

Market change is faster than ever – is your finance function in the race?

As finance leaders we are bombarded with opinions on the future of finance. In this series we explore, what is actually happening, and how do we need to think differently about transforming finance and developing professionals for the digital age?

September 2016

Think Ahead **ACCA**



Introduction

We know finance is changing, but what does this mean in reality?

Digital disruption and sweeping changes challenge finance functions as we know them today. We know this – we hear it every day. But what does it mean in reality? How will familiar roles of finance change – if they really will at all? How do CFOs need to change their thinking, and what are the opportunities? How do aspiring finance professionals need to change their plans to qualify and manage their careers? We believe these are the questions that finance people are asking – what does it mean in reality? In this series of publications over the coming months, we will be answering those questions, from different points of view.

We will explore the perspective of ACCA (Association of Chartered Certified Accountants) as the global body for professional accountants, PwC as a professional services firm, and professional CFOs as represented by Jens Madrian. In particular, we will emphasise the people-related solutions to address these challenges: what new types of knowledge are required, how we develop talent in this new era, and the different skillsets that will be sought by finance. Our objective is to have a practical discussion about what's changing in finance as a result of digital disruption, and how we respond to these changes. We hope this will be useful to finance professionals at all levels and across various industries, to trigger conversations and actions that set companies and individuals up for success.

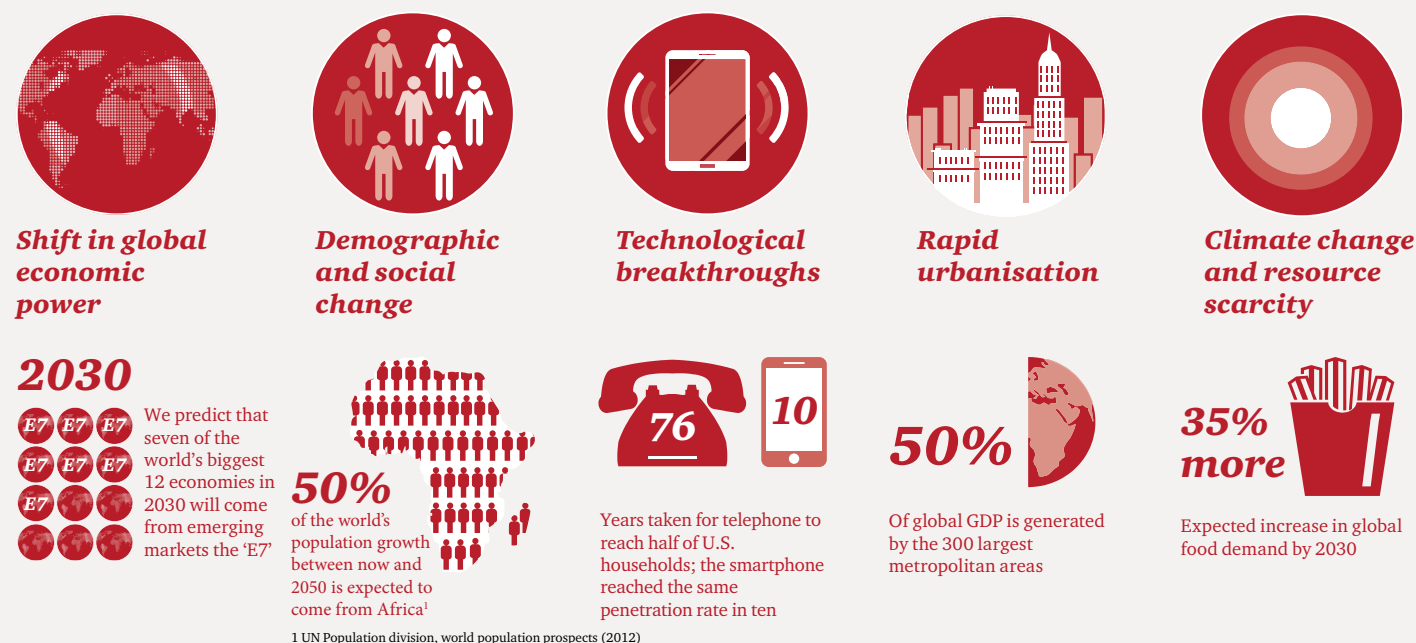


The evidence

Digital in finance has been a hot topic in recent years, fuelled by patterns of traditional industries being flipped on their heads, and the collapse of global brands – sometimes astonishingly quickly. In fact, digital disruption has been identified as one of five megatrends shaping business and

society today (see Figure 1, **PwC Megatrends**). As a result, a transformation in businesses and our wider society is taking place as we speak – and finance must respond with speed and with relevant solutions, or it will be left behind.

Figure 1: PwC Megatrends



What do CEOs think of these changes? The majority agree that these are key business priorities. 77% of CEOs believe that technological advances are the top global trend which will transform wider stakeholder expectations in the next five years (**PwC 19th Annual Global CEO Survey**). Digital technologies mean that customers, employees and shareholders are more connected and better informed – empowering and emboldening their decision-making. 90% of CEOs say that customers have the biggest impact on strategy, so it is essential that companies are agile in managing expectations. CEOs need their finance teams to keep up with these rapid changes, and finance needs to be poised to adapt quickly. The evidence shows that

finance functions are often struggling to provide CEOs and businesses with the support they need (**Breaking away: How leading finance functions are redefining excellence**). Efficiency is well understood – the 'top quartile' finance functions run at 40% lower cost than the average. But in most businesses finance takes far too long to provide even the basics, and spends as much time getting to the right numbers as analysing what the numbers mean.

How can finance understand the impact digital will have on the business it serves, and be able to guide the business through these challenges? And how can finance harness the power of digital in the function itself?

77%

of CEOs believe that technological advances are the top global trend which will transform wider stakeholder expectations in the next five years

– PwC 19th Annual Global CEO Survey

50%

“Analysts typically spend 50% of their time just gathering data”

– PwC Benchmarking publication

95 Days

“Average companies take to complete their budgets”

– PwC Benchmarking publication

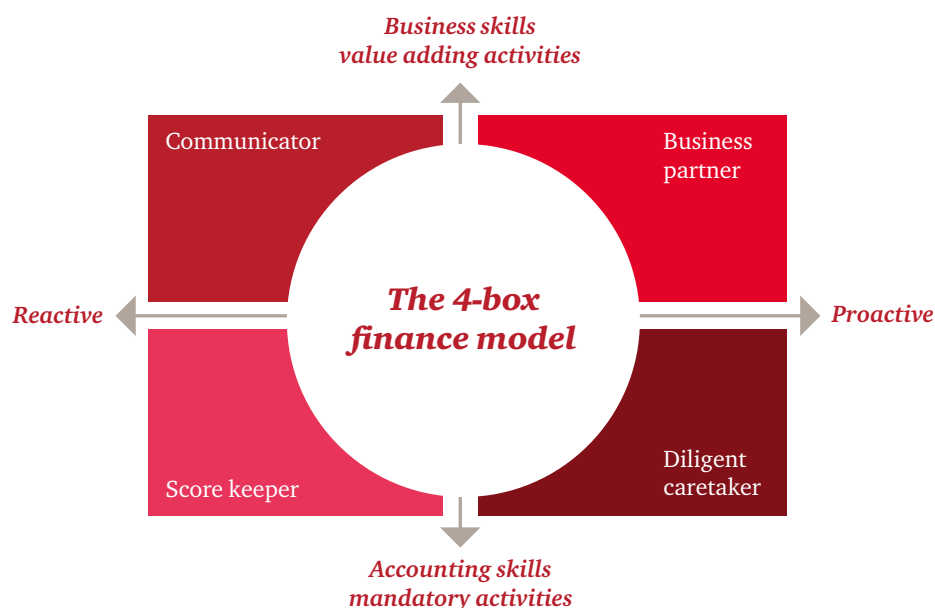
The changing finance model

We will use the traditional model of the roles in finance shown in Figure 2, throughout this series of publications to frame the conversation around the impact of digital on finance. Where once finance was seen purely as the accounting function (in the role of score keeper/diligent caretaker), producing financial and management accounts, world class finance teams are re-shaping themselves to take on a much more prominent role in daily commercial activities of the organisation (shifting upwards towards communicator and business partner). Through this series we will explore how digital and the new demands from the business are impacting each of these aspects. In particular, we will reinterpret these to effectively tackle the impact of digital, and the demands from CEOs.

This model is not new nor are the demands on finance, but digital makes the demands more severe and the opportunities greater and more attainable.



Figure 2



Score keeper/Diligent caretaker

These roles focus on core accounting activities, seeking process efficiency and monitoring against regulations and standards. However, in today's atmosphere of heightened accountability, finance must take ownership and responsibility for the numbers they produce. This means the scorekeeper must now become a diligent caretaker – trusted by the business to ensure rigour in the data and processes they manage, while improving efficiency, reducing cost often through use of shared service centres.

Are the score keeper and diligent caretaker roles at risk of being replaced by software robotics and AI (Artificial Intelligence) systems?

For years, the consolidation of routine processes into shared service and/or outsourcing have been proven to drive significant cost reductions. In the future, it looks like many accounting skills will be replaced by technology-enabled processes and robots. But does that leave accountants any role to play within finance processes – or will they just need to audit the systems that have replaced the process?

Communicator/Business partner

These roles shift focus from transactions and reconciliations to insightful analysis and a seat at the decision-making table to drive strategy. This process of moving finance up the value chain requires an efficient organisation structure that releases capacity for teams to focus on business-facing activities. The final step is for finance to become a true business partner – achieved by aligning behaviours, building the right skills, and being able to speak the business's language.

Digital should enable finance to shift up the value chain. Unleashed from the shackles of score keeper and caretaker processes, can it reach the long sought-after goal of providing practical business insight to influence revenue growth and increase in stakeholder value?

Can the finance department become a true business partner? Are they recognised by the business as its trusted advisor, have they gained credibility through commercial behaviours and mindsets, and are there open channels of communication? Many have failed in past attempts to do this but changes in technology may now help them get there.

Our series of publications will explore each of these areas. To kick-off this conversation, we will introduce an initial perspective from each of our three authors.

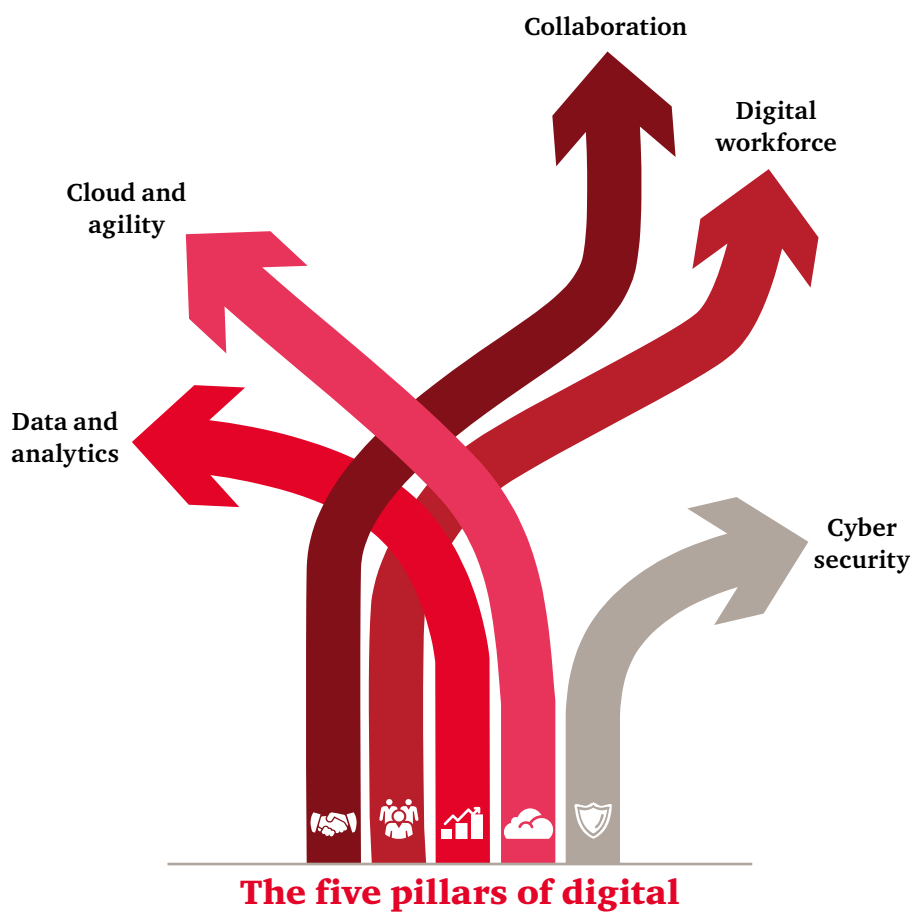
Three unique perspectives

From professional services firm PwC

The digital revolution is creating a world that is constantly connected, innovating and upending conventional wisdom. This presents a threat to the relevance of Finance in the business. With people at the heart of this change, how we transform ways of working, improve efficiency and develop value-add skillsets will be a key differentiator as with deciding what we no longer need to do as we trust parts of the role to new technologies.

PwC recognise five pillars which will help finance avoid being left behind and become an integral part of the front office; seizing the opportunities that digital brings to the business.

Figure 3: The five Pillars of digital (Finance in a digital age)



Collaboration

New social collaboration tools, and the entrance of the 'digital natives' to the workplace, is changing the way finance teams work, allowing real-time, collaborative working between virtual teams who can work anywhere in the world. Instead of skillsets focused on technical finance, the ability to work with diverse teams in the business will be key.



Digital workforce

Software robotics can have a major impact on the finance function. Rules-based, repetitive activities are automated using robots. Removal of manual processing allows finance to take a more strategic role within the business.

Further, Artificial Intelligence (AI) applications exist which can learn from human decision making.

This can lead to a new age in efficiency and free up finance teams to focus on value added activities.



Data and analytics

The sheer volume of data available is increasing exponentially with current technological advances. Digital tools are now enabling finance to move towards insight generation, and access to new data management technology and data standardisation drives more efficient and accurate data analysis.

Finally the data and technology barriers to great business partnering are being removed and the main challenge now is equipping the people in finance functions for the step-change required.



Cloud and agility

Cloud computing and software-as-a-service (SaaS) are allowing businesses, and start-ups in particular, access to tools and ERP (Enterprise Resource Planning) at far lower costs than in the past. This reduces up-front capital expenditures, and integrates external data for decision-making, enabling finance professionals in their role as business partners.

Additionally the sheer number of tools and ERP solutions at finance's disposal is growing almost daily as are the options for how they can be deployed.



Cyber security

Digital has a dark side, the number of cyber security incidents such as viruses, hacking and phishing is increasing. This presents a significant danger to finance teams who are often expected to be the caretakers of sensitive data. A Digital CFO needs to drive strategy and plans that can proactively address these threats.

Three unique perspectives

From the global body for finance professionals ACCA

As the wider enterprise is getting more technologically connected, the demands of the finance team continue to grow. Businesses are looking to create advantage by innovating and taking risks, and need the finance team's support on insight generation, smarter operating capability, and robust stewardship. Businesses also recognise how this environment is simply reshaping what is needed from that most prized of enterprise assets – talent. The finance organisation, in redefining its own strategy to better support the business in the digital age, is no different. For the CFO a new talent imperative is being set, and getting it right is crucial.

The digital age isn't entirely rewriting what finance does in the enterprise, but it is changing where finance can deliver most value, and how it should do this. The digital economy is threatening established business models, yet new ways of creating value for organisations are also opening up. The commercial priorities of businesses in an environment that's complex and competitive have become clear, and responding effectively to these needs is the essential hallmark of the successful finance function in the digital economy. Doing so is increasingly enabled because CFOs have access to newer digital technologies to deliver this mandate.

And yet we also know above anything else that technology alone can never simply be the 'silver bullet'; it is the skills that finance professionals bring to the function in the future that will continue to differentiate great finance functions from those that are simply good. But these skills must be fit for purpose in the digital age, and aligned to how and where the finance team can create most value. In 2016, the ACCA published the results of a broad two year study across thousands of C Suite executives on the required future skills of professional accountants ('professional quotients')

that would be demanded in response to a fast changing global economy. As the remit of the finance organisation continues to evolve in response to emergence of digital, it implies a number of specific capabilities and behaviours that will be increasingly valued.

What implication does this have for finance roles, careers and talent? Adoption of transformative finance delivery models including centres of excellence, shared services and outsourced delivery options push transactional tasks off-shore, and free up opportunities for pure business partners. The advent of shared services has indelibly changed the nature of finance careers, raised new talent dynamics and created a possible career divide across the finance organisation which may lead to longer term succession challenges. Recent global research by the ACCA suggests many global finance functions remain at a critical talent juncture and face significant challenges in connecting the talent dots across the finance organisation. **Talent Equation: First Insight ACCA 2016 (see Figure 4).**

The data suggests significant missed talent opportunities for many in global finance organisations today. As shared services is increasingly the entry point for young new talent, these findings continue to raise questions on how future talent is attracted, developed and retained across the enterprise. But it is the transition of the digital enterprise that further amplifies the issue. As the CFO seeks to extend the finance value chain and shift the scope of activities further into centres of excellence and global business operations (or shared services), they must also tap into the prevailing finance skills often found in these centres. These skills are essential in the emerging digital environment. The tech savvy, diverse, and connected finance workforce understands the application of disruptive digital

Figure 4

63%

Agree or strongly agree that there is little evidence of mobility or rotation of staff from finance SSCs to the rest of the finance function, and vice versa

65%

Agree or strongly that the career paths available to finance staff in the finance SSS are usually restricted to SSC roles

69%

Agree or strongly agree that finance shared service leaders are not perceived to be 'equal' to finance leaders in the rest of the finance function

Talent Equation: First Insight ACCA 2016

technologies to drive automation and insight. And, teams are steeped in a customer service culture, with finance personnel who understand how standardisation, change management and end to end process capability can support enterprise demands for scale, flexibility, operational efficiency and clearer insight in the digital world.

Three unique perspectives

From the CFO's perspective, as represented by Jens Madrian

The digital disruption highlights even more profoundly that finance is not an island on its own, but instead, a function of what the business and its institutions in this future environment need from it. Responding to digitalisation isn't just about new IT sophistication; we need to change our whole physical and operational approach. finance's response to these changes will entail structural and systematic future-proofing, adjusting the whole underlying finance model to accommodate new business models we haven't even thought of yet.

As a CFO, the people and activities of future finance functions will look very different from today:

- Finance shared services centres with robotics at their core, will become fully automated. Scale is achieved through transactional, repetitive services, at a lower total cost base. finance teams don't require as detailed an understanding of financial processes, as these will be automated, but they will have a new skillset – coping with constant adjustments and re-structuring to drive efficiencies, as well as liaising with relevant third parties and on-boarding technological support. finance teams play a much more active role in data governance, cyber security and data flow controls, investing in the right expertise to protect the company in the new world, and play the role of the diligent caretaker.
- Finance functions have transferred their entire portfolio of relevant activities to Centres of Expertise, where a core team has superb technical capabilities but are located in lower cost geographies at a distance from the operational activities they advise. These finance teams can still connect with the business over distances, overcome cultural and communication challenges, and demonstrate value from skilled experts.

- True finance business partners operating at their highest potential, bridge the gap between SSCs (Shared Service Centres) and COEs (Centre of Excellence) on one hand and the business on the other. They are connected with the business, acting as the advisor to operations while offering expertise to support decision-making. Real-time informational support for strategic decisions along with business performance measurement and review are the norm. Finance professionals have operational management and commercial skills acquired from time spent in a business role. They have a natural curiosity about how the business works, how it makes and keeps money in the future and the ability to ask the right commercial and operational questions.
- A new generation of finance talent that thrives in the digital environment is emerging. This tech-savvy, diverse and connected finance workforce understands and embraces the application of disruptive digital technologies. Career paths are not based solely on technical competence, but also incorporate relevant commercial and relational expertise. There are entire new talent models and performance management cycle for finance teams.

What does this mean for CFOs?

It means we will need a new mind-set and language to cope with the new economies, and to lead the transformational change. We cannot afford to outsource judgment on data warehousing, cyber security and data insight to technologists. We will require additional capabilities and expertise, or the opportunities presented by digital will be missed. We need to maintain and adapt the diligent caretaker role to protect the business, but it is the business partner role that will add the most value. By working alongside board colleagues we should ensure close proximity between finance teams and their operational colleagues to influence decisions and hold the business to account on performance. Doing that will ensure they are sharing the pain but never losing their independence. Arguably, no one will have to change more than the CFO.



Conclusion

There is no doubt about it, the role of finance and how that role is undertaken is changing rapidly. There are greater expectations being placed on finance professionals to add more value and drive the business agenda in these challenging times. In addition, this needs to be done amidst a backdrop of the need to play a role in building trust in many organisations and driving even greater operating efficiencies.

Bringing the three unique perspectives of PwC, the ACCA and the CFO community together has highlighted the key considerations for CFOs in the digital age. Many of these are around the finance operating model and the strategy for finance within an organisation but there are also lots of questions around the most appropriate use of technology in finance and, critically, the skills and behaviours needed of members of the finance team.

But all of these challenges aren't far away, the advent of robotic process automation, the use of cloud technology solutions and the existence of a huge range of systems and tools in the data and analytics space means CFOs need to consider the best course of action in their organisations and embrace change now.

This initial publication has set the context for how digital and advances in technology are shaping the Finance function of the future, and the impact this may have, particularly around people and talent. Over the coming months we will be delving deeper into these areas. Look out for upcoming publications – and connect with us at any time using the contact details below if you'd like to contribute to the debate.



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Jamie Lyon is Head of Corporate Sector for ACCA – The global body for finance professionals.

‘I lead our global team in the areas of corporate and board leadership, financial management, corporate governance and enterprise risk management. Our focus is on producing cutting edge, practical and accessible thought leadership that extends the quality and reputation of our global brand.

I have been in the profession for over twenty years; my previous career was spent in a variety of finance and analyst roles for large big multi-national FTSE 100 businesses. What appeals to me most about working on this publication series is that the future of the finance organisation is at such a critical juncture. Reflecting back on my own career, particularly over the last say two to three years, this journey of finance change has been really accelerating. And, there is absolutely no doubt that the primary driver of change has been technology, and the ascent of digital. I am of the firm belief that digital is going to change the face of finance in the future, and I also think that this actually is going to present a huge opportunity to finance professionals. So it’s exciting times for the global profession, and it’s an exciting time for finance. We have to make sure we make the most of it.’



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Jens is the CFO and CCO of Reactive Technologies, an innovative and disruptive smart power company based in London. Before joining Reactive, Jens was CFO of Npower, one of the ‘big six’ UK energy retailers, transforming its culture and strategy into a customer centric organisation and supporting its operational turn around in a highly competitive market. Prior to this, Jens was Managing Director for Innogy’s European Sales Portfolio Management, driving commercial value through innovation and transfer of best practices across the Innogy Group. He also led the restructure of Npower’s large B2B customer segment, transforming it from an EBITDA negative business into a sustainably profitable and award winning provider of risk management products and services.

‘All of us in the finance community need to realise that the coming change driven by digital disruption won’t just mean we need to augment how we work; it means we need to have a total focus on what the business requires of us. The new finance person will be able to connect well with the business, probably having spent time managing operational teams and will understand fully its commercial dynamics. This credibility will enable us to advise and guide the business through strategy, planning and implementation, and most importantly to hold it to account on performance. We mustn’t trade away our independence by going native, but we will need to get the balance right between acting as the steward and driving the performance by being close to the action. We’ll need

fantastic relationship skills – clearly something we’ve been known for to date. And the digital driver will require finance to possess a new language and new technical know-how so we can make the most out of insight, or protect the business against cyber-attack, or leverage the online environment to drive sales growth and greater efficiencies. It’s definitely an exciting time to be in Finance.’



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Brian leads PwC's Finance Consulting team in the UK and the Finance Consulting team globally for Financial Services.

'I lead a UK team of over 250 finance professionals who specialise in addressing issues faced by CFOs and their teams. They work on all aspects of finance change and specialise in assisting finance teams in providing greater business insight whilst ensuring finance runs efficiently and effectively across the organisation.

For me this series is less about change itself, but more about the speed with which it is happening. Technology and digitalisation are bringing sweeping changes at a pace that we have not dealt with before. Finance needs to help the business to start adapting to this new environment with forward-looking processes, new tools and technologies. To do this, Finance needs a hybrid set of skills that combines technology, business and finance abilities. Clients are asking me what others are actually doing, and this series will give practical guidance on how finance can embrace change to stay on top.'

Brian is a Chartered Accountant and has worked with many clients across Financial Services from global capital markets players to retail banks and insurers. The global nature of his work has taken him to many territories across Europe and Asia and also to the US and the Middle East.

In addition to his client work Brian also runs the Finance Matters CFO Programme in the UK and the Finance Leaders' Summit, PwC's flagship CFO event across the EMEA region.



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Andy is a Director in PwC's Benchmarking and analytics practice. He led the development of PwC's benchmark framework for finance, and leads the team providing benchmarking and function assessment services across the support functions – finance, HR, IT, procurement, and other Group services

Andy has more than ten years' experience leading assessment projects in Finance and other functions for organisations based in the UK, Europe and Australia. Before focussing on Benchmarking, Andy has worked for ten years with clients on business process assessment and measurement, simulation modelling and redesign.

'For me working on this series has been fascinating because it focuses on what's actually happening, rather than the hype. PwC uses benchmarking as a critical part of our work in finance to make sure that the recommendations that we make are based on reality and evidence – what drives superior performance in reality, not theory. Clients want to understand that reality, others are actually doing, and how they can benefit. We will be bringing the same practical and pragmatic approach to this series.'

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