

The Finance Function of the **Future**

There isn't much that hasn't been affected by the pandemic, but the finance function has faced particular challenges. How has it coped, how has it changed, and what are the lessons to take into the future to ensure the finance function and CFOs thrive in the post-pandemic world?

Read on to understand the evolution of the finance function and the eight key actions we could all take to seize the day.



Summary

With the coronavirus pandemic still wreaking havoc in many parts of the world, it is tempting to think of the time before COVID-19 as a period of calm serenity, where we could plan for a predictable future, and focus on marginal gains.

In fact, that represents a fairly serious case of collective amnesia. Two years ago, think tanks, professional bodies and consultancy firms were all talking about the phenomenal pace of change facing the finance profession. In their widely cited research report, *Professional Accountants – the Future*, ACCA listed four drivers of change: increased regulation; digital technology; increasing expectations; and globalisation. We were told that accountants everywhere would have to adapt to change quickly or be rendered irrelevant.





The finance function during the pandemic

Change came alright, but in the shape of the virus – a massive shock wave that hit our organisations and demanded an immediate reaction. All organisations were affected, some positively but many more negatively.

Very quickly we learnt new skills of crisis management. Our working practices were first to change as many businesses flipped to remote working for some or all of their employees. Then we had to deal with the challenges that the situation presented to our specific business – changes to our supply lines, our sales channels, for some, the challenge of how to shut down in the short-term to secure a long-term future.

In all of this, we found that technology was our friend. Organisations that had good systems, based in the cloud, were well placed to carry on. For those that didn't, rapid implementation was essential. The urgency removed the fear of messing up that troubles so many technology projects. Indeed, we found that when the question of whether we should change is taken entirely out of our hands, we are pretty good at making things happen.





So, what was the impact of all of this on the finance function?

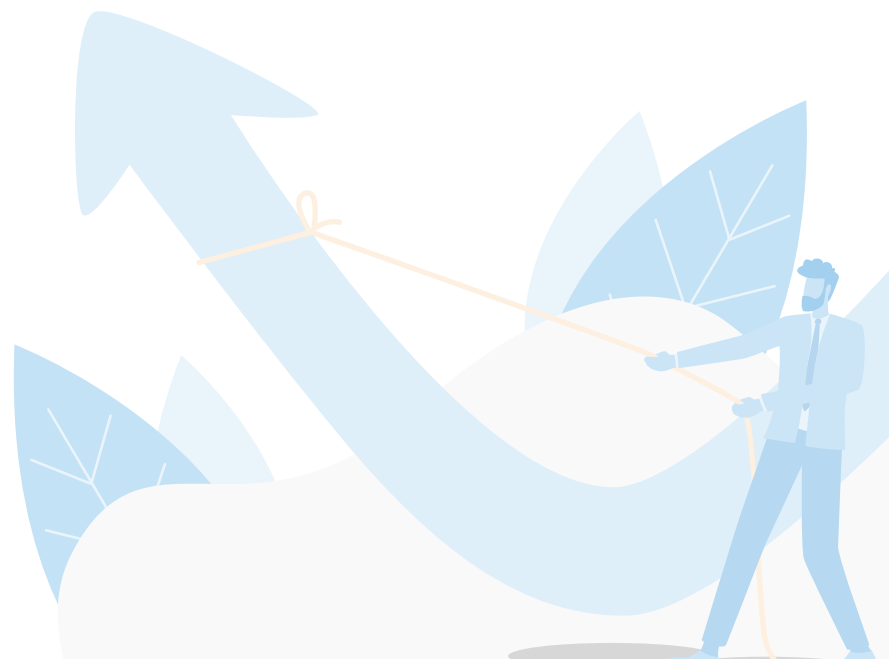
Clearly the answer is different for every organisation, but I would argue that finance teams have collectively distinguished themselves in four key ways:

1

Playing a key role in survival

The first few weeks of the pandemic were critical. For many organisations the threat was existential. The finance function played a key role in navigating to a more certain future. At this stage the contribution was often at the most tactical level – the level at which we were all operating at that time.

Managing both sales and purchase ledgers, and understanding the various assistance packages on offer from the government, enabled finance teams to create quick forecasts to illustrate the outcome of different strategic options. Without the substance provided by finance, many organisations would have made the wrong decisions and gone to the wall.





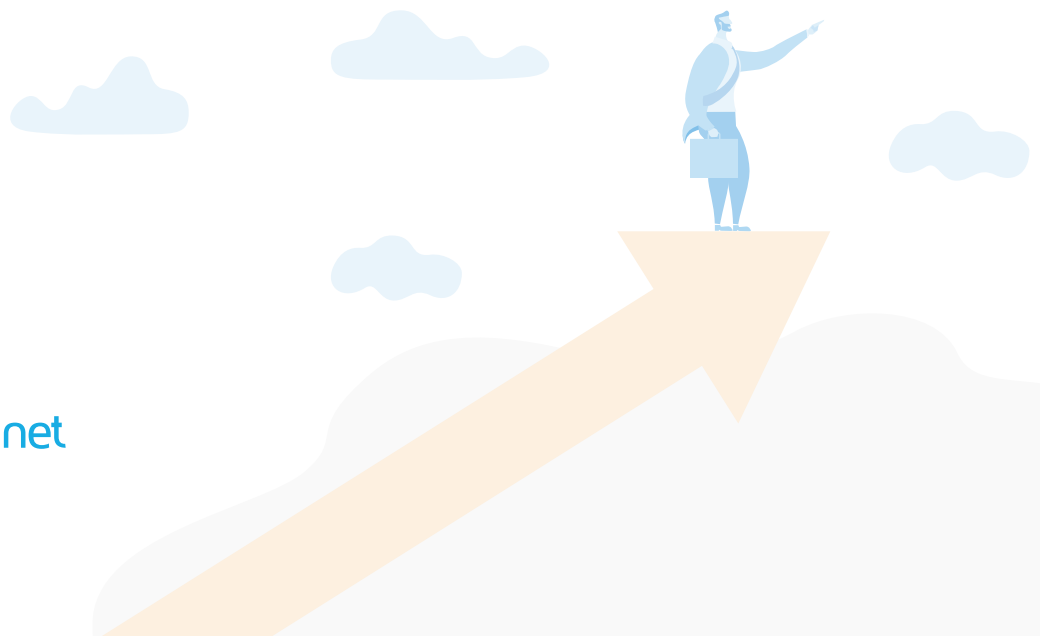
2

Playing a key role in success

In time, as attention turned to the future, many organisations engaged in deep but rapid strategic analysis. Significant changes in working patterns and buying habits seemed here to stay, and many organisations embarked on transformational journeys that would have taken years in normal times.

For example, a decision by a retailer to close half its shops permanently, and beef up its home delivery service, would be terrifying in normal times. How could you know that the revenue you will gain in home deliveries will offset the lost sales from the stores? The politics of the decision would be horrendous as well, with vested interests everywhere. But if the stores are all already closed due to lock down, you just get on with it and see what happens.

So strategic decisions became strangely easier; their efficient and optimal execution did not. That is where finance teams have once again distinguished themselves, ensuring that plans are underpinned by solid financials and that the working capital is always in place to enable their execution.





3

Understanding the data

Having access to the data and the skills to mine it and interrogate it not only supports management in making decisions between different courses of action, but it increasingly provides the source of the finance professional's credibility.

At a time where some are panicking, and throwing out mad ideas, authority comes from having some certainty to what you say, and that comes from the data.





4

Looking forwards

For us, the single most significant thing that the pandemic has taught us, is the benefit of looking forwards. In normal times, most finance teams spend a large proportion of their time looking backwards.

The month end for many departments is a tyranny as we produce ever more reports, designed to help our colleagues understand what has happened in the previous period.

At a time when the world seems suddenly to be coming to an end – when the markets we operate in have closed – the idea of producing a report on the previous quarter suddenly becomes faintly ridiculous. The question is not what has happened, but what are we going to do about it.

So, finance teams spent much more time helping to plan the immediate future. They budgeted and re-budgeted and ran what-if analyses on every possible idea. And by doing so, they positioned themselves as the business partners they have been talking about becoming for 30 years.





The finance function of the future

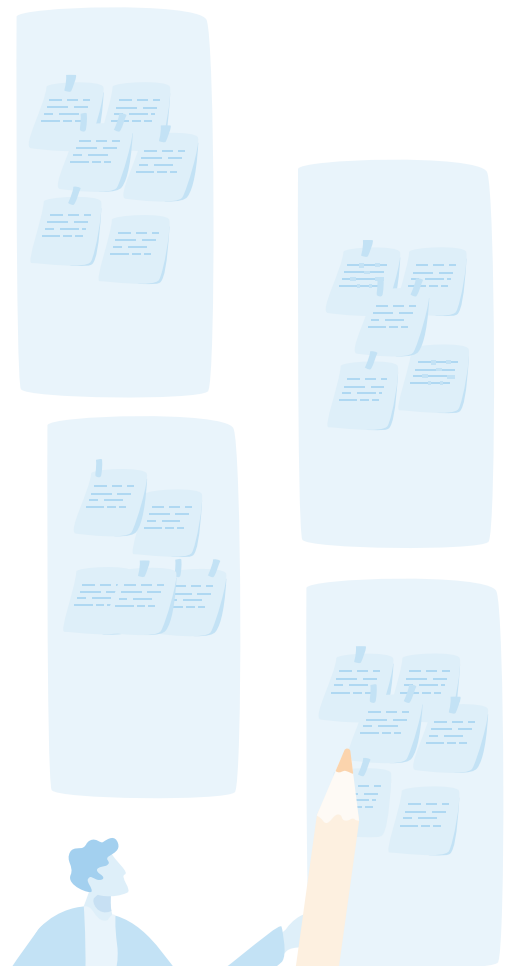
What does this all mean for the finance function of the future? Clearly there are some areas of success that we should be looking to take forwards. In doing so we can clarify and refine them.

1

Business models

At times of change, it is the people who understand the business model and its dynamics that can provide answers to the hard questions. This seems to be absolutely the realm of the finance professional.

If you don't understand the dynamics of the business model in real detail – probably more than your non-finance colleagues – then it is hard to maximise your contribution. Only by developing that deep understanding can you hope to engage authoritatively in conversations, both about survival at difficult times, and about developments and growth when the environment is more positive.





2

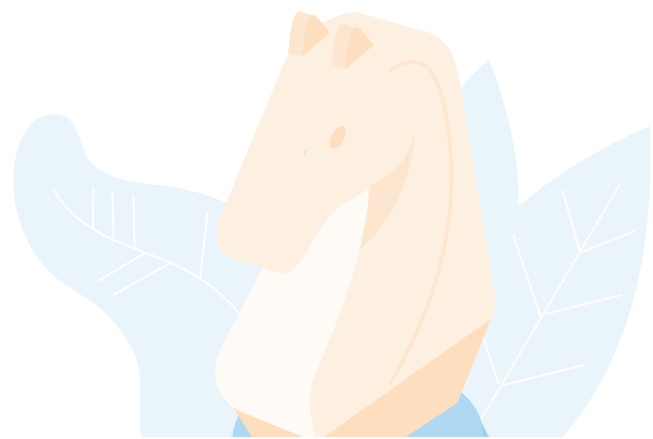
Resilience

Unsurprisingly, when we go through a crisis, people ask how we can create a more resilient organisation that will withstand shocks better the next time. As well as looking at their business models, many organisations are looking to establish much better relationships with their non-financial stakeholders. Creating partnerships in your supply and sales chains, and establishing and communicating your role in the communities in which you operate, are increasingly seen as key routes to establishing a more sustainable and resilient business.

3

Strategic view

The lesson from the pandemic is that the finance function has a key role to play in the development of strategy, and in the management of achieving it. You and your team can bring rigour to the strategy process in two ways. Your skills in data analysis can help validate good ideas and challenge others. Your professional scepticism – too often disregarded as an audit phrase, but critical – can help your colleagues test their ideas. By something as simple as asking “What evidence do we have for this?” you add enormously to the process. The data gives you authority, the supportive questioning approach makes you welcome at the strategy meeting.





4

Forward looking

If the ability to look forwards was the most significant thing to come out of the crisis, then it must surely be the key lesson to take forwards.

How much time do you spend reporting on the past? Does your team produce reports that may have been useful once but have become less and less relevant?

As we emerge from the pandemic and the havoc it has caused, there will be lots to do. Planning and replanning for an uncertain future is far more important than prolonged analysis of how we fared when faced with a unique set of circumstances we are unlikely ever to face again.

Clearly, we have to produce financial reports for various stakeholders, and there will always be a part of the role that is recording the progress we have made, but be ruthless about clearing away unnecessary reporting and spending a greater proportion of your time looking forwards.





The finance leader of the future

As part of their recent research report, The CFO of the Future, ACCA identified **6 hypotheses** about the likely evolution of the CFO role, all of which tie in pretty closely with the observations above:

Stakeholder focus	Come to predominantly focus on stakeholder and investor management rather than safeguarding and reporting.
Strategy formulation	Have a leading responsibility for business strategy formulation, validation and execution through to responsibility for its achievement.
Growth Optimisation	The focus of the role shifts from principally historically based cost control to growth optimisation.
Wide view of performance	The role will encompass measurement of all aspects of the strategic objectives of the organisation (e.g. as indicated by the six capitals of integrated reporting).
Forward insights	Provide greatest value to their entities through forward insight rather than retrospective reporting, becoming a chief performance officer.
Career progression	Increasingly finance professionals will have the CFO role as the next progression in their career development.



From this they develop a picture of the skillset that will be required by the finance leaders of the future.

Again, this is a list very similar to that you might have developed from the observations above. The greater emphases on strategy and on data and technology are a direct match.

Many of the CFOs interviewed commented about the need to become more forward looking. Pfizer's Richard Cunningham was typical when he said,



“The strongest attribute of the CFO is actually navigating through ambiguity, using all kind of data and resources and really helping the CEO to drive the business.”



Eight key actions

In all of this, both as individuals and as finance teams, it is critical that we remain on the front foot. This is not a case of simply responding to a changing landscape. Things have changed and we have a unique opportunity to carve out a new role. But that requires us to be proactive. So here are **eight actions** we could all take to seize the day and create a new role for the finance function:

Focus on strategy:

1. Clarify the business model
2. Get close to stakeholders
3. Develop a communications plan



Focus on the future:

4. Seek out, list and (where possible) mitigate risk
5. Create more business finance partner roles
6. Develop data analysis skills in the team



Manage the detail:

7. Love your supply chain and sales channels
8. Remember the transactions





This whitepaper is written by Alan Nelson. After studying economics, Alan began his career in accountancy before moving into senior management positions in the book trade. He founded Nelson Croom, the publisher of accountingcpd.net which he has run ever since. He is a member of IFA's Regulatory Committee and a past Chair of ICAEW's Practice Assurance Committee.



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