Finance in the Digital Era: Embracing sustainability and self-service reporting

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Publication date
2022

Document Version
Final published version

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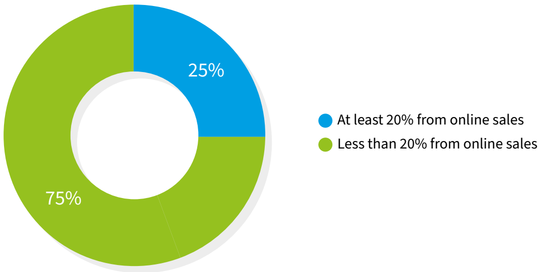
Finance in the Digital Era

Embracing sustainability and self-service reporting

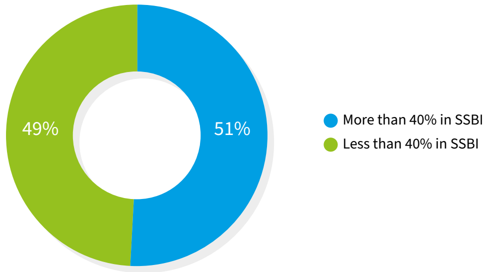
1 Growth in moving to online sales has ended

Organizations with more than 20% of their revenue through online sales

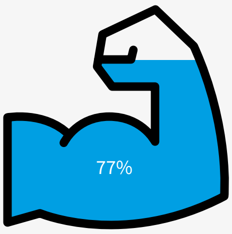


2 Self Service Business Intelligence is used primarily to monitor performance

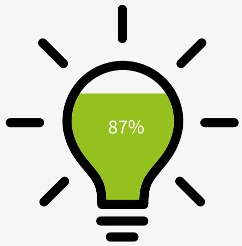
Organizations with more than 40% of financial performance measures in SSBI



3 Self Service Business Intelligence is a focus for Finance Departments

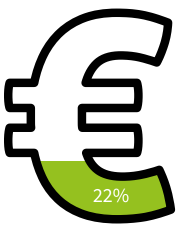


77% of the Finance Professionals expect their effectiveness rises if Management moves to more SSBI

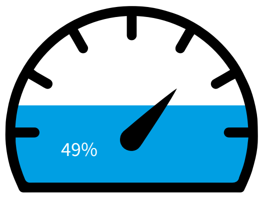


87% of the Finance Professionals believe that using SSBI by management is a good idea

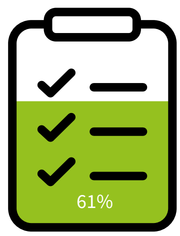
4 We are at the early stage of wider adaptation of ESG indicators and principles



22% of the organizations already make use of true cost accounting

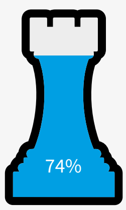


49% of the organizations use 0 to 2 ESG key performance indicators

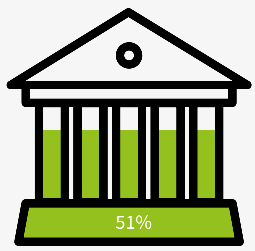


61% of organizations focus mostly on compliance when it comes to ESG

5 Finance has a strong influence in the organization



74% of organizations see Finance as strategically important



51% of organizations see Finance as more influential than other departments

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Introduction

After the Covid-19 pandemic, the geopolitical landscape and the business environment remain unsettled. With a war in Ukraine, and energy and food prices soaring, our global economy now faces inflation rates we haven't experienced for decades. But, even without these developments, organizations face long-term challenges that require business transformation.

In particular, the need to implement sustainable business models to limit the effects of climate change on our planet is perhaps the biggest challenge humanity faces. And it will be faced by a diminishing workforce of people who have other expectations about the position work should have in life. Are organizations up to this challenge?

So, how can Finance departments step up to the challenge and support the organization going forward? What do Finance departments do to optimize processes and act as agents of change? How is the Finance department involved in ensuring that the organization is becoming more sustainable? And what concepts support the Finance department in becoming more effective in the organization? For the sixth consecutive year, we have conducted research into the ongoing Finance Transformation. As in previous years, this research provides the Finance community with insights into the state of transformation, supporting them by providing a benchmark for change.

For 2022, we extended the geographical outreach of our research project to Europe. With the help of our partnership with the University of Amsterdam, University of St. Gallen, International CFO Alliance, UiPath, and IMA, we increased our study coverage. We collected a total of 167 survey responses from Finance professionals, ranging from CFOs to Finance managers and experienced controllers.

This year, we focused on Self-Service Business Intelligence (SSBI) and ESG, in order to find out about the pace of change on these topics. We focused on the following research questions:

- Which technology is being embraced by organizations to improve Finance department operations, and at what pace?
- To what degree will technology change the Finance department, especially with new emerging approaches like Self-Service Business Intelligence?
- What is the impact of sustainability initiatives on the Finance department?
- What is the role and influence of the Finance department, and how is it structured and organized?

In this report, we answer these questions based on the insights from our survey.

Strategic priorities

During the Covid-19 pandemic, we started researching how organizations were using digital technology to respond to the circumstances. We found that Covid-19 had a large impact on how organizations looked at digital technology and the use of online sales channels. This year, we wanted to see whether this trend continued. Are organizations pushing their digital agenda further, or is the interest in digital fading now that the pandemic is largely behind us? In our first set of questions, we therefore focused on strategic priorities, including the use of digital technologies, as well as the percentage of sales that flows through online channels.

In previous studies, we found that more than half of the participating organizations used a combination of the two main strategic priorities – cost leadership (i.e. providing products and services at the lowest cost level) and differentiation (i.e. offering products and services that stand out from your competitors and that are tailored to the demands of your customer) – to sustain competitiveness. To see whether the end of the pandemic affected strategic priorities, we asked respondents to indicate the percentage of revenue that was obtained from a differentiation strategy (e.g., through product features, customer service, or brand image), as opposed to a cost-leadership strategy (e.g., through low prices, cost efficiency, or standardization). Figure 1 shows the results.

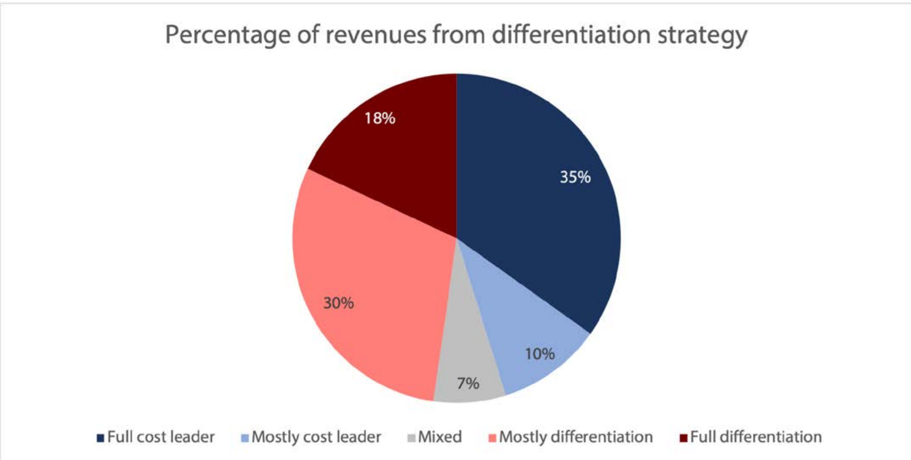

Figure 1: Revenues from differentiation strategy

Consistent with earlier studies, most respondents indicated that their organizations still rely on a combination of customer orientation and cost optimization. About half of the respondents (47%) generate their sales from a combination of strategies. About a third (35%) focus on cost leadership, while 18% obtain the largest part of their sales (more than 80%) via a differentiation strategy.

Given the complexity and uncertainty of a continuously evolving environment, organizations must quickly adapt to market and customer dynamics. Digital technologies (such as tools for automated forecasting) are seen by many as a key differentiator. They drive company success through increased efficiency and provide advanced opportunities for analyses and data-driven decision-making. To determine how much the industry recognizes this potential, we asked Finance professionals to evaluate their organization's digital roadmap.

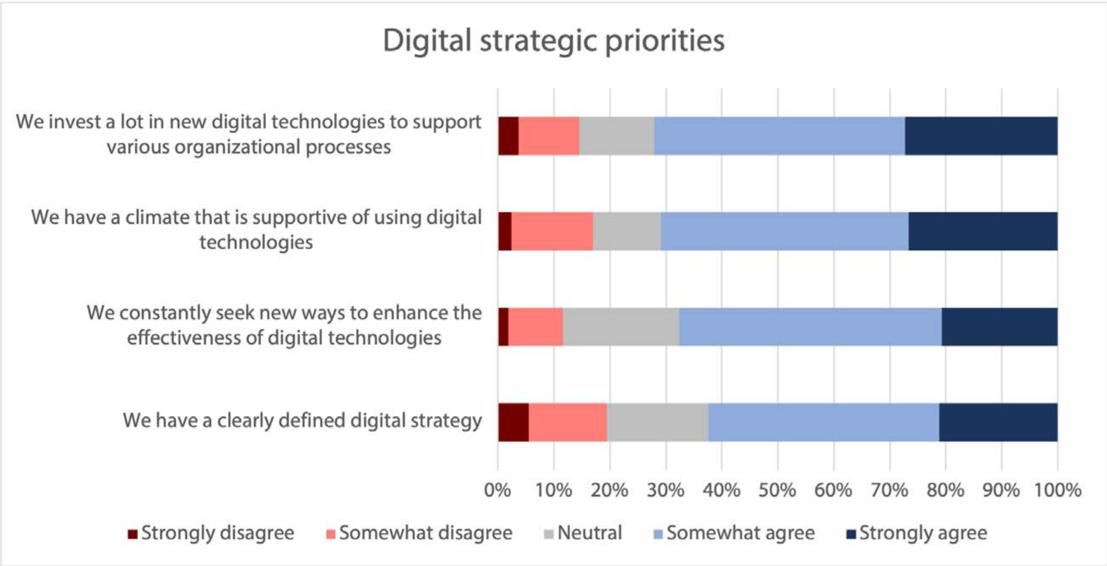

Figure 2: Digital strategic priorities

The results of the study show that digitalization is an omnipresent topic. Most respondents (68%) recognize the added value of digital technologies and continuously seek new ways to enhance the effectiveness of these technologies. A decisive factor in the use of digital technology is not only the existence of technological solutions, but also the application of the technology itself. To truly understand how digital technology can be best utilized, a digital mindset is a big plus. A culture where digital technology is supported helps to encourage this digital mindset. According to our survey, 71% of participants confirm that the organization is actively pursuing a climate that is supportive of digital technology. Many organizations are experimenting with digital technology to obtain proof of concept. The real potential of digital technology lies in its ability to be scaled up for a larger benefit; it should act as the enabler of these larger goals.

We wondered how much organizations invest in technology, and whether they have an underlying digital strategy. Coordinated applications based on a clear digital strategy can prevent unnecessary costs for technologies that do not achieve their goals and hobby projects. This challenge is evident in our study, where 72% of participants stated that their company invests considerable resources in digital technologies. Still, fewer organizations (62%) also pursue a clear digitalization strategy, with 20% of respondents stating that the organization does not have a clear digital strategy.

The latter figure is a clear sign that many companies still have lots of progress to make on their digital journeys, even in a time when digital technology is all around us.

We also found that organizations that focus on differentiation strategies to a larger extent often also invest more in new digital technology, have a climate that is supportive of using digital technology, seek new ways to enhance technology's effectiveness, and have a clearly defined digital strategy. It appears that digital strategic priorities support the overall strategic priorities of the organization.

We wanted to investigate if the trend toward online sales was still visible now that Covid-19 has a lower impact on everyday life, at least in European countries. We asked our participants for more information about their revenue from online sales as an indicator of how digitalized the value-generation process was.

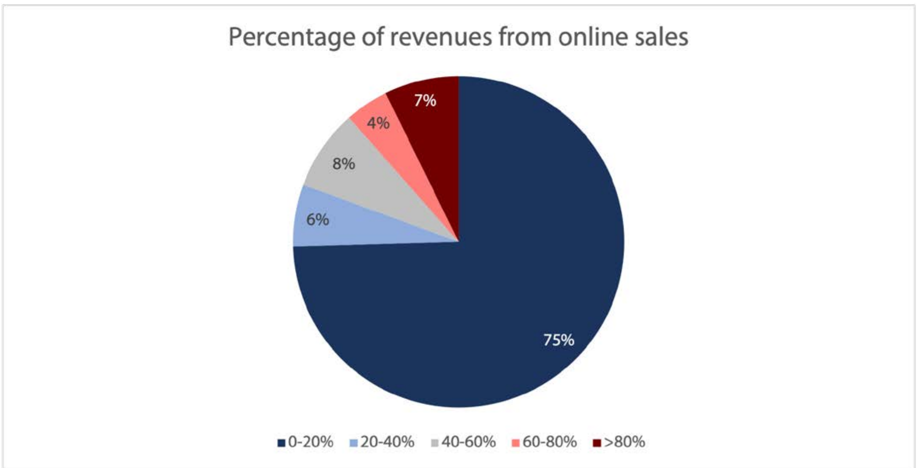

Figure 3: Percentage of revenues from online sales

We found that most (75%) of the organizations included in the sample realize a minor part of their total revenues (less than 20%) from online sales. Only 11% state that e-commerce is their primary source of income (i.e., more than 60% of revenues from online sales). If we compare the responses from this year to last year's responses, the results are relatively stable. The transition to online sales seems to have stopped accelerating. Unsurprisingly, we found that organizations with digital strategic priorities also have higher online sales.

We found that organizations that focus more on differentiation strategies often also invest more in digital technologies as well. These organizations often have a higher percentage of revenue through online sales channels as well.

> 1. *Having a clear digital strategy helps to align digital technology effectiveness and support the transition to online sales.*

Finance operations

Organizations are part of a constantly changing environment and are in a continuous state of flux. New business model innovations, new products, and the acquisition of competitors or startups are just some of the conceivable changes organizations face. These changes are accompanied by continuously increasing structural complexity within the organization. One of the critical challenges facing the Finance department is to ensure internal data and information flows for performance measurement and management. Sound IT systems are the basis for standardizing and controlling processes and increasing data quality. We were curious about whether we could find out how Finance departments organize themselves and their processes amidst a changing organization and environment. In a series of questions, we asked respondents how Finance operations are organized and how high the level of standardization is.

First, we asked respondents to indicate whether their organization has implemented various improvements to deal with the structural complexity in Finance departments. Figure 4 shows the results.

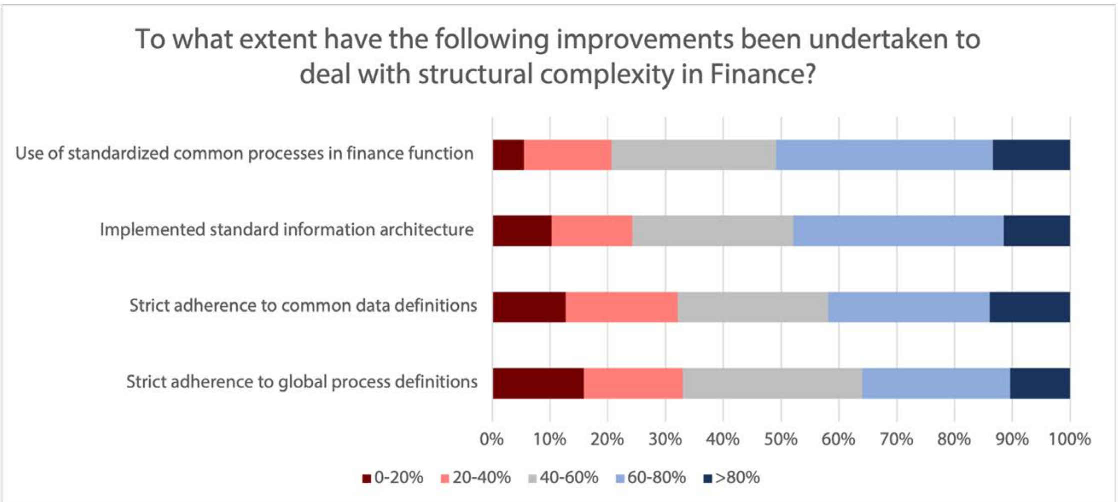

Figure 4: Dealing with structural complexity in Finance departments

The results indicate that organizations are aware of the necessity to standardize processes and to share information between different systems and users, creating a common understanding. Almost 80% of organizations indicated that they use standardized common processes for at least 40% of their processes, and 76% of the respondents had implemented a standard information architecture to reduce complexity in Finance deparments for at least 40% of activities.

Although the percentages for strict adherence to data and process definitions are a bit lower, we can still see that almost 70% of respondents indicate that they try to enforce alignment in this area.

We also asked respondents to what extent they had outsourced Finance department activities, or structured them in a shared service center (SSC) or global business service center (GBSC). Figure 5 shows the results.

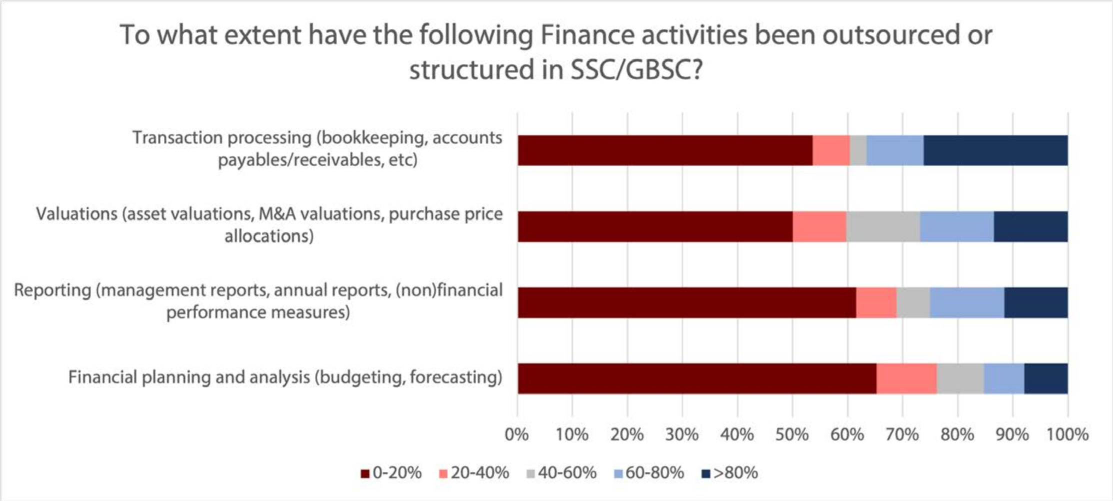

Figure 5: Outsourcing of Finance department activities

By outsourcing activities or structuring them in house using SSCs or GBSCs, Finance departments aim to free up resources to further support core processes and focus more on value-adding activities. Under certain circumstances, organizations can also use specialist expertise for supporting processes that are unavailable within the company: for example, through national and international experts in cross-border business activities. This provides advantages in the flexible scaling of corresponding processes when the business grows or declines, without the need to establish a company infrastructure or staffing levels.

While transactional processes are most often outsourced (26% of respondents had more than 80% of these processes outsourced or structured in SSCs or GBSCs), our study suggests that financial planning and analysis remain at a local level (65% of respondents had less than 20% of these processes outsourced or in SSCs or GBSCs). One reason for this is the sensitivity of data used for budgeting and forecasting: other possible reasons for these processes not being centralized or outsourced are the development of corresponding core competencies, as well as the process and data understanding that is required to provide and interpret the correct information.

To see how standardization, centralization, and outsourcing correlate with the use of automation and robotic process automation (RPA), we also asked respondents if they have automated or robotized Finance department activities. Figure 6 shows the results.

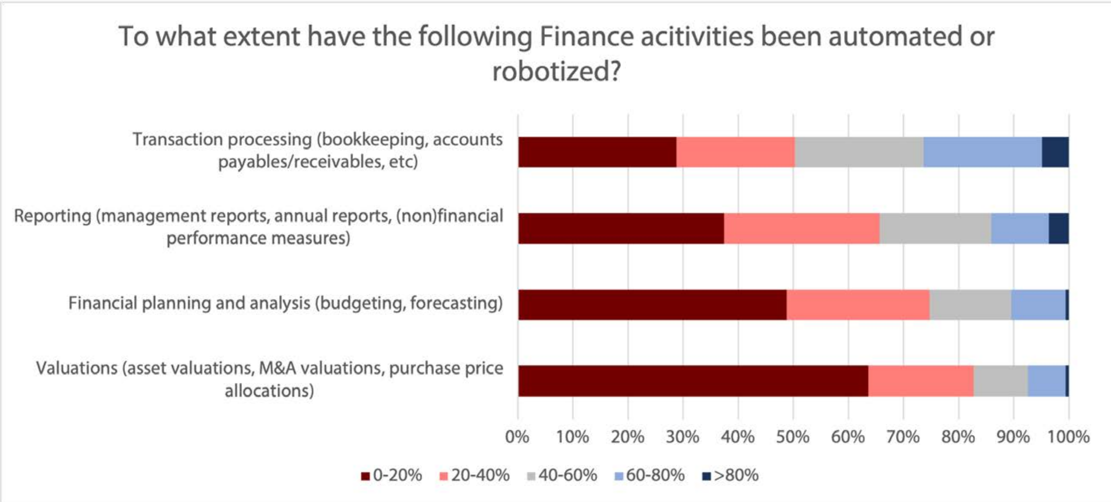

Figure 6: Automation/robotization of Finance department activities

The automation or robotization of tasks in the Finance department promises significant efficiency gains, but not all processes are suited for automation or RPA. Our results confirm this and suggest that it is mainly repetitive and standardized activities that are automated. In both reporting and accounting, at least one-third (>30%) of participating organizations have automated their tasks to a large extent. We see the degree of automation decrease as the complexity of the underlying process increases. A possible reason for this is that the current state of technology is not yet sophisticated enough to deal with such complexity. The processes underlying these tasks are too unique and unpredictable to be effectively mapped in a standardized way: this is evident in the case of M&A and valuation activities, where 64% of all participants stated that the degree of automation is less than 20%. At the same time, there is often a lack of the relevant skills to use the applications. For example, today's machine learning-based forecasts may provide better predictions than manual forecasts, but machine learning-based forecasts require expert knowledge in statistics and mathematics that is not available in every organization.

In our data, we can see a correlation between standardization and automation/RPA of Finance department activities, except for RPA activities that relate to valuations. We also found that organizations that had their Finance department activities organized in SSCs, or had them outsourced, had a stronger ability to automate tasks and/or use RPA in their processes – again, with the exception of RPA activities that relate to valuations.

A reason for this may be the fact that SSCs have more experience with standardized processes, which – in a subsequent step – makes it easier to robotize or automate these activities. In addition, given the structure of most outsourcing contracts, outsourcing partners may push for efficiency through automation to make sure they can deliver at low cost.

Changes in processes and applications impact employees in the Finance department. Moreover, new roles and functions have emerged within organizations, such as data scientist, business analyst, and storyteller. Besides changing and emerging roles, it is increasingly important in Finance departments to develop the necessary competencies and skills to remain a reliable business partner for change management. Increasingly sophisticated automation of repetitive tasks and the improved analysis capabilities of modern analytics software enable a focus on value-adding activities for data-based decision support. Freeing up time is only one side of the equation, however. To become or remain a trusted advisor, all kinds of skills that help professionals in their interaction with the business become more important as well. Even the best analysis is lost effort if the professional can't communicate the message that lies behind it. We asked respondents whether they feel that employees in the Finance department have the competencies to cooperate with other departments in their organization. Figure 7 shows the results.

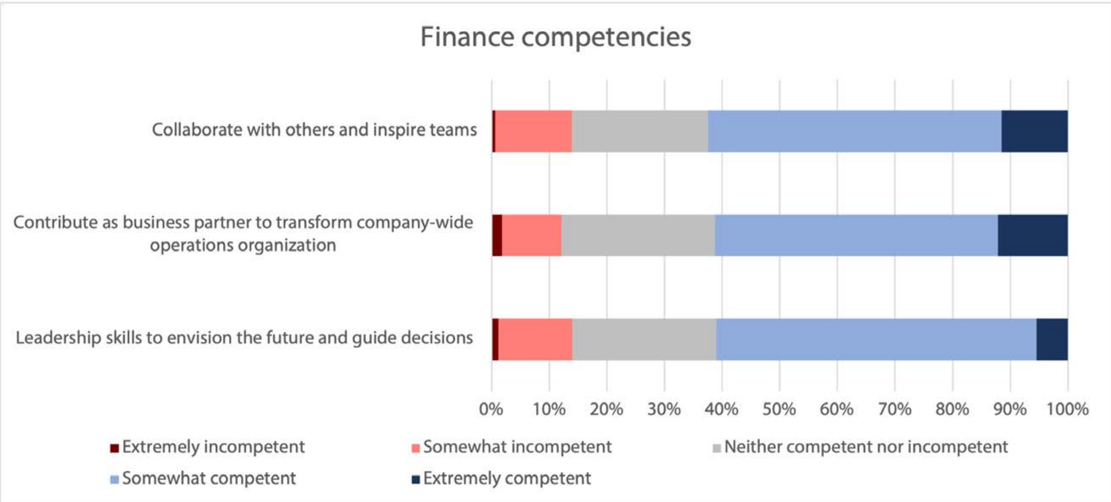

Figure 7: Finance department competencies

The Finance department should help the organization achieve its goals effectively and efficiently: this can be done by measuring, and also managing, performance in the context of strategy implementation. Most respondents (62%) believed Finance department employees have at least the essential competencies in cross-functional collaboration with other departments. Furthermore, the skills to contribute to transforming operations (61%) and the leadership skills to guide decisions (61%) were also present in essence.

However, a significant number of respondents (12% to 15%) indicated that the Finance department was at least somewhat incompetent in their collaboration, partnering, and leadership skills. Organizations that perceive their Finance departments as incompetent in this area have a very clear call to action if they want to future-proof the Finance department.

> *2. Organizations are responding to rising complexity primarily by standardizing processes, information, and data structures.*

> *3. Nowadays, there is a strong push for outsourcing or automating transactional activities.*

Self-Service Business Intelligence (SSBI)

Interactive and integrated business intelligence (BI) applications for data preparation and analysis are widely established in many organizations and form the basis of modern decision support systems. However, new technological developments mean the previous division of labor between the Finance department and other departments (the request-response relationship) is subject to increasing change. This is where Self-Service Business Intelligence (SSBI) enters as a concept. While SSBI promises to further streamline information gathering and distribution, strict governance over the practice is necessary. On the one hand, Finance department employees are confronted with the challenge of deciding which of the continuously growing amount of available internal and external data should be shared with managers. On the other hand, the scope of the tools used in this context has expanded: they no longer just encompass operational issues, but can also be used to solve strategic issues. Using SSBI is a balancing act between providing relevant data and controlling the way this data is used to reach the right conclusions.

There is an increase in the number of potential users of SSBI applications who want to access decision-relevant information promptly and claim influence over the underlying data. This development may create the risk of misinterpretation and misuse, which potentially leaves the enormous potential of SSBI untapped. The use of SSBI might even have the undesired effect of becoming a new challenge: this is because it may generate different databases and create the wrong discussions in organizational meetings (for instance, through unnecessary or incorrect drill-downs). It is up to the Finance department to prevent this potential undesired side effect.

The Finance department can deal with this potential downside by providing appropriate support for the shift to SSBI. This support includes both technical support and expertise for the provision of data, as well as the skills to control the utilization process. SSBI can be seen as an approach to BI that empowers managers to access, explore and analyze vast amounts of data without technical expertise in data mining, statistical analysis, or related fields. SSBI tools aim to help managers connect, filter, sort, explore, and visualize datasets without assistance from IT/Finance department teams. This development may mean that managers will start to make decisions without involving the Finance department, affecting the status and influence of the Finance department within the organization.

To investigate how Finance departments look at developments in SSBI, we asked participants which activities within the Finance department are already being carried out with the help of SSBI. Figure 8 shows the results.

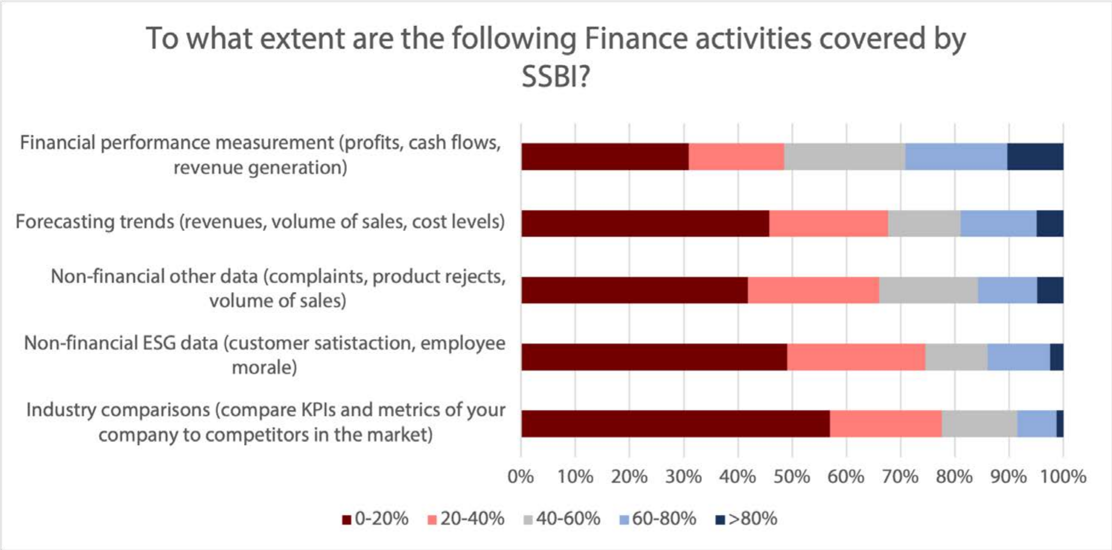

Figure 8: Finance department activities covered by SSBI

Figure 8 shows that SSBI is primarily used within management reporting to assess current financial performance, with 52% of respondents reporting this type of usage. Despite its ability to leverage advanced technologies for data analysis, it is surprising that many respondents in our study did not commonly use SSBI in the context of forecasting and benchmarking. For example, 68% of respondents said they hardly use SSBI for forecasting activities, and 78% of respondents reported that SSBI hardly covers industry comparisons (i.e., to relevant competitors). Potential reasons for the lack of using SSBI in these areas may relate to the fact that data fundamentals are not available to a sufficient degree or cannot be accessed if necessary. Both reasons highlight the importance of appropriate IT governance and anchoring. Another possible reason for the relatively low use of SSBI is a lack of competencies on the part of both the Finance department and managers, combined with the desire to maintain the status quo of using familiar applications.

We also asked respondents how they perceive the way management uses SSBI in relation to the activities of the Finance department. As mentioned before, the use of SSBI by managers may free up time for Finance department employees. Alternatively, managers may not involve Finance department employees in key decisions, making the Finance department less effective. Figure 9 shows the results.

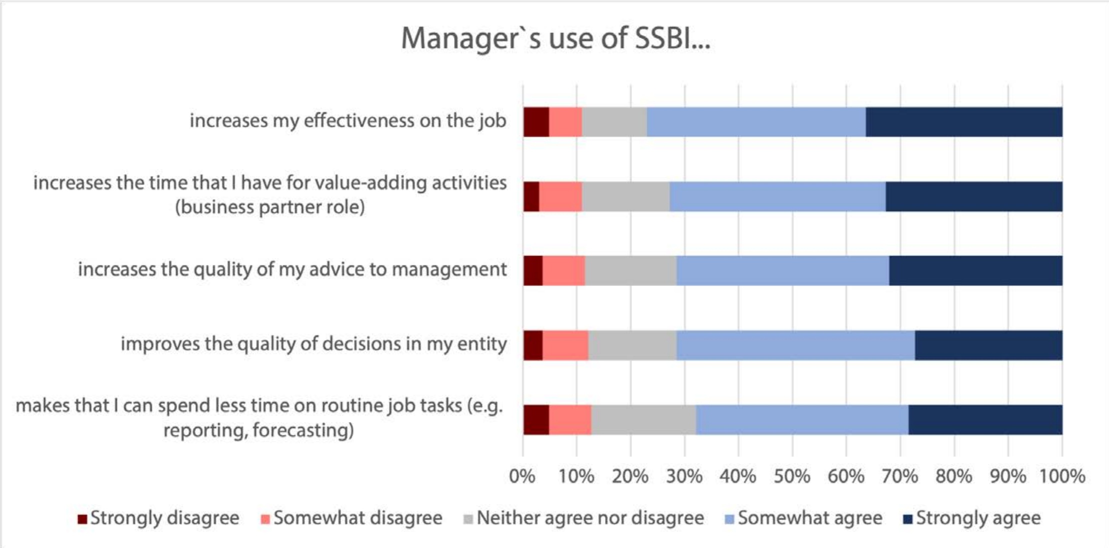

Figure 9: Managers' use of SSBI

As Figure 9 indicates, about 70% of respondents said the use of SSBI by managers positively impacts the time they spend on routine jobs. This confirms one of the benefits that is often associated with SSBI. SSBI technology not only promotes a better understanding of business and data by decision-makers, potentially leading to more productive discussions about recommended actions and fewer conversations about the accuracy of the data. It also frees up time for employees in the Finance department by eliminating repetitive tasks through self-service reporting; this allows the Finance department to concentrate more on value-creating activities. This assessment is confirmed by a little more than 70% of respondents.

We also asked respondents how the use of SSBI by management affects the influence of Finance department within the organization. Figure 10 shows the results.

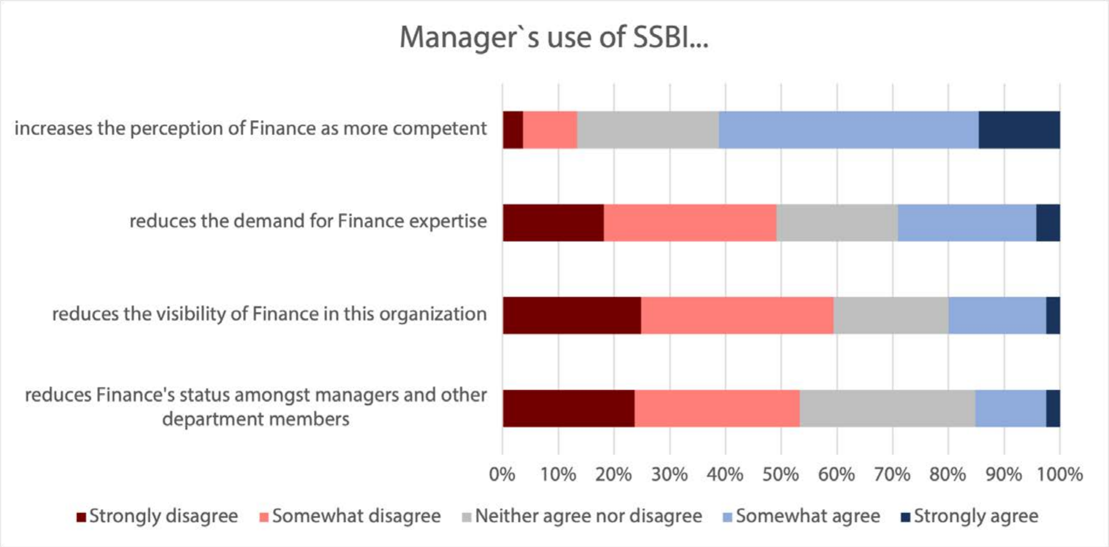

Figure 10: Managers' use of SSBI

Our study shows there is little basis for the common fear that using self-service technologies and tools degrades the Finance department to a data provider. The same goes for the fear that value-creating analyses will only be performed by managers in the future. 61% of respondents stated that SSBI, in general, increases rather than reduces the perception of Finance department as more competent. Only 14% of respondents indicated that the opposite is true. Furthermore, about half of respondents disagreed or strongly disagreed with the statements that SSBI will reduce the demand for Finance department expertise, reduce the status of the Finance department, or reduce the visibility of the Finance department in the organization.
Finally, we asked respondents for their opinion on SSBI. Figure 11 shows the results.

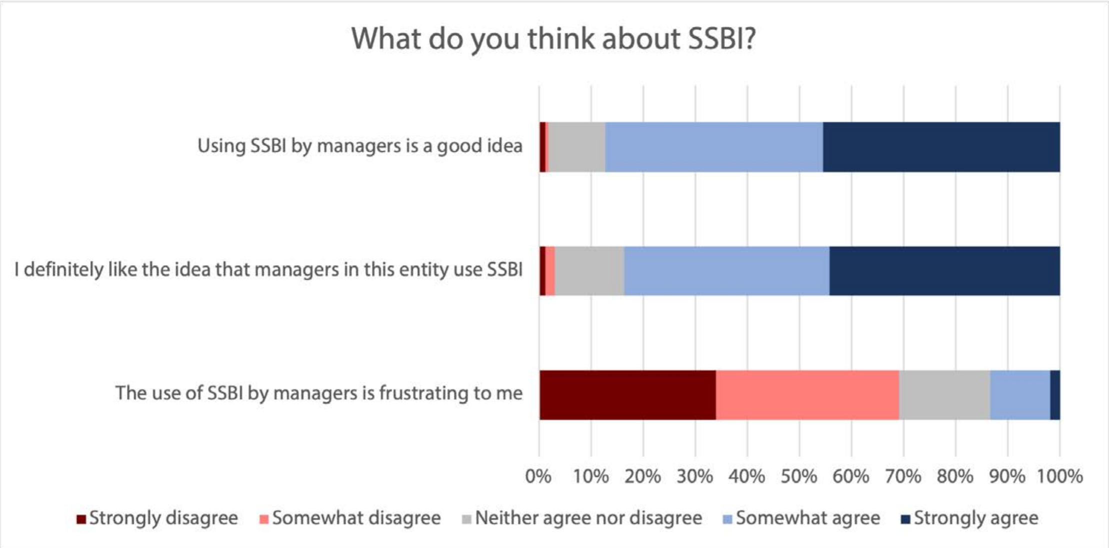

Figure 11: What do you think about SSBI?

In general, our study shows that Finance department professionals see SSBI as a valuable addition to the business toolbox – one that offers added value to both managers and Finance department employees. In general, 87% of respondents were in favor of managers using SSBI, while 84% of respondents liked the idea that managers in their entity use SSBI. On the other hand, 13% of respondents expressed their frustration with the use of SSBI by managers in their organization. These results indicate a strong support for the use of SSBI in the organization.

> 4. *The use of SSBI by executives is generally perceived as positive, especially in terms of increased efficiency and better information provision.*

> 5. *Contrary to initial fears, SSBI does not result in a loss of importance and responsibility for the Finance department.*

ESG and performance management

In recent years, geopolitical crises such as hunger, poverty, decreasing biodiversity, and climate change have increasingly changed customer expectations toward products and organizations. Society demands that organizations take a more responsible role. From an investor's perspective, if an organization is to survive in the long run, sustainability and social responsibility must be aligned with profits while delivering a required return on investment. In addition to achieving corporate goals at the financial level, ESG also considers the effects of corporate activities on stakeholders other than shareholders, and attempts to shape these positively. The 17 Sustainable Development Goals (SDGs) of the United Nations (UN) provide a catalog of goals that many organizations are already pursuing to increase their legitimacy. The significance of this development is reflected in the number of sustainability reports, which has risen from 12% of organizations in 1993 to 80% in 2020 (KPMG, 2020, p. 7). Organizations appear to be responding to increasing pressure from stakeholders and non-governmental organizations (NGOs) as well as to upcoming regulations (including the EU's Corporate Sustainability Reporting Directive (CSRD) and Non-Financial Reporting Directive (NFRD) to demonstrate a more significant commitment to long-term and sustainable value creation.

The general approach to ESG seems twofold. Some organizations see it as a reporting and compliance challenge. Others see it as an opportunity to revise their business model and make it more consistent with long term value creation. We asked respondents where they focus on within their organization. Figure 12 shows the results.

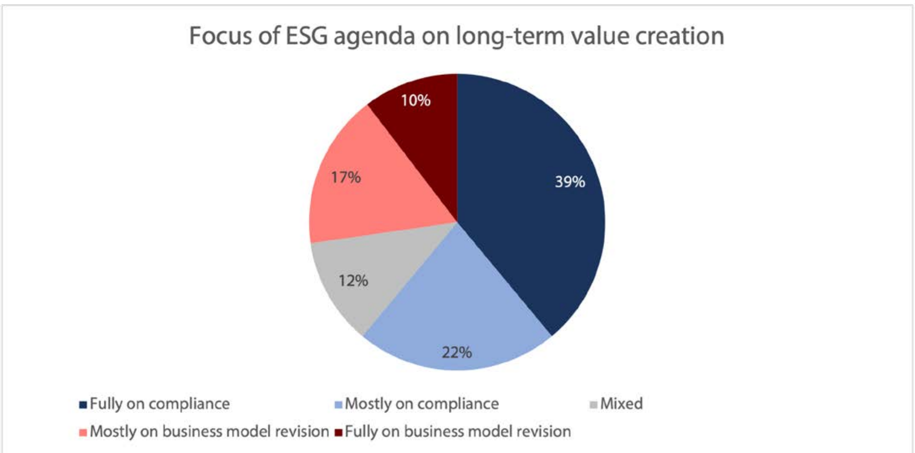

Figure 12: Focus of ESG agenda on long-term value creation

Figure 12 indicates that the focus of the ESG agenda is primarily related to compliance, with 61% of respondents indicating that their focus is fully or mostly on compliance. While this may not be surprising given the new regulation that is implemented (such as the CSRD and the NFRD directives) frontrunners may be able to exploit their focus on business model revision.

To investigate the impact of these trends and their effect on the operation of Finance departments, we asked respondents to indicate how many ESG key performance indicators (e.g. metrics on sustainability, environmental issues, health care issues, social issues, etc.) are monitored in their entity. Figure 13 shows the results.

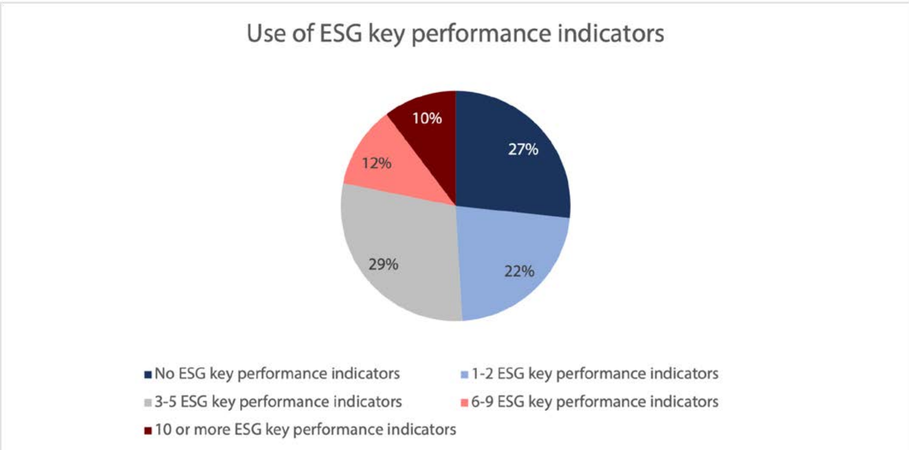

Figure 13: Use of ESG key performance indicators

Figure 13 indicates that 27% of participating organizations do not use any ESG performance measures to track their ESG performance. Given the developments in terms of regulation, it is likely that this will change in the coming years. At the same time, 22% of respondents use at least six ESG performance indicators for managing the organization. One of today's main challenges concerning non-financial performance indicators, or more specifically ESG indicators, is the multitude and heterogeneity of available sustainability frameworks. Even though regulators are currently working on a common framework at the European level to address reporting inconsistency, many organizations still face the challenge of selecting KPIs for performance measurement and reporting. We also find that organizations that focus on business model revision are more likely to use more ESG performance measures in steering the organization.

Besides measuring ESG performance in non-financial terms, organizations may also try to monetize this information. One way to do this is by using true cost accounting (TCA)[1] . TCA does not only look at the commonly used financial values within a company (such as the costs of labor and material), but also integrates the impact of natural and social costs (including the costs of CO_2 emissions, water pollution, food waste, health costs, etc.) in cost allocations. Figure 14 shows the results on the use of TCA by organizations.

[1] True cost accounting is also known as full cost accounting, true costing, total value or total impact.

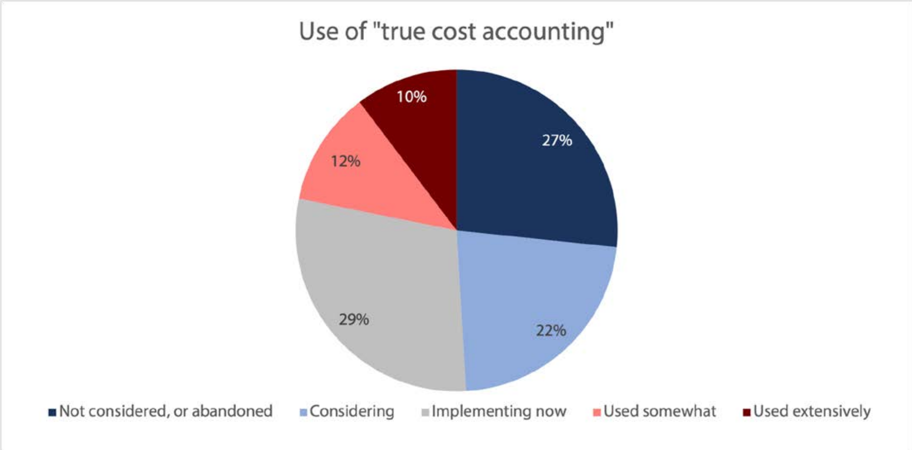

Figure 14: Use of true cost accounting

Figure 14 indicates that 27% of the respondents were not considering TCA at the time of being surveyed, or have abandoned using it. About 22% of the respondents were considering TCA, and another 29% were implementing it. Only 22% of the respondents were presently using some form of TCA, while only 10% of the respondents were using TCA extensively. Again, we found that organizations that focus on business model revision are more also more likely to use TCA in steering the organization.

We asked the respondents that indicate that the organization uses TCA (either somewhat or extensively) about the areas in which they use TCA. Figure 15 shows the results.

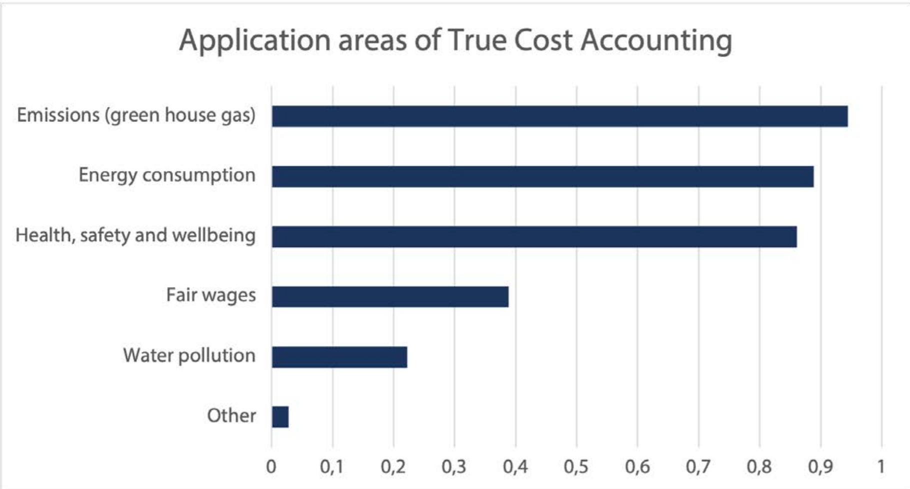

Figure 15: Application areas of true cost accounting

We found that three areas stand out in terms of the application of TCA. TCA of emissions (such as greenhouse gas emissions) was used by 94% of respondents to evaluate the costs of external effects. Energy consumption (89%) and health and safety (86%) are also very common areas in which TCA is used. One possible reason for these three specific areas seeing high levels of TCA use is that sufficient data is already available in these areas. As such, TCA can be measured relatively easy without having to spend lots of resources. Several organizations have launched sustainability initiatives that focus on the reduction of emissions, improved health and safety, and energy efficiency. True cost accounting is less common for fair wages (39%), water pollution (22%), or other (3%) applications, such as food waste. A reason for the lower application of TCA for these last three categories may be the lack of sufficient data in the first place. The data suggests that ESG performance measures and the use of TCA both help to provide insights into how organizations can revise their business models to become future proof.

> *6. About a quarter of the organizations already use some form of true cost accounting, mainly in the areas of emissions, energy consumption and health & safety.*

> *7. The ESG agenda is mostly focuses on compliance, and about a quarter of the organizations uses no ESG KPIs.*

Organizational design

Organizations are designed with a specific purpose in mind. This organizational design hugely influences the governance and the way the organization functions. Larger organizations (especially if they operate on a global scale) are faced with a continuous balancing act between centralization and decentralization, both in terms of operational decision-making by local managers as well as the design of the accounting system. Centralization and decentralization of operational decisions have both advantages and disadvantages associated with them. Organizational design also influences the way Finance departments operate. For example, the way head office is organized impacts the number of staff required at the central and local level. A financial holding usually has a relatively small Finance department; its primary focus is getting the numbers in and consolidating them. A holding that is involved in strategic decision-making often has a larger Finance department to set goals and targets for local business units.

The allocation of decision-making power has long preoccupied scholars and practitioners. Proponents of decentralization argue for improved decision-making based on local information and regionally adapted strategy implementation to increase competitive advantages. On the other hand, centralization may be mandated by legal regulations and may increase efficiencies and goal alignment. The reality in centralized organizations often looks different in practice: decision-making power is limited to a few individuals at headquarters, and often results in a high level of bureaucracy.

We asked the participants in our study about their experiences with the distribution of decision-making power in their company. We started with the allocation of operational decision rights (i.e., how decision-making authority is divided between lower-level entities, such as business units and divisions, and higher managerial levels in the organization, such as headquarters). Figure 16 shows the results.

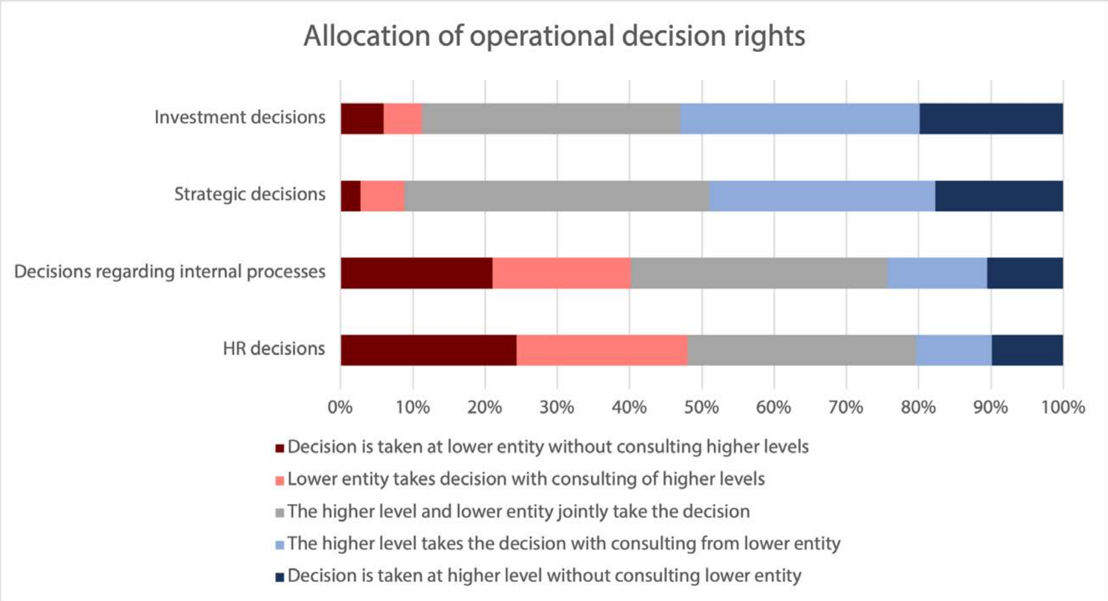

Figure 16: Operational decision rights

The results of our study show that decisions about investments and strategy tend to be made at a central level (i.e., at headquarters). Higher level executives mostly make investment decisions (53% of respondents) and strategic decisions (49%). On the other hand, decisions regarding HR and internal processes are decentralized in most of the organizations, suggesting that HR decisions (48%) and decisions concerning internal processes (40%) are mostly made by local managers.

In addition, we asked respondents how accounting decision rights are allocated in the organization. Figure 17 shows the results.

Figure 17: Accounting decision rights

Figure 17 indicates that most accounting decisions are centralized, with the exception of the budgeting process within lower level entities in the organization. Most other accounting decisions are taken by higher-level executives. This includes transfer pricing (66% of these decisions are taken mostly by central headquarters), the implementation of new non-financial ESG measures (63%), the allocation of overhead costs (58%) and the expensing versus capitalization of costs (49%). As for the budgeting process, about a third of the organizations surveyed indicated that decisions regarding budgeting processes can be (mostly) made at the local level.

We also found that accounting decisions tend to follow operational decisions. If organizations decide to decentralize operational decisions, they provide local units with more decision rights regarding their accounting system, especially when it comes to budgeting and transfer pricing decisions. One reason for this is that decentralized accounting provides local units with the right information to capitalize upon their local decision rights.

Another ongoing discussion in organizations concerns the reporting lines for the Finance department. These lines vary between the Finance department reporting to the general manager (e.g. CEO or division manager) and the Finance department reporting to a functional manager (e.g. group controller, CFO, or audit committee). We asked respondents to indicate the relative influence of these superiors for the performance evaluation of employees in the Finance department. Figure 20 shows the results.

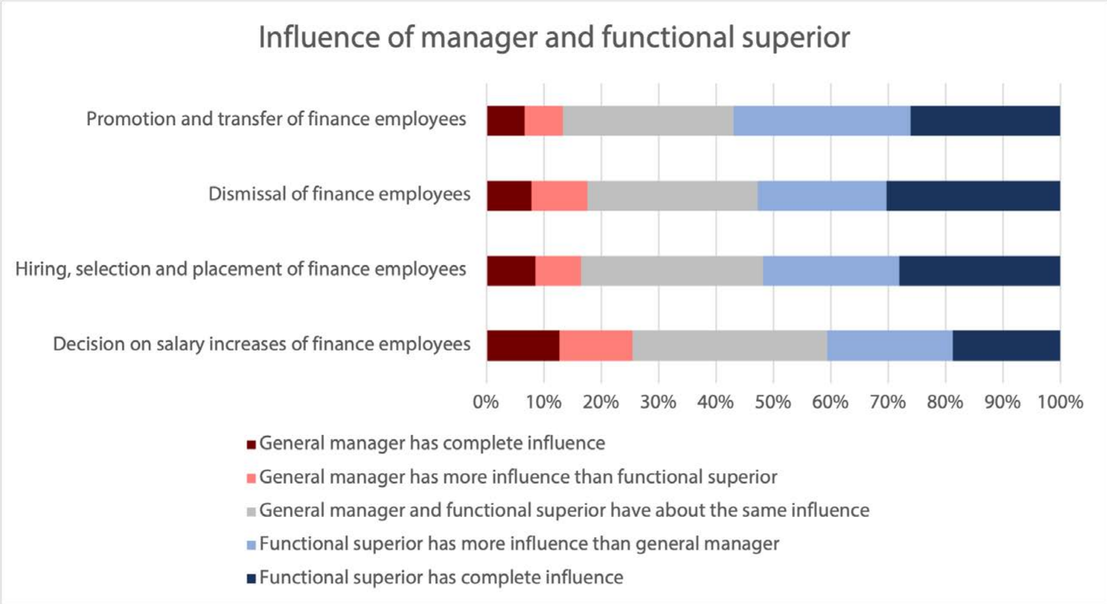

Figure 18: Influence of manager and functional superior

Figure 18 indicates that most decisions regarding the performance evaluation of employees in the Finance department are made by leaders in the Finance department. For example, the functional superior (such as the CFO) has most or all of the influence regarding the promotion and transfer of Finance department employees (57%), the dismissal of Finance department employees (52%) or the hiring, selection, and placement of Finance department employees (also 52%). Only the decision on salary increases is more divided between the functional manager and the general manager (41% indicated that the funcational superior has more influence, while 26% indicated that the general manager has more influence).

> *8. Strategic and investment decisions as well as accounting decisions are mostly centralized, while HR and operational decisions tend to be decentralized.*

> *9. The performance evaluation of Finance department employees is mostly structured within the Finance department.*

Finance department outcomes

New technology, new requirements by society, and changes in regulation all influence the way the Finance department operates and how it is perceived by the organization. Does the perception of the Finance department change within the organization when a new technology is introduced? How does ongoing transformation in the context of increasing digitalization and automation impact the role of the Finance department? How will managerial access to an ever-increasing amount of data influence the position that Finance departments have within the organization? To keep track of how various trends influence the way the Finance department is perceived, we asked our respondents to answer some questions in this area.

First, we asked respondents about top management's perception of the Finance department (see Figure 19). We also asked them to indicate the influence of Finance departments within the organization (see Figure 20).

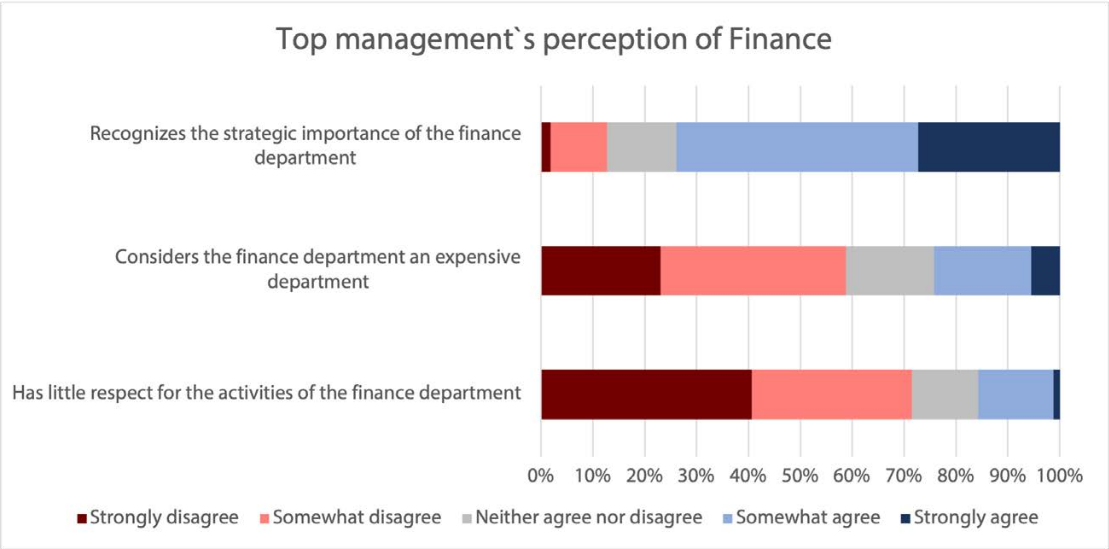

Figure 19: Top management's perception of the Finance department

Respondents indicated that top management recognizes the strategic importance of the Finance department (74% strongly or somewhat agree). In addition, 59% of the respondents (strongly) disagreed with the statement that Finance is considered an expensive department. Finally, 72% of respondents (strongly) disagreed with the statement that top management has little respect for the activities of the Finance department. We can conclude that, according to Finance department employees, the Finance department still has an important role to play.

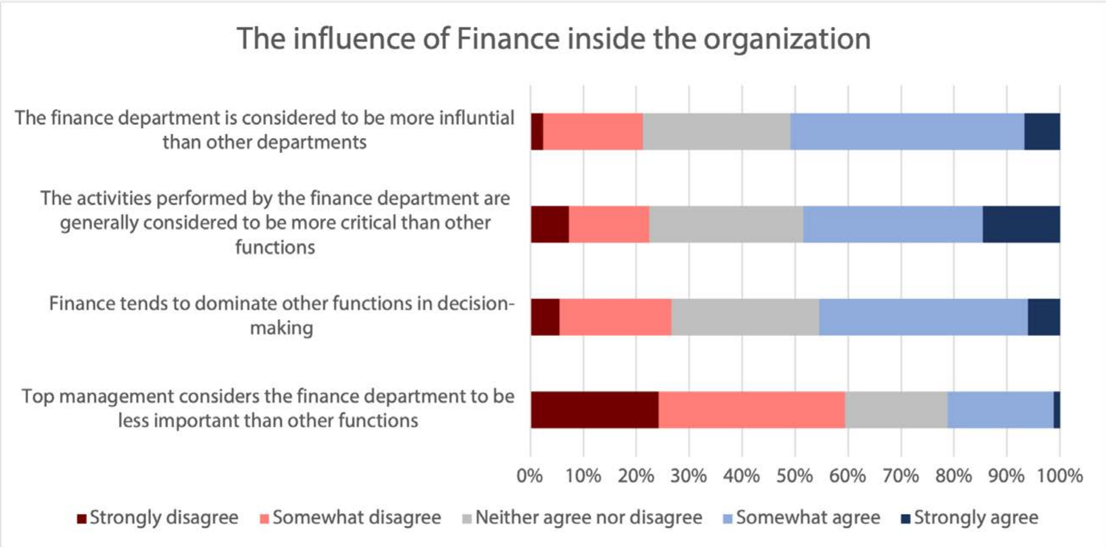

Figure 20: The influence of the Finance department within the organization

Figure 20 indicates that Finance department employees consider their department rather influential: about half of them (strongly) agreed with the following statements: that the Finance department is more influential than other departments (51% somewhat or strongly agreed), that the Finance department's activities are more critical than the activities of other departments (49%), and that the Finance department tends to dominate other departments in decision-making (45%). At the same time, 59% of respondents (strongly) disagreed with the statement that top management considers the Finance department less important than other departments. Our results suggest that Finance departments still create added value for the company and that their associated costs are justified (at least in the eyes of the Finance department). Despite the opportunities for self-service, the Finance department is also still seen as an important contact and a valued business partner.

> *10. According to Finance department employees, top management considers the Finance department important and influential.*

Conclusions and recommendations

Organizations use digital technologies to achieve efficiency and effectiveness in various processes, both in Finance processes and in processes at other departments. Digital technologies can provide managers with easy access to data, reducing the demand for Finance departments to submit standardized reports. However, if data is widely available and accessible, it may reduce the visibility of Finance departments. In addition to new technologies, Finance departments are also facing the challenge of providing new insights and reports on an organization's ESG performance.

Having analyzed our survey results, we have reached several conclusions. In addition, we offer some recommendations for Finance departments that want to act upon trends now.

Conclusions

Based on the survey results and the roundtable meetings, we come to several conclusions:

- ***Digital strategy drives online sales and operations, including Finance department operations***
  Our results indicate that most organizations have clear digital strategic priorities. Having clear digital strategic priorities is associated with higher levels of online sales, as well as a higher focus on strategic priorities that helps to differentiate the organization from competitors. To benefit from investments in technology, digital strategic priorities should be aligned with operational and Finance department activities.

- ***Standardized Finance department operations help to achieve efficiency and effectiveness***
  There is a trend toward greater standardization in processes, data processing, and IT. In particular transactional processes are frequently outsourced or automated, freeing up resources for value-adding activities previously tied up in repetitive tasks. For this to be effective, Finance department employees need to expand their leadership, business partnering, and collaboration skills.

- ***Self-service Business Intelligence (SSBI) tools help to reduce the demand on the Finance department***
  Self-service tools are increasingly expanding the availability of data outside the Finance department, and the primary use of these tools is currently for performance assessment. From the perspective of a Finance department employee, the advantages of SSBI outweigh the disadvantages, which is reflected in positive expectations regarding increased efficiency. SSBI appears to strengthen the Finance department and does not appear to lead to a reduction in the perceived competencies or influence of the Finance department.

- ***ESG performance measurement is in its infancy***
  Considering the importance of contemporary debates about sustainable performance and sustainability in general, and given the calls for a holistic view of company performance, it is somewhat surprising that

the measurement of ESG is still in its infancy. We found that about 25% of the respondents do not use ESG performance measures; in addition, only a quarter of respondents use TCA to financially evaluate the impact of the organization on externalities. Organizations that have an agenda focused on long-term value creation tend to integrate both non-financial as well as financial measures (TCA) in their operations.

- ***The Finance department is mostly centralized***
  We find that strategic decisions (strategy and investments) tend to be centralized, while operational decisions (internal processes and HR) are more decentralized. Most accounting decisions are centralized. In addition, accounting decentralization follows operational decentralization: when organizations delegate decisions to lower levels in the organizations, local managers also have more say over accounting decisions to support the decision-making process. Performance evaluation of the Finance department is mostly organized within the Finance column.

- ***Finance influence in the organization is solid***
  The study also showed that Finance department employees still consider their department a relevant cornerstone of corporate success, despite considerable changes taking place in the economy and society, such as increasing digitalization. This is particularly evident in the strategic relevance attributed to the Finance department and its role as a business partner supporting management in decision-making. Of course, other departments may have a different perspective on the influence and importance of the Finance department within the organization.

Recommendations

Given the findings and conclusions in this report, we provide several recommendations for Finance departments and employees in their journey to remain relevant:

- ***Develop clear digital priorities and align Finance department operations***
  A crucial step is setting clear digital priorities (i.e., where to invest) and aligning Finance department operations with these investments (i.e., investing in the digitalization of Finance department activities that match the organization's strategic priorities). For example, increasing online sales may require different investments than increasing the efficiency of Finance department operations.

- ***Centralize and standardize core Finance department operations to increase efficiency and effectiveness***
  Our results suggest that reduced complexity in Finance department activities, as well as the standardization and centralization of these activities, may help to increase the efficiency and effectiveness of the Finance department. However, these actions alone are not enough for the Finance department to be effective. To really start adding value to an organization, Finance department employees need the following competencies: displaying leadership skills, collaborating in cross-functional teams, and contributing to the transformation of company-wide operations.

- ***Capitalize on SSBI opportunities***
  Finance department employees recognize the opportunities presented by SSBI, but organizations do not always seem to invest in these new technologies. SSBI may further reduce the need for the Finance department to gather data, as managers now have this information at their fingertips. However, in complicated situations, managers rely on the Finance department to help them understand the figures and to interpret trends; in other words, the added value of the Finance department becomes more rather than less visible.

- ***Take the leap into ESG performance management***
  Many organizations appear to lack ESG data. Organizations can't afford to neglect the ESG challenge. It is wise to act decisively on these newly developing societal demands, beyond regulatory demands. Given that Finance department employees (especially those at a higher level, such as the CFO) can affect the design of accounting systems as well as the culture in Finance departments, they have a significant role to play. To further drive ESG initiatives, organizations may first have to focus on long-term value creation and identify which practices help to build sustainable business models.

- ***Capitalize on reputation***
  According to our respondents, top management perceives Finance as an important and influential department. Finance departments can capitalize upon that reputation to manage the challenges ahead; however, if the Finance department does not take up these challenges, it may lose its standing in the organization.

A short note on methodology

For our survey, we relied on respondents from various roles within the Finance department, including CFOs (30%), Finance managers (20%), group controllers (7%), business controllers (20%), and financial controllers (7%). Others (16%) include Finance-related departments, such as project controllers, financial accountants, or Finance transformation managers.

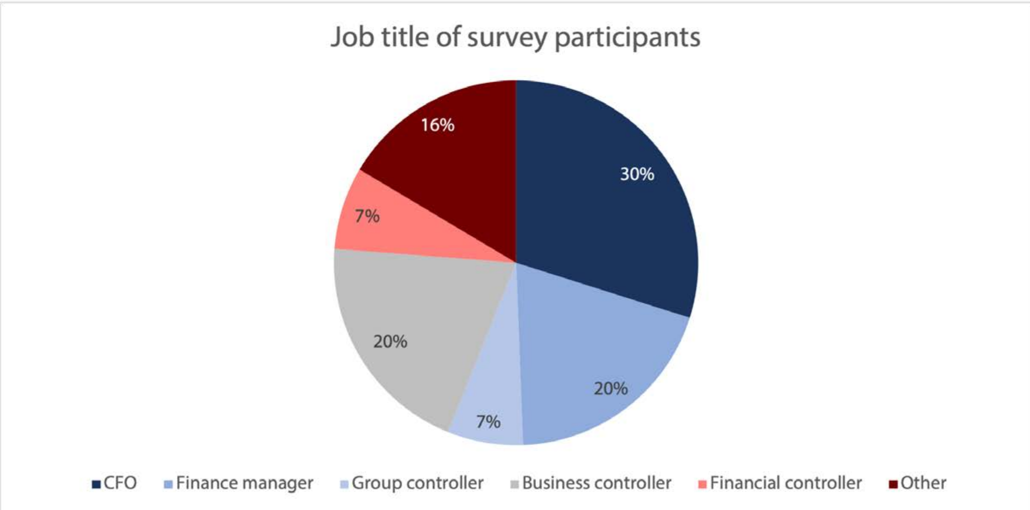

Figure 21: Job title of survey participants

In addition, we asked participants about their experience in their current role: 13% had been in position for less than one year, 46% between one and three years, 15% between three and five years, 10% between five and ten years, and 15% had spent more than ten years in their current position.

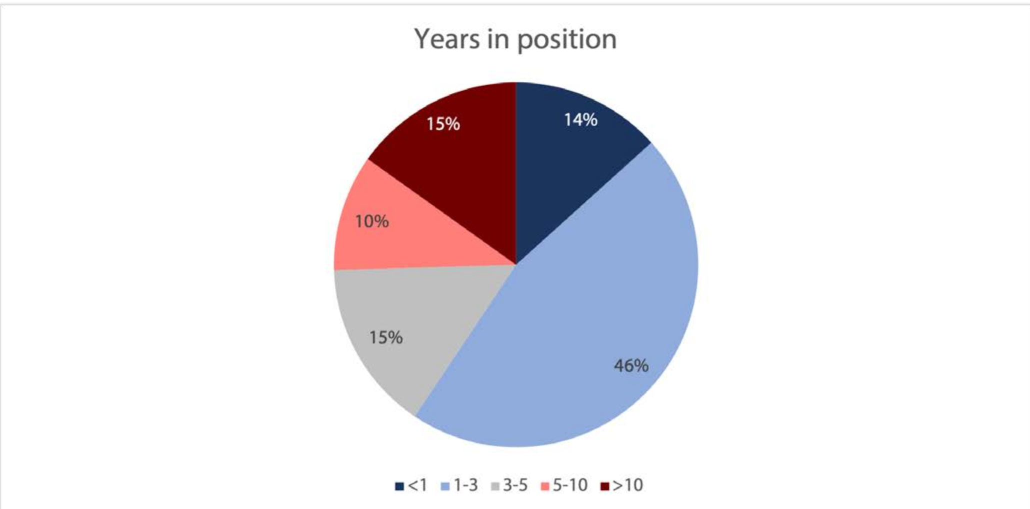

Figure 22: Years in position

Our survey participants came from a variety of industries, including mining (2%), manufacturing (19%), utilities (2%), construction (7%), non-financial services (27%), financial services (13%), public sector (12%). We also heard from several organizations that were the only representative of their industry (18%): these included healthcare, consulting, and software.

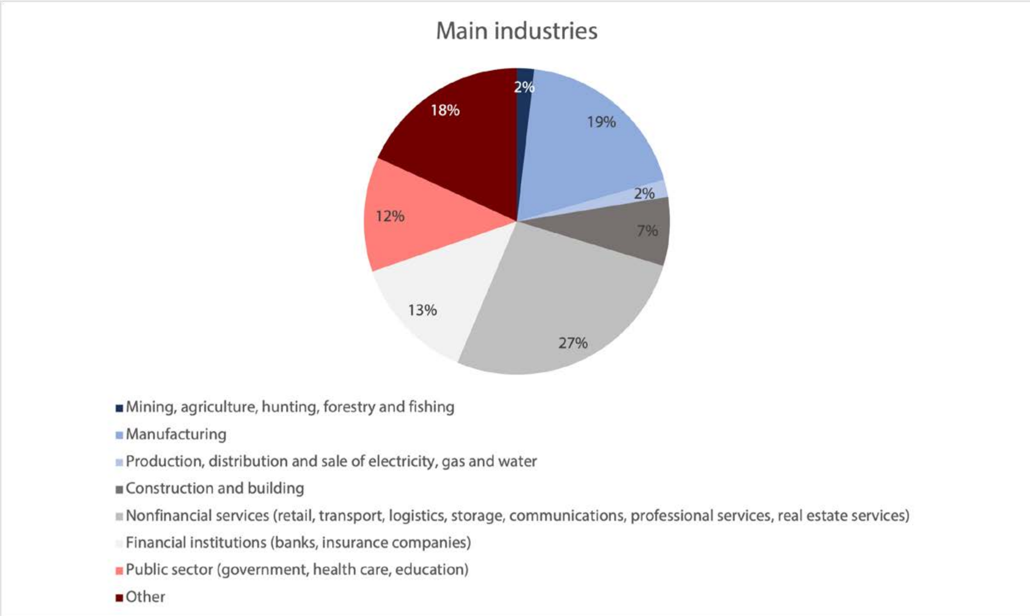

Figure 23: Main industries

Our respondents work at organizations with different types of ownership: 10% are state or government owned, 24% are family owned, 22% are private equity owned, 27% are stock listed, and 18% have other owners, including cooperatives, foundations, and pension fund-owned organizations.

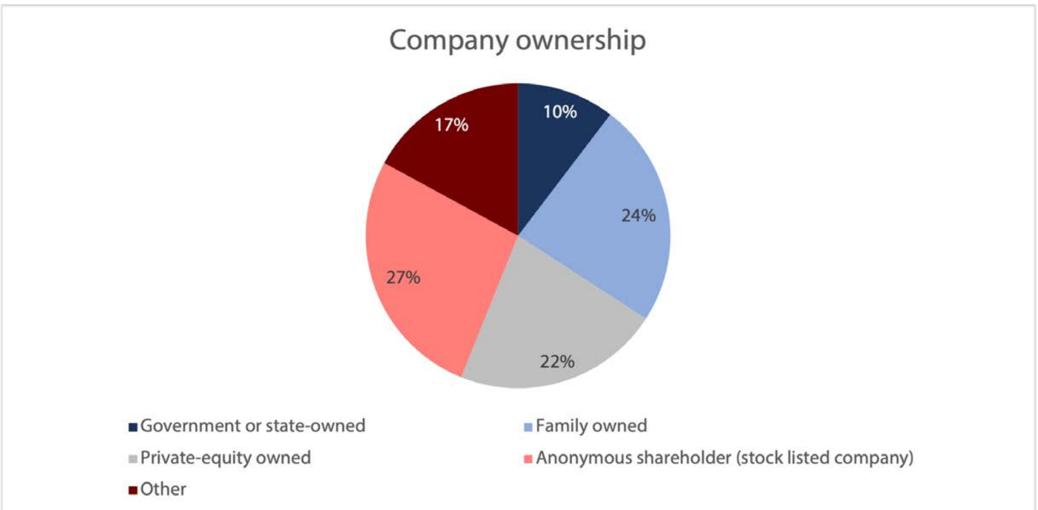

Figure 24: Company ownership

According to their size, as measured by total sales in 2021, the organizations in our survey can be categorized into four groups: small and medium-sized organizations with less than 50 million euros in sales (20%); organizations with sales between 50 and 250 million euros (28%); organizations with sales between 250 million and 1 billion euros (23%); and organizations with more than one billion euros in sales (30%).

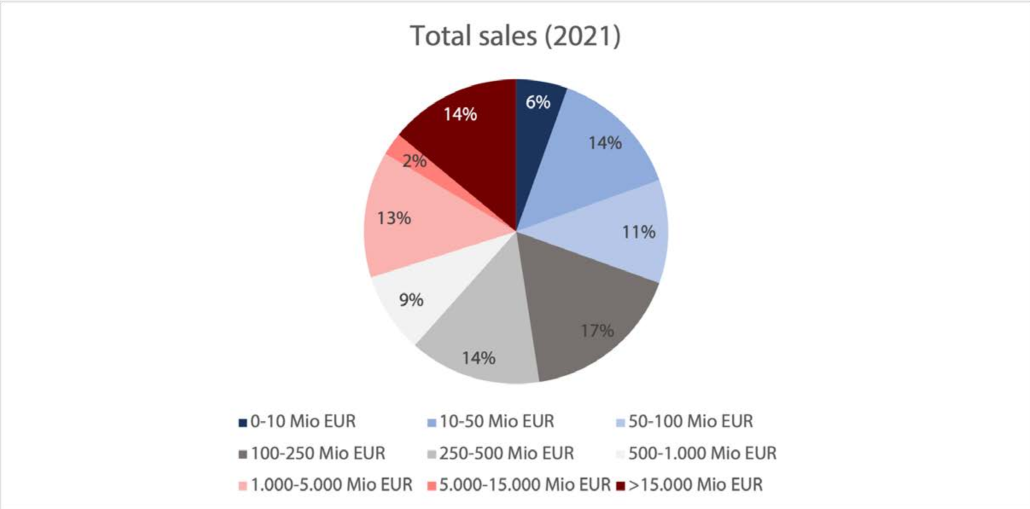

Figure 25: Total sales (2021)

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The authors would like to thank all reviewers for their valuable contributions; any remaining errors are our own.

The authors would also like to thank our research partners for their support in developing this paper.

This research was conducted by: