

2018/19

Watermark

SEARCH INTERNATIONAL



ONLY 40% OF CFOs SPEND MOST OF THEIR TIME ON STRATEGY, TRANSFORMATION AND OTHER NON-FINANCE AREAS.¹

McKINSEY

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OVERVIEW

Welcome to our inaugural Watermark CFO Report which tracks the trends, challenges and best practice associated with the rapidly evolving role of the CFO.

Our survey participants see the modern CFO playing a role of great commercial and strategic significance: supporting growth, helping organisations translate digital investment into commercial outcomes and acting as a key participant in strategy development.

These efforts, however, are not always recognised by executive teams and boards and, to many in the business, finance remains a compliance house. Our respondents nominated the CEO as their most important internal stakeholder, so CFOs are targeting their influence in the right direction. Despite this, CFOs are often perceived as a safe pair of hands – not a whole-of-business leader.

This report reveals that CFOs must do more to integrate finance into the business to break this perception. This involves, not only designing, but also driving, the execution of business strategy. Just as importantly, in order to free up their time to pursue these endeavours, CFOs need a strong team with broader digital and commercial skills. This requires finance leaders, and their HR partners, to lift the bar in staff development by using organisational mobility strategies and cross-industry hiring to make the change.

Our respondents felt that 90% of the time the CFO is overlooked for the CEO position – an alarmingly low breakthrough rate that suggests a mismatch of expectations, delivery and perception. This mismatch, combined with the additional challenges of talent management and operational digitisation, leaves CFOs with much to contend with.

This report unpacks some of the burning issues and suggests how CFOs and their HR partners can respond.

We thank our participants for their time in responding to this survey – the first of an annual series.

We hope the Report's findings and insights are catalysts for productive conversations that progress the CFOs' agenda and ensure investment in finance professionals is well targeted.

Adam Neyenhuis
Partner
Watermark Search International

CFO BIG PICTURE: MOUNTING EXTERNAL AND INTERNAL PRESSURE

In a world characterised by increasing uncertainty, CFOs are supporting their companies to pursue aggressive growth strategies. Providing insights and inputs into organisational strategy is their top priority.

UNCERTAINTY IS THE NEW NORMAL

This year, more than 40% of our respondents expect that their companies will face a higher level of external financial and economic uncertainty than they did in 2017. This expectation is a reflection of the increasing list of uncertainty vectors listed companies are having to navigate. There's a very real prospect that today's sound strategy could be derailed tomorrow by digital disruption, security risks, local and global regulation, talent shortages or geopolitical shocks: take your pick.

DYNAMIC GROWTH PLANS

Undaunted, the majority of ASX300 companies plan to pursue aggressive growth strategies over the next 12 months. Around 75% of our respondents' companies see opportunities for organic growth, some involving significant digital adoption. Almost 60% of them are actively looking at mergers and acquisitions across all markets and verticals. To fuel their acquisitive strategies, 26% are renegotiating finance from the capital markets and 21% are seeking to dispose of assets.

BEYOND FINANCE

Succeeding in these conditions requires financial insight, and CFOs are becoming responsible for much more than just finance. Strengthening the business by driving enterprise-wide cost reduction remains a priority, as does measuring and monitoring business performance. CFOs still have important work to do to help all parts of the business perform better. They need to instil a financial approach and mindset throughout their organisation, as well as optimising planning, budgeting and forecasting.

Our respondents rank their most pressing agenda item as providing insights and inputs into organisational strategy. A few are taking responsibility for projects well beyond their traditional remit. Some (15%) of our CFOs ranked 'driving IT integration across the company' as one of the top 3 items on their agendas.

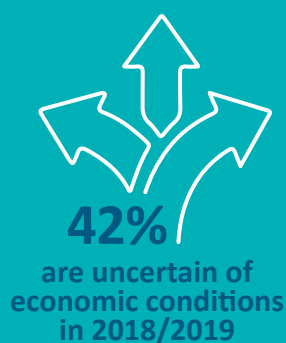
TOP 3 FUNCTIONAL CFO PRIORITIES FOR 2018

1. Having a greater input into company strategy
2. Driving organisation-wide cost reduction
3. Deeper measurement and monitoring of business performance.

CEOs and boards increasingly want CFOs to not only deliver a finance organisation that gets the numbers right, but also partner with them in shaping the company's strategy.²

Deloitte

ASX300 BIG PICTURE



OPERATIONAL FINANCE: DOMINATED BY DIGITAL

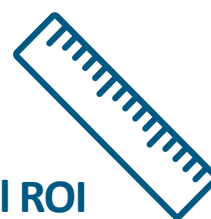
The digital era is throwing up new challenges for CFOs. As organisations move to digitised operations, and technology becomes an increasingly dominant spend item, finance must find a way to measure the return on the investment.

With most sectors experiencing major digital and technological transformations, 79% of CFOs see technology increasing as a major part of spend in 2018. To drive revenue, growing numbers of ASX300 companies are making major investments in creating seamless digital customer experiences, digitising essential functions, empowering employees with analytics and setting up an increasingly complex cyber security capability required to combat new risks.

Although the top and bottom line benefits appear to be very compelling, 52% of CFOs find it challenging to apply traditional return on investment fundamentals to digital technology programs. In our survey, 47% of CFOs agreed that the digital demand from business operations is forming a prominent part of their forecasting and planning cycle – and a further 31% agreed with this statement ‘to some extent’.

Almost 80% of CFOs are finding that the return on their company’s investment in innovation and technology is hard to plan for and hard to measure.

52%
**unsure how to
measure digital ROI**



OUTSIDE HIRES MAY BE THE ANSWER

With increasing amounts of the budget going towards digital spend, CFOs need to upskill their teams with people who understand how to budget for and forecast the financials for these projects. According to an EY survey, 74% of CFOs are seeking to build their own understanding of digital³. From a team perspective, hiring from other industries that have already gone down the digitisation route will bring valuable insights into the finance team.

Raconteur

COST REDUCTION NO LONGER A KPI

CFOs are still expected to deliver on cost reduction, but this has become such an entry level requirement such that it’s not even a performance measure for the vast majority of our respondents. Only 21% say that controlling and reducing operational costs is a KPI used in measuring the effectiveness of the finance team.

Given ‘driving organisation-wide cost reduction’ is our CFOs’ second highest priority, this reflects an interesting disconnect between where finance leaders are focusing their attention and what the business actually values.

The confluence of smart devices, low-cost networks and massively powerful cloud-based computing has changed the calculus of running a business at every level of the organisation.⁴

Bain

**4 in 5 CFOs
aren’t rewarded
for reducing costs**



COMMERCIAL AGENDA: STRONG BUSINESS APPETITE, TALENT SHORTFALL

In most ASX300 companies CFOs are exerting considerable influence over top line outcomes, but is the finance function spread too thinly to handle the growing demand for commercial insights?

After battling for years to get to the commercial table, 79% of our CFOs believe the finance function now has enough influence in their organisations to control and manage top line and commercial outcomes. CFOs are partnering with sales, marketing and product development business units to guide spend and provide insights to support decision making that drives revenue success. This, however, is not enough. In a world of data-driven decisions, there are few commercial processes that don't require input from finance to optimise performance.

In fact, the business appetite has become so strong for finance insight that CFOs are struggling to find the time and departmental talent to satisfy this demand. Almost half of our respondents said they aren't spending enough time on delivering the commercial agenda from a finance perspective. One in five CFOs in the ASX 300 believe they don't have enough time to make genuine commercial impact on the business. A further 47% think their finance function lacks the commercial acumen required to deliver what the business wants.

FINANCE TEAMS NEED BROADER COMMERCIAL SKILLS

Given the talent shortage in the commercial finance base, CFOs should consider developing these critical skills internally. Traditionally, finance development has focused on technical proficiency. It can be challenging to get junior finance people to look at a problem from a commercial, rather than just an accounting, perspective. CFOs should consider embedding team members outside of the finance team to gain first-hand experience of the commercial imperatives of different lines of business. This serves to upskill finance team members and build their credibility within the broader organisation as knowledgeable advisors.

Traditional finance expertise is now part of a wider perspective that includes commercial drivers such as customer behaviour, demographics and consumer trends, together with communications, sector insight and leveraging value in the business.⁵

Chief Future Officer

52%

"My finance team has ample commercial acumen" CFO

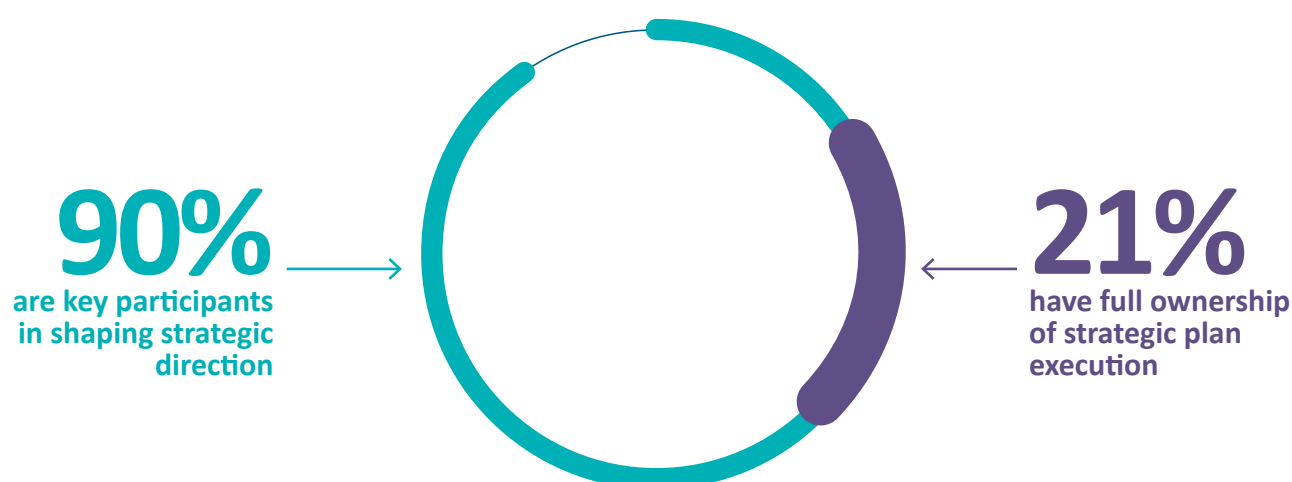
63%

"I spend enough time driving the commercial agenda" CFO



4 in 5 CFOs influence commercial outcomes

STRATEGIC AGENDA: CRITICAL TO DESIGN BUT LOW ON DELIVERY



CFOs have a high level of impact on the shape and direction of corporate strategy but a low level of impact on execution. Addressing this disconnect will be vital for those with ambitions to make the leap to CEO.

Almost 90% of our respondents have said that they are key participants in shaping their company's strategic direction. These CFOs are playing an active role in developing and defining overall business strategy. In doing so, they are going beyond providing insight and analysis to support the CEO, or ensuring business decisions are grounded in sound financial criteria. CFOs are using their commercial understanding and analytical capabilities to influence strategic planning outcomes.

At the same time, 80% find it challenging to implement, at a business level, the corporate strategic plan they helped design. Only 21% see themselves as having full ownership over executing the strategic plan. Perhaps this goes some way to explaining why there is often a mismatch between what a strategy is designed to accomplish and the approach taken to implement it.

This gap between strategy design and execution becomes even more interesting when seen in the context of strategic focus. Asked about the thinking underlying their organisational strategy, 48% of CFOs said cost control was either the main focus or that their strategy was equally split between cost control and top line growth.

TIME FOR CFOs TO GET INVOLVED IN EXECUTION

If cost control is a critical strategy for almost half the ASX300, then responsibility for its execution should surely land on the CFO's desk. Strategies often fail because the business landscape changes before execution occurs. Shouldn't the CFO, with their helicopter view of mega trends, be involved in ensuring implementation activities adapt to account for shifting conditions?

Effective strategy implementation is a leadership, not administrative, activity. CFOs who are responsible for strategy design need to translate their ambition into downstream implementation choices. They should explicitly design activities to enable the business to adapt to changing conditions and support investment in capability-building efforts that embed the new skills and behaviours required to make strategy execution successful.

This will not only help to mitigate execution risk, it will give finance leaders the critical operational experience required for those seeking to become CEOs.

The high probability of execution risk, including strategy execution risk, is not lost on CFOs.⁶

Deloitte

COMPLIANCE AND CONTROL: PERCEPTION VS. REALITY

CFOs see their primary role as adding commercial value, but leadership teams and businesses have a very different perception, seeing finance largely as a compliance function. How can increasingly commercial and strategic CFOs change the image of finance?

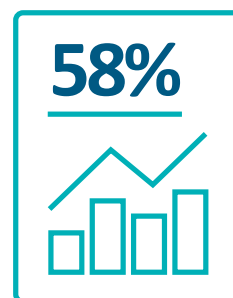
CFOs may be focusing more on improving commercial outcomes, but the perception of finance as a compliance house remains firm. Almost 60% of our respondents say their executive team believes the 'primary role' of finance is to deliver reporting and control. At one level, this isn't necessarily a bad thing given 75% of stakeholders see considerable value in financial compliance and controls.

Given that only 5% of CFOs are spending more than half their time on compliance-related tasks, it's time for finance to change its image. Less than 30% of CFOs are viewed as strategists, yet 90% are actively shaping strategy and should be involved in execution.

GETTING ON THE FRONT FOOT

To change perceptions of what finance actually does, CFOs should consider being more proactive in their commercial interventions. Businesses have a strong appetite for communication and education about financial risk and opportunity. By giving their business more granular metrics to support commercial performance – and sending automated alerts as soon as the numbers look wrong – finance will gradually become part of the fabric of commercial operations.

Furthermore, if CFOs get involved in leading strategy execution, this should crack the compliance carapace once and for all.



of executive teams think reporting and control is the primary role of finance



of business stakeholders see high value in financial compliance and controls



of CFOs "I spend more than 50% of my time on compliance and control tasks"

TALENT MANAGEMENT: HARNESS ORGANISATIONAL MOBILITY

HOW CFOs ARE TRYING TO RETAIN THEIR BEST PEOPLE



More than half our surveyed finance teams lack effective talent retention strategies. What's working – and what isn't?

As finance moves up the value chain the war for talent becomes an increasing issue. Yet, less than half (42%) of our respondents' organisations are implementing effective retention and development strategies. Those following best practice are using organisational mobility: improving engagement and upskilling technicians by allowing finance personnel to move into operational or non-finance functional roles.

However, more than 50% don't have the right formula. Of these, we found an equal split between those with no talent development agenda whatsoever, and those using knee-jerk tactics such as rapid promotion and increased pay levels to persuade stars to stay. This may be effective in the short term, but it's hardly a sustainable strategy. It certainly doesn't deal with the real issues that give talented people itchy feet: lack of purpose, challenge and engagement.

LOOKING AHEAD

The CFO position is at a fascinating juncture. Expectations of finance leaders have changed dramatically in the past few years and, in our view, will continue to do so. In high-performing companies, the next few years will see the CFO's role grow in importance more than any other C-suite position.

As it does, we will continue to track its progress.

This year, we elected to take a view from the ASX300 listed community. Next year, we will expand the Watermark CFO Survey to target a broader range of organisations to include private companies and multinationals.

In the meantime, we hope this report will prompt new thinking about how the CFO – and the broader finance team – should be developed.

To discuss the detailed findings in person, drill down into industry-specific results or benchmark your finance team against its peers, please contact us at your convenience.

We look forward to hearing from you.

Adam Neyenhuis

Partner

+61 2 9233 1200

Adam.Neyenhuis@watermarksearch.com.au

Watermark Search International

Level 10, 83 Clarence Street

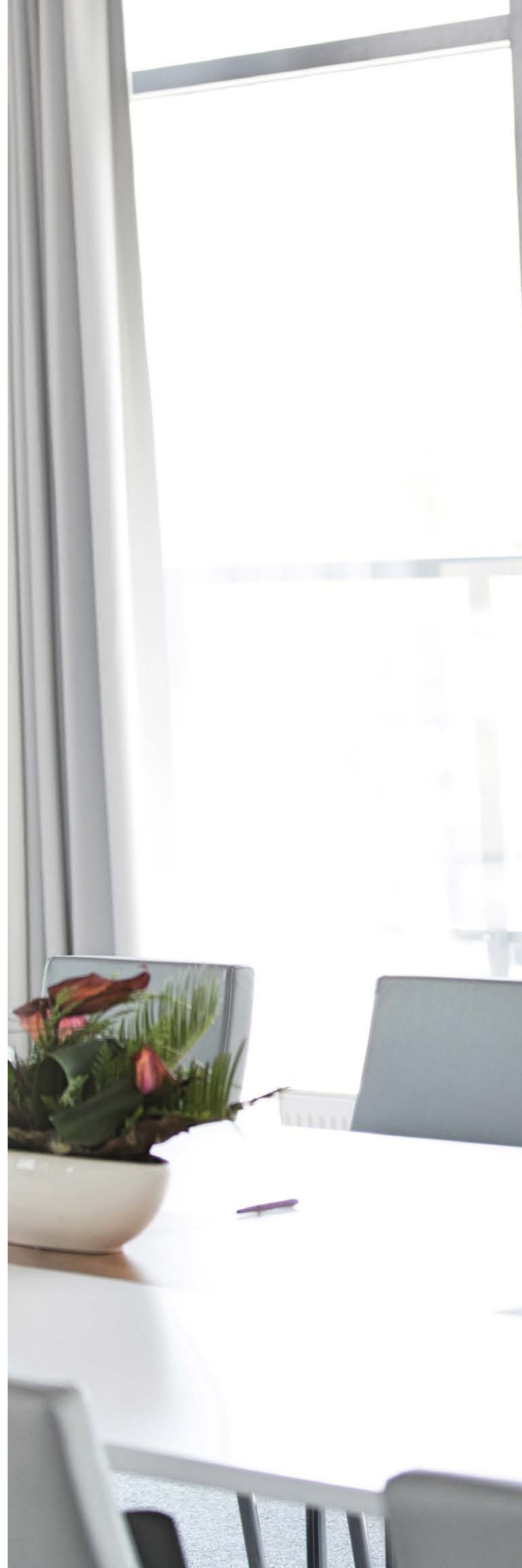
Sydney, NSW 2000

watermarksearch.com.au

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SERVICE OFFERINGS

EXECUTIVE SEARCH

Founded in 1979, we are one of the longest established Australian executive search firms. Despite the fact that we are, above all else, an Australian based firm, we have an established track record in attracting, and then securing, candidates from overseas.

We have considerable expertise in senior executive appointments across a broad range of public and private sector organisations. Our practice has been built on a substantial body of work undertaken for publicly listed companies, private companies, state owned corporations, and government agencies, departments and advisory boards.

INTERIM EXECUTIVE MANAGEMENT

We provide immediate and high level specialist executives, including senior managers, with the experience to bring stability to and provide guardianship for a company during a period of change, executive absence or performance turnaround. We also assist with providing executives who deliver on projects, programmes or specialist reviews. When clients are ready to appoint an executive, we normally complete the assignment in two to three weeks. Our latest survey shows that those executives remain in place for an average of 7½ months.

BOARD SEARCH

We believe that strong boards make for better organisations and improved business performance. In conducting searches we do not simply look for 'a name' but rather search for candidates with the relevant skills to add real value to a board. We often start our board search by working with the client to produce a Board Skills Matrix, which then informs the specific brief.

Our track record ensures familiarity with the specific, and often sensitive, challenges involved in appointing Non-Executive Directors and Chairs with the right skill, personal and cultural fit. Our process and experience allows us to generate diverse short lists and consistently find successful candidates who help boards perform at their peak. We often work with our clients to provide an induction process for their new Directors.

DIVERSITY

We pride ourselves on delivering the best candidates in the marketplace for consideration by our clients. We go further than most executive search organisations in ensuring that our clients have a gender diverse range of candidates as part of the process. In 2017, 43% of all successful candidates introduced by Watermark were female. This is a significantly greater representation of women executives as successful candidates than any levels indicated by recent third party studies. In addition to our focus on gender diversity we have also had the opportunity to assist a number of Indigenous organisations secure high quality candidates through well targeted executive search.

MARKET INSIGHTS

We have a unique 'window' into both the commercial and government worlds and are available to provide informal market insights to our clients on topics such as salary packaging, hiring trends and executive onboarding.

Watermark
SEARCH INTERNATIONAL

Watermark Search International

Sydney Office

Level 10, 83 Clarence Street
Sydney NSW 2000
02 9233 1200

Melbourne Office

Level 36, 140 William Street
Melbourne VIC 3000
03 8629 1000

watermarksearch.com.au

A WIL GROUP MEMBER 