Leading the transformation

Finance leaders refresh their priorities, operations and approach to risk

Contents

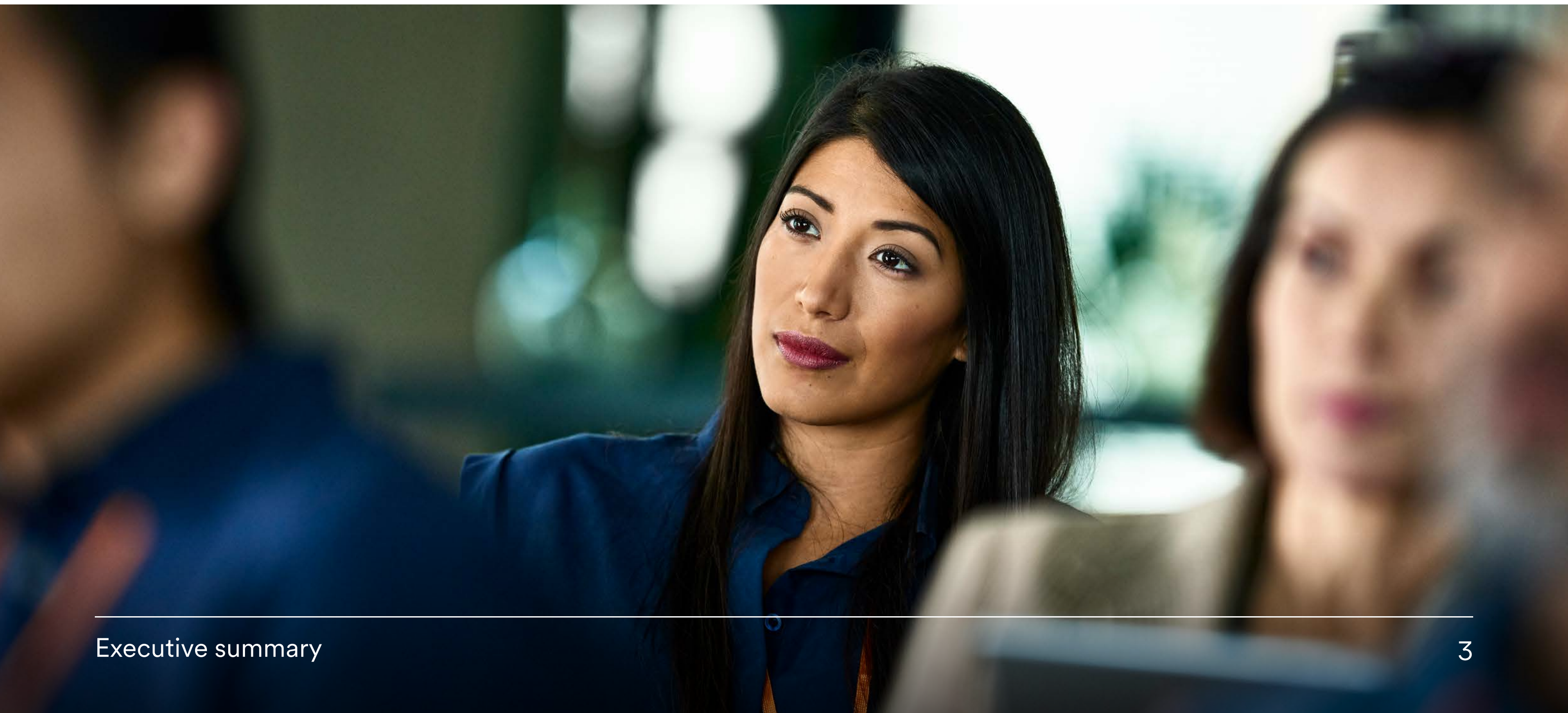
Executive summary

U.S. businesses face unparalleled uncertainty and disruption. Economists continue to debate the potential and magnitude of an economic downturn; inflation remains elevated in parts of the economy; and low unemployment makes it frustratingly difficult to recruit. That's not to mention the fact that the era of ultra-low interest rates is truly over, and it still feels like the next headline about supply chains, the economy or geopolitical conflicts is just around the corner.

At the same time, new technology is emerging at breakneck speed that provides tremendous opportunity, but also significant risk. In every sector, digital-first competitors are emerging with the potential to rapidly grab market share.

Finance leaders have a vital role to play in helping their businesses navigate this uncertainty and disruption. But are they? Our third annual survey of 1,420 finance professionals in businesses across the U.S. reveals that they are. Rather than making gradual, cumulative changes, they are taking a transformative approach.

This marks a major strategic pivot. Two years ago, the research found finance teams focusing on driving growth as the worst of COVID-19 receded. A year later, finance teams were devoted to managing and mitigating a new wave of risks.



Today, finance leaders intend to transform in four ways:

1

Pivot to new priorities:
Today, finance leaders rank cutting costs and driving efficiencies within the finance function as their number one priority. Two years ago, this was only eighth on the agenda. To allow finance teams to focus on this task, there will be much less time devoted to growth initiatives such as M&A, evaluating new business models and topics such as ESG.

2

Reimagine the finance function with technology:
Unlike two years ago, the primary plan to cut costs is to invest in new technology. The majority also believe that artificial intelligence (AI) could completely redefine how the finance function operates. AI aside, there is strong interest in data analytics and cloud computing.

3

Re-order material risk priorities:
Finance leaders are also reforming the way they assess risk. Talent shortages, the pace of technology change and inflation have risen on the agenda, while concerns about supply chain disruption and changing customer demands and expectations have abated, for now.

4

Implement new payment options:
Many consumers are now accustomed to making and receiving payments with the simplicity offered by services such as Zelle® and Venmo® – and want the same from businesses. In response, finance teams are seeking to increase use of digital payment methods, such as instant payments.

As they embark on this transformation, finance teams will need to refresh and reinforce their capabilities. For example, just 8% describe themselves as ‘highly confident’ in managing talent risks. And while there is widespread hope that technology will deliver cost savings, almost half (45%) of finance functions are still at the outset of their digital transformation journey and, therefore, are yet to see the bulk of potential benefits.

There is also a risk that throttling back on activities such as evaluating new business models or gauging supply chain exposure to climate change could heighten vulnerability to long-term risks – or lead to opportunities being missed. Finance leaders are all too aware: 56% currently struggle to balance cost cutting and building resiliency with investment in future growth, compared with 46% two years ago.

1

Finance leaders enter defense mode

It's all about costs

Finance leaders' priorities have shifted considerably. Today, cutting costs and driving efficiencies within the finance function is the number one priority. This ranked eighth only two years ago.

Why the drastic change? With an eye on potential recession and broader market uncertainty, cutting costs and driving efficiencies across the business is finance leaders' second-top priority. CFOs cannot ask other business functions to trim spending with authority if they do not lead by example.

56%

struggle to balance cost cutting and building resiliency with investment in future growth, up from 46% two years ago

"

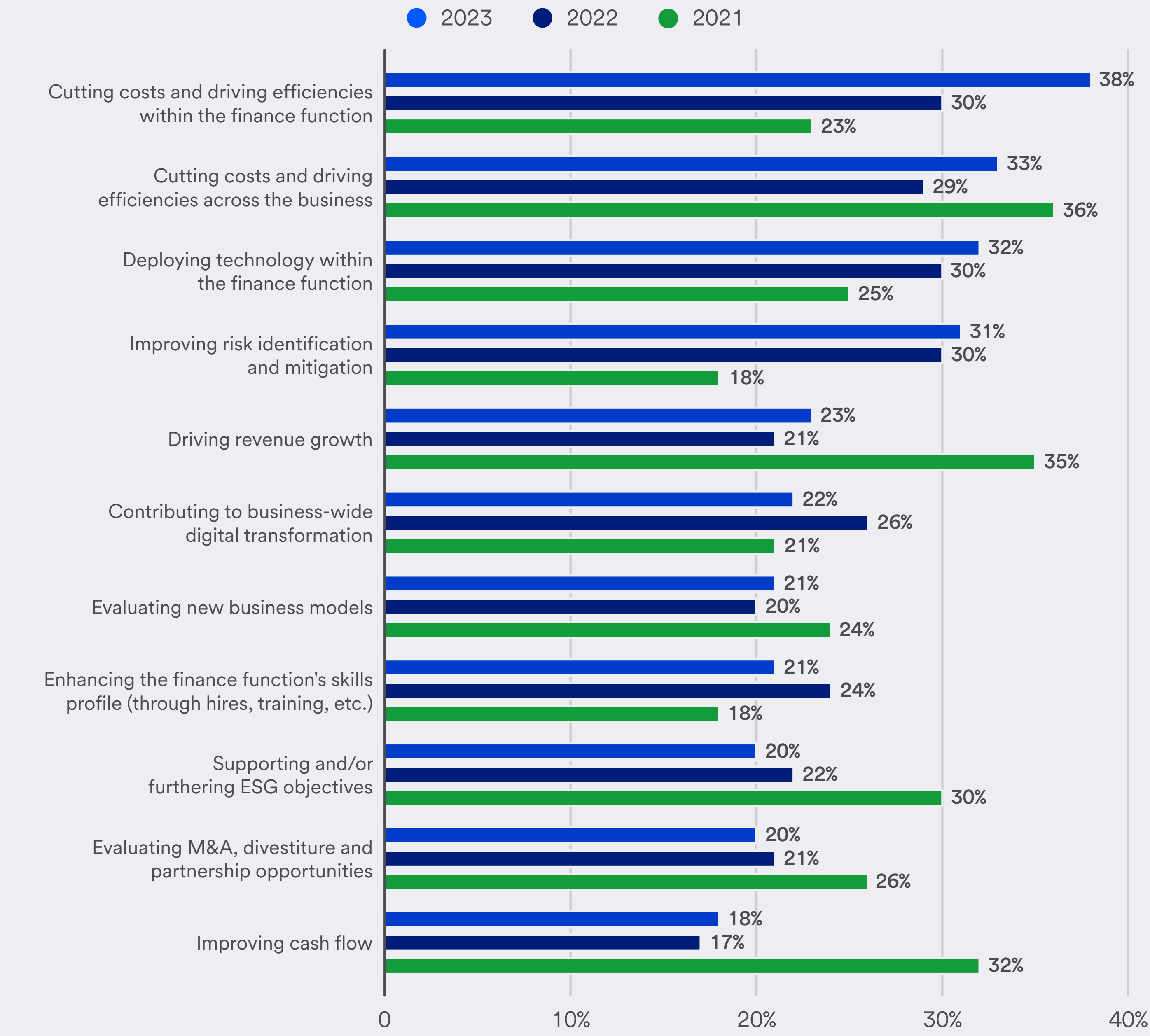
Cost optimization has ebbed and flowed as a priority for finance teams, but now it's right up there due to the uncertain economic environment and reduced consumer purchasing power. In an uncertain economic environment, everything needs to be reviewed, especially cost. It requires benchmarking with industry peers to become best in class.

MANISH GUNDECHA
Head of Finance Transformation,
Personal Systems, HP Inc.

In contrast, growth initiatives have been deprioritized. Two years ago, driving revenue growth was finance leaders' second-highest priority. Today, it ranks fifth. In parallel, improving cash flow tied for third two years ago but sits at the bottom of the agenda today.

Finance leaders concede that their current relentless focus on cost control may come at the expense of future growth. Fifty-six percent state that they struggle to balance cost cutting and building resiliency with investment in future growth, up from 46% two years ago.

Cost control rises on the agenda



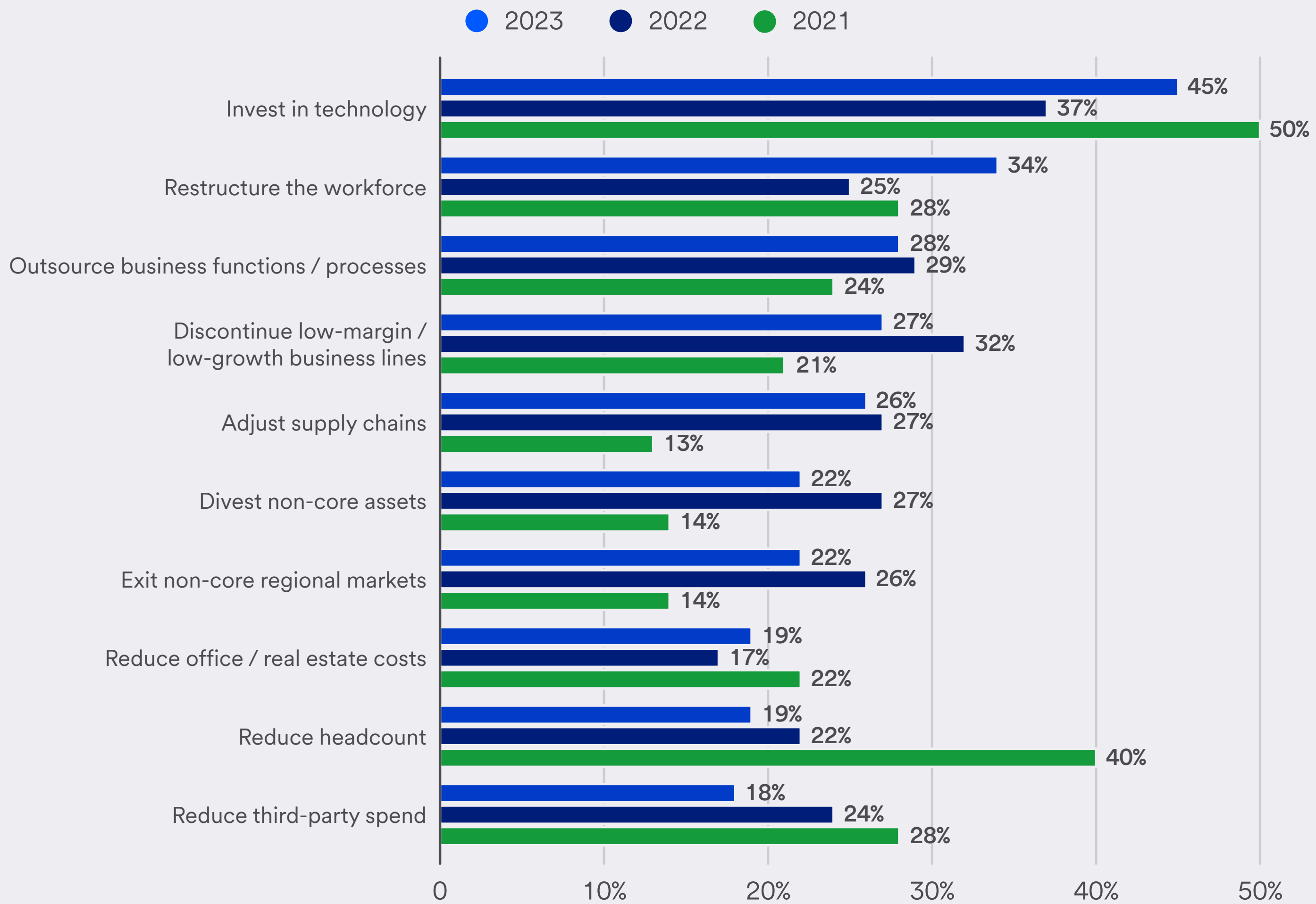
All hopes pinned on technology

When asked how they expect to deliver cost savings, finance leaders most commonly reply that they will invest in technology. In particular, data analytics, AI and cloud computing are investment priorities. In fact, 54% say AI could completely redefine how the finance function operates. Enterprise software such as ERP and blockchain are second-tier priorities, and there is currently little appetite to explore quantum computing, the metaverse and cryptocurrencies.

In the same period, intent to reduce headcount has tumbled. Just 19% of finance leaders planning to cut costs intend to do so by reducing headcount; this is less than half of the 40% that were planning to do so two years ago. Given the tight labor market, businesses clearly do not want to risk needing to recruit workers in the future when they might not be available, nor waste money already invested in training current employees.

That said, desire to restructure the workforce has grown and is now finance leaders' second-most popular route to cost cutting. Businesses may, therefore, seek to utilize labor in lower-cost locations or perhaps make greater use of contingent workers.

Firms hope technology will deliver cost savings

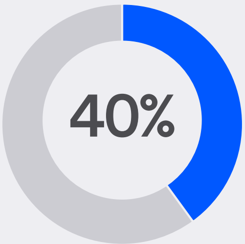


Aversion to change hinders technology deployment

Finance leaders may be keen to ramp up investment in technology, but many teams are unproven when it comes to implementation and making full use of what new systems can offer. Indeed, 45% admit that they are still in the early stages of digital transformation within the function. That figure rises as high as 54% in the banking and private equity industries.

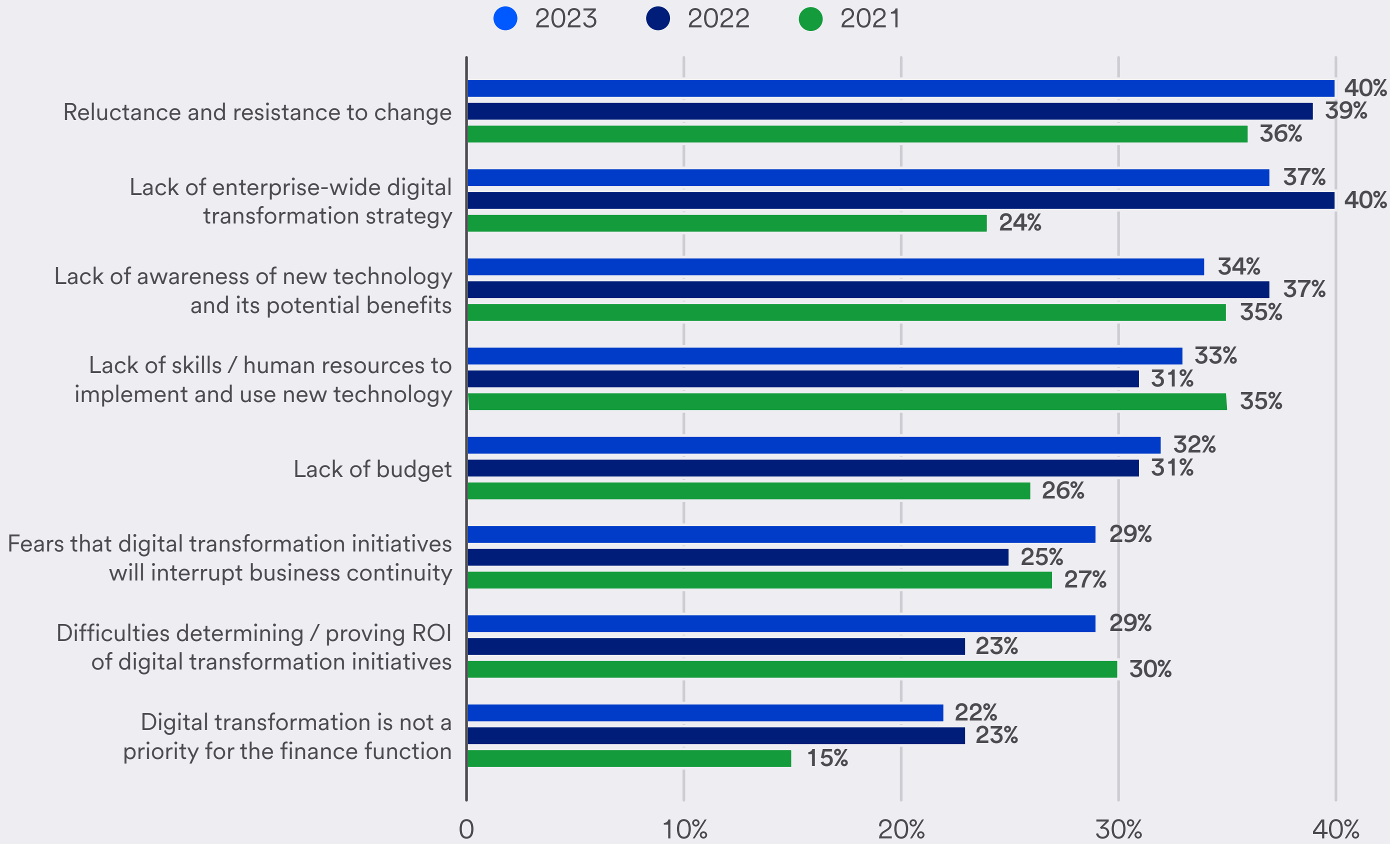
So, what is holding back progress? Survey participants rank reluctance and resistance to change first, followed by the lack of an enterprise-wide digital transformation strategy and then a lack of awareness of new technologies and their potential benefits.

Finance leaders will need to find ways of overcoming these challenges, given their hopes that technology will drive significant cost savings. If technology can be used to enhance productivity, it could also allow finance professionals to better balance how they spend their time, with greater focus on growth and innovation initiatives.



say reluctance and resistance to change is a top-three obstacle to digital transformation of the finance function

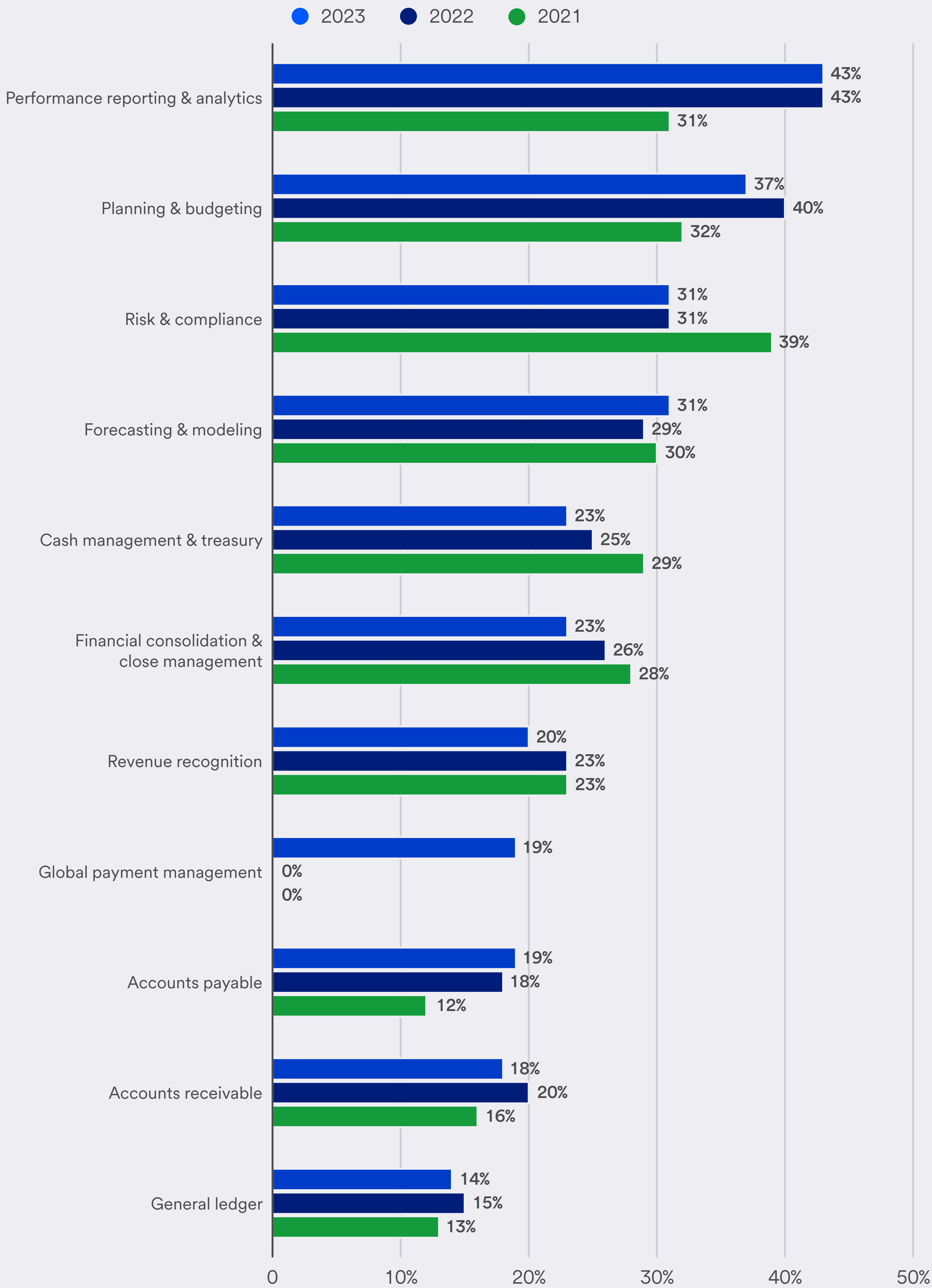
Aversion to change slows digital transformation



As was the case last year, finance leaders pinpoint analytics and planning as the areas of the function that would benefit most from digital transformation. Interest in transforming accounts payable also continues to notch up: 19% identify this as a key area for transformation, up from just 12% two years ago.

The sustained interest in transforming analytics is in part driven by businesses' desire to cut costs. "As an established manufacturing business, cost optimization has always been our bread and butter," explains Kent Ratzlaff, executive vice president of Finance at Niagara Bottling. "We've always done operational analytics, but diving deeper is a key area of focus for us right now. For example, we understand the costs of raw material very well, but analytics can help us better understand the costs of labor, repairs and maintenance and wider manufacturing costs for a specific product or at a specific plant. These insights can help the business identify areas for improvement and make informed decisions about the products we manufacture."

Performance reporting prioritized for transformation



2

Top business risks: talent, tech, inflation

Major risks intensify

Just like last year, finance leaders' three most important business risks are talent shortages, the pace of technology change and high inflation. The research shows that more businesses consider these to be major threats compared with last year.

Reflecting the sustained contractionary policy of the Federal Reserve, 23% now consider rising interest rates a major risk, compared with 17% a year ago. That said, risks associated with rising interest rates remain in the middle of their list of priorities.

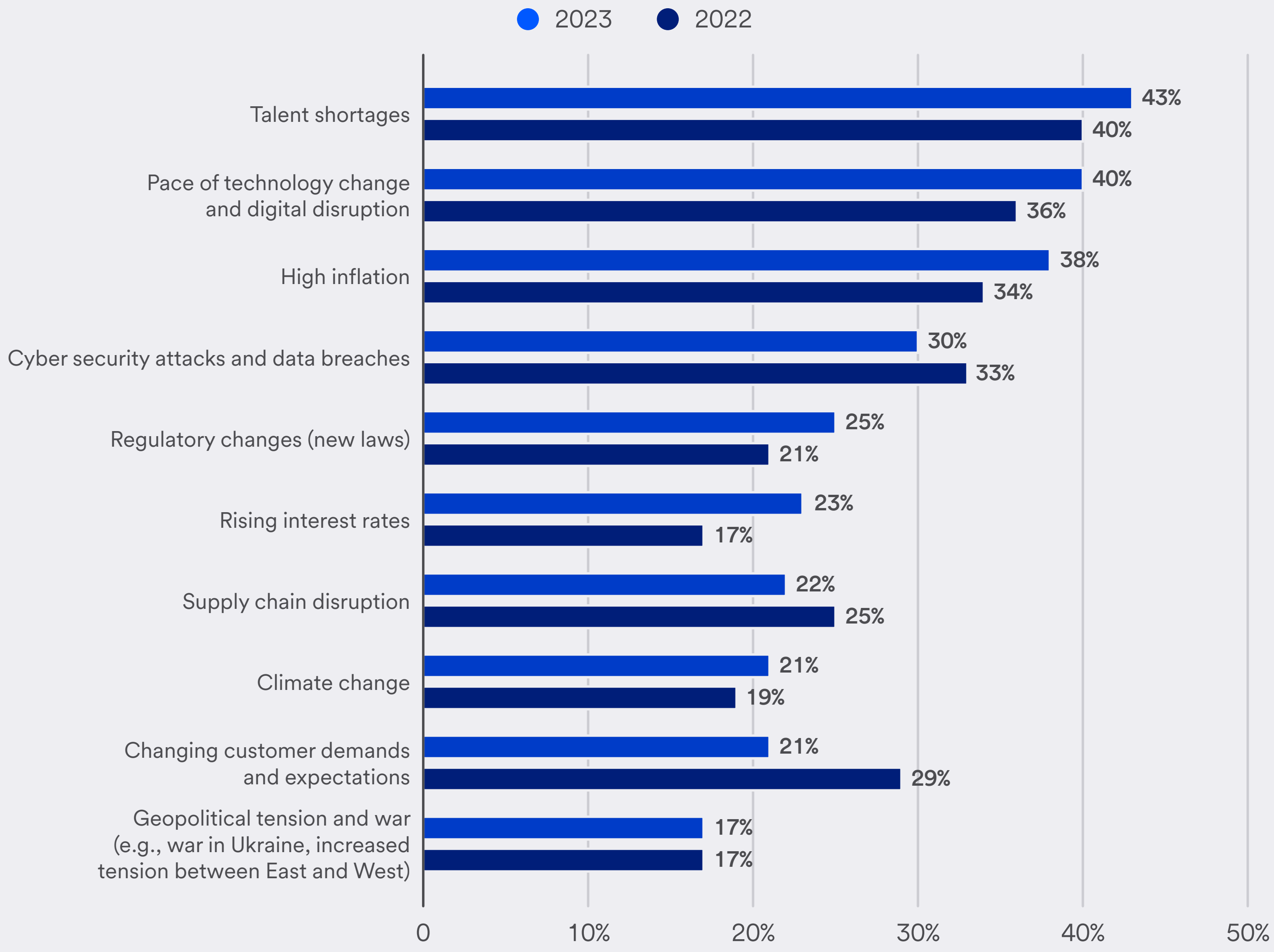
Other formerly key risks have fallen on the agenda. For example, those citing changing consumer demand as a key risk declined from 29% to 21%, as businesses have adjusted to post-pandemic consumer behaviors and preferences. In parallel, fewer consider supply chain disruption a major threat, as global bottlenecks and shortages of goods and components have eased.

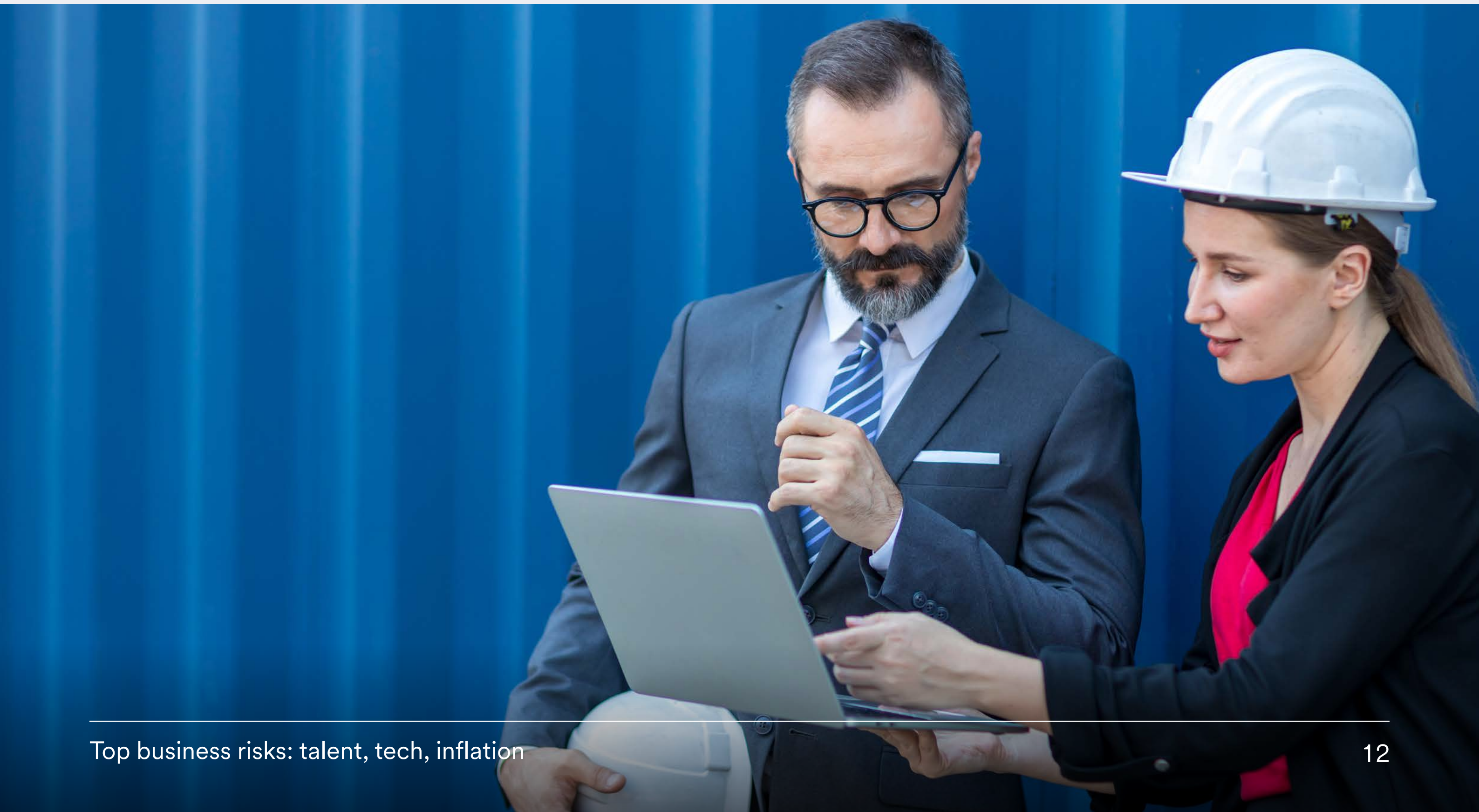
The risk landscape looks very different within certain industries. The proportion of finance leaders that consider inflation a top-three risk is significantly higher in industries such as aerospace and defense (58%), mining and metals (44%) and automotive (42%) than in sectors such as technology (28%) and banking (24%).

8%

Just 8% are 'highly confident' in managing risks associated with talent shortages

Talent risk intensifies



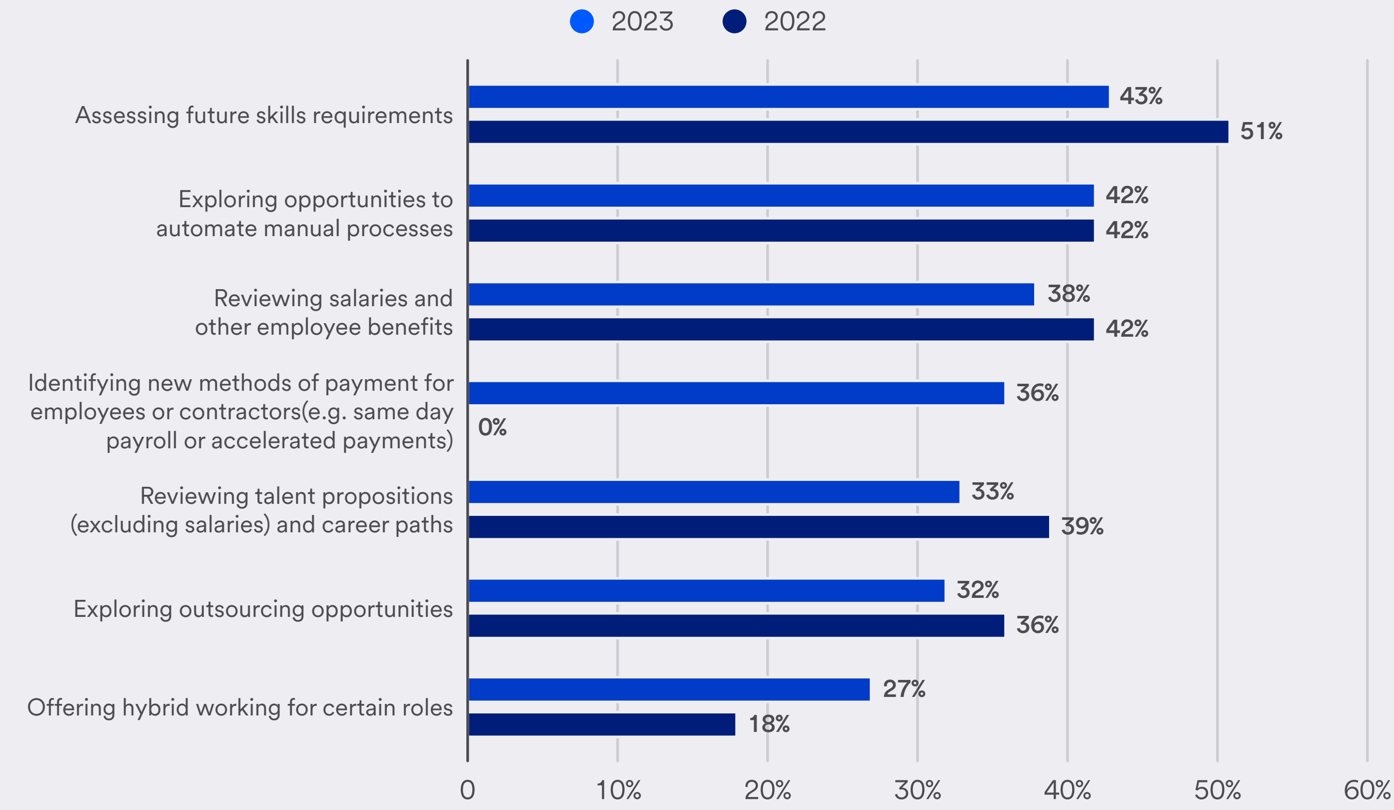


Talent risks: time for finance leaders to step up

Talent shortages may be a growing risk, but the research reveals that finance teams are failing to ramp up their efforts. If anything, they are doing less than they were a year ago. For example, 43% are currently assessing future skills requirements, compared with 51% last year. Even fewer are exploring opportunities to automate manual processes (42%), identify new employee and contractor payment methods (36%) or review talent propositions (33%).

If they are to play a more meaningful role in this area of the business, finance teams will need to sharpen their skills. For example, just 32% describe themselves as more than 'somewhat confident' in managing risks associated with talent shortages, while only 8% are 'highly confident'. They may need to conduct market salary reviews to understand whether their level of pay is competitive or familiarize themselves with new methods of paying salaries that bring benefits to employees. Indeed, today just 36% are identifying new methods for paying employees and contractors, though that rises to 45% in the power and utilities industry and 60% in the life sciences and pharmaceuticals sectors.

Only a minority take action to mitigate talent risk



Economic risk: an unclear picture

The number of finance leaders that considers high inflation a major risk rose from 34% to 38% this year. It remains the third-greatest business risk. Despite the headline rate of inflation falling from a high of more than 9% in June 2022 (for the previous 12-month period) to 4.9% at the end of April 2023, inflationary fears have risen because the pace at which it is receding is slower than expected. In addition, core inflation, which excludes volatile food and energy prices, is decreasing at an even slower pace.

Finance leaders are also likely more worried about inflation because of the likelihood of triggering further increases in interest rates. Although the fallout of the collapse of Silicon Valley Bank and two other small banks in March 2023 was contained, finance leaders may be wary of further hikes impacting the stability of their banking partners, especially smaller banks that are particularly exposed to rate increases.

"It does not surprise me that finance leaders continue to rank inflation very highly," explains Matt Schoeppner, senior economist at U.S. Bank. "They will have seen inflation come down in their own businesses, but it's still running at uncomfortably high levels. They will also have realized that the economy isn't as sensitive to interest rate hikes as it used to be and so will be uneasy about what to expect next with respect to planning for wages, the cost of materials and where interest rates are going."

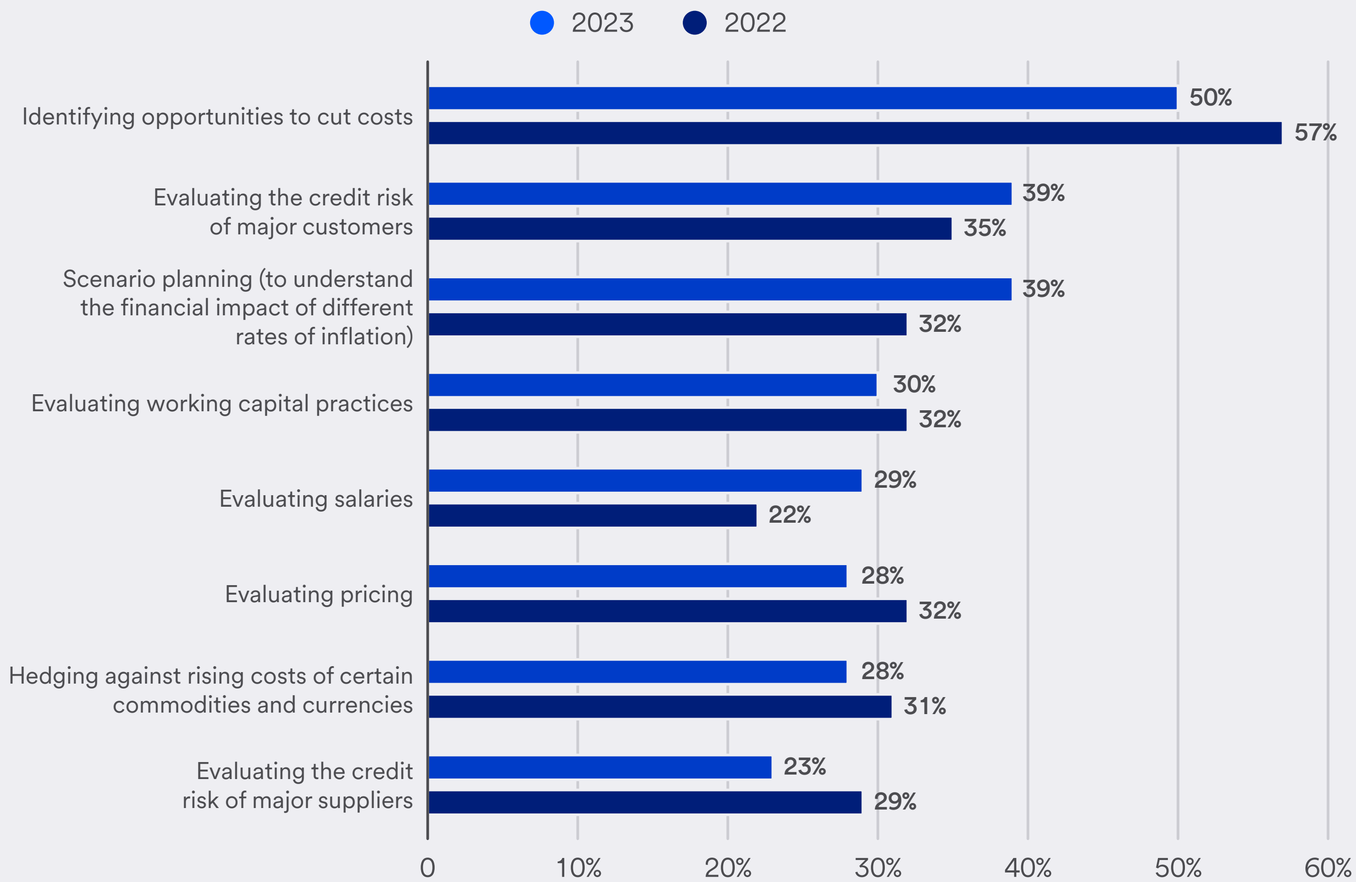
The primary response of finance leaders to rising inflation has been to seek opportunities to cut costs. The survey also finds an increase in the proportion that are evaluating the credit risk of major customers and conducting scenario planning to understand the financial impact of different rates of inflation. Despite this increase, only a minority of finance leaders are conducting any of these initiatives, indicating that there is significant opportunity for more to help their businesses manage inflation risk.

As was the case with talent risk, only 33% are more than 'somewhat confident' in managing risks associated with high inflation, and just 6% describe themselves as 'highly confident'.

Finance leaders are also concerned about the potential for declining economic growth and the impact this may have on demand for their goods and services. Just 36% agree that macroeconomic risks, such as high inflation and recession, are receding. This sentiment undoubtedly reflects widespread predictions that the U.S. may enter a recession. That said, any recession will likely be shallow and will not be characterized by high unemployment.

"The chance of a recession is roughly 50%, but if it does happen, it will be very mild," assures Schoeppner. "Our forecast right now has unemployment drifting from the mid-three percent level to the mid-fours by this time next year. That would be a soft landing."

Opportunities to mitigate inflation



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Appetite for digital payments surges

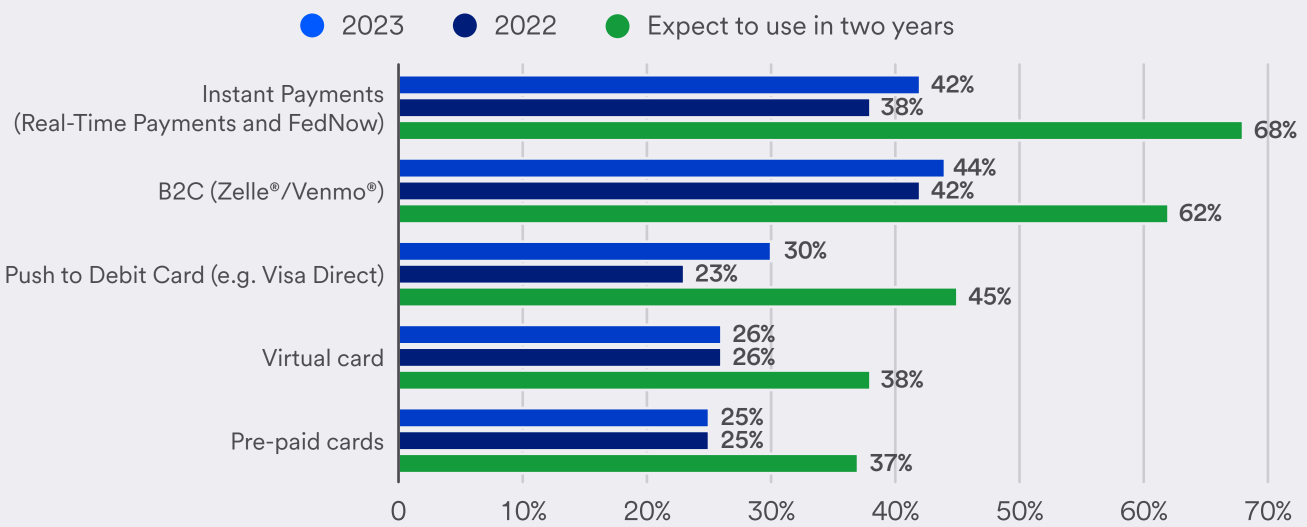
Instant payments can satisfy consumer demand for improved experiences

Usage of digital payments continues to rise: 42% currently use real-time payments (RTPs) compared with 38% 12 months ago. Two years from now, 68% expect to use instant payments, through the RTP® network and FedNow® Service. Use of Push to Debit Card and business to consumer (B2C) payment methods such as Zelle® and Venmo® have also notched up. Usage of instant payments is much higher in B2C industries such as consumer and retail (in which usage is 56%) and hospitality and leisure (54%) than it is in industrial sectors such as oil and gas (34%) and aerospace and defense (30%).

68%

intend to use instant payments two years from now, up from 42% today

More businesses plan to adopt instant payments



Primary drivers of adoption

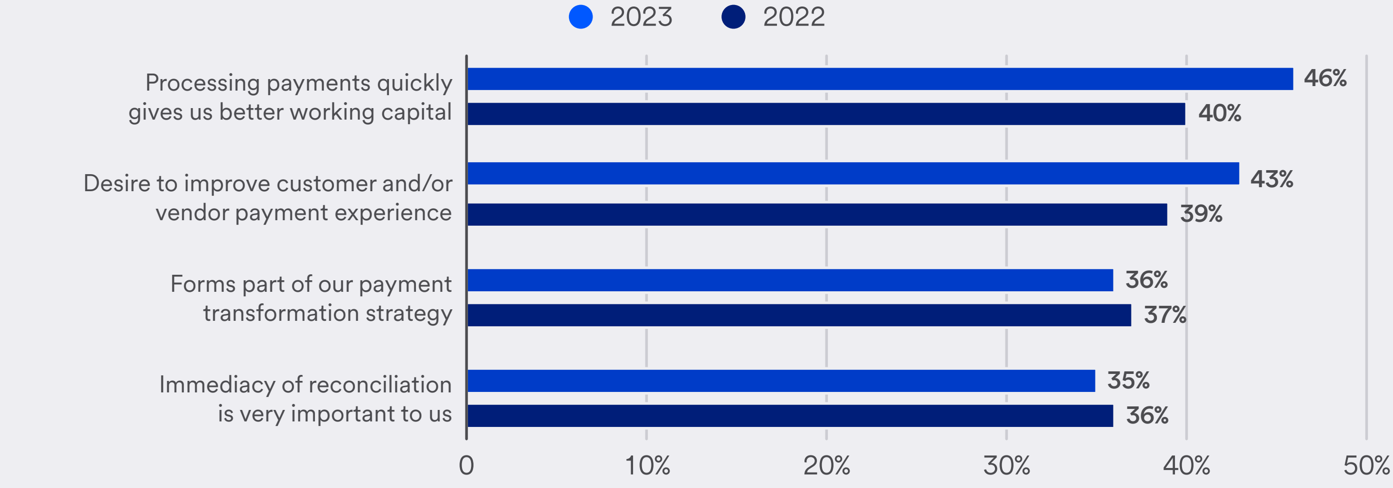
According to survey participants, there are two primary drivers of adoption of instant payments: improved working capital resulting from faster payments processing, and improved customer and supplier experiences. Many customers have gotten used to the simplicity of services such as Venmo® or Zelle® and now expect the same payment experience from businesses. To date, instant payments have primarily been deployed for consumer payments and end of shift payments to employees and contingent workers. That said, the number of use cases is growing.

"Initially, I expect instant payments to replace a lot of paper payments," explains Anu Somani, head of Global Payables and Embedded Payments at U.S. Bank. "There are a lot of nuisance checks being issued for very small amounts that are never cashed. But, more interestingly, instant payments could enable innovation that we haven't even thought of yet. It could be the Netflix of the payments industry. For example, payroll-on-demand is relatively new, but now some freelancers will only take on a job if they are paid this way."

Although the number of businesses using instant payments is set to grow, many are still not using it as extensively as they could. For usage to broaden across business functions and types of payments, instant payments will need to improve in certain key areas. In addition, businesses will need to make some important internal changes to make implementation successful. In particular, internal business processes, support functions and account funding will need to change and expand to accommodate 24/7/365 payments.

"Right now, there's a limit of $1 million per transaction," explains Mike Jorgensen, head of Emerging Solutions and Strategy at U.S. Bank. "If this increases, it will open up payments that are larger and more complex. Today, there are also significant limitations on requesting payments from individuals' accounts. Removing this limitation would drive huge adoption in many use cases."

Top instant-payment benefits: working capital and improved experiences
(Top four answers only shown)



Improving payment experiences is a top priority

Consumers are demanding better money movement experiences from the businesses they interact with. This is driving businesses to change their front office payment processes and will also create back office payment changes. For those receiving money, the quicker they are paid, the better. And instant payments through the RTP network or FedNow Service enable relevant transaction data to be sent with the transaction itself, avoiding costly, time-consuming manual reconciliation.

We have already seen that finance teams can struggle to get the most from new technology. To stand the best chance of success, Jorgensen suggests putting together a multidisciplinary team with representation from finance, technology, customer experience, data security and legal. Also, think carefully about whether a partner such as a bank or fintech is needed to help transition to new payment methods and support on an ongoing basis with tasks such as maintaining customer and vendor payment preferences.

4

Finance pulls back from ESG and growth initiatives

ESG: finance reprioritizes

Finance leaders are beginning to question the role they are playing in assisting with business-wide ESG initiatives. Today, just 51% are clear on this role, down from 74% two years ago. In parallel, 60% say that finance should play an important role in addressing ESG issues, down from 66% two years ago.

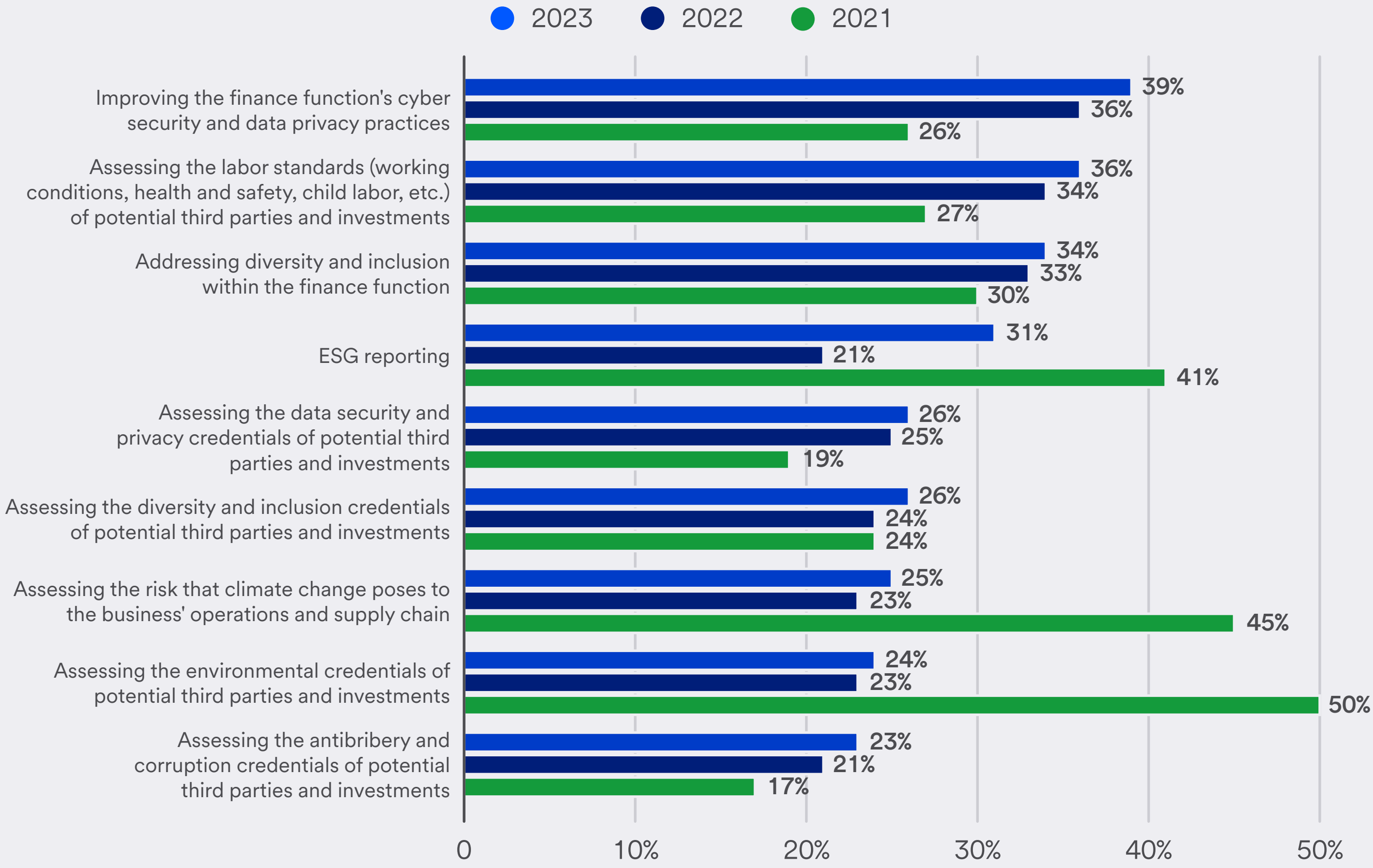
Again, finance teams' appetite to work on ESG topics varies considerably by industry. Sixty-six percent believe they should play an important role in ESG work in the technology and healthcare sectors, compared with just 49% in power and utilities and 48% in mining and metals.

The research also finds that finance teams have halted some ESG-related work. For example, just 25% are assessing the risk that climate change poses to the business's operations and supply chain, compared with 45% two years ago. In addition, just 24% are assessing the environmental credentials of third parties, compared with 50% two years ago.

31%

of finance teams are involved in ESG reporting, down from 41% two years ago

Finance leaders pull back from ESG initiatives



The drop-off in activity could be due to businesses throttling back on ESG activities. Indeed, just 58% say their business's focus on ESG activities has increased in the past 12 months, compared with 71% two years ago. Alternatively, the finance team's renewed focus on cost cutting could leave little time for ESG activities. It could also be the case that other business functions, such as operations or procurement, are assuming responsibility for ESG-related tasks.

"That sentiment is more of an indicator of water cooler dialog and the national conversation than the activities we see with our clients," says Marcus Martin, head of ESG, Commercial Products at U.S. Bank. "Ultimately, the sentiment waning is not nearly as relevant as the desire for CFOs to maximize their financial position at the same time that they're creating the best outcome for their communities."

Either way, there is a danger of leaving the business open to ESG risks or missing out on opportunities if finance abandons these ESG activities. In parallel, regulation is emerging around the world that requires businesses to report ESG metrics. With their view of performance across the business and their unrivaled access to operational and financial data, this will almost certainly require involvement from the finance function. Yet just 31% of finance teams are involved in ESG reporting, down from 41% two years ago.

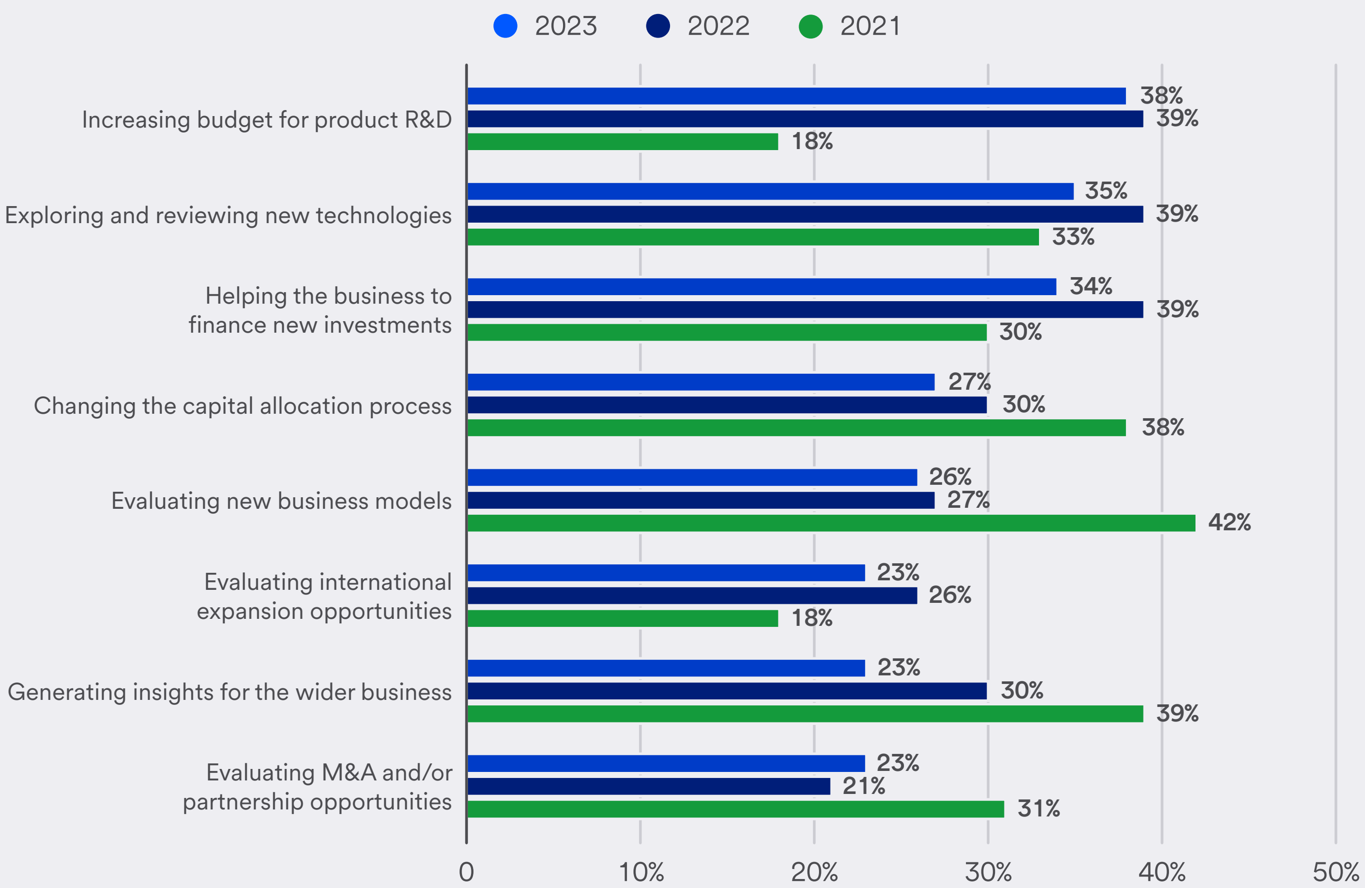
No more time for innovation initiatives

Fewer and fewer finance teams are concentrating on driving business growth and innovation. For example, just 26% are evaluating new business models, compared with 42% two years ago. In parallel, just 23% are generating insights for use across the wider business, compared with 39% two years ago.

This results from the need to devote more and more time to efficiency and optimization. Given their view of performance across the business and their analytical capabilities, the finance team is often best equipped to undertake these activities. “Finance really has to be the source of truth when it comes to data and analytics,” explains Kent Ratzlaff, executive vice president of Finance at Niagara Bottling. “We have 50 plants in the U.S., and they all need to think the same way about data. The plants need to focus on making bottles and leave the data to finance. In any case, finance publishes operational data out to the world, and our internal view on data has to reflect this.”

Many companies will hope that increased investment in technology will free up their finance teams to return to more compelling, growth-oriented initiatives.

Finance teams throttle back on innovation activities



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Conclusion

The research finds finance leaders embarking on a bold course of transformation. They are changing their top priorities to focus on cost control, ramping up investment in new technology, reprioritizing risks and adopting new forms of digital payments.

That is why it is so crucial that investments in technology deliver the intended outcomes. Implemented effectively, technology has the potential to not only cut costs, but help identify risks and liberate the finance team to focus on other important tasks. The research lays out the challenges of digitally transforming the function: reluctance and resistance to change; the lack of an enterprise-wide digital transformation strategy; and a lack of understanding of what technology can deliver.

Overcoming these challenges is only possible with vision and leadership from the CFO. They must devise a digital transformation strategy, forge close relations with leadership across the business, and lead by example when it comes to experimenting with new technology. They must lead the transformation.

6

About the research

The results of this research are based on a survey conducted in March-April 2023 of 1,420 senior finance leaders who work in U.S. businesses across multiple sectors. Half of the survey participants are group, regional or divisional CFOs. The remainder are senior managers within the finance function. Every surveyed finance leader works for a business that generates at least $100 million in annual revenue, and 39% for a business that generates more than $1 billion.

In addition, interviews were conducted with the following individuals:

» **Anu Somani**
Head of Global Payables and Embedded Payments, U.S. Bank

» **Kent Ratzlaff**
Executive vice president of Finance, Niagara Bottling

» **Manish Gundecha**
Head of Finance Transformation, Personal Systems, HP Inc.

» **Marcus Martin**
Head of ESG, Commercial Products, U.S. Bank

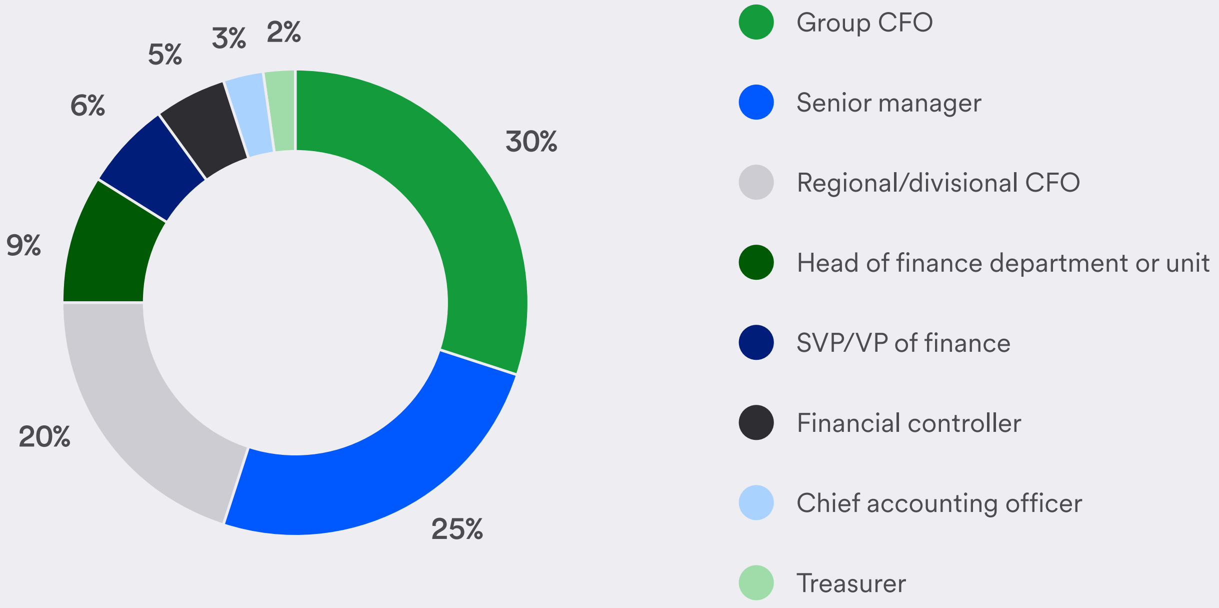
» **Matt Schoeppner**
Senior economist, U.S. Bank

» **Mike Jorgensen**
Head of Emerging Solutions and Strategy, U.S. Bank

This report follows "Leading through uncertainty," a U.S. Bank survey of 750 finance leaders released in 2022. The first edition of the research, "Leading the recovery," was released in 2021. Several questions in the research are repeated this year to show how sentiment has changed.

* For a complete breakdown of job role and company revenue, visit usbank.com/cfo-insights.

Job role breakdown



Company revenue breakdown