizations and have smaller cash reserves, and therefore face greater cost pressure. In addition, many finance teams in larger businesses have already invested significantly in cost-cutting measures such as digitalization and automation. These gains are still available to mid-market businesses.

The survey also reveals that finance departments' priorities vary considerably by sector. For example, 46% in the oil and gas sector identify deploying technology within the finance function as a top priority, which is more than three times the proportion in real estate.

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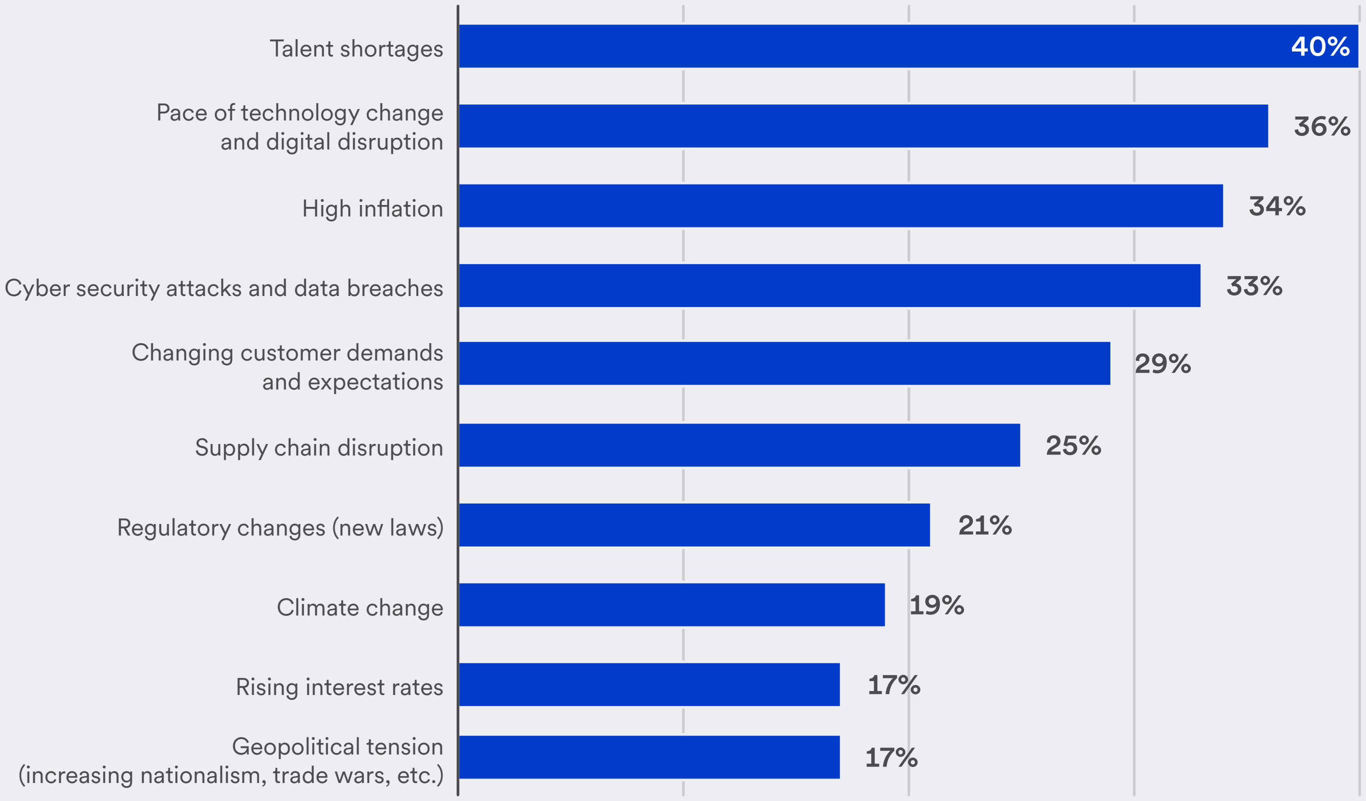
Managing new risks: action lags behind intent

Finance leaders lack confidence in managing new risks

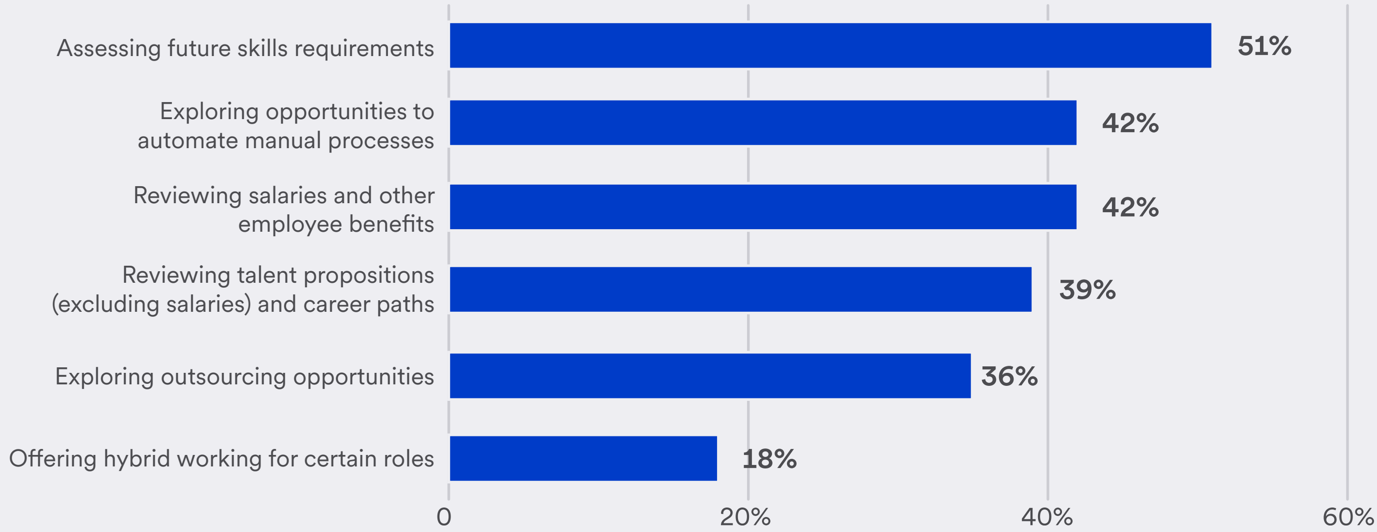
According to finance leaders, the top business risks are talent shortages, the pace of technology change and digital disruption, high inflation and cyber attacks. This is unsurprising: recruitment has become increasingly difficult as unemployment levels return to pre-pandemic lows[1], technology change continues to disrupt established business models, inflation is running at rates

[1] U.S. Department of Labor, The Employment Situation, August 2022

Talent shortages are the top business risk



Finance leaders can do more to manage risk
(percentages show the proportion that do each of the following)



unimaginable just 12 months ago, and large-scale cyber attacks and data breaches continue to grab the headlines.

But today, less than 15% of finance professionals at large (more than $1 billion in revenue) and mid-market (less than $1 billion in revenue) businesses say they are "highly confident" in their ability to manage any of these risks. Finance executives may not think that managing these risks falls within their area of responsibility – after all, the CHRO has ultimate responsibility for talent, and the COO or CSCO is responsible for supply chains. But that is wrong. CFOs have a unique, cross-functional responsibility, so they should help in multiple ways by working with these executives and their teams – in particular, contributing their analytical capabilities and using their views of risk and performance across the entire business.

There are some notable differences in risk prioritization across sectors. For example, almost half of survey participants in the technology, media and telecommunications (49%), real estate (48%) and consumer and retail (48%) sectors identify talent shortages as a major risk, compared with just 27% of those in banking and insurance.

Significant scope for managing talent risks

Finance leaders are well positioned to help their businesses manage risks associated with talent shortages. For example, they can help assess future skills requirements, explore opportunities to automate manual processes and review salaries and other employee benefits. But today, less than half do any of these.

Just 18% of survey participants offer hybrid working for certain roles. In the post-pandemic world, workers demand flexibility when it comes to where and when they work. Offering flexible working arrangements and rethinking the office environment can be key to attracting and retaining top talent.

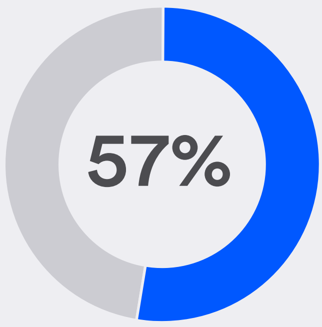
Businesses in certain sectors are ahead of others when it comes to mitigating talent risk. For example, 69% of finance leaders in the automotive and transportation sector are assessing future skills requirements, compared with just 31% in the mining and metals sector.

Ample opportunity to better manage inflation risk

By identifying cost-cutting opportunities, evaluating pricing, hedging against FX risk and rising commodity prices, or other initiatives, finance leaders have the opportunity to help manage inflation risk. The majority (57%) are identifying opportunities to cut costs, but fewer than four in 10 are conducting any other initiative.

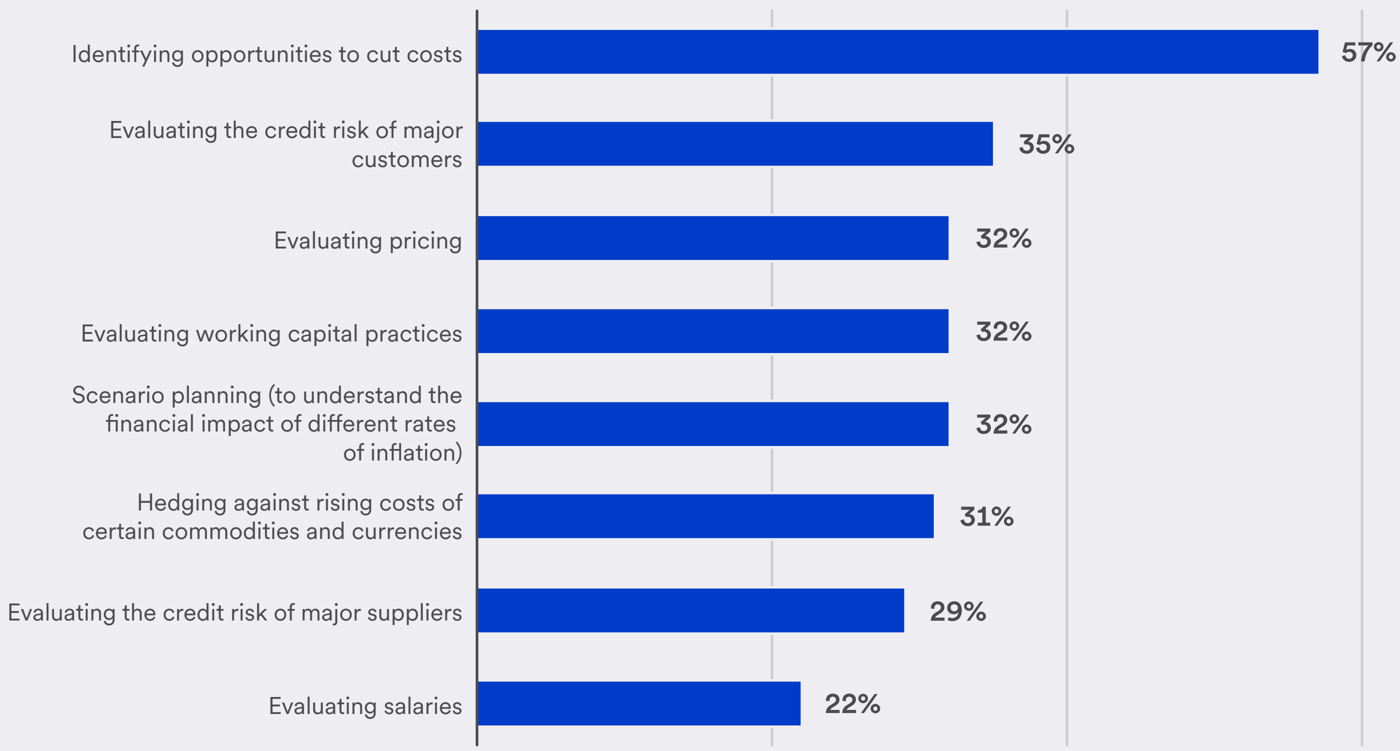
High inflation can rapidly exacerbate other risks. For example, inflation can cause suppliers to go out of business by causing energy costs to rise too high. Finance leaders can help their businesses understand how risks such as these are connected by, for example, evaluating the sensitivity of key suppliers and clients to inflation risk. But today, only 29% do this.

Finance leaders in some sectors are mitigating inflation risk particularly proactively. For example, almost three-quarters (74%) of finance professionals in the construction and engineering sector are identifying areas to cut costs, compared with less than half in the industrial products (47%), chemicals (47%) and mining and metals (49%) sectors.



of respondents are identifying opportunities to cut costs

Significant scope to tackle inflation risk
(percentages show the proportion that do each of the following)



Shoring up supply

A similar story emerges with supply chain risk. Finance leaders can help by evaluating stock and inventory levels, improving supply chain visibility or exploring reshoring or nearshoring opportunities. But fewer than four in 10 do any of these.

There are significant sector variations. For example, 44% of finance leaders in the automotive and transportation sector are using new digital technology for supply chain planning and analytics, which is more than double the number in banking (20%), insurance (17%) and professional services (17%).

Supply chain finance can help mitigate supply chain risk because it creates closer and more strategic relationships between supplier and purchaser and improves visibility of payment schedules. It involves a bank or other provider paying suppliers in advance of when they might have otherwise been paid by the purchaser, creating working capital benefits for both.

Michael Stitt, head of trade and supply chain finance sales and origination at U.S. Bank, explains the benefits. “Supply chain finance brings performance and liquidity benefits that you can measure, but there are also multiple relationship benefits,” he says. “As suppliers, you get much more visibility into your cash flows because suppliers and purchasers are connected via a technology platform and have much more control over the timing of your payment. You also become more of a preferred supplier because you are helping the buyer with their working capital objectives. In most cases, the buyer has a better cost of capital than the supplier, and the supplier can leverage this through this form of finance.”

Ample opportunity to address supply chain risk
(percentages show the proportion that do each of the following)

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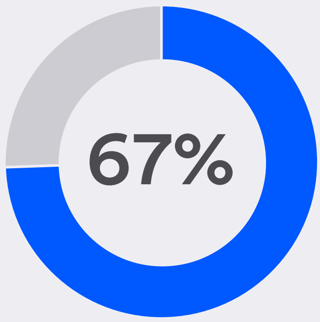
Navigating the next frontier of digital transformation

Performance reporting and analytics are ripe for disruption

Two-thirds of finance leaders say they successfully transformed how they operated during COVID-19, significantly more than the half that felt this 12 months ago. This likely reflects recent success in enabling members of the finance team to work from home and execute key finance processes remotely.

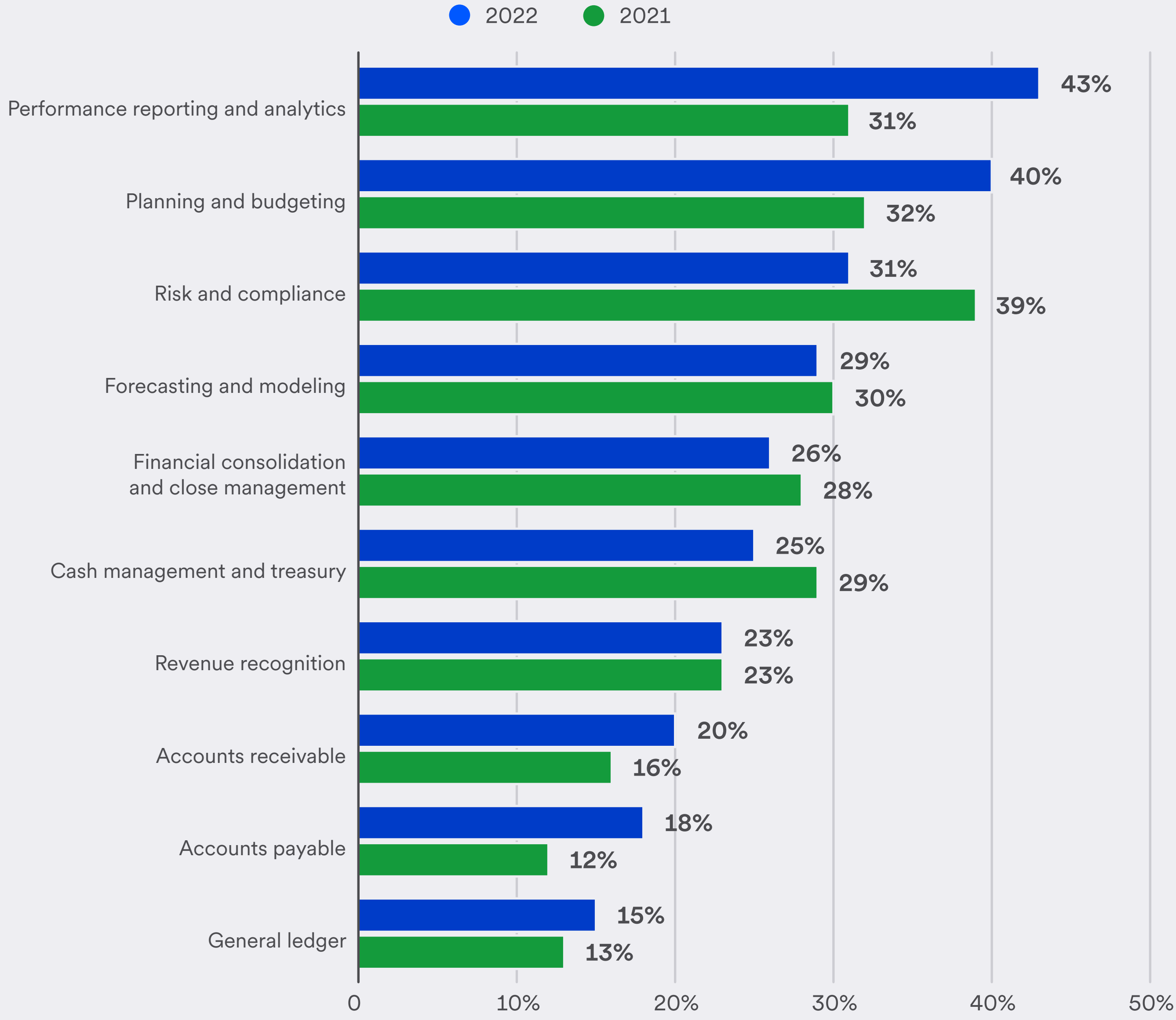
As we have seen previously, deploying technology within the finance function is a top priority. More specifically, finance leaders say that performance reporting and analytics and planning and budgeting would benefit most from digital transformation. In both of these areas, technology such as artificial intelligence, machine learning and data analytics platforms can assist by extracting, synthesizing and analyzing key financial and operational data needed for performance reporting, planning and budgeting.

Although it remains a relatively low priority, the proportion of finance leaders who say that accounts payable and accounts receivable are areas of finance that are ripe for digital transformation has grown in the past 12 months. One of these businesses is furniture retailer Living Spaces Furniture. “Prior to COVID-19 we were actively working on transforming our accounts payable department to a more automated and paperless system,” explains the company’s CFO Chris Lynch. “The volume of remote work during COVID increased the urgency and benefits of this initiative and we recently implemented an invoice capture system that allowed us to transform from paper to digital invoices, which has really streamlined the review and approval process. We are now exploring options to automate and streamline the accounts receivable process.”



Two-thirds of finance leaders say that they successfully transformed how they operated during COVID-19

Performance reporting and analytics are ripe for digital transformation



Digital strategies rise in importance

The lack of an enterprise-wide digital transformation strategy has risen to become the number one challenge to successfully executing digital initiatives within finance. Forty percent of finance leaders identify this as a top barrier, compared with 24% in 2021.

This is because digital transformation has become more complex and increasingly spans multiple business functions. Indeed, many businesses are pivoting their transformation efforts from enabling remote working and digital customer interactions to improving customer experiences. For example, take dynamic pricing – where businesses charge a different price based on the time, location and nature of the customer. Finance must participate in this transformation, but so too must operations and product teams.

> Don’t start to transform the enterprise from day one as you first need to figure out what works and what refinements need to be made to the culture.
>
> **DOMINIC VENTURO**
> Chief digital officer and
> senior executive vice president at U.S. Bank

Therefore, a robust collaborative strategy is needed to coordinate activity across different leaders and functions. CFOs should therefore work with the CEO to formulate such a strategy. If it already exists, CFOs need to understand what it means for the finance team and how they can assist.

As digital transformation initiatives become more complex, some businesses have created small teams comprising members from the finance and risk functions that work closely with business teams that are developing new products or implementing new technology.

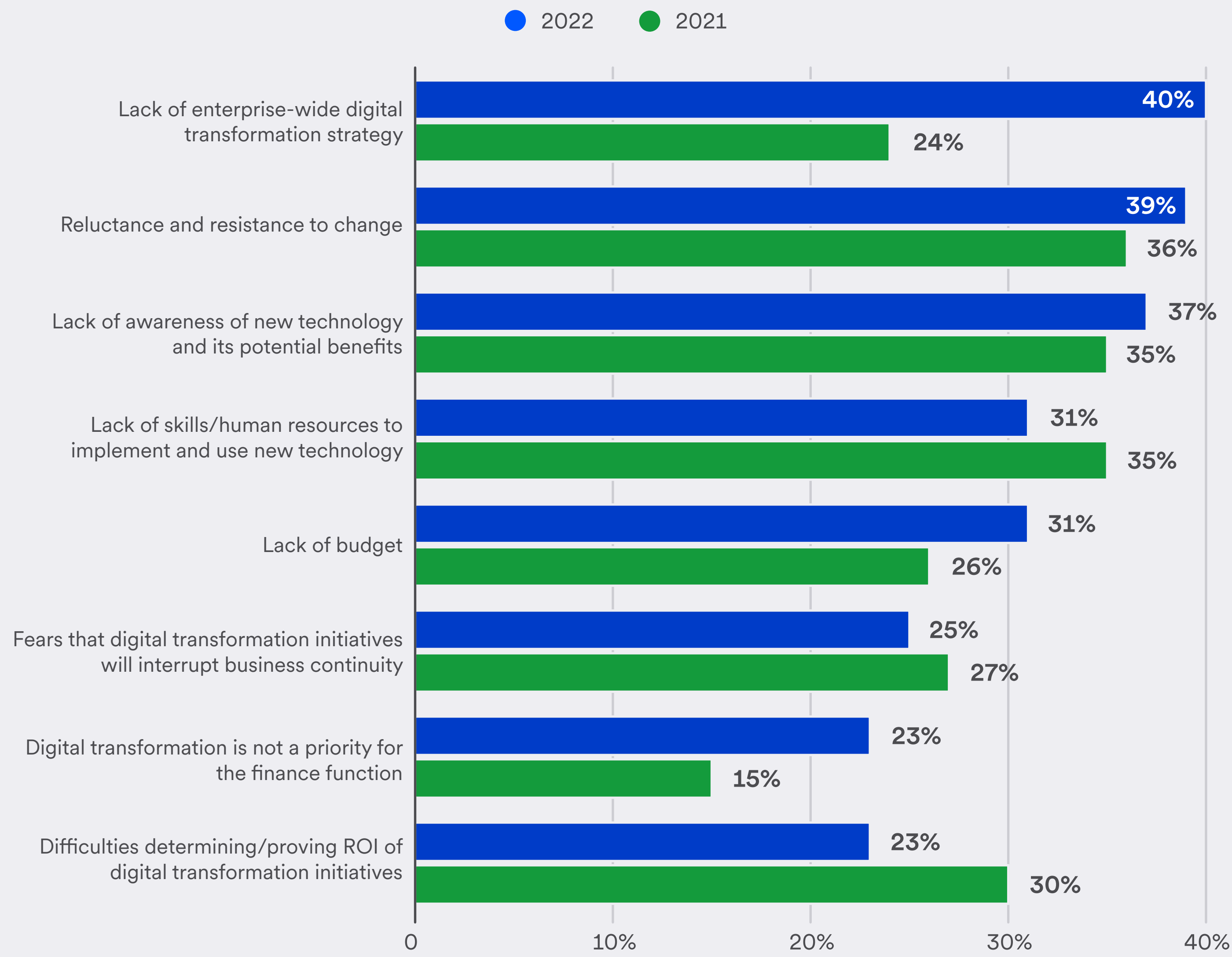
“We have created a finance and legal review team that gets involved right at the outset of any new product and digital initiative or idea,” explains Jamie Cohen, CFO of vacation rental business Vacasa. “The goal is not to create bureaucracy but to have a small number of people who can identify whether other teams need to be brought into the discussion, whether that be treasury, revenue accounting, internal audit or others. We want to make sure that the initiative is successful but avoid creating something that has to be rebuilt because it doesn’t have the right reporting in place so we can’t actually record the revenue, for example. Without this, there’s a risk that you create a huge amount of manual work for the finance team or you have to delay the rollout of a new product.”

Notably, reluctance and resistance to change is the top transformation barrier for organizations generating more than $1 billion in revenue, but is only the third-ranked barrier for those generating less than $1 billion. Finance leaders at larger organizations will therefore have to increase their change management initiatives so that employees buy into any digital transformation initiative.

Faced with an imposing set of challenges, businesses may find it difficult to know where to start their digital transformation journey. According to Dominic Venturo, chief digital officer and senior executive vice president at U.S. Bank, starting small is imperative.

"Many businesses wonder how they should start with digital transformation," he says. "One of the best practices we've done that we learned from other businesses is to identify an objective that is relatively easy to execute and achieve. Pick something that is small, well understood, and easy to define. You won't get it right the first time so start with something that you can iterate on. Success breeds success and you will then start to build momentum. Don't start to transform the enterprise from day one as you first need to figure out what works and what refinements need to be made to the culture. You need to scale from success."

Lack of enterprise-wide strategy and reluctance to change hinder digital transformation



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Closing the ESG say–do gap

Finance leaders are intent on addressing ESG issues

The majority (69%) of finance leaders believe they have a strong role to play in ESG (environmental, social and governance) issues, although the appetite varies according to the location of the business. Indeed, 81% of survey participants working for businesses situated in the Northeast believe they have a strong role to play in addressing ESG issues, compared with 67% in the West, 65% in the Midwest and 64% in the South.

But action lags behind ambition. For example, fewer than four in 10 finance teams assess the diversity and inclusion credentials of third parties and investments or assess the risk that climate change poses to the business's operations and supply chain.

< 4/10

fewer than four in 10 finance teams assess the diversity and inclusion credentials of third parties and investments

The survey reveals that finance leaders are in fact paying less attention to some ESG topics than they were 12 months ago. For example, just 21% say they are involved in ESG reporting – 12 months ago, 41% were. This may be because finance professionals are now focused on other priorities, such as the emergence of new risks. But caution is required here.

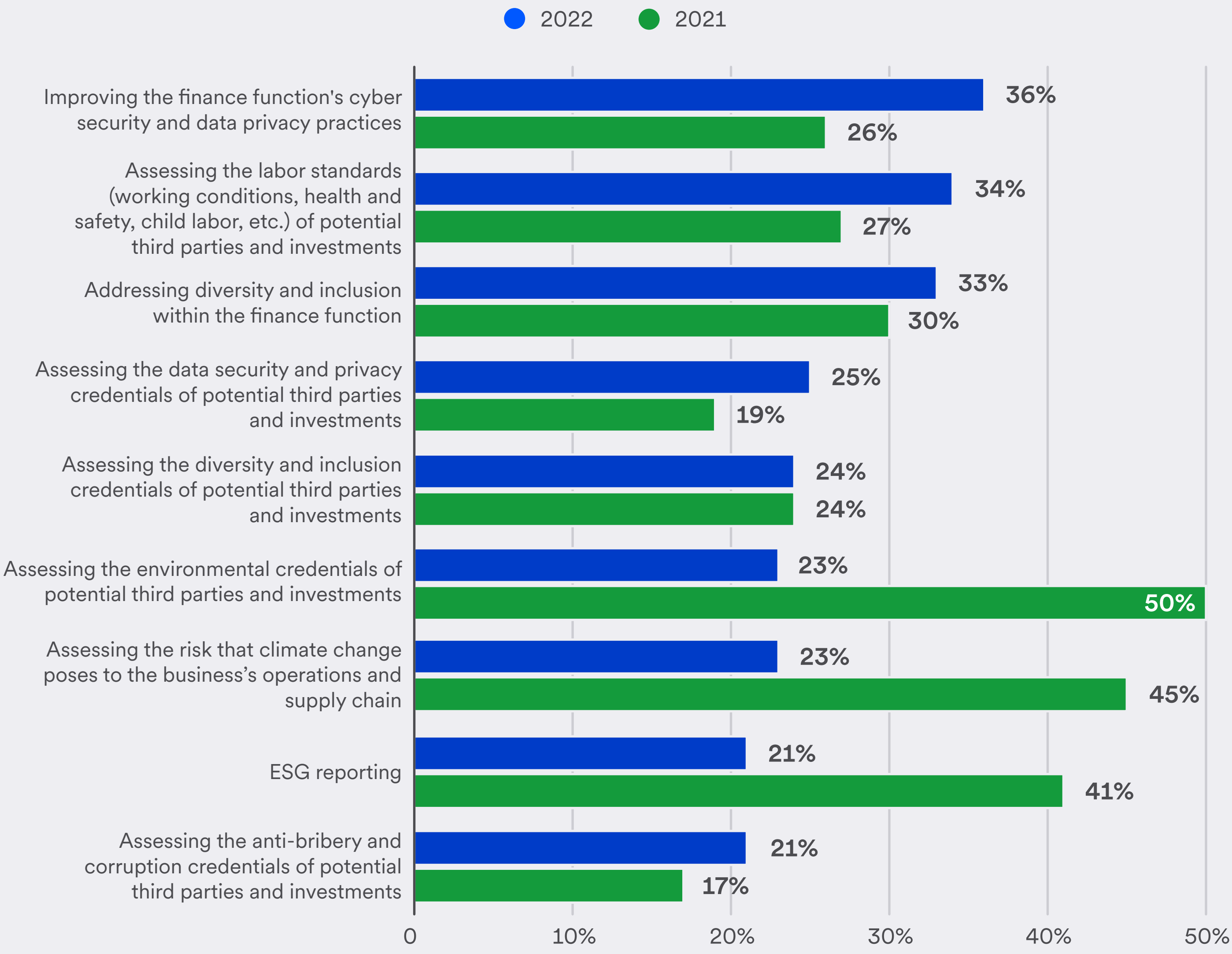
New regulations are emerging around the world that require businesses to report on ESG issues more thoroughly. A lack of focus now could lead to finance teams having to catch up in the future.

Regulatory requirements aside, pressure from consumers, employees and in some cases investors on businesses to address ESG issues means finance leaders should determine how they can contribute to their business's ESG agenda. Sustainability-related finance is a particular avenue for exploration. Indeed, 84% are open to raising sustainability-related finance, but just 31% have done so in the past three years.

Most publicly traded businesses are aware of sustainable finance and have evaluated the options. This is partly because they are already required to report on multiple financial and operational metrics, including some that relate to ESG that can underpin sustainable finance. Unlisted businesses that do not face the same requirements are much less likely to have raised sustainable finance to date. That said, they can still take steps to prepare for this opportunity.

“Private businesses that are interested in sustainable finance can start preparing now, even if they will not be in a position to access the market for another three years,” says Marcus Martin, managing director, head of ESG for commercial products at U.S. Bank. “They can start aligning around sustainable KPIs and begin reporting on them, even if you don’t get full assurance on this data for the time being. Then, you can run mock assurances of key data. These steps enable businesses to get ahead.”

There is significant scope to enhance ESG efforts



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MARCUS MARTIN
Managing director, head of ESG for commercial products, U.S. Bank

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Conclusion

In the past 12 months, the priorities of finance leaders have shifted from revenue growth and improving cash flow to risk management, cost optimization and technology deployment. The survey reveals that progress is being made on these new agendas, but there is still a long way to go.

For example, despite identifying talent shortages, the pace of technology change and high inflation as their top three risks, less than 15% are highly confident in their ability to manage them. From assessing future skills requirements and identifying cost-cutting opportunities to hedging against rising commodity prices and evaluating stock and inventory levels, this report outlines many steps that finance leaders can take to help manage key risks. But today, only a minority do any of these.

The survey finds that finance leaders are focused on digital transformation, especially in relation to performance reporting and analytics as well as planning and budgeting processes. But they are also challenged by the lack of an enterprise-wide digital transformation strategy and reluctance and resistance to change. CFOs have a strong role to play in helping their business overcome these hurdles, starting by working alongside the CEO and other executives to formulate a strategy for digital.

Although the majority (69%) of finance leaders believe they have a strong role to play on ESG issues, action lags behind intent. For example, just 21% of finance leaders are involved in ESG reporting. If ESG is a key part of business strategy, it must become part of the finance team's agenda.

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About the research

The results of this research are based on a survey of 750 senior finance leaders who work in U.S. businesses across multiple sectors. Half of the survey participants are group, regional or divisional CFOs. The remainder are senior managers within the finance function. Every surveyed finance leader works for a business that generates at least $100 million in annual revenue, and 45% generate more than $1 billion*.

In addition, interviews were conducted with the following individuals:

» **Jamie Cohen**
CFO, Vacasa

» **Chris Lynch**
CFO, Living Spaces Furniture

» **Marcus Martin**
Managing director, head of ESG for commercial products, U.S. Bank

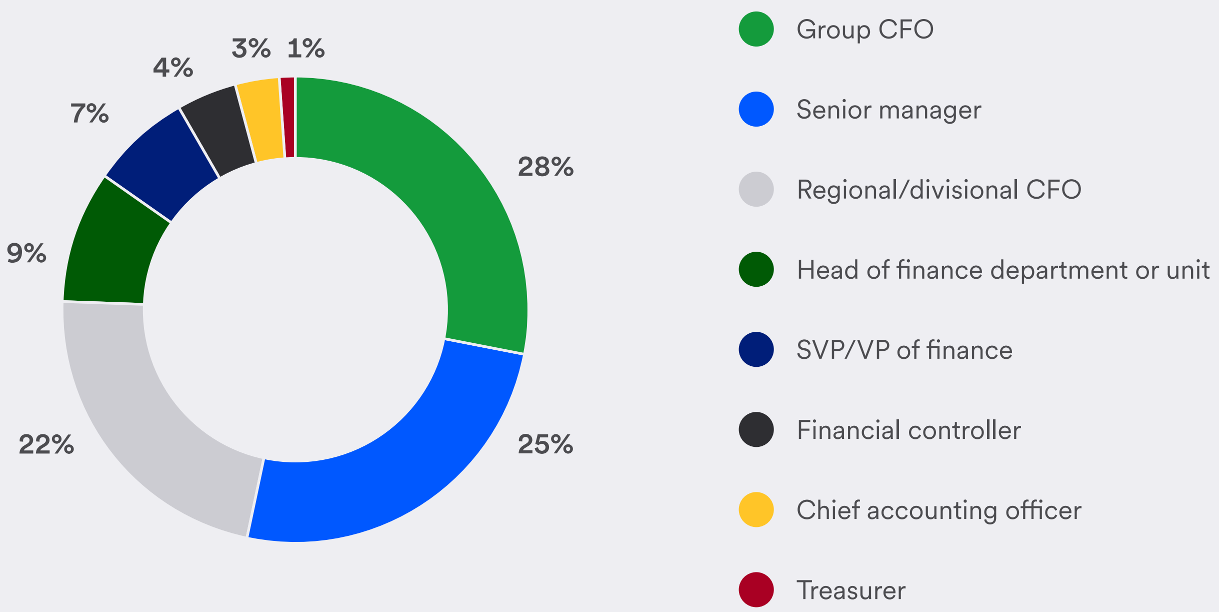
» **Michael Stitt**
Head of trade and supply chain finance sales and origination, U.S. Bank

» **Dominic Venturo**
Chief digital officer and senior executive vice president, U.S. Bank

This report follows Leading the recovery, a U.S. Bank survey of 300 finance leaders released in 2021. Several questions in the research are repeated this year to show how sentiment has changed.

* For a complete breakdown of job role and company revenue, visit corporate.usbank.com/home

Job role breakdown



Company revenue breakdown