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Accountants™

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Agile Finance Reimagined

Building Finance Resiliency and Returning the Business to Scale



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Introduction

No crisis has been as challenging in recent memory as the COVID-19 pandemic, severely testing the strength of corporations and the business guidelines under which they operate. Even before the coronavirus, CFOs and their finance teams had already begun the process of designing more agile, resilient organizations with higher levels of digitization, to better equip their finance teams to deal with today's rapid pace of change. That charter has been accelerated, as finance leaders realize the limitations of outdated platforms in helping their companies innovate their way out of crisis and move to equip their employees with the digital tools they need to keep operations running.

To support this effort, the Association of International Certified Professional Accountants® (AICPA® and CIMA®) is producing Agile Finance Reimagined, a five-part webcast and white paper series offering CFOs and their finance teams practical advice on how to increase resiliency and growth not just in finance, but also in the lines of business that rely on finance to guide the way forward, including supply chain operations and the customer experience. The series includes guest speakers from McKinsey & Company, who joined to share knowledge and insights from the firm's [body of research](#) on the novel coronavirus and its implications for business.

Agile Finance Reimagined webcast series

The first webcast in the Agile Finance Reimagined series was held globally across North America, Europe and Asia-Pacific the week of May 25, 2020, drawing over 2,800 finance professionals. The webcast examined how CFOs can boost the resiliency of their finance organizations and return the business to scale, including specific actions to consider as they work their way from crisis management and resiliency, to reimagining the business to drive innovation and growth.

Joining the Association's Ash Noah on the webcast as guest speakers were Kyle Hawke, a partner in McKinsey's Corporate Business Function practice; and Matt Bradley, senior vice president, Enterprise Performance Management Applications Development, Oracle.

“COVID-19 has forced the global economic system to hit the reset button, which is not just allowing, but requiring finance to reimagine.”

*Ash Noah, CPA, FCMA, CGMA
Managing Director, CGMA Learning, Education and Development,
Association of International Certified Professional Accountants*

Navigating the crisis with a multi-stage approach

To start the webcast, McKinsey's Kyle Hawke shared a multi-stage approach for understanding what it will take for financial leaders to navigate the crisis, given the significant changes to traditional assumptions and metrics.¹ The stages include:

Resolve — The organization addresses the immediate challenges COVID-19 represents to its workforce, customers, technology and business partners. For finance leaders, this has meant addressing immediate problems of liquidity and financial stress.

Resilience — The organization handles near-term cash management challenges and broader resiliency issues as a result of virus-related shutdowns. For CFOs, this has meant launching programs like a cash war room to track and boost liquidity; developing a range of scenarios to plan for different outcomes; and instituting communications plans to proactively engage with employees, boards of directors, and investors.

Return — The organization draws up a plan to return the business to scale after shutdown orders are lifted. Here the CFO may make operational improvements to bolster productivity, reevaluate the investment portfolio, and turbocharge the role of FP&A.

Reimagination — The organization envisions what the “next normal” looks like, adopting a transformational mindset when reallocating resources, considering M&A and divestitures to improve the portfolio, and setting outsize growth or performance improvement targets.

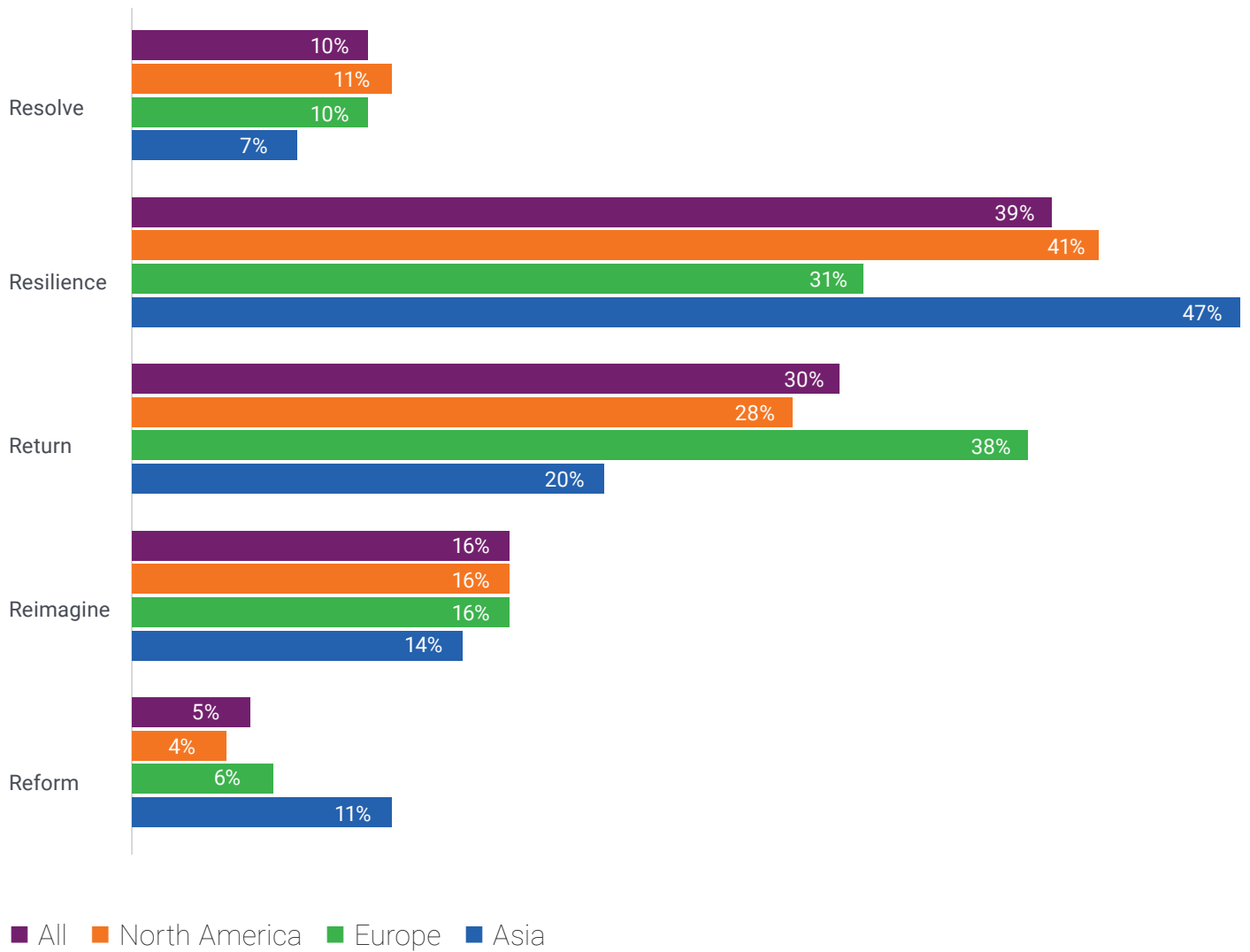
Reform — The organization develops a detailed understanding of how the regulatory and business environments may shift as a result of COVID-19, and a long-term plan for adapting to these changes. Here the CFO's leadership role can help boost productivity through digitization, not just within finance but across the enterprise to reduce exposure to exogenous shocks and increase resiliency to capitalize on opportunities in the new normal.

During the webcast, the Association polled participants on what stage they felt they were currently experiencing in their organizations. In response, 39% identified themselves in the Resilience phase, 30% in the Return phase, and only 16% in the Reimagine phase.

If we examine the data by geographical breakdown, it's clear organizations worldwide are progressing through the five phases at varying rates. Nearly half (47%) of Asia broadcast participants, for example, said they were in the Resilience phase and more than a third (38%) of European broadcast participants said they were in Return phase.

¹ [The CFO's role in helping companies navigate the coronavirus crisis](#)

Figure 1: Based on the McKinsey framework where would you map your company today?



During the webcast, McKinsey's Hawke noted that most of his large enterprise clients have also moved on from the Resolve phase. "In a series of roundtable conversations held recently with our global clients, 40% consider themselves in the Resilience phase and about 50% are in the Return phase," Hawke observed. "There are a few that consider themselves already in the Reimagination phase, but many want to get there quickly because this is where they are going to be able to define the company's path forward for the years ahead."

To withstand exogenous shocks such as COVID-19, building operational resiliency must now be a core competency for every finance organization. "CFOs already in the cloud feel relief that they've been able to close the books virtually and collaborate across time zones to rapidly model and adjust scenarios in real time," noted Oracle's Matt Bradley. "Those who haven't moved to the cloud may be feeling some regret at not moving forward with plans to modernize, especially in areas critical to crisis management, such as strategic planning and scenario modeling." Bradley cited the fact that being completely on the cloud enabled Oracle's own finance organization to not only close the books remotely during the pandemic, but even shave one day off the close process.

The Association polled participants during the webcast on whether COVID-19 had forced them to abandon their plans to implement cloud-based finance transformation plans, and only 3% said the pandemic has caused them to jettison their initiatives. While 43.5% said COVID had led them to hit the pause button, a larger percentage (53.4%) are accelerating their finance transformation plans using cloud-based solutions.

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*Matt Bradley
SVP, EPM Applications Development, Oracle*

Key strategies for building finance resiliency

Following the global financial crisis of 2007–08, McKinsey conducted research² to understand what companies did to achieve and sustain a competitive advantage after a downturn. The research revealed four core strategies that today's businesses can also leverage to achieve financial resiliency and scale their operations in the wake of COVID-19.

Strategy 1: Bolstering productivity

In the 2019 article "Bubbles Pop, Downturns Stop,"³ McKinsey examined 1,500 public companies from 2007 to 2011 to understand which companies were able to outperform their competitors, and why. Based on their total return to shareholders, it found that the top 25% — the "Resilients" — did not have a starting-point advantage; instead, they owed much of their success to strategic decisions and actions, such as investing aggressively in productivity improvements following the economic crisis. The Resilients sustained 30% more organic revenue growth and were able to reduce their debt relative to equity between 2007 and 2009.

Bolstering productivity is one of the top strategies CFOs can employ today to improve financial resilience and return the business to scale. "We conducted a survey in early May 2020 of CXOs and functional leaders on their SG&A outlook in the months ahead, and over half have productivity improvement plans in place to contain costs," Hawke observed during the webcast. "Another third have plans in place over the next three months, so companies are definitely taking a page out of the Resilients' playbook."

For Oracle's Bradley, increasing productivity within the finance function can be tied to several key strategies. First, he counsels companies to apply automation to ensure that the data you are using is clean and correct, and to eliminate human intervention across the entire process so that resources are freed up to focus on predictive analysis and strategic decision-making. "Adopting a touchless approach to transactions — moving a transaction all the way from the front end of the house, the order, all the way through to the generation of the invoice and payment — can deliver immediate value add while reducing risk."

Second, he advises companies to ensure that their information is complete. "By complete, we're really encouraging finance to have a look at not just financial information, but at operational information as well because that information may contain what we would consider leading indicators, such as customer usage. You are really trying to get to that early warning signs that something is either improving for you or not, so you can take corrective action." For Bradley, companies must start to move toward machine learning to analyze data at scale, because machines can spot patterns much more readily, cluster that information, and then leverage that to do predictions, generate forecasts, and enable professionals to take swift, corrective action.

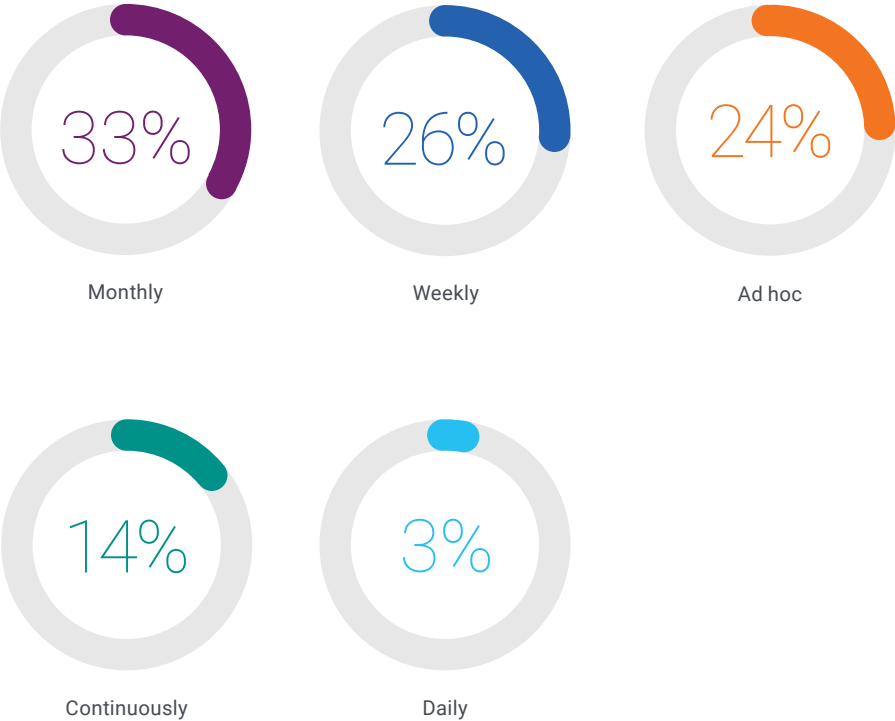
² Hirt, Martin, et al, "Bubbles Pop, Downturns Stop", McKinsey & Co., May 21, 2019.

³ Ibid.

The Association polled webcast participants to understand the time frames used to model different scenarios and found that the ranges have shortened considerably from previous three-to-five-year forecasts. Almost a third (31.2%) now forecast for the next 12 months, followed by 26.4% forecasting for the next six months, and 24% for the next three months. Only 5.6% continued to forecast using five-year horizons continued to forecast using five-year horizons.

Participants were also polled about the pace at which they are trying to predict outcomes and flag early warning signs, and that too has sped up significantly. A little over 17.2% are running continuous or daily scenarios, with with 26.2% running weekly, 33% running monthly and the remaining 23.6% running ad hoc scenarios running ad hoc scenarios.

Figure 2: How frequently are you rerunning your models with new information as part of rolling forecasts?



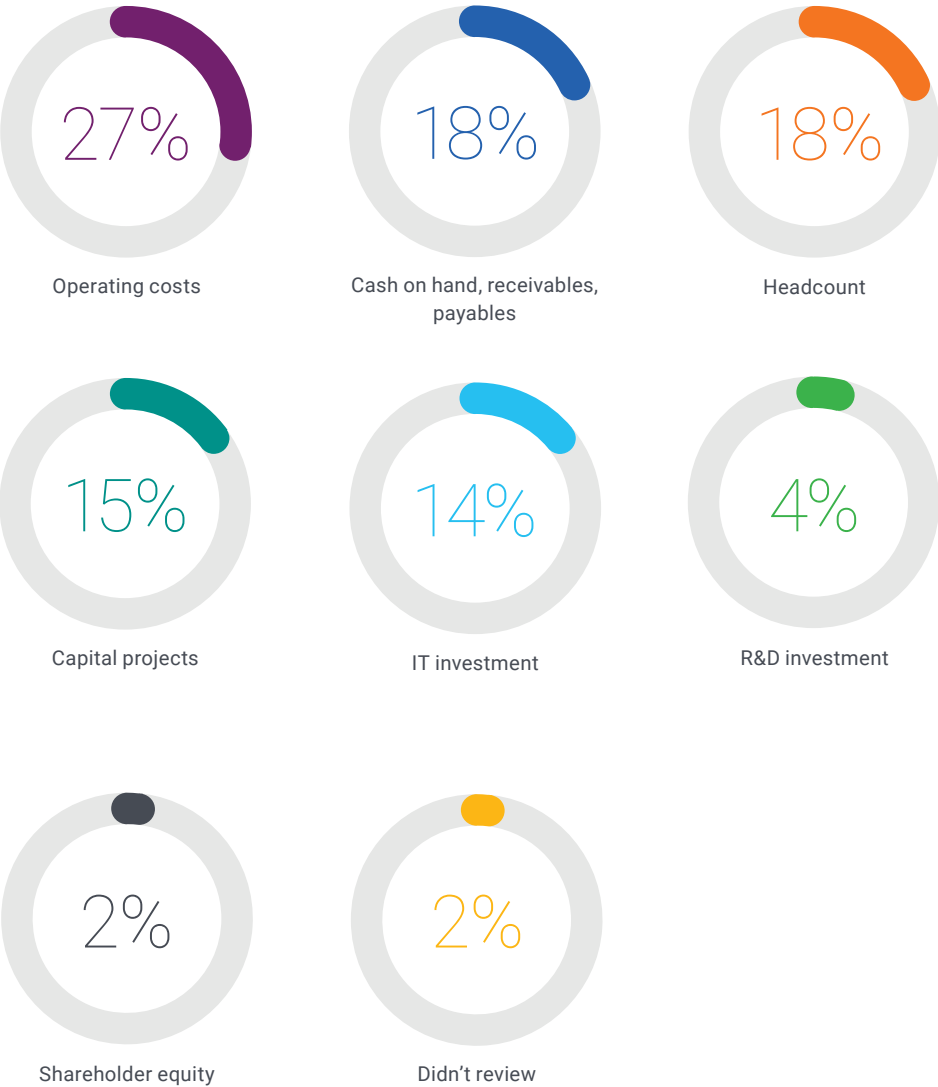
Strategy 2: Reallocating resources and strengthening the balance sheet

McKinsey's research on Resilients⁴ also suggests that successful companies were able to bounce back from the previous recession in large part by aggressively reallocating resources, diverting capital away from exposed categories and reinvesting them in high-performing areas. Those in the top 25% of companies had a significantly higher annual volume of transactions than their counterparts, divesting roughly 40% more in the downturn and making acquisitions earlier as the economy began to recover.

The Association polled webcast participants to understand the top three areas they were focused on when reviewing resource allocation initiatives and found that operating costs were the main driver of reallocating efforts at 27.3%, followed by cash and receivables (18.4%), head count (18.3%), and capital projects (14.5%).

Dynamic resource allocation is another strategy that helps identify units that, given the new business environment, warrant a different level of investment going forward. Commented McKinsey's Hawk during the webcast: "CFOs need to facilitate the dialogue with the leadership team on: should we pull back in certain areas, should we invest more, or should we stop investing completely?" Hawke also noted that companies that performed best coming out of the previous financial crisis cleaned up their balance sheets early and aggressively.

Figure 3: When analyzing reallocation of resources, what were the top 3 areas of focus for review?



⁴ Ibid.

Oracle's Bradley pointed to the need for CFOs to look to their industries for the right use cases where it makes sense to reallocate resources, using the scenario modeling capabilities in a product such as Oracle Cloud EPM to replan and reforecast accordingly. "You have to understand what parts of the business will come back at what pace and be able to blend several of those different ideas together," he noted. "The ability to have a full allocation methodology, to look at just the key elements that are important for the business, will help companies get back to the new normal, whatever that might be. Having that capability turbocharges the ability of finance to look at costs, look at margins, look at allocations and decide what to dial-up and what to dial down in an economy that is fundamentally challenging many of our assumptions."

Strategy 3: Turbocharging the role of FP&A

The reality of COVID-19 has made it clear that finance must lead their companies through the current crisis, but finance must also be equipped to lead in terms of their individual skills as well as their institutional capabilities. When asked how companies can measure progress on capabilities, McKinsey's Hawke observed that one metric is to look at the impact that finance leaders are having on the organization and ask whether functional and business line leaders are coming to finance for guidance.

Another metric is to create or leverage an existing skills assessment matrix to see how each employee is doing on their progression on the dimensions that the finance organization deems most valuable. As Hawke noted, "the evolution of finance from transactional expert to value manager requires a combination of technical skills, soft skills, digital enablement and a mindset shift of both the finance function as well as the organization."

"The evolution of finance from transactional expert to value manager requires a combination of technical skills, soft skills, digital enablement and a mindset shift of both the finance function as well as the organization."

Kyle Hawke

Partner, Corporate Business Functions, McKinsey & Company

The Association polled webcast participants to better understand where they were investing in the digital enablement technologies needed to turbocharge FP&A and boost finance resiliency for the road ahead, and found that 30% were considering investing in decision support and analytics. This was followed by 20.7% investing in automating transaction processing, including procure to pay and order to cash cycles, freeing finance to focus on more strategic activities.

The increased use of artificial intelligence and machine learning embedded directly into enterprise software can provide a big boost in helping finance professionals become more strategic to the business. "From a technology standpoint, the increased focus on data analytics will really help the financial professional understand the nature of the data more and be that analytical partner with the operational parts of the business," noted Oracle's Bradley. "Technology will unleash the full potential of finance professionals to be involved in those conversations, to present the information in a meaningful way that delivers better business outcomes."

Agile Finance Unleashed, a research report by the AICPA, CIMA and Oracle, found that agile finance organizations are those who invest in both the technologies to create capacity, and the skills development of their teams to create competencies. These organizations, known as Digital Finance Leaders, are further along in digital transformation and able to deliver greater value to their business partners and customers.

To guide skills development of finance teams, the Association's Ash Noah recommends finance leaders look to the [CGMA Competency Framework](#). This resource was developed based on feedback of thousands of finance leaders worldwide and provides a

roadmap to help finance leaders develop the technical, business, people, leadership and digital skills required now and in the future.

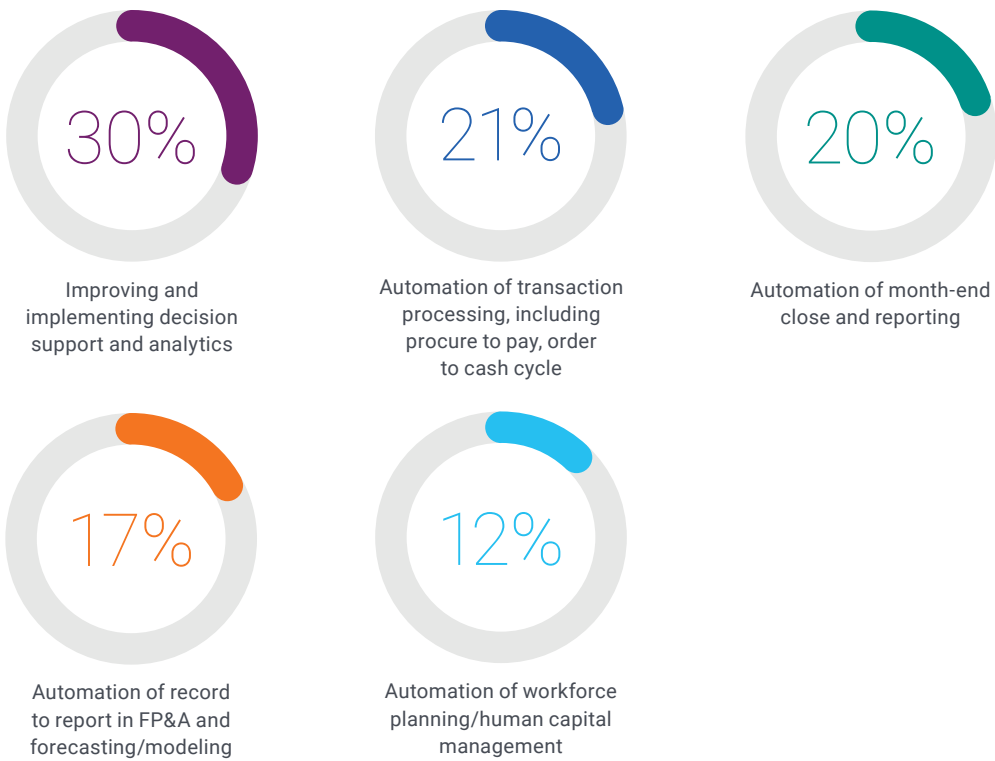
Strategy 4: Improving communications with employees and stakeholders

COVID-19 is first and foremost a humanitarian crisis. As such, business leaders should address the health and safety of their employees including consideration of how operations might be affected. During the webcast, McKinsey's Hawke recommended using simple examples to communicate changes to workers and external stakeholders such as boards and investors. "Strive for candor over charisma," he said. "People across industries are feeling the effects of COVID-19, both from a public health and economic perspective. You can build trust by being honest and being vulnerable, especially when it's difficult. Transparency goes a long way."

Technology can also play a critical role in helping companies effectively communicate the right narrative to both internal and external stakeholders. The Narrative Reporting module within Oracle's Cloud EPM suite automates both flux reports and statutory reports, replacing Excel spreadsheets with an automated tool that leverages the same data set so that everyone has access to the right numbers each time information is updated.

"Narrative Reporting also establishes a workflow across reports for both an audit trail and an approval process, to make sure that the right people are seeing the right section of the document at all times," notes Bradley. Using a tool such as Narrative Reporting can help companies report to internal and external stakeholders quickly and effectively. "We are using Narrative Reporting internally at Oracle and seeing productivity gains of 80% from the time it used to take to produce these reports."

Figure 4: What technologies are you considering implementing in finance and accounting to increase your finance resiliency?



Next steps for businesses

As CFOs seek to boost the resiliency of their finance organizations and return the business to scale, these specific strategies should be considered.

Increase scenario planning to manage risk and uncertainty.

In a rapidly changing environment, scenario planning becomes essential to finance teams as they assess a wide array of possible outcomes, forecast cash and liquidity, and make iterative forecasts. Frequent modeling of range-based scenarios helps organizations stay agile and develop alternative strategies to deal with a variety of ways in which the post-crisis world might evolve.

Align plans across finance and all your lines of business.

Synchronizing finance plans with those of your lines of business expedites your return to scale by providing greater transparency and anticipating and capitalizing on future growth opportunities.

Gain deeper understanding of costs and profitability.

Undertake a systematic assessment of costs and profitability to guide investments and spend. By understanding your most profitable products or lines of business and, inversely, your biggest costs, you can make more informed decisions about where to take the business.

Invest in enterprise master data governance to enable digital transformation efforts.

Master data governance across customers, prospects, employees, suppliers, hierarchies, charts of accounts and other data helps organizations to more easily model divestitures, acquisitions, or new company structures as part of digital transformation.

Empower employees to collaborate securely and remotely in the cloud.

Collaboration is critical in remote working environments. Narrative Reporting can enable transparency and visibility by allowing key stakeholders to collaborate and securely share qualitative and quantitative information when creating financial, management and statutory reports.

To learn more about these competitive strategies and how they can help you thrive in the new normal, watch the [Agile Finance: Building Finance Resiliency and Returning the Business to Scale webcast](#).

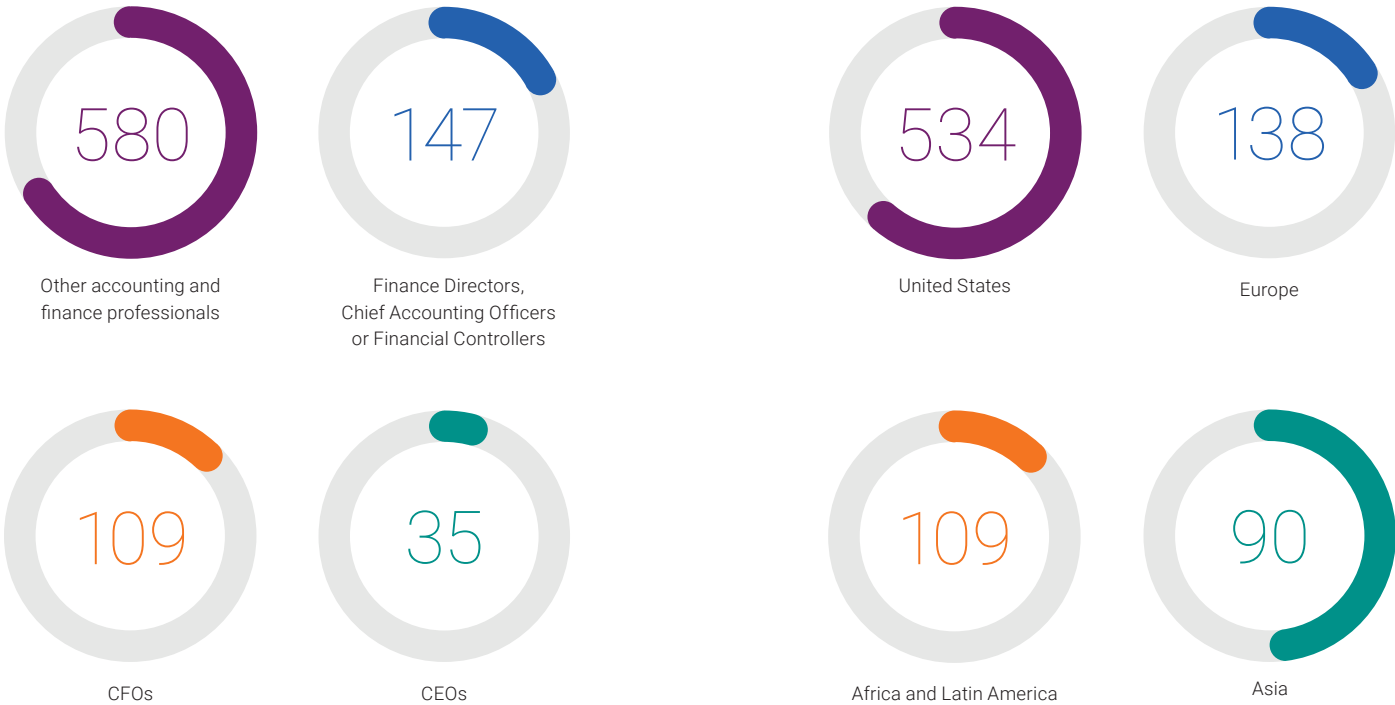
About the Agile Finance Reimagined Series

Agile Finance Reimagined is a five-part webcast and white paper series brought to you by Oracle and the Association of International Certified Professional Accountants (AICPA and CIMA).

About the Agile Finance Research

On the Agile Finance: Building Finance Resiliency and Returning the Business to Scale webcast, broadcast in May 2020, attendees were asked to submit responses to six pulse questions. Each question garnered between 862 to 2,427 responses. The following is a breakdown of the 871 respondents.

Figure 5: The following is a breakdown of the 871 respondents



About the Association of International Certified Professional Accountants

The Association of International Certified Professional Accountants (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs® (AICPA) and the Chartered Institute of Management Accountants® (CIMA) to power opportunity, trust and prosperity for people, businesses and economies worldwide. It represents 650,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMAs and accounting and finance professionals globally.

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