Leading the recovery

How U.S. finance teams are **guiding their businesses** toward sustainable growth

Contents

Executive summary

For most businesses, the past 12 months have been turbulent. They have faced huge fluctuations in consumer demand, disrupted supply chains, and a scattered workforce.

As 2021 brought vaccine rollouts and a renewed sense of optimism, we wanted to take the pulse of finance leaders. What is top of their agendas, and how are they helping their businesses to thrive beyond COVID-19?

We find that they are managing to focus on both long- and short-term initiatives. Cost cutting is their top priority for 2021, but they are also trying to position the business for long-term success – they are evaluating new business models, generating insights for the wider business and changing capital allocation processes.

Juggling all of these priorities is not easy: 44% of finance leaders tell us they struggle to balance the short- and long-term needs of the business. Is there a way for them to help their organizations survive in the short term and thrive in the long term?

What they need to do

Finance teams have to transform if they are to genuinely help their businesses grow and develop. Yes, that means using new technology to free up employees' time for more value-adding tasks. According to our survey, finance leaders are most keen to use technology for risk and compliance, planning and budgeting, and performance reporting and analytics purposes.

But technology alone is not enough. Finance leaders tell us that they face three significant obstacles to successful transformation: resistance to change, lack of awareness of technology's potential benefits, and absence of technology skills.

Our survey also asked finance leaders whether they plan to continue with any of the initiatives they introduced during COVID-19 when the pandemic recedes. Four in 10 say more flexible budgeting and capital planning, more agile business practices, and increased budget for technology.

New priorities

Finally, we explored the role of finance teams in driving sustainable growth. Notably, 71% of businesses say their focus on ESG (environmental, social and governance) has increased in the past 12 months. Finance teams are playing a strong role here: 74% say they are clear about the role that their finance function can play in addressing ESG issues.

In this report, we delve deeper into these findings to find out exactly how the past 12 months have affected finance leaders and their teams.

Building resiliency

Transformation and technology

Learning during pandemic

Emergence of ESG

About the research

The findings in this report are based on a survey of 300 U.S.-based senior finance professionals across a range of sectors and company sizes.

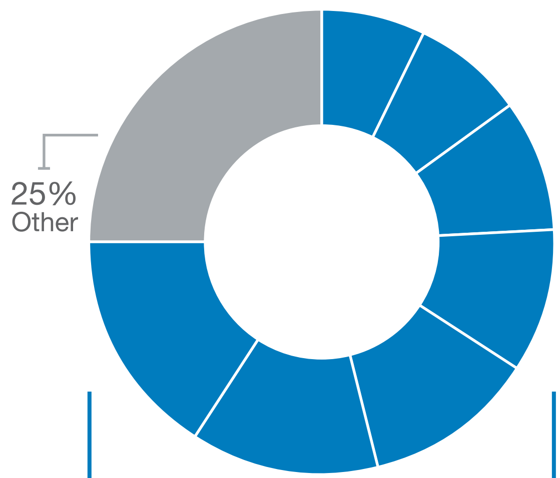
- All surveyed companies had revenues of more than **$100m**
- **47%** of companies generated more than **$1bn** in revenue
- **10%** generated more than **$5bn**

The survey was carried out in January and February 2021.

In addition to the survey, we conducted interviews with two CFOs:

- **Denise Chamberlain**
  CFO, Chicago-based healthcare provider Edward-Elmhurst Health
- **Linda Zukauckas**
  CFO, market measurement firm Nielsen

Job titles



75%
Finance heads and senior executives

16% - Head of finance department or unit
13% - Group CFO
12% - Regional/Divisional CFO
10% - SVP/VP of Finance
9% - Financial Controller
8% - Treasurer
7% - Chief Accounting Officer

Company size

47%

10% - >$5bn
20% - $2bn–$5bn
17% - $1bn-$2bn

53%

13% - $500m–$1bn
18% - $250m–$500m
22% - $100m-$250m

1. Finance leaders sow the seeds for long-term growth

Finance leaders face a delicate balancing act. On the one hand, they want to position their businesses for future success through digital transformation and new business models. But on the other, they have to focus on survival today – and for many that means cost cutting and improving cash flow.

Pulled in multiple directions

Striking the right balance is tough: 44% of finance leaders struggle to balance the short- and long-term needs of their business, and 46% struggle to balance the need to cut costs and build resiliency with the need to invest in future growth.

This is an unenviable situation to be in, but our survey data shows that finance leaders have not been completely side-tracked by short-term survival.

It is true that their top priorities for 2021 are cutting costs, driving revenue growth, and improving cash flow. But they are also supporting ESG initiatives, evaluating M&A opportunities, deploying technology within the finance function, and evaluating new business models (see figure 1). By focusing on these areas too, finance leaders are helping to position their businesses for long-term success.

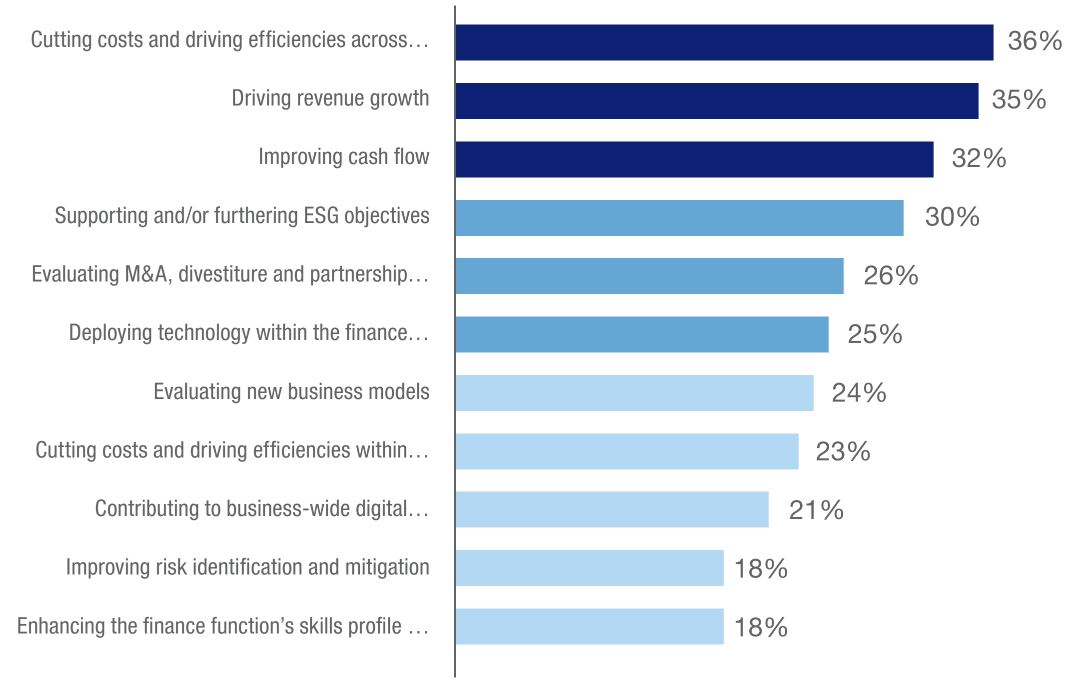
44% Struggle to balance short- and long-term needs.

46% Struggle to balance cutting costs and investing in future.

Q:

What are your finance function's greatest priorities for 2021? Please select up to three

Figure 1. Finance leaders prioritize cost cutting and revenue growth – but they have other plans too



Certain sectors are particularly focused on the longer-term objectives. Respondents in the construction, engineering, and real estate sectors say evaluating M&A, divestiture and partnership opportunities is their top priority for 2021, and those in the healthcare and life sciences sector say supporting ESG initiatives is their top priority.

Evaluating new business models is the top transformation initiative

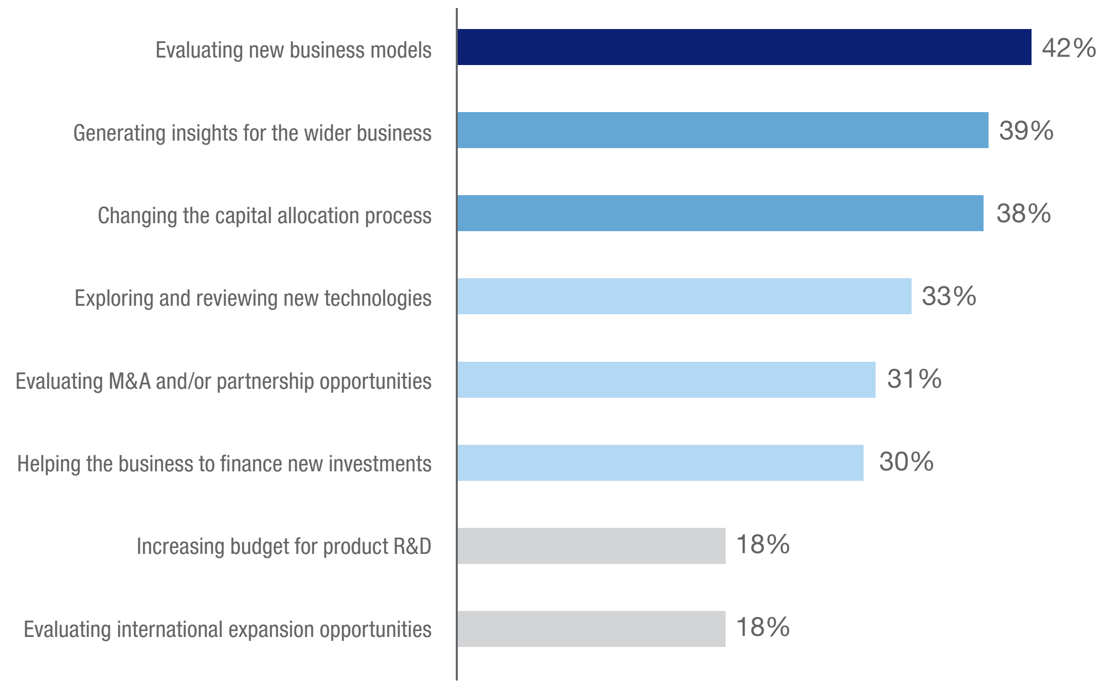
How exactly are finance leaders helping their businesses to drive growth and transformation? The survey tells us that the most popular method is to evaluate new business models (see figure 2).

This is unsurprising. Across multiple sectors, COVID-19 has upended traditional consumer preferences and supply chains, and firms need new business models in order to keep up. Because they have access to a wide range of financial and operational data and have advanced analytical skills, finance teams are best placed to evaluate new business models.

However, even though evaluating new business models is the most common method of driving business growth, only 42% of respondents are currently doing this. This suggests that **there is still significant potential for finance teams to help their businesses in this way.**

Q: Which of the following is your finance function doing in order to drive business growth and transformation? Select all that apply

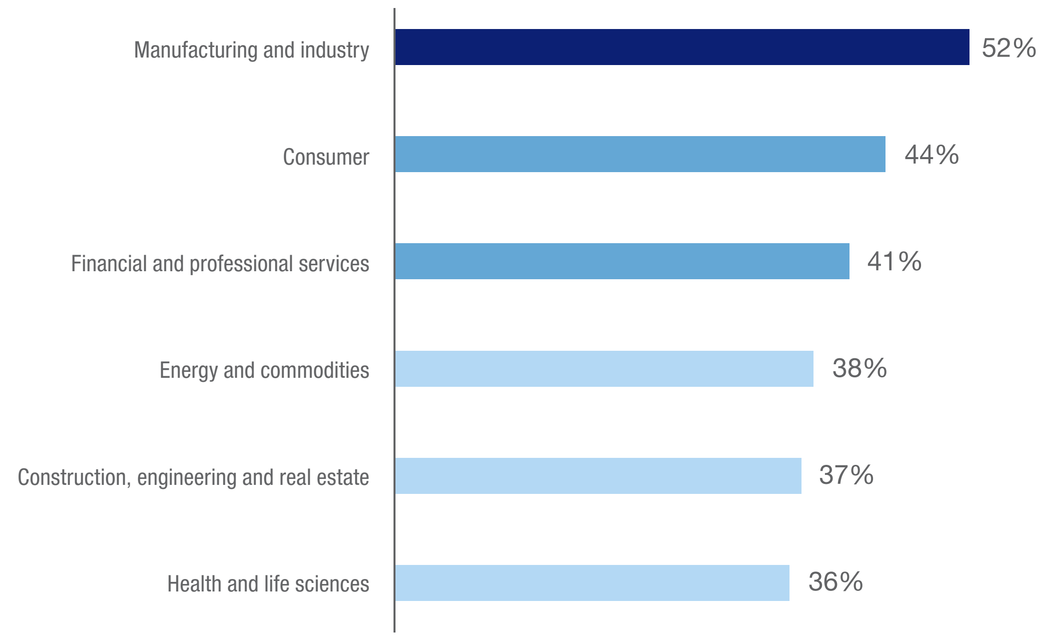
Figure 2. Finance leaders are ushering in transformation across the enterprise



The survey data also shows that finance leaders in certain sectors are particularly likely to evaluate new business models (see figure 3).

Q: Which of the following is your finance function doing in order to drive business growth and transformation? (Percentages show those that selected 'evaluating new business models' within each sector)

Figure 3. Finance leaders in the manufacturing sector are most frequently exploring new business models



Finance leaders generate insights for the wider business

39% All sectors

Notable results

49%
Energy and commodities

30%
Construction, engineering and real estate

Insight-generation sparks growth

According to the survey data, 39% of finance leaders generate insights for the wider business – the second most common way in which finance teams drive growth (see figure 2). Finance leaders in the energy and commodities sectors are particularly active: 49% are generating insights for the wider business, compared with just 30% in the construction, engineering and real estate sectors.

Although insight-generation is the second most common way in which finance teams are accelerating growth, six in 10 finance leaders are not currently doing it. There is therefore still significant potential for finance leaders to contribute in this way.

"When I first became CFO, the financial performance of one of our acute care hospitals was falling" says Denise Chamberlain, CFO of Edward-Elmhurst Health, a Chicago-based healthcare provider. "We wanted to know what was driving this, so the finance team did a deep dive into the data. We found there had been a huge shift from admitting patients to putting them in Observation. Although this is a trend that has been happening nationally, what was happening in our hospital far exceeded the national data. Finance worked with the operations team and physicians to implement tighter processes for determining appropriate patient status. Just by generating this insight and sharing it with the team they were able to identify a problem and correct it. Within 90 days the hospital was moving back closer to national averages and industry norms."

Rethinking capital allocation is a top priority

Changing the capital allocation process is the third most common way in which finance leaders are catalyzing growth, and it can be highly effective.

"From this year we have changed how we allocate investments in growth initiatives to rely much more heavily on data," says Linda Zukauckas, CFO at market measurement firm Nielsen. "Previously, teams would be allocated similar sums of capital for investments based on their budget in previous years. But we now evaluate opportunities based on the ROI, so we are letting the data inform allocation decisions. **By doing this we have created investment capacity for higher growth initiatives."**

> We have changed how we allocate investments in growth initiatives to rely much more heavily on data.
>
> - Linda Zukauckas, CFO, Nielsen

But as with the other growth initiatives in the research, the numbers are quite low. Just 38% are changing their capital allocation processes, although the picture varies across sectors: 49% in the consumer sector are changing capital allocation processes, compared with just 24% in the healthcare and life sciences sector. There are therefore significant opportunities here for finance leaders to accelerate business growth.

Changing capital allocation processes

38% All sectors

Notable results

49% Consumer

24% Healthcare and life sciences

33%

Exploring and reviewing new technologies to drive growth and transformation.

> We have really embraced innovation and have carved money out of our investment portfolio and set up an innovation fund.
>
> - Denise Chamberlain, CFO, Edward-Elmhurst Health

Finance is best placed to assess new technology

One third of finance leaders are helping their businesses drive growth and transformation by exploring and reviewing new technologies. Finance leaders are suited to this, because their analytical capabilities enable them to assess the potential payback. Because they can see performance across the entire business, they can also understand which areas would benefit most from new technology.

While many finance leaders explore the potential benefits of purchasing new technology, **some have gone a step further and are evaluating investments in companies developing technology.**

"We have really embraced innovation and have carved money out of our investment portfolio and set up an innovation fund," says Chamberlain. "It is a separate venture capital type of company that reports up through me. Their job is to look for new technology innovation in healthcare that we think is going to be the next big thing, and then invest in it."

Establishing a venture capital fund will likely not be appropriate for many finance leaders. But this example demonstrates the potential role that finance leaders can play in bringing new technology into their businesses.

Technology is the top way to cut costs

Finance leaders are not just embarking on growth and transformation initiatives – they are also looking for new ways to tackle old challenges.

Take cost cutting and driving efficiencies, which is their top priority for 2021. According to the survey data, half of finance leaders intend to cut costs by investing in technology (see figure 4). Headcount reductions came second.

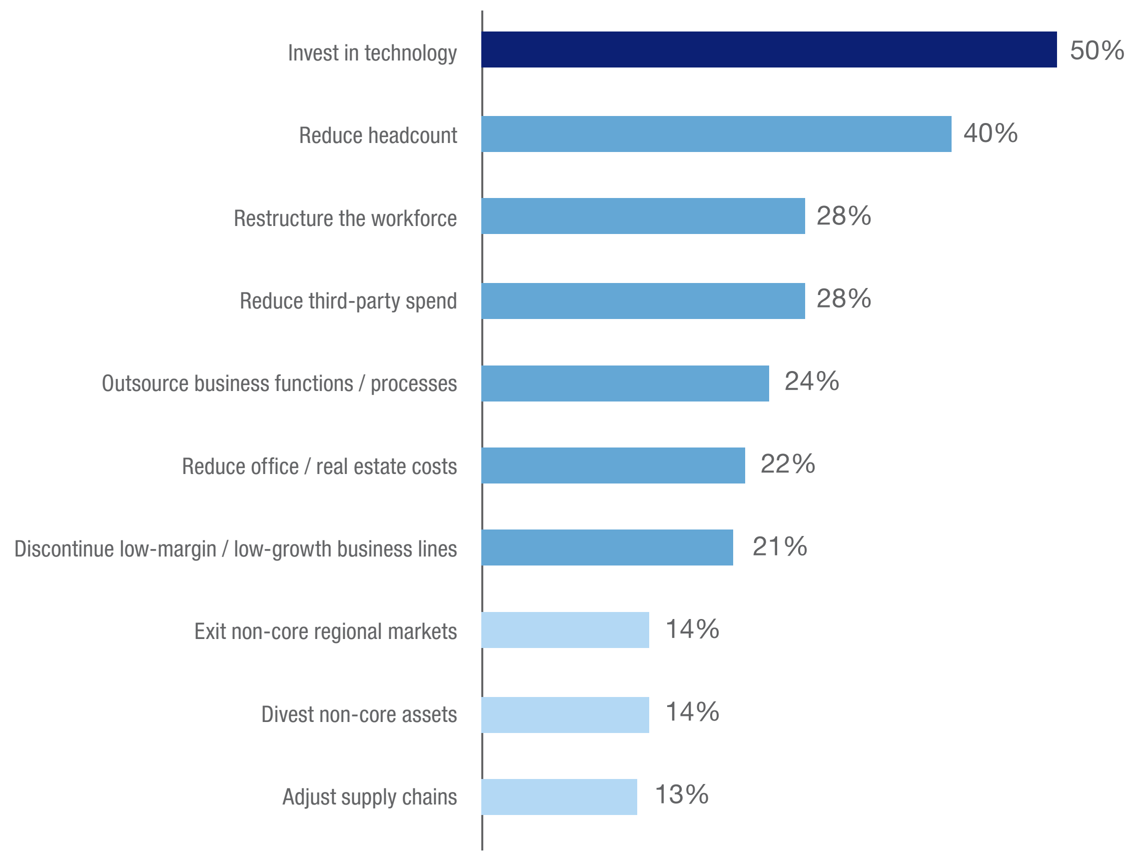
Although many businesses' offices were empty for much of 2020, **just 22% of finance leaders intend to cut costs by reducing office and real estate costs.**

This likely reflects the uncertainty surrounding when it will be safe to fully return to the office and that many businesses have long-term real estate contracts that do not enable immediate opportunities for cost savings.

Q:

Which of the following does your finance function plan to do in 2021 in order to cut costs and drive efficiencies? Select all that apply

Figure 4. Technology helps to cut costs



2. Finance has to transform itself before it can help the wider business

To help the wider business grow and transform in the ways described in section 1, it must first transform itself.

Take the example of generating insights. This will be difficult if finance teams do not have the analytical platforms they need. Just 25% say that deploying technology within the finance function is a top three priority, but having adequate technology within the finance function is fundamental to supporting growth and transformation.

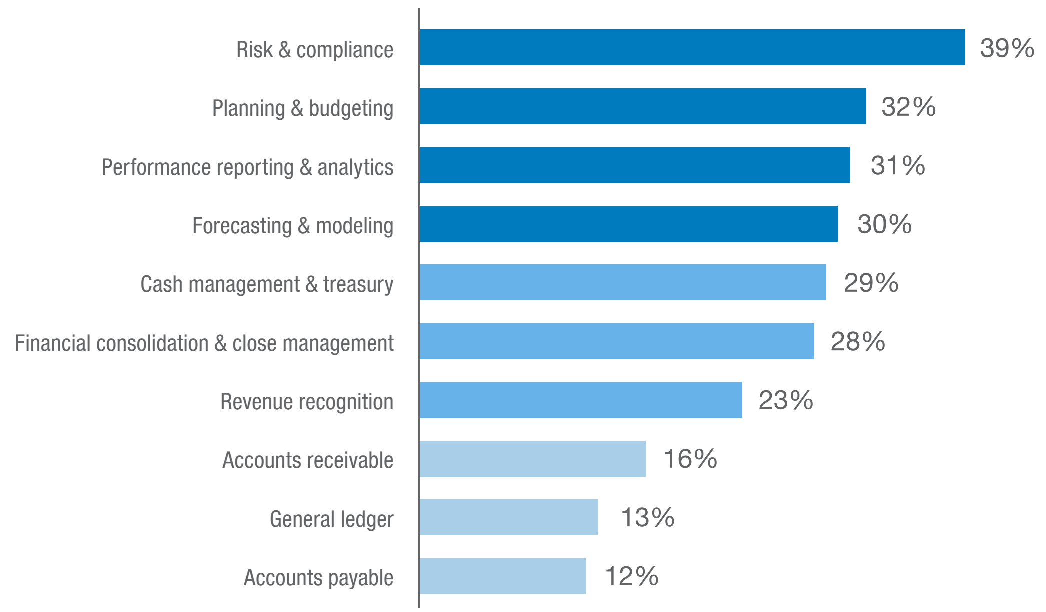
Risk and compliance are ripe for digital transformation

When we asked which areas within finance would benefit most from digital transformation, finance leaders ranked risk and compliance first (see figure 5). This is likely driven by the fact that Covid-19 has raised awareness of the importance of adequate risk processes, controls and tools. The pandemic has also rapidly accelerated the rate at which customers interact and purchase from businesses through digital channels, which may be forcing finance teams to invest in technologies that help prevent payments fraud.

25% Rank deploying technology within the finance function as a top three priority

Q: Which areas of the finance function would benefit most from digital transformation?

Figure 5. Risk and compliance is set to benefit from digital transformation



Do not overlook AP and AR technology

Survey participants rank accounts receivable (AR) and accounts payable (AP) in the areas of finance that would benefit least from digital transformation. This likely results from the fact that many finance leaders are not fully aware of all of the tools and technologies that are at their disposal and their potential benefits. Indeed, finance leaders say that a lack of awareness about technology is one of the most significant barriers to digital transformation within the finance function (see figure 6).

But AP and AR technology can in fact deliver tremendous benefits. Identifying vendors who accept digital payments and deploying technology such as automation and virtual cards to replace paper-based manual work can significantly reduce costs, fraud and the potential for errors. The Digital Bridge report shows how using technology here can free up employees' time for more value-adding activities while optimizing working capital.

Digitally transforming accounts receivable and payable processes can also improve the customer experience. "In connection with an upgrade of our financial systems we're now taking a step back and looking at our end-to-end processes for how we bill and invoice and how we receive and release cash," says Nielsen's Zukauckas. "These processes extend beyond finance and reach all the way into the business. It will result in a simplified and streamlined process – not just for us, but also for our customers. What was driven by a finance system upgrade will become a business transformation."

Harness the collective power of people and technology

Finance leaders cannot transform their function – or the wider business – with technology alone. They also need to make sure their people are eager to embrace change and have the capabilities to do so.

The survey data shows that this is imperative. Respondents' greatest obstacles to executing digital transformation initiatives within the finance function are reluctance and resistance to change; lack of awareness of new technology and its potential benefits; and lack of human skills and human resources to implement and use new technology (see figure 6).

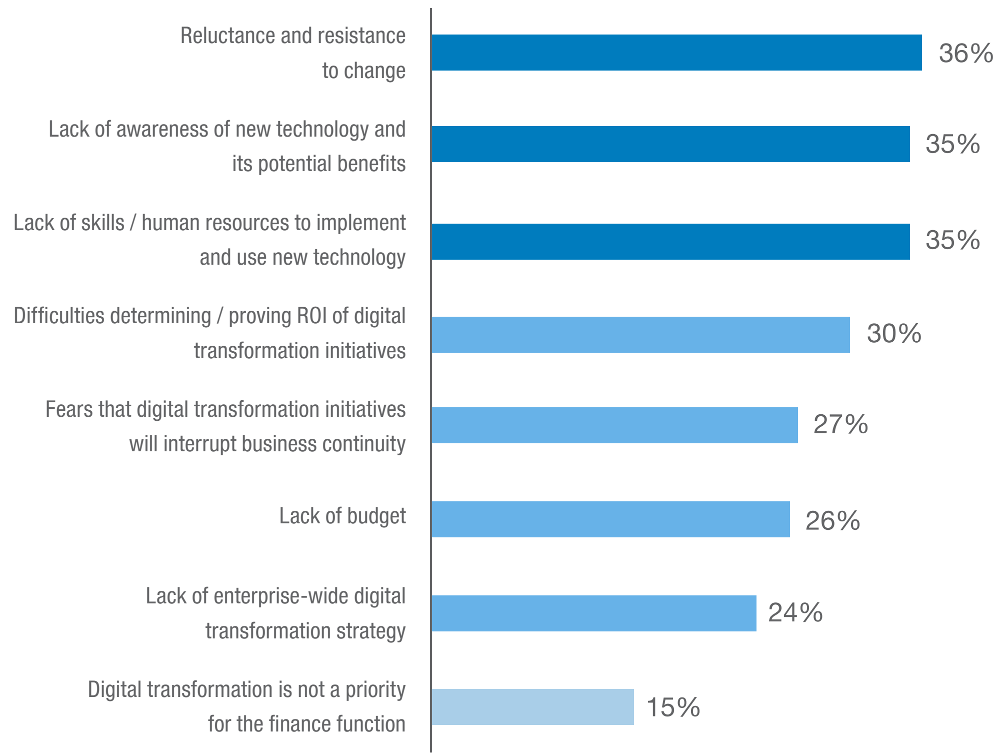
How can businesses create the culture of change and experimentation? Zukauckas says that executive buy-in is crucial. "Historical habits are ingrained in how people work, and you really do need to take them on a change management journey," she says. "Fortunately for us, our CEO is really behind our transformation initiative and is a real catalyst for change within the company. It is also important to create some buzz in the company about what you are doing so that people want to be part of it."

Culture aside, finance leaders must also ensure they have the skills to implement and use new technology. That may mean recruiting people with quite different skillsets and partnering with organizations that have this expertise.

> "AP and AR technology can deliver tremendous benefits. Identifying vendors who accept digital payments and deploying technology such as automation and virtual cards to replace paper-based manual work can significantly reduce costs, fraud and the potential for errors."

Q: What are the greatest obstacles to executing digital transformation initiatives within the finance function? Select up to three

Figure 6. Resistance to change is the greatest barrier to digital transformation within finance



3. Preserving and enhancing the agility learned during COVID-19

COVID-19 placed a huge amount of strain on finance functions. In many businesses, the workload increased because of reforecasting and budgeting requirements. Like many other teams, finance employees also had to shift to working from home.

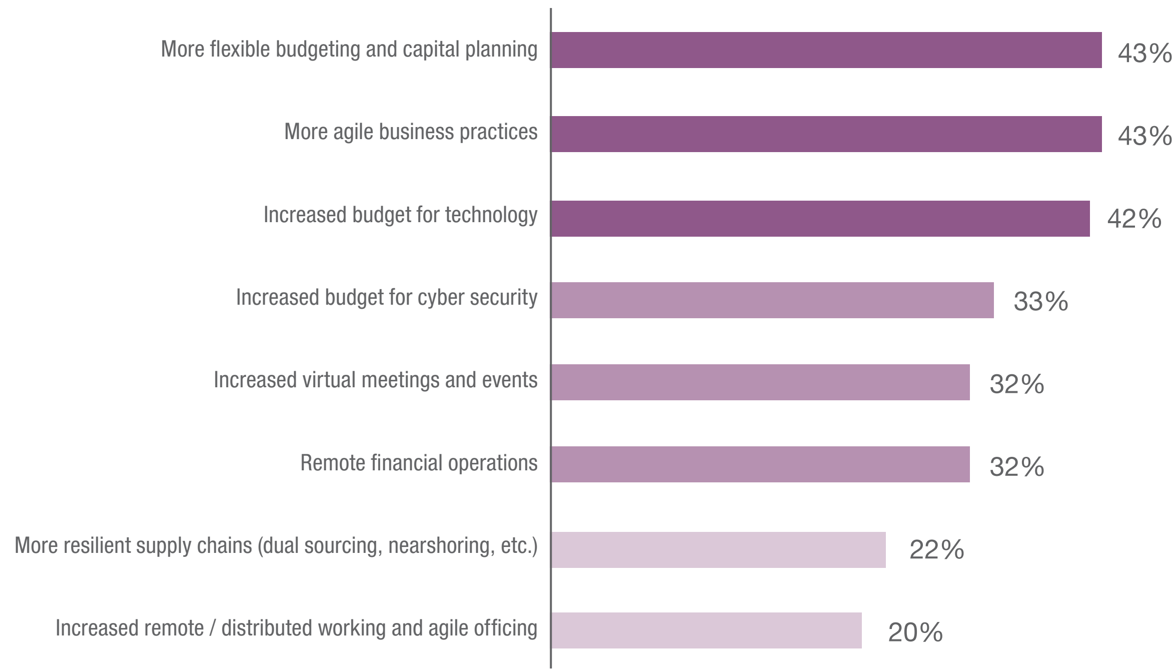
When we asked which initiatives from the COVID-19 era respondents would like to preserve when the pandemic is over, more than 40% identified more flexible budgeting and capital planning, more agile business practices, and increased budget for technology (see figure 7).

How can finance leaders inject flexibility into budgeting and capital planning? In addition to adopting a more data-driven approach as we saw in section 1, they can try to enable finance employees that are closest to certain business teams to approve investments – subject to certain parameters. Decentralizing decision-making in this way allows investment projects to be approved more swiftly.

Another option is to hold back a certain proportion of the investment budget so that initiatives can be financed on a more opportunistic basis as they arise between planning cycles.

Q: Thinking about initiatives that your finance function and the wider business implemented during Covid-19, which do you plan to continue when the pandemic recedes? Select all that apply

Figure 7. Finance leaders want to retain the flexibility and agility they saw during Covid-19



Despite the benefits of remote working, finance leaders are not keen to retain the COVID-19-era level of remote working when the pandemic recedes: only 20% of finance leaders plan to maintain remote and distributed working or agile officing. Instead, many will likely adopt a hybrid approach with greater flexibility that allows a balance of remote and in-office work.

4. Finance teams tackle ESG – but there is more they can do

Businesses are increasing their efforts to address ESG issues: 71% of finance leaders say their business's focus on ESG has increased in the past 12 months, including 80% of those generating more than $5bn and 82% of those in the energy and commodities sector.

Finance teams plan to play their part. Two-thirds of finance leaders say that the finance function should play an important role in addressing ESG issues, and three-quarters say they are clear about the role their team can play.

Practically speaking, what are finance teams doing? According to the survey data, 50% are assessing the environmental credentials of potential third parties and investments, and 45% are assessing the risk that climate change poses to the business's operations and supply chains (see figure 8).

Company focus on ESG has increased in the past 12 months

71% All companies

Notable results

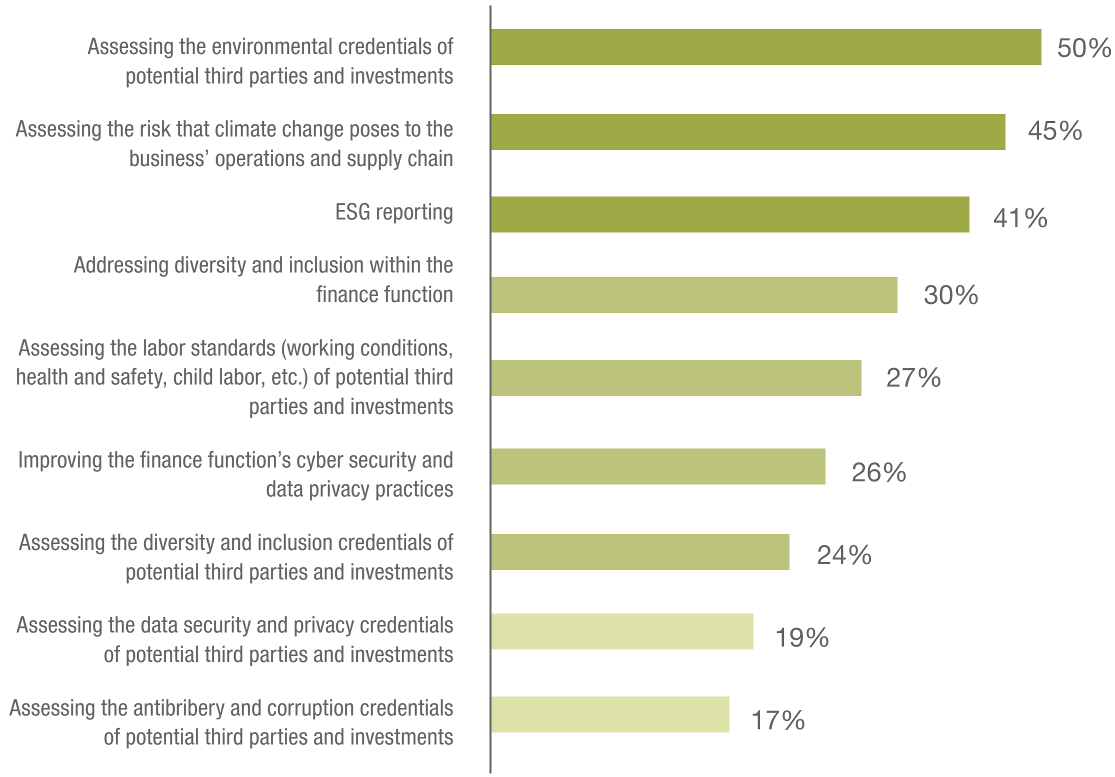
80% Big companies

82% Energy and commodities companies

Q:

Which of the following is your finance function doing in order to further your business's ESG strategy? Select all that apply

Figure 8. Finance leaders are already addressing ESG issues, but there is potential to do more



> People increasingly invest based on how socially responsible companies are.
>
> - Linda Zukauckas, CFO, Nielsen

The opportunities for finance teams to push ESG objectives will vary depending on the nature of the business. But there are likely to be opportunities for multiple roles within finance to participate.

"Finance can and should be involved in ESG in a number of different ways," says Nielsen's Zukauckas. "In my team, the accounts payable and procure-to-pay teams are very involved in environmental data collection and the reporting process. Our real estate team also gathers and reports on a lot of environmental metrics, while our corporate citizenship team captures and reports on our overall environmental footprint.

"People increasingly invest based on how socially responsible companies are, so it is also an important topic for investor relations, which is part of the broader finance team," she adds. "And as the leader of the team I am always thinking diversity, equity, and inclusion across the entire team."

By pursuing ESG initiatives, finance leaders may be able to tap into non-traditional sources of financing that were previously unavailable. Green and Social bonds, for example, may allow companies to raise capital when the proceeds are used for ESG programs.

The survey data reveals that finance leaders acknowledge that ESG is their responsibility and that they are taking steps to address it. But it also showcases that there is significant scope for further action at a time when ESG is becoming a major topic of focus across industries.

Conclusion

Finance leaders have had a lot to deal with during the pandemic. But the survey reveals that they are looking forward.

Although cost-cutting is currently top of the agenda, they are also prioritizing long-term and growth-oriented initiatives such as evaluating new business models, refreshing the capital allocation process and generating new business insights. We also find that they are beginning to address ESG issues.

Finance leaders also realize that they must first transform the finance function itself in order to effectively help the wider business. That's why they are deploying more and more technology within the function for a wide range of purposes. It's also why they plan to preserve some of the ways of working – such as flexible budgeting and capital planning – that they were forced to adopt as COVID-19 struck.

Put simply, finance leaders are not standing on the sidelines. They are working alongside other executives to ensure that their businesses not only survive, but thrive.

We hope you enjoyed reading this report. If you would like to discuss any of the findings, please don't hesitate to get in touch with U.S. Bank.