CFO Imperative Series

Critical answers and actions to reframe your future

How can the CFO evolve today to reframe finance for tomorrow?

Three priorities for the chief financial officer to meet their role's changing demands

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Introduction

The COVID-19 pandemic is a time of great uncertainty, but it is also an opportunity for Chief Financial Officers (CFOs) to demonstrate the critical strategic role they can play in helping transform the future of the enterprise. However, doing so will likely require major changes in how CFOs act and think — their "DNA."

The *2020 EY DNA of the CFO* survey identifies three fundamental ideas for CFOs to consider:

- Be smarter about the emotional intelligence that underpins collaborative leadership
- Reframe what value means for the organization
- Make bold and innovative choices to reframe finance for a very different future

While the COVID-19 pandemic has come at a huge humanitarian and economic cost, it has also changed how we think about the world. As well as protecting their people and their communities, innovative and bold companies are also pioneering new business models, accelerating digital priorities and transforming how they work. Therefore, CFOs should not just focus on the "here and now" as they help lead their business through the COVID-19 pandemic. They should look to the future — not just what's next, but beyond. In fact, long-term success in the CFO role — and building a lasting legacy — is likely to prove elusive without "imagining the beyond."

The insights in this report draw on findings from the *2020 EY DNA of the CFO survey*, and are part of the CFO Imperative series, which addresses critical issues and actions to help finance leaders reframe the future of their organizations. To explore the survey data and for further insight, visit **ey.com/CFO**.

About the research

Initiated in 2010, the EY DNA of CFO survey explores the operating environment, relationships and skills of the CFO.

The 2020 survey was conducted during the COVID-19 pandemic and provides a deeper understanding of the unique position CFOs have faced during a time of uncertainty and how they can influence enterprise strategy and help reframe their future and the future of finance.

More than 800 CFOs, financial directors (FDs) and senior finance executives of large organizations were surveyed to understand the challenging balancing act that CFOs must negotiate every day — being an exploiter of today's value, while also exploring new avenues of value. The 2020 EY DNA of the CFO survey was conducted by Longitude on behalf of EY Global Financial Accounting Advisory Services (FAAS).

Over two-thirds (69%) of the respondents' organizations have annual global revenues between US$1b and US$4.99b and almost one-third (30%) of the respondents' organizations have annual global revenues in excess of US$5b. More than a quarter (34%) of respondents were either Group CFO or Group FD. The remaining 63% were CFOs, FDs or heads of finance (group, divisional or regional).

Respondents were split across the Americas; Asia-Pacific (APAC); Europe, the Middle East, India and Africa (EMEIA). Thirteen main sectors were represented, with 38% publicly held or listed, 52% privately owned and 10% not disclosed.

1 Elevate emotional intelligence and collaboration

The CFO role has evolved dramatically from a decade ago when the DNA of the CFO survey was first conducted, and the pace of change in this key leadership position continues to accelerate. This can make the CFO's role an interesting one with great satisfaction, but it can also create an extremely demanding balancing act, as leaders manage traditional mandates (e.g., corporate reporting) with new ones (e.g., overseeing digital transformation and digital growth initiatives at an enterprise level).

CFOs should seek to balance their traditional mandates with new ones, protect value while driving future growth, and balance short-term objectives with long-term value creation.

Figure 1
Percentage of respondents who agree with the statements on the roles and responsibilities of the CFO

Question: Thinking about the CFO role today, to what extent do you agree or disagree with the following statements?

CFOs must balance the need for short-term results with a focus on long-term value.

84%

CFOs must balance the need to protect enterprise value today while also enabling future growth.

86%

CFOs must find a way to balance traditional responsibilities with new mandates.

84%

As they deliver on these priorities, CFOs are also playing a pivotal role in the enterprise response to today's volatile and challenging environment. As well as the huge economic uncertainty unleashed by the pandemic, organizations were already contending with a host of challenges such as digital disruption, geopolitical volatility, and demographic and macroeconomic changes.

In the EY Megatrends report *Are you reframing your future or is the future reframing you?*[1], it is suggested that the global system may be reshaped by everything from shifting power dynamics, artificial intelligence (AI), geopolitical uncertainty and environmental risks. The organizations that have the agility and resilience to respond to these megatrends most effectively are expected to be those with strongly connected leadership teams. However, the 2020 EY DNA of the CFO survey found that many finance leaders had opportunities to enhance relationships with their fellow C-suite peers. For example:

- Fifty-two percent report limited or no collaboration with the chief human resources officer (CHRO).
- Forty-four percent say the same of their relationship with the chief marketing officer (CMO).

1. Baker, Bishr. "Are You Reframing Your Future or Is the Future Reframing You?" EY, 19 June 2020, www.ey.com/en_kw/megatrends/how-megatrends-can-reframe-your-future.

The results highlighted that CFOs have stronger relationships with IT and operations teams, but the lack of connectivity with customer-facing and HR teams is concerning, given the increased importance of driving customer insight and managing the change and people impact associated with digital disruption.

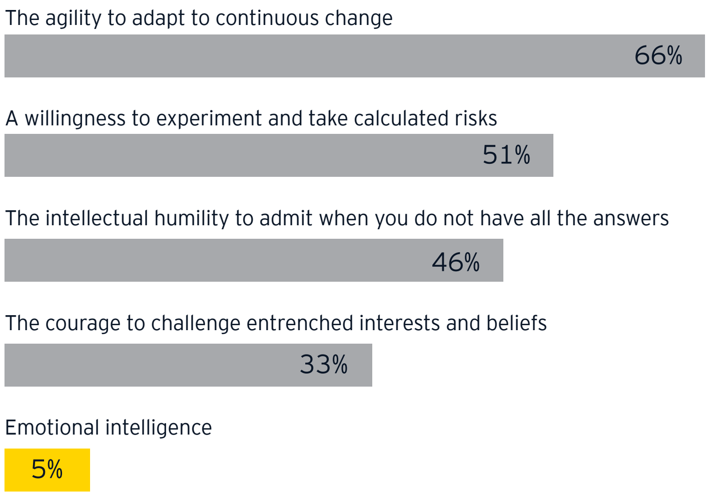
Traditionally, CFOs' strengths tend to be defined in terms of their "left-brain" approach to rational, analysis-based decision-making. However, to build the trusted relationships necessary for a strongly connected leadership team, CFOs should also demonstrate "right-brain" capabilities. These are important for empathetic communication, inspiring and motivating people, and encouraging fair and balanced debate.

However, when CFOs were asked to identify two personal and leadership attributes that were critical to their future success in the role, only 5% of respondents stated "emotional intelligence" as a top choice, even though it is seen as an important component to recognizing and understanding other people's emotions.

This could be problematic, as emotional intelligence is seen as an important quality in building stronger relationships with C-suite peers and developing a more connected leadership team. This ability to recognize and understand other people's emotions is seen as a helpful relationship skill when leading productive debates and managing difficult conversations. It can also play a part in helping the CFO and leadership peers to "speak the same language" and create genuine engagement within the C-suite based on an open and empathetic leadership style. It can also be important in transforming perceptions of finance leaders. When respondents were asked which attribute people in their organization most commonly associate with the CFO, a top choice was that they are seen by others in a very traditional light — as "cost-focused and risk-averse."

Figure 2
Percentage of respondents who prioritized emotional intelligence as a key quality of the CFO

Question: Which two of the following personal leadership qualities are most important for a CFO to succeed in the future?



2 Transitioning long-term value from ambition to action

Across the world, there is a growing acceptance that a narrow focus on short-term profit targets — while it may benefit some stakeholders — can come at the cost to economic growth and longer-term returns. There is an increasing consensus that organizations should focus on providing long-term value for multiple stakeholders, including investors, employees, customers and communities.

The survey shows that CFOs accept their critical role in this strategic shift of emphasis — 82% of respondents said that "CFOs are increasingly seen by key stakeholders as the stewards of long-term value." CFOs are also seen as strong proponents of the purpose-driven, multi-stakeholder capitalism that underpins a long-term value strategy.

While CFOs may be proponents of this philosophy, long-term value can still be a vague — even misunderstood — concept in organizations. Many organizations profess to being focused on long-term value while defaulting back to traditional financial indicators when it comes to measuring and communicating performance. This problem can be exacerbated by continuing economic pressures faced during challenging times, as well as the difficulties in producing trusted and effective nonfinancial reporting.

For example, the 2019 EY Corporate Reporting Survey[2] found only 37% of large organizations (those with more than US$10 billion in annual revenues) provide performance reporting on culture-based KPIs, despite it being viewed as an important long-term value driver.

Figure 3
Most CFOs recognize the importance of a purpose-driven approach that provides long-term value to multiple stakeholders

Question: Thinking about enterprise value, to what extent do you agree or disagree with the following statements?

2. Wollmert, Prof. Dr. Peter. Does Corporate Reporting Need a Culture Shock?, EY, 19 Nov. 2019, www.ey.com/en_kw/assurance/does-corporate-reporting-need-a-culture-shock.

There may also be a gap between the long-term aspiration of CFOs and what is actually possible. For example, in the research, a group of finance leaders were identified who were particularly strong proponents of long-term value. However, when the cohort of "long-term value leaders" were asked what risks they felt posed the greatest threat to growth and long-term value, 44% pointed to digital risks such as cybersecurity. Only 9% were primarily concerned about environmental risk and 5% focused on cultural risk, despite both being significant threats to sustained long-term value creation.

The World Economic Forum (WEF) Measuring Stakeholder Capitalism initiative[3] is one initiative that is designed to help CFOs explain in a consistent way how their investments in people, the planet, wider social prosperity and governance can create value for their stakeholders. EY teams collaborated with other major accountancy firms, non-governmental organizations (NGOs) and investors to develop and publish universal environmental, social and governance (ESG) metrics and disclosures that companies can report on regardless of their industry or region. These metrics and disclosures align to existing standards, enabling companies to report nonfinancial disclosures with common definitions and meaning. More than 120 members of the WEF's International Business Council are expected to adopt these metrics, paving the way for wider adoption.

Long-term value is likely to move from aspiration to reality particularly if CFOs take the lead in embedding it into corporate reporting, organization culture and strategic decision-making.

Investors are raising the nonfinancial stakes

The importance that critical stakeholders place on corporates' nonfinancial or ESG disclosures is driven home by the EY 2020 Climate Change and Sustainability Services (CCaSS) Institutional Investor survey[4]. In this research, 72% of investors surveyed said they conduct a structured, methodical evaluation of ESG disclosures — a significant increase from 32% in 2018.

3. "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation." World Economic Forum, www.weforum.org/projects/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation.
4. Bell, Dr. Matthew J., and Mathew Nelson. Investor Sentiment on ESG and Nonfinancial Reporting, EY, 22 July 2020, www.ey.com/en_kw/assurance/how-will-esg-performance-shape-your-future.

Reframing Finance: smart, open and ready for a superfluid future

As the digital era takes hold, the performance of markets is fundamentally changing. New virtual markets are emerging as platform-based giants are connecting buyers and sellers in a more seamless way. In the future, however, this "fluid" situation may evolve further into "superfluid" markets, as new technologies converge to eliminate even more inefficiencies and frictions.

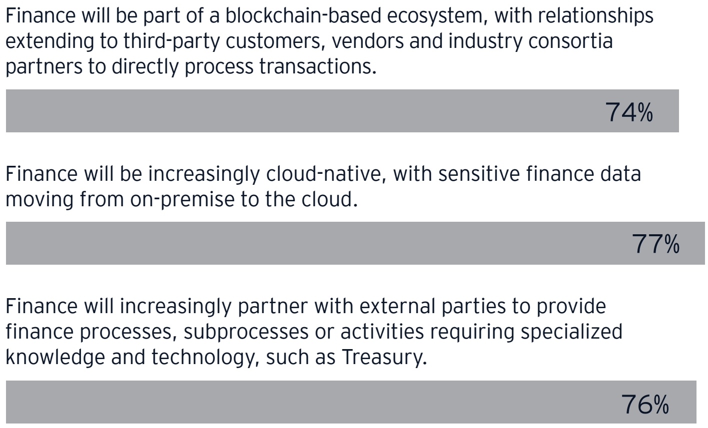
In this future, it is likely that everything will be connected to everyone. Machines will transact autonomously with other machines, as well as directly with people. It is also likely that almost everything will be rentable as a service, and excess capacity is expected to fade away. Blockchain-enabled platforms will likely support decentralized, peer-to-peer commerce. While progress has been made in these areas, the COVID-19 pandemic has accelerated aspects of this technology transformation. As organizations and society were compelled to adopt changes, including remote working, virtual learning and online shopping, long-term trends such as human augmentation technologies are becoming nearer-term reality.

In this hyperconnected world, how organizations create value will likely shift from behind the walls of the company out into the network space. CFOs should look to reframe finance for this new reality. The finance function should become more open, with finance working as part of an extended ecosystem, in deeper collaboration both within the organization and externally.

A more fluid operating model that extends beyond the enterprise's four walls will likely be a key factor in enabling finance to play a central role in the connected markets of the future. Many finance leaders see this more open future becoming reality over the next five years: for example, more than three-quarters (77%) of respondents believe that, by 2025, finance IT will be cloud-native rather than on-premise, and 74% believe the function will be part of a blockchain-based ecosystem.

Figure 4
Finance 2025 — the open finance function

Question: Thinking about the degree to which finance will become more open as it works as part of an extended ecosystem, how likely do you think the following scenarios are over the next five years?



What will the open finance function of the future look like?

It will likely look very different from today's finance function. It could be up to 50% smaller in terms of headcount, as well as more cost-efficient as low-value activities are automated. The central finance team will likely be small and focused on value-adding judgment and data-driven insight, while possessing new skills, such as IT and data science, alongside traditional finance and accounting skills. Many process-driven, regulatory and other reporting activities may not be handled in house but possibly taken on by experienced and accredited providers. As well as widespread use of cloud, robotic process automation (RPA) and AI technologies, blockchain would potentially facilitate new processes such as smart contracts, enabling finance teams to complete transactions more efficiently and securely across the business life cycle and the enterprise's ecosystem partners.

Embracing a broader ecosystem of decentralized partners may be a key element of this transformation. This is partially for financial reasons, but also because of the speed, agility and high caliber performance that can come from an organization's network of strategic partners. While CFOs are making increasing use of partnerships with external parties across a range of finance responsibilities, a potentially significant opportunity remains untapped. In fact, tax aside, fewer than one-third of respondents are working with external partners on a range of finance responsibilities. As they look to drive progress in this area, finance leaders should not take a narrow approach focused on cost reduction. The partner strategy is more about quality — gaining access to intellectual property and advanced technologies — and allowing the organization's finance team to focus its time on key value-creation and business-partnering activities.

It is important to maintain momentum, because there can be a "first-mover" advantage for those who can quickly establish these networks and ecosystems. However, embracing open finance may not be easy, as long-established habits can be tough to break, even though they can be important to success in a superfluid future.

Figure 5

Percentage of respondents who are working with external partners across the different areas of finance

Question: For each of the following areas of finance, please tell us if your organization is working with external partners.

Three priorities for the CFO

To successfully reinvent the role of the CFO and reimagine the finance function for the future, there are three suggested areas for CFOs to focus on:

1. **Elevate emotional intelligence**

   The COVID-19 pandemic has been a significant disruptive challenge, but it has also brought about some positive changes, including leadership styles and a focus on workforce. As CEOs, CFOs and other leaders looked to protect their employees and deal with high levels of employee anxiety, many adopted more frequent, empathetic and human communication approaches. This has placed much more emphasis on emotional intelligence and empathy as critical leadership qualities. This is relevant not only for today's COVID-19 pandemic situation but also for the future, as companies look to earn the trust of new generations of employees and multiple stakeholders. CFOs can elevate emotional intelligence to one of the most important attributes of their leadership philosophy and approach. This means pinning down what makes for a constructive and valuable peer relationship, approaching discussions with an open mind, and taking the time to share problems and challenges with other leaders.

2. **Put the finance team center stage when it comes to reframing long-term value and nonfinancial reporting**

   Every day, CFOs perform a difficult balancing act in which they optimize and protect today's value while also exploring new growth and long-term value. But the way in which organizations define, demonstrate and measure how they create value is changing, with many shifting from a focus on short-term to long-term value strategies. This means CFOs should seek to lead the development of a value framework that allows the organization to measure and communicate not only financial value but also other areas, such as consumer, human and social value.

   CFOs should also aim to put the finance team in a more central role in building out the connection between the tangible and intangible assets contributing to long-term value creation. This involves establishing which KPIs are material to long-term value – both financial and nonfinancial. To achieve this, CFOs should look to promote closer collaboration between the teams involved in financial reporting and those involved in nonfinancial performance reporting, helping to instill discipline into nonfinancial reporting processes and controls to build confidence and trust in the numbers.

3. **Provide the open finance function with a focus on trusted technology transformation and a new talent profile**

   New and innovative technologies that are capable of producing forward-looking and predictive intelligence – and that have trust built into them, both in terms of cybersecurity and data confidence – are likely to form a core part of the future finance function. But CFOs should also consider their talent base and partnerships, as well as their technology platforms and applications. As markets become more fluid in the future, talent will likely also become more fluid. The leading and brightest finance people will probably choose to build their affiliations with organizations that can develop their skills. Developing a future talent strategy for the function – based on continuous and dynamic learning – will likely be important to earning the long-term loyalty and commitment of creative and talented finance professionals while meeting the challenges of constant change and disruption ahead.

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