CFO INSIGHTS:

ADAPTING THE ROLE OF FINANCE TO UNLOCK BUSINESS VALUE

Midsize organizations are counting on finance to drive digital transformation and growth.

OXFORD ECONOMICS

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Introduction

Finance executives are in a unique position with responsibilities that have expanded to include parts of the business not traditionally associated with their role, such as technology strategy, market volatility management, cybersecurity, ESG, and sustainability. These executives have real opportunities to have a far-reaching impact and continue to grow the business if they focus on innovating products, services, and business models, and harnessing emerging technology to create processes that launch them forward.

Yet creating a business strategy that captures the full potential of technology remains a work in progress for many finance executives. They must develop, update, and execute these strategies, while navigating changing regulations and customer preferences. New players enter the market almost daily, and for midsize organizations, innovation becomes increasingly important to keep up with a changing industry.

Compounding these problems, finance processes are slow and consume valuable resources. Spending extra time on tasks that could be accelerated (or automated) takes time away from critical strategy planning—where executives can construct blueprints for how to harness technologies that enable innovation, employee empowerment, and customer satisfaction.

To better understand the challenges facing the finance function, Oxford Economics partnered with SAP to survey 600 executives who have financial decision-making authority—300 finance executives, 200 CEOs and 100 accounting executives—from midsize organizations around the world and across multiple industries. The survey revealed these key takeaways:

1. **The finance function has transformed.** Finance leaders have a wide range of new responsibilities and are figuring out what needs to be prioritized. They are the new right hand for the CEO and need to keep up with the changing landscape to make smart decisions. Our survey found many are still figuring out how to balance their new responsibilities.

2. **Compliance clouds the vision.** Finance decision-makers face operational challenges—including expanding regulatory requirements and emerging ones, such as ESG. These operational hurdles can force shorter-term thinking among finance executives, putting things like innovation and AI implementation on the back burner. Compliance failures can lead to a loss of brand reputation and access to ESG program funding.

3. **Finance executives need the right tools in place.** Many of our finance respondents' biggest concerns could be eased with the right technology. Their existing systems are not up to the challenge: complying with regulations, operating efficiently, ability to take action on information in a timely manner, and security threats still prove difficult.

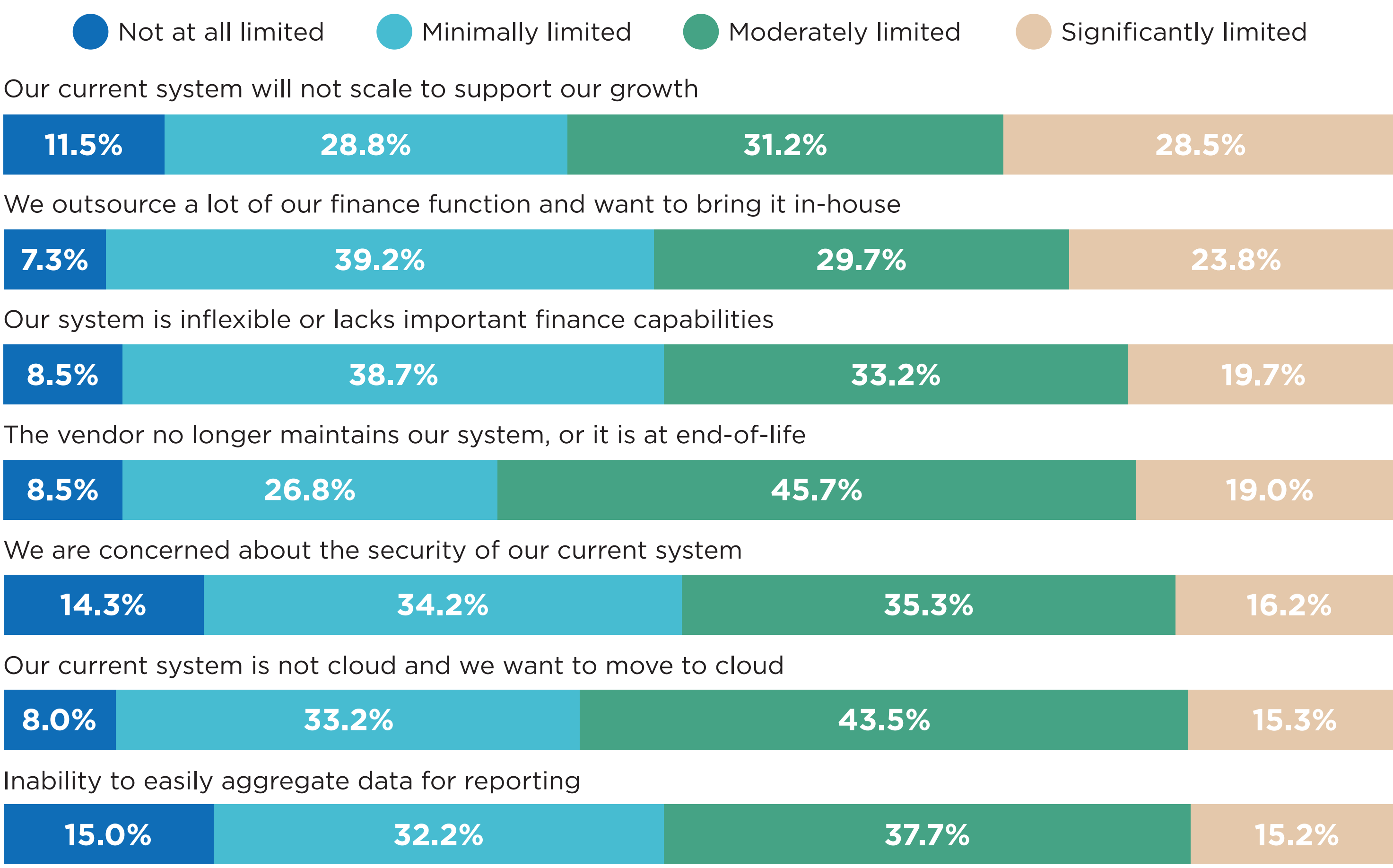
The future of finance is here, but are executives prepared?

For a long time, finance executives looked for the opportunity to improve operations while making finance a more strategic business partner to the C-Suite. The opportunity is finally here. Their responsibilities now include volatility management (49%), technology strategy and road mapping (49%), sustainability and ESG (45%), and cybersecurity (44%). They are increasingly becoming a key stakeholder and have a broader range of responsibilities and priorities to balance.

Taking on these new responsibilities proves difficult when existing finance software works against them. Almost two-thirds say their current system will not scale to support growth, is not cloud-supported, is not able to easily aggregate data for reporting, or that the vendor no longer maintains their system (Figure 1). But while underperforming software or changes to management processes present a great risk, organizations are perhaps most at the mercy of outside market disruption.

Figure 1: Financial software needs an upgrade

To what extent is your organization limited by its current finance software in the following ways? *Select one per row.*



Uneven functionality in existing software inhibits innovation and efficiency across the board. Many feel they are working with outdated processes around financial closing, receivables/payables management, accruals management, revenue accounting, and consolidating and reconciliations (see Figure 2). Unless these impediments are lifted, finance executives will not be able to live up to their new role.

Figure 2: Time-consuming processes

Which of the following finance processes require the most amount of time to complete? *Select all that apply.*

How will you stay competitive?

"Keeping up with new innovations is the key to staying competitive in this market."

A Direct Report to the CFO at a US banking organization.

Finance and HR working hand in hand

Driving innovation in the finance function is not exclusively about access to capital and technology; it's also about managing one of your greatest assets: the workforce. Finance executives recognize the need for a strong HR department to drive innovation and efficiencies for their organization. Over a third (37%) say that the ability to retain talent is a top-three risk over the next two years.

That transformation starts with stronger data practices. A majority of finance executives (75%) recognize that integrating processes and data across the business will help them collect and use employee productivity data to improve efficiency. They also understand that integrated processes and data can positively affect the employee experience, with 85% of respondents saying it helps organizations achieve consistent employee experiences.

Integrating processes and data is not the only step organizations can take to improve employee retention and innovation. Finance executives see the potential of emerging technologies, like AI, having an impact as well. Roughly two-thirds (65%) of finance executives say AI will have a moderate to significant impact on HR. Other enterprise technologies, like workforce management solutions, are currently in use (46%), and many (40%) expect to use them in the next 12 months. By connecting people and finance data, organizations can create more accurate dashboards, with more informed predictive insights.

Executives still have numerous operational hurdles to overcome

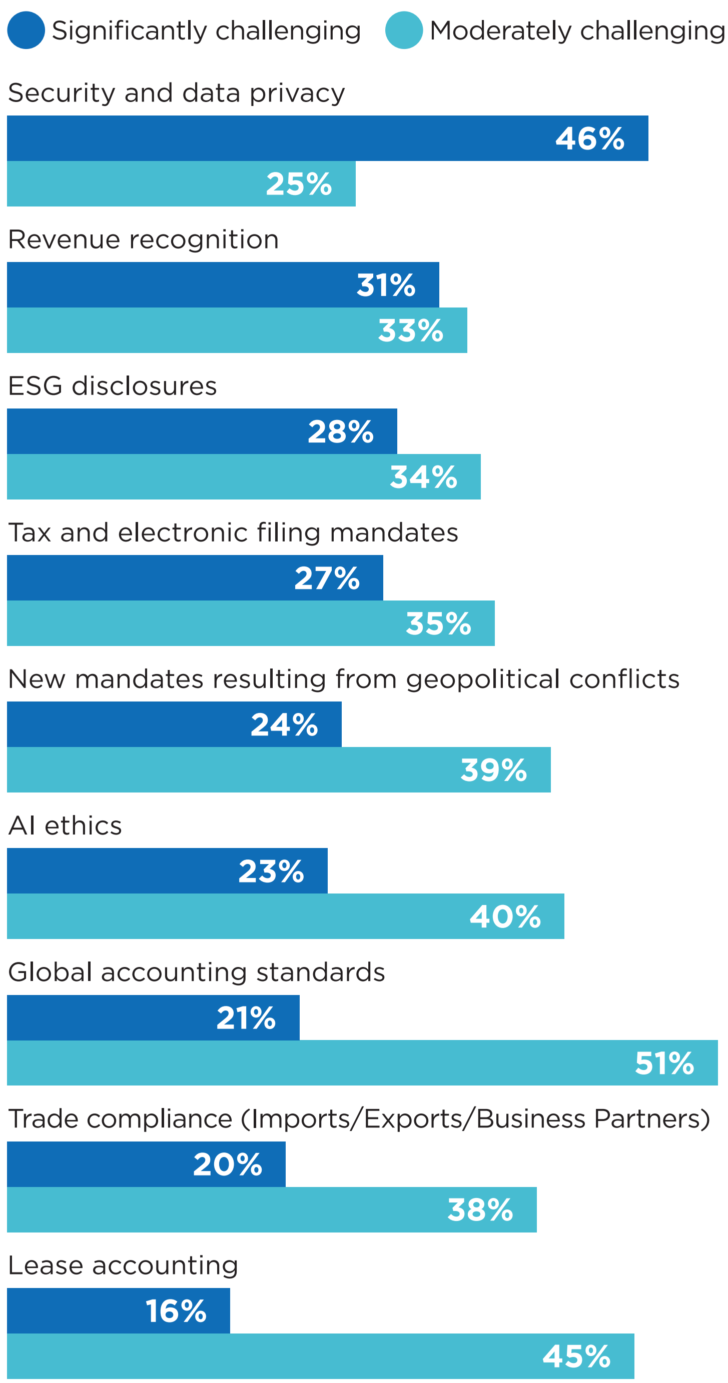
While finance executives are adapting to their transformed role, they are also balancing various operational challenges. Roughly two-thirds of finance function respondents say that an inability to scale processes and systems to match organic business growth (68%), relying too much on manual, low-value tasks to work around deficiencies in legacy systems (58%), and an inability to adjust or replan based on new information or shifting priorities (57%) are the most formidable barriers in their search for scalability.

In addition, the finance function is adapting to constant evolution and increased regulatory complexity on top of increasingly scrutinized corporate oversight. Compliance has caused an avalanche of concerns for finance executives, with most reporting global accounting standards, security and data privacy, new mandates from geopolitical conflicts, revenue recognition, tax and electronic filing mandates, ESG disclosures, and AI ethics as major issues for their organization (Figure 3). In the current geopolitical environment, compliance is more difficult than ever, and finance executives are still figuring out how to keep up with shifting targets.

ESG is a new concern for the function, and there is unprecedented demand from consumers for transparency. While respondents cite ESG disclosures as a major issue to their organization, they are not prioritizing sustainability to the same extent. Over the next two years, improving sustainability is ranked the least critical strategic priority. Instead, finance executives' view the sustainability dilemma as a tactical concern: one-quarter of finance respondents cite tracking sustainability as a top challenge to their organization.

Figure 3: Compliance compounds operational hurdles

To what extent do the following compliance areas present a challenge to your organization? *"Moderately" and "Significantly" challenging responses.*



Finance leaders may want to reconsider where sustainability falls in the organization's strategic pecking order. Rapidly changing legislation creates a moving target for midsize organizations, and failure to comply with ESG standards may hit finance executive where it hurts most: the bottom line. Fines, sanctions, and a loss of stakeholder trust could damage profitability metrics—and avoiding these missteps may be the difference between competing with larger organizations or ceasing operations.

How will you stay competitive?

"Gaining knowledge and adhering to regulations on a global scale to ensure that the business operates in accordance with international standards and legal requirements."

— CFO, Australian bank

"By looking into how artificial intelligence can be used to automate tasks."

— CFO, Chinese retail company

Embracing ESG

As ESG becomes increasingly integral to business operations, finance executives are also stressing its importance. They are figuring out how to best prioritize and meet their ESG and sustainability goals, while remaining compliant in the process. Sustainability is one of the top three areas where finance executives are expanding their role, and it is also one of the top three compliance challenges. Successfully balancing these could mean meeting broader stakeholder expectations and regulatory demands, as well as creating long-term value. In fact, our top performers are already pursuing this as a best practice—they are slightly more likely than non-leaders to say sustainability is a priority—emphasizing that leading organizations recognize the potential benefits an increased focus on this could potentially yield.

So where should finance executives start? The top initiatives finance respondents are realizing value from are 1) benchmarking their own operations for cost and value drivers, 2) complying with regulations, and tied for 3) building a circular economy and collecting data for ESG. To jumpstart these initiatives and reap their benefits, data integration into software will be especially important to monitor benchmarks, build dashboards, and generate predictive insights.

Embracing ESG and adopting emerging technology go hand in hand, and the best-performing organizations prioritize that union.

The right technology can help ease the finance function's woes

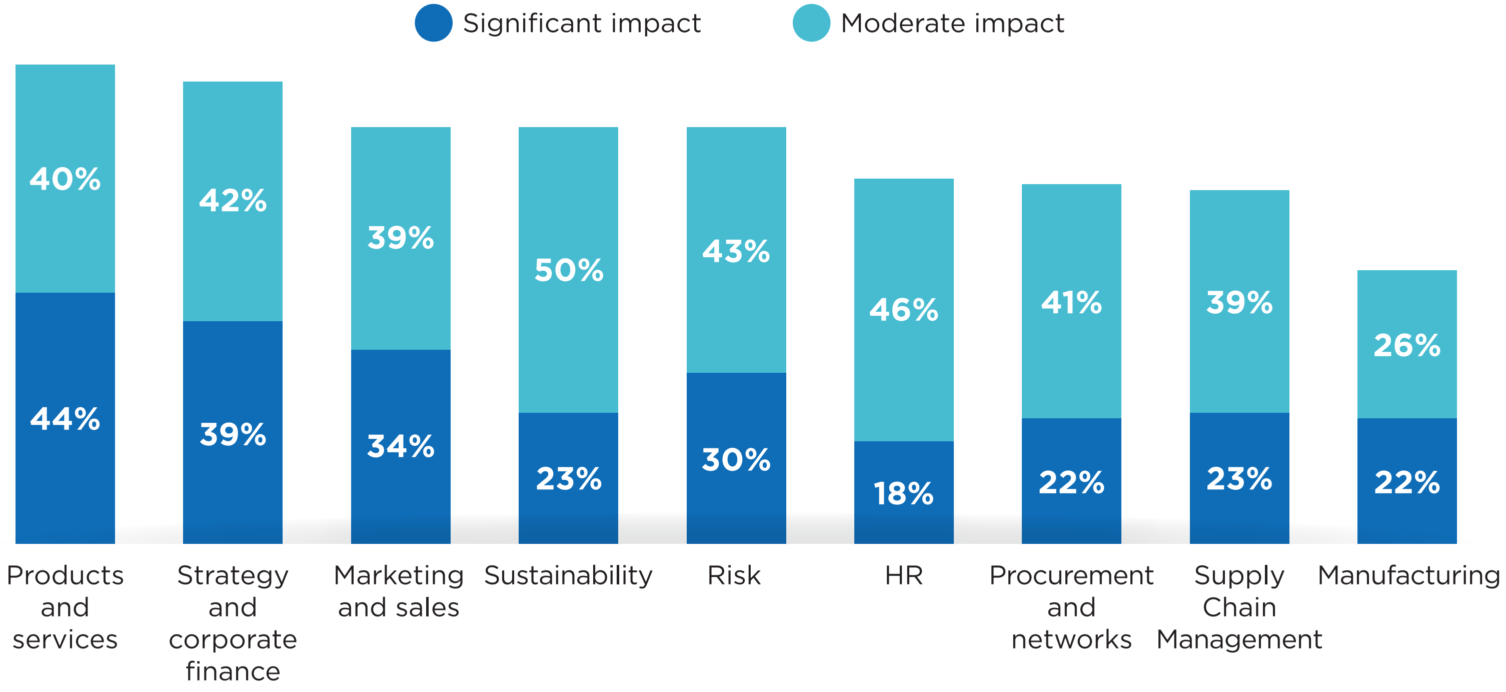
With the right technology solutions in place, finance executives could overcome their biggest barriers and sustain growth and innovation into the future. In fact, 81% of finance executives say AI will have a moderate or significant impact on strategy and corporate finance, and 73% say the same for managing financial risk. They even see its promise in revenue generation for their organization—most say it will have a moderate or significant impact on areas, such as new offerings, sales, marketing, and networks (Figure 4).

Yet executives do not have to look far when it comes to leveraging technology to overcome challenges. Existing technology, like cloud, can do the job. Respondents that have cloud-based solutions are more satisfied with their flexibility, finance capabilities, and ability to aggregate data for reporting than those respondents whose solutions are not in the cloud. They are also more willing to take on new responsibilities such as technology strategy/road mapping and sustainability/ESG than those respondents who are not leveraging the cloud.

Many finance leaders are also opting to integrate their processes and data. Those who have cite benefits such as the abilities to keep data accurate and up to date (78%) and to create innovative business models at scale (81%), likely staying ahead of market trends, while also reducing financial and security risk. Almost three-quarters note integration has helped them deliver real-time insights on key performance indicators either to a significant or moderate extent. Live intelligence on key business metrics often leads to more efficient, agile, and optimal decision making.

Figure 4: Finance executives see the AI opportunity

To what extent do you believe AI will have a positive impact on the following business areas?
"Moderate" and "Significant" impact responses only.



Conclusion

In a complex digital landscape, the best-performing organizations will embrace technology and innovation strategies with intention. Finance executives are looking to increase their confidence in their changing role and leverage their investments strategically in other parts of the business. To maximize impact, we recommend the following actions:

1. **Define clear goals and values:** Midsize organizations must orient business priorities to align closely with stated needs and make employees understand and align with these principles.
2. **Leverage technology:** Adopt relevant technologies like cloud and ERP to remain competitive and stay up to date with industry trends.
3. **Engage in continuous strategic workforce planning:** Building a competitive workforce means assessing current and future organizational needs so that you can plan for growth and changes in the market.
4. **Be adaptable and agile:** Foster a culture of innovation and agility to respond quickly to challenges.

By implementing these strategies, growth-focused organizations can create a competitive and dynamic workforce that is motivated, skilled, and aligned with the company's goals.

About SAP

SAP is a market leader in enterprise application software. We help companies of all sizes and industries run at their best. With 80% of our customers being small and midsize companies, SAP is the growth engine that can take you anywhere —no matter where you take your business next. Our cloud ERP gives customers the confidence to be up and running quickly with technology that allows them to keep growing effectively and efficiently. We can scale to support the most extensive product lines, complex service offerings, and ambitious sustainability goals, helping you stay ahead of the competition. Our advanced analytics, AI, and Internet of Things (IoT) technologies turn customers' businesses into intelligent enterprises. Our end-to-end suite of applications and services enables our global customers across 25 industries to operate profitably and adapt continuously. Please contact your SAP partner to learn more.

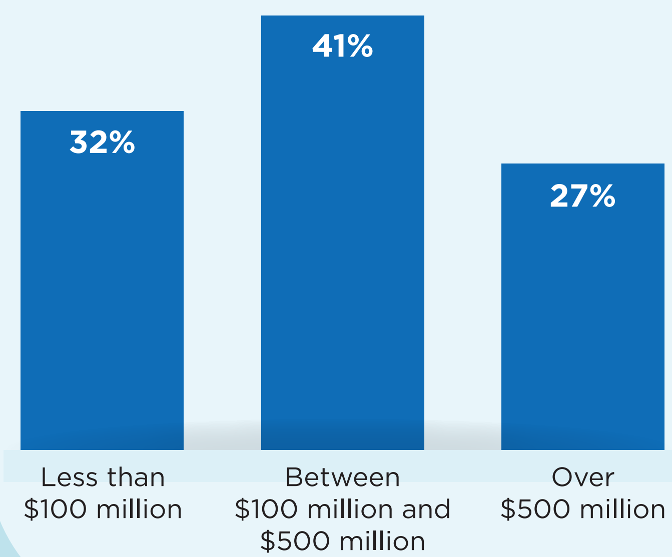
About Oxford Economics

Oxford Economics is the world's foremost independent economic advisory firm. Covering over 200 countries, over 100 industrial sectors and 8,000 cities and regions, we provide insights and solutions that enable clients to make intelligent and responsible business decisions faster in an increasingly complex and uncertain world. For more information, visit https://www.oxfordeconomics.com/

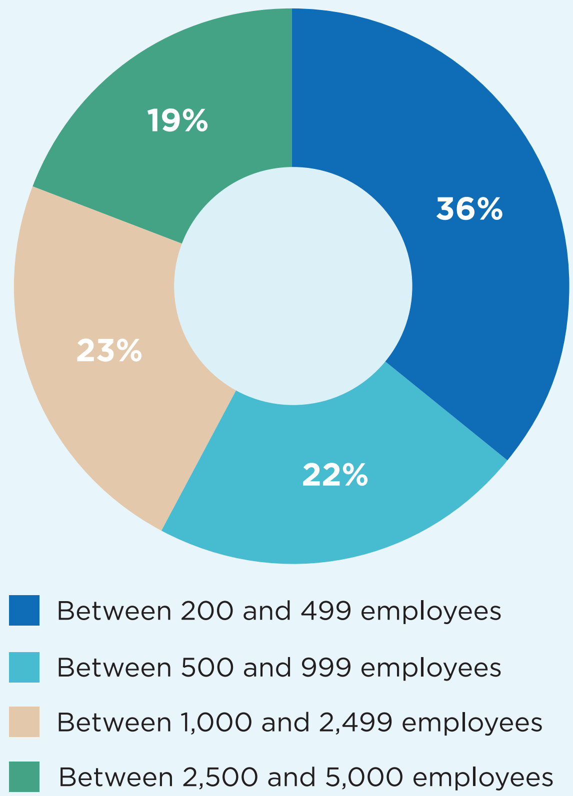
Respondent breakdown

This report focuses on the responses of 600 executives that handle finance decisions from the following segments:

- **Executive titles:** Chief Financial Officer, Chief Executive Officer, Chief Data Officer, Chief Operating Officer, Chief Customer Officer, Chief Information Officer, Chief Purchasing Officer, Chief Digital Officer, and the aforementioned titles' direct reports
- **Sectors:** Banking, high-tech software, professional services, consumer products, mill products, wholesale distribution, public sector, travel and transport, high-tech hardware, industrial manufacturing, automotive
- **Revenue (USD):**



- **Organization size:**



- **Locations covered:** United States, India, Brazil, Saudi Arabia, France, China, Japan, Canada, Italy, Netherlands, United Kingdom, Australia, Germany, Singapore, South Korea, Mexico, Malaysia, Switzerland, Austria, Taiwan, New Zealand, Indonesia, Ireland, Philippines, Spain
- **Dates fielded:** October – November 2023