Strategic priorities for UK businesses
EVERY YEAR, ROBERT HALF MANAGEMENT RESOURCES SURVEYS 200 UK FINANCE LEADERS TO UNCOVER THEIR VIEWS ON THE IMPORTANT ISSUES CFOs AND THEIR BUSINESSES FACE DAILY.
Executive summary

The CFO and finance team in the current economic environment are vital: the financial health of the business, including regulatory compliance and governance, and, increasingly, reputation, is firmly in their hands.

Yet it is no longer enough for the CFO to make sure the numbers add up at the end of the month. It’s now part of the CFO’s responsibility to understand the business from a strategic point of view and how those still important numbers help deliver an accurate, truthful and convincing picture of the company’s progress.

As well as proactively managing income, debtors, slow payers and costs, the CFO is increasingly drawn into other areas, such as operations, business development and sales. This extra responsibility contributes to today’s CFOs spending around 20% of their time on extra projects relating to business change or regulation/governance – bringing huge pressure to bear on their own and their teams’ resources.

On top of dealing with the global slowdown and a wider set of responsibilities, CFOs are also wrestling with an unprecedented level of new regulation. From the UK Bribery Act to Schedule 46 and from forthcoming Basel III reforms to the Statutory Audit Directive, there is a stack of new rules to learn and implement. Although new regulation is not seen by CFOs as the biggest challenge, compared to the higher priorities of managing the balance sheet and cash flow, it is still a drain on time and resources.

As a result of these pressures, CFOs are having to re-examine the skills mix and make-up of their teams to ensure they have the right people in place to undertake the right tasks at the right time. It’s clear that CFOs and their teams need help to manage their workloads, but pressure on costs means they need to take a holistic approach to find solutions that are both efficient and effective.

Every year, Robert Half Management Resources surveys 200 UK finance leaders to uncover their views on the important issues CFOs and their businesses face daily. With such a challenging business environment, what are their biggest concerns, and how are they managing their way through them? What will be their priorities going forward – and what do they believe are the most important skill sets for today’s CFOs?
The view from within: finance leaders’ key concerns

This year’s survey shows CFOs are focusing on the elements of their remit that they can do the most to control: managing the balance sheets and controlling cash flow.

More than half of respondents (51%) said that managing the balance sheets is their biggest concern. The balance sheet is the CFO’s key instrument to show internal and external audiences that the business is well run and under control, a key process when credit is tight and regulatory reporting stringent.

Cash flow management is the second biggest concern, cited by 42% of respondents. The number one challenge in our 2010 survey – cash management – has swapped places with balance sheet management, but remains key. As you will see later in this report, many CFOs believe it is important to retain cash reserves in the face of restrictions in credit and lending.

Despite the worsening global economic climate, the financial outlook and its effect on forecasting has fallen slightly in importance from 37% in 2010 to 34% in 2011, although it remains the third biggest concern. In many ways, tough economic conditions have become the norm, so it’s not surprising to see that CFOs are concentrating on the concerns they can do most about, rather than economic and political factors outside their control.

In a theme that will become familiar throughout this year’s report, there are big regional differences of opinion about CFOs’ biggest concerns. In Scotland and Northern England, CFOs’ biggest concern is access to investment financing. Almost half (44%) said this was their number one issue, compared with just 16% in London and 20% in Southern England.

Concerns over increasing regulatory issues are much less prevalent and are cited by just 17% of CFOs as a top three concern, despite the amount of attention paid to regulation by commentators. Many CFOs now see changing regulation as the norm: something to deal with as efficiently as possible when it arises. Survival, through careful financial and cash management, is clearly a much higher priority.

Cash flow management is clearly a key skill for CFOs and their teams when every penny counts. CFOs need to work with the rest of the business to ensure it is trading with creditworthy customers and suppliers, as well as to understand how cash is being managed across different departments.

Those who cite cash flow management as their biggest concern blame lower revenues (50%), while a third put it down to pressure on pricing and margins; 29% said higher costs were to blame. Again, securing finance appears to be having a much bigger effect on businesses in Scotland and Northern England (26%) than on those in London (16%).

As any CFO will tell you, one of the biggest pressures their teams face day to day is lack of time. This was cited by more than a third (36%) of respondents as a factor that has a negative impact on their business – and appears to be a much bigger concern for CFOs in London (56%) than those in Scotland and Northern England (26%) and the Midlands and Southern England (both 30%).

50% of CFOs say that lower revenue has contributed towards concerns around cash flow.

36% of CFOs feel that a lack of time to complete work and projects has a negative impact on their business.

Factors contributing towards concerns around cash flow

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<tr>
<th>Factor</th>
<th>Percentage</th>
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<tr>
<td>Lower revenue</td>
<td>50%</td>
</tr>
<tr>
<td>Competitive pricing/low margins</td>
<td>33%</td>
</tr>
<tr>
<td>Higher business expenditures</td>
<td>29%</td>
</tr>
<tr>
<td>Slow-paying customers</td>
<td>26%</td>
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<tr>
<td>Difficulty securing financing</td>
<td>19%</td>
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Top three negative impacts on the business

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<th>Impact</th>
<th>Percentage</th>
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<tr>
<td>Lack of time to complete work and projects</td>
<td>36%</td>
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<tr>
<td>Lack of permanent employees to complete work and projects</td>
<td>19%</td>
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<tr>
<td>Innateadle commercial skills</td>
<td>18%</td>
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Multiple answers allowed. Top five listed.
The second biggest concern (19%) is the lack of permanent employees on the team to complete work and projects. This is disproportionately higher in London (32%) than other regions, notably Southern England (8%), because demand for permanent staff is much higher in the capital.

Throughout the financial downturn, many companies were forced to make tough decisions, often resulting in smaller permanent teams and in individuals charged with greater responsibility. As additional training and development were provided as retention measures, a highly skilled group of finance professionals has emerged, adept at navigating changing economic environments.

Retaining these individuals can be difficult, with competing companies vying for top talent and financial leaders faced with finding permanent staff with the right skill sets and experience to tackle key priorities. This helps explain why almost two-thirds (63%) of CFOs plan to use interim staff, who can be brought in either to fill an operational gap or tackle a specific project or process.

Organisations may also be experiencing shortages because their finance teams require different skill sets to those they needed five years ago. For example, companies with a five-year plan may have been through a rationalisation and cost-cutting period, requiring professionals skilled in expense management. Now that they are looking to leverage potential growth opportunities, organisations need finance staff experienced in innovation and business change.

The challenge for CFOs, then, is how to balance the changing requirements of the business with the need to keep existing staff motivated and effective. This can be difficult when senior interims with specific skills are brought in to tackle short-term projects, potentially causing resentment within the team – who are asked to carry on with day-to-day operational work. It’s therefore important for CFOs to communicate with the team about the bigger picture and why extra skills are needed.
The year ahead – growth is back on the agenda

Despite competing priorities, CFOs remain focused on growth and development, with their top business priorities for the next 12 months outlined as growth of revenues (49%), business process improvement (46%) and new product/service expansion (35%).

Encouragingly, business leaders are focusing on the micro – looking at how their companies can compete and gain market share – instead of the larger macroeconomic climate.

Growth in revenues is a much higher priority for private firms (63%) than for publicly listed companies (51%). Public sector organisations are rightly more concerned with business process improvement (53%), given their overwhelming need to do more with less.

Given these priorities, it’s not surprising that operations management, including business process improvement, inventory planning, reporting and logistics, was the number one area where CFOs plan to use interim resources. Concerns over cash flow have also resulted in the need for interim credit management specialists.

More than four in 10 CFOs (41%) plan to increase investments over the next 12 months, with London CFOs leading the charge (52%) compared with more cautious CFOs in Southern England (28%) and Scotland (38%).

The most important factors in investment choices are access to credit or finance to make investments (cited by 56% of CFOs), return on investment (55%), availability of cash/working capital (43%) and macroeconomic factors (32%); a mixture of lack of available funds and uncertainty about returns in an unpredictable marketplace.

So what do CFOs believe is making it so difficult to secure credit and finance? Most think it is weak balance sheets (59%), echoing that their major concern entails managing balance sheets accurately. Having a poor credit rating (cited by 48%) is the second barrier to borrowing; weak relationships and weak financial leadership come in joint third (both 42%).

Cash is definitely king for most CFOs, with nearly a third (31%) saying they are now keeping a comforting cushion of higher cash reserves rather than investing revenues or returning monies to investors. Publicly listed companies are much more likely to be hanging on to their cash (47%), while small businesses are far less likely (16%) than large businesses (46%) to retain higher levels of money in the bank.

Those who are keeping higher cash reserves do so for various reasons. Companies that find it difficult to secure finance and credit in Scotland and Northern England cite this as their main motivation for preserving cash (36% compared with just 11% in London). Small businesses also name the difficulty in securing finance as their main reason to retain cash (33%).

Concerns over the economic climate are also encouraging more CFOs to hold on to money rather than reinvesting in the business or paying out to shareholders. Almost a quarter (23%) of those retaining higher reserves of cash blame the economic climate for their strategy, and again, this is noticeably higher in Scotland and Northern England (36%) than in London (11%).
CFOs’ BUSINESS PRIORITIES IN THE NEXT 12 MONTHS

- **Growth of revenues**: 49%
- **Business process improvement**: 46%
- **Expansion of products/services**: 35%
- **Growth of profit**: 32%
- **Maintain current business levels**: 29%

Multiple answers allowed. Top 5 listed.

**Why CFOs are keeping higher cash reserves**

- Difficulty securing finance and credit: 26%
- Concerns over economic outlook: 24%
- Concerns over operational cash flow: 21%
- Potential investment in business expansion: 16%
- Potential acquisition: 8%
- Other/don’t know: 6%

31% of CFOs are keeping higher cash reserves rather than investing revenues or returning monies to investors.
CFOs’ views – what’s next for the finance team?

CFOs are only ever as strong as the teams they work with. But how confident are CFOs in the abilities of their finance teams?

Alarmingly, around one in five (18%) believe that the lack of commercial skills within their teams has a negative impact on the business, while 13% say that inadequate technical skills have an adverse effect.

Balancing a core group of permanent staff with highly skilled interim professionals can help companies cope with competency gaps as well as provide deliverables more quickly and accurately, improving overall efficiency. Benchmarking the make-up of a finance team against comparable organisations provides the opportunity to understand best practices when assembling a mix of interim and permanent staff.

CFOs plan to increase interim staff over the next 12 months, but where will they be deployed? According to our research, 63% of companies plan to use temporary/interim staff within their finance teams over the coming year, with the highest proportion of companies (55%) aiming to hire between one and 20 people.

Most of those resources will be used in day-to-day operations management (56%), with a further 28% being asked to help with credit management and 28% being applied to commercial finance tasks such as budgeting and forecasting.

As well as bringing in interim staff, CFOs plan to take measures to optimise efficiencies in their finance and accounting departments. Number one on their priority lists across the board is better communication between internal departments (cited by 54% of CFOs), followed by business process improvement (51%) and ensuring that KPIs are in line with strategic direction (39%).

The finance department is clearly no longer an island, and CFOs recognise the need for closer integration with other parts of the business. Naturally, this has implications for the role and attributes required to be a successful permanent or interim CFO.

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<th>Percentage of UK accounting/finance workforce comprised of temporary/interim staff</th>
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<td><strong>By company size</strong></td>
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<td>50–1,000 employees ...........................................</td>
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<td><strong>By company type</strong></td>
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<td>Private company/publicly listed company ........</td>
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<td>Public sector company ....................................</td>
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<table>
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<tr>
<th>How CFOs can optimise efficiencies in their finance and accounting department</th>
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<td>Better communication between internal departments ....................................</td>
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<td>Ensure KPIs are in line with strategic direction .......................................</td>
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<td>Financial systems improvement .................................................................</td>
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<td>Focus on external customer to determine where value added .....................</td>
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NEARLY ONE IN FIVE (18%) CFOs SAY THAT A LACK OF COMMERCIAL SKILLS WITHIN THEIR TEAM HAS A NEGATIVE IMPACT ON BUSINESS
What makes the perfect CFO?

While nearly four in 10 (39%) CFOs indicate that their role remains primarily accounting and finance based, others are noting an increasingly wide job remit.

Among these renaissance CFOs, 50% say that their role has expanded further into operations and 25% report a greater role in sales/business development.

The clear message is that CFOs are no longer just the ‘bean counters’ of yesteryear. They are increasingly the public face of a company and must know more about all aspects of the business to articulate their corporate story. Just knowing the figures is not enough: CFOs must understand much more about the strategic direction of the business and how the latest results show progress.

This implies a need for more commercially aware CFOs who have the ability to lead their businesses through tough times, who can make the numbers come alive to the outside world – and who help make change happen.

As CFOs’ roles expand to take in wider responsibilities, the time they have available to handle day-to-day operational finance and accounting comes under pressure. CFOs report that they now spend an average 21% of their time on project management, whether that’s helping to introduce a new financial management software package or implement a new process.

So what do CFOs think makes a good CFO in the second decade of the 21st century? According to our research, the number one quality is a strong sense of commerciality (cited by 52%), followed by strong leadership skills (49%) and sound accountancy/finance skills (44%). Effective communication and interpersonal skills are less critical, as is experience in financial transformation initiatives (22%) and experience in raising capital (21%). That said, the ability to raise funds is particularly useful in an era where credit and finance are increasingly scarce.

| Time devoted to project management instead of day-to-day operational activities |
|-------------------------------------------------|-----------------|--|--|--|
| 0–10%                                           | 34%             | 33% |
| 10–20%                                          | 15%             | 10% |
| 20–30%                                          |                 | 8%  |
| 30–40%                                          |                 |     |
| 40%+                                            |                 |     |

What makes a good CFO?

- Strong sense of commerciality: 52%
- Strong leadership skills: 49%
- Sound accountancy/finance skills: 33%
- Effective communication/interpersonal skills: 33%
- Experience in financial transformation initiatives: 22%
- Experience raising capital: 21%
Conclusion

Today’s CFOs are under more pressure to deliver growth for their businesses, but have less time and a wider set of responsibilities.

Their burgeoning role within the business means they have even less time to spend on day-to-day finance and accounting tasks, yet managing the balance sheet and cash management are their biggest priorities.

While sound accounting processes are vital in any economy, CFOs are also now focusing more on growth, business process improvements, new products and services and investment capital.

Despite this pressure, CFOs’ teams are often under-resourced and don’t include the right mix of skills for strategic and operational requirements. Indeed, many CFOs believe that a lack of commercial and technical acumen is potentially damaging for the business, as is a severe lack of time.

All this paints a picture of over-stretched CFOs with more responsibilities but much less time for day-to-day tasks, as well as for the wide range of corporate or regulation-related projects that now take up a fifth of their working hours.

The answer to their predicament lies not in continuing to throw more money or resources at the problem, but instead to take a broad overview of the finance team and the role that it will take in delivering business strategy.

From this, the CFO can develop a skills requirement together with a timeline that includes day-to-day tasks but also work ‘packages’ that need to be delivered over the following 12 months.

This will enable the CFO to plan for permanent and interim resources with much greater accuracy. It will also allow businesses to ask themselves what they will be giving up by not employing the right people at the right time for the right tasks.

Today’s CFOs recognise that whatever happens in the wider global economy, their business never stands still. Their role today must therefore cover a strong mix of financial and broader commercial skills, and they must be able to manage both day-to-day tasks and project-based work.
About Robert Half Management Resources

Robert Half Management Resources is the world’s first and largest specialised financial interim management and project consulting firm with more than 150 locations worldwide – the alternative to your audit firm or management consultancy. Many of our consultants are qualified former accountants, and this experience places them in a unique position when matching talent to projects most effectively. As a division of Robert Half, we have more than 60 years of experience in financial recruitment, which enables us to provide the highest quality service to clients and interims.

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