CFO Focus

Top of mind issues confronting the CFO

Issue #3: Change and planning

CFOs are seeing their role continue to evolve and become more complex. That means keeping up with today's most pressing issues can be a challenge. KPMG created this series to provide cross-functional updates on the top-of-mind issues facing CFOs. This report includes information on trends and topics collected from discussions and interactions between KPMG professionals and the CFOs at some of our client companies. It also provides related resources on the topics as they pertain to the CFO and the finance function.

Change management

Many CFOs we have talked to find that many best practices held true regardless of the cause of change. Whether change comes about as a result of acquisition, investment or cultural shift, CFOs have found communication and executive sponsorship to be vital components of successful change management. Direct, transparent communication with employees unifies the company and creates an atmosphere of excitement around the future. Executive-led initiatives have a clear vision and more accountability for goals. Several CFOs have taken ownership of change at their organizations while others let the CEO or COO drive the transformation.

Change management often seeks to mitigate risks, yet, in the eyes of many CFOs, taking risk and moving quickly are vital to an organization's ability to effect change and survive disruption. CFOs have credited successful innovation at their organizations to a "Fail early, fail fast" mentality. Other CFOs favor a balance between maintaining mature parts of the business and investing in new opportunities for the future. These types of organizations may make short-term, high-payback investments in their core business, drive profitability in their emerging businesses, and pursues long-term investments in areas where they intend to pivot.

Identifying disruptions and trends

In light of rapid disruption across industries, executives are developing methods to identify trends and potential disruptors. Many CFOs hosts regular conferences among their organization's largest clients to understand customer concerns and views on markets. Organizations may take this sort of information and develop an industry forecast and consult an advisory tech committee for insights into issues and trends. KPMG described a client exercise in which executive teams design their worst competitor based on areas where they are currently successful and the trends they see in their industries.

The pace of change is so fast now that business models and processes that have worked for decades could be quickly disrupted by new technologies or businesses.

Structuring shared services

Many CFOs are in the process of extracting certain resources from business units and placing them within a shared services organization. These efforts may face resistance from business unit leaders reluctant to cede control of areas of their business. For this reason, in these cases, it is important for the CEO or other corporate leadership to communicate that business unit leaders do not have the option to not participate.

RPAs can play an important role in shared services and in the consolidation of roles in general. As RPAs open up new opportunities for shared services workers, KPMG expects there to be a greater blend of finance and IT skill sets.

Dan Shaughnessy
Principal, Advisory – Corporate Strategy
dshaughnessy@kpmg.com

Area of Expertise: Change Management

"When strategizing organizational change models, we often ask clients to design their worst competitor. Evaluate megatrends, and how would you address them. What we're seeing is that disruptors are emerging at such a rapid pace, industry leaders often end up being a target. So it is a really valuable exercise to get in an offsite with an executive team and really model out what you think would be something that could attack that success they've had."

What are CFO's asking?:

- What is the CFOs role in driving change within the organization?
- What systems, processes, and structures are most useful in creating organizational agility?
- How should CFOs interact with the board on future change and agility?
- What areas of CFO oversight should be at the corporate center vs. in specific business units?
- In light of changes to the political and technological landscape, are other CFOs making changes to the finance operating model? What factors are driving those decision?

Related KPMG resources

- Destination (un)known: Key steps to guide your digital transformation journey
- Your success has made you a target
- 2017 CEO Outlook Study: Disrupt and grow

Planning and forecasting

Data analytics and the fast pace of innovation have transformed planning and forecasting processes. Finance has always collected large amounts of internal and external data, but companies are now leveraging new technologies such as AI to make that data more useful from a predictive standpoint. As data processes become more accurate, Finance is able to spend less time aggregating and validating data and more time adjusting forecasts. In some cases, executives are using analytics to achieve real-time forecasting that adjusts to changes in the market. Several executives highlighted the challenge of aggregating and standardizing data, especially across multiple ERP systems. Getting data into a standard format was the first step for one executive as they began using IBM's Watson. Another executive is currently building data feeds from separate ERP systems into one warehouse which will serve as a source of clean data that can be used for predictive purposes.

Despite the drive to have real-time forecasts, CFOs still construct models with outlooks as far as ten years. Some CFOs use a composite forecasting method that combines three parts: sales forecasts, factory forecasts and a statistical forecast. These CFO note that marketing forecasts tend to be more accurate during upturns, while the statistical forecast is better during downturns. Other CFOs construct 10-year models with plans for 1-year and 3-year goals. Certain executives from capital-intensive organizations with long timelines have found it difficult to adjust forecasts to current economic trends and continue to create long-term plans.

Some executives struggle with gamesmanship during planning, especially in scenarios where compensation is tied to forecasting. Some CFOs believes it is a natural tendency to not want to set goals and then miss them, while others suspect employees of purposefully forecasting low so that their performances appear better. As a response, we have found that some CFOs have solved this by disassociating compensation from planning and tying it instead to the overall performance of the company, stating that understanding business drivers helps them challenge forecasts that don't make sense.

Sanjay Sehgal
Partner, Advisory –
Financial Management
sanjaysehgal@kpmg.com

Area of Expertise:
Planning and Forecasting

"With an advanced business planning capability in place, organizations can more easily adapt to a rapidly changing environment. They can maximize their abilities across people, process, and technology to drive:

— More informed scenarios and faster decision making

— Greater insights through analytics

— Rapid identification of trends and financial impacts of change

— A single source of truth

— Key leadership buy-in."

What are CFO's asking?:

— How can we be accounting for market uncertainty as we forecast?

— How should we be leveraging data/analytics for improved financial planning and analysis (FP&A)?

— What are leading practices to measure forecasting accuracy and hold business units accountable?

Related KPMG resources

— The FP&A paradox: It's more than just finance

Contact us

P. Scott Ozanus
Deputy Chairman and Chief Operating Officer
KPMG LLP
T: 212-909-5571
E: psozanus@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia